

# Funding Forest Destruction

The Involvement of Dutch Banks  
in the Financing of Oil Palm Plantations in Indonesia

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commisioned by  
Greenpeace Netherlands

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Report for Greenpeace Netherlands

March 2000

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# Summary

Objective	<p>This study aims to:</p> <ol style="list-style-type: none"><li>raise awareness about the environmental and social concerns related to the rapid expansion of oil palm companies in Indonesia;</li><li>determine the involvement of Dutch financial institutions in this development and</li><li>encourage financial institutions to reconsider their investments in the sub-sector and to contribute to more responsible forms of plantation development.</li></ol>
Investors' response to growing palm oil demand	<p>The oil palm industry is the most rapidly expanding plantation sub-sector in Indonesia. Its primary product, palm oil, is already the most consumed edible oil in the Netherlands and, according to Oil World, palm oil will be the world's most consumed edible oil by 2012. The perspective of further growth in demand, combined with the low cost of production and a favourable investment climate, attracted hundreds investors to the sub-sector. By 1995, investors had applied for permits to convert a total area of 20 million hectares of forestland in oil palm plantations. This is an area equal to 10% of Indonesia's total landmass (see Table 2.3).</p>
Extensive areas of forestland released	<p>By 1997, the Indonesian Investment Co-ordination Board (BKPM) had approved over 600 oil palm plantation projects covering a total area of almost 9 million hectares, two-thirds of which is yet to be planted. The Indonesian government continues to facilitate further expansion. In 1999, a regulation was released that allows plantation companies to establish tree crops in forest areas previously allocated to logging companies. This implies that virtually all tropical rainforests in Kalimantan and Sumatra are under risk of being cleared for oil palm and other tree crops. A number of serious environmental and social problems related to oil palm expansion have already begun to emerge in the past few years.</p>
Forest fires	<p>In 1997, extensive forest fires in Indonesia's forestlands caused a thick cloud of air pollution over Southeast Asia that persisted for several months in a row. Between 46-80% of the bigger fires occurred in plantation areas, largely because companies use fire as a cheap and fast method of land clearing. The fire-monitoring unit of the German Technical Development Assistance (GTZ) estimated that forest fires affected 10 million hectares of land in Indonesia in 1997/98, an area three times the size of the Netherlands. About 3.3 million hectares of forest were burned. The economic cost of the transboundary smog and fires was recently estimated at US\$ 9 billion. The smog alone affected the health of at least 70 million people. Non-governmental organisations and local communities have successfully challenged several plantation companies in court for causing environmental damage by burning.</p> <p>Overall, oil palm companies largely benefited from the fires because the haze caused Crude Palm Oil (CPO) prices to hike and because the Indonesian government plans to release the burned land for plantation development.</p>

Deforestation	<p>Before the Indonesian economy collapsed under the monetary crisis, plantation companies cleared and planted 200,000 hectares of forestland annually, much of which was formerly forest covered. Oil palm projects are increasingly directed towards the forest rich East Indonesian provinces, notably Irian Jaya.</p> <p>Deforestation for oil palm development has a dramatic impact on biodiversity. Case studies in Malaysia and Indonesia showed that between 80-100% of rainforest wildlife species do not survive in oil palm monocultures. Large-scale conversion of lowland forests threatens the survival of rare and endangered Indonesian mammals, such as the Sumatran tiger, Sumatran rhinoceros, orang-utan and Kalimantan's only wild elephant population.</p>
Illegal land clearing	<p>Indonesian non-governmental organisations discovered that plantation companies have started land-clearing activities without having obtained several of the permits required. Even national parks are under pressure from expanding plantation companies, as are protected forests along river shores. Indonesian law requires that, depending on the size of the river, 50-100 meters of vegetation must be retained on either side of the river shore. These forests are of special value as a refuge for wildlife. They also reduce the impact of land clearing on stream-flow and sediment loads of rivers and streams.</p>
Pollution	<p>Oil palm processing industries can put great strain on water quality. A case study in Pontianak, West Kalimantan, revealed that the waste water effluent of a major processing company dramatically exceeded norms set by the Indonesian government.</p>
Social conflicts	<p>Numerous case studies point out that indigenous communities have been forced or lured into surrendering their customary rights land to plantation companies. Their traditional forest-rubber gardens are replaced with monocultures and a cash economy. Labour wages in plantation estates are as low as US\$ 1.0/day and there is little perspective that workers will be better off in the future. Several field studies confirm that, with some exceptions, smallholder plantation schemes have not succeeded in providing local communities with sustainable livelihoods. Many communities deeply regret having allowed oil palm development to occur on their traditional lands. Others have staged protests, some of which were met with intimidation and brutal force by the company staff and the police.</p>
KKN	<p>Official government investigations allege that under the former Soeharto government several of Indonesia's main forestry and plantation companies gained access to large tracts of forestland through so-called corrupt, collusive and nepotistic practises ('KKN'). The Wahid government stepped up the investigations into these KKN-practises, which resulted in the cancellation or non-extension of concessions controlled by several major company groups.</p>

Dutch banks deeply involved in the oil palm sub-sector	<p>This report highlights that between 1994 - 1999, Dutch financial institutions have been substantially involved in the oil palm sub-sector in Indonesia. All major Dutch banks, ABN-AMRO Bank, ING Bank, Rabobank and MeesPierson, have financial ties with several of the main plantation company groups in Indonesia, namely the Sinar Mas, Raja Garuda Mas, Astra, Bakrie, Salim and Risjadson groups. These groups plan to expand their oil palm estates to at least 2.2 million ha. They currently manage approximately 740,000 ha of oil palm plantations (see also the overview table in the next few pages and Table 4.1 and 4.2).</p> <p>Many of plantation subsidiaries of the company groups in which Dutch banks are involved contribute to environmental and social problems, such as forest fires, deforestation, illegal land clearing and social conflicts. Especially the latter problems potentially affect the plantation companies' ability to pay back debt. Dutch banks should reconsider their investments if their clients fail to seriously address the environmental and social impacts of their activities.</p>
Influence assessment	<p>Analysis of the various forms of involvement showed that Dutch banks are frequently in a solid position to influence the environmental policies of their clients (see Tables 6.1 and 6.2). Their position is further strengthened by the Indonesian monetary crisis, as plantation companies will approach foreign banks to refinance their loans and to realise their planting targets. The Business Intelligence Report (BIRO) estimates that the oil palm sub-sector needs US\$ 3 billion for the next five years to regain the pre-crisis rate of expansion.</p>
Required actions	<p>For each of the environmental and social concerns discussed in this report, a number of possible actions are given (see Table 3.1). Particularly urgent are actions that stop any further forest fires and deforestation. Forest restoration will be required where land was illegally cleared. In order to be effective, these measures need to be embedded in a framework that fully addresses the social concerns related to oil palm expansion.</p>



Overview of the involvement of Dutch financial institutions in oil palm companies in Indonesia

	Dutch financial institutions	Client in Indonesia Chapter 4	Related company group Chapter 4	Nature of involvement of Dutch financial institution Chapter 5	Contract year	Amount of capital involved Chapters 4 and 5
1	ABN-AMRO Bank	PT SMART	Sinar Mas Group	Long-term syndicated loan (participant)	1995	US\$ 150 M
2	ABN-AMRO Bank	PT SMART	Sinar Mas Group	Short term working capital loan	1995	Rp 19.6 B - Rp 22.2 B
3	ABN-AMRO Bank	PT Astra Agro Lestari	Astra Group	Initial Public Offering (IPO) (lead managing underwriter)	1997	Rp 195 B
4	ABN-AMRO Bank	PT Astra International	Astra Group	Short and Long-term dollar loans	1997	Rp 50 B (US\$ 10.8 M) resp. Rp 10.1 B (US\$ 2.2 M)
5	ABN-AMRO Bank	PT Astra International	Astra Group	Long-term syndicated loan (participant)	1997	US\$ 160 M
6	ABN-AMRO Bank	PT PP London Sumatra	Napan and Risjadson Groups	Housing and managing a financing company (LonSum Finance BV)	1997	US\$ 15 M
7	ABN-AMRO Bank	First Pacific Company Ltd.	Salim Group	Selling of assets (Hagemeyer)	1998	DFL. 3.6 B (US\$ 1.75 B)
8	ABN-AMRO Bank	Golden Agri Resources Ltd.	Sinar Mas Group	Initial Public Offering (syndicate member)	1999	US\$ 360.2 M
9	ABN-AMRO Bank	PT Astra International	Astra Group	Debt restructuring (one of seven members of Astra International Credit Committee)	1999	Unknown
10	Aegon	PT Astra Agro Lestari	Astra Group	Ownership of 0.24% of PT Astra Agro Lestari shares	1999	Unknown
11	De Nationale Investeringsbank	PT SMART	Sinar Mas Group	Long-term syndicated loan (participant)	1995	US\$ 150 M
12	FMO	PT Maskapai Perkebunan Leidong West Indonesia (PT SMART)	Sinar Mas Group	Secured long-term loan facility	1996	US\$ 21 M

## Overview of the involvement of Dutch financial institutions in oil palm companies in Indonesia

13	FMO			Participant in revolving trade finance facility with IFC and Rabobank	1999	US\$ 140 M
14	ING Bank	PT Cahaya Kalbar		Short-term working capital	1995	US\$ 4.5 M
15	ING Bank	PT Cahaya Kalbar		Short-term working capital loan	1995	US\$ 4.0 M
16	ING Bank	PT SMART	Sinar Mas Group	Long-term syndicated loan (participant)	1995	US\$ 150 M
17	ING Bank	PT SMART	Sinar Mas Group	Short term notes	1995	Rp 9.2 B
18	ING Bank	Kulim (Malaysia)	Johore State Economic Development Corporation (Malaysia)	Long-term syndicated loan (participant)	1996	US\$ 100 M
19	ING Bank	PT Kalimantan Sanggar Pusaka	Leyman Group and Raja Garuda Mas Group	Long-term syndicated loan (arranger)	1996	US\$ 6 M
20	ING Bank	PT Asian Agri Plantation	Raja Garuda Mas Group	Long-term syndicated loan (participant)	1997	US\$ 95 M
21	ING Bank	PT Astra International	Astra Group	Short term loan	1997	Rp 53 B (US\$ 11.4 M)
22	ING Bank	First Pacific Company Ltd.	Salim Group	Selling of assets (Hagemeyer)	1998	DFL. 3.6 B (US\$ 1.75 B)
23	ING Bank	First Pacific Company Ltd.	Salim Group	Placement of new shares	1999	US\$ 200 M

## Overview of the involvement of Dutch financial institutions in oil palm companies in Indonesia

24	ING Bank	Golden Agri Resources Ltd.	Sinar Mas Group	Initial Public Offering (lead manager)	1999	US\$ 360.2 M
25	Kempen & Co	First Pacific Company Ltd.	Salim Group	Selling of assets (Hagemeyer)	1998	DFL. 3.6 B (US\$ 1.75 B)
26	MeesPierson	PT Astra Agro Lestari	Astra Group	Housing and managing financing company (Astra Overseas Finance BV)	1994	US\$ 200 M
27	MeesPierson	Unknown company		Arranging loans and Long-term purchases by end buyers	1995	US\$ 40 M
28	MeesPierson	Golden Agri Resources Ltd.	Sinar Mas Group	Housing and managing financing company (Purimas International Finance Company BV)	1996	Unknown
29	MeesPierson	PT Bakrie Sumatra Plantation	Bakrie Group	Housing and managing financing company (Bakrie Indonesia BV)	1996	Unknown
30	MeesPierson	PT Bakrie Sumatra Plantation	Bakrie Group	Housing and managing financing company (Bakrie International Finance Company BV)	1996	US\$ 275 M + Yen 24 B
31	MeesPierson	PT Asia Food and Properties	Sinar Mas Group	Housing and managing financing company (AFP International Finance Company BV)	1997	Unknown
32	MeesPierson	PT Bakrie & Brothers	Bakrie Group	10% of the assets of PT MeesPierson Finas Investment Management Invested in PT Bakrie & Brothers	1997	Unknown
33	MeesPierson	PT Indofood Sukses Makmur	Salim Group	Long-term syndicated loan	1997	US\$ 250 M
34	MeesPierson	PT Inti Indosawit Subur	Raja Garuda Mas Group	Housing and managing financing company (Inti Indosawit International BV)	1997	US\$ 300 M

## Overview of the involvement of Dutch financial institutions in oil palm companies in Indonesia

35	MeesPierson	PT Inti Indosawit Subur	Raja Garuda Mas Group	Housing and managing financing company (Asian Agro International BV)	1997	Unknown
36	MeesPierson	PT Pan London Sumatra Plantation	Napan and Risjadson Groups	Housing and managing financing company (Pan London Sumatra Finance BV)	1997	US\$ 213 M
37	MeesPierson	First Pacific Company Ltd.	Salim Group	Selling of assets (Hagemeyer)	1998	DFL. 3.6 B (US\$ 1.75 B)
38	MeesPierson	PT Astra Agro Lestari	Astra Group	Ownership of 0.41% pf PT Astra Agro Lestari shares	1999	Unknown
39	Rabobank	PT PP London Sumatra Indonesia and PT Pan London Sumatra Plantation	Napan and Risjadson Groups	Amortizing term loan (co-arranger)	1994	US\$ 183.5 M
40	Rabobank	Lewis & Peat (Singapore) Ltd.	Bakrie Group	Short term loan	1995	US\$ 213.419 (Rp 348.8 M)
41	Rabobank	PT SMART	Sinar Mas Group	Long-term syndicated loan (participant)	1995	US\$ 150 M
42	Rabobank	Kulim (Malaysia)	Johore State Economic Development Corporation (Malaysia)	Long-term syndicated loan (participant)	1996	US\$ 100 M
43	Rabobank	Lewis & Peat (Rubber) Holdings Ltd.	Bakrie Group	Syndicated trade finance facility (lead manager)	1996	US\$ 150 M
44	Rabobank	PT Bakrie Sumatra Plantation	Bakrie Group	Long-term syndicated loan (participant)	1996	US\$ 75 M

## Overview of the involvement of Dutch financial institutions in oil palm companies in Indonesia

45	Rabobank	PT PP London Sumatra Indonesia and PT Pan London Sumatra Plantation	Napan and Risjadson Groups	Long-term syndicated loan (participant)	1996	US\$ 197 M
46	Rabobank	PT Asian Agri Plantation	Raja Garuda Mas Group	Long-term syndicated loan (arranger)	1997	US\$ 95 M
47	Rabobank	PT Bakrie & Brothers	Bakrie Group	Short term loan	1997	Rp 5.3 B
48	Rabobank	PT Cahaya Kalbar		Short-term syndicated loan (co-arranger)	1997	US\$ 30 M
49	Rabobank	PT Gunung Maras Lestari	Selasih Permata (Malaysia)	Long-term syndicated loan (participant)	1997	Rp 80 B (US\$ 34.1 M)
50	Rabobank	PT PP London Sumatra Indonesia	Napan and Risjadson Groups	Short term loan	1997	US\$ 2.9 M
51	Rabobank	First Pacific Company Ltd.	Salim Group	Selling of assets (Hagemeyer)	1998	DFL. 3.6 B (US\$ 1.75 B)
52	Rabobank	PT Agro Indomas	Good Hope (Malaysia)	Long-term loan	1998	US\$ 10.8 M
53	Rabobank	Kulim (Malaysia)	Johore State Economic Development Corporation (Malaysia)	Cancelled Initial Public Offering of NBPO (manager)	1999	A\$ 282 M (US\$ 187 M)
54	Rabobank			Participant in revolving trade finance facility with IFC and FMO	1999	US\$ 140 M

Level of influence Chapter 6	Influence until Chapter 6	Other financial institutions involved Chapter 4	Oil palm area planned by company group Chapter 4	Main locations of oil palm estates Chapter 4	Environmental and social problems Chapter 3
+++	Until now	ING Bank; Nationale Investeringsbank; Rabobank	528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
++	At least until the end of 1996		528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
++++	Around December 1997		280.000 ha.	Central Kalimantan; Riau; elsewhere	Forest fires
++	At least until the end of 1997		280.000 ha.	Central Kalimantan; Riau; elsewhere	Forest fires
++	Probably until now	Bank Paribas (France); DKB Merchant Bank (Germany) and several Japanese banks	280.000 ha.	Central Kalimantan; Riau; elsewhere	Forest fires
++	Until now	Union Bank of Switzerland (UBS)	280.000 ha.	South Sumatra; North Sumatra; East Kalimantan; Sulawesi	Forest fires; social conflicts; forest loss
+	Around March 1998	SBC Dillon Warburg Read (US); UBS (Switzerland); Rabobank; Kempen & Co.; MeesPierson	528.000 ha.	South Kalimantan; Riau	Forest fires; forest loss
+++	Around July 1999	Merill Lynch (Singapore); ING Bank; Credit Lyonnais Securities (Asia); HSBC Investment Bank Asia (Ltd.) and others.	528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
+++	Until now	Bank Negara Indonesia; Banque Paribas; and several Japanese banks	280.000 ha.	Central Kalimantan; Riau; elsewhere	Forest fires
+	Until now		280.000 ha.	Central Kalimantan; Riau; elsewhere	Forest fires
+++	Until now	ABN-AMRO; ING Bank; Rabobank	528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
++++	Until now		528.000 ha.	Jambi; Irian Jaya	Not available

++					Not available
++	Until November 1997	PT Bank Uppindo		West Kalimantan	Waste water emissions
++	Until November 1997			West Kalimantan	Waste water emissions
+++	Until now	ABN-AMRO; ING Bank; Nationale Investeringsbank; Rabobank	528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
++	In 1995/96		528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
+++	Until now	Oversea-China Banking Corp (HK); Rabobank Nederland and several German; Swiss and Asian banks	18.755 ha.	Unknown	Not available
+++	Until now	International Finance Corporation (IFC); Deutsche Entwicklungs Gesellschaft (DEG)	69.000 ha.	West Kalimantan	Forest loss; social conflict
+++	Until now	Rabobank; Malayan Banking	600.000 ha.	Kalimantan; Jambi; Riau	Forest fires
++	At least until the end of 1997		280.000 ha.	Central Kalimantan; Riau; elsewhere	Forest fires
++	Around March 1998	SBC Dillon Warburg Read (US); UBS (Switzerland); Rabobank; Kempen & Co.; MeesPierson	528.000 ha.	South Kalimantan; Riau	Forest fires; forest loss
++	Around June 1999		528.000 ha.	South Kalimantan; Riau	Forest fires; forest loss

++++	Around July 1999	Merill Lynch (Singapore); ABN-AMRO Rothschild; Credit Lyonnais Securities (Asia); HSBC Investment Bank Asia (Ltd.) and others.	528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
+	Around March 1998		528.000 ha.	South Kalimantan; Riau	Forest fires; forest loss
++	Until now		280.000 ha.	Central Kalimantan; Riau; elsewhere	Forest fires
++++	Until now		Not available		Not available
++	Until now		528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
++	Until now		176.000 ha.	Central Kalimantan; West Kalimantan	Not available
++	Until now		176.000 ha.	Central Kalimantan; West Kalimantan	Not available
++	Until now		528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
+	Until now		176.000 ha.	Central Kalimantan; West Kalimantan	Not available
++	Until now	Credit Suisse First Boston (Switzerland)	50.000 ha.	Riau	Forest fires; forest loss
++	Until now	Union Bank of Switzerland	600.000 ha.	Kalimantan; Jambi; Riau	Forest fires



++	Until now		600.000 ha.	Kalimantan; Jambi; Riau	Forest fires
++	Until now		205.000 ha.	South Sumatra; North Sumatra; East Kalimantan; Sulawesi	forest fires; social conflicts; forest loss
+	Around March 1998	SBC Dillon Warburg Read (US); UBS (Switzerland); Rabobank; Kempen & Co.; MeesPierson	528.000 ha.	South Kalimantan; Riau	Forest fires; forest loss
+	Until now		280.000 ha.	Central Kalimantan; Riau; elsewhere	Forest fires
++++	Between November 1994 and May 1996	22 banks; including Citicorp International (US); Commerzbank AG (Germany)	205.000 ha.	South Sumatra; North Sumatra; East Kalimantan; Sulawesi	Forest fires; social conflicts; forest loss
++	Probably until now		176.000 ha.	Central Kalimantan; West Kalimantan	Not available
+++	Until now	ABN-AMRO; ING Bank; Nationale Investeringsbank.	528.000 ha.	Jambi; Irian Jaya	Forest fires, illegal clearing
+++	Until now	Oversea-China Banking Corp (HK); ING Bank; several German; Swiss and Asian banks	18.755 ha	Unknown	Not available
++++	Until now		176.000 ha.	Central Kalimantan; West Kalimantan	Not available
+++	Probably until now	16 banks from Europe; Japan; Hong Kong; Malaysia; China and Indonesia; probably including: Credit Suisse (Switzerland); Japan Asia Investment; Credit Lyonnais Indonesia.	88.000 ha.	Sanggau; West Kalimantan	Concessions were revoked in 1998

+++	Until now	HSBC (Singapore); UBS (Switzerland); Commerzbank (Germany); Sumitomo Bank (Japan); Bank of Taiwan.	205.000 ha.	South Sumatra; North Sumatra; East Kalimantan; Sulawesi	Forest fires; social conflicts; forest loss
++++	Until now	ING; Malayan Banking	600.000 ha.	Kalimantan; Jambi; Riau	Forest fires
++	Probably until now		176.000 ha.	Central Kalimantan; West Kalimantan	Not available
++++	Probably until now	12 banks; including Sanwa Bank; Commerzbank; Royal Bank of Scotland; Standard Chartered Bank; Tokai Bank; DBS Bank and others.		West Kalimantan	Waste water emissions
++++	Until now	Sumitomo Bank (Japan); Banque National de Paris (France); Bayerische Landesbank Girozentrale (Germany); Dai-Ichi Kangyo Bank (Japan)	22.000 ha.		Not available
++	Probably until now		205.000 ha.	South Sumatra; North Sumatra; East Kalimantan; Sulawesi	Forest fires; social conflicts; forest loss
+	Around March 1998	SBC Dillon Warburg Read (US); UBS (Switzerland); Rabobank; Kempen & Co.; MeesPierson	275.000 ha.	South Kalimantan; Riau	Forest fires; forest loss
++++	Until now	Commonwealth Development Bank (UK)	12.000 ha.	Central Kalimantan	Social conflicts, illegal clearing
++	Around May 1999	Macquarie Equities Capital Markets (Australia)			Not available
++					Possibly indirect

Level of influence: '++++ Considerable +++ Moderate ++ Modest + Minimal influence; M: Million; B: billion

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Eric Wakker, AIDEnvironment  
Jan Willem van Gelder, Contrast Advies  
Telapak Sawit Research Team

# 1. Introduction

## 1.1 From fire fighting to banks

In 1997 and 1998, extensive forest fires in Indonesia burned an area three times the size of the Netherlands. The international donor community committed substantial funds and equipment for fire fighting campaigns, but to no avail. The fire fighting efforts were ineffective because most fires were lit intentionally, among other by oil palm companies which have been implementing extensive expansion programmes in the last 5-6 years, notably in Sumatra and Kalimantan. To convert their substantial concession areas into oil palm estates, the companies used fire as an easy, cheap and quick means of land clearing. The 1997/98 drought, caused by the El Niño climatic phenomenon, opened a window of opportunity for the companies in their efforts to clear as much land as possible. Many of their fires ran out of control, while yet others resulted from intense struggles between local communities and the plantation companies that encroach in their areas.

If the plantation industry continues to expand the way it did in the past, further forest fires will be inevitable in the future. Because of this threat, Indonesian non-governmental organisations (NGOs) established *Sawit Watch* in 1998. Currently more than 40 NGOs, active throughout Indonesia, from Sumatra, to Kalimantan, Sulawesi and Irian Jaya, are members of this network. *Sawit Watch* strives to raise awareness about the environmental and social impacts of irresponsible oil palm expansion at the local, national and international level and to support local communities in their struggle.<sup>1</sup> Individual *Sawit Watch* members have courageously filed and won lawsuits against plantation companies' burning and land grabbing practises, while others have tried endlessly (but often fruitlessly) to enter into dialogue with industry representatives. In conjunction with their partners in Indonesia, Dutch NGOs (Greenpeace, Both ENDS, Friends of the Earth and the Working Group on Indigenous Peoples) aim to raise awareness among the public about the environmental impacts caused by the plantation sector in which Dutch consumers may be involved.

Obviously, the expansion of Indonesia's plantation industry requires large amounts of capital. The role and responsibility of financial institutions is therefore of special interest, as they provide the credits, equity and other financial services that plantation companies require to open and expand their estates. Financial institutions that are substantially involved in providing this capital would be able to influence the environmental policies of their clients. This form of fire fighting may prove far more meaningful than throwing money at the flames.

The objectives of this study are to:

- ❑ Raise awareness about the environmental and social concerns related to the rapid expansion of oil palm companies in Indonesia;
- ❑ Determine the involvement of Dutch financial institutions in this development and
- ❑ Encourage financial institutions to reconsider their investments in the sub-sector and to contribute to more responsible forms of plantation development.

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<sup>1</sup> Sawit is the Indonesian term for palm oil.

## 1.2 Research questions and scope

Commissioned by Greenpeace Netherlands, AIDEnvironment, Contrast Advies and Telapak conducted a joint investigation into the financial ties between Dutch banks and palm oil companies in Indonesia. The investigation aimed to generate insights in the following:

1. Indonesia's oil palm plantation expansion plans.
2. Ecological impacts of oil palm expansion especially on biodiversity and forest fires.
3. Socio-economic impacts of oil palm expansion especially on indigenous communities.
4. The structure and main activities of Indonesian oil palm companies that received financial assistance from the Netherlands.
5. The involvement of individual Dutch banks in oil palm companies in Indonesia in the recent past.
6. Forms of involvement of banks in production companies and the influence that these institutions derive through each form of involvement.

The investigation emphasised:

- **Oil palm:** because it is the most rapidly expanding plantation sub-sector in Southeast Asia.<sup>2</sup> Pulp and paper plantations are also rapidly expanding, causing similar impacts. Dutch banks are not exclusively involved in oil palm development, they also finance the expansion of other environmentally sensitive sectors in Indonesia and elsewhere.
- **Dutch banks:** because the involvement of these financial institutions in the oil palm plantation sub-sector is not well known among the general public in the Netherlands and because Dutch banks increasingly create an image of environmentally and socially responsible businesses.<sup>3</sup> The Dutch are not the exclusive financiers of Indonesia's oil palm industry. They often work in syndicates with many other European, American and Southeast Asian banks.
- **Private sector capital flows:** because these have become more significant than development finance provided by public aid agencies since 1990. Private sector capital flows are subject to even less public scrutiny than publicly funded investments.<sup>4</sup> Official Development Assistance (ODA) funded banks, however, are also involved in Indonesia's oil palm sub-sector.

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<sup>2</sup> See e.g. Wolvekamp, P. and C. de Nooij 1997. *Olie op het Vuur*. Both ENDS. Report for WWF Netherlands; Potter, L. and J. Lee 1998. *Oil Palm in Indonesia: It's Role in Forest Conversion and the Fires of 1997/98*. Report prepared for WWF Indonesia; Potter, L. and J. Lee 1999. *Tree Planting in Indonesia: Trends, Impacts and Directions*. CIFOR; Sunderlin, W. 1999. *The Effects of Economic Crisis and Political Change on Indonesia's Forest Sector, 1997-1999*. CIFOR; Wakker, E. 1998. *Lipstick Traces in the Rainforest. Palm Oil, Crisis and Forest Loss in Indonesia: The Role of Germany*. Report prepared for WWF Germany. Casson, A. 1999 (Draft). *The Hesitant Boom: Indonesia's Oil Palm Sub-Sector in an Era of Economic Crisis and Political Change*. Programme on the Underlying Causes of Deforestation. CIFOR; EIA 1998. *The Politics of Extinction: The Orang-Utan Crisis, the Destruction of Indonesia's Forests*.

<sup>3</sup> See e.g.: Schrama, G. 1999. *Banken en Milieu in Nederland*. Milieu No. 4; Jeuken, M. 1998. *Duurzaam Bankieren: Een Visie op Bankieren en Duurzame Ontwikkeling*. Rabobank Nederland, Stafgroep Economisch Onderzoek.

<sup>4</sup> See also: French, H. 1998. *Investing in the Future: Harnessing Private Capital Flows for Environmentally Sustainable Development*. Worldwatch Paper 139; *A Race to the Bottom: Creating Risk, Generating Debt and Guaranteeing Environmental Destruction*. A Compilation of Export Credit & Investment Insurance Agency Case Studies. Environmental Defense Fund et al. 1999.

### 1.3 Methodology

This investigation is a joint project of AIDEnvironment, Contrast Advies and Telapak (a member of Sawit Watch). AIDEnvironment co-ordinated the project and focused research on company analysis, the overall impacts of oil palm development and policy issues. Contrast Advies concentrated on the financial and company analysis. Telapak gathered data on the oil palm sub-sector in Indonesia and co-ordinated field research to assess the impacts of selected companies in Kalimantan.

In the field, MADANIKA investigated PT Cahaya Kalbar in Pontianak and PT Kalimantan Sanggar Pusaka in Sanggau, West Kalimantan. YTT in Palangkaraya conducted a field survey in the area of PT Agro Indomas in Sembuluh Lake, Central Kalimantan. AIDEnvironment visited Plasma and Puti Jaji in Samarinda and the plantation area of PT Gelora Mahapala (LonSum) in Tanjung Isuy, East Kalimantan. The field research was conducted in the second half of 1999.

George Aditjondro, sociologist of corruption and post-colonial liberalism movements at the University of Newcastle (Australia) kindly shared his knowledge on corporate activities of Indonesian company groups in the Netherlands and elsewhere in Europe. A considerable part of this report is also based on publicly available literature.

*Care has been taken to assure accuracy of the information provided in this report. However, the Indonesian plantation and financial sectors are spectacularly dynamic. Comments and additional information are therefore welcomed.*

## 1.4 The contents of this report

After a brief description of the expansion of oil palm plantations in Indonesia and the factors that are pushing this development (Chapter 2), the environmental and social problems related to this expansion are discussed in Chapter 3. In the next two chapters, the business groups that are expanding their oil palm estates in Indonesia are analysed in a detailed manner in Chapter 4. All companies discussed have financial links with one or more Dutch banks. These linkages are summarised in Chapter 5, by order of Dutch financial company. The information in this chapter is thus the same as that of Chapter 4 and most information is therefore not referenced separately. In Chapter 6, various forms of financial involvement between Dutch banks and oil palm companies are described. Based on each of these forms of involvement, an assessment is made of the influence that Dutch financial companies have or had on their clients in Indonesia.

## 2. Oil palm expansion in Indonesia

In this chapter, we describe the main drives behind the expansion of the oil palm sub-sector in Indonesia: rising demand for palm oil on domestic and export markets and the interest of both domestic and foreign investors to develop the industry. Despite the massive interest of the latter, most forestlands set aside for plantation development are yet to be cleared and planted.

The oil palm sub-sector in brief

African oil palms (*Elaeis guineensis*) were first introduced in Southeast Asia in the 19th century. Large-scale establishment of monoculture plantations in Asia first took off in Malaysia in the 1960s. The expansion of Indonesia's oil palm estates took off in the 1980s.

In Indonesia an average plantation company manages a plantation area of on average 10,000 – 25,000 hectares (ha). The company is often a subsidiary or affiliate of a larger agribusiness group that operates several plantations in several provinces. These groups in turn often belong to business conglomerates that are active in various sectors, such as agriculture, forestry, telecommunications, banking and construction. They include Indonesia's biggest company groups, the Salim, Sinar Mas and Astra groups.

Plantations are developed in forestland, that is, state-owned land. This means that plantation companies are granted the rights (concession) to convert an area into an estate. In Indonesia, this right is valid for 30 years and renewable thereafter. Before the company can operate its plantation, several permits must be obtained from government agencies at the provincial and national level.

To establish the plantation, the company will begin constructing roads, setting up a nursery and remove any standing vegetation, including tropical rainforest. Labour is often brought in from other regions and a nursery is set up as soon as possible. The palms are productive from 3 years after planting onward until the plantation is replaced 25-30 years later. The cost of establishing oil palm plantations varies between US\$ 2,500 – US\$ 3,500/ha, 60-77% of which the company would normally try to raise externally.

Of three plantation types in Indonesia, government owned estates are oldest and therefore most productive. In 1998, half of all oil palm plantations in Indonesia were private owned, one third are smallholder plantations. The latter are least productive of the three types.

The Anglo-Dutch multinational Unilever developed cloning techniques that dramatically increased oil palm productivity. No other plant produces a higher yield of edible oil than the oil palm: per hectare yields can be 10 times higher than those of soybean. The fruit bunches must be processed 24 hours after harvesting. This is done in Crude Palm Oil (CPO) mills that are normally built in the plantation area.

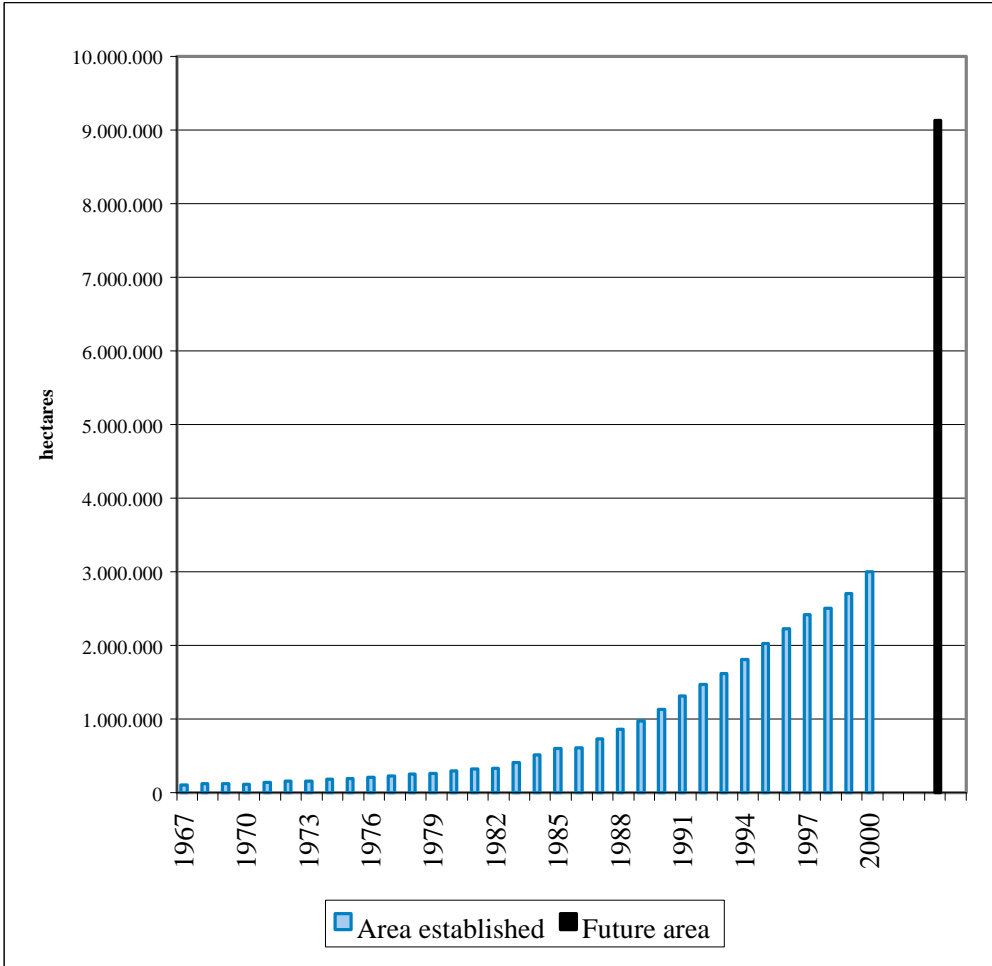
Half of total CPO production in Indonesia is consumed domestically, mostly in the form of cooking oil. Important global consumers of palm oil are Unilever, Proctor & Gamble, Henkel, Cognis and Cargill. Unilever manages oil palm plantations in Malaysia and elsewhere but in Indonesia the company purchases palm oil from local producers only.



## 2.1 The rate of expansion

The expansion of Indonesia's began to take off from the mid-1980s onward. Starting from about 600,000 hectares (ha) in 1985, the planted area reached approximately 3 million ha in 1999 (see Figure 2.1).

Figure 2.1 Total area of oil palm plantations established in Indonesia<sup>1</sup>



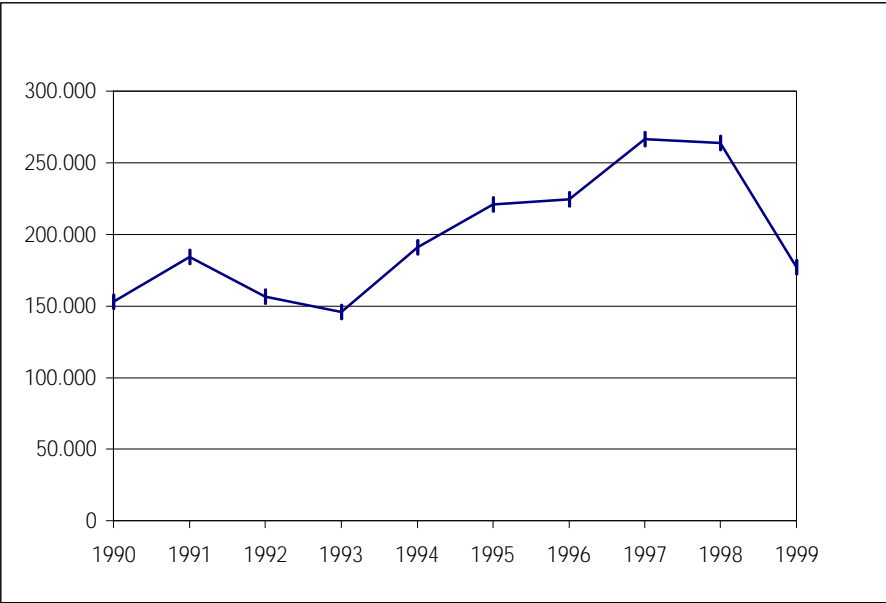
Between 1990 and 1999, 1.8 million ha – on average 200,000 ha of forestland each year - were converted into oil palm plantations in Indonesia (Figure 2.2).<sup>2</sup> Due to the monetary crisis that emerged in mid-1997, the rate of planting in 1998/99 fell by approximately one-third. This drop

<sup>1</sup> Source of data 1967 – 1999: Directorate General of Plantations, 1998. Statistik Perkebunan Indonesia. 1997-1999. Kelapa Sawit.

<sup>2</sup> For comparison: the size of Nationaal Park Hoge Veluwe in the Netherlands is 5,450 ha.

is not as dramatic as forecasted previously.<sup>3</sup> Casson (1999) found that plantation companies had only temporarily reduced their planting targets.<sup>4</sup>

Figure 2.2 Annual area converted into oil palm plantations: Indonesia 1990 – 1999.<sup>5</sup>



The annual rate of conversion can be expected to increase dramatically in the coming years if market prospects for palm oil remain as promising as they are now and if Indonesia manages to uphold the eagerness of investors to develop the oil palm sub-sector. Already in 1996, the Indonesian government had set aside 9.13 million ha of forestland (5.56 million ha of which in Irian Jaya) for oil palm plantation development.<sup>6</sup> Plantation companies therefore have access to another 6 million ha which are allocated for oil palm but not yet planted (See also Figure 2.1).

<sup>3</sup> Oil World expected planting rates in 1997-1999 to fall to 10% to 30% of the pre-crisis period. Land clearing activity would begin to recover from the year 2000 onward. Mielke, S. 1998. The Outstanding Role of Indonesia in the Phenomenal Development of the World Oil Palm Industry in the Past and the Future. 1998 International Oil Palm Conference. September 23-25, 1998.

<sup>4</sup> Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia’s Oil Palm Sub-Sector in an Era of Economic Crisis and Political Change. Programme on the Underlying Causes of Deforestation. CIFOR.

<sup>5</sup> Directorate General of Plantations, 1998. Statistik Perkebunan Indonesia. 1997-1999. Kelapa Sawit.

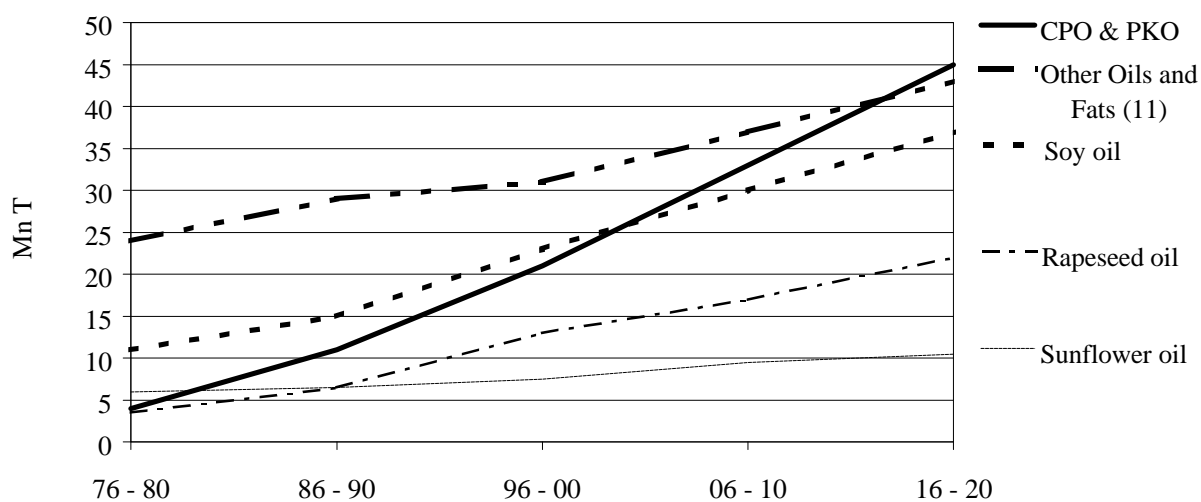
<sup>6</sup> Data Consult 1998. Palm Oil Industry Enters Free-Market Era. Indonesian Commercial Newsletter ([www.indoexchange.com/data-consult/newsletter/1dcatoc1.htm](http://www.indoexchange.com/data-consult/newsletter/1dcatoc1.htm), viewed 24 June 1999); Data Consult. Is the Sector of Oil Palm Plantations Closed to New Foreign Investment, Only in Indonesia’s Western Parts. Indonesian Commercial Newsletter, 14 April 1996.

## 2.2 Palm oil production and consumption

Although still as much as three-quarters of the world's palm oil came from West African palm groves in 1969/70, today 80% of global crude palm oil production (17.7 million tonnes) and 87% of global exports (12.4 million tonnes) are accounted for by Malaysia and Indonesia.<sup>7</sup>

Total global palm oil consumption grew by 22% from 14.5 million tonnes in 1994 to 17.7 million tonnes in 1998.<sup>8</sup> The producer countries have hardly been able to keep up with growth in demand for palm oil and consequently, market prices were very good, also relative to other edible oils such as soy oil. In 1997/98, buyers in Europe offered at least US\$ 598 dollars per tonne of crude palm oil or twice as much as they paid in 1989/90. Such prices are approximately 70% above what might be considered normal.<sup>9</sup>

Figure 2.3 Forecast on 17 Oils & Fats: World Production 5 - Year Averages (in million tonnes)



Palm oil is expected to further strengthen its market position. The principle authority in global trends in edible oil consumption - Oil World - forecasts that demand for palm oil will rise yet another 50% in the coming five years. By 2012, palm oil will be the most produced, consumed and internationally most traded edible oil in the world (see Figure 2.3).<sup>10</sup>

<sup>7</sup> Oil World Annual 1998. ISTA Mielke GmbH; Piggott, C.J. 1990. Growing Oil Palms. An Illustrated Guide. The Incorporated Society of Planters. Kuala Lumpur.

<sup>8</sup> Oil World Annual 1999. ISTA Mielke GmbH.

<sup>9</sup> Radday, M. 1999. Palm Oil: The Asia-Pacific Panorama. The Socio-Economic Factors behind the Raise of the Oil Palm. Paper presented at the WWF Oil Palm Workshop. Manila. Oil World 2020 (1999) ISTA Mielke GmbH; Oil World Annual 1999. ISTA Mielke GmbH; Mielke, S. 1998. The Outstanding Role of Indonesia in the Phenomenal Development of the World Oil Palm Industry in the Past and the Future. 1998 International Oil Palm Conference. September 23-25, 1998.

<sup>10</sup> Oil World 2020 (1999) and Oil World Annual 1999. ISTA Mielke GmbH.

## Palm oil products and uses

The oil palm is particularly valued for its red fruits that have high edible oil content. Portuguese explorers first described the oil palm in 1435-'60. In 1848, the Dutch introduced the first four oil palms in Indonesia.<sup>11</sup>

- ❑ **Crude Palm Oil (CPO)** is the primary product derived from the fruits of the oil palm. CPO is used for a wide range of food and non-food products, including margarine, chocolate, frying fat, instant soups, cooking oil, pizzas, soap, cosmetics and even toothpaste. For most of these products, CPO is interchangeable with other edible oils, such as soy oil and rapeseed oil.
- ❑ **Palm Kernel Oil (PKO)**, derived from the fruits' flesh, is considered a secondary product although it can be applied for most of products for which crude palm oil is used.
- ❑ **Palm Kernel Meal (PKM)** was brought out of Africa as food for slaves between 1562 and 1807. Today, it is used primarily for animal feed. Although PKM is considered a by-product of palm oil production, its importance to the animal feed sector should not be underestimated.<sup>12</sup>

Palm oil consumption in the Netherlands is already in line with the global trend. Having out-competed soy oil in 1998, palm oil is now the most consumed edible oil in the Netherlands (Table 2.1).

Table 2.1 Domestic disappearance of edible oils (1,000 tonnes), the Netherlands 1994 - 1998.<sup>13</sup>

	1994	1995	1996	1997	1998
Soybean oil	338	322	330	330	325
Palm oil (CPO)	245	231	258	288	368
Palmkernel oil (PKO)	77	58	58	52	90
CPO and PKO	322	289	316	340	458
Other oils (14)	914	974	981	1020	931
<b>All edible oils</b>	<b>1,574</b>	<b>1,585</b>	<b>1,627</b>	<b>1,690</b>	<b>1,714</b>
Share palm oils of total	20%	18%	19%	20%	27%
Share soybean oil of total	21%	20%	20%	20%	19%

Trade relations between Indonesia and the Netherlands are very strong. In 1998, Indonesia produced 5.6 million tonnes of palm oil and palm kernel oil, 31% of global production. About half of total production was consumed domestically; the other half was exported, primarily to the Netherlands (see Table 2.2 and Figure 2.4).

Indonesia is the main palm oil supplier to the Dutch market. Between 1994 and 1998, half of all Dutch palm oil imports were purchased from Indonesia, while Malaysia supplied just over one-quarter (27%) of total imports.<sup>14</sup>

<sup>11</sup> Pamin, K. A Hundred and Fifty Years of Oil Palm Development in Indonesia: From the Bogor Botanical Garden to the Industry. IOPRI. 1998 International Oil Palm Conference. September 23-25, 1998.

<sup>12</sup> See for details on oil palm uses e.g.: Pocketbook of Palm Oil Uses. Palm Oil Research Institute of Malaysia. Ministry of Primary Industries. March 1997.

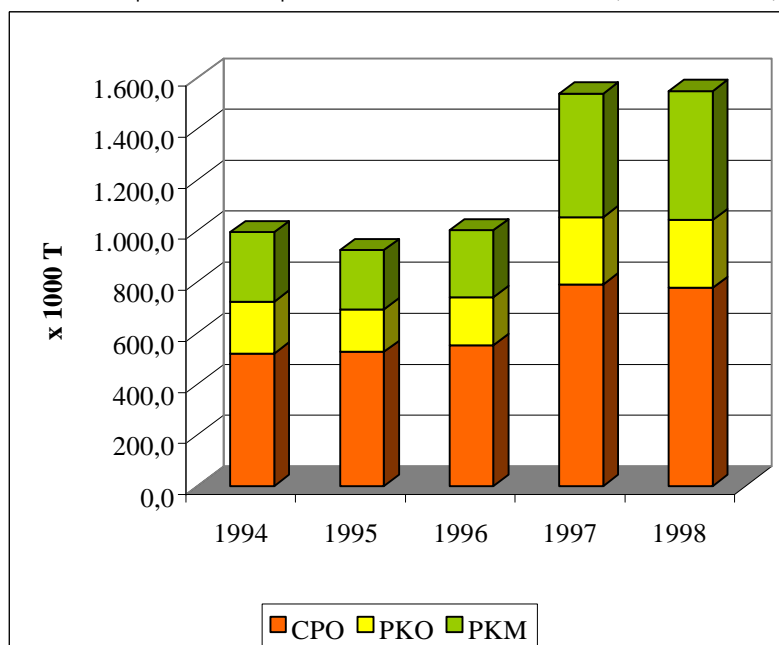
<sup>13</sup> Oil World Annual 1999. ISTA Mielke GmbH.

Of all palm oil products exported by Indonesia in 1998, almost half (46%) were destined for the Netherlands. Other main export markets for Indonesia's palm oil exports are Germany, Italy and Spain.

Table 2.2 Indonesian exports of palm oil products to the Netherlands 1993 –1998 (1,000 MT)<sup>15</sup>

		1993	1994	1995	1996	1997	1998
CPO	Indonesian exports	1.372	1.631	1.040	1.010	1.448	942
	Exports to NL	396	457	430	452	692	550
	Share Netherlands	29%	28%	41%	45%	48%	58%
Processed CPO	Indonesian exports	347	542	815	841	1.534	1.310
	Exports to NL	44	63	96	100	98	227
	Share Netherlands	13%	12%	12%	12%	6%	17%
PKO	Indonesian exports	275	341	311	341	503	435
	Exports to NL	146	203	166	188	265	267
	Share Netherlands	53%	60%	53%	55%	53%	61%
PKM	Indonesian exports	416	498	483	606	668	683
	Exports to NL	238	271	232	262	484	505
	Share Netherlands	57%	54%	48%	43%	72%	74%
Total	Indonesian exports	2.410	3.012	2.649	2.798	4.153	3.370
	Exports to NL	824	994	924	1.002	1.539	1.549
	Share Netherlands	34%	33%	35%	36%	37%	46%

Figure 2.4 Indonesian palm oil exports to the Netherlands (1994 – 1998).



Note: "CPO" includes both processed and unprocessed CPO

<sup>14</sup> Oil World Annual 1999. ISTA Mielke GmbH.

<sup>15</sup> Oil World Annual 1998 and 1999. ISTA Mielke GmbH.

## 2.3 Investors in Indonesia's oil palm sub-sector

In order to develop the huge area set aside for oil palm plantations in the mid-1990s, substantial amounts of capital had to be attracted to the sub-sector, but Indonesia had no trouble creating sufficient investors' interest.

Indonesia out-competes Malaysia in terms of labour cost by five times and in cost of land by four times, thereby making it the cheapest producer of palm oil in the world.<sup>16</sup> In addition to the low cost of production, foreign investors had great confidence in Indonesia's economy and political scene under former president Soeharto. For example, shortly after the May 29, 1997 elections during which Soeharto was re-elected, a senior vice-president of Rabobank, Paul Beiboer, stated:

"The elections had very little effect on the investment climate in Indonesia. Foreign investors are very confident with the Indonesian economy. It appears that economic fundamentals are very strong... Most foreigners are happy with the political scene and are convinced there is political stability."

Beiboer acknowledged there was some volatility on domestic and financial markets. "But from the foreign perspective, there is nothing to worry about (..) ". "Foreigners feel there is a consensus among politicians as to where Indonesia's economy is headed." <sup>17</sup>

The enthusiasm for the Indonesian investment climate resulted in an excessive demand for land to develop agribusiness projects. In 1995, investors had applied for the release of no less than 20 million ha of forestland for development into agriculture (see Table 2.3). This area equals 10 times the then existing oil palm area and three times the total land area of the Benelux.<sup>18</sup>

The Indonesian government began to cash in hundreds of proposals submitted and by early 1997, Indonesia's Investment Co-ordination Board (BKPM) had approved 612 oil palm investment projects representing a total value of US\$ 23.55 billion. The projects covered a total area of 8.7 million ha. Of the projects approved, 526 were allocated to domestic investors, with a value of US\$ 20.25 billion and covering 6.6 million ha. Foreign investors were involved in 93 projects, covering 2.1 million ha, 71% of which would be run by Malaysian companies. Total foreign investments in the sub-sector were worth US\$ 3.3 billion.<sup>19</sup>

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<sup>16</sup> Tripathi, S. 1998. Natural Advantage. *Far Eastern Economic Review*, 29 January 1998. Malaysia's oil palms covered 2.8 million ha in 1998. Malaysia aims to establish a maximum area of 3.6 million ha of oil palm estates nation wide by 2008.

<sup>17</sup> Election Jitters Grip Business, says Sofyan. *Jakarta Post*, 1 May 1997.

<sup>18</sup> These include applications agreed in principle (covering 4.4 million ha) and 15,7 million ha outstanding applications (see Table 2.3). See for further analysis Casson, A. 1999 (*The Hesitant Boom: Indonesia's Oil Palm Sub-Sector in an Era of Economic Crisis and Political Change*. Programme on the Underlying Causes of Deforestation. CIFOR).

<sup>19</sup> Government Firm on Oil Palm Investment. *Jakarta Post*, 1 April 1997. Palm Oil Group Backs Govt's Decision 3 April 1997. Note: projects submitted by domestic investors may, of course, be facilitated through financial services from foreign banks.

### European Banks assisting the foreign expansion of Malaysian plantation companies

Since the early 1990s, numerous Malaysian logging companies began to expand their operations abroad. In just a few years time, they secured millions of hectares of, often, high-conservation value rainforests throughout the tropics and, also, the Russian Far East. This development alarmed conservation organisations all over the world because of the threat of unsustainable levels of exploitation and the limited economic benefits accrued to the host countries.<sup>20</sup>

Malaysian entrepreneurs have also begun to invest in oil palm plantations in Indonesia, Papua New Guinea, Solomon Islands, Cambodia and elsewhere. In February 1999, it was reported that Guyana received a Singaporean consortium and a Malaysian investor to discuss how to push the oil palm industry in the country.<sup>21</sup> In Indonesia, Malaysian investors are developing a large number of oil palm plantation projects (see Appendix 1).

**Rabobank** is working with several Malaysian plantation companies including **Selasih Pertama Sdn. Bhd** and **Kulim Sdn. Bhd**. Yet another example is **Good Hope Co.** whose subsidiary **Agro Indomas** recently acquired loans from **Commonwealth Development Corp. (CDC)**, a semi-governmental development bank, and **Rabobank International**.<sup>22</sup>

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<sup>20</sup> See for further information e.g.: Cotton, C. 1999. *Buying Destruction*. Greenpeace International; World Rainforest Movement & Forests Monitor 1998. *High Stakes. The Need to Control Logging Companies: A Malaysian Case Study*; Toni, A. 1997 *Logging the Planet*. Greenpeace International; Grieg-Gran et al. 1998. *Foreign Portfolio Investment and Sustainable Development*. IIED.

<sup>21</sup> *Local Oil Palm Industry Closes*. Stabroek News 17 February 1999.

<sup>22</sup> CDC's subsidiary in PNG, **Pacific Capital Partners**, plans to double its palm oil capacity, possibly involving an investment of about US\$ 100 million. The group's plantation company, **Pacific Rim Plantations Ltd.** now owns 20,000 ha of palm oil in Oro (Popondatta), Milne Bay and Kavieng in New Ireland. These are in joint venture with the government who owns a 20% stake. **Pacific Rim Plantations** is about the same size as the operations of **New Britain Palm Oil Ltd.** *CDC Plans Major New Investments in PNG*. The National 12 May 1999.

Table 2.3 Forest land classifications and demand for release of forestland to plantation use in 1995

(Source: Potter, L. and J. Lee 1999. Oil-Palm in Indonesia: It's Role in Forest Conversion and the Fires of 1997/98. Report for WWF Indonesia).

Province	Area (ha)	Permanent forest lands in 1995 (ha)	Conversion forest in 1995 (ha)	Non-forest land mostly already used for other purposes in 1995 (ha)	Oil palm planted area in 1995 (ha)	Applications for release of forest land agreed in principle (95)	Outstanding applications for release of forest land (95)	Conversion forest deficit if all applications granted (ha)
Riau	9,456,160	4,635,000	<sup>1)</sup>	4,821,160	460,571	1,650,187	4,246,076	-5,896,263
N.Sumatra	7,168,068	3,527,000	254,000	3,387,068	562,172	172,829	1,072,460	-991,289
Aceh	5,539,000	3,282,000	848,000	1,409,000	146,552	315,851	1,086,518	-554,369
S.Sumatra	10,277,500	4,028,000	1,186,000	5,063,500	174,061	127,829	1,469,008	-410,837
Jambi	5,100,000	2,220,000	727,000	2,153,000	141,110	345,142	685,212	-303,354
W.Sumatra	4,229,730	2,943,000	438,000	848,730	105,171	162,162	336,693	-60,855
Bengkulu	1,978,870	978,000	179,000	821,870	40,045	47,500	134,495	-2,995
Lampung	3,301,545	1,083,000	153,000	2,065,545	29,100	90,572	365,235	-302,807
<b>SUMATRA</b>	<b>47,050,873</b>	<b>22,696,000</b>	<b>3,785,000</b>	<b>20,569,873</b>	<b>1,658,782</b>	<b>2,912,072</b>	<b>9,395,697</b>	<b>-8,522,769</b>
West Kal.	14,680,700	7,696,000	1,509,000	5,475,700	192,595	257,059	1,265,125	-13,184
Central Kal.	15,300,000	10,997,000	<sup>1)</sup>	4,303,000	20,749	257,250	1,149,973	-1,407,223
East Kal.	21,144,000	15,952,000	<sup>1)</sup>	5,192,000	38,874	295,395	1,820,271	-2,115,666
South Kal.	3,700,000	2,029,000	285,000	1,386,000	28,029	257,250	524,758	-497,008
<b>KALIMAN.</b>	<b>54,824,700</b>	<b>36,674,000</b>	<b>1,794,000</b>	<b>16,356,700</b>	<b>280,247</b>	<b>1,066,954</b>	<b>4,760,127</b>	<b>-4,033,081</b>
S.Sulawesi	6,292,650	3,352,000	259,000	2,681,650	45,971	107,915	191,289	-40,204
C.Sulawesi	6,368,925	4,935,000	242,000	1,191,925	11,984	82,790	305,018	-145,808
N.Sulawesi	2,751,501	1,583,000	294,000	874,501	0	10,000	94,272	189,728
SE Sulawesi	3,814,000	2,190,000	699,000	925,000	0	19,750	74,800	604,450
<b>SULAWESI</b>	<b>19,227,076</b>	<b>12,060,000</b>	<b>1,494,000</b>	<b>5,673,076</b>	<b>57,955</b>	<b>220,455</b>	<b>665,379</b>	<b>608,166</b>
NTB	2,015,315	1,064,000	<sup>1)</sup>	951,315	0	643	1,777	-2,420
Maluku	8,572,800	5,097,000	<sup>1)</sup>	3,655,800	0	25,780	236,314	-262,094
Irian Jaya	41,066,000	28,817,000	11,775,000	474,000	13,207	126,389	590,992	11,057,619
<b>EAST</b>	<b>51,654,115</b>	<b>34,978,000</b>	<b>11,775,000</b>	<b>4,901,115</b>	<b>13,207</b>	<b>152,812</b>	<b>829,083</b>	<b>10,793,105</b>
OTHER	19,982,114	5,305,000	191,000	14,486,114				
<b>TOTAL</b>	<b>192,738,878</b>	<b>111,713,000</b>	<b>19,039,000</b>	<b>61,986,000</b>	<b>2,010,191</b>	<b>4,352,293</b>	<b>15,650,286</b>	<b>-1,154,579</b>

1) In these provinces convertible forest had not been separated from permanent forest lands at this time.



Early 1998, 650 foreign and domestic investors had applied for permits to convert forestland into oil palm plantations.<sup>23</sup> Also in early 1998, the Ministry of Forests and Estates fell in line with new BKPM approvals and released another four million hectares of forests for oil palm plantations until 2000.<sup>24</sup>

#### From reluctance to eagerness: oil palm expansion into Irian Jaya

Currently 96% of all oil palm plantations are located in Sumatra and Kalimantan and 90% of the areas applied for by investors as of 1995 were in these regions (compare Table 2.3). Analysis by researchers from the University of Adelaide showed that if the applications filed by 1995 were all accommodated, Sumatra would be short of 8.5 million ha of land for conversion purposes, while Kalimantan would face a deficit of over 4 million ha.<sup>25</sup> In March 1998, only two Sumatran provinces Riau and North Sumatra were closed for further new investment proposals.<sup>26</sup> In order to give the islands East of Java 'their equal share' of oil palm, the Indonesian government began to direct investors to Irian Jaya. Private plantation companies previously considered Irian Jaya too isolated and undeveloped. In the last 3 years, however, they overcame their reluctance thanks to the special investment policy measures created by the government.

In 1996 the only oil palm plantation in Irian Jaya was run by the state company PT Nusantara II, which had opened 13,500 ha in Jayapura and Manokwari. In the same year, a consortium of 14 state-owned plantation firms under the Ministry of Agriculture, Nusantara I through XIV, submitted a proposal to open a further 113,000 ha and to build 11 processing units. Of the US\$ 447.82 million investment proposed, 35% would be raised from the consortium and the rest from bank loans.<sup>27</sup>

In 1997, group plantation companies boldly submitted 29 investment proposals to develop no less than 1.74 million ha of oil palm estates in Irian Jaya. The Ministry of Forests and Estates approved the proposals submitted by 13 privately owned plantation groups and one state owned company. Fifteen companies had their proposals rejected and the Ministry substantially reduced the areas proposed by the companies:

- The **Sinar Mas** Group was allowed to open only 19,100 ha of the requested 111,000 ha;
- Djajanti Group 17,000 ha of its requested 150,000 ha;
- Texmaco Group, 35,000 ha from 300,000 ha;
- Korindo Group 34,900 ha from 70,000 ha; and
- Perkebunan Nusantara II 55,344 ha from 113,000 ha.

Since Irian Jaya is still mostly forested, oil palm development will cause significant deforestation in this province. The Ministry stated that it had downsized the areas requested because it tried to save the forest.<sup>28</sup> Nevertheless, two years later, Nusantara II announced it would open a 102,000 ha estate in Irian Jaya in addition to its existing 23,000 ha of oil palm in the province.<sup>29</sup> PT SMART (Sinar Mas Group) now operates three plantation companies in Irian Jaya with a total area of 36,000 ha.

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<sup>23</sup> CIC 1998. Profile and Directory of Indonesian Plantation 1997/98. PT Capricorn Indonesia Consult Inc., Jakarta.

<sup>24</sup> Forests Open to New Oil Palm Plantations. Jakarta Post, 14 April 1998; Forestry Ministry to Release 4m Hectares. Indonesian Observer, 28 January 1998.

<sup>25</sup> Potter, L. and J. Lee 1999. Oil Palm in Indonesia: Its Role in Forest Conversion and the Fires of 1997/98. Report for WWF Indonesia).

<sup>26</sup> Two Provinces Closed for New Plantations. Jakarta Post, 18 March 1998.

<sup>27</sup> Big Palm Oil Plan Awaits Approval. Jakarta Post, 29 November 1996.

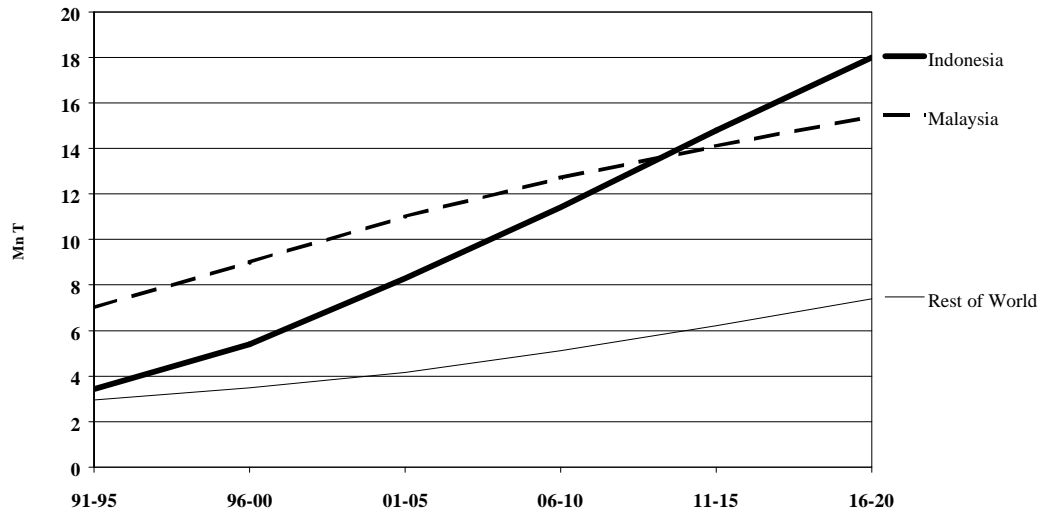
<sup>28</sup> 14 Firms to Develop Oil Palm Plantations. Jakarta Post, 10 May 1997.

<sup>29</sup> State Company to Build Oil Palm Estate in Irian Jaya. Antara, 20 May 1999; 14 Firms to Develop Oil Palm Plantations. Jakarta Post, 10 May 1997.

## 2.4 Investment required for future expansion

In the next decade, Indonesia is set to overtake Malaysia as the world's biggest producer of palm oil (see Figure 2.5). In order to realise this, investors will be sought to finance the conversion of the 6 million ha allocated for oil palm.

Figure 2.5 Palm Oil Production Forecast (5-Year Averages)<sup>30</sup>



According to the latest survey of the Business Intelligence Report (BIRO) US\$ 3 billion would be required in the next five years to continue with investments in factory and plantation expansion that were delayed by the economic crisis.<sup>31</sup> To fully develop the 6 million ha of additional oil palm plantations on the longer run, a substantially larger investment will be required, approximately US\$ 18 billion at US\$ 3,000/ha.<sup>32</sup>

Considering the current chaos in Indonesia's banking sector and the economic reform programme, plantation companies with yet undeveloped land banks will try hard to raise the capital from foreign banks. This will give the latter no small influence over the way in which oil palm plantation development takes place in Indonesia (see 6.5 for further discussion).

<sup>30</sup> Oil World 2020 (1999) ISTA Mielke GmbH; Oil World Annual 1999. ISTA Mielke GmbH. Oil World forecasted that Indonesia would not achieve its target until a few years later, as can be seen in Figure 2.3.

<sup>31</sup> Palm Oil Industry Needs Rp 20 Trillion Investment. Antara, 25 November 1999.

<sup>32</sup> On average each plantation company borrows about 77% of the total establishment of their plantations (ICBS 1997, in: Potter, L. and J. Lee 1999. Oil Palm in Indonesia: Its Role in Forest Conversion and the Fires of 1997/98. Report for WWF Indonesia).

### 3. Oil palm and environmental and social problems

Since its rapid expansion commenced, the activities of oil palm companies have brought about a range of negative environmental and social impacts. The problems result from both direct causes (notably land clearing activities) and indirect causes that are imbedded in the wider context of Indonesia's land and forest use planning, its economy and social structure. Suggestions are made for financiers how to contribute to solving the problems identified. Table 3.1 summarises the main problems discussed in more detail in the following paragraphs. Where relevant each paragraph references the company groups that are clients of Dutch banks (shown in bold font).

#### 3.1 Overview

Table 3.1 Summary of the main environmental and social problems related to oil palm expansion in Indonesia.

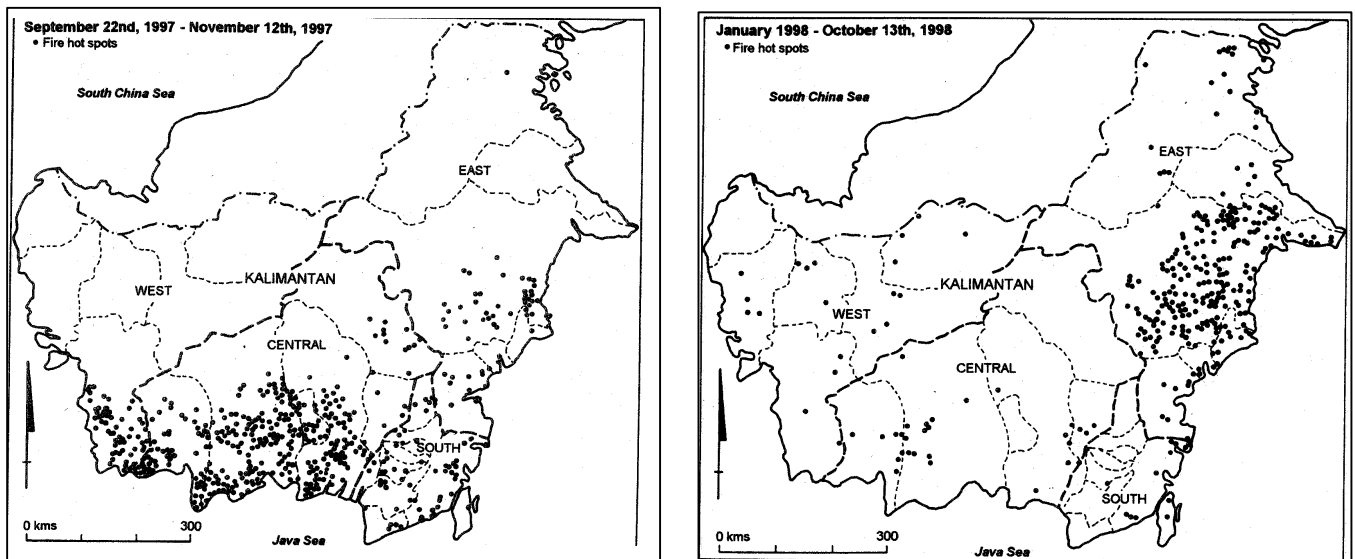
<b>Main concerns</b>	<b>Examples of companies to which concern applies</b>	<b>Impacts</b>	<b>Causes</b>	<b>Suggested solutions for financiers</b>
<b>Forest fires</b>	Inti Indosawit (Raja Garuda Mas); Agro Indomas; London Sumatra, members of Salim Group; Sinar Mas group and Astra Group; many other companies	1997/98 fires affected the health of 70 million people in SE Asia; forest loss; 10 million ha of land burned; economic cost of US\$ 9 billion	Fire allows for quick and low cost land clearing; social conflicts; drought; low threat of legal repercussions; fires and haze did not seriously affect the productivity of the oil palm sub-sector	Adhere to strict implementation of well-planned and ecologically appropriate land clearing techniques. Develop programmes for the conservation and restoration of ecologically valuable forests (these can also include burned forest!) and forests that are important to local people inside and near plantation areas.
<b>Deforestation</b>	London Sumatra, Agro Indomas, Salim Group members and most other companies	80-100% animal species affected Ecological infrastructure fragmented Invasion of pests and diseases; crop damages Increased top soil run off 5-7 times greater during clearance; increased sediment loads in rivers 4 times greater	Opportunity cost of natural forest management; allocation of land in disregard of forest cover; agricultural model (monocultures)	No investments in plantations that replace forests; financial incentives for forest retention Incentives for integrated pest management and diversification of cropping system Incentives for forest restoration along water bodies; incentives that prevent rapid land clearing to avoid soil erosion

<b>Main concerns</b>	<b>Examples of companies to which concern applies</b>	<b>Impacts</b>	<b>Causes</b>	<b>Suggested solutions for financiers</b>
<b>Illegal land clearing</b>	London Sumatra; Matrasawit Sarana Sejathera, possibly many other companies	Unauthorised deforestation; social conflicts	Lengthy licensing procedures; limited risk of legal repercussions	Assure that the companies proves that all permits are secured before operations commence
	Agro Indomas; possibly many other companies	Ecological infrastructure fragmented; social conflicts	Poor mapping; insufficient communication; limited risk of legal repercussions	Strict adherence to regulations on retention of vegetation; mitigation measures (forest restoration)
<b>Pollution</b>	Cahaya Kalbar	River pollution due to excessive waste water emission	Not assessed	Implementation of appropriate waste water processing technology
	Agro Indomas; probably most other companies	Excessive use of agro-chemicals	Monocultures; plantation development on poor soils (e.g. peat)	Diversified agricultural development; integrated pest management; no conversion of sites that require great agro-chemical input
<b>Social conflicts</b>	London Sumatra; Kalimantan Sanggar Pusaka; Agro Indomas; Raja Garuda Mas Group	Protests, blockades, sabotage and looting	Inadequate recognition of customary land rights; inadequate settlement of compensation agreements; poverty; general social unrest	Provide independently verified evidence that local communities are fully informed about the project before project proposals are submitted; consultations should include non-governmental organisations; assure no estates are developed in areas where communities resist plantation development; settle existing conflicts; contribute to improved smallholder schemes and promote better labour conditions in private estates.
<b>Economic exposure</b>	Sub-sector wide	Destruction of diversified agroforestry systems; potentially sharp fluctuations in income and food security	Monoculture economy	Assist in the development of production and markets of non-timber forest products such as illipe oil, rattan, rubber and other products based on indigenous forest and land use strategies; assist oil palm producers to improve existing smallholder schemes, allowing farmers to opt for diversification of the cropping system.
<b>Corruption, collusion and nepotism</b>	Several directors and owners of major company groups	Concessions revoked; legal repercussions; social unrest; bad debt		Being reluctant to write off further bad debts that will allow a debtor to continue unsustainable practises; taking into full account the KKN-record of the managers and owners of joint-venture companies and debtors in investment decisions and avoiding financial transactions with companies whose KKN-record has not been cleared.

## 3.2 Forest fires

Based on detailed analysis of satellite images, the German Technical Co-operation agency (GTZ) – IFFM project assessed that a total area of almost 10 million ha were affected by the 1997/98 fires in Indonesia.<sup>1</sup> Of the total area burned, 3.33 million ha were forests.<sup>2</sup>

Map 3.1 Forest fire hot spots in Kalimantan, 1997 and 1998.



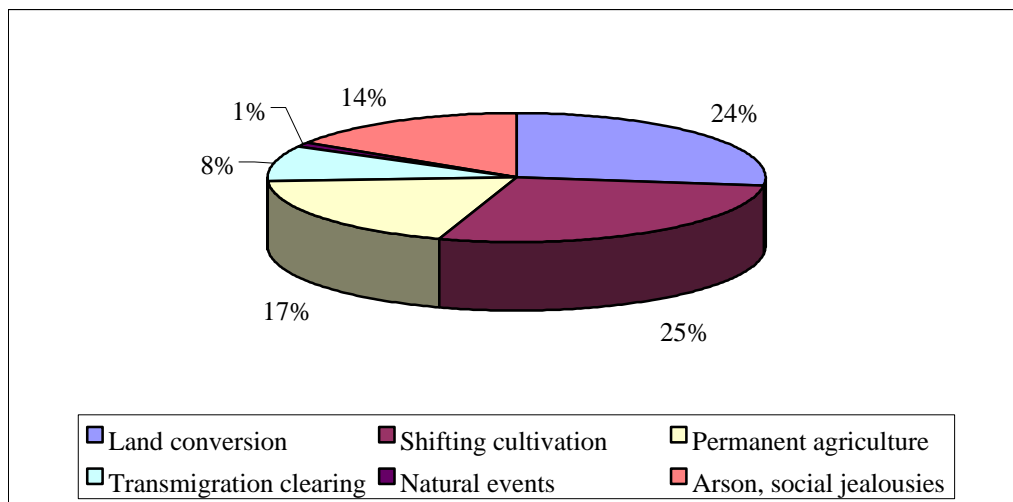
Earlier assessments showed that 46%-80% of all bigger fires occurred in plantation company concessions, most of these were lit for land clearing purposes, while some resulted from arson in connection to conflicts between communities and the companies or other causes.<sup>3</sup> Figure 3.1 shows the causes of the 1997/98 forest fires, several of which are related to oil palm development (land conversion, permanent agriculture, transmigrant clearing and arson account for almost three-quarters of the fire causes).

<sup>1</sup> Siegert, F. and A.A. Hoffmann in: IFFM/GTZ 1998. Fire in East-Kalimantan in 1998. Summary and Results of the NOAA-AVHRR and ESR-SAR Study ([www.iffm.or.id/FiresinEast2.html](http://www.iffm.or.id/FiresinEast2.html) viewed 16 July 1999); Environmental Body issues Warning on Forest Fires. Jakarta Post, 31 May 1999.

<sup>2</sup> Toha, M.T. 2000. Estimated Deforestation Rate for Indonesia. Removing the Constraints: Post-Consultative Group Meeting on Indonesia Seminar on Indonesian Forestry. January 26. <http://wbln0018.worldbank.org/eap/>. Other areas of the total area burned (9.7 million ha.) were peat: 1.5 million ha; grassland 0.6 million ha, agricultural land 3.92, plantations 0.35 million ha.

<sup>3</sup> See Wakker, E. 1998. Introducing Zero-burning Techniques in Indonesia's Oil Palm Plantations. Report for WWF Indonesia. Forest and Vayda, A.P. 1998. Finding Causes of the 1997-98 Indonesian Forest Fires: Problems and Possibilities. Report for WWF Indonesia for further discussion on fire causes in plantation areas. See also: Fires in Kalimantan Bring Famine and Dispossession. Down to Earth. 6 November 1998; Schweithelm, J. 1999. The Fire This Time: An Overview of Indonesia's Forest Fire in 1997/98. WWF Indonesia.

Figure 3.1 Perceived causes of fire in 1997/98 (in %)<sup>4</sup>



Until mid 1997, it was no secret that plantation companies in Indonesia made use of fire to clear land. So-called 'controlled burning' was legal and thus common practise. When a company applied to the bank for credit, burning was put down as a cost component, about a tenth of land clearing cost.<sup>5</sup> Plantation companies use fire for land clearing for a number of reasons.

First, burning it is cheaper than other forms of land clearing in Indonesia. Representatives from **Agro Indomas** compared the costs of different land clearing techniques and found mechanical clearing of forests to be 2.3 times more expensive than non-mechanical clearing with burning (see Table 3.3).

Second, banks tend to promote burning practises because their clients can open their areas faster, allowing them to pay back debt. Piggott (1990) writes:

"Between planting and the first harvest considerable cost must be borne while for 30 to 48 months or more there is no income. The plantation owner will, almost certainly, need to pay interest on borrowed capital and it is most unlikely that his overall cash flow will become positive for another five years at least". Land clearing alone accounts for almost 20% of preparing a plantation that can be harvested. Thus, "any savings possible on land clearing, weeding and fertiliser use will, therefore have a big impact on the overall costs".<sup>6</sup>

<sup>4</sup> Based on field studies in Riau and East Kalimantan. GTZ/BAPPENAS/ADB 2000. Extent and Costs of the 1997/98 Fires and Drought in Indonesia. Removing the Constraints: Post CGI Seminar on Indonesian Forestry. January 26. See <http://wbln0018.worldbank.org/eap/>.

<sup>5</sup> Waluko, J. Smoking Gun. Inside Indonesia. No. 53 January-March 1998. Note: investments per hectare tend to vary significantly and may be as high as Rp 8 million per ha.

<sup>6</sup> Piggott, C.J. 1990. Growing Oil Palms. An Illustrated Guide. The Incorporated Society of Planters. Kuala Lumpur.

Table 3.3 Cost of land clearing techniques in grassland and forested land, Central Kalimantan (1996 – 1997).

Clearing technique	Non-mechanical clearing with felling, stacking and burning		Mechanical clearing with bulldozers and excavators		Semi-mechanical clearing with bulldozer for stacking	
	<i>Cost in Rupiah</i>	<i>Cost in US\$</i>	<i>Cost in Rupiah</i>	<i>Cost in US\$</i>	<i>Cost in Rupiah</i>	<i>Cost in US\$</i>
<i>Forested land</i>	430,000	185	1,025,000	442	550,000	237
	450,000	207			700,000	302
<i>Grassland</i>	400,000	177	575,000	248	525,000	226
	420,000	181			550,000	237

Source: Kuruvilla & Mohandas (Agro Hope Sdn. Bdh.) 1997. Challenges in Large-scale Oil Palm Planting in Central Kalimantan. International Planters Conference May 21-22.

When hundreds of ‘controlled’ fires and the smog began to run out of control in the middle of 1997, industry representatives were quick to deny any responsibility for the fires, arguing that it made no sense for forestry (plantation) companies to burn forests. They blamed the fires on shifting cultivators and the El Niño phenomenon instead (see also Appendix 2).

Nevertheless, by September 10, 1997 former President Soeharto had called upon all parties to stop cultivation of land, either for plantations, transmigration or for industrial forests (see Appendix 3). The entrepreneurs who were still found to cultivate land by burning were obliged to extinguish the fire in each of their lands, not tolerate the emergence of new spots of fire, and assist regional government efforts in extinguishing the fire, and change the method of clearing the land.<sup>7</sup>

When the fires were not put out, the Ministry of Forestry and Estate Crops published a list 176 plantation and forestry companies whose concessions were affected by fire based on monitoring from August 1 to September 15, 1997. These companies were required to submit evidence that they had not started the fires in their areas and that they possessed adequate fire fighting equipment. Table 3.2 shows the companies listed that are also related to company groups which are clients of Dutch banks (see also Chapter 4 and 5).

Earlier warnings had already been given by Riau’s Regional Office of the Department of Forestry to seven companies: Inti Indosawit Subur (a group member of Raja Garuda Mas), Musi Mas, Multi Gambut Industri, Mitra Unggul Perkasa, Bumi Reksa Nusa Sejati, Nusantara II and Kimia Tirta Utama.<sup>8</sup>

<sup>7</sup> Kompas Online, President: Stop Cultivation of Land by Burning. 10 September 1997; Forest Fires in Kalimantan Bring Famine and Dispossession. Down to Earth, 6 November 1998.

<sup>8</sup> President: Stop Cultivation of Land by Burning. Kompas Online, 10 September 1997.

Table 3.2 Oil palm plantation companies suspected of burning in August – September 1997 (only companies that have linkages to Dutch banks are listed).<sup>9</sup>

Company listed	Company groups with linkages to Dutch banks	Location and area size
1. Gunung Sejahtera Yoli Makmur	Astra Group	Central Kalimantan
2. Gunung Sejahtera Dua Indah *	Astra Group	Central Kalimantan
3. Sukses Tani Nusa Subur	Astra Group	East Kalimantan
4. Musi Rindang Wahana	Bob Hasan Group	South Sumatra
5. Inti Indosawit Subur*	Raja Garuda Mas Group	Riau
6. Intotruba Tengah	Salim Group	Central Kalimantan
7. Intotruba Timar	Salim Group	Central Kalimantan
8. Unspecified company	Salim Group	Central Kalimantan
9. Majapahit Agro Industrial Corporation	Salim Group	East Kalimantan
10. Bahari Gembira Ria	Salim Group	Jambi
11. Gunung Mas Raya*	Salim Group	Riau
12. Laguna Mandiri	Salim Group	South Kalimantan
13. Lenggeng Muara Makmur	Salim Group	South Kalimantan
14. Swadaya Andika	Salim Group	South Kalimantan
15. Swadaya Andika	Salim Group	South Kalimantan
16. Bersama Sejahtera Sakti	Salim Group	South Kalimantan
	Atang Lief Group	
17. Kresna Duta Agroindo	Sinar Mas Group	Jambi
	Kresna Duta Group	
18. Tapian Nedenggan	Sinar Mas Group	North Sumatra
19. Buana Wira Lestari	Sinar Mas Group	Riau
20. Swakarsa Sinar Sentosa*	Sumalindo Group (Bob Hasan)	East Kalimantan
21. Eramitra Lestari	Widjaja family (Sinar Mas Group)	Jambi
22. Windu Nabatindo Lestari	Risjadson Group	Central Kalimantan

In October, the Ministry of Forests and Estate Crops had revoked 151 permits. Of the 176 companies accused, the government would in the end prosecute only a five.<sup>10</sup> In 1998, the Indonesian police were prosecuting about 40 plantation and timber companies<sup>11</sup>. Indonesian non-governmental organisations successfully followed up on a number of cases left untouched by the authorities:

- In June 1999, the Samihim Dayak won a lawsuit against seven oil palm subsidiaries of the Salim Group over large-scale forest fires in South Kalimantan in 1997. Laguna Mandiri I to III, Langgeng Muara Makmur II and III, Paripurna Sawkarsa I and Swadaya Andika II were

<sup>9</sup> The Companies Accused. Down to Earth, No. 35. November 1997. London. Fires Supplement; Capricorn Indonesia Consult (CIC). Profile and Directory of Indonesian Plantation 1997/1998. Jakarta. Note: not included are accused pulp tree plantation companies, such as Indah Kiat in Riau. It should be noted that the list of the Department of Forests was based on an assessment of satellite images for a period of two weeks only. The companies marked with one asterisk were those whose wood use licenses were temporarily withdrawn on October 3rd for failing to submit reports proving they had not started fires in their areas.

<sup>10</sup> See also Wakker, E. 1998. Introducing Zero-burning Techniques in Indonesia's Oil Palm Plantations. Report for WWF Indonesia.

<sup>11</sup> Forestry Firms Causing Fires will be Closed. Jakarta Post 7 May 1999; IFFM/GTZ, Interim Report about the Fire Situation in Kalimantan Timur and the On-going Activities. 7 July 1998. [www.iffm.or.id/Fires-Situation\\_July98.html](http://www.iffm.or.id/Fires-Situation_July98.html).



found guilty of burning farming areas owned by local people. The court ordered the seven firms to pay Rp 150 million in compensation to the landowners. Some 106 people of the Dayak tribe, accompanied by several lawyers from the Indonesian Forum for the Environment (Walhi) filed the lawsuit in June 1999. Walhi and 12 other NGOs also won two other lawsuits against forest concession holders over forest fires in North and South Sumatra in 1998.<sup>12</sup>

- ❑ 13 youth organisations in North Sumatra had successfully challenged APHI in court. APHI had been proven guilty of burning forests with no concern for the environment and obliged Hasan to pay compensation totalling Rp 50 billion to these organisations.<sup>13</sup> APHI is Indonesia's association of logging companies whose chairman, Bob Hasan, is also founder of Astra Agro Lestari.

In 1998, Indonesia pledged commitment to the Association of Southeast Asian Nations (ASEAN) to implement a 'zero-burning policy' that would prevent forestry and plantation companies to make use of fire to clear land from mid-1999 onward. However, in June 1999, 82 sites with major fires were observed in Sumatra and 50 in Kalimantan.<sup>14</sup> Hundreds of fires hot spots kept on appearing on satellite images in August and September 1999. According to the Indonesian Forum for the Environment (Walhi) 341 hot spots occurred in Sumatra and 100 in Kalimantan in the beginning of August 1999.<sup>15</sup>

Since the 1997/98 forest fires, several individual plantation companies have stated that they adhered to no-burning policies. In its 1997 Annual Report PT SMART, for example, claimed it has been implementing a strict no-burning policy in conducting land-clearing activities.<sup>16</sup> One should, however, be careful to rely on such written claims because they are not verified by independent third parties (see the box below).

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<sup>12</sup> Dayak People Win Lawsuit Against Salim Group. Jakarta Post, 1 June 1999.

<sup>13</sup> Bob Hasan's Wood-Based Industries Starting to Shake. Data Consult. <http://www.indoexchange.com/data-consult/newsletter/2bc009.htm> Viewed 24 June 1999.

<sup>14</sup> Habibi Orders Agencies to Prevent Forest Fires. Jakarta Post, 5 June 1999. See also: [www.smd.mega.net.id/iffm/FCM.html](http://www.smd.mega.net.id/iffm/FCM.html).

<sup>15</sup> Concrete Plans Needed to Stop Forest Fires. Jakarta Post, 11 May 1999. See for regular updates on the fires also: [www.mdp.co.id/ffpcp/overview.htm](http://www.mdp.co.id/ffpcp/overview.htm); [www.haze-online.or.id](http://www.haze-online.or.id)

<sup>16</sup> SMART Annual Report 1995 and 1997.

## Fires in LonSum's estates<sup>17</sup>

The Indonesian plantation company **PP London Sumatra (LonSum)** has repeatedly been accused of burning in its estates in East Kalimantan, North and South Sumatra. LonSum representatives, however, consistently claimed that the company practised a zero-burning policy since a number of years.<sup>18</sup>

In January 1998, Minister of Environment Sarwono Kusumaatmadja said in January 1998 that he believed that LonSum and Sumalindo were burning land in East Kalimantan. A WWF field survey team and GTZ researchers confirmed later that there were fires in the area opened up by the LonSum subsidiary, Gelora Mahapala.<sup>19</sup> Mid February 1998, an investigation team from the provincial government visited the site and later claimed that there was no evidence of forest burning.<sup>20</sup>

In March 1998, Gelora Mahapala was again accused of burning, this time as the result of helicopter surveys and field checks organised by GTZ/IFFM in Samarinda. On March 17, 'a big palm oil company was finally convicted of large-scale illegal conversion burning during a ground check in the area of Lake Jempang'.<sup>21</sup> Company representatives admitted that there were burning scars but blame villagers and claim that these scars were from fires before LonSum had started its operations. Unmistakable marks of burning can be observed in the Gelora Mahapala estates today. Company workers were observed burning land within the concession as recent as August 1999.

Elsewhere in Indonesia, in Lahat regency, South Sumatra, tens of people complained in September 1997 that 500 ha of rubber estate were burned that came from the LonSum estate.<sup>22</sup> A neighbouring softwood plantation, Tanjung Enim Lestari Pulp & Paper, a Barito Pacific Timber – Inhutani V 40-60% joint-venture, also blamed LonSum for burning and causing fires that spread outside its concession.<sup>23</sup>

According to local observers, LonSum 'generally sets fire to the land before starting to plant oil palms, causing the destruction of local peoples' rubber gardens.' In one case LonSum was accused of burning two huge rubber plantations in Rawas Ilir that led to demonstrations by local communities at the doorsteps of the local government offices and House of Representative.<sup>24</sup>

In February 1998, former Minister of Environment Sarwono said that London Sumatra in North Sumatra was one among 10 companies found to burn forest in an effort to create agricultural land and announced that the company would be penalised.<sup>25</sup>

In September 1999, LonSum was again accused of causing the uncontrolled fires in South Sumatra two years earlier. According to a report in Kompas, around 1,400 ha of the Dangku protected natural forest was damaged in Lilin River, Musibanyuasin. LonSum director M. Akib apologised for the damage that his company has caused and said that the workers were unable to read maps.<sup>26</sup>

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<sup>17</sup> See also [www.iffm.or.id/Fire\\_Causes.html](http://www.iffm.or.id/Fire_Causes.html) and <http://members.xoom.com/Oilpalm/LonSum.html>.

<sup>18</sup> Mr. Geoffrey Brown, former Managing Director of LonSum, pers. comm. January 26, 1998; Financial Times 26 September 1997 in: Down to Earth Fires Supplement. No. 35, November 1997; In March 27, LonSum claimed 'the company has been trying very hard to do the Zero Burning program' (SBSE Peng-066/PDG/BES/CD/III/98, March 27, 1999).

<sup>19</sup> Gönner, Chr. 1998. Fire Situation in the Oil Palm Area near the Lake Jempang (Kecamatan Jempang, Kutai). Recent Observations from 24-26 January 1998.

<sup>20</sup> LonSum Denies Causing Forest Fires in East Kalimantan. Jakarta Post, 18 February 1998; No Fires by LonSum. Indonesian Observer, 19 February 1998.

<sup>21</sup> IFFM/GTZ, Interim Report about the Fire Situation in Kalimantan Timur and the On-going Activities. 7 July 1998. [www.iffm.or.id/Firest-Situation\\_July98.html](http://www.iffm.or.id/Firest-Situation_July98.html).

<sup>22</sup> Forest Fires Increasing. Kompas, 28 September 1997.

<sup>23</sup> Financial Times 26 September 1997 in: Down to Earth Fires Supplement. No. 35, November 1997

<sup>24</sup> Amzulian Rifai, Personal communication 31 August 1999.

<sup>25</sup> 10 Companies Charged with Forest Burning. Indonesian Observer, 13 February 1998.

<sup>26</sup> Natural Forest in South Sumatra Damaged. Kompas 9 September 1999.

The 1997/98 fires came at great cost to human health and the Indonesian economy. WWF estimated that the haze affected the health of 70 million people in Southeast Asia<sup>27</sup> while the Asian Development Bank (ADB) estimated the overall economic cost of the fire and haze at US\$ 9 billion.<sup>28</sup> The oil palm companies on the other hand were hardly affected by the haze, indeed they benefited from the CPO prices that hiked to unprecedented heights. In the future, the oil palm companies will benefit further. Casson (1999) quotes the Director of Planning of the Ministry of Forestry and Estate Crops who indicated that the areas burned in 1997/98 would eventually be released to plantation companies.<sup>29</sup>

Considering enormous cost incurred by the fires to nature, human health and Southeast Asia's economy while the plantation sector was hardly affected, and even benefited, financiers should consider mitigating the damage caused. It must be borne in mind that a El Niño related drought will reappear in the coming years. Financiers may therefore insist on that their clients:

- *Adhere to strict implementation of well-planned and ecologically appropriate land clearing techniques.*
- *Develop programmes for the conservation and restoration of ecologically valuable forests (these can also include burned forest!) and forests that are important to local people inside and near plantation areas.*

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<sup>27</sup> Glover, D. and T. Jessup 1999. Indonesia's Fires and Haze. The Cost of Catastrophe. ISEAS./IDRC.

<sup>28</sup> ADB in: Dennis, R. 1999. A Review of Fire Projects in Indonesia (1982-1998). CIFOR.

<sup>29</sup> Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. Programme on the Underlying Causes of Deforestation. CIFOR.

### 3.3 Deforestation

Of the 2 million ha of land converted to oil palm plantations in the 1990s, a substantial part was covered with tropical forest at the time land clearing commenced. The predominant forest type cleared, lowland rainforest, belongs to the biologically most diverse but also most threatened forest type in the world. Other valuable forest types cleared are peat forests and indigenous peoples' forest gardens (a mixture of natural forest, tree crops and agriculture). Even protected forest areas are under pressure from plantation companies.

#### Cases of oil palm plantations encroaching into forests and protected areas

- ❑ In Langkat regency, Sumatra, the company Rapala opened an oil palm plantation that overlapped 200 ha inside the Gunung Leuser National Park. In 1994, the Director General of Forest Protection warned the company to stop all activities inside the park, but by 1998, Rapala demanded scientific evidence that the 200 ha fell within the national park.<sup>30</sup>
- ❑ The company Naridi is active in the Dolok Surunggan Wildlife Reserve in North Sumatra. The area comprises 23,800 ha, at least 2,500 ha of which was cleared in April 1997. Two Chinese businessmen were arrested after protests by the local forestry department, but not much later they would recommence their activities. The reserve boundary had already been changed twice so as to exclude the oil palm plantations outside the shrunken reserve. Most of the lowland forest in the reserve had been clearcut, or was in the process of being opened up. Only the upland forests had been spared so far. Local informants reported the occurrence of endangered species such as tiger, tapir, sun bear, serow, argus pheasant, siamang.<sup>31</sup>
- ❑ In West Kalimantan, the Finnish pulp plantation company Finnantara voluntarily set aside areas that were still covered with natural forest within their 100,000 ha concession. However, in 1997, the regional government argued that this approach was wasteful and gave the forested land to oil palm companies that have already converted these lands.<sup>32</sup>
- ❑ In 1998, WWF Indonesia successfully lobbied the Ministry of Forests and Estates to cancel oil palm concessions held by the Salim Group in the proposed Sebuku-Sembakung National Park in north East Kalimantan, a region where Kalimantan's only population of wild elephants occurs. 100,000 ha of valuable tropical swamp and tidal forest seemed to be saved from the axe when the Minister of Forestry and Estate Crops announced in August 1998 that the concession areas would be re-allocated as a National Park. The provincial government would later block the decision of the Ministry despite an offer to finance a conservation project "Sebuku Sembakung" by the Government of Germany.

Although large tracts of degraded lands exist in Indonesia, many plantation companies develop their estates in forested areas because the companies are interested in the timber that can be logged in the areas and because the authorities allocate areas to the plantation companies regardless of forest cover. Reviewing several government policies and actions, researchers from the University of Adelaide concluded:

“There has been no action nor evidence to suggest that the Indonesian government is concerned to stop new estates from converting forested lands.”<sup>33</sup>

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<sup>30</sup> Potter, L. and J. Lee 1999. Oil Palm in Indonesia: Its Role in Forest Conversion and the Fires of 1997/98. Report for WWF Indonesia.

<sup>31</sup> Erik Meijaard, personal communication. 7 October 1998.

<sup>32</sup> Potter, L.M. and J.L. Lee, 1998. Tree Planting in Indonesia: Trends, Impacts and Directions. CIFOR.

<sup>33</sup> A study carried out by Japanese Development Agency (JICA) and the National Development Planning Board (BAPPENAS) found that only 15% of the 3.2 million ha of land earmarked for oil palm development by the

## Indonesian forest facts

During a Post-Consultative Meeting (CGI) organised by the World Bank in January 2000, a number of new insights and forest facts were presented to Indonesia's main donors.

In 1996, the total land area under forest was 120.6 million ha, 22.7 million ha of which was designated for conversion to other land uses. A further 24.9 million ha are classified as protection forest and 50.2 million ha are production or limited production forest. National parks and conservation areas cover a further 15.8 million ha.

Using 1997 satellite imagery, the Ministry of Forests and Estate Crops produced maps which showed a shocking forest loss of more than 17 million ha in 12 years. The annual rate of deforestation is now estimated at 1.6 million ha per year. Since 1996, heavy clearfelling and fires have considerably reduced the area of land under forest cover.

Rampant illegal logging – even in national parks – causes tax revenue losses of roughly US\$ 500 million per year. The illegal logging is directly related to expansion of the country's wood-processing industries well beyond the point where sustainable harvest of natural forest can meet their demand for logs. A UK-Indonesian study estimated that in 1998, half of all Indonesia's log production was illegal.<sup>34</sup>

The World Bank called upon President Wahid's government to formulate a new forest vision, that should at least include:

- A freeze on conversion of natural forest for any purpose until the (new) National Forest Program is in place
- Rigorous and consistent enforcement of the laws concerning illegal logging, burning and encroachment.
- Aggressive replanting programs to return damaged forest land to productive use and relieve industrial pressure on natural forest.

In the future, oil palm development will continue to cause deforestation because of:

### ❑ Regional shortages of non-forested land

Significant shortages of conversion forest and production forest that can be reclassified for conversion results in pressure on well-forested lands in Sumatra and Kalimantan (see also Table 2.3). Pressure on the forested lands of Eastern Indonesia (notably Irian Jaya) will become more serious in the future as land becomes scarce in the west.<sup>35</sup>

### ❑ New regulation allows plantation development in permanent forest estate

In August 1999, the Indonesian government released a new regulation that gives plantation companies the right to establish tree crops and timber plantations in 'non-productive production forests' (containing less than 20 m<sup>3</sup> of timber per hectare) formerly allocated to logging companies. Forty percent of these areas can be allocated to estate crops and the rest is to be planted with timber plantations.<sup>36</sup>

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West Kalimantan government was actually suitable. L.M. Potter and J. L. Lee 1999. Oil Palm in Indonesia: Its Role in Forest Conversion and the Fires of 1998/99. Report for WWF Indonesia.

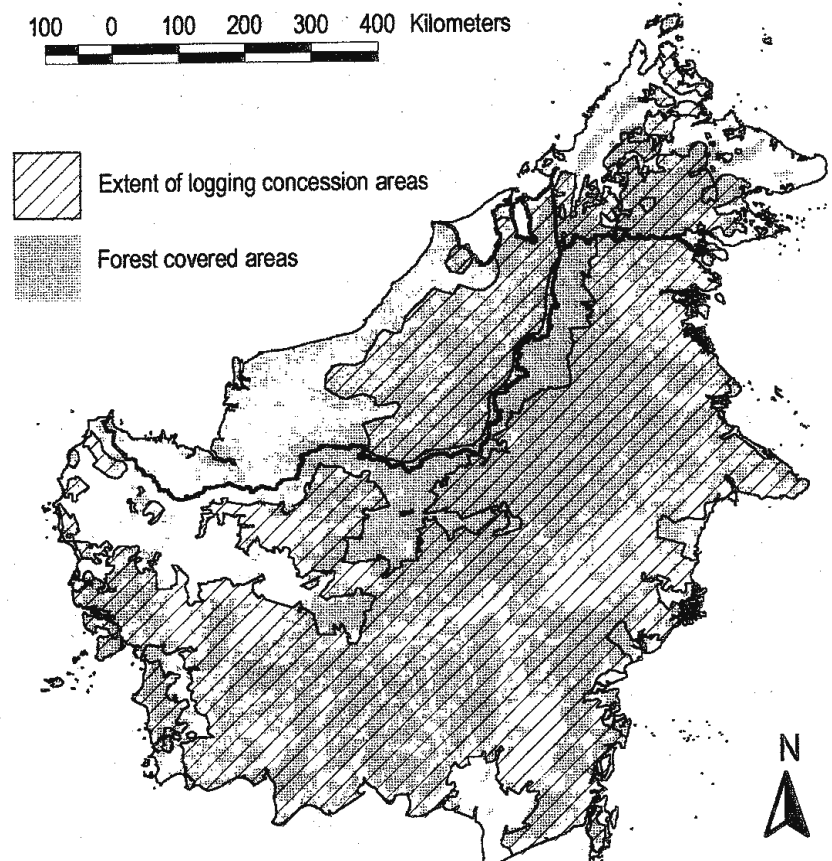
<sup>34</sup> Background on the Forests. Removing the Constraints: Post-Consultative Group Meeting on Indonesia Seminar on Indonesian Forestry. January 26. <http://wbln0018.worldbank.org/eap/>; Toha, M.T. 2000. Estimated Deforestation Rate for Indonesia. Removing the Constraints: Post-Consultative Group Meeting on Indonesia Seminar on Indonesian Forestry. January 26. <http://wbln0018.worldbank.org/eap/>.

<sup>35</sup> Potter, L. and J. Lee 1999. Oil Palm in Indonesia: Its Role in Forest Conversion and the Fires of 1997/98. Report for WWF Indonesia.

<sup>36</sup> Ministry of Forestry and Estate Crops Regulation, No. 614/Kpts-II/1999 about Directives on the Development of Mixed Forest Plantings. Source: Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. Programme on the Underlying Causes of Deforestation. CIFOR.

This regulation poses a major threat to sustainable forestry in Indonesia's lowland rainforests because it makes it attractive for the company to (illegally) 'reduce' the timber stand below 20 m<sup>3</sup> per hectare and then apply for plantation permits as an oil palm and softwood plantation investor. The new regulation thus paves the way for the conversion of virtually all of Kalimantan and Sumatra where most forests have been allocated to logging companies in the past (see Map 3.2). Very similar trends take place in the Malaysian parts of Borneo, Sabah and Sarawak.

Map 3.2 Accumulated coverage of all timber concessions in Borneo.<sup>37</sup>



Deforestation for oil palm plantations has a number of impacts:

1. Species loss due to plantation development

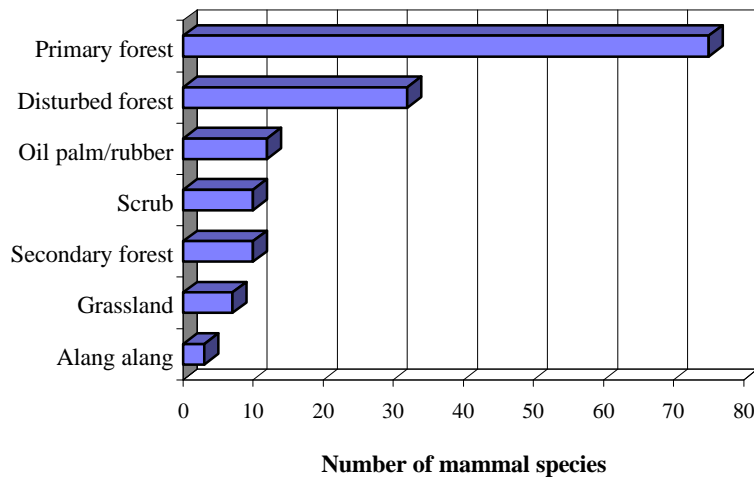
Indonesia's land surface represents only 1.3% of the globe, but harbours 10% of all plant species of the world, 12% of mammals, 16% of reptiles and amphibians and 17% of birds.<sup>38</sup> Most of these species depend on the lowland tropical rainforests, home to the orang-utan, proboscis monkey, Sumatran rhinoceros, tiger and elephant, rhinoceros hornbill, clouded leopard, sunbear, the birdwings butterfly (world's largest butterfly) and several species of crocodile. Today, no more

<sup>37</sup> Rijksen, H. and E. Meijaard 1999. *Our Vanishing Relative. The Status of Wild Orang Utans at the Close of the Twentieth Century.*

<sup>38</sup> Collins, N.M., J.A.Sayer and T.C.Whitmore 1991. *The Conservation Atlas of Tropical Forests: Asia and the Pacific.* IUCN.

than 27,000 orang-utans remain in the wild compared to an estimated 315,000 a century ago.<sup>39</sup> The chances that these species and many thousands of others will survive are reduced by the day. Not least, because the very forests on which they depend, from the agribusiness point of view, are also the preferred sites for oil palm plantations. An oil palm plantation harbours just two plant species: the oil palm (*Eleais guineensis*, or a genetic variation of this original species) and a leguminose to provide ground cover.

Figure 3.2 Number of mammal species found in various vegetation types in Malaysia.



Source: Henson, I. 1994. Environmental Impacts of Oil Palm Plantations in Malaysia. PORIM Occasional Paper. Note: Disturbed forest is, mostly, selectively logged forest. Secondary forest is previously cleared, regenerating forest. Alan alang is 'elephant grass'.

Considering the stunning diversity of tropical forests, it is no wonder that their conversion into plantations causes a vast loss of species. Malaysian researchers found that after forest clearing, the number of mammals, reptiles and birds is reduced by 80% - 100%. Only a few and the most adaptable species can be seen to make use of plantation forest (see also Figure 3.2).<sup>40</sup>

Researchers in Indonesia came up with the same results. A study in Sumatra concluded:

"Conversion of primary forest to rubber and oil palm plantations led to simple, species-poor and less diverse animal communities with fewer specialised species and fewer species of importance to conservation. In the plantations only 5-10% of the primary-forest bird species were recorded. Primates, squirrels and tree shrews disappeared, except for one species of primate. Species richness of bats declined to 13-25%, and the community structure of bats changed. Conversion of

<sup>39</sup> Rijksen, H. and E. Meijaard 1999. Our Vanishing Relative: The Status of Wild Orang-utans at the Close of the 20th Century.

<sup>40</sup> R.K. Laidlaw 1998. A Comparison between Populations of Primates, Squirrels, Three Shrews and other Mammals inhabiting Virgin, Logged, Fragmented and Plantation Forests in Malaysia. In: Conservation, Management and Development of Forest Resources. Proceedings of the Malaysia-United Kingdom Programme Workshop, 21 – 24 October 1996. Forest Research Institute Malaysia; K.B. Heang and L.Boo Liat, 1998. To Determine the Effects of Logging and Conversion of Primary Forest to Tree Crop Plantations, on Herpetofaunal Diversity in Peninsular Malaysia. Proceedings of the Malaysia-United Kingdom Programme Workshop, 21 – 24 October 1996. Forest Research Institute Malaysia; Henson, I.E. 1994. Environmental Impacts of Oil Palm Plantations in Malaysia. PORIM Occasional Paper No. 33.

forest to plantations caused a 61-81% difference in bird species composition, a 94-100% difference in species composition of primate groups and a 87% difference in bat species composition".<sup>41</sup>

Plantation development: deforestation or reforestation?

In terms of species diversity, oil palm and rubber plantations have nothing in common with natural forests.<sup>42</sup> However, in order to improve the public image of the plantation sector and to silence criticism against large-scale destruction of natural forests, Malaysian lobbyists hope to achieve that oil palm and rubber plantations are officially recognised as forests. If they succeed, it will be only a matter of time before investment portfolios will present oil palm development as 'green investment' projects.

In 1999, the lobby achieved that the Food and Agriculture Organisation (FAO) now consider rubber plantations as forests. Oil palm plantations, however, are not yet classified as forest. Had this proposal been accepted then Malaysia would have "substantially increased its forest cover from 50% to 75%".<sup>43</sup>

There is still a chance that the Malaysian lobby will succeed. FAO defines forest plantations in terms of their uses. If a group of planted trees produce timber or pulp, they are defined as 'industrial plantations'. This implies that oil palm plantations are not plantations but merely big agricultural crops. When oil palm logs will be used for lumber and pulp – and research in this area is ongoing – oil palms plantations are likely to be re-classified as 'forest plantations' by FAO.

## 2. Hindering mammal migration patterns

Where soil and climate conditions favour oil palm, plantations tend to be grouped together creating a monotonous landscape covered with seemingly endless rows of oil palms. The estates are out-laid without consideration for ecological infrastructure. As a result, migration patterns of large animals such as the Sumatran Elephant are seriously impeded.

When locked up in isolated pockets of forest, elephants are known to become aggressive and often end up running amuck in villages and oil palm estates. In Bandar Lampung (Sumatra) the continuing destruction of resin trees for oil palm plantation projects drove wild elephants to rampaging residential areas. According to local farmers, the elephants lost their habitat to an oil palm plantation developed by KCMU and PPL, started to destroy crops, and killed two people.<sup>44</sup> In Lampung 40 wild elephants are captured each year<sup>45</sup>

The situation is particularly pressing in Riau, a province that has about 40% of Sumatra's total elephant population (1,100 – 1,700 individuals), but also harbours the second largest oil palm area in Sumatra. Wild elephants raided some 114,000 ha of rubber and oil palm plantations at a cost of over Rp. 16 billion (US\$ 6.9 million).<sup>46</sup> The elephants are usually captured and brought to elephant training centres such as in Way Kambas. There are also reports of poisoning, including one dramatic case in Riau in 1996 where an oil palm company poisoned 12 elephants at once.

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<sup>41</sup> Danielsen, F. and M. Heegaard 1995. Impact of logging and plantation development on species diversity: a case study from Sumatra in: Management of tropical forests. (University of Oslo, Centre for Development & the Environment; SUM Occasional Paper, 1/95).

<sup>42</sup> See also: Lohman, L. and R. Carrere 1996. Pulping the South. World Rainforest Movement.

<sup>43</sup> Malaysia Calls for Recognition of Plantations as Forests. MTC Bulletin. Vol 5, No. 2/1999 and subsequent editions.

<sup>44</sup> Tree Cutting Angers Elephants. Jakarta Post 5 April 1997

<sup>45</sup> Wild Elephants Caught and Tamed. Jakarta Post, 29 July 1998.

<sup>46</sup> Lair, R. 1997. Gone Astray. The Care and Management of the Asian Elephant in Domesticity. FAO Regional Office of Asia and the Pacific.



### 3. Pests

Although all original natural biodiversity in a plantation area is eventually phased out, estate managers often still find themselves fighting against nature some time after the first clearing. Initially, larger animals flee to neighbouring forests during clearing and, finding that there is little food available, they will feed on the young oil palms. By then, orang-utans or other apes, elephants and wild boar have lost their 'wildlife' status and have become 'pests' whose population needs to be 'controlled'. For example wild boars proved to be a problem in the beginning in the **Agro Indomas** concession:

"As much as 900 seedlings were damaged in a night by pigs. A combination of baiting, hunting, night patrols and dogs were used to control the population".<sup>47</sup>

Elsewhere in Karamuan village (Barito Utara, Central Kalimantan) Multi Persada Gatra Megah lost 400 oil palms after 'hundreds of porcupines' assailed the estate. The estate workers did not seem to be too keen on catch the porcupines which defend themselves with sharp bristles. Inconveniently, the company hosted a site visit for the local district head who observed the damage worth millions of Rupiahs. The district head called upon the estate management to continuously launch operations against the animal.<sup>48</sup>

Estate managers know well that fungi, bacteria, rats, squirrels, grasshoppers and insects will multiply very fast if they are not contained by heavy use of pesticides. Ironically, experienced estate managers then begin to realise that biodiversity serves a goal: it controls populations and provides stability.

### 4. Soil erosion

Land clearing causes a considerable peak in topsoil run-off, disturbs stream-flow and increased sediment loads in rivers and streams. Soil erosion, for example, is 5 to 7 times greater during clearance, while sediment loads in rivers increase by 4 times. Some of these variables stabilise after planting but soil and water qualities continue to be affected.<sup>49</sup> The worst biological and environmental destruction can be avoided by retaining reasonable strips of forest along rivers, streams and lakes.

#### Forest retention: LonSum's policy

A former director of **London Sumatra (LonSum)** acknowledged that the company cleared forests to establish plantations. He claimed that the company policy was to retain one big tree for every 50 hectares of forest cleared and that LonSum tried to leave any primary forest in the estates untouched. During land clearing operations in South Sumatra, the company encountered settlements of an unknown indigenous community who were not aware of the oil palm development. The company bulldozers worked themselves around the settlement.<sup>50</sup>

There is little doubt that LonSum's operations in South Sumatra involved forest clearing. According to one report, LonSum cleared 200 ha of farmed land and 100 ha of forest in Kankung for workers accommodation.<sup>51</sup> Pictures in the company's 1996 Annual Report clearly show that its plantations are established in forest areas rather than grassland ecosystems.

<sup>47</sup> Kuruvilla & Mohandas (Agro Hope Sdn. Bdh.) 1997. *Challenges in Large-scale Oil Palm Planting in Central Kalimantan*. International Planters Conference May 21-22.

<sup>48</sup> *Hundreds of Procupine Assail on Oil Palm Estate*. Antara, 8 February 1999.

<sup>49</sup> Henson, I.E. 1994. *Environmental Impacts of Oil Palm Plantations in Malaysia*. PORIM Occasional Paper No. 33.

<sup>50</sup> Interview with Mr. Geoffrey Brown, president director of LonSum, Medan. 26 January 1998.

Considering that a substantial area of land not under forest cover is available in Indonesia, the development of oil palm plantations does not have to contribute to deforestation. Plantation companies and their financiers can at least partially make up for deforestation in the past and, especially, to avoid deforestation in the future. Financiers can insist that their clients:

- *Provide independently verified evidence that no natural forests are converted for plantation development by any of the subsidiaries within a company group.*
- *Develop forest retention and forest restoration programmes in their concession areas. Financial incentives can help to compensate for the opportunity cost of forest retention, crop damage by wildlife and the cost of integrated pest control.*
- *Avoid hasty (mechanical) land clearing to minimise soil erosion.*

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<sup>51</sup> Liz Chidley, personal communication 21 July 1999; LonSum's Guilty Past in Kankung Village. Report circulated on [www.egroups.com/list/walhi/](http://www.egroups.com/list/walhi/) 17 February 1999.

### 3.4 Illegal land clearing

Many plantation companies are believed to have circumvented the licensing procedures that should precede actual land clearing and plantation establishment. For example,

- Following up on the range of social conflicts in the LonSum plantation in East Kalimantan, 10 representatives of the Benuaq community and 5 Indonesian NGOs (Walhi, ELSAM, YLBHI, Telapak and Puti Jaji) visited Forestry and Estate Crops Minister Muslimin Nasution in February 1999. They requested the Minister to assist the communities in their struggle with the company. LonSum had almost completely cleared and planted its estates in the Jempang District at the time. During the meeting, it was discovered that LonSum had, over the last few years, illegally established thousands of hectares of oil palm estates in East Kalimantan:
  1. LonSum had no forest conversion permit (IPKH)
  2. LonSum had no land clearing permit (IPH).
  3. The Minister of Agriculture and chief of BPN (land planning board) then stated that LonSum does not hold an operation permit (HGU).
  4. LonSum furthermore did not have the required document of an environmental impact assessment (AMDAL).<sup>52</sup>
- In East Kalimantan, the company Matrasawit Sarana Sejahtera was also clearing forestland without the required permits from the Ministry of Forestry and Estate Crops.<sup>53</sup> Matrasawit (with a concession of 16,650 ha.) is a majority owned subsidiary of the SMART Corporation.<sup>54</sup>

Another form of illegal activity involves the clearing of vegetation too close to riversides and lakes. According to two decrees of the Indonesian government dated 1986 and 1990, entrepreneurs should protect forests on either side of rivers. Along major rivers, 100 meters should be left protected, 50 meters for smaller rivers and 200 meters for lakes.<sup>55</sup> Field investigations would probably reveal that these decrees are widely violated in Indonesia. During a field trip in Riau (January 1998), it was observed that oil palm seedlings were planted even *in* small riverbeds and small wetlands along the road between Pekanbaru and Rangat.

- Field research in the Agro Indomas concession in Central Kalimantan in 1999 uncovered that in certain areas the company had been clearing land up to 10-20 meters off the river and lakeside. During talks, Agro Indomas representatives did not deny that there might have been a mistake in the field operations.<sup>56</sup>

Banks are keen to assure that their clients are not involved in illegal practises since because prosecution can seriously impede the company's ability to pay back debt. Financiers can insist that their clients:

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<sup>52</sup> See also: <http://members.xoom.com/XOOM/Oilpalm/situation.html>

<sup>53</sup> Sawit Watch in WRM Bulletin No. 20, February 1999.

<sup>54</sup> SMART Annual Report 1997.

<sup>55</sup> Decision No. 32/1990 about Organising Protected Areas and No. 145/kpts-II 1986 on Regulation for Forestland Releases to Develop Agricultural Estates.

<sup>56</sup> Telapak internal report on PT Agro Indomas. Research by Yayasan Tahanjungan Tarung (YTT).

- *Provide evidence that all required permits are secured before land clearing operations commence(d).*
- *Restore or mitigate damage caused to forests and other vegetation along riversides and lakeshores.*

### 3.5 Pollution

For the production of 6 million tonnes of CPO, 15 million tonnes of palm oil effluent are generated. This is equivalent to the domestic sewage produced by 22 million people.<sup>57</sup> This means that Indonesia's 1999 CPO production (5.6 million tonnes in 1999) generated as much sewage as one-tenth of Indonesia's total population. This situation will aggravate further if processing industries continue fail to even meet local environmental standards. A point in case is **Cahaya Kalbar** in Pontianak, West Kalimantan.

In 1997, Cahaya Kalbar acquired the oil processing factory Mintawai with the aid of Rabobank Duta Indonesia and the Singapore branch of Rabobank, who acted as the arrangers of a US\$ 30 million syndicated loan. In September 1999, in a letter to Friends of the Earth Netherlands, Rabobank stated that the bank expects from CPO mills to apply European standards for wastewater disposal".<sup>58</sup>

Before the acquisition, the processing plant failed to meet Bapedal's wastewater effluent norms. According to a letter from the company to Bapedal TK 1 in Pontianak, the effluent of produced by the company exceeded four of six parameters in 1996 (see Table 3.4):

Table 3.4 Wastewater effluent Mintawai (currently Cahaya Kalbar), 1996.

<i>Parameter</i>	Weight (kg/day)	
	Norm	Actual
BOD	45.0	63.54
<b>COD</b>	90.0	100.85
TSS	54.0	85.01
Oils and Fats	5.4	1.35
Total ammonia	3.6	0.024
Debit	180 m3/day	558 m3/day

Source: Statement Letter Mintawai 1996.

Note: BOD = Biological Oxygen Demand; COD = Chemical Oxygen Demand; TSS = Total Suspension Solutions; Ph = acidity; Debit = total river effluent

Mintawai agreed to repair a waste management unit which, according to the Environmental Impact Assessment (AMDAL) team from Bapedal, failed to fulfil the required norms.

Telapak's Sawit Research Team discovered that the Cahaya Kalbar factory still does not meet Indonesian standards. In October 1999, the company's actual wastewater effluent exceeded five out of six norms. For all of these parameters, actual effluent was way beyond the local norms, e.g. 159 times for Biological Oxygen Demand (BOD) (see Table 3.5).

<sup>57</sup> FAO 1997 in: EIA 1998. The Orang Utan Crisis. Environmental Investigation Agency.

<sup>58</sup> Letter from H.van Mierlo and E.Riedlin to I. Bloemink, Milieudefensie, dated 19 July 1999.

Table 3.5 Wastewater effluent Mintawai (currently Cahaya Kalbar), October 1999.

<i>Parameter</i>	Weight (kg/day)	
	Norm	Actual
BOD	44	7,013.95
COD	210	1,077.54
TSS	126	969.41
Oils and Fats	13	72.99
Ph	5-9	5.99
Debit	420 m3/day	570.24 m3/day

Source: CK Waste Measurement, Ministry of Health and Bappedalda, October 1999.

Note: BOD = Biological Oxygen Demand; COD = Chemical Oxygen Demand; TSS = Total Suspension Solutions; Ph = acidity; Debit = total river effluent

In order to minimise the environmental impact of investments in the oil palm industry, financiers can insist that their clients:

- *Adopt and install appropriate wastewater processing technologies.*
- *Avoid heavy application of agro-chemicals in plantation areas and adopt integrated pest management approaches.*
- *Do not develop plantations in areas that require heavy agro-chemical inputs (e.g. peat).*

### 3.6 Social conflicts

Based on field work in West and Central Kalimantan, a study commissioned by the Japan International Co-operation Agency (JICA) in co-operation with Indonesia's National Development Planning Board (Bappenas) observed that:

1. Indigenous landowners are forced to change their ways to accommodate oil palm companies.
2. Land was being offered to companies by the provincial government without consulting local communities.
3. Those communities were then forced to surrender their land while being offered very little compensation.
4. Smallholder farmers often received less than half of the estimated returns and experience economic difficulty.
5. Employment opportunities generated by oil palm estates are often over-estimated.
6. Officials were more concerned with the spectacular development of oil palm than with food self-sufficiency and rice production.
7. The regional economy would be susceptible to destabilising changes in the price of palm oil on the international market.
8. West Kalimantan is headed for a 'dark future' if the current plans for oil palm were realised.

Potter and Lee (1999) and Bamba (1999) support several of the findings of the JICA study based on their fieldwork<sup>59</sup> as did field work in the plantation areas controlled by companies which received financial assistance from Dutch banks:

- ❑ It is a common sight to see people organising demonstrations against **LonSum** in South Sumatra. The company's main office in Lubuk Linggau Barat is frequently closed as a result of the protests. According to the Head of the Musi Rawas District and the Legal Aid Foundation in Palembang, LonSum has most conflicts with local communities among nine plantation companies in the district. The company took over land from communities who were unable to provide written evidence that the land they claimed was theirs. Villagers accuse LonSum of not complying to its promises to grant plasma units to the people. Many of these units ended up in the hands of government officials, some of whom have more than 10 of such units (more than 200 ha). In July 1999 the two LonSum vehicles were taken by force while hundreds of people were demonstrating against the company in Nibung, subdistrict of Ilir. According to the villagers, LonSum commonly uses members of the armed forces or local government officials to threaten and intimidate local people.<sup>60</sup>
- ❑ In East Kalimantan, **LonSum** staff and police officers from Tenggarong collaborate to stop local peoples' protests against the company's activities. In the two years after the arrival of the company in the neighbourhood of Lake Jempang, a series of conflicts led Benuaq Dayaks to burn a warehouse and seize all heavy equipment and the company base camp in Muara Nayan on December 2, 1998. Thereby they expressed their anger with LonSum, which had bulldozed rubber forests, sacred sites and ancestral graveyards without their permission while refusing to enter negotiations over compensation. During a ritual ceremony in February 1999, two police officers and seven other unidentified individuals abducted two members of the Benuaq community. Two days later it was discovered that the Benuaq were held in the district police office without a warrant or arrest. On May 7, 1999, armed mobile

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<sup>59</sup> For West Kalimantan and Jambi see: Potter, L. and J. Lee 1999. *Oil Palm in Indonesia: Its Role in Forest Conversion and the Fires of 1997/98*. Report for WWF Indonesia; For Kalimantan see: Bamba, J. 1999. *Impacts of Logging and Plantation Projects in Kalimantan: the Dayak Perspective*. Institute of Dayakology, Pontianak.

<sup>60</sup> Amzulian Rifai, personal communication 31 August 1999.

policemen and other individuals violently broke up the seizure of the LonSum base camp. They were not wearing uniforms but 'black Ninja' outfits (similar to those worn by the gangs in East Java that murdered hundreds of people). After being shot over their heads, 11 Benuaq men were arrested while other men fled in the fields and forests where they hid for several months in fear of further reappraisal. The company manager admitted that he was the boss of the group wearing black clothes.<sup>61</sup>

- In August 1998, Batanghari Sawit Sejahtera (BSS) and Dasa Anugerah Sejati (DAS), a subsidiary of the Raja Garuda Mas Group, ran into conflict with local people who stated that the companies had expropriated their lands with the help of the military and local government officials in Tanjung Katung and Lubuk Bernai in Jambi province. The people demanded that the Ministry of Forests and Estates withdraw the licenses. The Ministry of Agriculture offered the communities to become contract farmers at DAS, but they declined and reaffirmed their demand to getting back their land. DAS– with the assistance of the police – reportedly started to intimidate the farmers who had taken the case to court and some local people were arrested under the accusation of stealing rubber from DAS' plantation site.<sup>62</sup> The DAS concession covers 9,077 ha.<sup>63</sup>
- In Central Kalimantan, local people interviewed perceived the land transactions that followed the development of the Agro Indomas estate as expropriation of their customary lands. They claim that the company arrived in 1996 without having seen the community or having told them of the planned development. Agro Indomas only dealt with District and Sub-district officials. One of the disputes is about the total area cleared by Agro Indomas. Company staff claim that the company converted 3,000 ha of customary land for which it had already paid compensation based on the value of crops and trees on these lands. The local communities, however, claim that company had really taken 5,000 ha and demanded that Agro Indomas compensate the 600 individuals who lived off the excess 2,000 ha cleared. In October 1999, the community of Lampasa set an ultimatum for Agro Indomas to pay the compensation for the remaining 2,000 ha by the end of 1999 or else they intend to take their lands back. Meanwhile, having learned about the situation in the Agro Indomas area, the community in Sembuluh I have decided not to surrender their land to another company in the area, Salonok Ladang Mas.<sup>64</sup>
- In 1987, Dayak and Malayu communities and transmigrants jointly entered in to conflict with the Kalimantan Sanggar Pusaka (KSP) in West Kalimantan. KSP aimed to develop nucleus – plasma estate on a 50% - 50% basis. According to local informants, the problems in this area started in 1997 when the company broke its promise to transfer the southern and western parts of the estate as plasma to the people who had already cleared, planted and maintained the oil palms for the company from 1989 onward. KSP planned to operate the productive southern and western areas as the nucleus estate and allocate the northern end as plasma estate. The people rejected the company's plan, arguing that the northern area was too far away from their settlements, because it was prone to flooding and that the oil palms were not yet mature. From 1998 onward PIR Trans members staged several protests resulting in negotiations that involved a whole series of government institutions at all levels.

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<sup>61</sup> Christian Gönner personal communication; Gönner, Chr. 1999. Conflicts and Causes in a Sub-District of Kutai, East Kalimantan, Indonesia. [www.iffm.or.id/Fire\\_Causes.html](http://www.iffm.or.id/Fire_Causes.html) viewed 16 June 1999. See also <http://members.xoom.com/Oilpalm/intro.html> for a complete overview.

<sup>62</sup> Indonesia: Conflict over Oil Palm Plantation. Sawit Watch in WRM Bulletin #15, September 1998.

<sup>63</sup> Capricorn Indonesia Consult (CIC) 1998. Profile and Directory of Indonesian Plantation 1997/1998. Jakarta.

<sup>64</sup> Telapak (internal report). Field survey report by YTT on Agro Indomas project site in East Kotawaringin, Central Kalimantan. November 1999.



Late 1998 the Ministry of Forestry and Estates was close to coming to agreement but in the end failed to settle the conflict as well. Many families gave up and moved their homes to other places in West Kalimantan. Consequently, KSP now has direct access to 70% of the planted area as nucleus estate, while the plasma estate is only 1,500 ha, 30% of the planted area. The Dayak communities that remained in the KSP area lost their traditions and independence in just 10 years. They themselves cleared their agro-forest gardens ('tengkawang') gardens with a prospect of a better life, but instead their traditional longhouses disappeared, as have their customary ceremonies and their wildlife.<sup>65</sup>

Social conflicts often come at great cost to the plantation company and may thereby impede the company's ability to pay back debt. Financiers can insist that their clients:

- *Provide independently verified evidence that local communities are fully informed about the project before project proposals are submitted. Consultations should include non-governmental organisations with expertise on the local situation and the needs of local communities.*
- *Assure no estates are developed in areas where communities resist this kind of development.*
- *Settle existing conflicts.*
- *Contribute to improved smallholder schemes and promote better labour conditions in private estates.*

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<sup>65</sup> Telapak Internal Report. Research was carried out by MANDANIKA.

### 3.7 Economic exposure

In many areas, oil palm plantations replaced traditional agroforestry systems that successfully combined the production of a variety of subsistence and cash crops in an ecologically stable environment. After their forest gardens are converted local people and estate workers become dependent on a single cash crop economy and, thereby, they are increasingly exposed to the whimsical dynamics of national and international government agencies, finance and edible oil markets.

- ❑ Indonesia's palm oil sub-sector has become increasingly export oriented. Between 1992 and 1997, Indonesia's CPO exports grew by 85% as compared to growth in domestic consumption that increased by 51%.<sup>66</sup> Despite the promising forecast for global palm oil consumption, producers should be aware that they depend on the purchasing policies of the multinational edible oils industry. If, for some reason, soybean oil prices fall below those of CPO, the industry can easily replace the latter for palm oil.
- ❑ In 1997, international investors suddenly lost confidence in Asia's economy and plunged Indonesia in a devastating economic crisis. By 1998, 95.8 million people, almost half of Indonesia's total population, lived below the poverty line. The World Bank assesses that at the beginning of the next millennium, two-thirds of the country's population will live below the poverty line.<sup>67</sup>
- ❑ During the crisis, the Indonesian government declared several measures to limit CPO exports to keep domestic cooking oil prices low in the hope to reduce further social unrest. The CPO export restrictions combined with the haze and forest fires that led commodity traders to fear that palm oil supplies would be affected, CPO prices soared. The stocks of major oil palm companies such as PP London Sumatra, Astra Agro and Bakrie Sumatra Plantations were therefore doing very well in 1997. Similarly, the palm oil holding of the Sinar Mas group, Golden-Agri Resources to which SMART belongs, generated a US\$ 35.8 million profit in 1998.

Because of the devaluation of the Indonesian Rupiah, workers in the oil palm estates of SMART enjoyed considerable hikes in labour wages in 1997 and 1998 but overall, they hardly shared in the company profit due to their increased cost of living. In US Dollar terms, their salaries were halved in 1998 compared to earlier years. There is no reason to believe that workers in the oil palm sub-sector will be better off in the future.<sup>68</sup>

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<sup>66</sup> Data Consult 1998. Palm Oil Industry Enters Free-Market Area. Indonesian Commercial Newsletter [www.indoexchange.com/data-consult/newsletter/1dcatoc1.htm](http://www.indoexchange.com/data-consult/newsletter/1dcatoc1.htm), viewed 24 June 1999).

<sup>67</sup> Two-thirds of Population Below Poverty Line in 2000: Report. Indonesian Observer, 14 December 1999.

<sup>68</sup> Even when palm oil prices and labour wages increase, like they did in the past, analysis of long-term real (inflation-adjusted) prices shows that the world market actually reduced palm oil prices by 3% between 1950 and 1995. Palm oil producers thus need to reduce their real production costs by at least 3% per year and more if they wish to increase workers' salaries. Fry, J. 1998. Implications of the Recent Development in Asian Economies and in the Global Economy for the Palm Oil Industry. 1998 International Palm Oil Conference. September 23-25.

Table 3.6 Labour wages per day in oil palm estates in North Sumatra and West Kalimantan 1992 – 1998 (in Rupiah).<sup>69</sup>

	1992	1993	1994	1995	1996	1997	1998
North Sumatra	2,133	2,333	2,600	3,150	3,500	5,030	5,800
West Kalimantan	1,800	2,000	2,250	3,000	3,500	4,200	4,850
Rp/US\$ average	1,950	2,040	2,156	2,240	2,327	3,525	9,575
In US\$	0.92-1.09	0.98-1.14	1.04-1.20	1.34-1.40	1.50	1.19-1.43	0.50-0.61

Since 1986, Indonesia implemented several smallholder schemes that combine government and private investments with smallholder development. From 1995 onward, the dominant scheme became the PIR Trans Nucleus-Estate, that is part of Indonesia's Transmigration Programme.<sup>70</sup> Until recently, the government provided subsidised credit to the plasma farmers (channelled through domestic banks and subsequently through the company) but the loan package was stopped following the introduction of the new law on central banks.

In PIR-Trans scheme, each family of the local community surrenders 7.5 ha of land to the company. This land is then cleared and planted, after which 2,5 ha is kept by the company for the private estate (the 'nucleus'), 2,5 ha will be given to a transmigrant family (the 'Trans' plasma) and 2,5 ha is returned to the local family (the 'plasma'). The company provides farming materials (seedlings, fertilisers and other) to the farmers who are in turn obliged to sell their harvest exclusively to their nucleus firms.

Those with a stake in the oil palm industry are usually quick to state that smallholder programs benefit local farmers but Potter and Lee (1998) concluded from their field research in Jambi and West Kalimantan that:

"With some exceptions, these (oil palm) estates do not appear to provide smallholders with sustainable livelihoods. They also consume vast areas of land, making it difficult for people to seek alternative income sources. In this way oil palm represents the final dispossession of villagers' land which began with the arrival of the logging companies".<sup>71</sup>

In 1999, the Indonesian Farmers Union (HKTI) argued that the PIR scheme has many weaknesses and only benefits the plantation companies. Under the scheme, the farmer's bargaining position is very weak because they depend heavily on their nucleus firms. There is no legal-based agreement, therefore no arbitrage body to settle any disputes.<sup>72</sup>

<sup>69</sup> Tan Siau Liang 1998. Oil Palm Cost in Indonesia. SMART Corporation. 1998 International Palm Oil Conference. September 23-25.

<sup>70</sup> PIR: Perkebunan Inti Rakyat. In 1981, Indonesia initiated a massive programme with the aid of the World Bank to resettle people from Java and Bali that were considered over-populated regions to the remote 'under-populated' islands, notably Sumatra, Kalimantan and Irian Jaya. The Transmigration Programme has brought about tremendous environmental damage and endless conflicts between transmigrants and local communities. The programme was so controversial that the World Bank pulled out in 1986.

<sup>71</sup> Potter, L.M. and J.L. Lee, 1998. Tree Planting in Indonesia: Trends, Impacts and Directions. CIFOR.

<sup>72</sup> Fairer Deal urged among farmers, plantation firms. Jakarta Post. 3 June 1999. See for further discussion: Potter, L.M. and J.L. Lee, 1998. Tree Planting in Indonesia: Trends, Impacts and Directions. CIFOR.

According to Stefanus (1998), local farmers who had not surrendered to the oil palm schemes were better off during the monetary crisis:

"While most Indonesians are living in apprehension as a result of the ongoing monetary crisis, farmers in rural areas of the West Kalimantan province have a different story to tell. Although they are often made the scapegoats for forest destruction, forest fires and haze, farmers are proving their resilience against the monetary crisis (...). The yield from each family's un-irrigated rice fields is expected to be enough to last them a whole year. Their fields also supply them with various kinds of vegetables. In addition, they can also obtain from the forest such vegetables as bamboo shoots, the edible tops of palms and edible leaves. They can fish in the rivers, raise chickens and pigs and go hunting in the forest. They can barter rubber for salted fish.<sup>73</sup>

Indigenous farmers such as the Dayak in Kalimantan are certainly not economic isolationists. They are in fact important producers of export products such as rattan, rubber, illipe nuts, jelutong and damar oleoresin. The economic potential of these non-timber forest products is grossly underdeveloped and in fact actively undermined by deforestation.<sup>74</sup>

Potter and Lee (1998) found that farmers in West Kalimantan increasingly tend to abandon or refute the rigid monoculture system and start to integrate oil palm in their traditional agroforestry systems. By doing so, they increase their food security and diversify cash income but also effectively reduce the production of oil palm fruit. Others have completely abandoned the oil palm scheme and moved to another locality to start over with their traditional system.

#### Greenpeace study on small-scale alternatives in the Pacific

In 1999, Greenpeace Pacific published its study "Islands Adrift". The report found that small-scale cash generating development options are three times more beneficial to landowners than industrial logging and oil palm plantations. The small-scale options reviewed included fishing and other marine products, ecotourism, carving and ecotimber.

The study was conducted in Marovo Lagoon, an island in the Pacific and a proposed World Heritage Area. Some years ago, a Malaysian company – Sylvania - expressed its interest in extending an oil palm plantation into areas of virgin forest held under customary tenure. Sylvania holds four concessions in the Solomon Islands in excess of 450,000 ha. Landowners opposed the plan and had successfully fought the company for the past three years. However, in July 1999 the Solomon Islands government allowed Sylvania, a subsidiary of the KLSE listed company Kumpulan Emas Bhd., to clear 6,000 ha.<sup>75</sup>

The disappointing benefits of oil palm schemes on the livelihoods of local people and estate workers are a source of social unrest and reduce the productivity of smallholder schemes. Rather than to force an alien model of economic development upon local communities, financiers can:

- *Assist in the development of production and markets of non-timber forest products such as illipe oil, rattan, rubber and other products based on indigenous forest and land use strategies.*
- *Assist oil palm producers to improve existing smallholder schemes, allowing farmers to opt for diversification of the cropping system.*

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<sup>73</sup> How Kalimantan Farmers are Surviving the Monetary Crisis. Jakarta Post 8 April 1998.

<sup>74</sup> See for a detailed discussion on the subject: De Beer, J. and M. McDermott 1996. The Economic Value of Non-Timber Forest Products in Southeast Asia. IUCN.

<sup>75</sup> Greenpeace Pacific and Solomon Islands Development Trust (SIDT) Media release 23 September 1999; Solomon Islands Forest to be Signed over for Clear Felling. WWF South Pacific, 28 July 1999. See also: High Stakes. The Need to Control International Logging Companies: A Malaysian Case Study. World Rainforest Movement and Forests Monitor. 1998.

### 3.8 Corruption, collusion and nepotism

Not long after president Soeharto stepped down in May 1998, the office of the Indonesian Attorney General instigated investigations into the wealth accumulated by Soeharto, his family members and the country's main businessmen through practises of corruption, collusion and nepotism (*Korrupsi, Kollusi dan Nepotism* or *KKN*). While these investigations were ongoing TIME magazine published its estimate that at least US\$ 73 billion passed through the hands of the Soeharto family between 1966 and 1998. Much of that was from the mining, timber, commodities and petroleum industries.<sup>76</sup>

In addition to the economic cost and social unrest, KKN-practises pose a major obstacle to sustainable development. When President Soeharto was in power, his business cronies had easy access to concession rights to exploit state-controlled natural resources and the capital that was generated from exploiting those resources. Rather than to plough back profits into sustaining natural resources, billions of dollars were creamed off for other purposes. For example, on the position of Bob Hasan in Indonesia's plywood cartel (APKINDO), Data Consult writes:

"According to the members of APKINDO, Bob Hasan appeared to be quite free in determining the use of this organisation's funds. Whether he wanted to donate to sporting activities, help a problem bank – whatever he wanted to do, no one dared to disagree because of the closeness of Bob Hasan to the former President".<sup>77</sup>

Official investigations suggest that the country's forestry and plantation sectors were infested with KKN:

- ❑ Early 1999 the Director General of Plantations, Agus Pakpahan said that his office was investigating a case of collusive practises in the licensing of 33 plantation companies, whose concessions cover 303,000 ha. These companies had allegedly obtained their licenses to convert forests into plantations through KKN-practises.<sup>78</sup>
- ❑ In May 1999, Bob Hasan and another business friend of Soeharto, logging tycoon Prajogo Pangestu, were heard by the Attorney General under the Habibi administration, Andi Ghalib. Pangestu's Barito Pacific Group controls logging operations in millions of hectares throughout the country. During the hearing Pangestu "admitted he had donated about US\$ 225 million to three (Soeharto) foundations, Supersemar, Dharmais and Dakab. The donations, he said, were transferred in 1990 from Citibank Singapore, BDN Jakarta and BBD Jakarta to the foundation's accounts at Bank Indover in Amsterdam, the Netherlands".<sup>79</sup>
- ❑ In June 1999, the Indonesian Ministry of Forestry and Estate Crops revealed that over 9.4 million ha of the country's forests and plantations were owned or controlled by former President Soeharto. Through their stake ranging from 5-100% in 65 timber companies, the Soeharto family directly controlled 4.3 million ha of forest in Indonesia. The remaining 5.1 million ha were controlled by the President's cronies including Prajogo (Barito Pacific: 2.7

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<sup>76</sup> Colmey, J. and D. Liebhold. All in the Family. TIME, May 24, 1999.

<sup>77</sup> Bob Hasan's Wood-Based Industries Starting to Shake. Data Consult. <http://www.indoexchange.com/data-consult/newsletter/2bc009.htm> Viewed 24 June 1999; Soeharto Associates Own 9m ha of Forest. Jakarta Post 2 December 1998.

<sup>78</sup> SFMP Forestry Highlights in the Indonesian Press. January 1999. GTZ.

<sup>79</sup> Prajogo queried over donation, Jakarta Post 22 May 1999; Bob Hasan Masih Bandel Prajogo Pangestu Diperiksa Kejakgung Selama Tiga Jam. Republika Online edisi: 22 May 1999. The treasurers of the three foundations, Hedianto, Ali Affandi and Zaid Hussein, were also the majority shareholders of Bank Duta.

million ha) and Bob Hasan (Kaleimanis, 1.63 million ha). The Ministry stated it had "found strong indications that those properties were acquired through 'KKN', or corruption, collusion and nepotism."<sup>80</sup>

- Also in June 1999, the Indonesian Government announced the non-extension or revocation of licences for large forest concessions. Four Indonesian groups had their concessions cancelled immediately and another seven were told that their existing concessions would not be extended. Sinar Mas' Indah Kiat will lose access to 354,750 hectares of forest in the Riau Province. The Barito Pacific Group, which supplies timber to Sinar Mas, also lost 138,015 hectares in concessions in Riau and Central Kalimantan. The Government claimed that these concessions had been obtained through corrupt, collusive and nepotistic practices.<sup>81</sup> Earlier, in mid-1998, the Salim Group had lost the rights to 100,000 ha of oil palm concessions in the Subuku-Sembakung region in East Kalimantan as these were allegedly obtained through KKN-practises (see also 3.3).
- In July 1999, Indonesian Corruption Watch (ICW) uncovered that the Attorney General under President Habibbi, Andy Ghalib, had collected at least Rp 13 billion (US\$ 1.7 million) from August to May 1999 from several sources including Prajogo Pangestu and Bob Hasan. Ghalib claimed the funds were intended for the Indonesian Wrestling Association (PGSI), which he chairs. ICW later revealed that further transfers were made to another of Ghalib's accounts, from Ganda, alias Abun, a Sumatra-based businessman who acted as director of PT Bukit Kapur Reksa, PT Karya Prayona, PT Prima Aksara Semesta and PT Sinar Seruni Sahabat. These companies are all involved in palm oil exports. Ghalib stepped down 'temporarily' pending investigations in the alleged bribe.<sup>82</sup> The investigations in Soeharto's wealth were once again opened in December 1999 under the leadership of Attorney General Marzuki Darusman.<sup>83</sup>
- In December 1999, Minister of Economic Affairs, Kwik Kian Gie - a graduate from the Economische Hogeschool in Rotterdam - said that a large campaign against KKN would imply that most businesses would end up in jail. He assessed that detailed research into the Indonesian banking sector would reveal billions of 'corrupt dollars'.<sup>84</sup>
- In February 2000 secretary-general of the Ministry of Forestry and Estate Crops, Suropto, said a preliminary investigation by his office had unveiled suspected irregularities in the handling of reforestation funds, the granting of 51 forest concession rights and land exchanges between 1996 and 1999. Suropto also alleged that four concessionaires had misappropriated some Rp 784 billion (US\$ 104 million). Suropto identified the four concession holders as being from former president Soeharto's inner circle - daughter Siti Hardijanti Rukmana, Bob Hasan, half brother Probosutedjo and businessman Ibrahim Risjad (Risjadson Group). Pending a final investigation, as many as 45 concession rights

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<sup>80</sup> Soeharto's youngest daughter, Mamië, holds rights to exploit over half a million hectares of forests in Central Kalimantan. The former president's youngest daughter Siti Huami Endang Adiningsih Pratikto controls several plantation companies and processing facilities. Soeharto's grandson, Ari Haryo Wibowo, son of Sigit Hardjojudanto, started a range of business including oil palm plantations. Jakarta Post in SFMP Forestry Highlights in the Indonesian Press. January 1999. GTZ; Jakarta Post, 23 June 1999. Soeharto's control 7.15M ha of Forests in the Country.

<sup>81</sup> Government Revokes Vast Forest Concessions. Jakarta Post 9 July 1999.

<sup>82</sup> Aanklager Soeharto nam Steekpenningen. Trouw 12 Juli 1999; Indonesische Aanklager treedt terug. Trouw 15 Juni 1999; Habibbi Ok's Ghalib Resignation Bid. Jakarta Post. 15 June 1999.

<sup>83</sup> Indonesië Heropent Onderzoek Soeharto. Trouw 7 December 1999.

<sup>84</sup> Corruptiestrijd remt Economisch Herstel Indonesië. Financieel Dagblad 9 December 1999.

could be frozen. Hasan had allegedly misused Rp. 207.81 billion in reforestation funds he received for his industrial forest estate PT Surya Hutani Jaya.<sup>85</sup>

Because of their involvement with companies that suffered from KKN-practises and financial mismanagement, Dutch banks were confronted with bad debts. The Netherlands' three biggest banks alone wrote off approximately US\$ 900 million to cover up for bad debts in Asia.

- ❑ Rabobank had reserved NLG 750 million (US\$ 370 million) for bad debts in Asia in 1999.<sup>86</sup>
- ❑ ABN-AMRO wrote off NLG 668 million (US\$ 329 million) for several Asian countries, including Indonesia.<sup>87</sup>
- ❑ ING Bank set aside NGL 400 million (US\$ 200 million) in 1998.<sup>88</sup>

Unfortunately, writing off bad debt can work out as a form of subsidising of mismanagement. It can allow the survival of plantation companies should have gone bankrupt. This encourages them to expand their activities again, with the risk of causing further forest degradation.

Considering that it is generally felt that the new government under president Wahid is serious in its efforts to fight KKN-practises, financiers to the plantation sector can assist the Government of Indonesia in its efforts by:

- *Being reluctant to write off further bad debts that will allow a debtor to continue unsustainable practises.*
- *Taking into full account the KKN-record of the managers and owners of joint-venture companies and debtors in investment decisions and avoiding financial transactions with companies whose KKN-record has not been cleared.*

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<sup>85</sup> Forest Team to Probe Corruption. Jakarta Post 8 February 2000; Big Names Probed for Alleged Abuse of Forestry Funds. Jakarta Post 17 February 2000.

<sup>86</sup> Rabobank zet zich schrap. Trouw 4 Maart 1999.

<sup>87</sup> ABN-AMRO Tevreden. Trouw 26 February 1999.

<sup>88</sup> ING zet 400 Miljoen Opzij voor Azië Crisis. Trouw 29 May 1998.







## 4. Oil palm companies and their financiers

### 4.1 Overview

Over 50 different financial connections between 8 Dutch banks and 19 different companies in the oil palm sub-sector in Indonesia as described in this chapter. The description focusses on the way the assets of these companies are financed with emphasis on the role of Dutch banks. The financial linkages are assessed for the period 1994 – 1999. With the exception of vegetable oils manufacturer PT Cahaya Kalbar, all companies described in this chapter have direct access to forestland for oil palm development.

Table 4.1 and Table 4.2 provide an overview of the land banks and estate areas controlled by company groups and individual plantation companies in Indonesia.

Table 4.1 Clients of Dutch banks: company groups in Indonesia and their land banks for oil palm development.<sup>1</sup>

Company group	Sinar Mas	Salim	Risjadson & Napan	Raja Garuda Mas	Astra	PT SMART (Sinar Mas)	Bakrie	Leyman	Kulim	Total (*)
Total land bank	473.300	275.000	204.988	200.000	280.000	140.000	376.000	91.000	37.510	1.937.798
Mature or planted	239.500	125.000	54.477	110.000	127.000	83.000	15.000	n.a.	8.000	708.487
Unplanted area or immature					56.000				29.510	
Planned expansion	528.208	400.000	204.988	600.000	280.000		176.000			2.189.196
Area yet to be converted	233.800	150.000	150.511	400.000	56.000	57.000	161.000			
Annual conversion	52.500			30.000-40.000	20.000	7.000-10.000	>10.000			
Number of plantation subsidiaries	60	> 15	4		> 50	> 15	2	2		
Main location of current expansion	SEE SMART	RIAU SKAL	SSUM SUL EKAL	KAL JAM RIAU		E.KAL IJAYA	C.KAL WKAL		WKAL	Not available

SUL Sulawesi; WKAL West Kalimantan; EKAL East Kalimantan; SKAL South Kalimantan; KAL Kalimantan; SSUM South Sumatra; JAM Jambi; RIAU Riau; CKAL Central Kalimantan; IJAYA Irian Jaya. Total area claimed: the area that the companies claim to operate as oil palm estates through majority or minority shareholdings. This may also involve land for which the appropriate permits were not yet obtained. Planned expansion: the area companies planned to develop, regardless whether or not legal permits for land conversion were obtained. (\*) Total excluding data in the column under PT SMART.

<sup>1</sup> Sources (both tables): Profile and Directory of Indonesian Plantation 1997/1998, PT Capricorn Indonesia Consult (CIC), Jakarta, 1998; Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. CIFOR.

The total land base controlled by the plantation groups is 1.9 million ha. In this area they jointly established 0.7 million ha of oil palm plantations. In the last few years, they announced plans to expand the total oil palm area to at least 2.2 million ha (see Table 4.1).

Plantation companies and other sources are often unclear or inconsistent about the group subsidiaries and affiliates, land banks, the status of land clearing, planting of oil palms etc. The data in the tables above should be therefore be interpreted with some care. Some of these groups control dozens of plantation companies whose activities are sometimes not even well overseen by the group management, let alone their financial backers.<sup>2</sup> Dutch banks are involved with Indonesia's biggest oil palm company groups: Salim, Astra, Sinar Mas and Raja Garuda Mas alone were responsible for 68% of the 1.2 million ha of oil palm plantations owned by private firms in 1996.<sup>3</sup> The dominant position of these four groups has been somewhat diluted in recent years by heavy Malaysian investment. Dutch banks also assisted these Malaysian investors to develop their plantations in Indonesia.

The individual plantation companies that are financially involved with Dutch banks control a joint land bank of just over 100,000 ha. Of the three companies in Table 4.2, two are controlled by Malaysian companies (Gunung Maras Lestari and Agro Indomas).

Table 4.2 Clients of Dutch banks: individual plantation companies in Indonesia and their land banks for oil palm development.

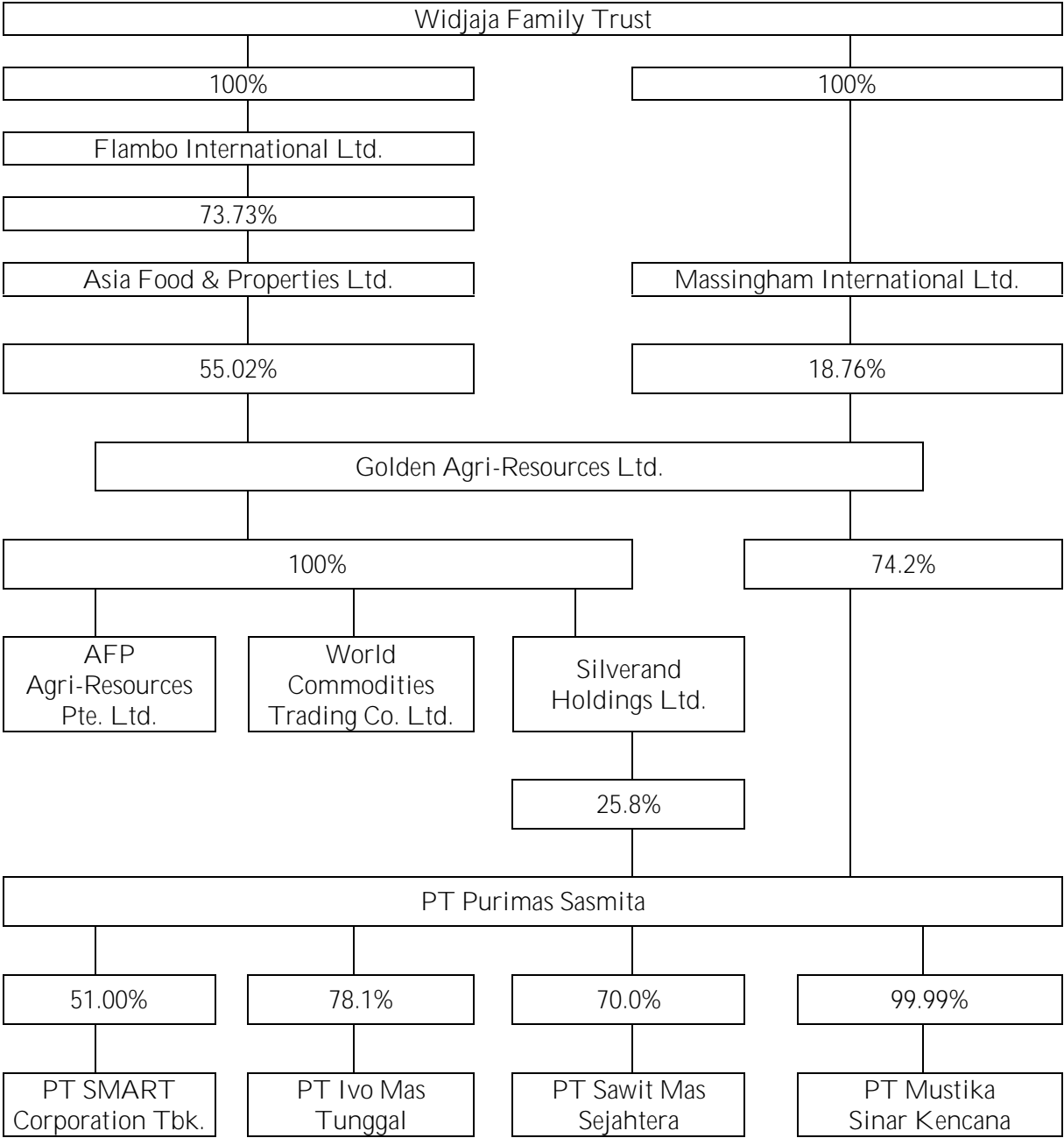
	Kalimantan Sanggar Pusaka (Leyman group)	Gunung Maras Lestari (Selasih Permata )	Agro Indomas (Good Hope)	Total
Total land bank	69.000	22.000	16.750	107.750
Mature or planted			10.000	
Unplanted area or immature				
Planned expansion	69.000		12.050	
Area yet to be converted				
Annual conversion			2.500	
Main location of current expansion	WKAL	SSUM	CKAL	

<sup>2</sup> One reason for the lack of solid data is, of course, that the plantation sub-sector has grown rapidly within the last few years. Adding to the confusion, some expansion plans have been announced though their implementation was not yet fully secured (e.g. companies that started landclearing without the required permits). Furthermore, company group structures are extraordinarily complex in Indonesia and reliable information about which plantation companies belong to what company group is scarce. This is not to say that there was no structure! Almost every major (plantation) company group in Indonesia has a structure that leads to with a small group of, mostly ethnic Chinese, business tycoons who are almost all close to former president Soeharto and his family members.

<sup>3</sup> Cohen and Hiebert 1997 and Mc. Beth 1997 in: L. Potter and J. Lee 1998. Tree Planting in Indonesia: Trends, Impacts and Directions. CIFOR. At the time, the Salim, Astra and Sinar Mas groups also ranked as the three largest of Indonesia's top 200 business conglomerates (see: Ranking of Indonesia's Largest Conglomerates. Warta Ekonomi, 25 November 1996).

## 4.2 Sinar Mas Group

The Sinar Mas Group is one of Indonesia's largest business groups, controlled by the Widjaja family. Through a complicated structure of oil palm holdings, Sinar Mas owns the largest area of established oil palm plantations in Indonesia. Since June 1999, the structure of this part of the Sinar Mas Group is as follows:



In this paragraph, we will subsequently look into the relations of the companies mentioned in the scheme above with Dutch banks.

#### 4.2.1 Asia Food & Properties Ltd.

##### Company description

Asia Food & Properties Ltd. (AFP) is the regional flagship for Indonesia's Sinar Mas group's diversified interests in the areas of agribusiness, food processing and distribution, and property development and investments. In agribusiness, it is one of the largest private producers of crude palm oil and one of the largest manufacturers of palm oil-based cooking oil and edible fats in Indonesia. Its food division has been involved in the instant noodle business in China and is holding China's second largest market share. The Group's property activities span across Indonesia, China, Malaysia, Singapore and USA. AFP was listed on the Stock Exchange of Singapore on 18 July 1997 (stock code: PAPN).<sup>4</sup>

##### The Sinar Mas Group

Indonesia's second largest conglomerate, the Sinar Mas Group, has at least 150 subsidiaries in Indonesia alone. The group has operations in the United States, Australia, Singapore, China, Hong Kong as well as the Netherlands, among which Indah Kiat International Finance and Tjiwi Kimia International Finance Co. Sinar Mas principal activities are in cooking oil, pulp & paper industries, property development and finance (Bank Internasional Indonesia). Sinar Mas was the largest pulp & paper producer in Asia in 1997. Among its pulp interests is Asia Pulp & Paper (AP&P) in Singapore. AP&P accumulated a US\$ 9 billion foreign debt.<sup>5</sup>

The Sinar Mas Group is headed by EkaTjipta Widjaja, a Chinese businessperson who fathered more than 40 children. Four of the five sons from his principal wife have each been given a Sinar Mas division to manage and Sukmawati, Eka's only daughter from his principal wife has been appointed group vice chairman.<sup>6</sup> ING Barings and International Media Partners had awarded Eka Widjaja the "1996 Emerging Markets CEO of the Year Award", for his 'important contributions to the development of emerging economies'.

Eka Widjaja is the founder and president-commissioner of Bank Internasional Indonesia (BII) whose president director, Indra Widjaja, failed to pass a central-bank-mandated ethics evaluation and was forced to resign together with several other senior managers in August 1999.<sup>7</sup> On top of this, Eka Tjipta's Indah Kiat pulp and paper company in Riau (which received several loans from Rabobank and ABN-AMRO in the past) will lose its forest concessions (354,750 ha) in March 2000 because they were allegedly granted through corruption, nepotism and collusion.<sup>8</sup> Eka Tjipta Widjaja was also a board member of Yayasan Dana Sejahtera Mandiri, one of Soeharto's controversial welfare foundations.

Turnover in 1998 amounted to S\$ 955 million, and the net profit reached S\$ 141 million. The agriculture division contributed 61% of turnover, and 8% of net profit.<sup>9</sup>

Flambo International Ltd., a company incorporated in the British Virgin Islands, in August 1999 owned 73.73% of the outstanding shares of Asia Food & Properties. Flambo International is

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<sup>4</sup> Profile Asia Food & Properties Ltd., Stock Exchange of Singapore, Singapore, 17 September 1999.

<sup>5</sup> Cotton, C. 1999. Buying Destruction. A Greenpeace Report for Corporate Consumers of Forest Products. Greenpeace International; Indonesia: Wood-Processing Industry under Scrutiny. Financial Times 17 December 1999.

<sup>6</sup> Backman, M. 1999. Asian Eclipse. Exposing the Dark Side of Business in Asia.

<sup>7</sup> Indonesian Banking Scandals Sparks Plunge in Nation's Currency, Jay Solomon, Dow Jones Online News, Jakarta, 12 August 1999.

<sup>8</sup> Government Revokes Vast Forest Concessions. Jakarta Post 9 July 1999; Michael Backman, personal communication 18 February 2000.

<sup>9</sup> Asia Food & Properties Ltd. Annual Report 1998, Singapore, 23 March 1999.

wholly owned by a revocable trust, the donors of which are members of the Widjaja family.<sup>10</sup> Others shareholders were, in April 1998:<sup>11</sup>

□ Sinar Mas Tunggal	Indonesia	1.7%
□ Nissho Iwai	Japan	1.7%
□ Itochu	Japan	5.4%

On 11 April 1997, Asia Food & Properties established the financing company AFP International Finance Company BV in The Netherlands. This 100% subsidiary is registered at the Rotterdam Chamber of Commerce under number 24275081. AFP International Finance Company BV was located at the Office of MeesPierson Trust in Rotterdam. AFP International Finance Company BV had an issued share capital of Dfl 40,000 and no employees. In October 1998 the company was liquidated. The proxy is:

- MeesPierson Trust BV. Chamber of Commerce No. 33144202. Since: 1-10-1998.<sup>12</sup>

#### 4.2.2 Golden Agri-Resources Ltd.

##### Company description

Golden Agri-Resources Ltd. is the holding company for the palm oil interests of the Sinar Mas Group. Golden Agri-Resources Ltd. was incorporated in Mauritius as a private company limited by shares on 15 October 1996 under the name of AMF Finance Co Ltd. The company had an issued share capital of 20 shares of US\$ 0.10 each. All shares were held by Asia Food & Properties. The name of the company was changed to Golden Agri-Resources Ltd. on 19 May 1999.<sup>13</sup>

On 1 June 1999, Golden Agri-Resources increased its issued share capital to 1,600 million shares. At the same date, the company entered into a restructuring agreement with Asia Food & Properties Ltd. and Massingham International Ltd. Golden Agri-Resources transferred 1,193 million shares to AFP, giving AFP a 74.6% interest in Golden Agri-Resources. In exchange, AFP transferred its 74.2% interest in PT Purimas Sasmita (Indonesia) and AFP's entire interest in AFP Agri-Resources Ltd. (Singapore) and World Commodities Trading Co. Ltd. (Singapore) to Golden Agri-Resources.

Golden Agri-Resources transferred its remaining 407 million shares to Massingham International Ltd., giving Massingham a 25.4% interest in Golden Agri-Resources. In exchange, Massingham transferred all of the issued shares of Silverand Holdings Ltd. to Golden Agri-Resources. Silverand Holdings is the holder of shares representing the remaining 25.8 percent interest in PT Purimas Sasmita (Indonesia). As a result of the foregoing restructuring, Golden Agri-Resources now has a 100% interest in three companies: PT Purimas Sasmita (Indonesia), AFP Agri-Resources Ltd. (Singapore) and World Commodities Trading Co. Ltd. (Singapore).<sup>14</sup>

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<sup>10</sup> Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999; Asia Food & Properties Ltd. Notice Of Substantial Shareholder's Interests, submitted to the Stock Exchange of Singapore on 18 August 1999.

<sup>11</sup> The Sinar Mas Group, J. Tanja, Paribas Asia Equity, Singapore, 27 April 1998.

<sup>12</sup> Chamber of Commerce Rotterdam, File no. 24275081, 22 October 1999.

<sup>13</sup> Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>14</sup> Asia Food & Properties Ltd. Company Announcement on the Proposed Listing of the Oil Palm Plantation Businesses of Asia Food & Properties Ltd., Singapore, 25 June 1999; Prospectus for the IPO of Agri-Resources

Through PT Purimas Sasmita, Golden Agri-Resources owned land rights to 60 oil palm plantations totalling approximately 473,300 hectares. The company had approximately 239,500 hectares under cultivation as of 31 December 1998. Purimas Sasmita owned an annual refining capacity at two plants in Surabaya and Belawan of 792,000 tons. In 1998, 473,530 tonnes were refined.

In 1998, Golden Agri-Resources' net sales amounted to US\$ 321 million and the company made a net profit of US\$ 35.8 million. Over 97% of net sales were related to the palm oil and oil palm based products business.<sup>15</sup>

At the end of 1998, the total debt of Golden Agri-Resources stood at US\$ 492.4 million. Of this debt, US\$ 353.3 million was long-term and US\$ 139.1 million was short-term. Shareholders' equity stood at US\$ 338.8 million, and total liabilities at US\$ 1,018.5 million. This implies that the solvency stood at 33.3%, well above the desired minimum of 20%.<sup>16</sup>

The major customers of Golden Agri-Resources are, in percentage of sales:<sup>17</sup>

	1996	1997	1998
P.T. Interimas Tata Trading	5.3	4.4	1.0
Vestwin Trading Pte Ltd	9.8	5.7	0.0
Ivo Mas	0.0	0.0	6.4
Norsemen	0.0	0.0	16.7
Paganin Investments Ltd	0.0	0.0	5.2
P.T. Sinar Oleochemical International	9.5	7.7	10.4
P.T. Sinar Meadow International Indonesia	5.1	5.4	5.8

The business strategy of the palm oil sector of the Sinar Mas Group can be summarised as follows:

- ❑ Expand CPO plantations in Indonesia;
- ❑ Develop new markets especially in China and India;
- ❑ Increase share of the cooking oil market in Indonesia.<sup>18</sup>

#### Relevant financial transactions

Golden Agri-Resources Ltd. announced in July 1999 that it would issue 568.6 million new shares in its initial public offering (IPO) on the Stock Exchange of Singapore. This amounted to 28.8% of its existing issued shared capital. Golden Agri-Resources was listed separately by AFP to enable it to seek independent financing. The company's offer comprised 423.2 million placement shares for international institutional investors and 145.4 million placement shares to be offered in Singapore, including 20 million for employees and staff. Furthermore, there was an over-allotment option of 78.4 million shares.

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Ltd., Singapore, 2 July 1999.

<sup>15</sup> Singapore Golden Agri Offers 568.6M Shrs IPO At US\$0.638, Hasan Jafri, Dow Jones Newswires, Singapore, 2 July 1999; Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999

<sup>16</sup> Audited Accounts for 1998, Golden Agri-Resources Ltd., June 1999.

<sup>17</sup> Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>18</sup> The Sinar Mas Group, J. Tanja, Paribas Asia Equity, Singapore, 27 April 1998.

The lead managers of the IPO were ING Merchant Bank (Singapore) Ltd. and Overseas Union Bank Ltd. (Singapore). The syndicate for the international offering was lead by ING Merchant Bank (Singapore) Ltd. (responsible for the placement of 148.1 million shares) and Merrill Lynch (Singapore) Pte. Ltd. (148.1 million shares). It also included ABN-AMRO Rothschild (38.1 million shares), Credit Lyonnais Securities (Asia) Limited (38.1 million shares), Jardine Fleming Securities Limited (38.1 million shares), and HSBC Investment Bank Asia Limited (12.7 million shares).<sup>19</sup>

Golden Agri-Resources hoped to raise around US\$ 347 million in net proceeds with the IPO, a record for a private sector IPO in Singapore. It would use US\$ 197 million to repay debt, thereby reducing its gearing to 18% from the current 40%. The main loan the company owed, was a loan of US\$ 103.8 million from PT Bank Internasional Indonesia.<sup>20</sup> PT Bank Internasional Indonesia (BII) is the country's biggest private bank, and is part of the Sinar Mas Group (see also the box in Chapter 7).

Golden Agri-Resources planned to use the remaining proceeds of its IPO to expand oil palm plantations to over 500,000 ha and refining capacity to meet the expected higher domestic and international demand for its products. It plans to plant 30,000 hectares of palm oil trees in 1999, and another 60,000 hectares per year in the following three years. Refining capacity will be increased with 400,000 tonnes CPO annually.<sup>21</sup> Golden-Agri claims it is the most profitable palm oil producer in the world with a gross margin of 40 percent and accounts for 4 percent of global consumption. Golden Agri-Resources controls 25 percent of the Indonesian branded palm oil market and had a 31 percent share of the unbranded oil market, which is slated to double within the next three years.<sup>22</sup>

The IPO was realised in the first week of July 1999, and 568.6 million new shares were placed. The international placement tranche of some 423.2 million shares went to 1,333 institutional investors in the US and Europe. The 20 million shares reserved for staff and business associates were fully taken up by 198 employees. The public tranche of 125.4 million shares offered to the public in Singapore was sold to 1,254 institutional investors and 13,918 small investors. The amount of capital raised by the IPO was US\$ 360.2 million.<sup>23</sup> Following the IPO, the shareholders of Golden Agri-Resources were:<sup>24</sup>

❑ Asia Food & Properties Ltd.	55.02%
❑ Massingham International Ltd.	18.76%
❑ Public	26.22%

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<sup>19</sup> Singapore Golden Agri Offers 568.6M Shrs IPO At US\$0.638, Hasan Jafri, Dow Jones Newswires, Singapore, 2 July 1999; Agri set to list on Singapore in \$400m IPO, Euroweek, London, 28 May 1999; Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>20</sup> Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>21</sup> Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>22</sup> Raj, C. Asia Food Spin-off Marshalls Strong Foreign Interest. IPO Watch. [www.asia1.com.sg/bizcentre/ipo/ipo19990615\\_1.html](http://www.asia1.com.sg/bizcentre/ipo/ipo19990615_1.html) 15 June 1999; Raj, C. AFP to Price Golden Agri IPO at 61 to 75 cents. 26 June 1999. [www.asia1.com.sg/bizcentre/ipo/ipo19990628\\_3.html](http://www.asia1.com.sg/bizcentre/ipo/ipo19990628_3.html)

<sup>23</sup> AFP spin-off's IPO 18.4 times subscribed, Annette Pau, Business Times, Singapore, 9 July 1999; Golden Agri-Resources Ltd. Half Year Financial Statement for the six months ended 30 June 1999, Port Louis, August 1999.

<sup>24</sup> Golden Agri-Resources Ltd. Half Year Financial Statement for the six months ended 30 June 1999, Port Louis, August 1999.



Both Asia Food & Properties and Massingham International are controlled by the Widjaja family. This family therefore has a controlling interest of 73.78% in Golden Agri-Resources.<sup>25</sup>

#### 4.2.3 PT Purimas Sasmita

On 28 August 1996, PT Purimas Sasmita established the financing company Purimas International Finance Company BV in the Netherlands. This 100% subsidiary is registered at the Rotterdam Chamber of Commerce under number 24275081. Purimas International Finance Company BV is located at the Office of MeesPierson Trust in Rotterdam. Purimas International Finance Company BV has an issued share capital of Dfl 40,000 and no employees. Its five directors are:

1. Franky Oesman Widjaja, Indonesia, since 28 August 1996;
2. Hendrik Tee, Indonesia, since 28 August 1996;
3. Siau Liang Tan, Indonesia, since 28 August 1996;
4. Jo Daud Dharsono, Indonesia, since 28 August 1996;
5. Simon Lim, Indonesia, since 28 August 1996;<sup>26</sup>

In April 1997, Purimas Sasmita entered into a secured US\$ 60 million term loan facility with The Chase Manhattan Bank. As of March 31, 1999, the principal amount outstanding under the loan was US\$48.0 million. The loan is secured by corporate guarantees from Asia Food & Properties, Sinar Mas Tunggal and Supra Veritas.<sup>27</sup>

#### 4.2.4 P.T. Sinar Mas Agro Resources and Technology Corporation Tbk. (PT SMART)

##### Company description

PT Sinar Mas Agro Resources and Technology Corporation Tbk. (abbreviated PT SMART Corporation Tbk. Stock code: SMAR-JK) owns and manages oil palm plantations, mills and refineries, which manufacture cooking oil, margarine, shortening, and oleo chemicals for the cosmetics industry. Its main oil palm plantations are located in Sumatra, Jambi and Kalimantan. SMART also has investments in tea, banana, coconut and rubber plantations, and in a tuna canning operation. The company group trades its products under the brand names of Filma, Kunci Mas, Obor, Jempol, Salak and Meadow Lea.

Initially, PT SMART Corporation was called PT Maskapai Perkebunan Sumcana Padang Halaban. It was set up in 1962 by Sumatra Caoutchouc Maatschappij NV from the Netherlands and two Indonesians. In 1991, the company was given its current name.<sup>28</sup>

Due to the rapid expansion of the company and its complex structure, a complete overview of SMART related plantation subsidiaries is not available. According to Casson (1999), PT SMART owns 23 plantation companies. Capricorn Indonesia Consult (CIC) listed the following plantation companies that belong to the Sinar Mas Group:

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<sup>25</sup> Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>26</sup> Chamber of Commerce Rotterdam, File no. 24268157, 22 October 1999.

<sup>27</sup> Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>28</sup> [www.asia1.com.sg/bagong/general/ebri/contents/19970625/industr](http://www.asia1.com.sg/bagong/general/ebri/contents/19970625/industr) viewed 8 September 1999.

Sinar Mas Group			
<i>Plantation subsidiaries or associates</i>	<i>Start of operations</i>	<i>Area size (ha)</i>	<i>Location</i>
Buana Wiralestari	1990	7.192	Kampar, Riau
Bumi Sawit Permai	1995	7.580	Ogan Komering Ilir, South Sumatra
Bumipermai Lestari	1990	1.293	Bangka, South Sumatra
Cendrago Utama	1993	6.000	Jayapura, Irian Jaya
Ivo Mas Tunggal <sup>29</sup>	1985	N.a.	Bengkalis, Riau
Kresna Duta Agroindustri	1990	25.000	Bungo Tebo, Jambi
Maskapai Leidong West Indonesia	1968	N.a.	Labuhan Batu, North Sumatra
Palmino Raya	1994	15.000	Jayapura, Irian Jaya
SMART Corporation	1962	18.909	North Sumatra
Tapian Nadenggan	1979	3.000	Labuhan Batu, North Sumatra
Telentam Bungoraya	1996	20.000	Muara Bungo and Sungai Bengkal, Jambi
Timurjaya Agrokarya	1995	15.000	Jayapura, Irian Jaya

(Kresna Duta Agroindustri planned to develop 19,000 ha under PIR-Trans)

Source: Profile and Directory of Indonesian Plantation 1997/1998, PT Capricorn Indonesia Consult (CIC), Jakarta, 1998. See also main text.

In addition to the companies listed above, the following companies are 100% and majority-owned oil palm subsidiaries of SMART Corporation:

- ❑ PP Panigoran
  - ❑ Matrasawit Sejahtera (East Kalimantan)
  - ❑ Sangatta Andalan Utama (East Kalimantan, 5,700 ha).
- Ivo Mas Exim (formerly PT Pilinti Perkasa Alam)

The following are plantation associates (less than 50% owned by SMART):

- ❑ Into Gerk maju (oil palm and coconut)
- ❑ Tapian Nedenggan (49% owned. Plantations in North Sumatra and started operating in Central Kalimantan in 1995 and cleared 7,800 ha in two years time).<sup>30</sup>

Processing industries related to SMART are:

PT Sinar Meadow International Indonesia (producer of cooking oil, margarine and shortening).

- ❑ SOCI (PT Sinar Oleo Chemical International) a joint venture between SMART and four Japanese companies producing fatty acid and glycerine.

<sup>29</sup> Another company group that is related to Ivo Mas Tunggal is Humpuss Group. (CIC 1998. Profile and Directory of Indonesian Plantation 1997/1998. Capricorn Indonesia Consult). This group is controlled by Soeharto's youngest son Hutomo Madala Putra (Tommy Soeharto). One of the Humpuss subsidiaries, PT Rante Mario, has a joint venture with the Myanmar Timber Enterprise (Toni, A. 1998. Logging the Planet. Asian Companies Marching Across Our Last Forest Frontiers. Greenpeace Submission to External Commission about Foreign Logging Companies in the Amazon).

<sup>30</sup> [www.smart-corp.com/report/inter/information/group/groupst.htm](http://www.smart-corp.com/report/inter/information/group/groupst.htm) viewed 20 July 99.

In 1997 SMART operated 64,000 hectares of oil palm plantations in North Sumatra, Jambi and South Kalimantan, including 15,000 hectares a smallholder nucleus estate scheme. Since the company produces only 140,000 tons a year from the 64,000 hectares, it still needs to buy 160,000 tons of CPO for its refineries to produce cooking oil and margarine. SMART therefore began to expand its estate area rapidly.<sup>31</sup> PT SMART's subsidiaries are clearing some 7,000 – 10,000 ha per year. In 1997 SMART operated 22,000 ha of oil palm plantations in Kotabaru in South Kalimantan and planned to expand the area with another 6,500 ha.<sup>32</sup> In June 1997, SMART announced it would invest Rp 350 billion (US\$145.8 million) to open a 40,000 hectare oil palm estate in Berau (Tanjung Redeb), East Kalimantan.<sup>33</sup>

As of December 1998, SMART Corporation and its subsidiaries and associates owned approximately 140,000 hectare of oil palm plantations, with approximately 83,000 hectare under cultivation. CPO production reached 151,494 ton in 1998.<sup>34</sup> Prior to the economic crisis, PT SMART planned to convert 70,000 ha per year into oil palm estates but reduced its planting target to 20,000 ha in 1998. For the year 2000, PT SMART plans to convert 50,000 ha.<sup>35</sup>

In December 1998 it was announced that a consortium of eight companies has set up a joint venture with an Egyptian investor to open 70,000 hectares of oil palm plantation in Central Kalimantan with a total investment of US\$ 1 billion. The consortium, PT Misrindo Usama Perindo, groups PT Smart Corp., PT Bakrie Sumatra Plantation, PT Bukit Kapur Reksa, PT Agrinta, PT Pan Inecda Corp., PT Para Sawita, PT Usama Rekanindo and PT Repindo. There is no information about the Egyptian investor. Misrindo president Tarmidzi Rangkuti said the Asian Development Bank and the Islamic Development Bank would provide financial support to the project.<sup>36</sup>

In April 1999, Sinar Mas announced it would build a CPO processing plant in the Kaureh subdistrict and a port in Demta subdistrict to support transportation of its production in Jayapura regency, Irian Jaya. Sinar Mas is developing 22,157 ha of oil palm plantations in Jayapura, about 13,000 ha of which have already been planted.<sup>37</sup>

SMART was listed on the Jakarta and Surabaya Stock Exchanges in November 1992. At the end of 1998, the shareholders were:<sup>38</sup>

PT Purimas Sasmita	51.00%
Public	49.00%

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<sup>31</sup> SMART to open Huge Palm Estate in Berau. Jakarta Post, 7 June 1997.

<sup>32</sup> Sinar Mas' CPO Plants. Jakarta Post, 15 April 1997.

<sup>33</sup> SMART to open Huge Palm Estate in Berau. Jakarta Post, 7 June 1997.

<sup>34</sup> SMART Annual Report 1998, Jakarta, May 1999.

<sup>35</sup> Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. CIFOR.

<sup>36</sup> Indonesia, Egypt Cos Set Up US\$1 Bln JV Oil Palm Plantation, Asia Pulse, Jakarta, 8 December 1998.

<sup>37</sup> Sinar Builds CPO Mill in Irian. Jakarta Post, 24 April 1999.

<sup>38</sup> SMART Annual Report 1998, Jakarta, May 1999.

#### Relevant financial transactions

On 10 April 1995 SMART obtained a syndicated loan of US\$ 150 million to expand its plantations from a bank syndicate, with the Singapore branch of Fuji Bank Ltd. (Japan) as agent. The loan bears interest at 1.55% above SIBOR annually. The loan was split up in two tranches. The first tranche of US\$ 50 million is due in April 2000, and was held by the nine arranging banks, among which were Rabobank Asia Ltd., the Singapore branch of ING Bank NV, and the Jakarta branch of ABN-AMRO Bank NV.

The second tranche of US\$ 100 million was due in April 1998, and was held by 25 banks, among which were Nationale Investeringsbank NV (US\$ 7.25 million), Rabobank Asia Ltd. (US\$ 8 million), the Singapore branch of ING Bank NV (US\$ 8 million), and the Jakarta branch of ABN-AMRO Bank NV (US\$ 8 million). The proceeds of the loan were meant for refinancing (US\$ 60 million), oil palm plantation expansion (US\$ 50 million), working capital (US\$ 30 million), and plantation related capital expenditure (\$10 million).

In March 1998, Asia Food & Properties helped SMART to repay the second tranche of the loan, by entering into a secured US\$ 50 million long-term facility with the Singapore branch of Fuji Bank Ltd. In April 1998, Asia Food & Properties borrowed US\$ 50.0 million under the loan and on-lent US\$ 46.0 million of the net proceeds to PT Purimas Sasmita. On his turn, Purimas Sasmita on-lent a subordinated shareholders' loan of US\$ 47 million to SMART. This made it possible for SMART to repay the second tranche of US\$ 100 million of the syndicated loan in April 1998, and at the same maintaining its debt-to-equity ratio below the maximum of 2.5:1, as was required by the international bank syndicate. This equals a solvency of 28.6%. As of 31 March 1999, the principal amount outstanding to the Fuji Bank-syndicate was the first tranche of US\$ 50.0 million. Outstanding to Purimas Sasmita was US\$ 47.0 million.<sup>39</sup>

At the end of 1995, SMART owed short-term notes of Rp 9.2 billion to the Jakarta branch of ING Bank NV. During 1996, these notes were paid off. At the end of 1995, SMART also owed a short-term working capital loan of Rp 19.6 billion to the Jakarta branch of ABN-AMRO Bank NV. At the end of 1996, this short-term loan had increased to Rp 22.2 billion. The present status of this working capital-facility is unknown.<sup>40</sup>

In July 1996, the palm oil plantation company PT Maskapai Perkebunan Leidong West Indonesia (a 100% subsidiary of SMART) entered into a secured US\$ 21 million long-term facility with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), to finance the expansion of its oil palm plantations and its oil palm crushing mill on the Bangka Islands. The loan bears interest at 3.25% above LIBOR annually. The loan is secured by corporate guarantees from SMART and Purimas Sasmita. Probably, only US\$ 8.0 million of the credit facility was actually taken up, because at the end of 1996, SMART owed a long-term loan of US\$ 8.0 million to FMO. As of 31 March 1999, the principal amount outstanding still was US\$ 8.0 million.<sup>41</sup>

In April 1997, SMART entered into a secured US\$ 40 million long-term facility with Chase Manhattan Bank (United States). As of March 31, 1999, the principal amount outstanding under

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<sup>39</sup> Loan announcement, 10 April 1995; Information disclosure to the Jakarta and Surabaya Stock Exchanges, SMART Corporation, Jakarta, 28 February 1998; Information disclosure to the Jakarta and Surabaya Stock Exchanges, SMART Corporation, Jakarta, 13 April 1998; The Sinar Mas Group, J. Tanja, Paribas Asia Equity, Singapore, 27 April 1998; Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>40</sup> SMART Corporation Audited Accounts 1996, Jakarta, March 1997.

<sup>41</sup> SMART Corporation Audited Accounts 1996, Jakarta, March 1997; Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

the loan was US\$ 28.0 million. The loan is secured by corporate guarantees from Purimas, Sinar Mas Tunggal and Supra Veritas.<sup>42</sup>

Net sales of SMART reached Rp 2,464.7 billion in 1998, and net income was Rp 101.8 billion. On 31 December 1998 SMART owed Rp 870.9 billion in long-term debts, Rp 377.2 billion in a subordinated loan from its parent PT Purimas Sasmita, and Rp 860.1 billion in short-term debts. Stockholders' equity stood at Rp 351.6 billion and total liabilities stood at Rp 2,502.7 billion. This implies that the solvency stood at 14.0%, below the desired minimum of 20%. But including the subordinated loan, the solvency stood at 29.1%.<sup>43</sup>

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<sup>42</sup> Prospectus for the IPO of Agri-Resources Ltd., Singapore, 2 July 1999.

<sup>43</sup> SMART Annual Report 1998, Jakarta, May 1999.

## 4.3 Risjadson and Napan Groups

### 4.3.1 LonSum and PLSP

PT Perusahaan Perkebunan London Sumatra Indonesia Tbk. (abbreviated: LonSum) was set up by the British group Harrisons and Crosfield in 1906. In November 1994 Harrisons and Crosfield sold LonSum to the Indonesian company PT Pan London Sumatra Plantation (PLSP). LonSum and PLSP were until recently controlled by the Napan and Risjadson Groups. The plantation companies related to these groups are listed below:

Napan Group			
<i>Plantation subsidiaries or associates</i>	<i>Start of operations</i>	<i>Area size (ha)</i>	<i>Location</i>
Dwi Reksa Usaha Perkasa	1996	8.000	Musi Rawas, South Sumatra
London Sumatra Indonesia (19 estates), LonSum International, PT Gelora Mahapala	1962	>45.720	North and South Sumatra, Sulawesi, Java, East Kalimantan
Risjadson Group			
<i>Plantation company or associates</i>	<i>Start of operations</i>	<i>Area size (ha)</i>	<i>Location</i>
Delima Makmur	1993	7.000	South Ajeh
London Sumatra Indonesia (19 estates), LonSum International, PT Gelora Mahapala	1962	>45.720	North and South Sumatra, Sulawesi, Java, East Kalimantan
Multrada Multi Maju	1992	10.157	Lahat, South Sumatra
Padang Bolak Jaya	1992	N.a.	Lahat, South Sumatra
Pinang Witmas Sejati	1986	14.000	Musi Banyasin, South Sumatra
Risjad Sumber Kirana	1997	18.000	Kutai, East Kalimantan
Sisirau	1996	3.412	East Ajeh
Trimitra Sumerperkasa	1994	15.000	Lahat, South Sumatra
Tigamitra Perdana	Na.	15.000	West Ajeh
Windu Nabatindo Lestari	1997	17.500	Kotawaningin, East Kalimantan
Windu Nabatindo Pratama	1997	20.500	Kutai, East Kalimantan

Source: Profile and Directory of Indonesian Plantation 1997/1998, PT Capricorn Indonesia Consult (CIC), Jakarta, 1998. See also main text.

#### 4.3.2 PT Persusahaan Perkebunan London Sumatra Tbk. (LonSum)

##### Company description

Today, LonSum is one of Indonesia's leading plantation companies. Its activities include the cultivating, harvesting and processing of oil palm, rubber and to a lesser extent cocoa, coffee and tea, and the sale of oil palm and rubber seeds.

At the end of 1997, LonSum was managing established estates on 54,477 hectares in North Sumatra, Java and Sulawesi. Its expansion program started in 1994 and would add 113,750 hectares to the company's land bank in Sulawesi and Kalimantan. Under the Plasma Program funded by Indonesian banks, LonSum is also developing plantations of 36,761 hectares on behalf of local smallholders in South Sumatra and Sulawesi. Its total plantation acreage will grow to over 205,000 hectares in the year 2000.

##### The Risjadson Group

Ibrahim Risjad, former president commissioner of LonSum is the founder and majority shareholder of the Risjadson Brasali Group and one of the four founders of Indonesia's biggest business conglomerate, the **Salim** Group (see 4.7). Together with Soedono Salim, who has close ties to former president Soeharto, Risjad set up PT Bank Risjad Salim (Bank RSI) in 1988.

The Risjad Group operates 60 companies in various sectors from finance, transportation, property, aluminium industries and agribusiness. It is developing business in power generating, petrochemical industry, hospital development and the pulp & paper industry. Risjad is also vice president commissioner of PT **Indofood** Sukses Makmur, Indonesia's biggest noodle maker that belongs to the Salim Group.<sup>44</sup> Palm oil is a basic ingredient for noodle manufacturing.

In February 2000, the Indonesian Attorney General's office alleged that Ibrahim Risjad misused reforestation funds of Rp 85.36 billion assigned for PT Aceh Nusa Indrapuri to, among other things, purchasing space at the Menara Batavia Building.<sup>45</sup>

##### The Napan Group

The Napan Group is controlled by business tycoon Andri Pribadi. Napan has business links with the Salim Group, Risjadson Group and the Barito Pacific Group as well and companies of the children of Soeharto, particularly Siti Hardiyanti Rukmana and Bambang Trihatmojo.<sup>46</sup>

By investing much in R&D, LonSum has been able to increase its oil extraction rate from the oil palm fruit. With 5.2 tonnes per hectare, it now has the highest crude palm oil (CPO) yield. In this effort, LonSum is cooperating closely with Unifield Tissue Culture Limited, a British-based joint-venture with the British-Dutch food giant Unilever.<sup>47</sup>

In East Kalimantan, LonSum operates plantations under a number of different names (London Sumatra Indonesia, London Sumatra International and PT Gelora Mahapala). LonSum's 1996 Annual Report mentions it will develop 15,000 ha, but others report that the company planned to plant 96,000 ha in East Kalimantan.<sup>48</sup>

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<sup>44</sup> Data Consult 1998. Risjadson Group: Expansion Step Blocked by Crisis. Indonesian Commercial Newsletter No. 242, 27 April.

<sup>45</sup> Big Names Probed for Alleged Abuse of Forestry Funds. Jakarta Post 17 February 2000.

<sup>46</sup> RI Businessman Buys 5.11% Stake of Amcol. 3 July 1995. Jakarta Post.

<sup>47</sup> LonSum Annual Report 1996; Lonsum Annual Report 1997.

<sup>48</sup> Gönner, Chr. Personal communication 30 September 1999 based on statement from LonSum's first field manager Bustami. Of the 96,000 ha, 48,000 ha were supposedly developed as Plasma estates.

LonSum also operates 15 processing facilities which include palm oil mills, rubber factories, cocoa, coffee, tea and seed processing plants. Its net sales increased from Rp 136 billion in 1993 to Rp 492 billion in 1998. At the end of 1997, LonSum employed over 13,000 employees and 28,000 contract workers.<sup>49</sup>

In November 1994 LonSum was sold by Harrisons and Crosfield to the Indonesian company PT Pan London Sumatra Plantation (PLSP) for US\$ 273 million. PLSP and Happy Cheer were ultimately owned by Andry Pribadi of the Napan Group, Ibrahim Risjad of the Risjadson Group, and Henry Liem.<sup>50</sup> To finance the acquisition and the following expansion of LonSum, both LonSum and PLSP arranged several forms of financing in the following years. To avoid confusion between the two companies, we will first describe the financing agreements of LonSum itself, and will then look at the financing agreements of PLSP, its majority shareholder (until June 1999).

#### Relevant financial transactions

In November 1994, all shares in LonSum were acquired by PLSP for US\$ 273 million. The acquisition was financed by a joint five-year amortising term loan to PLSP and LonSum of US\$ 183.5 million, with the source of repayment from the cash flow of the acquired company. The loan carried an interest of Libor + 3.50%, and had to be paid back in 5 years. 22 international banks subscribed this loan, including Citicorp International Ltd. (United States) who served as lead arranger and the Singapore branch of Commerzbank AG (Germany) and the Hong Kong branch of Rabobank Nederland (the Netherlands) as co-arrangers. The part of the loan that was meant for LonSum amounted to US\$ 42 million.<sup>51</sup>

In May 1996, LonSum and PLSP signed the completion of a loan syndication of US\$ 197 million term loan facilities, which would be used partly to finance the development of new oil palm plantations, and partly to repay outstanding debt incurred when LonSum was acquired by PLSP in 1994. The Hongkong Bank & Shanghai Banking Corporation Ltd. (HSBC, Singapore) and the Union Bank of Switzerland (UBS, Switzerland) functioned as arranger and lead manager respectively. Other banks involved were Citicorp (United States), the Singapore branch of Commerzbank, the Hong Kong branch of Rabobank, the Singapore branch of Sumitomo Bank (Japan), and the Bank of Taiwan.<sup>52</sup>

The loan to LonSum amounted to US\$ 132 million, and carried an interest of SIBOR + 1.75 % to 2.25%. It was repayable by eight semi-annual repayments over a five-year period, beginning 18 months from the date of the signing of the facility.<sup>53</sup>

In July 1996, LonSum offered 38.8 million new shares to the public, through an IPO on the Jakarta Stock Exchange and the Surabaya Stock Exchange (stock code: PLSI). This amounted to 19.2% of its outstanding shares after the IPO. The share offering was led by the state-owned securities company PT Danareksa, and 34 underwriters were involved. LonSum used the proceeds of the IPO (Rp 180.4 billion) to repay debts, to finance a new plantation, and to strengthen its working capital.

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<sup>49</sup> LonSum Annual Report 1997; LonSum Financial Overview 1998, Jakarta, 26 May 1999; Natural Advantage, Salil Tripathi, Far Eastern Economic Review, Hong Kong, 29 January 1998, p. 40-43.

<sup>50</sup> Napan Group acquires foreign plantation firm, The Jakarta Post, Jakarta, 17 November 1994; Pan LonSum issues bonds worth \$25 million, The Jakarta Post, Jakarta, 14 November 1995.

<sup>51</sup> LonSum Annual Report 1996; Napan Group acquires foreign plantation firm, The Jakarta Post, Jakarta, 17 November 1994; LonSum Information for shareholders, Jakarta, July 1996.

<sup>52</sup> Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. CIFOR.

<sup>53</sup> LonSum gets \$197m loan, The Jakarta Post, Jakarta, 17 May 1996; LonSum Annual Report 1996.



Before the IPO, LonSum was owned by PLSP (75%) and Happy Cheer Limited (HCL, 25%). Both PLSP and HCL were owned by Andry Pribadi, Ibrahim Risjad and Henry Liem. After the IPO, LonSum was owned by PLSP (60.6%), HCL (20.2%), Norbax Inc. (5.7%) and the general public (13.5%).<sup>54</sup>

In January 1997, LonSum entered into new lease agreements for financing the purchase of fixed assets with PT **Rabo** Finance Indonesia, PT Multi Murni Finance, and PT Bumi Daya-IBJ with net finance amounts of US\$ 2.9 million, Rp 1.3 billion and US\$ 1.6 million respectively.<sup>55</sup>

In July 1997, LonSum again increased its number of outstanding shares, from 202.3 million to 485.6 million. The new shares were not distributed evenly among the existing shareholders. At the end of 1997, LonSum therefore was owned by PLSP (53.05%), Happy Cheer Ltd. (HCL) (2.7%), Norbax Inc. (7.74%) and the general public (36.51%).<sup>56</sup> In the same month, LonSum announced that all 22.5 million shares owned by HCL were transferred to PT UBS (East Asia) Ltd.<sup>57</sup>

On 14 October 1997, LonSum established a 100% subsidiary in Amsterdam (the Netherlands): LonSum Finance BV. This is a financing company, registered at the Amsterdam Chamber of Commerce under number 33296597. It is located at the Office of the **ABN-AMRO** Bank, Amsterdam. LonSum Finance BV has an equity of Dfl 40,000 and has no employees. The company has an account at the **ABN-AMRO** Bank under number 49.34.64.018. Its only director is **ABN-AMRO** Trust Company (Nederland) BV, Amsterdam. Chamber of Commerce No. 33232905. The director can act independently.<sup>58</sup>

The purpose of the establishment of LonSum Finance BV was to issue commercial paper for refinancing LonSum's debts. On 29 October 1997 LonSum Finance BV therefore issued a loan of US\$ 15 million to LonSum. This loan was financed by a Guaranteed Floating Rate Note issued by LonSum Finance BV to the UBS Bank (Switzerland). The notes were due in April 1998, and carry an interest rate at LIBOR.<sup>59</sup>

At the end of 1997, the balance sheet of LonSum showed a total debt of Rp 937.4 billion (US\$ 201.6 million). Of these debts, Rp 410.9 billion (US\$ 88.4 million) was short-term, and Rp 526.6 billion (US\$ 113.2 million) was long-term. Total shareholder's equity stood at Rp 420.6 billion (US\$ 90.5 million). This implies that the solvency stood at 31.0%, well above the desired minimum of 20%.<sup>60</sup>

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<sup>54</sup> London Sumatra to offer 38.8m shares, *The Jakarta Post*, Jakarta, 10 May 1996; Lippo Karawachi reports 600% oversubscription of its IPO, *The Jakarta Post*, Jakarta, 15 June 1996; LonSum wants 1997 to be more profitable, *The Jakarta Post*, Jakarta, 17 June 1997.

<sup>55</sup> LonSum Annual Report 1996.

<sup>56</sup> LonSum Annual Report 1997.

<sup>57</sup> Announcement Peng. 095/PDG/BES/CB/VII/97 on Surabaya Stock Exchange website.

<sup>58</sup> Chamber of Commerce Amsterdam, File no. 33296597, 19 July 1999.

<sup>59</sup> LonSum Annual Report 1997; Chamber of Commerce Amsterdam, File no. 33296597, 19 July 1999.

<sup>60</sup> LonSum Annual Report 1997.

The debt composition of LonSum at the end of 1997 was as follows:

Long-term, in US dollars:

- Rp 474.3 billion (US\$ 102 million) under the so-called "LonSum Facility"

Long-term, in Rupiahs:

- Rp 26.9 billion (US\$ 5.8 million) lease agreements.
- Rp 25.3 billion (US\$ 5.4 million) provision for retirement benefits

Short-term, in US dollars:

- Rp 93.0 billion (US\$ 20 million) under the so-called "LonSum Facility" (this is the part of the syndicated loan which had to be paid back during 1998)
- Rp 186.0 billion (US\$ 40 million) short term promissory notes:
  - US\$ 15 million to the UBS Bank (Switzerland), through LonSum Finance BV (see above). Due in April 1998.
  - US\$ 10 million to Indosuez Bank (France), at 9%. Due in April 1998.
  - US\$ 10 million to Citibank (United States), at SIBOR + 2,5%. Due in July 1998.
  - US\$ 5 million to LTCB (Japan), at 8.5%. Due in December 1998.

Short-term, in Rupiahs:

- Rp 28.9 billion (US\$ 6.2 million) lease agreements.
- Rp 31.0 billion (US\$ 6.7 million) working capital from PLSP.
- Rp 72.0 billion (US\$ 15.5 million) other short-term liabilities.<sup>61</sup>

The "LonSum Facility" refers to the international loan syndication arranged in May 1996 (see above). The amount of this loan was originally US\$ 132 million, but during 1997 US\$ 10 million was paid back. Therefore US\$ 122 million was still owed at the end of 1997. Of this amount US\$ 20 million had to be paid back during 1998.<sup>62</sup>

In April 1998 it became very clear that LonSum ran into serious financial difficulties. One reason for this, were the four currency par forward contracts the company had entered into in July and August 1997 with Crédit Agricole (France), UBS Bank (Switzerland) and Citicorp (United States). In these contracts, LonSum agreed to exchange its future dollar earnings (until 2005) for a fixed exchange rate (ranging from Rp 2,750 to 2,900 per dollar) into rupiahs. In July 1997 this seemed a good deal, as the rupiah stood at an exchange rate of Rp 2,430 per dollar.<sup>63</sup> But since then the exchange rate of the rupiah slipped dramatically to Rp 5,447 at the end of 1997, reaching its top level of Rp 14,900 in June 1998. In the second half of 1998 the exchange rate improved to Rp 7,900 per dollar at the end of 1998. In 1999, it slipped again to Rp 9,250 in March, and then improved to Rp 7,000 at the end of 1999.<sup>64</sup> These exchange rate movements mean that LonSum since the end of 1997 loses a lot of money on its currency contracts.

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<sup>61</sup> LonSum Annual Report 1997.

<sup>62</sup> LonSum Annual Report 1997.

<sup>63</sup> Report on PT PP London Sumatra Indonesia Tbk., A. Wreksoremboko, Merrill Lynch Capital Markets, Jakarta, 1 June 1999.

<sup>64</sup> OANDA Currency Converter (<http://www.oanda.com/>), 21 December 1999.

The problems for LonSum were aggravated by the government ban on CPO exports from January 1998 to April 22, 1998. By this measure, the government deprived LonSum of fulfilling its forward CPO obligations, earning its usual dollar revenues, and fulfilling its obligation to deliver US\$ 2.5 million each month according to this four currency par forward contracts.<sup>65</sup>

During 1998, LonSum would have to repay US\$ 20 million on its syndicated bank loan and US\$ 40 million on its promissory notes, and would have to deliver US\$ 32.1 million according to its swap contracts. Interest payable in 1998 on its bank loan and promissory notes amounted to US\$ 4.8 million. Together, LonSum would have to pay US\$ 96.9 million during 1998. Because of the CPO export ban, LonSum did not earn enough foreign currencies to meet these obligations. In April 1998 LonSum was forced to appoint HSBC Investment Bank Plc. (Singapore) as co-ordinator of its debt restructuring with external creditors, including all par forward and swap contracts.<sup>66</sup>

Mainly because of foreign exchange losses of Rp 521.3 billion, LonSum posted a net loss of Rp 274.6 billion (US\$ 34.2 million) in 1998. As a result, the shareholders' equity decreased from Rp 420.6 billion (US\$ 90.5 million) to Rp 131.4 billion (US\$ 16.4 million), and total debt increased from Rp 937.4 billion (US\$ 201.6 million) to Rp 1,613.0 billion (US\$ 201.0 million). This means that the solvency level of LonSum deteriorated in one year from 31.0% to 7.5%. This is dangerously low.<sup>67</sup>

The debt composition of LonSum at the end of 1998 was as follows:

Long-term, in US dollars:

- Rp 497.6 billion (US\$ 62 million) under the so-called "LonSum Facility"

Long-term, in Rupiahs:

- Rp 14.8 billion (US\$ 1.8 million) lease agreements.
- Rp 32.8 billion (US\$ 4.1 million) provision for retirement benefits

Short-term, in US dollars:

- Rp 481.5 billion (US\$ 60 million) under the so-called "LonSum Facility" (this is the part of the syndicated loan which had to be paid back during 1998 and 1999)
- Rp 321.0 billion (US\$ 40 million) short term promissory notes:
- US\$ 15 million to the UBS Bank (Switzerland), through LonSum Finance BV (see above). Due in April 1998.
- US\$ 10 million to Indosuez Bank (France), at 9%. Due in April 1998.
- US\$ 10 million to Citibank (United States), at SIBOR + 2,5%. Due in July 1998.

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<sup>65</sup> The export ban was replaced by an export tax of 40% in April 1998, which was raised to 60% in July 1998. This of course also hurt earnings. The CPO export tax was lowered to 40% in February 1999, to 30% in June 1999 and to 10% in July 1999. Government slashes CPO export tax to 10 percent, Jakarta Post, Jakarta, 3 July 1999. During the periods of highest export tax, palm oil smuggling ran out of control. It is estimated that 760,000 tonnes, 15% of total Indonesian CPO production, was smuggled onto the world market (Danareksa, October 1999 in: Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. CIFOR.).

<sup>66</sup> LonSum appoints HSBC, The Jakarta Post, Jakarta, 18 April 1998; LonSum Annual Report 1997; Corporate Update on PT PP London Sumatra Indonesia Tbk., BNI Securities, Jakarta, 15 July 1998.

<sup>67</sup> LonSum Financial Overview 1998, Jakarta, 26 May 1999; London Sumatra '98 Loss IDR274.6B, Dow Jones Newswires, Jakarta, 25 May 1999.

- ❑ US\$ 5 million to LTCB (Japan), at 8.5%. Due in December 1998.
- ❑ Rp 69.5 billion (US\$ 8.7 million) non-paid interest on international loans.

Short-term, in Rupiahs:

- ❑ Rp 53.3 billion (US\$ 6.6 million) lease agreements.
- ❑ Rp 3.1 billion (US\$ 0.4 million) working capital from PLSP.
- ❑ Rp 49.9 billion (US\$ 6.2 million) loans connected to the plasma project
- ❑ Rp 89.4 billion (US\$ 11.1 million) other short-term liabilities.<sup>68</sup>

Comparing this debt overview with the composition of debt at the end of 1997, one can notice the following:

- ❑ No repayment has been made in 1998 on the "LonSum facility";
- ❑ No repayment has been made in 1998 on the US\$ 40 million short term promissory notes, which were all due in 1998;
- ❑ In 1999 US\$ 40 million will have to be repaid on the "LonSum facility". Because of this, the amount of short-term debt increased with US\$ 40 million, and the amount of long-term debt decreased with the same amount.
- ❑ The amount of short-term Rupiah-debts increased, which is due mainly to postponing the payment of bills and interest. Of the interest LonSum had to pay on its international loans during 1998, 70% was paid. The other 30% was accrued;<sup>69</sup>
- ❑ Together, these developments caused the total amount of debts to stay equal in dollar-terms. But because of the devaluation of the Rupiah, in Rupiah-terms the total amount of debt increased considerably.

While LonSum was not able to pay back any of its foreign debts during 1998, its 1998 Annual Report in May 1999 for the first time revealed that during 1998 LonSum had been able to lend various loans for a total sum of Rp 249.5 billion (US\$ 31.1 million) to its main shareholders (PLSP and HCL)! The shareholders had not been able to repay these loans during 1998. The company was charging interests ranging from 22-55% on these loans to shareholders. The management of LonSum had not made any provision on these loans as they were confident that the major shareholders' would be able to repay these loans.<sup>70</sup>

One can imagine that the (foreign) creditors of LonSum were not pleased with this lending activity of LonSum. Probably because of this reason, the debt restructuring activities of HSBC failed. In its place, LonSum appointed Credit Suisse First Boston (Switzerland) in June 1999 as its financial advisor to restructure its debts.<sup>71</sup>

Already in 1998, the bankers with whom LonSum had concluded its unwise currency par forward contracts (Crédit Agricole, UBS and Citicorp) cancelled these contracts. This created a short-term debt of US\$ 94.3 million. However, this debt was not yet shown on LonSum's 1998

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<sup>68</sup> LonSum Financial Overview 1998, Jakarta, 26 May 1999; Report on PT PP London Sumatra Indonesia Tbk., A. Wreksoremboko, Merrill Lynch Capital Markets, Jakarta, 1 June 1999.

<sup>69</sup> Report on PT PP London Sumatra Indonesia Tbk., A. Wreksoremboko, Merrill Lynch Capital Markets, Jakarta, 1 June 1999.

<sup>70</sup> Report on PT PP London Sumatra Indonesia Tbk., A. Wreksoremboko, Merrill Lynch Capital Markets, Jakarta, 1 June 1999; LonSum Financial Overview 1998, Jakarta, 26 May 1999.

<sup>71</sup> Indonesia LonSum Shrs Up 27% On Debt Restructuring Plan, I Made Sentanam, Dow Jones Newswires, Jakarta, 28 June 1999.

accounts. If this had been done, LonSum’s shareholders’ equity would have been negative! In other words, the company was technically bankrupt.<sup>72</sup>

Thus, LonSum desperately needed new capital. This was found at the end of June 1999, when a Memorandum of Understanding was signed between PT LonSum’s majority shareholders PT Nawamandiri Saritama and PT Risjadson with Lazard Asia Investment Management<sup>73</sup>. LonSum announced a consortium led by Lazard Asia Investment from Hong Kong planned to pay up to US\$ 105 million for 486.5 million new shares in the company. Until then, LonSum had 485.6 million shares outstanding.

Lazard Asia is part of the Lazard Group and is jointly owned by the three Lazard Houses, namely Lazard Frères & Co, LLC in New York, Lazard Frères et Cie in Paris and Lazard Brothers & Co. Ltd. in London. Lazard is an American investment banker that specialises on mergers and acquisitions, corporate financial advisory services, capital market and principal investments. Lazard Asia’s headquarters are based in Singapore. Lazard Asia Investment Management Ltd. manages a US\$ 500 million fund with its sponsor investors Temasek Holdings and Exor Asia Ltd. Lazard uses the fund to take substantial or controlling stakes in both private or listed equity companies.<sup>74</sup>

The issuance and selling of the new shares to the Lazard-consortium would therefore give the consortium control over 50.05% of the 972.1 million outstanding shares of LonSum. Before this issuing of new shares, the shareholders of LonSum were:

❑ PLSP	47.23%
❑ Commerzbank (SEA) Ltd.	5.83%
❑ General public	46.94%

The sale of new shares to Lazard was subject to certain conditions, including the successful restructuring of LonSum’s outstanding debt. The Lazard-consortium would take over responsibility for managing the debt. LonSum named Lazard Asia Chief Executive Patrick Cheung chairman of the board, and appointed three other Lazard-employees to the board of commissioners. They replaced the former owners - Andry Pribadi, Wilson Pribadi, Ibrahim Risjad and Henry Liem - who resigned from the board of commissioners.<sup>75</sup>

Earlier in 1999, Indonesian non-governmental organisations had uncovered that LonSum had been clearing land without the required government permits (see paragraph 3.4). Thus, another condition set by Lazard was that LonSum assured to right to use the land (HGU permits) for up to 25 years in South Sumatra and East Kalimantan.

Despite of the new capital injection, the Jakarta Stock Exchange (JSX) in July 1999 put LonSum on the watch list for possible de-listing.<sup>76</sup>

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<sup>72</sup> Report on PT PP London Sumatra Indonesia Tbk., A. Wreksoremboko, Merrill Lynch Capital Markets, Jakarta, 1 June 1999.

<sup>73</sup> Lazard Asia Placement in LonSum. Bisnis Indonesia, 30 June 1999.

<sup>74</sup> Lazard Asia homepage, viewed 6-7-1999.

<sup>75</sup> London Sumatra Sells Stake to Lazard Asia, Dow Jones Newswires, Jakarta, 29 June 1999; WRAP: Lazard Asia To Pay \$100M For London Sumatra Stake; Grainne McCarthy, Dow Jones Newswires, Jakarta, 29 June 1999; Lazard Group Asia to buy 50% stake in London Sumatra, The Financial Times, London, 30 June 1999; A Profile of PT PP London Sumatra Indonesia Tbk, Asia Pulse Analysts, Singapore, 9 August 1999.

<sup>76</sup> More firms threatened with delisting, Jakarta Post, Jakarta, 26 July 1999.

In December 1999, the accountant of LonSum expressed concerns about the financial statements of the company for the first nine months of 1999. The financial accounts still did not show the US\$ 92.95 million the company owes to some banks, after the early termination of some of its derivatives contracts. The management of London Sumatra did not register these claims in the nine-month results, arguing that such contracts "may have legal defects and can be negotiated." The accountant also objected London Sumatra did not record any allowance for the loans it had made to its (former) owners, despite the uncertainties over their ability to repay.

If these two problems had been taken into account properly, the accounts of LonSum would have shown more clearly the bad condition the company is in. Moreover, no progress has been reported on the debt restructuring of the company since June 1999. The Lazard consortium would take a final decision about its involvement in LonSum at the end of December 1999. This decision could be negative when no agreement has been reached on the restructuring of LonSum's outstanding liabilities. If Lazard would pull out, LonSum's future is very uncertain.<sup>77</sup>

In September 1999, LonSum ran into further problems. Several CPO shipments delivered by several Indonesian companies, including LonSum, were contaminated with diesel fuel. According to well-informed sources 70,000 tonnes palm oil were confiscated, with a total value of US\$ 26 million. The Dutch authorities confiscated the shipment and parliamentary questions were raised in the Netherlands about the case.<sup>78</sup> According to unconfirmed rumours, importers in the Netherlands drastically reduced their purchases of Indonesian palm oil since the incident.

Summary of the present financial and power structure of LonSum

Assuming that none of the existing shareholders has sold its shares, the shareholders of LonSum after the arrival of Lazard were:

❑ Consortium led by Lazard Asia Investment	50.05%
❑ PLSP	23.60%
❑ Commerzbank (SEA) Ltd.	2.90%
❑ Public	23.45%

But despite of the financial injection of US\$ 105 million from Lazard, the company does not have enough cash to pay off its short-term debts, which exceed US\$ 200 million. This means that a debt restructuring is necessary, and that the main creditors of LonSum are in control of the company now. These main creditors are, in ranking of importance:

The banks participating in the LonSum facility, of which US\$ 122 million is still outstanding (US\$ 62 million long-term and US\$ 60 million short-term), plus accrued interest:

- ❑ Hongkong Bank & Shanghai Banking Corporation (HSBC), Singapore;
- ❑ Union Bank of Switzerland (UBS), Switzerland;
- ❑ Citicorp, United States;
- ❑ Commerzbank, Germany;
- ❑ Rabobank, The Netherlands;
- ❑ Sumitomo Bank, Japan;
- ❑ Bank of Taiwan, Taiwan;
- ❑ Other banks.

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<sup>77</sup> Indonesia London Sumatra 9 Mo Loss IDR47.79 Bln, Noel Fung, Dow Jones, Jakarta, 8 December 1999.

<sup>78</sup> Zorgen Groeien over Diesel in Palmolie. Financieel Dagblad 12 November 1999. Other companies that exported CPO to Rotterdam in September 1999 were: Perkebunan Nusantara, III, PTPN IV, PD Paya Pinang, Pacrim, STA and SMA. Kompas, 9 November 1999.

The banks which have changed four currency par forward contracts into a short-term debt of US\$ 94.3 million:

- ❑ Union Bank of Switzerland (UBS), Switzerland;
- ❑ Crédit Agricole, France;
- ❑ Citicorp, United States.

The banks which have issued short-term promissory notes to LonSum, for a total of US\$ 40 million plus accrued interests:

- ❑ Union Bank of Switzerland (UBS), Switzerland: US\$ 15 million;
- ❑ Indosuez Bank, France: US\$ 10 million;
- ❑ Citicorp, United States: US\$ 10 million;
- ❑ Long-Term Credit Bank (LTCB), Japan: US\$ 5 million.

The banks which have arranged leasing facilities to LonSum, of which at this moment US\$ 10 million is still outstanding:<sup>79</sup>

- ❑ PT Rabo Finance Indonesia, The Netherlands;
- ❑ PT Multi Murni Finance, Indonesia;
- ❑ PT Bumi Daya-IBJ, Indonesia;
- ❑ Other banks.

The Indonesian banks, which have given loans worth US\$ 6.2 million to LonSum for its plasma, project.

This analysis makes clear that Union Bank of Switzerland (UBS) at this moment is the largest creditor of LonSum, and therefore is the most powerful actor determining the future of LonSum. UBS is heavily involved in the LonSum facility, in the short-term debt stemming from the currency par forward contract, and has issued a short-term promissory note of US\$ 15 million to LonSum.

Second in rank probably is Citicorp from the United States, which is involved in the LonSum facility, in the short-term debt stemming from the currency par forward contracts, and has issued a short-term promissory note of US\$ 10 million to LonSum.

Other important/powerful banks are Rabobank (The Netherlands), HSBC (Singapore), Commerzbank (Germany), Sumitomo Bank (Japan), Bank of Taiwan (Taiwan), Crédit Agricole (France), Indosuez Bank (France), LTCB (Japan), and the other (unknown) banks involved in the LonSum facility. Less important is the role of the banks involved in leasing facilities and loans for the plasma project.

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<sup>79</sup> Report on PT PP London Sumatra Indonesia Tbk., A. Wreksoremboko, Merrill Lynch Capital Markets, Jakarta, 1 June 1999.

#### 4.3.3 PT Pan London Sumatra Plantation (PLSP)

##### Relevant financial transactions

In November 1994 LonSum was sold by Harrisons and Crosfield to the Indonesian company PT Pan London Sumatra Plantation (PLSP) for US\$ 273 million. PLSP was owned by Andry Pribadi of the Napan Group, Ibrahim Risjad of the Risjadson Group, and Henry Liem.<sup>80</sup> Shortly afterwards, 25% of the LonSum shares were transferred to Happy Cheer Limited (HCL). PLSP retained the other 75% of the shares. Both PLSP and HCL were owned by Andry Pribadi, Ibrahim Risjad and Henry Liem.<sup>81</sup>

The acquisition was financed by a joint five-year amortising term loan to PLSP and LonSum of US\$ 183.5 million, with the source of repayment from the cash flow of the acquired company. The loan carried an interest of Libor + 3.50%, and had to be paid back in 5 years. This loan was subscribed by 22 international banks. Citicorp International Ltd. (United States) served as lead arranger, with the Singapore branch of Commerzbank AG (Germany) and the Hong Kong branch of Rabobank Nederland (the Netherlands) as co-arrangers. The part of the loan which was meant for PLSP amounted to US\$ 141.5 million.<sup>82</sup>

In November 1995, PLSP issued mandatory exchangeable bonds worth US\$ 25 million. These bonds were subscribed by Prudential Asset Management Asia Ltd. (United States) and Suez Asia (France) for US\$ 20 million and US\$ 5 million respectively. The bonds would be exchangeable into LonSum shares after the floating of LonSum, which was scheduled for February 1996.<sup>83</sup>

In May 1996, LonSum and PLSP signed the completion of a loan syndication of US\$ 197 million term loan facilities, which will be used partly to finance the development of new oil palm plantations, and partly to repay outstanding debt incurred when LonSum was acquired by PLSP in 1994. The Hongkong Bank & Shanghai Banking Corporation Ltd. (Singapore) and the Union Bank of Switzerland functioned as arranger and lead manager respectively. Other banks involved were Citicorp (United States), the Singapore branch of Commerzbank, the Hong Kong branch of Rabobank, the Singapore branch of Sumitomo Bank (Japan), and the Bank of Taiwan. The loan to PLSP amounted to US\$ 65 million, and was repaid fully in November 1996.<sup>84</sup>

In June 1996, LonSum made an IPO on the Jakarta Stock Exchange and the Surabaya Stock Exchange. This reduced the shareholdings of PLSP and HCL in LonSum to 60.6% and 20.2% respectively.<sup>85</sup>

In July 1997, LonSum increased its number of outstanding shares. This reduced the shareholdings of PLSP and HCL in LonSum to 53.05% and 2.7% respectively.<sup>86</sup>

In September 1997, PLSP secured a US\$ 213 million syndicated loan from 29 banks from 10 countries, which "will be used to finance new palm oil plantations". This is probably meant in

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<sup>80</sup> Napan Group acquires foreign plantation firm, *The Jakarta Post*, Jakarta, 17 November 1994; Pan LonSum issues bonds worth \$25 million, *The Jakarta Post*, Jakarta, 14 November 1995.

<sup>81</sup> London Sumatra to offer 38.8m shares, *The Jakarta Post*, Jakarta, 10 May 1996.

<sup>82</sup> LonSum Annual Report 1996; Napan Group acquires foreign plantation firm, *The Jakarta Post*, Jakarta, 17 November 1994; LonSum Information for shareholders, Jakarta, July 1996.

<sup>83</sup> Pan LonSum issues bonds worth \$25 million, *The Jakarta Post*, Jakarta, 14 November 1995.

<sup>84</sup> LonSum gets \$197m loan, *The Jakarta Post*, Jakarta, 17 May 1996; LonSum Annual Report 1996.

<sup>85</sup> LonSum wants 1997 to be more profitable, *The Jakarta Post*, Jakarta, 17 June 1997.

<sup>86</sup> LonSum Annual Report 1997.



an indirect way: PLSP used the loan to pay for some of the new shares issued by LonSum in July 1997, and LonSum uses this new capital to develop new plantations. The loan was arranged by HSBC Investment Bank Plc. (Singapore), and involved five Indonesian banks, including Bank Tabungan Negara and Bank Pembangunan Indonesia, and 24 foreign banks, including the Singapore branch of Sumitomo Bank Ltd. (Japan) and Bank of Taiwan.<sup>87</sup>

In connection to this last loan, PLSP took over a financing company in Amsterdam (The Netherlands) on 10 September 1997. This 100% subsidiary was renamed Pan London Sumatra Finance BV, and is registered at the Amsterdam Chamber of Commerce under number 3325395-4. Pan London Sumatra Finance BV is located at the Office of MeesPierson Trust, Amsterdam. The only director since 10 September 1997 is MeesPierson Trust B.V.<sup>88</sup>

On 29 September 1997 Pan London Sumatra Finance BV borrowed a project advance of US\$ 55.7 million from its loan facility (which has a maximum of US\$ 213 million). The same amount was on lent tot PLSP, in the form of medium term Prommissory Notes with a maturity of 6 months to three years.<sup>89</sup>

In May 1999, LonSum's Annual Report for 1998 revealed for the first time that PLSP and HCL had 'borrowed' a total of Rp 249.5 billion from the company, and had not been able to repay. The company was charging interests ranging from 22-55% on these loans to shareholders. The management had not made any provision on these loans, as they were confident that the major shareholders' would be able to repay these loans.<sup>90</sup>

Somewhere between July 1997 and June 1999, the shareholding of PLSP in LonSum was diluted from 53.05% to 47.23%.<sup>91</sup> In July 1997, LonSum announced that all 22.5 million shares owned by HCL were transferred to PT UBS (East Asia) Ltd.<sup>92</sup>

At the end of June 1999, LonSum again issued new shares, which were all sold to a consortium led by Lazard Asia Investment. This further diluted the shareholding of PLSP in LonSum, from 47.23% to 23.60%. The owners of PLSP and HCL - Andry Pribadi, Wilson Pribadi, Ibrahim Risjad and Henry Liem - resigned from the board of commissioners of LonSum.<sup>93</sup> According to Asiamoney, the complete Napan Group of Henry (or Andry) Pribadi is now under control of the Indonesian Bank Restructuring Agency (IBRA), and is unlikely to remain in the hands of its original owners.<sup>94</sup>

At this moment, it is unclear if PLSP and/or HCL still own shares in LonSum. It is also unclear if PLSP has paid back the US\$ 213 million syndicated loan arranged by HSBC Investment Bank Plc. it obtained in September 1997. However, it is certain that PLSP and HCL have not yet paid

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<sup>87</sup> LonSum gets \$213m loan, *The Jakarta Post*, Jakarta, 18 September 1997.

<sup>88</sup> Chamber of Commerce Amsterdam, File no. 33253954, 2 July 1999.

<sup>89</sup> Chamber of Commerce Amsterdam, File no. 33253954, 2 July 1999.

<sup>90</sup> Report on PT PP London Sumatra Indonesia Tbk., A. Wreksoremboko, Merrill Lynch Capital Markets, Jakarta, 1 June 1999.

<sup>91</sup> A Profile of PT PP London Sumatra Indonesia Tbk, *Asia Pulse Analysts*, Singapore, 9 August 1999.

<sup>92</sup> Announcement Peng. 095/PDG/BES/CB/VII/97 on Surabaya Stock Exchange website.

<sup>93</sup> London Sumatra Sells Stake to Lazard Asia, *Dow Jones Newswires*, Jakarta, 29 June 1999; WRAP:Lazard Asia To Pay \$100M For London Sumatra Stake; Grainne McCarthy, *Dow Jones Newswires*, Jakarta, 29 June 1999.

<sup>94</sup> Family Fortunes - The Winners and Losers, *Asiamoney*, July/August 1999.

back the loans worth Rp 249.5 billion they had obtained from LonSum in 1998, because these loans increase the financial problems LonSum has to cope with.

## 4.4 Raja Garuda Mas Group

### 4.4.1 PT Asian Agri Plantation / PT Indosawit

#### Company description

PT Asian Agri Plantation is the plantation flagship of PT Raja Garuda Mas International Corporation (RGM International). Asian Agri Plantation describes itself as the world's leading integrated palm oil producer with 200,000 ha of plantations in Sumatra and Kalimantan. It owns another 400,000 ha of concession land, which will be planted progressively over the next 10 years. Asian Agri Plantation is also an integrated palm oil producer in the Philippines, while in China it has obtained a licence to build, own and operate a refinery. In Malaysia, Asian Agri currently has a trading and engineering services business to support the palm oil industry. The company is looking at expansion into Burma and Vietnam. Asian Agri Plantation reports an annual turnover of US\$100 million, and claims its turnover is growing at 15 percent annually.<sup>95</sup>

Prior to the economic crisis, Asian Agri planned to plant 30,000 ha of oil palms per year but was forced to reduce the target to 10,000 ha in 1998.<sup>96</sup>

Raja Garuda Mas Group			
<i>Plantation company or associate company</i>	<i>Start of operations</i>	<i>Area size (ha)</i>	<i>Location</i>
Andalas Inti Estate Corporation	1996	3.500	North Sumatra
Archipelago Timur Indah	1997	50.000	Poso, Central Sulawesi
Dasa Anugerah Sejati	1989	9.077	Tanjung Jabang, Jambi
Gunung Melayu	1983	10.375	Asahan, North Sumatra
Hari Sawit Jaya	1981	11.777	Labuhan, North Sumatra
Inti Indosawit Subur	1989	130.000	Indragiri Hulu and Bengkalis, Riau, Jambi and North Sumatra
Kalimantan Ria Sejahtera (possibly part of Indosawit)	1998	92,000	Central Kalimantan
Kalimantan Sanggar Pusaka	1990	50.000	Kuala Kepuas, Central Kalimantan
Kalimantan Sanggar Pusaka	1990	69.000	Sanggau, West Kalimantan
Mitra Unggul Pusaka	1993	N.a.	Kampar, Riau
Rantau Sinar Karsa	1991	4.366	Labuhan Batu, North Sumatra
Saudara Sedjati Luhur	1970	2.319	Asahan, North Sumatra
Supra Matra Abadi	1987	9.747	Rantua Prapat, North Sumatra and Kampar, Riau and T. Jabung, Jambi
Tunggal Yunus Estate	1995	5.000	Kampar, Riau

Source: Profile and Directory of Indonesian Plantation 1997/1998, PT Capricorn Indonesia Consult (CIC), Jakarta, 1998. See also main text.

<sup>95</sup> Indonesian Plantation Group Raises Term Loan in Singapore, Bernama The Malaysian National News Agency, Singapore, 17 April 1997; Indon Plantation Group Raises 95 Million USD From Singapore Market, Antara The Indonesian National News Agency, Jakarta, 19 April 1997; Raja Garuda Mas gets US\$ 95 mln syndicated loan, Antara The Indonesian National News Agency, Jakarta, 22 April 1997.

<sup>96</sup> Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-Sector in an Era of Economic Crisis and Political Change. Programme on the Underlying Causes of Deforestation. CIFOR.

The main subsidiaries of Asian Agri Plantation are PT Asianagro Lestari and PT Inti Indosawit Subur. As the relationships between the two subsidiaries and Asian Agri Plantation group are not completely clear, the financial links of these subsidiaries with Dutch banks will be discussed in combination.

#### The Raja Garuda Mas Group

Led by Sukanto Tanoto, the Raja Garuda Mas Group (RGM) is one of the main Indonesian business groups and focuses its operations on pulp & paper, coal mining and oil palm.<sup>97</sup> The group comprises at least 90 separate companies and possibly many more. RGM owns the controversial Asia Pacific Resources International (APRIL) which owns 100% of Riaupulp (a pulp mill), Riaupaper (a paper mill) and another paper mill in China. The latter is currently being set up in collaboration with KNP Leykam from the Netherlands. APRIL's pulp and paper mills are fed with rainforest and plantation wood that is derived from its 280,000 ha concessions in Riau.<sup>98</sup>

The Sukanto family still controls the Inti Indorayon Utama pulp mills in Sumatra. The group also began to construct a US\$ 1.3 billion pulp and paper mill in Bintulu, Sarawak in a joint-venture with Ekran Bhd. RGM has several overlappings with the Salim Group, in which several of the Soeharto family are represented.

The Tanoto family was not as close to the Soeharto family as many other wealthy Indonesian Chinese big business families but was a significant donor to Soeharto's Golkar Party.<sup>99</sup>

#### Relevant financial transactions

After the successful IPO of Asia Pacific Resources International (APRIL), Raja Garuda Mas was preparing the IPO for its oil palm companies to raise capital for the group's expansion plans but the plan did not materialise. Alternative funding was arranged for, and provided by, among other Rabobank:

In April 1997, PT Asianagro Lestari raised a US\$ 95 million (Rp 220 billion) five-year term loan from the Singapore capital market. The loan was arranged by Rabobank Asia Ltd. and PT Rabobank Duta Indonesia. Among the co-arrangers was Malayan Banking Bhd, Singapore Branch. The bank syndicate included 11 banks, among which were Rabobank Asia Ltd. (US\$ 8 million), PT Rabobank Duta Indonesia (US\$ 8 million) and the Jakarta branch of the ING Bank. The five-year term loan carries an interest of 2.0625 to 2.5625 percent above the Singapore Intra-Bank Offered Rate (SIBOR).

Asianagro Lestari would use some US\$ 80 million of the money raised to repay domestic borrowing, and US\$ 15 million for expansion purposes. The expansion plans included constructing additional crude palm oil mills and developing its palm oil plantations. The company aimed to raise its production of 600,000 tonnes of crude palm oil a year to more than one million tonnes by 2000.<sup>100</sup>

Indosawit Group is one of the agricultural holding companies of the Raja Garuda Mas Group International. In 1997, Indosawit operated 108,000 ha of oil palm estates in Sumatra with a

<sup>97</sup> The Raja Garuda Mas Group: Hampered By the P.T. Inti Indorayon Case, Indonesian Commercial Newsletter, Jakarta, 16 February 1999.

<sup>98</sup> UPM-Kymmene and APRIL in Indonesia, 1999. Finnish Nature League, Friends of the Earth Finland and SKEPHI.

<sup>99</sup> Michael Backman, personal communication 18 February 2000.

<sup>100</sup> Indonesian Plantation Group Raises Term Loan in Singapore, Bernama The Malaysian National News Agency, Singapore, 17 April 1997; Indon Plantation Group Raises 95 Million USD From Singapore Market, Antara The Indonesian National News Agency, Jakarta, 19 April 1997; Raja Garuda Mas gets US\$ 95 mln syndicated loan, Antara The Indonesian National News Agency, Jakarta, 22 April 1997; Loan announcement, 17 April 1997.

combined production capacity of 500,000 tonnes a year. The company operated 13 CPO-processing facilities in Riau alone. PT Indosawit planned to double its CPO output by the year 2000 and began opening up 92,000 ha of oil palm estates in Central Kalimantan which were expected to produce first yields by 2000.<sup>101</sup> The Raja Garuda Mas Group has co-operated with the Salim Group in developing palm oil plantations in North Sumatra, Jambi and Riau since 1983.

Between 1989 and 1991, in total 124,950 ha of oil palm concession rights were released to PT Indosawit Subur in five localities in Riau and Jambi. Only one estate, representing 7.7% of the total area opened up appears to be a smallholder scheme (PIR).<sup>102</sup>

On 30 May 1997, PT Inti Indosawit Subur took over a financing company in Amsterdam (the Netherlands). The 100% subsidiary was renamed Inti Indosawit International BV, and is registered at the Amsterdam Chamber of Commerce under number 33264413. Inti Indosawit International BV is located at the Office of MeesPierson Trust Amsterdam. The company has an issued share capital of Dfl 40,000 and has no employees.<sup>103</sup> Its five directors are:

1. MeesPierson Trust B.V. Chamber of Commerce No. 33144202. Since: 13-09-1996
2. Cheam Soon Tee, Indonesia. Since: 30-05-1997
3. Sukanto Tanoto, Indonesia. Since: 30-05-1997
4. Semion Tarigan, Indonesia. Since: 30-05-1997
5. Hendrik Moch Affandi, Indonesia. Since: 30-05-1997

The five directors can act independently.<sup>104</sup>

On 12 June 1997, Inti Indosawit International BV issued US\$ 100 million bonds to the Union Bank of Switzerland, and on 23 June 1997, Inti Indosawit International BV issued US\$ 200 million bonds, also to the Union Bank of Switzerland (UBS). Both bonds were due in June 1998, and carried an interest rate of LIBOR + 1.5%. The bonds were guaranteed by PT Inti Indosawit Subur, and as a further guarantee the shares of Inti Indosawit International BV were pledged to UBS. The proceeds were used by Inti Indosawit International BV to issue two loans of US\$ 100 million and US\$ 200 million respectively to PT Inti Indosawit Subur, both due in June 1998.

In April 1998, the US\$ 100 million bonds were renewed. They are now due at 4 December 2003, and carry an interest of LIBOR + 3.5%.

In June 1998, the US\$ 200 million bonds were renewed. They are now due in ten semi-annual instalments until 4 June 2003. They carry an interest of LIBOR + 3.5%.<sup>105</sup>

On 30 September 1997, PT Inti Indosawit Subur established another financing company in Amsterdam (The Netherlands): Asian Agro International BV. This 100% subsidiary is registered at the Amsterdam Chamber of Commerce under number 33295481. Asian Agro International BV is located at the office of MeesPierson Trust, Amsterdam (the Netherlands).<sup>106</sup> Asian Agro International has an issued share capital of Dfl. 40,000 and has no employees. The company has a bank account at the MeesPierson Bank under number 25.50.25.270. Its five directors are:

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<sup>101</sup> Indosawit Boosts Output. Jakarta Post, 15 August 1997.

<sup>102</sup> A. Casson, CIFOR, personal communication. November 3, 1999.

<sup>103</sup> Chamber of Commerce Amsterdam, File no. 33264413, 2 July 1999.

<sup>104</sup> Chamber of Commerce Amsterdam, File no. 33264413, 2 July 1999.

<sup>105</sup> Chamber of Commerce Amsterdam, File no. 33264413, 2 July 1999.

<sup>106</sup> Chamber of Commerce Amsterdam, File no. 33295481, 19 July 1999.

1. MeesPierson Trust B.V. Chamber of Commerce No. 33144202. Since: 1-11-1997
2. Cheam Soon Tee, Indonesia. Since: 30-09-1997
3. Sukanto Tanoto, Indonesia. Since: 30-09-1997
4. Semion Tarigan, Indonesia. Since: 30-09-1997
5. Hendrik Moch Affandi, Indonesia. Since: 30-09-1997

Every director can only act jointly with at least one other director.<sup>107</sup>

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<sup>107</sup> Chamber of Commerce Amsterdam, File no. 33295481, 19 July 1999.

## 4.5 Astra Group

### Company description

We will first examine the links between Dutch banks and PT Astra International, the holding company of the Astra Group, and will then focus on the financial links with the agribusiness unit of the group, PT Astra Agro Lestari. The following plantation companies are related to the Astra Group:

Astra Group			
<i>Plantation company or associate company</i>	<i>Start of operations</i>	<i>Area size (ha)</i>	<i>Location</i>
Agro Menara Rachmat	1993	N.a.	Kotawaringin Barat, Central Kalimantan
Astra Agro (controls around 42 - 50 member companies in plantation business).	1990	4.957	South Ajeh
Cakradenta Agung Pertiwi	1992	6.000	Hulu Sungai Utara, South Kalimantan
Cakung Permata Nusa	1990	10.000	Tabalong, South Kalimantan
Eka Dura Indonesia	1983	7.000	Kampar regency, Riau
Gunung Sejahtera Dua Indah	1992	6.000	Kotawaringin Barat, Central Kalimantan
Gunung Sejahtera Ibu Pertiwi	1992	6.000	Kotawaringin Barat, Central Kalimantan
Gunung Sejahtera Puti Pesona	1992	6.000	Kotawaringin Barat, Central Kalimantan
Gunung Sejahtera Raman Permai	1995	6.000	Kotawaringin Barat, Central Kalimantan
Gunung Sejahtera Yoli Makmur	1995	6.000	Kotawaringin Barat, Central Kalimantan
Karya Tanah Subur	1984	N.a.	Meulobah, Ajeh
Kimia Tirta Utama	1995	10.000	Bengkalis, Riau
Lestari Tani Teldan	1993	5.067	Donggala, Central Sulawesi
Lettawa Ltd.	1990	N.a.	Mamuju, Central Sulawesi
Mamuang	1992	8.000	Mamuju, Central Sulawesi
Moeis	1958	839	Asahan, North Sumatra
Pasangkayu	1990	9.319	Mamuju, Central Sulawesi
Perkebunan Lembah Bhakti	1986	N.a.	South Ajeh
Persadabina Nusantraabadi	1994	6.000	Kotawaringin Barat, Central Kalimantan
Sari Aditya Loka	1991	N.a.	Bangka, Bankgo Tebo, Riau and Jambi
Sari Lembah Subur	1990	10.000	Kuala Kampar, Riau
Suryaindah Nusantarapagi	1994	6.000	Kotawaringin Barat, Central Kalimantan
Tunggal Prakarsa Plantation	1982	10.244	Air Molek, Riau
Waru Kaltim Plantation	1989	6.460	Pasir, East Kalimantan

Source: Profile and Directory of Indonesian Plantation 1997/1998, PT Capricorn Indonesia Consult (CIC), Jakarta, 1998. See also main text.

## The Astra Group

Bob Hasan is the founder of the Astra Group and held a range of powerful positions, especially in the forestry sector. He was, among other:

- ❑ Publicly known as the 'shadow Minister of Forestry';
- ❑ Minister of Industry and Trade in Soeharto's last cabinet;
- ❑ Chairman of Astra International;
- ❑ Owner of the Kaleimanis Group (a major logging and wood processing group that controls 1.63 million ha of forest throughout Indonesia);
- ❑ Owner of PT Mapindo (the company that monopolised the country's forest surveying services);
- ❑ Owner of PT Kiani Lestari (slated as Indonesia's biggest pulp and paper mill based in East Kalimantan);
- ❑ Chairman of MPI (Indonesia's timber industry promotion body);
- ❑ Chairman of APKINDO (Indonesia's infamous plywood monopoly);
- ❑ Chairman of APhi (Indonesia's loggers' association);
- ❑ Chairman of ASMINDO, Indonesia's rattan cartel;
- ❑ Golfing buddy and informal advisor of former president Soeharto;
- ❑ Chairman of the PT Nusantara Ampera Bhakti Nusumba), a privately owned trade, plantations, finance and mining business group that is 70% owned by three charitable foundations chaired by former president Soeharto (Supersemar, Dharmais, Amal Bakti), 20% owned by Bob Hasan and 10% by Suharto's oldest son Sigit Hardjojudanto. Private banks under the Nusamba Group are Bank Umum Nasional, Bank Bukopin, Bank Tugu and **Bank Duta**. The majority shareholders in Bank Duta are the three treasurers of the Supersemar, Dharmais and Dakab Foundations.
- ❑ Until June 29, 1999 President Commissioner of Bank Duta, Rabobank's main joint venture partner in Indonesia.<sup>108</sup>
- ❑ Board member of the Soeharto led Foundation Dana Sejahtera Mandiri;
- ❑ On behalf of the Nusamba Group 4.5% shareholder in PT Freeport (a controversial copper mine in Irian Jaya in which ABN-AMRO is also involved). The Nusamba Group also has a 9.58% stake in the country's biggest carmarker, Astra International;
- ❑ Chairman of the Indonesian Amateur Athletics Association (PASI) up to date.<sup>109</sup>

### 4.5.1 PT Astra International

#### Company description

PT Astra Agro Lestari Tbk. is the agribusiness unit of Indonesia's second largest business conglomerate in 1995, the Astra Group.

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<sup>108</sup> Rabobank has a joint venture with an Indonesian bank formerly called 'Bank Duta' (now Bank Palapa), PT Rabo Finance Indonesia, a leasing company, that was founded on May 14, 1985. Bank Duta has a 12.1% stake in PT Rabo Finance Indonesia. Rabobank's second joint venture with 'Bank Duta', PT Rabobank Duta Indonesia, was founded on 11 April 1990. Bank Duta has a 15% stake in Rabobank Duta Indonesia. Furthermore, ABN-AMRO has a joint venture with Bank Duta, PT Duta Amro Leasing. Rabobank – the 'AAA' Food and Agribank. Jakarta Post 22 August 1995; G. Aditjondro, personal communication July 1, 1999; see also [www.bankduta.co.id/html/aff-isi.htm](http://www.bankduta.co.id/html/aff-isi.htm).

<sup>109</sup> See also: Bob Hasan's Wood-Based Industries Starting to Shake. Data Consult. <http://www.indoexchange.com/data-consult/newsletter/2bc009.htm> Viewed 24 June 1999; Barr, Chr. 1998. Bob Hasan, the Rise of Apkindo, and the Shifting of Dynamics of Control in Indonesia's Timber Sector; Executives Defend Soeharto Foundations. Jakarta Post, 6 June 1998; Backman, M. 1999. Asian Eclipse. Exposing the Dark Side of Business in Asia; Dauvergne, P. 1997. Shadows in the Forest. Japan and the Politics of Timber in Southeast Asia; The challenges of growth smoothing the bumpy road, Euromoney Magazine, London, April 1997; Jakarta Post, 30 June 1998; Bank Duta-Bank Umum Tugu merger approved. The new President Commissioner is Muchtar Mandala. The new Chair is Sonni Dwi Harsono.



PT Astra International is active in the automotive industry, financial services, heavy equipment, agribusiness, infrastructure, and other industries, including wood processing, electronics and light industries. Astra International is listed on the Jakarta Stock Exchange (stock code: ASII).<sup>110</sup>

#### Relevant financial transactions

On 19 October 1994, Astra International established a 100% subsidiary in Amsterdam (the Netherlands): Astra Overseas Finance BV. This is a financing company registered at the Amsterdam Chamber of Commerce under number 33263113. Astra Overseas Finance BV is located at the office of MeesPierson Trust in Amsterdam. Astra Overseas Finance BV has an issued share capital of Dfl 40,000 and has no employees. The company has an account at the MeesPierson Bank, under number 21.30.41.510. Its three directors are:

1. MeesPierson Trust BV. Chamber of Commerce No. 33144202. Since: 22-06-1999.
2. Dorys Setiawati Herlambang, Indonesia. Since: 19-10-1994.
3. Benny Tjoeng, Indonesia. Since: 19-10-1994

Director 1 can only act jointly with either director 2 or director 3.<sup>111</sup>

On 7 August 1996, Astra Overseas Finance BV issued US\$ 200 million Guaranteed Bonds, due in 2003. The bonds are listed on the Luxemburg Stock Exchange. They carry an interest of 8.75% annually, and are guaranteed by PT Astra International. Also on 7 August 1996, Astra Overseas Finance BV used the proceeds of the bonds to issue a US\$ 200 million loan to PT Astra International, due in 2003. The loan carries an interest of 8.755% annually, plus a spread of 0.25% till 28 April 1997, and 0.125% onwards.<sup>112</sup>

On 31 October 1997, **ABN AMRO Bank**, Banque Paribas (France), DKB Merchant Bank (Germany), Industrial Bank of Japan (Japan), LTCB Merchant Bank (Japan), Sanwa Bank (Japan) and Tokai Bank (Japan), provided a syndicated loan of US\$ 160 million to Astra International. The loan bears interest at a rate of 1.20% above LIBOR, and matures within 36 months and 14 days after the signing of the loan agreement (in November 2000). The loan was intended to refinance an older loan facility which matured in 1997.<sup>113</sup>

In 1997, Astra International realised total sales of Rp 14.045,9 billion (US\$ 3,020.6 million), and posted a net loss of Rp 278.7 billion (US\$ 59.9 million).

This loss deteriorated its financial position. At the end of 1997, the balance sheet of Astra International showed a total debt of Rp 25,911.9 billion (US\$ 5,572.5 million). Total shareholder's equity stood at Rp 3,256.3 billion (US\$ 700.3 million). This implies that the solvency stood at 11.2%, dangerously far below the desired minimum of 20%.<sup>114</sup>

At 31 December 1997, Astra International owed a short-term dollar loan of Rp 53 billion (US\$ 11.4 million) to **ING Bank**, and a short-term Rupiah loan of Rp 50 billion (US\$ 10.8 million) to **ABN AMRO Bank**. It is unclear if these loans have been paid back since then.

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<sup>110</sup> PT AAL to sell shares, The Jakarta Post, Jakarta, 20 November 1997.

<sup>111</sup> Chamber of Commerce Amsterdam, File no. 33263113, 19 July 1999.

<sup>112</sup> Chambre of Commerce Amsterdam, File no. 33263113, 19 July 1999; Astra International Audited Accounts 1997, Jakarta, April 1998.

<sup>113</sup> Astra International Audited Accounts 1997, Jakarta, April 1998.

<sup>114</sup> Astra International Audited Accounts 1997, Jakarta, April 1998.

Astra International also owed a long-term dollar loan of Rp 10.1 billion (US\$ 2.2 million) to **ABN AMRO Bank**. It is not probable that this loan has been paid back since then.<sup>115</sup>

On 5 August 1998 Astra International started a debt-restructuring programme, after the economic crisis in the region had hurt the company's performance. At the time, total Astra International loans, including capitalised interest, stood at US\$ 1 billion in foreign currency and Rp 1 trillion in Indonesian currency. Of this debt, 65% was in the form of bank loans, both in US\$ and Rupiah, and the remaining in US\$ and Rupiah bonds. Astra International had issued three types of bonds:

- ❑ PT Astra International Tbk US\$ 125 million 6.5% Convertible Bonds due 2006;
- ❑ PT Astra International Tbk US\$ 125 million 9.75%, Notes due 2001
- ❑ Astra Overseas Finance BV US\$ 200 million 8.75%, Guaranteed Bonds due 2003.

On 22 October 1998 the company announced it had to suspend principal payments.

For the year 1998, Astra International recorded a net loss of Rp 2,434.1 billion on sales of Rp 11,292.1 billion. At 31 December 1998, total shareholders equity stood at only Rp 1,132.1 billion. Total liabilities stood at Rp 19,814.4 billion. Including a minority interest of Rp 1,373.3 billion, total liabilities and shareholders' equity stood at Rp 22,319.8 billion. The solvency level of Astra International therefore stood at the very low level of 5.1%.<sup>116</sup> In June 1999, the Jakarta Stock Exchange (JSX) put Astra International on the watch list for possible de-listing.<sup>117</sup>

On 23 June 1999, PT Astra International Tbk. together with its creditors and bondholders - represented by their trustees - signed a debt restructuring agreement. Attendants were a/o. the bondholders of the company's bonds represented by their trustees - i.e. LDC Trustee London and **ABN-AMRO Jakarta** - and the Astra International Credit Committee, comprising **ABN-AMRO**; Bank Negara Indonesia; Banque Paribas; Dai-Ichi Kangyo Bank; Fuji Bank; Industrial Bank of Japan, and Sanwa Bank.<sup>118</sup>

In the first half of 1999, Astra International recorded a net profit of Rp 495.9 billion on sales of Rp 5,975.4 billion. The financial situation of the company also improved. At 30 June 1999, total shareholders equity stood at Rp 2,229.3 billion. Total liabilities stood at Rp 17,615.0 billion. Including a minority interest of Rp 1,461.9 billion, total liabilities and shareholders' equity stood at Rp 21,306.2 billion. The solvency level of Astra International therefore had improved to 10.5%, which however still is much below the desired level of 20%.<sup>119</sup>

In August 1999, the shareholders of Astra International were:

- |                               |        |
|-------------------------------|--------|
| ❑ Sampoerna Astra Corporation | 14.38% |
| ❑ Norbax Inc.                 | 8.12%  |
| ❑ Toyota Motor Corporation    | 7.91%  |

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<sup>115</sup> Astra International Audited Accounts 1997, Jakarta, April 1998.

<sup>116</sup> PT Astra International Financial Figures for the year 1998, Jakarta, March 1999.

<sup>117</sup> More firms threatened with delisting, Jakarta Post, Jakarta, 26 July 1999.

<sup>118</sup> Creditors and Bondholders Approve Astra's Final Debt Restructuring Program, Press Release PT Astra International Tbk., Jakarta, 29 April 1999; Astra, bank creditors, and bondholders sign debt restructuring agreement, PT Astra International Press Release, Jakarta, 23 June 1999.

<sup>119</sup> PT Astra International Financial Figures for the first half of 1999, Jakarta, August 1999.

❑ International Finance Corp. (IFC) <sup>120</sup>	2.34%
❑ Chase Bank (CI) Nominees Pte. Ltd.	1.41%
❑ Kashmir Ltd	1.31%
❑ SSBB S STR BNK Client	1.08%
❑ Bank of New York Nominees	1.04%
❑ Others (less than 1%)	29.09%
❑ Nusamba	9.58%
❑ Indo Artsa Boga	8.88%
❑ Gentala Sanggrahan	8.87%
❑ Delta Mustika	4.88%
❑ Gajah Tunggal Mulia	1.11%

Since September 1999, IBRA controls just over 40% of Astra International through a combination of stakes pledged to it by Indonesian companies as repayment for outstanding loans. Indonesia's largest company, Salim Group, pledged more than 24% of Astra to IBRA, while three other companies close to former President Suharto pledged roughly a combined 20%. Probably the shares transferred to IBRA belonged to the six shareholders in the second part of the list given above.<sup>121</sup>

In October 1999, two American investment groups - Newbridge Capital and Gilbert Global Equity - expressed interest to buy the shares held by the IBRA. It was speculated in the Indonesian press that one of the associates in this group of investors would be William Soeryadjaya, the founder (in 1957) and owner of 76% of the shares (until 1992) of Astra International. But in a letter to the Indonesian press, Soeryadjaya denied his involvement.<sup>122</sup>

In December 1999 IBRA announced that Newbridge Capital and Gilbert Global Equity was the preferred bidder for up to 40 percent of the Astra shares, with an offer of 3,750 rupiah per share or a total of around 3.5 trillion rupiah (US\$ 486 million). IBRA also announced that it would open a second round of bidding in January 2000, giving a chance for others to bid on the stake. It expects to complete the transaction by the end of February 2000.<sup>123</sup>

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<sup>120</sup> Note the equity ownership of the International Finance Corp. (IFC) which is the private sector branch of the World Bank. IFC's mandate stipulates it must find viable, productive private-sector projects that the private sector alone has found unworthy of investment (Rich, B. 1994. *Mortgaging the Earth*. The World Bank, Environmental Impoverishment and the Crisis of Development). IFC provided loans and equity to oil palm companies such as PT Kalimantan Sanggar Pusaka and PT Harapan Sawit Lestari. IFC also recently set up a short-term export credit facility with Rabobank in Indonesia. IFC also holds equity in two of Malaysia's biggest logging companies, WTK and Berjaya. Both companies are diversifying into oil palm in Sarawak. Through its contributions to the World Bank the Dutch government finances oil palm and logging companies. It is not clear how IFC's involvement in the oil palm and logging sectors - which have had little difficulty in generating huge profits and/or attracting private sector investments - is justified in view of IFC's mandate.

<sup>121</sup> Uncle William is back at ASTRA, Dwi Sandi Merwanto, Ahmad Suhijriah and Beta Ramses, Kapital, Jakarta, 19 October 1999; U S Grp Is Preferred Bidder For Indonesia Astra, Jay Solomon, Dow Jones, Jakarta, 9 December 1999.

<sup>122</sup> Family fortunes - the winners and losers, Asiamoney, July/August 1999; Uncle William is back at ASTRA, Dwi Sandi Merwanto, Ahmad Suhijriah and Beta Ramses, Kapital, Jakarta, 19 October 1999; Indonesia Former Astra Owner Denies Seeking Buyback Of Co, Simon Montlake, Dow Jones, Jakarta, 17 November 1999.

<sup>123</sup> Astra calls on government to sell its shares widely, Jakarta Post, Jakarta, 10 December 1999; Astra stake sale faces hurdles, Andrew Marshall, Reuters, Jakarta, 10 December 1999.

Meanwhile Astra International plans to sell as much as US\$ 300 million in new shares to the public early 2000. Astra said the cash will be used to pay down more than US\$1 billion of foreign borrowings and help the company to meet key requirements of its debt-restructuring plan. But IBRA-executives fear that such a transaction could kill the Newbridge-Gilbert Global deal, as it would seriously dilute their stake in the company.<sup>124</sup>

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<sup>124</sup> US Grp Is Preferred Bidder For Indonesia Astra, Jay Solomon, Dow Jones, Jakarta, 9 December 1999.

#### 4.5.2 PT Astra Agro Lestari Tbk.

##### Company description

With 12,000 employees, 198,050 hectares of plantations in Sulawesi, Kalimantan, Java and Sumatra, and 12 palm oil processing factories, PT Astra Agro Lestari counts as the leading, publicly-listed agro-industrial company in Indonesia.

Between the end of 1992 and December 1997, the company planted 124,335 hectares with oil palm (25,000 ha/yr). Astra Agro Lestari then announced its plans to spend Rp 900 billion (US\$378.15 million) to establish more than 280,000 ha of oil palm plantations by the end of 2002.<sup>125</sup> (conversion rate: 31,000 ha/yr). The economic crisis, however, held Astra Agro back. Rather than achieving its 20,000 ha per year target, the company was able to plant only 3,000 ha in 1998. In 1999, Astra Agro Lestari aims to plant 10,000 ha.<sup>126</sup>

At the end of 1998, Astra Agro Lestari owned 183,268 hectare of oil palm plantations (of which 127,382 hectare was mature), with the remainder in rubber, tea and cocoa. In 1997, net sales of its oil palm plantations amounted to 93% of total net sales. The company's Sumatra oil palm plantations accounted for 83.5% of oil palm sales in 1997, the Kalimantan plantations for 4.2%, and the Sulawesi plantations for 12.3%. In 1998, the company realised net sales of Rp 853.8 billion.<sup>127</sup>

Nucleus smallholders, who owned and cultivated 36,000 ha of oil palm plantations for Astra Agro Lestari in 1998 supplied 35 to 40 percent of the company's total Fresh Fruit Bunches (FFB). Most of these farmers are transmigrants from Bali and Java. The company announced mid-1998 that it was preparing an expansion of similar smallholder estates by 9,000 ha.<sup>128</sup>

In 1998, Astra Agro's CPO production reached 244,000 tons but because of better weather conditions, CPO production is expected to grow strongly in 1999 to 350,000 tons. In May 1999, the company announced it would begin operating two new crude palm oil (CPO) plants by the end of the first half of 1999. The addition of the two plants would bring its total number of CPO processing plants to 14. The company plans to have a total of 27 palm oil mills in production by 2002.<sup>129</sup> The cooking oil produced by Astra Agro Lestari is marketed under the brandname "Sendok".<sup>130</sup>

##### Relevant financial transactions

In June 1997, the company merged with PT Suryaraya Bahtera.<sup>131</sup>

In December 1997, PT Astra Agro Lestari made an IPO on the Stock Exchange of Jakarta (stock code: AALI). The company offered 125.8 million shares, accounting for 10 percent of its total enlarged capital. ABN-AMRO Hoare Govett Indonesia was the lead managing underwriter for

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<sup>125</sup> Astra to spend Rp 900b oil palm estates Jakarta Post, 1 April 1997.

<sup>126</sup> Casson, A. 1999 (Draft). *The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. Programme on the Underlying Causes of Deforestation.* CIFOR.

<sup>127</sup> Pt Astra Agro Lestari Tbk. Audited Accounts 1997, Jakarta, January 1998; Profile - PT Astra Agro Lestari Tbk, Asia Pulse, 20 May 1999; PT Astra Agro Lestari Tbk. Investor Bulletin, Jakarta, March 1999.

<sup>128</sup> Astra Investor Update, July 1998.

<sup>129</sup> PT Astra Agro Lestari Tbk. Annual Report 1997, Jakarta, May 1998; Astra Agro plans new CPO plants, The Jakarta Post, Jakarta, 4 May 1999; PT Astra Agro Lestari Tbk. Investor Bulletin, Jakarta, March 1999.

<sup>130</sup> See [www.astra.co.id/astra/ai/astbuss/astrabusiness.htm](http://www.astra.co.id/astra/ai/astbuss/astrabusiness.htm) viewed 15 November 1999.

<sup>131</sup> PT Astra Agro Lestari Tbk. Audited Accounts 1997, Jakarta, January 1998.

the initial public offering, while **ABN-AMRO** Rothschild was its global co-ordinator and international financial advisor.<sup>132</sup> The company expected to raise about Rp 195 billion from its IPO. About 72.5 percent of IPO proceeds would be used to expand the company's plantation areas, 10 percent for infrastructure development, 10 percent to refinance short-term debt and the remaining 7.5 percent to increase the company's working capital.<sup>133</sup>

At the end of 1997, total shareholders equity stood at Rp 862.1 billion. Short-term liabilities stood at Rp 379.5 billion, and the company owed Rp 623.7 billion in long-term bank loans. Including a minority interest of Rp 46.8 billion, total liabilities and shareholders' equity stood at Rp 1,912.1 billion. The solvency level of Astra Agro Lestari therefore stood at a healthy level of 45.1%.<sup>134</sup>

At December 31, 1997 the following short-term loans were owed to banks:<sup>135</sup>

❑ Bank Central Asia	US\$ 15 million (equivalent to Rp 79.5 billion)
❑ Bank Tiara Asia	Rp 50 billion
❑ Bank Daiwa Perdania	Rp 6 billion
❑ Bank Universal	Rp 35 billion

At December 31, 1997 the following short-term notes were owed to related parties:<sup>136</sup>

❑ Huma Surya Rachmat	Rp 20.4 billion
❑ Astra International	Rp 8.3 billion

At December 31, 1997 the following long-term loans were owed to banks:<sup>137</sup>

❑ Bank Negara Indonesia 1946	Rp 430.8 billion
❑ Bank Pembangunan Indonesia	Rp 95.3 billion
❑ Bank Bumi Daya	Rp 52.8 billion
❑ Bank Rakyat Indonesia	Rp 25.2 billion
❑ Bank Ekspor Impor Indonesia	Rp 17.4 billion
❑ Bank Merincorp	Rp 2.2 billion

In May 1999, the shareholders of PT Astra Agro Lestari Tbk were: <sup>138</sup>

- Astra International	65.32%
- PT Pandu Dian Pertiwi	7.08%
- PT Tiri Nur Cakrawala	3.90%
- Kiki Sutantyo	2.82%
- Rahardi Santoso	2.82%
- PT Dharma Polimatal	2.19%

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<sup>132</sup> Astra Agro Lestari Price Shares. Kompas 20 November 1997; PT AAL to sell shares, The Jakarta Post, Jakarta, 20 November 1997.

<sup>133</sup> PT Astra Agro Lestari to offer 125.8m shares, The Jakarta Post, Jakarta, 29 October 1997.

<sup>134</sup> PT Astra Agro Lestari Tbk. Audited Accounts 1997, Jakarta, January 1998.

<sup>135</sup> PT Astra Agro Lestari Tbk. Audited Accounts 1997, Jakarta, January 1998.

<sup>136</sup> PT Astra Agro Lestari Tbk. Audited Accounts 1997, Jakarta, January 1998.

<sup>137</sup> PT Astra Agro Lestari Tbk. Audited Accounts 1997, Jakarta, January 1998.

<sup>138</sup> Profile - PT Astra Agro Lestari Tbk, Asia Pulse, 20 May 1999.

□ PT Suryaraya Dharma	2.05%
□ PT Leminda Abadi Jaya	1.47%
□ PT Bhadra Ciptayasa	1.06%
□ PT Suryaraya Amarta	1.06%
□ Chase Nominees Limited	0.69%
□ PT BDNI Reksadana	0.535%
□ Meespierson Global Custody	0.41%
□ BBH Lux S/A Fidelity Funds-Asean	0.33%
□ PT Jamsostek (Persero)	0.30%
□ BBH Lux S/A Fidelity Funds-Ind	0.28%
□ BBH Boston S/A GMO Asia-Fund	0.26%
□ R/N S'pare A/C Falcon-017435-1	0.25%
□ Citibank London SA Aegon	0.24%
□ RBS Trust Bank Ltd London Direct CI	0.23%
□ Others and public:	6.71%

At September 30, 1999, total shareholders equity stood at Rp 1,022.7 billion. Short-term liabilities stood at Rp 578.2 billion, and the company owed Rp 500.5 billion in long-term bank loans. Including a minority interest of Rp 37.7 billion, total liabilities and shareholders' equity stood at Rp 2,188.2 billion. So, very different from its parent company, the solvency level of Astra Agro Lestari still was very healthy at 46.7%.<sup>139</sup>

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<sup>139</sup> PT Astra Agro Lestari Tbk. Quarterly Report for the third quarter of 1999, Jakarta, October 1999.

## 4.6 Bakrie Group

The organisational structure of the Bakrie Group is rather complicated, as it has five main holding companies: PT Bakrie & Brothers, PT Bakrie Finance Corporation, PT Bakrie Investindo, PT Bakrieland Development and PT Bakrie Capital Indonesia. These five holding companies have large stakes in each other, and the Bakrie family also owns direct stakes in these holding companies.<sup>140</sup> PT Bakrie & Brothers Tbk. is the holding company in the Bakrie Group for its subsidiaries in telecommunications, infrastructure support industries, steel industry, agroindustries and strategic investment.

We will first examine the links between Dutch banks and the holding company of the Bakrie Group, PT Bakrie & Brothers Tbk. and then focus on the financial links with the agribusiness unit of the group, PT Bakrie Sumatra Plantations (BSP).

The following plantation companies are related to the Bakrie Group:

Bakrie Group			
<i>Plantation company or associate company</i>	<i>Start of operations</i>	<i>Area size (ha)</i>	<i>Location</i>
Agrowiyana	1997	13.000	Tanjung Jabung, Jambi
Bakrie Pasaman Plantations (BSP)	1991	40,000	Pasaman, West Sumatra
Patriot Andelas	1996	88,000	West Kalimantan
Bakrie Sumatra Plantation	1912	21.443	Asahan, North Sumatra
Bakrie Sumatra Plantation	1998	< 70,000	Central Kalimantan

Source: Profile and Directory of Indonesian Plantation 1997/1998, PT Capricorn Indonesia Consult (CIC), Jakarta, 1998. See also main text

### 4.6.1 PT Bakrie & Brothers Tbk.

#### Relevant financial transactions

On 11 January 1996, PT Bakrie & Brothers Tbk. established the financing company Bakrie International Finance Company BV in The Netherlands. This 100% subsidiary is registered at the Rotterdam Chamber of Commerce under number 24262322. Bakrie International Finance Company BV is located at the office of MeesPierson Trust in Rotterdam (the Netherlands). Bakrie International Finance Company BV has an issued share capital of Dfl 40,000 and no employees.<sup>141</sup> Its eight directors are:

- 1 Tanri Abeng, Indonesia, since 11-1-1996
- 2 Lukman Arief, Indonesia, since 11-1-1996
- 3 Sahat Maruli Sinaga, Indonesia, since 11-1-1996
- 4 Hardianto Kamarga, Indonesia, since 11-1-1996
- 5 Bambang Hidayat, Indonesia, since 11-1-1996
- 6 Abu Hanifah Bakri, Indonesia, since 11-1-1996
- 7 Raniwati Malik, Indonesia, since 1-7-1999

<sup>140</sup> PT Bakrie & Brothers Annual Report 1997, Jakarta, May 1998; Conglomeration: The Bakrie Group, Indonesian Commercial Newsletter, Jakarta, 27 January 1999.

<sup>141</sup> Chamber of Commerce Rotterdam, File no. 24262322, 3 September 1999.



All directors can act independently.

The company has one proxy, who is responsible for day-to-day management, but cannot take financial decisions. The proxy is MeesPierson Trust BV. Chamber of Commerce No. 33144202. Since: 18-1-1996.<sup>142</sup>

During 1996 Bakrie International Finance Company BV had issued the following notes, of which PT Bakrie & Brothers Tbk guarantee the payment of interest and principal:

- ❑ US\$ 175 million Guaranteed Asian Currency Note at LIBOR + 2.2%, due on 5 November 1999;
- ❑ US\$ 100 million Floating Rate Note at LIBOR + 2.25%, due on 22 March 1999;
- ❑ ¥ 10 billion Floating Rate Note at LIBOR + 1.7%, due on 24 September 1999. These notes were fully repaid in September 1997.

During 1997 Bakrie International Finance Company BV has issued the following notes, of which PT Bakrie & Brothers Tbk guarantee the payment of interest and principal:

- ❑ ¥ 14 billion Guaranteed Asian Currency Note at LIBOR + 1.7%, due on 21 February 2000.

In 1997 Bakrie International Finance Company BV obtained a syndicated loan arranged by The Chase Manhattan Bank (United States), consisting of a term loan amounting to US\$ 72 million and a three-year revolving loan of US\$ 50 million. The term loan is payable in ten equal, successive, semi-annual instalments up to 30 December 2001. The syndicated loan bears interest at 1.5% above LIBOR a year. Bakrie International Finance Company BV lent the loans out to PT Radio Telepon Indonesia (Ratelindo). Ratelindo is a 87.14% subsidiary of PT Bakrie Electronics Company, which is a 70.02% subsidiary of PT Bakrie Communication Corporation, which is 97.0% owned by PT Bakrie & Brothers Tbk. As collateral to this loan the telecommunications equipment and facilities owned by PT Radio Telepon Indonesia in various areas in Jakarta were used.<sup>143</sup>

PT Bakrie Investindo is the holding company within the Bakrie Group for some of its property, mining, media and transportation subsidiaries. PT Bakrie Investindo also is the main shareholder in PT Bakrie & Brothers Tbk., holding 51.44% of the shares in June 1999.<sup>144</sup>

On 27 November 1996, PT Bakrie Investindo established the financing company Bakrie Indonesia BV in the Netherlands. This 100% subsidiary is registered at the Rotterdam Chamber of Commerce under number 24270427.<sup>145</sup> PT Bakrie Investindo is the main shareholder in PT Bakrie & Brothers Tbk., holding 51.44% of the shares in June 1999.<sup>146</sup> Bakrie Indonesia BV is located at the office of MeesPierson Trust in Rotterdam (the Netherlands). Bakrie Indonesia BV has an issued share capital of Dfl 40,000 and no employees. Its three directors are:

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<sup>142</sup> Chamber of Commerce Rotterdam, File no. 24262322, 3 September 1999.

<sup>143</sup> PT Bakrie & Brothers Annual Report 1997, Jakarta, May 1998.

<sup>144</sup> A Profile of PT Bakrie & Brothers Tbk, Asia Pulse Analysts, Jakarta, 19 July 1999; Conglomeration: The Bakrie Group, Indonesian Commercial Newsletter, Jakarta, 27 January 1999.

<sup>145</sup> Chamber of Commerce Rotterdam, File no. 24270427, 3 September 1999.

<sup>146</sup> A Profile of PT Bakrie & Brothers Tbk, Asia Pulse Analysts, Jakarta, 19 July 1999.

- ❑ Anh Dung Do, Indonesia, since 27-11-1996
- ❑ Widhi Astano, Indonesia, since 27-11-1996
- ❑ Risanto Sasmoyo, Indonesia, since 27-11-1996 <sup>147</sup>

In December 1999, the Indonesian Bank Restructuring Agency (IBRA) announced that it didn't expect to recover anything from the US\$114 million owed by Bakrie Investindo to the IBRA. This probably means that other creditors will face the same fate in recovering a total of US\$ 612 million from Bakrie Investindo.<sup>148</sup>

In March 1997, PT Meespierson Finas Investment Management had invested 10% of its assets in shares of PT Bakrie & Brothers Tbk. It is unclear how large this shareholding is.<sup>149</sup>

In 1997 PT Bakrie & Brothers Tbk. realised a consolidated turnover of Rp 1,967.2 billion. - Turnover from the agribusiness section amounted to Rp 825 billion (41.5%). Operating income was Rp 111.9 billion in 1997, to which the agribusiness section only contributed Rp 1.7 billion (1.5%). Because of significant write-offs on new investments, PT Bakrie & Brothers realised a net loss of Rp 283.9 billion. Higher interest expenses, a result of the sharp depreciation of the Rupiah, also affected profitability.<sup>150</sup>

As of year end 1997, the current liabilities stood at Rp 3,968.0 billion, and long term liabilities stood at Rp 2,694.7 billion. PT Bakrie & Brothers Tbk. had total liabilities of Rp 6,663.3 billion, and total equity of Rp 1,567.4 billion. The solvency level therefore stood at 19.0%.

Among its short-term working capital loans in US\$, the company owed among other loans (the equivalent of) Rp 5.3 billion to PT Rabobank Duta Indonesia at the end of 1997.<sup>151</sup>

The company owed approximately US\$ 1.2 billion and ¥ 3.0 billion in foreign debt at the end of 1997. Its foreign debts together amounted to approximately Rp 5,500 billion at the end of 1997. The company appointed the Hong Kong branch of Chase Manhattan Bank (United States) in 1997 as its financial adviser to review its financial structure and assist the Company in restructuring its debt obligations.<sup>152</sup>

In 1998 PT Bakrie & Brothers Tbk. realised a consolidated turnover of Rp 3,521.9 billion. - Operating income was Rp 163.2 billion in 1997. Of the total revenue, the company's agribusiness contributed 60.2 percent (Rp 2,130 billion). Agribusiness experienced the highest increase in revenue, rising around 159 percent from the Rp 825 billion booked in 1997. The increase was the result of improved sales volume by the Lewis & Peat group of trading companies and by Bakrie's oil palm subsidiaries. However, because of significant foreign exchange losses and a rise in net interest costs, PT Bakrie & Brothers realised a net loss of Rp 2,182.3 billion.<sup>153</sup>

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<sup>147</sup> Chamber of Commerce Rotterdam, File no. 24270427, 3 September 1999.

<sup>148</sup> Indonesia IBRA Sees No Recovery Of Bakrie Investindo Debt, Noel Fung, Dow Jones, Jakarta, 10 December 1999.

<sup>149</sup> Kuis Investasi, Portofolio, Jakarta, March 1997.

<sup>150</sup> PT Bakrie & Brothers Annual Report 1997, Jakarta, May 1998.

<sup>151</sup> PT Bakrie & Brothers Annual Report 1997, Jakarta, May 1998.

<sup>152</sup> PT Bakrie & Brothers Annual Report 1997, Jakarta, May 1998.

<sup>153</sup> A Profile of PT Bakrie & Brothers Tbk, Asia Pulse Analysts, Jakarta, 19 July 1999; Bakrie to complete debt restructuring in September, The Jakarta Post, Jakarta, 25 June 1999.

As of year end 1998, the current liabilities had increased dramatically to Rp 9,619.3 billion, and long term liabilities stood at Rp 1,134.6 billion. PT Bakrie & Brothers Tbk. had total liabilities of Rp 10,754.3 billion, a minority interest of Rp 232.6 billion, and a negative total equity of Rp 434.4 billion! The solvency level therefore was negative, and the company was at the verge of bankruptcy.<sup>154</sup>

In June 1999, the Jakarta Stock Exchange (JSX) put Bakrie & Brothers on the watch list for possible delisting.<sup>155</sup>

Also in June 1999, PT Bakrie & Brothers Tbk. announced it would complete restructuring of the foreign debt of the company and its subsidiaries, amounting to around US\$ 1.2 billion owed to its 300 creditors, in September 1999. Among its creditors are Rabobank Netherlands, Credit Suisse, Deutsche Bank, National Australia Bank, HSBC, American Express Bank, Chase Manhattan Bank and others. The restructuring involves the establishment of a special purpose company, through which creditors will take over 80 percent of Bakrie & Brothers' shares in five of its subsidiaries: PT Bakrie Sumatra Plantation, Iradium, Bakrie Electric Corporation, Arutmin and Bakrie Kasei Corporation. In addition, this new company would own 30 percent of Bakrie & Brothers through the issuance of new shares on a fully diluted basis. But in October 1999, press reports indicated the creditors would like to take up as much as 60% of the shares of Bakrie & Brothers, leaving only a minority share to the Bakrie family.

In October 1999, five Korean banks (important creditors of Bakrie & Brothers and its parent company Bakrie Investindo) sent a strong worded letter to all creditors, threatening Bakrie Investindo with bankruptcy proceedings and calling its debt-restructuring efforts unfair and opaque. The bank are rejecting the debt-to-equity swap proposal, on the grounds that Bakrie Investindo has no positive net worth. All companies in the Bakrie Group have severe problems with restructuring their debts, with the exception of Bakrie Sumatra Plantations.<sup>156</sup>

Until this possible debt-to-equity swap, PT Bakrie & Brothers Tbk. was owned by:

□ PT Bakrie Investindo	51.44 %
□ Bakrie Bond Corporation	6.66 %
□ Mr. Aburizal Bakrie	3.44 %
□ Mr. Nirwan Dermawan Bakrie	3.44 %
□ Mr. Indra Usmansyah Bakrie	3.44 %
□ Yamin Foundation	1.96 %
□ Mrs. H. Roosniah Bakrie	1.72 %
□ Mrs. Roosmania Kusmuljono	0.71 %
□ Mr. Hamizar Hamid	0.14 %
□ Mr. Harris Abidin	0.04 %
□ Mr. Reginald Edward Kreefft	0.04 %
□ Public	25.25 % <sup>157</sup>

<sup>154</sup> PT Bakrie & Brothers Tbk. Financial Figures for 1998, Jakarta, March 1999.

<sup>155</sup> More firms threatened with delisting, Jakarta Post, Jakarta, 26 July 1999.

<sup>156</sup> Bakrie to complete debt restructuring in September, The Jakarta Post, Jakarta, 25 June 1999; Indonesia's Bakrie To Seal Debt Deal By End-Sep, Anita Jain, Dow Jones Newswires, Jakarta, 24 August 1999; 5 Korean Bks Blast Bakrie Investindo Restructure Efforts, Noel Fung, Dow Jones Newswires, Jakarta, 6 October 1999; The Shrinking of Bakrie's Shares, Saibansah Dardani, Kapital, Jakarta, 16 October 1999. Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. Programme on the Underlying Causes of Deforestation. CIFOR.

<sup>157</sup> A Profile of PT Bakrie & Brothers Tbk, Asia Pulse Analysts, Jakarta, 19 July 1999.

In the first half of 1999, Bakrie & Brothers realised a net profit of Rp 39.9 billion on total sales of Rp 1,580.8 billion.

At 30 June 1999, the current liabilities had reduced to Rp 8,425.1 billion, and long-term liabilities were reduced to Rp 963.2 billion. PT Bakrie & Brothers Tbk. had total liabilities of Rp 9,388.5 billion, a minority interest of Rp 266.0 billion, and its total equity had improved remarkably to Rp 253.3 billion. The solvency level therefore still was very low: 2.6%.<sup>158</sup>

In December 1999 the Indonesian Bank Restructuring Agency (IBRA) announced that the major creditors of Bakrie & Brothers had agreed on a debt restructuring proposal that will enable them to recover half of the US\$1.2 billion debt the group owes. The informal steering committee (representing the 150 creditors of the group) consisted of the U.S. Export Import Bank, Chase Manhattan, American Express Bank, Deutsche Bank, Dresdner Bank and Industrial Bank of Japan. The largest creditor of Bakrie is IBRA itself, because it has taken over all the loans of closed banks, and the non-performing loans of state banks and banks taken over by the government. IBRA accounts for 19% of Bakrie's total debt. Under the proposal, Bakrie & Brothers will transfer five of its most valuable shareholdings into a new company that will be 95% held by the creditors. These shareholdings are: a 2.2% stake in the American satellite phone network Iridium LLC, a 52.5% stake in PT Bakrie Sumatera Plantations, a 70% stake in PT Bakrie Electronics Co., a 20% stake in coalminer PT Arutmin Indonesia and a 25.54% stake in PT Bakrie Kasei Corp. The creditors also will get 95% of the shares of Bakrie & Brothers itself, but Bakrie managers will be given the chance to buy back 45% of the company's shares if they can meet some targets laid out by the creditors in the management incentive scheme.<sup>159</sup>

#### 4.6.2 PT Bakrie Sumatera Plantations Tbk.

##### Company description

PT Bakrie Sumatera Plantations (BSP) is a subsidiary of the Bakrie & Brothers holding. PT Bakrie & Brothers Tbk. is listed on the stock exchanges of Jakarta and Surabaya (stock code: BNBR).

PT Bakrie Sumatera Plantations (BSP) is mainly active in rubber plantations (97% of company sales). BSP owns a 75% stake in Lewis & Peat Rubber in UK, one of the world's largest natural rubber dealers with companies in London, Singapore and Middlesbury and the United States. BSP is the world's only producer of low protein cream latex, a health care product. Rubber trading accounted for 87% of 1997 revenues, plantations for 11%, palm oil refining and trading for 2%. In the 1990s, BSP begun to develop oil palm plantations in Sumatra and West Kalimantan. The developments include downstream processing facilities and a cooking oil factory.

BSP claimed to have access to a total land bank of 376,041 ha, 34,392 ha of which were planted with oil palm in 1997.<sup>160</sup> The total area probably also included developed rubber plantations and unopened oil palm estates. In Sumatra, the company owns at least 15,000 hectares of oil palm plantations. BSP's involvement in the sub-sector in Kalimantan commenced in 1997. BSP

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<sup>158</sup> PT Bakrie & Brothers Tbk. Financial Figures for the first half of 1999, Jakarta, August 1999.

<sup>159</sup> Indonesian Bakrie, Major Creditors Agree Restructure Plan, Noel Fung, Dow Jones, Jakarta, 9 December 1999.

<sup>160</sup> Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. CIFOR.

expected to establish 46,000 hectares of oil palm estates by 2001.<sup>161</sup> By the first quarter of 1998, BSP had planted 24,769 ha of which 9,590 ha were mature.<sup>162</sup> Later that year, however, the Ministry of Forests and Estate Crops revoked most of BSP's concessions in West Kalimantan because the company failed to develop the sites.<sup>163</sup>

PT Bakrie Sumatra Plantations is listed on the stock exchanges of Jakarta and Surabaya since 1989 (stock code: UNSP). At the end of 1996, its shareholders were<sup>164</sup>:

□ PT Bakrie & Brothers	52.5%
□ PT Daya Sarana Pratama	8.9%
□ PT Bimantara Citra	7.0%
□ PT (Persero) Danareksa	6.1%
□ Public	23.9%

#### Bakrie Group

Bakrie & Brothers is controlled by three brothers Aburizal, Nirwam and Indra Bakrie. Apart from agribusiness, telecommunications, infrastructure support and plantations, the Bakrie & Brothers group is entering the chemical and power industries. The group's chairman Aburizal Bakrie is a very influential businessperson, who was recently re-elected as the Chair of Indonesia's Chamber of Commerce and Industry (KADIN) for a second term (1999 - 2004). The president director of Bakrie & Brothers, Tanri Abeng, was also the president commissioner of PT Multi Bintang, which was 76% owned by Heineken Beer.

There are many joint ventures between the Bakrie en Soeharto family, including a 50,000 ha cattle ranch in Australia, the Nusa Bank, and the Tanjung Jati power plant in Central Java. Soeharto's cousin, Sudwikatmono is a shareholder in PT Daya Sarana Pratama and PT Mindo. Bakrie & Brothers daily manage the latter company while the first, Daya Sarana, is the agent of palm oil produced by BSP.<sup>165</sup>

In 1997, Aburizal Bakrie publicly defended the business dealings of Soeharto's children, saying that there were still many fields of business which did not involve the President's children. He was quoted by the press agency Antara as saying "Don't believe what the foreign media says. Of course, it must be acknowledged that the President's children-connection is used as an approach by some."<sup>166</sup>

#### Relevant financial transactions

In July 1995, HSBC Investment Bank Asia Ltd. arranged a US\$ 27 million syndicated loan from domestic and foreign institutions. The interest rate was established at 2.5% above CIBOR and valid for three years. The credit was allocated primarily to the development of BSP's oil palm estates and CPO factory in Pasaman, West Sumatra. The estates would expand with 16,000 ha nucleus estates and 24,000 ha for plasma.<sup>167</sup>

<sup>161</sup> PT Bakrie & Brothers Annual Report 1997, Jakarta, May 1998.

<sup>162</sup> BSP Reports Healthy First Quarter Performance. [www.indoexchange.com/jxs/bakrisum/financial/2dcctoc.htm](http://www.indoexchange.com/jxs/bakrisum/financial/2dcctoc.htm), viewed 11 June 1999.

<sup>163</sup> Dinas Perkebunan in Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. CIFOR.

<sup>164</sup> PT Bakrie Sumatra Plantations Annual Report 1996, Jakarta, May 1997; [www.indoexchange.jsx/b.../profile/shareholder-profile.html](http://www.indoexchange.jsx/b.../profile/shareholder-profile.html)

<sup>165</sup> PT Bakrie & Brothers Annual Report 1997, Jakarta, May 1998. G. Aditjondro pers. comm 16 June 1999; Aditjondro, G. 1994, Tanri Abeng. Bintang Beer, Bata Shoes & Freeport shares.

<sup>166</sup> Aburizal Defends Dealings of Soeharto's Children. Jakarta Post 30 June 1999.

<sup>167</sup> Syndication Credit for BSP. Economic Glance. Kompas, July 1, 1995.

At the end of 1995, Lewis & Peat (Singapore) Pte. Limited owed a small short-term loan of US\$ 213,419 to the Singapore branch of Rabobank Nederland. This equalled Rp 348.8 million. During 1996 the loan was settled. The rubber trading company Lewis & Peat is a full subsidiary of PT Bakrie Sumatra Plantations.<sup>168</sup>

In September 1996, the Singapore branch of Rabobank Nederland lead-managed a US\$ 150 million syndicated trade finance facility for Lewis & Peat (Rubber) Holdings Pte. Ltd. The company had rubber-trading offices in Singapore, London, and New York and sought a way to consolidate its operations. By creating this syndicated trade finance facility, Rabobank arranged to co-ordinate these centers.<sup>169</sup>

In December 1998 it was announced that a consortium of eight companies set up a joint venture with an Egyptian investor to open 70,000 hectares of oil palm plantations in Central Kalimantan. The project's total investment is US\$ 1 billion and involves by PT Misrindo Usama Perindo, PT Smart Corp., PT Bakrie Sumatra Plantation, PT Bukit Kapur Reksa, PT Agrinta, PT Pan Inecda Corp., PT Para Sawita, PT Usama Rekanindo and PT Repindo. The Asian Development Bank and the Islamic Development Bank would provide financial support to the project.<sup>170</sup>

In 1998, BSP recorded a net profit of Rp 58.1 billion on total sales of Rp 2,134.9 billion. At 31 December 1998, total liabilities of Bakrie Sumatra Plantations stood at Rp 1,378.7 billion. There was a minority interest of Rp 102.0 billion, and total equity stood at Rp 321.7 billion. The solvency level therefore stood at the fairly low level of 18.9%.<sup>171</sup>

In October 1999, BSP was close to securing a deal with a dozen creditors on extending repayment period of its US\$75 million debts among which Rabobank Nederland (Singapore branch), PT Bank Credit Lyonnais Indonesia, Credit Suisse (Singapore) and Japan Asia Investment.<sup>172</sup> The loan was probably related to BSP's 7-year syndicated loan facility that was signed by BSP and 16 banks from Europe, Japan, Hong Kong, Malaysia, China and Indonesia in 1996 to finance the development of 88,000 ha oil palm plantations in Sanggau, West Kalimantan.<sup>173</sup> The deal was probably required as the Ministry of Forestry and Estate Crops revoked these concessions in 1998.

In January 2000, BSP stated that the financial woes of Lewis & Peat stemmed from internal financial mismanagement that had been hidden from the auditors for a number of years. This was one of the outcomes of an audit by Ernst & Young initiated by Rabobank. In the same month, Lewis & Peat went into liquidation as it was mismanaged to the point of insolvency.<sup>174</sup>

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<sup>168</sup> PT Bakrie Sumatra Plantations Annual Report 1996, Jakarta, May 1997.

<sup>169</sup> Rabobank: world leader in agribusiness finance, Institutional Investor, December 1996; PT Bakrie & Brothers Annual Report 1997, Jakarta, May 1998.

<sup>170</sup> Indonesia, Egypt Cos Set Up US\$1 Bln JV Oil Palm Plantation, Asia Pulse, Jakarta, 8 December 1998.

<sup>171</sup> PT Bakrie Sumatra Plantations Tbk. Financial Figures for 1998, Jakarta, March 1999.

<sup>172</sup> 5 Korean Bks Blast Bakrie Investindo Restructure Efforts, Noel Fung, Dow Jones Newswires, Jakarta, 6 October 1999; Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. CIFOR.

<sup>173</sup> Bakrie Secures \$75m Loan, Jakarta Post, 12 October 1996. Bakrie Sumatra Plantation Projects 20-30% Profit Growth. Jakarta Post, 11 June 1997.

<sup>174</sup> Lewis & Peat Files for US Protection. The Wall Street Journal. 17 January 2000; Michael Backman, personal communication 28 February 2000.

## 4.7 Salim Group

The Salim Group is a major owner of palm oil plantations in Indonesia, through a series of holding companies. An overview is presented in the following table.<sup>175</sup>

Salim Group			
<i>Plantation company or associate company</i>	<i>Start of operations</i>	<i>Area (ha)</i>	<i>Location</i>
Aneka Inti Persada	1990	11.491	Bengkalis, Riau
Bahari Gembira Ria	1987	10.000	Jambi
Bersama Sejahtera Sakti	1991	140.000	Kota Baru, South Kalimantan
Bina Sains Corporation	1992	6.513	Muara Lakitan, Musi Rawas, South Sumatra
Gunung Mas Raya	1989	12.807	Bengkalis, Riau
Indotruba Tengah	1990	10.000	Kotawaringin, East Kalimantan
Indri Plant	1986	5.500	Indragiri Hulu, Riau
Laguna Mandiri	1990	14.715	Kota Baru, South Kalimantan
Lahan Tani Sakti	1986	15.000	Bengkalis, Riau
Perusahaan Perkebunan dan Pertanian	1980s	N.a.	East Ajeh
Salim Ivomas Pratama	1996	22.130 or 50.000	Bengkalis, Riau
Saudara Sedjati Luhur	1970s	2.048	Asahan, North Sumatra
Serikat Putra	1990	5.040	Indragiri Hulu, Riau
Swadaya Andika	1993	11.250	Kota Baru, South Kalimantan
Tamaco Graha Krida	1987	15.000	Palu, Central Sulawesi
Tunggal Mitra Plantations	1991	13.000	Bengkalis, Riau

Source: Profile and Directory of Indonesian Plantation 1997/1998, PT Capricorn Indonesia Consult (CIC), Jakarta, 1998. See also main text.

Other Salim subsidiaries involved in oil palm development are: Langgeng Muara Makmur II and III, PT Paripurna Sawkarsa I and PT Swadaya Andika II.

Probably some of the individual companies listed in the table above are part of PT Bersama Sejahtera Sakti. The Indonesian Commercial Newsletter estimates the total oil palm holdings of the Salim group at 150.000 hectare.<sup>176</sup> Based on company interviews, however, Casson (1999) mentions that Salim Plantations holds a total land bank of 275,000 ha, 125,000 ha of which have been planted.<sup>177</sup>

At least one of the palm oil plantation companies, PT Salim Ivomas Pratama, is owned by the Hong Kong trading arm of the Salim Group, First Pacific Company Ltd., through its

<sup>175</sup> Profile and Directory of Indonesian Plantation 1997/1998, PT Capricorn Indonesia Consult (CIC), Jakarta, 1998.

<sup>176</sup> Land for Oil Palm Plantations Limited, New Investors Required to Build Processing Plant, Indonesian Commercial Newsletter, Jakarta, 25 May 1999.

<sup>177</sup> Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-sector in an Era of Economic Crisis and Political Change. CIFOR.

shareholding in the Indonesian food company PT Indofood Sukses Makmur Tbk. The links of these companies with Dutch banks are described below.

#### The Salim Group

With US\$ 20 billion in sales, 500 companies, and 200,000 workers, the Salim Group is the largest business group in Indonesia. The group accounts for 5 percent of Indonesia 's economic output, and is active in the food industry, the car industry, building materials, property, telecommunications, banking and trading. It was founded by the Chinese immigrant Liem Sioe Liong, who later changed his name to Sudono Salim. Liem was one of the closest friends and business partners of ex-president Soeharto. The group is still controlled by the Salim family, headed by Sudono's son Anthony.<sup>178</sup>

The Salim Group has various business links to Soeharto's children, through Bank Central Asia (Siti Hardijanti Rukmana and Sigit Harjojudanto), a power project in East Java with US power company Enron (with Bambang Trihadmodjo) and Indofood (with Soeharto's cousin Sudwikatmono).<sup>179</sup> Sudono Salim furthermore served as the vice-chairman of the Dana Sejahtera Mandiri, one of Soeharto's charity foundations.

#### 4.7.1 First Pacific Company Ltd.

First Pacific Company Ltd. is a Hong Kong-based conglomerate, owned for 53% by the Salim family. First Pacific markets and distributes electronic products, food and drugs. Other activities include the operation of cellular telephone service, banking and real estate services. The group operated in Asia, Europe and North America. Marketing and distribution accounted for 73% of 1998 revenues; property, 17%; telecommunications, 7%; and banking operations, 3%.<sup>180</sup>

Since 1983, First Pacific owned a 39.7% stake in Hagemeyer, a large Dutch trading company. Because of its large debts, First Pacific in March 1998 was forced to sell this stake to reduce its gearing. A large number of institutional and private investors in Europe and the United States paid Dfl 3.6 billion (US\$ 1.75 billion) for the Hagemeyer-shares, making it the largest re-offering of shares in European history. ING Bank, SBC Warburg Dillon Read (United States), and UBS (Switzerland) acted as lead managers of the banking syndicate, and ABN AMRO acted as senior co-lead manager. Other Dutch banks participating in the syndicate were Rabobank, Kempen & Co. en MeesPierson. ING Barings attributed its prominent position in the banking syndicate to its "long-lasting close relationship" with First Pacific.<sup>181</sup>

In June 1999, First Pacific acquired 40 % of PT Indofood Sukses Makmur Tbk from the Salim family for US\$ 650 million. First Pacific paid the Indofood stake by issuing 261 million new First Pacific shares worth US\$ 229 million to the Salim family, plus US\$ 421 million in cash. To raise the needed cash, First Pacific placed 254 million new shares valued at US\$ 200 million with institutional investors and issued a US\$ 50 million seven-year convertible bond which pays 2.0 pct interest annually. The shares were placed at HK\$ 6.23 each in a deal handled by ING

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<sup>178</sup> Indofood to sell Bogasari mill to strategic buyers, The Jakarta Post, Jakarta, 7 October 1999; Year of Living Dangerously For a Tycoon in Indonesia, by Mark Landler, The New York Times, New York, 16 May 1999.

<sup>179</sup> Head, M. 1998. The Suharto Financial Dynasty. World Socialist Website. [www.wsws.org/news/1998/jun1998/](http://www.wsws.org/news/1998/jun1998/)

<sup>180</sup> Profile First Pacific Co. Ltd., Wall Street Journal, New York, 14 December 1999.

<sup>181</sup> Hagemeyer Nu in Rol Van Reddende Engel, B. van Kalles, Het Financieele Dagblad, Amsterdam, 13 January 1998; Meerderheid Hagemeyer in Nederland, Het Financieele Dagblad, Amsterdam, 10 March 1998; Hagemeyer Plaatst Belang Pacific Tegen Koers Hfl. 89, Het Financieele Dagblad, Amsterdam, 20 March 1998.



Barings Securities (Hong Kong) Ltd. After the deal, the Salim Family and associated investors owned 53 % of First Pacific.<sup>182</sup>

In November 1999, the Indonesian Bank Restructuring Agency (IBRA) announced that it would sell part of its stake in First Pacific Co., which was transferred to the IBRA by the Salim Group to pay for its debts. IBRA hoped to raise Rp 1.5 trillion (US\$ 187.5 million) by selling the stake.<sup>183</sup>

#### 4.7.2 PT Indofood Sukses Makmur Tbk.

PT Indofood Sukses Makmur Tbk. was established in 1990 as PT Panganjaya Intikusuma, and changed its name a few years later. Indofood is a food company producing instant noodles and flour, with factories in Java, Sumatra, Sulawesi and Kalimantan. Its subsidiaries produce edible oil and fats, snack foods, baby foods, seasonings and other food products. Indofood is the world's largest instant noodle producer and market leader for cooking oil in Indonesia. Since 1994 Indofood is listed on the Jakarta Stock Exchange (stock symbol: INDF).

Through its 80% subsidiary PT Salim Ivomas Pratama, Indofood owns about 50,000 hectares of oil palm plantations and produces 200,000 tons of crude palm oil each year. The Salim Group has cooperated with the **Raja Garuda Mas** Group in developing palm oil plantations in North Sumatra, Jambi and Riau since 1983.<sup>184</sup>

In June 1997, Indofood took over 100% of the shares of an existing financing company in Amsterdam (The Netherlands): Purply Holding BV. This company is registered at the Amsterdam Chamber of Commerce under number 33236642.<sup>185</sup> It is located at the Office of MeesPierson Trust, Amsterdam (the Netherlands).

Purply Holding BV has an equity of Dfl 40,000 and has no employees. Its three directors are:

- 1 MeesPierson Trust BV. Chamber of Commerce No. 33144202. Since: 13-06-1997
- 2 Farida Eva Riyanti Hutapea, Indonesia. Since: 13-06-1997
- 3 Cesar Manikan de la Cruz, Indonesia. Since: 13-06-1997

Director 1 can act independently. The two other directors can only act jointly with another director.<sup>186</sup>

In 1997 Indofood and Purply Holding together obtained a syndicated loan facility of US\$ 250 million, arranged by the Singapore office of Credit Suisse First Boston (Switzerland). Of the facility, US\$ 125.75 million was obtained directly by Indofood, and US\$ 124.25 indirectly through Purply Holding. The loan is collateral-free, and bears a fixed interest margin above SIBOR.

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<sup>182</sup> HK First Pacific +3% To HK\$6.85 After Indofood Deal, Dow Jones, Hong Kong, 22 June 1999; First Pacific Completes Acquisition of 40 Pct of Indofood for 615 Mln USD, AFX (AP), Jakarta, 23 September 1999.

<sup>183</sup> Indonesian Bk Agency Forecasts 27% Asset Recovery Rate, Noel Fung, Dow Jones, Jakarta, 25 November 1999.

<sup>184</sup> PT Indofood Sukses Makmur Tbk. Audited Accounts 1997, Jakarta, March 1998; Indofood books profits, The Jakarta Post, Jakarta, 30 November 1996; Shareholders' meeting okays Indofood's Rp1.55t acquisition, The Jakarta Post, Jakarta, 4 April 1997; Liquid carrier project, The Jakarta Post, Jakarta, 23 April 1997.

<sup>185</sup> Chamber of Commerce Amsterdam, File no. 33236642, 19 December 1999.

<sup>186</sup> Chamber of Commerce Amsterdam, File no. 33236642, 19 December 1999.

The loan facility was meant to contribute to the financing of the acquisition of 80 per cent of the following companies:

- |                             |  |
|-----------------------------|--|
| ❑ PT Salim Ivomas Pratama   | Oil palm plantations and CPO production                    |
| ❑ PT Indomarco Ati Prima    | Distribution of consumer goods                             |
| ❑ PT Intiboga Sejahtera     | Manufacture of cooking oil, margarine and fat from CPO     |
| ❑ PT Salim Oil Grains       | Manufacture and distribution of edible oil and derivatives |
| ❑ PT Bitung Manado Oil Ltd. | Extraction and processing of coconut oil                   |
| ❑ PT Argha Giri Perkasa     | Extraction and processing of coconut oil                   |

The acquisitions were made in April 1997, and together amounted to Rp 1.55 trillion (US\$ 651.3 million). The companies already belonged to the Salim Group. By integrating them with Indofood, the company hoped to reduce costs and guarantee its supply of CPO.<sup>187</sup>

In 1997, Indofood realised total sales amounting to Rp 4,988.7 billion (US\$ 915.8 million), and a net loss of Rp 1,198.1 billion (US\$ 219.9 million). This net loss was caused mainly by a foreign exchange loss of Rp 1,496.6 billion (US\$ 274.7 million). Edible oils and fats accounted for sales of Rp 878.8 billion (US\$ 161.3 million) in 1997, which is 17.6 % of total sales. However, this division attributed Rp 282.1 billion (US\$ 51.8 million) to operational income, which is 33.0% of total operational income in 1997.<sup>188</sup>

At the end of 1997, the balance sheet of Indofood showed a total debt of Rp 7,175.9 billion (US\$ 1,317.3 million). Of these debts, Rp 2,188.4 billion (US\$ 401.7 million) was short-term, and Rp 4,987.5 billion (US\$ 915.6 million) was long-term. Total shareholder's equity stood at Rp 484.4 billion (US\$ 88.9 million). This implies that the solvency stood at 6.1%, dangerously low compared with the desired minimum of 20%.<sup>189</sup>

The ownership structure of Indofood on 31 December 1997 was as follows:

- |                                 |                        |
|---------------------------------|------------------------|
| ❑ PT Mekar Perkasa              | 17.49%                 |
| ❑ Republic of Indonesia         | 10.18%                 |
| ❑ Norbax Inc.                   | 6.26%                  |
| ❑ Aquila Holdings Ltd.          | 6.09%                  |
| ❑ PT Sumber Sampoerna Nusantara | 5.63%                  |
| ❑ Others (under 5%)             | 54.35%. <sup>190</sup> |

In 1998, Indofood realised total sales amounting to Rp 8,834.4 billion (US\$ 1,118.3 million), and a net profit of Rp 150.2 billion (US\$ 19.0 million). The edible oils and fats division contributed 24 % of total sales.

At the end of 1998, the balance sheet of Indofood showed a total debt of Rp 9,643.7 billion (US\$ 1,220.7 million). Of these debts, Rp 3,899.5 billion (US\$ 493.6 million) was short-term, and Rp 5,744.1 billion (US\$ 727.1 million) was long-term. Total shareholder's equity stood at Rp 634.6

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<sup>187</sup> PT Indofood Sukses Makmur Tbk. Audited Accounts 1997, Jakarta, March 1998; Indofood to boost food business with expansion, *The Jakarta Post*, Jakarta, 3 March 1997; Shareholders' meeting okays Indofood's Rp1.55t acquisition, *The Jakarta Post*, Jakarta, 4 April 1997.

<sup>188</sup> PT Indofood Sukses Makmur Tbk. Audited Accounts 1997, Jakarta, March 1998.

<sup>189</sup> PT Indofood Sukses Makmur Tbk. Audited Accounts 1997, Jakarta, March 1998.

<sup>190</sup> PT Indofood Sukses Makmur Tbk. Audited Accounts 1997, Jakarta, March 1998.

billion (US\$ 80.3 million). This implies that the solvency stood at 6.2%, dangerously low compared with the desired minimum of 20%.<sup>191</sup>

In June 1999, First Pacific acquired 40 % of PT Indofood Sukses Makmur Tbk from the Salim family for US\$ 650 million. First Pacific paid the Indofood stake by issuing 261 million new First Pacific shares worth US\$ 229 million to the Salim family, plus US\$ 421 million in cash. To raise the needed cash, First Pacific placed 254 million new shares valued at US\$ 200 million with institutional investors and issued a US\$ 50 million seven-year convertible bond. The shares were placed at HK\$ 6.23 each in a deal handled by ING Barings Securities (Hong Kong) Ltd. After the deal, the Salim Family and associated investors owned 53 % of First Pacific.<sup>192</sup>

In July 1999, the Salim Group sold another 12.5% of its shares in Indofood at a total price of Rp 1.9 trillion (US\$ 285 million) to undisclosed buyers. Arranging the sale were Credit Suisse First Boston (Switzerland) and Morgan Stanley Dean Witter (United States). The sale included a 2.5% stake owned by the Indonesian Bank Restructuring Agency (IBRA) handed over by the Salim Group to repay its liabilities to the government.<sup>193</sup>

Since July 1999, the ownership structure of Indofood is as follows:

□ First Pacific Co. Ltd.	40.0 %
□ Salim Group	10.1 %
□ General public	49.9 %. <sup>194</sup>

In the first nine months of 1999, Indofood realised total sales amounting to Rp 8,447.6 billion (US\$ 1,011.7 million), and a net profit of Rp 845.0 billion (US\$ 101.2 million). The edible oils and fats division contributed 24 % of total sales.

At 30 September 1999, the balance sheet of Indofood showed a total debt of Rp 8,889.7 billion (US\$ 1,064.6 million). Total shareholder's equity stood at Rp 1,838.7 billion (US\$ 220.2 million). This implies that the solvency had improved to 17.1%, but was still below the desired minimum of 20%.<sup>195</sup>

In October 1999, PT Indofood Sukses Makmur announced that it would spin off its flour mill division PT Bogasari Flour Mills into four separate companies, by transferring the Bogasari assets to Purply Holding BV. Strategic investors will then be invited to buy up to a 60 percent stake of the four separate companies. The purpose is to raise money to pay off the US\$ 713 million in foreign debt the company owes, without losing control over the flour mill division.<sup>196</sup> However, in December 1999 Indofood delayed its spin off plans, as the company thinks it will be able to repay around US\$ 400 million of foreign debt that falls due mid-2000 from its own cash-

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<sup>191</sup> PT Indofood Sukses Makmur Tbk. Financial Statement 1998, Jakarta, March 1999.

<sup>192</sup> HK First Pacific +3% To HK\$6.85 After Indofood Deal, Dow Jones, Hong Kong, 22 June 1999; First Pacific Completes Acquisition of 40 Pct of Indofood for 615 Mln USD, AFX (AP), Jakarta, 23 September 1999.

<sup>193</sup> Indonesia's Salim Group Sells 12.5% Stake In Food Firm, Antara, Jakarta, 19 July 1999.

<sup>194</sup> Indofood to sell Bogasari mill to strategic buyers, The Jakarta Post, Jakarta, 7 October 1999; Indonesia's Salim Group Sells 12.5% Stake In Food Firm, Antara, Jakarta, 19 July 1999.

<sup>195</sup> PT Indofood Sukses Makmur Tbk. Financial Statement for the first nine months of 1999, Jakarta, November 1999; Indofood/9 Mths Results, AFX (AP), Jakarta, 1 November 1999.

<sup>196</sup> Indofood to sell Bogasari mill to strategic buyers, The Jakarta Post, Jakarta, 7 October 1999; Indofood/9 Mths Results, AFX (AP), Jakarta, 1 November 1999.

flow. Also, the company said it now only wants to sell 40 % of the flour mill division.<sup>197</sup>

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<sup>197</sup> Indofood Mill Review Leaves Analysts Undecided, Simon Montlake, Dow Jones, Jakarta, 13 December 1999.

## 4.8 Leyman Agro Group (PT Kalimantan Sanggar Pusaka)

### Company description

The Leyman Agro Group was a pioneer in the plantation business of West Kalimantan. One of the group's subsidiaries, PT Wira Rivaco Madum, first set up a rubber plantation while the Lyman Group developed oil palm estates through two estates under the Nucleus Estate Smallholder (NES) programme. PT Kalimantan Sanggar Pusaka (KSP) was established in 1988 with support from Bank BNI (PT Bank Negara Indonesia, Persero). Initially, the company had access to 27,000 ha in Belitang Hulu and Belitang Hilir Sub-districts in Sanggau. The second oil palm company operated by the Leyman Agro Group is PT Sinar Dinamika Kapuas in Belimbing Subdistrict, Sintang, with a total area of 22,000 ha.

PT Kalimantan Sanggar Pusaka (KSP) is the agribusiness arm of the Lyman Group, a diversified Indonesian business group formerly known as the Satya Djaya Raya Group. KSP is furthermore backed up by the Raja Garuda Mas group through the membership of Sukanto Tonoto in the company's supervisory board.<sup>198</sup>

At this moment KSP is expanding its planted area to approximately 35,000 hectares. In addition to the expansion of its own estates, KSP is developing over 34,000 hectares of oil palms under the NES and KKPA programs of the Indonesian government. Total estimated project costs are US\$ 160 million.<sup>199</sup>

### Relevant financial transactions

In November 1996, the company was provided with a financing package of US\$ 41 million by the International Finance Corporation (IFC), to finance its expansion plans. IFC's package consists of an equity investment of US\$ 15 million, a US\$ 20 million loan for its own account and a syndicated loan of US\$6 million for the account of the Singapore branch of Bank Brussels Lambert. The Belgian Bank Brussels Lambert is part of the Dutch ING Group since 1998. IFC also assisted the company in raising US\$ 10 million from DEG, the German Development Bank.<sup>200</sup>

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<sup>198</sup> CIC 1998. Profile and Directory of Indonesian Plantations. 1997/98. PT Capricorn Indonesia Consult Inc.

<sup>199</sup> IFC Invests in Agribusiness Project in Indonesia, Press Release No. 97/45, IFC, Washington, 21 November 1996.

<sup>200</sup> IFC Invests in Agribusiness Project in Indonesia, Press Release No. 97/45, IFC, Washington, 21 November 1996.

## 4.9 Selasih Permata Sdn. Bhd. (PT Gunung Maras Lestari)

### Company description

PT Gunung Maras Lestari (GML) is developing a 22,000 hectare palm oil plantation in Southern Sumatra, and constructing a crude palm oil mill. It is owned by Oriental Holdings, which is a subsidiary of the Malaysian plantation company Selasih Permata Sdn. Bhd.<sup>201</sup>

### Relevant financial transactions

On 11 April 1997 GML obtained a syndicated bank loan of Rp 80 billion (US\$ 34.1 million), with the Labuan office of the Sumitomo Bank (Japan) as arranger. The loan is due in April 2002, and is divided into two tranches.

The first tranche of Rp 40 billion (US\$ 17.06 million) carries an interest of JIBOR + 0.7%, and is divided equally among four banks: Banque Nationale de Paris (France), Bayerische Landesbank Girozentrale (Germany), Dai-Ichi Kangyo Bank (Japan), and the Labuan office of the Sumitomo Bank (Japan).

The second tranche of Rp 40 billion (US\$ 17.06 million) carries an interest of JIBOR + 0.5%, and is held completely by PT Rabobank Duta Indonesia.

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<sup>201</sup> A. Casson personal communication. See also appendix 4.

## 4.10 Good Hope Co. Ltd. (PT Agro Indomas)

### Company description

PT Agro Indomas is developing a palm oil plantation of minimally 12,000 hectares, out of a total of 16,750 hectares of landbank in Central Kalimantan.<sup>202</sup> The entire project will cost an estimated US\$ 43 million. The company also plans to build a crude palm oil processing mill with production capacity of 90 metric tons per hour. Production is scheduled to start in the first quarter of year 2000.

PT Agro Indomas is a joint venture formed in August 1995; its Indonesian partner is PT Bohagroindo Permai. PT Agro Indomas is 95% owned by five Malaysian plantation companies belonging to the Sri Lanka conglomerate Carson Cumberbatch & Co. Ltd., which has interests in tourism, real estate, beer, insurance, shipping and financial and corporate services in Sri Lanka. The five subsidiaries are: Shalimar (Malay) Estate Co. Ltd., Indo-Malay Estates Ltd., Selinsing Co. Ltd., Good Hope Co. Ltd. and Bukit Darah Co. Ltd. Probably, Good Hope Co. Ltd. is the parent of the Malaysian company Agro Hope Sdn. Bhd., which has operated oil palm plantations in Malaysia for the past 100 years. The remaining 5% of Agro Indomas is owned by two Indonesian partners. The shareholders will invest US\$ 15 million in Agro Indomas.<sup>203</sup>

### Relevant financial transactions

In December 1998, Rabobank International and the England-based Commonwealth Development Corporation (CDC) extended loans worth US\$ 25.2 million loan to PT Agro Indomas. As part of the financing agreement, CDC has taken some equity in the project, with a right to sell back the shares to the company at a fixed premium.<sup>204</sup>

CDC has financed the project by providing US\$ 10.8 million senior debt and a further US\$ 3.6 million of mezzanine finance. The Rabobank has invested a further US\$ 10.8 million. Rabobank's interest rates for the loans are at 2.25 above the London Interbank Offered Rate (Libor) for the first five years and at 1.75 per cent above Libor for the next five years.<sup>205</sup>

The total investment forecast to develop the 12,000 ha project site with a 60 t h<sup>-1</sup> palm oil mill was US\$ 40 million, with at least 40% of this cost borne by shareholders equity.<sup>206</sup>

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<sup>202</sup> There is some unclarity about the real landbank area that Agro Hope has access to. According to sources in Malaysia, Agro Indomas has a leasehold of 16,750 ha with an additional 10,000 ha (see Appendix 1) to 17,500 ha (New Straits Times, undated in Wakker 1998). According to the Indonesian authorities, the concession of Agro Indomas in Kabupaten Kotawaringin Timur, Central Kalimantan, does not exceed 12,104 ha.

<sup>203</sup> Agro Hope sows seeds of future in Kalimantan, New Straits Times, Singapore, 22 December 1998; PT Agro Indomas gets \$25m loan from foreign banks, The Jakarta Post, Jakarta, 30 January 1999; CDC arranges US\$14m for new oil palm business in Indonesia, Press Release Commonwealth Development Corporation, London, 9 March 1999; Sri Lanka Carson in Indonesia palm venture, Reuters, Colombo, 21 September 1999.

<sup>204</sup> In 1996, CDC also acquired 20% equity in Harapan Sawit Lestari and provided US\$ 3.3 million in loans to the same company. Harapan opens a 20,000 ha oil palm plantation in Kapatang, West Kalimantan. CDC is furthermore involved in oil palm plantations in Papua New Guinea and the Solomon Islands. CDC to Buy Shares of Harapan Sawit. Jakarta Post, 24 December 1996.

<sup>205</sup> Agro Hope sows seeds of future in Kalimantan, New Straits Times, Singapore, 22 December 1998; Agro Indomas Gets Credit US\$ 25,2 Million. Business Indonesia, 21 December 1998; Dutch Bank, UK CDC Agree to Loan Extension for Agro Indomas, Asia Pulse, Singapore, 23 December 1998; PT Agro Indomas gets \$25m loan from foreign banks, The Jakarta Post, Jakarta, 30 January 1999; CDC arranges US\$14m for new oil palm business in Indonesia, Press Release Commonwealth Development Corporation, London, 9 March 1999.

<sup>206</sup> Kuruvilla K.J. and N. N. Mohandas. Challenges in Large Scale Oil Palm Planting in Central Kalimantan. International Planters Conference 21-22 May 1997.

After an earlier postponement, the deal between Hari Selvanathan (Agro Indomas), Diana Reeves (CDC) and Hidzer Kiewiet de Jonge (Rabobank International) was closed in the Sharaton Airport Hotel on January 29, 1999.



## 4.11 Kulim (Malaysia) Bhd.

Kulim (Malaysia) Bhd. is a medium-sized Malaysian oil palm and rubber plantation company, with an acreage of 28,276 ha. The company also owns an oleochemical plant with an annual capacity of 145,000 tonnes, and is involved in property development.

Outside Malaysia, Kulim owns a 60% share in two Indonesian palm oil plantation companies, and an 80% share of the large palm oil plantation company New Britain Palm Oil in Papua New Guinea.

Kulim is majority owned by Johore State Economic Development Corporation from Malaysia. The company is listed on the stock exchange of Kuala Lumpur since 1975 (stock symbol: KULMF). In the year 1998-99, Kulim realised total sales of RM 538.1 million (US\$ 180 million).<sup>207</sup>

In October 1996, Kulim bought an 80% stake in New Britain Palm Oil (NBPO) in Papua New Guinea for US\$ 104.2 million from Harrisons & Crosfield Plc. (United Kingdom) and the government of Papua New Guinea. NBPO produces about 1.25 per cent of the world's palm oil, or around 135,000 tonnes annually. It manages over 22,800 hectares of oil palms, up from 7,000 ha in 1984 and is the largest private employer in PNG with some 5,500 employees. In total, NBPO has a titled area of 31,000 ha. NBPO has very long and stable relations with its major customers, among which are Cargill Inc. (United States) and Unilever (Netherlands/United Kingdom).<sup>208</sup>

To finance the acquisition, Kulim in October 1996 signed a US\$ 100 million syndicated term loan facility with ten offshore banks. The facility was arranged and lead-managed by the Labuan branch of the Oversea-Chinese Banking Corporation (Hong Kong). Other participating institutions were the Labuan branches of Bayerische Landesbank Girozentrale (Germany), Commerzbank (Germany), Credit Suisse (Switzerland), Dresdner Bank (Germany), Rabobank Nederland, ING Bank, Keppel Bank (Singapore), Sanwa Bank (Japan), and Société Generale (France).<sup>209</sup>

In November 1996, Kulim bought a 60% stake in the Indonesian oil palm plantation companies PT Prima Agronusantara Abadi and PT Prima Agroindustri Sejati for Rp 45 billion (US\$ 19.3 million). Both companies have a total landbank of 18,755 ha, of which 8,000 ha has been planted. Kulim planned to plant another 5,065 ha in 1997.<sup>210</sup>

In May 1999, Kulim announced that it would launch an IPO of NBPO on the Australian Stock Exchange and the Port Moresby Stock Exchange in July 1999. The planned market capitalisation would be A\$ 282 million (US\$ 187 million). Kulim would sell its entire 80% stake, because it needed the money to pay off its debts. The float would be managed globally by Rabobank

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<sup>207</sup> Kulim (Malaysia) Bhd - Company Report, Y.H. Wong, Merrill Lynch Capital Markets, Singapore, 13 October 1997; Kulim (Malaysia) Bhd. Profile, Kuala Lumpur Stock Exchange, 18 October 1999.

<sup>208</sup> Kulim (Malaysia) Bhd - Company Report, Y.H. Wong, Merrill Lynch Capital Markets, Singapore, 13 October 1997; New Britain Palm Oil ASX listing, Financial Times, London, 9 June 1999; Politics has scuppered Kulim's plan to sell off New Britain Palm Oil, Malcolm Surry, Asian Business, 1 August 1998.

<sup>209</sup> Kulim, offshore banks sign deal, Business Times, Singapore, 30 October 1996.

<sup>210</sup> Kulim (Malaysia) Bhd - Company Report, Y.H. Wong, Merrill Lynch Capital Markets, Singapore, 13 October 1997.

International, and Macquarie Equities Capital Markets (Australia) would act as joint lead manager.<sup>211</sup>

However, in July 1999, Kulim had to withdraw the proposed IPO of NBPO, because of reduced interest of foreign investors in the stock. This was caused by the political turmoil in Papua New Guinea after the forced resignation of prime minister Bill Skate in July 1999. By flying to Taipei and offering to ditch China and extend diplomatic recognition to Taiwan in return for loans ostensibly to prop up the Papua New Guinea economy, Skate had succeeded in upsetting both China and Australia, and spooking international investors.

As one of the reasons for the proposed listing of NBPO was to raise funds to repay the loans obtained by Kulim for the purchase of NBPO, Kulim currently is reviewing several alternative proposals that would result in the repayment of the said loans.<sup>212</sup>

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<sup>211</sup> New Britain Palm Oil ASX listing, Financial Times, London, 9 June 1999; Kulim to Sell Stake in New Britain Palm Oil Via Public Offering, AFX (AP), Singapore, 12 May 1999.

<sup>212</sup> Proposed listing of NBPO on the ASX, Press release Kulim (Malaysia) Bhd., Kuala Lumpur, 12 July 1999; Politics has scuppered Kulim's plan to sell off New Britain Palm Oil, Malcolm Surry, Asian Business, 1 August 1998.

## 4.12 PT Cahaya Kalbar Tbk.

### Company description

PT Cahaya Kalbar Tbk. is an export-oriented Indonesian producer and trader of special vegetable oils used as substitutes for cacao fat in the production of chocolate and other food products. Its products include cacao butter equivalent (CBE), cocoa butter substitute (CBS) and cacao butter improver (CBI). In addition, Cahaya Kalbar produces palm kernel olein, super olein, tengkawang oil, cooking oil, palm kernel oil and palm kernel stearin. Cahaya Kalbar has more than 500 employees.<sup>213</sup> Cahaya Kalbar is the country's biggest producer of speciality fats with a capacity of 12,500 metric tonnes per annum. The company booked Rp. 56 billion in net sales and Rp. 7.6 billion in net profits in 1995. It exported Rp. 9 billion to Russia, which is 21% of total exports.<sup>214</sup>

The company is likely to benefit from July 1999 EU-regulation that allows chocolate to be produced with a higher share of non-cocoa fats, among other, palm oil.

Cahaya Kalbar is believed to purchase its oil palm Fresh Fruit Bunches (FFB) from the following companies in Ketapang District, West Kalimantan:

- ❑ PT Lyman Agro / PT Kalimantan Sanggar Pusaka
- ❑ PT Bumi Raya Utama
- ❑ PT Duta Surya Pratama
- ❑ PT Polyplan Sejathera
- ❑ PT Multi Priman Entahai
- ❑ PT Sime Indo Agro (Malaysian investor)
- ❑ PT Benua Indah (Indonesian – Malay joint-venture)

### Relevant financial transactions

In January 1995, Cahaya Kalbar received a US\$ 4.5 million loan from **ING** Bank for working capital due for one year. This loan was backed by personal guarantee from the shareholders and a standby L/C from Bank Uppindo.

In November 1995, **ING** Bank provided a second loan to Cahaya Kalbar with a maximum of US\$ 4.0 million for working capital.<sup>215</sup>

In June 1996, Cahaya Kalbar made an IPO on the Jakarta Stock Exchange (stock code: CEKA). The company expected to raise approximately Rp 34 billion (US\$14.4 million). The lead underwriter of the share offering was PT Aspac Uppindo Securities.<sup>216</sup>

In November 1997, the company signed a two-year syndicated loan of US\$ 30 million in Singapore, with interest at 1.5 per cent above the Singapore Interbank Offered Rate (SIBOR). The syndication comprises 12 banks eight of them Singapore-based. The arrangers for the loan are **Rabobank** Duta Indonesia and the Singapore branch of **Rabobank** and Sanwa Bank. The other syndication participants are:

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<sup>213</sup>Cahaya Kalbar offers right issue to raise fund to repay debt, Indonesian Commercial Newsletter, Jakarta, 24 August 1998; PT Cahaya Kalbar Tbk. Financial Statement 1998, Jakarta, April 1999.

<sup>214</sup> Jakarta Post, 20 June 1996. PT Cahaya Kalbar starts Share Offering.

<sup>215</sup> Telapak, internal report.

<sup>216</sup> PT Cahaya Kalbar starts share offering, Jakarta Post, Jakarta, 20 June 1996.

- ❑ Sanwa Bank (Japan)
- ❑ Bank DBS Buana (Indonesia)
- Bank of Tokyo-Mitsubishi (Japan)
- ❑ Bank Sukara Swardharma (Indonesia)
- ❑ Commerzbank Aktiengesellschaft (Singapore branch)
- ❑ Royal Bank of Scotland (Singapore branch)
- ❑ Standard Chartered Bank (Singapore branch)
- ❑ Tokai Bank Ltd. (Singapore branch)
- ❑ DBS Bank (Indonesia)
- ❑ Arab Banking Corp (Singapore Branch)
- ❑ The Development Bank of Singapore

The loan has to be settled in November 1999.<sup>217</sup>

The loan was meant to finance the acquisition of the PT Mintawai factory and lands located in Pontianak, West Kalimantan in December 1997. This factory produces illipe butter, cooking oil, palm and palm kernel oil, and their fractions. Initially, an estimated US\$ 28 million was needed to finance the acquisition, however due to the depreciation of the Indonesian currency, only US\$ 13.5 million was needed. The company decided to effect only a partial draw down of US\$ 20 million of the loan.

Of the remaining part of the loan, US\$ 6.1 million was used to settle the outstanding short-term working capital facilities provided by PT Rabobank Duta Indonesia and ING Bank.<sup>218</sup>

At the end of 1997, the shareholders of PT Cahaya Kalbar Tbk. were:<sup>219</sup>

PT Cahayakalbar Perkasa	58.24%
❑ PT Tulada Pertiwi	12.47%
❑ Bear Stearns Securities	5.1%
❑ Directors	0.67%
❑ Pension funds	0.93%
❑ Co-operatives	0.71%
❑ General public	21.87%

In October 1998 the Cahaya Kalbar issued 178.5 million new shares, increasing the number of shares issued considerably from 119 million to 297.5 million. How the selling of new shares has affected the composition of its shareholders is unknown. The company hoped to raise Rp 196 billion with the share selling. The proceeds would be used to repay 50% of its US\$ 20 million loan and to construct a new plant. At the same time, the company reached a loan re-scheduling agreement with its creditors. The remaining US\$ 10 million loan would be paid within the next 2.5 years.<sup>220</sup>

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<sup>217</sup> Cahaya gets US\$30m offshore loan, *The Business Times*, Singapore, 12 November 1997; PT Cahaya Kalbar Tbk Annual Report 1997, Jakarta, May 1998.

<sup>218</sup> Cahaya gets US\$30m offshore loan, *The Business Times*, Singapore, 12 November 1997; PT Cahaya Kalbar Tbk Annual Report 1997, Jakarta, May 1998.

<sup>219</sup> PT Cahaya Kalbar Tbk Annual Report 1997, Jakarta, May 1998; Cahaya Kalbar offers right issue to raise fund to repay debt, *Indonesian Commercial Newsletter*, Jakarta, 24 August 1998.

<sup>220</sup> Cahaya Kalbar offers right issue to raise fund to repay debt, *Indonesian Commercial Newsletter*, Jakarta, 24 August 1998; Market Update, BNI Securities, Jakarta, 1 October 1998; Market Update, BNI Securities, Jakarta, 13 October 1998.

Total sales in 1998 amounted to Rp 231.3 billion. However, Cahaya Kalbar posted a net loss of Rp 80.8 billion in the same year, mainly caused by foreign exchange losses of Rp 111.3 billion.<sup>221</sup>

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<sup>221</sup> PT Cahaya Kalbar Tbk. Financial Statement 1998, Jakarta, April 1999.

## 5. Dutch banks and their clients

In this chapter, the involvement of Dutch banks in various Indonesian plantation companies is first listed for each institution.

### 5.1 ING Bank N.V.

ING Bank N.V. is one of the three largest bank Barings banks in the Netherlands. It aims to operate as a global player, and acquired the British investment in 1996. This bank is now known as ING Barings. The connections between ING and Indonesian palm oil plantations, are summarised below:

- ❑ In January 1995, PT **Cahaya Kalbar** received a US\$ 4.5 million loan from ING Bank for working capital due for one year with an interest rate of 1.25%. This loan was backed by personal guarantee from the shareholders and a standby L/C from Bank Uppindo.
- ❑ In November 1995, ING Bank provided a second loan to PT **Cahaya Kalbar** with a maximum of US\$ 4.0 million for working capital at an interest rate of 2%.
- ❑ In April 1995, the Singapore branch of ING Bank NV participated in a bank syndicate issuing a loan of US\$ 150 million to PT **SMART** Corporation Tbk., to expand its plantations. The Singapore branch of ING Bank NV participated for an unknown amount in the first tranche of US\$ 50 million, and for US\$ 8 million in the second tranche of US\$ 100 million. The second tranche was paid back in April 1998, the first tranche is still outstanding.
- ❑ At the end of 1995, PT **SMART** Corporation Tbk. owed short-term notes of Rp 9.2 billion to the Jakarta branch of ING Bank NV. During 1996, these notes were paid off.
- ❑ In October 1996, ING Bank participated in a US\$ 100 million syndicated loan facility for **Kulim** (Malaysia) Bhd. The loan was used to finance the acquisition by Kulim of 80% of the shares of **New Britain Palm Oil**, an oil palm plantation company in Papua New Guinea. Kulim also owns 60% of two Indonesian oil palm plantation companies. The loan is probably still largely outstanding.
- ❑ In November 1996, the Singapore branch of Bank Brussels Lambert arranged a syndicated loan of US\$ 6 million to PT **Kalimantan Sanggar Pusaka** (KSP). The present status of this loan is unknown. The Belgian Bank Brussels Lambert is part of the ING Group since 1998.
- ❑ In April 1997, the Jakarta branch of the ING Bank participated in a US\$ 95 million five-year term syndicated loan for PT **Asian Agro** Lestari, one of the main subsidiaries of PT Asian Agri Plantation. The loan was used to repay domestic borrowing and for expansion purposes. The present status of the loan is unknown.
- ❑ In November 1997, PT **Cahaya Kalbar** Tbk. used part of a syndicated loan to settle the outstanding short-term working capital facilities provided by ING Bank.
- ❑ At the end of 1997, PT **Astra International** Tbk. - the parent company of the **Astra International Group** - owed a short-term dollar loan of Rp 53 billion (US\$ 11.4 million) to ING Bank. The present status of this loan is unknown.

- ❑ In March 1998, ING Bank acted as one of the lead managers of the banking syndicate selling a 39.7% stake in Hagemeyer, a large Dutch trading company, to international investors on behalf of First Pacific Company Ltd., the ultimate owner of the palm oil holdings of the Salim Group. The share selling raised Dfl 3.6 billion (US\$ 1.75 billion) for First Pacific.
- ❑ In June 1999, ING Barings Securities (Hong Kong) Ltd. handled for First Pacific Company Ltd. the placement of 254 million new shares valued at US\$ 200 million with institutional investors. The placement was connected with a restructuring of the interests of the Salim Group in the food and oil palm industry.
- ❑ In July 1999, ING Barings was one of the lead managers for the international placement part of the initial public offering (IPO) of Golden Agri-Resources Ltd. on the Stock Exchange of Singapore. Golden Agri-Resources raised US\$ 360.2 million in net proceeds with the IPO. ING Barings was responsible for the placement of 26% of the new shares, thereby raising US\$ 93.8 million for Golden-Agri Resources Ltd.

## 5.2 ABN AMRO Bank N.V.

ABN AMRO Bank N.V. is one of the three largest banks in the Netherlands. It aims to operate as a global player, and has one of the most extensive networks of international offices in the banking industry. ABN-AMRO is a public company with 1,000 branches in the Netherlands and 700 offices in 6 continents. The connections between ABN AMRO and Indonesian palm oil plantations, are summarised below:

- ❑ In April 1995, the Jakarta branch of ABN AMRO Bank NV participated in a bank syndicate issuing a loan of US\$ 150 million to PT SMART Corporation Tbk., to expand its plantations. The Jakarta branch of ABN AMRO Bank NV participated for an unknown amount in the first tranche of US\$ 50 million, and for US\$ 8 million in the second tranche of US\$ 100 million. The second tranche was paid back in April 1998, the first tranche is still outstanding.
- ❑ At the end of 1995, PT SMART Corporation Tbk. owed a short-term working capital loan of Rp 19.6 billion to the Jakarta branch of ABN AMRO Bank NV. At the end of 1996, this short-term loan had increased to Rp 22.2 billion. The present status of this working capital-facility is unknown.
- ❑ Since October 1997 ABN AMRO Trust Company (Nederland) BV houses and manages LonSum Finance BV. This financing company - a full subsidiary of PT Perusahaan Perkebunan London Sumatra Tbk Indonesia Tbk. - issued a loan of US\$ 15 million to its parent in October 1997. This loan was financed by a Guaranteed Floating Rate Note issued by LonSum Finance BV to the UBS Bank (Switzerland), which is still outstanding.
- ❑ In October 1997, ABN AMRO Bank participated in a syndicated loan of US\$ 160 million to PT Astra International Tbk., the parent company of the Astra International Group. The loan was intended to refinance an older loan facility which matured in 1997. The loan probably is partly still standing out.
- ❑ In December 1997 ABN AMRO Hoare Govett Indonesia was the lead managing underwriter for the initial public offering (IPO) of PT Astra Agro Lestari Tbk. on the Stock Exchange of Jakarta, while ABN AMRO Rothschild was its global co-ordinator and international financial advisor. The company raised about Rp 195 billion with its IPO.
- ❑ At the end of 1997, PT Astra International Tbk. - the parent company of the Astra International Group - owed a short-term Rupiah loan of Rp 50 billion (US\$ 10.8 million) and a long-term dollar loan of Rp 10.1 billion (US\$ 2.2 million) to ABN AMRO Bank.
- ❑ According to a report by the Dutch MeesPierson Bank, written in February 1998, loan exposure to local Asian companies (excluding Japan and Singapore) is nearly Dfl 1 billion (which is 10% of Asian loans) at ABN AMRO. These loans have been funded in the local markets, through interbank, corporate and retail channels (especially in Indonesia). ABN AMRO's lending activities in the region include loans to palm oil and energy projects that generate dollar-denominated exports, reducing the risk of a possible default.<sup>1</sup>
- ❑ In March 1998, ABN AMRO acted as senior co-lead manager of the banking syndicate selling a 39.7% stake in Hagemeyer, a large Dutch trading company, to international investors on behalf of First Pacific Company Ltd., the ultimate owner of the palm oil

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<sup>1</sup> Dutch Financials, A. de Groot, MeesPierson, Amsterdam, 2 February 1998, p. 6.



holdings of the Salim Group. The share-selling raised Dfl 3.6 billion (US\$ 1.75 billion) for First Pacific.

- In June 1999, ABN AMRO was one of the seven members of the Astra International Credit Committee which signed a debt restructuring agreement with PT Astra International Tbk. At the same occasion, ABN AMRO Jakarta was one of the two trustees of the bondholders of the company's bonds. Astra International is the parent company of PT Astra Agro Lestari Tbk.
- In July 1999, ABN AMRO Rothschild was part of the syndicate which arranged the international placement part of the initial public offering (IPO) of Golden Agri-Resources Ltd. on the Stock Exchange of Singapore. Golden Agri-Resources raised US\$ 360.2 million in net proceeds with the IPO. ABN AMRO Rothschild was responsible for the placement of 6.7% of the new shares, thereby raising US\$ 24.1 million for Golden-Agri Resources Ltd.
- In November 1999 ABN AMRO Bank Indonesia announced it will open two new branches in Balikpapan, East Kalimantan, and Makassar, South Sulawesi, to enforce its presence in the oil & gas and agricultural markets.<sup>2</sup>

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<sup>2</sup> ABN AMRO opens New Branches. Jakarta Post. 26 November 1999.

### 5.3 Rabobank Nederland

Measured by market share, the Rabobank Group is the largest bank on the Dutch domestic market and by total assets, the Rabobank Group is the second largest bank in the Netherlands. It is a co-operative bank, with its roots in the Dutch agricultural sector. It aims to become a global leader in financing the agricultural sector and commodity trading. The Rabobank Group consists of 480 autonomous local Rabobanks, their umbrella co-operative Rabobank Nederland, of which Rabobank International (corporate banking, investment banking and private banking) forms part. The bank awards almost 90% of all bank credit granted to the agricultural sector in the Netherlands.

Through its subsidiaries and Rabobank International- Rabobank operates an international network of 112 offices in 35 countries of which 46 offices in 17 European countries. As a corporate and investment bank, Rabobank International is focusing primarily on international food and agribusiness. On 31 December 1998, Rabobank International had NLG 72.1 billion (US\$ 35 billion) in loans to the private sector on its books<sup>3</sup>. The connections between the Rabobank and Indonesian palm oil plantations, are summarised here:

- ❑ In November 1994, the Hong Kong branch of Rabobank Nederland served as one of the co-arrangers for a joint five-year amortizing term loan of US\$ 183.5 million, to finance the acquisition of PT Perusahaan Perkebunan London Sumatra Tbk Indonesia Tbk. by the Indonesian company PT Pan London Sumatra Plantation. This loan was paid off in May 1996.
- ❑ In April 1995, Rabobank Asia Ltd. participated in a bank syndicate issuing a loan of US\$ 150 million to PT SMART Corporation Tbk., to expand its plantations. Rabobank Asia Ltd. participated for an unknown amount in the first tranche of US\$ 50 million, and for US\$ 8 million in the second tranche of US\$ 100 million. The second tranche was paid back in April 1998, the first tranche is still outstanding.
- ❑ At the end of 1995, Lewis & Peat (Singapore) Pte. Limited owed a short-term loan of S\$ 213,419 to the Singapore branch of Rabobank Nederland. This equalled Rp 348.8 million. During 1996 this loan was settled. The rubber trading company Lewis & Peat is a full subsidiary of PT Bakrie Sumatra Plantations.
- ❑ In September 1996, the Singapore branch of Rabobank Nederland lead-managed a US\$ 150 million syndicated trade finance facility for Lewis & Peat (Rubber) Holdings Pte. Ltd. The company had rubber trading offices in Singapore, London, and New York and sought a way to consolidate its operations. By creating this syndicated trade finance facility, Rabobank arranged to co-ordinate these centers. The rubber trading company Lewis & Peat is a full subsidiary of PT Bakrie Sumatra Plantations.
- ❑ In May 1996, the Hong Kong branch of Rabobank participated in a syndicated bank loan of US\$ 197 million to PT Perusahaan Perkebunan London Sumatra Indonesia Tbk. and its majority owner PT Pan London Sumatra Plantation. The loan was used partly to finance the development of new oil palm plantations, and partly to repay outstanding debt incurred in November 1994 when LonSum was acquired by PLSP.
- ❑ In September 1996, the Singapore branch of Rabobank Nederland lead-managed a US\$ 150 million syndicated trade finance facility for Lewis & Peat (Rubber) Holdings Pte. Ltd. The

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<sup>3</sup> Excerpt from the Rabobank Group, Utrecht, May 1998; Trouw 25 September 1999. Rabobank-poot Aast op Landbouw en Voeding. The Rabobank Group, Annual Report 1998. Group Profile.

facility was used for coordinating the international rubber trading offices of Lewis & Peat. Lewis & Peat is a subsidiary of PT **Bakrie Sumatera Plantations**, the holding company for the oil palm interests of the Bakrie Group.

- ❑ In October 1996, Rabobank participated in a US\$ 100 million syndicated term loan facility for **Kulim (Malaysia) Bhd.** The loan was used to finance the acquisition by Kulim of 80% of the shares of **New Britain Palm Oil**, an oil palm plantation company in Papua New Guinea. Kulim also owns 60% of two Indonesian oil palm plantation companies.
- ❑ In January 1997, PT **Perusahaan Perkebunan London Sumatra Tbk Indonesia Tbk.** entered into a lease agreement for financing the purchase of fixed assets with PT **Rabo Finance Indonesia**, with a net finance amount of US\$ 2.9 million. This lease agreement is probably still outstanding.
- ❑ In April 1997, Rabobank Asia Ltd. and PT **Rabobank Duta Indonesia** arranged a US\$ 95 million five-year term syndicated loan for PT **Asian Agro Lestari**, one of the main subsidiaries of PT **Asian Agri Plantation**. The loan was used to repay domestic borrowing and for expansion purposes. Rabobank Asia Ltd. and PT **Rabobank Duta Indonesia** participated in the loan for US\$ 8 million each. The present status of the loan is unknown.
- ❑ In April 1997, PT **Rabobank Duta Indonesia** participated for Rp 40 billion (US\$ 17.06 million) in a syndicated bank loan of Rp 80 billion (US\$ 34.1 million) to PT **Gunung Maras Lestari**. The loan is used for developing a palm oil plantation and constructing a crude palm oil mill. The present status of the loan is unknown.
- ❑ In November 1997, PT **Rabobank Duta Indonesia** and the Singapore branche of Rabobank arranged a two-year syndicated loan of US\$ 30 million to PT **Cahaya Kalbar Tbk.** The loan was used to finance the acquisition of a (palm) oil factory. Part of the loan was used to settle the outstanding short-term working capital facilities provided by PT **Rabobank Duta Indonesia**. In October 1998 US\$ 10 million was paid back, and the remaining US\$ 10 million now is due in 2001.
- ❑ At the end of 1997, PT **Bakrie & Brothers Tbk.** owed a short-term US\$ loan of Rp 5.3 billion to PT **Rabobank Duta Indonesia**. The present status of this working capital-facility is unknown. PT **Bakrie & Brothers Tbk.** is the parent company of PT **Bakrie Sumatera Plantations**.
- ❑ In March 1998, Rabobank participated in the banking syndicate selling a 39.7% stake in **Hagemeyer**, a large Dutch trading company, to international investors on behalf of **First Pacific Company Ltd.**, the ultimate owner of the palm oil holdings of the **Salim Group**. The share-selling raised Dfl 3.6 billion (US\$ 1.75 billion) for **First Pacific**.
- ❑ In December 1998, Rabobank International extended a loan of US\$ 10.8 million to PT **Agro Indomas**. The loan will be used for developing a palm oil plantation and building a crude palm oil processing mill. The present status of the loan is unknown.
- ❑ In May 1999, it was announced that Rabobank International would be the global manager of the IPO of **New Britain Palm Oil**, an oil palm company in Papua New Guinea which is owned 80% by **Kulim (Malaysia) Bhd.** Kulim, who also owns 60% of two Indonesian oil palm plantation companies, would use the proceeds to pay off its debts. However, the IPO was cancelled in July 1999.

- In December 1999 the International Finance Corporation (IFC) launched a US\$ 140 million revolving facility to be established by IFC together with Rabobank and FMO. The facility would provide export oriented Indonesian food and agribusiness corporations with a source of working capital and to expand the ability of international banks to take exposure to Indonesian corporations in trade finance transactions. Under the facility, IFC will provide a 100% Guarantee for the amount of pre-selected eligible corporations for imports of necessary raw materials through letters of credit (L/C) as well as for pre-export finance for processing and other pre-shipment expenses. IFC will be counter-guaranteed by Rabobank for US\$ 40 million and by FMO for up to US\$ 50 million leaving IFC with a net exposure of up to US\$ 50 million. Rabobank will act as the facility agent and issues L/C as agent for Rabobank Singapore, which provides the actual funding and serves as the facility bank. The agreement requires Rabobank to ensure that each corporation complies with environmental, health and safety requirements of Indonesia. IFC would assess Rabobank's capability to conduct environmental and social reviews. The facility is accessible only to companies that have previously been doing business with IFC, Rabobank or FMO.<sup>4</sup>

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<sup>4</sup> International Finance Corporation (IFC) Infoshop. 6 January 1999; Krediet voor Export Indonesië. Trouw 11 December 1999.

## 5.4 MeesPierson N.V.

Apart from the three largest Dutch banks, MeesPierson is the most important Dutch investment bank. It is part of Fortis Bank, the banking branch of the Fortis Group, a Dutch-Belgian banking and insurance group. The connections between MeesPierson and Indonesian palm oil plantations, are summarised below:

- ❑ Since October 1994 MeesPierson Trust BV houses **Astra Overseas Finance BV**, a full subsidiary of PT Astra International. Astra International is the parent company of PT Astra Agro Lestari Tbk. Since June 1999 MeesPierson Trust BV also is one of the three directors of Astra Overseas Finance BV. In August 1996, Astra Overseas Finance BV issued US\$ 200 million Guaranteed Bonds, and used the proceeds of the bonds to issue a US\$ 200 million loan to PT Astra International. The bonds are due in 2003.
- ❑ In 1995, MeesPierson was appointed by one of Indonesia's largest palm oil producers to arrange some US\$ 40 million for the establishment of a new palm oil plantation. Part of the deal involved MeesPierson arranging long-term off take agreements with three end-buyers.<sup>5</sup>
- ❑ Since January 1996, MeesPierson Trust BV houses **Bakrie International Finance Company BV**, and acts as its proxy responsible for day-to-day management. Bakrie International Finance Company BV is a financing company, which has issued various US\$ and ¥ loans to its parent PT Bakrie & Brothers Tbk. and to the subsidiaries of its parent. PT Bakrie & Brothers Tbk is the majority owner of PT Bakrie Sumatra Plantations.
- ❑ Since August 1996, MeesPierson Trust BV houses Purimas International Finance Company BV, a full subsidiary of PT Purimas Sasmita. PT Purimas Sasmita is one of the main subsidiaries of **Golden Agri-Resources Ltd.**
- ❑ Since November 1996, MeesPierson Trust BV houses **Bakrie Indonesia BV**, a full subsidiary of PT Bakrie Investindo. PT Bakrie Investindo is the main shareholder in PT Bakrie & Brothers Tbk., which is the majority owner of PT Bakrie Sumatra Plantations.
- ❑ In March 1997, PT Meespierson Finas Investment Management had invested 10% of its assets in shares of PT **Bakrie & Brothers Tbk.** It is unclear how large this shareholding is. PT Bakrie & Brothers Tbk. is the majority owner of PT Bakrie Sumatra Plantations.
- ❑ Between April 1997 and October 1998, MeesPierson Trust BV housed AFP International Finance Company BV, a full subsidiary of Asia Food & Properties. Asia Food & Properties is the parent company of **Golden Agri-Resources Ltd.**
- ❑ Since May 1997, MeesPierson Trust BV houses Inti **Indosawit International BV**, a full subsidiary of PT Inti Indosawit Subur. This is one of the main subsidiaries of PT **Asian Agri Plantation**. MeesPierson Trust BV also is one of the five directors of Inti Indosawit International BV. In June 1997, Inti Indosawit International BV issued a total of US\$ 300 million in bonds to the Union Bank of Switzerland (UBS). The proceeds were used by Inti Indosawit International BV to issue two loans of US\$ 100 million and US\$ 200 million respectively to its parent. The bonds were renewed in 1998, and now are due in 2003.
- ❑ Since June 1997, MeesPierson Trust BV houses Purply Holding BV, a full subsidiary of PT Indofood Sukses Makmur. This company holds the oil palm plantation interests of the

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<sup>5</sup> Vroeger Krediet op Palmolie, Nu op de Plantage, *Het Financieele Dagblad*, Amsterdam, October 24 1995; MeesPierson's Specialist Niche, *Euromoney Project & Trade Finance*, London, March 1996.

Salim Group. MeesPierson Trust BV also is one of the three directors of Purply Holding BV. In 1997 Indofood and Purply Holding together obtained a syndicated loan facility of US\$ 250 million from Credit Suisse First Boston (Switzerland), to finance the acquisition of some oil palm and other companies from other parts of the Salim Group.

- ❑ Since September 1997, MeesPierson Trust BV houses Pan **London Sumatra Finance BV**, a full subsidiary of PT Pan London Sumatra Plantation. From November 1994 to June 1999 this company was the majority shareholder of PT Perusahaan Perkebunan London Sumatra Tbk Indonesia Tbk. Its present shareholding probably is 23.60%.
- ❑ Since September 1997, MeesPierson Trust BV houses **Asian Agro International BV**, a full subsidiary of PT Inti **Indosawit Subur**. This is one of the main subsidiaries of PT Asian Agri Plantation. Since November 1997, MeesPierson Trust BV also is one of the five directors of Asian Agro International BV.
- ❑ In March 1998, MeesPierson participated in the banking syndicate selling a 39.7% stake in Hagemeyer, a large Dutch trading company, to international investors on behalf of First Pacific Company Ltd., the ultimate owner of the palm oil holdings of the Salim Group. The re-offering raised Dfl 3.6 billion (US\$ 1.75 billion) for First Pacific.
- ❑ In May 1999, MeesPierson Global Custody owned 0.41% of the shares of PT Astra Agro Lestari Tbk.

## 5.5 De Nationale Investeringsbank N.V.

De Nationale Investeringsbank N.V. is a Dutch investment bank. It was government owned, but in early 1999 it was acquired by the Dutch pension funds ABP en PGGM.

The connections between De Nationale Investeringsbank and Indonesian palm oil plantations, are summarised here:

- ❑ In April 1995, De Nationale Investeringsbank N.V. participated for US\$ 7.25 million in a bank syndicate issuing a loan of US\$ 150 million to PT SMART Corporation Tbk., to expand its plantations. This part of the loan was paid back in April 1998.

## 5.6 Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)

The Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) is the Dutch development bank. It is owned jointly by the Dutch state (51%), Dutch banks (42%), the two main trade union federations FNV and CNV, and 120 other companies and persons.

The connections between the FMO and Indonesian palm oil plantations are:

- ❑ In July 1996, the palm oil plantation company PT Maskapai Perkebunan Leidong West Indonesia (a 100% subsidiary of PT SMART Corporation Tbk.) entered into a secured US\$ 21 million long-term facility with FMO N.V., to finance the expansion of its oil palm plantations and its oil palm crushing mill. At 31 March 1999, US\$ 8.0 million was still outstanding.
- ❑ In December 1999 the International Finance Corporation (IFC) launched a US\$ 140 million revolving facility to be established by IFC together with Rabobank and FMO (see the section on Rabobank 5.3 for further detail).



## 5.7 Aegon N.V.

Aegon N.V. is the holding corporation of one of the world's ten largest listed life insurance groups ranked by market capitalisation and assets.

The connections between Aegon and Indonesian palm oil plantations, are summarised here:

- In May 1999 Citibank London SA Aegon owned 0.24% of the shares of PT Astra Agro Lestari Tbk.

## 5.8 Kempen & Co. N.V.

Kempen & Co. NV is a small Dutch merchant bank, owned by several Dutch and foreign institutional investors.

The financial links between Kempen & Co. and Indonesian palm oil plantations, are summarised here:

- In March 1998, Kempen & Co. participated in the banking syndicate selling a 39.7% stake in Hagemeyer, a large Dutch trading company, to international investors on behalf of First Pacific Company Ltd., the ultimate owner of the palm oil holdings of the Salim Group. The share-selling raised Dfl 3.6 billion (US\$ 1.75 billion) for First Pacific.



## 6. Forms of involvement and influence

### 6.1 Overview of forms of involvement

This chapter describes the ways in which financial companies can be involved with plantation companies and assesses the level of influence they thereby have on their clients.

When foreign financial companies assist the Indonesian oil palm industry to finance its expansion plans, they will mostly do this in the form of providing equity and debt. Table 6.1 summarises the various forms of financial involvement of Dutch banks in plantation company groups in Indonesia.

Table 6.1 Overview of the involvement of Dutch banks with oil palm plantation companies in Indonesia (1994 – 1999).

Direct participation	
MeesPierson	Astra Agro Lestari
MeesPierson	Bakrie & Brothers
Aegon	Astra Agro Lestari
Arrangers of an IPO	
ING Bank	Golden Agri Resources
ABN-AMRO	Golden Agri Resources
ABN-AMRO	Astra Agro Lestari
Finding new investors	
ING Bank	First Pacific Company
Selling of assets	
ING Bank	First Pacific Company
ABN-AMRO	First Pacific Company
MeesPierson	First Pacific Company
Kempen & Co.	First Pacific Company
Rabobank	First Pacific Company
Rabobank	Kulim
Long-term loans	
ING Bank	SMART Corporation
ING Bank	Kalimantan Sanggar Pusaka
ING Bank	Asian Agri Plantation
ABN-AMRO	SMART Corporation
ABN-AMRO	Astra Agro
Rabobank	PP LonSum
Rabobank	Asian Agri Plantation
Rabobank	Gunung Mas Lestari

Long-term loans (cont'd)	
Rabobank	Agro Indomas
Rabobank	Cahaya Kalbar
Rabobank	SMART Corporation
MeesPierson	Unknown oil palm company
Nationale Investeringsbank	SMART Corporation
FMO	SMART Corporation
Short-term loans	
ING Bank	SMART Corporation
ING Bank	Cahaya Kalbar
ABN-AMRO	SMART Corporation
Rabobank	Bakrie Sumatra Plantations
Rabobank	PP LonSum
Facilities to obtain loans	
ABN-AMRO	PP LonSum
MeesPierson	Astra Agro Lestari
MeesPierson	Bakrie Sumatra Plantations
MeesPierson	Golden Agri Resources
MeesPierson	Asian Agri Plantation
MeesPierson	PPLonSum Indonesia

In the following paragraphs, each form of involvement is analysed to establish the level of influence banks will have on their clients and during which period they are able to exert such influence. At the end of this chapter, the findings are summarised in Table 6.2 and put in a broader context.

## 6.2 Equity

Equity is the present value of the capital provided by the shareholders. The shareholders are the co-owners of the company, and this form of capital therefore participates in all the risks taken by the company. If the company makes profits, the equity increases, and if the company makes losses, the equity decreases. Part of the gains made by the shareholders on their investment is paid out, in the form of dividends but the rest is used to finance expansion. Until the shareholder sells its stock, he or she does face the risk the company goes bankrupt, in which case he or she will not get anything back for his or her investment. For the company equity therefore is the preferred form of capital, as this is risk-taking capital which does not have to be paid back within a certain period of time. There are several ways by which a bank can help a company to obtain more equity:

### 6.2.1 Direct participation

Banks can, through the equity funds they are managing or otherwise, buy shares in a certain company. This provides the company with new equity, and gives the bank direct influence on the company strategy. This influence of course depends on the size of the shareholding.

On the basis of their direct participation in the equity of Indonesian palm oil companies, the influence of Dutch banks on these companies can be assessed as follows:

- MeesPierson

Because of the very small shareholdings MeesPierson seems to have in **Astra Agro Lestari** and in **Bakrie & Brothers**, the bank has a minimal influence on these companies.

- Aegon

Because of the very small shareholdings Aegon seems to have in **Astra Agro Lestari**, the insurance company has a minimal influence on this company.

### 6.2.2 Finding new investors

Banks can use their contacts and experience to bring a company into contact with new, for instance foreign, investors willing to take a substantial shareholding in the company. Although this is a very important function banks can carry out, it does not give much direct influence on the company's investment strategy.

Based on their involvement in finding new investors for Indonesian palm oil companies, the influence of Dutch banks on these companies can be assessed as follows:

- ING Bank

Around June 1999, ING Bank had a modest influence on **First Pacific Company**, because of the handling of the placement of 254 million new shares with institutional investors.

### 6.2.3 Arranging an IPO

An Initial Public Offering (IPO) on a stock exchange, gives a company the opportunity to increase its equity by finding a large number of new, small and big, shareholders. To arrange an IPO, a company needs the assistance of one or more banks, which will promote the shares and find shareholders. As an IPO attracts a lot of public attention for the company as well as for the

arranging banks, the banks will closely scrutinise the strategies and policies of the company, and demand adjustments if needed. During the preparation of the IPO, the arranging banks (and especially the banks leading the arranging syndicate) will therefore have considerable influence on the company's strategies and policies. However, this influence ends when the IPO has been concluded successfully.

On the basis of involvement in IPO's of Indonesian palm oil companies, the influence of Dutch banks on these companies can be assessed as follows:

❑ **ING Bank**

During the preparation of the IPO of **Golden Agri-Resources** in July 1999, the ING Bank had a considerable influence on this company.

❑ **ABN AMRO Bank**

During the preparation of the IPO of **Golden Agri-Resources** in July 1999, ABN AMRO Bank had a moderate influence on this company. During the preparation of the IPO of **Astra Agro Lestari** in December 1997, ABN AMRO Bank had a considerable influence on this company.

#### 6.2.4 Selling of assets

Selling of assets, either physical or financial, frees capital for the company. This makes it possible to reduce its debts and strengthen its financial position, or reinvest in other business opportunities. A bank can use its international contacts to help a company to sell some assets, thereby maximising the amount of capital which is freed for the company. But as the bank does not provide any new capital to the company (it just helps converting existing physical or financial assets into cash), its influence on the company is only modest and temporarily.

Based on their involvement in the selling of assets by Indonesian palm oil companies, the influence of Dutch banks on these companies can be assessed as follows:

❑ **ING Bank**

During the selling of its stake in **Hagemeyer** in March 1998, ING Bank had a modest influence on **First Pacific Company**.

❑ **ABN AMRO Bank**

During the selling of its stake in **Hagemeyer** in March 1998, ABN AMRO Bank had a minimal influence on **First Pacific Company**.

❑ **Rabobank**

During the selling of its stake in **Hagemeyer** in March 1998, Rabobank had a minimal influence on **First Pacific Company**.

During the preparation of the cancelled IPO of **NBPO** in May 1999, Rabobank had a modest influence on **Kulim (Malaysia) Bhd**.

❑ **MeesPierson**

During the selling of its stake in **Hagemeyer** in March 198, MeesPierson had a minimal influence on **First Pacific Company**.

❑ **Kempen & Co.**

During the selling of its stake in **Hagemeyer** in March 1998, Kempen & Co. had a minimal influence on **First Pacific Company**.

## 6.3 Debt

The other main form of capital a company can acquire to finance its day-to-day operations and expansion plans, is debt. Debt is mostly provided by banks, but also by trading partners, pension funds and tax agencies. Different from shareholders, creditors are not co-owners of the company, and do not participate fully in the risks the company takes. Debts are entitled to a fixed financial reward in the form of a certain amount of interest, which the company and its creditor have laid down in the debt agreement. Debts also have to be paid back within a certain period of time.

When a company gets into financial difficulties, the rights of the creditors are stronger than those of the shareholders. When a company goes bankrupt, the assets of the company are in the first place used to pay off the creditors. Some of the creditors will have stronger rights, and are paid off before others. Only after all creditors have been paid off, the shareholders can claim some part of the remaining assets. Overall, banks have a strong negotiation power with regard to the companies that are dependent on their credits.<sup>1</sup>

In principle, the influence of creditors on the company's policies and strategies is smaller than the influence of shareholders, who are the co-owners. But in practice, when a company has a large number of small shareholders and a few large creditors, the influence of the creditors can be very large. This of course depends on the amount of capital provided by the creditors, but also on the currency of the debt.

Long-term debts can be used for expansion plans, which only bring rewards after some period of time. Long-term debts therefore are more valuable to the company than short-term debts, but also bear more risk for the creditor. During the currency of the debt, the risks that the company runs into trouble are higher. Providers of long-term debt therefore usually demand and get more influence on the company. Banks can help a production company with acquiring debt in the following ways:

### 6.3.1 Providing long-term loans

A long-term loan has a currency of at least one year but generally three years or more. Long-term loans are in particular useful to finance expansion plans, which only bring rewards after some period of time. Debt financing in the oil palm sector, however, where tenure exceeds five years, is difficult owing to the shortage of banks prepared to fund such undertakings, which they consider risky.<sup>2</sup>

Often, long-term loans are provided by a banking syndicate, which will only undersign the loan agreement if the company can provide certain guarantees that interest and repayments on the loan will be fulfilled. This of course gives the banking syndicate a considerable influence on the company's strategies and policies. This influence continues during the currency of the loan. The arranging bank has the most influence in this respect, as it has to convince other banks to participate in the syndicate.

The influence of the banking syndicate on the company of course depends on the amount of capital it provides, but also on the attractiveness of the company in the financial world. Financial solid companies with good prospects usually do not have problems in finding new creditors. In

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<sup>1</sup> Schrama, C. *Banken en Milieu in Nederland. Milieu 1999/4.*

<sup>2</sup> Kuruville and Mohandas (Agro Hope Sdn. Bhd.) 1997. *Challenges in Large-scale Oil Palm Planting in Central Kalimantan. International Planters Conference May 21-22.*



fact, banks will have to compete to be part of a banking syndicate lending to such a company. This of course undermines their bargaining power vis-à-vis the company.

Financial weak companies with gloomy prospects on the other hand will have considerable difficulty in finding new long-term creditors. Banks willing to take the risk are in good bargaining position to demand changes in the company's strategies and policies.

Because of their involvement in long-term loans to Indonesian palm oil companies, the influence of Dutch banks on these companies can be assessed as follows:

❑ **ING Bank**

As participant in a banking syndicate providing a long-term loan, ING Bank probably still has a moderate influence on SMART Corporation, Kulim (Malaysia) and Kalimantan Sanggar Pusaka and Asian Agri Plantation.

❑ **ABN AMRO Bank**

As participant in a banking syndicate providing a long-term loan, ABN AMRO Bank probably still has a moderate influence on PT SMART Corporation and Astra International.

❑ **Rabobank**

Because Rabobank was the arranger of a large syndicated loan to PP London Sumatra Indonesia, the bank probably had considerable influence on this company between November 1994 and May 1996. As arranger of large syndicated loans to PT Kalimantan Sanggar Pusaka, PT Gunung Maras Lestari, Bakrie Sumatera Plantations, PT Agro Indomas, PT Cahaya Kalbar, and as arranger and participant in a loan to Asian Agri Plantation, Rabobank probably still has a considerable influence on these companies. As participant in a banking syndicate providing a long-term loan, Rabobank probably still has a moderate influence on PT SMART Corporation, Kulim (Malaysia) and PP London Sumatra Indonesia.

❑ **MeesPierson**

As arranger of a large syndicated loan to an unknown Indonesian plantation company, MeesPierson probably still has a considerable influence on this company.

❑ **De Nationale Investeringsbank**

As participant in a banking syndicate providing a long-term loan, De Nationale Investeringsbank probably still has a moderate influence on PT SMART Corporation.

❑ **Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO)**

As arranger of large syndicated loans to its subsidiary Maskapai Perkebunan Leidong West Indonesia, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO) probably still has a considerable influence on PT SMART Corporation.

### 6.3.2 Providing short-term debt

Short-term debt has a currency of less than a year, and is mostly used as working capital for day-to-day operations: paying materials, machines, taxes, et cetera. Short-term debts are usually provided by a single bank, which does not have to ask for substantial guarantees from the company. As the company fails to pay interest or repayment, the bank can claim part of the machinery or inventory of the company. This is especially the case with leasing agreements, which are earmarked for financing certain fixed assets. Working capital facilities do not have a

fixed currency, but give the bank the same strong guarantees for repayment as other short-term debt.

Also because short-term debts generally are not used for expansion purposes, generally the influence of the creditor on the policies and strategies of the company is only modest.

Because of their involvement in short-term debt to Indonesian palm oil companies, the influence of Dutch banks on these companies can be assessed as follows:

□ **ING Bank**

Because ING Bank provided short-term notes to PT **SMART** Corporation, the bank had a modest influence on this company in 1995-1996. Because ING Bank provided short-term working capital facilities to PT **Cahaya Kalbar**, the company probably had a modest influence on this company until November 1997. Because ING Bank provided a short-term loan to **Astra International**, the company probably had a modest influence on this company, at least until the end of 1997.

□ **ABN AMRO Bank**

Because ABN AMRO Bank provided a short-term working capital loan to PT **SMART** Corporation, the bank probably had a modest influence on this company, at least until 1996. Because ABN AMRO Bank provided a short-term loan to **Astra International**, the company probably had a modest influence on this company, at least until the end of 1997.

□ **Rabobank**

Because Rabobank provided several short-term loans to the Lewis & Peat rubber trading division of **Bakrie Sumatra Plantations** and to its parent **Bakrie & Brothers**, the bank probably still has a modest influence on these companies. Because Rabobank provided a lease agreement to **PP London Sumatra Indonesia**, the bank probably still has a modest influence on this company.

### 6.3.3 Providing facilities to obtain loans

A bank can help a production company with facilities to obtain loans from other banks, by providing certain facilities. A clear example of such a facility, is setting up, housing, and managing a financing company in a tax haven like the Netherlands. The Netherlands is a preferred country to set up financing companies, because of the of the special tax ruling on so-called back-to-back loans.

The financing company lends a certain amount from a bank in the Netherlands or another country, and then on-lends the same amount to its parent company for a slightly higher interest. The interest-difference is taxed in the Netherlands, but the interest paid by the parent company is free of tax in its own country.

In 1999, Parliamentary questions were raised in the Netherlands about these financing companies in view of their possible role in laundering money from questionable sources, also in relation to Indonesian companies that are owned, directly or indirectly, by former president Soeharto. The financing companies are probably also subject to debate between the European Union and the Dutch Ministry of Finance. The EU criticises the Netherlands over a long list of unfair tax arrangements that would unduly benefit the private sector in comparison to other EU-member states.

As financing companies are set up for tax purposes only, and can be set up in other tax havens as well, setting up, housing, and managing a finance subsidiary does give the bank only a modest influence on the policies and strategies of the parent company.

Because of their involvement in setting up, housing, and managing a finance subsidiary for Indonesian palm oil companies, the influence of Dutch banks on these companies can be assessed as follows:

- **ABN AMRO Bank**

By setting up, housing, and managing a finance subsidiary of PP London Sumatra Indonesia, ABN AMRO Bank has a modest influence on this company.

- **MeesPierson**

By setting up, housing, and managing finance subsidiaries of Astra Agro Lestari, Bakrie Sumatra Plantations, Golden Agri-Resources, Indofood Sukses Makmur and PP London Sumatra Indonesia, MeesPierson has a modest influence on these companies.

## 6.4 Insurance

Another form of financial services that financial companies provide to plantation companies is risk insurance. Although outside the scope of this study, insurance services that are offered by financial companies for tree crop and forestry risks are relevant. In September 1999, PT Aon Lippo Indonesia and 20 local insurance companies launched such insurance pool for oil palm, forests and rubber plantations to cover risk of catastrophe, such as fire, lightning, earthquake, flood and pests. In the future, the pool will also cover strikes, riots and civil commotion. The insurance pool was established in co-operation with Agricultural Risk Management Ltd (ARM) in London and will expand co-operation with several European re-insurers.<sup>3</sup>

Depending on the terms and conditions defined in the insurance policy, the insurance company may sometimes have considerable influence over its client. Insurance companies can require the insurance taker to adopt other land clearing techniques, to refrain from planting sites that are susceptible to flooding and fires and even require the plantation company to avoid risk of social unrest by settling conflicts over land and other issues. Insurance policies can also undermine conservation objectives, however, for example by requiring that forest retention is prohibited because of concerns that these forests may harbour pests.

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<sup>3</sup> Insurance Pool for Tree Crop and Forestry Risks. Jakarta Post 2 September 1999.

## 6.5 Overall assessment of the influence of Dutch banks on their clients

This investigation into the involvement of Dutch banks in the oil palm sub-sector in Indonesia provides evidence that Dutch banks, through their financial involvement in the sub-sector, influence management of tropical rainforests. This influence is not always neutral or positive. Many of plantation subsidiaries of the company groups in which Dutch banks are involved contribute to environmental and social problems, such as forest fires, deforestation, illegal land clearing and social conflicts.

The analysis of the various forms of involvement in the former paragraphs showed that Dutch banks are frequently in a solid position to influence the environmental policies of their clients. Table 6.2 summarises the level of influence that Dutch banks have, or had, over their clients in the oil palm sub-sector based on the 'technical' nature of their involvement.

In addition to the influence that banks derive from their technical involvement, the position of foreign banks is currently further strengthened by the Indonesian monetary crisis, as plantation companies will approach foreign banks to refinance their loans and to realise their planting targets. We recall from Chapter 2 that the Business Intelligence Report (BIRO) estimates that the oil palm sub-sector needs US\$ 3 billion for the next five years to regain the pre-crisis rate of expansion. If they will continue to be involved in the oil palm sub-sector, Dutch banks will be in a particularly powerful position to exert their influence over the environmental policies of their clients.

Dutch banks should reconsider their investments if their clients fail to seriously address the environmental and social impacts of their activities. In other cases, the influence of banks over their clients could well be mobilised to promote more responsible plantation development and management.

For each of the environmental and social concerns discussed in Chapter 3, a number of possible actions for financiers are given (see also Table 3.1). Particularly urgent are actions that stop any further forest fires and deforestation. Forest restoration will be required where land was illegally cleared. In order to be effective, these measures need to be embedded in a framework that fully addresses the social concerns related to oil palm expansion.

Considering that tropical forests have been on the government and public agenda in the Netherlands since the 1980s, it is remarkable that opportunities to engage financial institutions in the realisation of the RTR objective have been overlooked. Contrary to the timber trade, which has been actively involved in the implementation of the 1991 Dutch Government Policy on Tropical Forests (RTR), mainstream investments by financial institutions in forest-sensitive sectors have not been subject to an overarching policy framework. Thus, it makes good sense for the Dutch government to provide a policy framework for financial institutions involved in forestry-related sectors. Analogue to Policy Line IV that applies to the tropical timber trade, the proposed policy line for financial institutions is as follows. For the Dutch government to:

“promote that financial companies make it credible, on a voluntary basis, that their financial services are neutral in terms of impact on forests and indigenous peoples, or that these pro-actively contribute to sustainable forest management and collaborate in the application of a monitoring system by an institution yet to be determined”.

Table 6.2 Overview of the level of influence of Dutch banks over their clients in Indonesia (1994 – December 1999).

#### Considerable

The bank has such a strong financial relationship with the company, that it will be able to influence company policies on its own.

- ❑ ING Bank on Golden Agri-Resources around July 1999.
- ❑ ABN AMRO Bank on Astra Agro Lestari around December 1997.
- ❑ Rabobank on PP London Sumatra Indonesia, between November 1994 and May 1996, and on Asian Agri Plantation, Bakrie Sumatra Plantations, Gunung Maras Lestari, Agro Indomas and Cahaya Kalbar *at least until December 1999*.
- ❑ MeesPierson on an unknown Indonesian plantation company *at least until December 1999*.
- ❑ Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO) on SMART Corporation *at least until December 1999*.

#### Moderate

The nature and extent of the financial relationship between the bank and the company is such that the bank can assert a certain influence on the companies policies, especially when it joins forces with other banks or stakeholders.

- ❑ ING Bank on SMART Corporation, Kalimantan Sanggar Pusaka, Kulim (Malaysia) and Asian Agri Plantation *at least until December 1999*.
- ❑ ABN AMRO Bank on Golden Agri-Resources around July 1999, and on SMART Corporation and Astra International *at least until December 1999*.
- ❑ Rabobank on SMART Corporation, Kulim (Malaysia) and PP London Sumatra Indonesia *at least until December 1999*.
- ❑ De Nationale Investeringsbank on SMART Corporation *at least until December 1999*.

#### Modest

The nature and extent of the financial relationship between the bank and the company gives the bank a more than minimal influence on the company policies, but in practice this influence will only materialise when the bank joins its forces with other, more influential, banks or stakeholders.

- ❑ ING Bank on Cahaya Kalbar until November 1997, on First Pacific Company around March 1998 and around June 1999, and on Astra International at least until the end of 1997.
- ❑ ABN AMRO Bank on PP London Sumatra Indonesia until now and on Astra International at least until the end of 1997.
- ❑ Rabobank on Bakrie Sumatera Plantations, Bakrie & Brothers, Kulim (Malaysia), and PP London Sumatra Indonesia *at least until December 1999*.
- ❑ MeesPierson on Astra Agro Lestari, Bakrie Sumatera Plantations, Golden Agri-Resources, Asian Agri Plantation, Indofood Sukses Makmur and PP London Sumatra Indonesia *at least until December 1999*.

#### Minimal

The financial relationship between the bank and the company gives the bank in theory some influence on the company policies, but because of the extent and nature of the financial relationship this influence is non-existing in practice.

- ❑ ABN AMRO on First Pacific Company around March 1998.
- ❑ Rabobank on First Pacific Company around March 1998.
- ❑ MeesPierson on First Pacific Company around March 1998, and on Astra Agro Lestari and Bakrie & Brothers *at least until December 1999*.
- ❑ Aegon on Astra Agro Lestari *at least until December 1999*.
- ❑ Kempen & Co. on First Pacific Company around March 1998.
- ❑ MeesPierson on Astra Agro Lestari and in Bakrie & Brothers *at least until December 1999*.
- ❑ Aegon on Astra Agro Lestari *at least until December 1999*.

## Rabobank's criteria and means of verification

Rabobank states it applies a number of criteria for investment proposals in the oil palm sub-sector:

1. Confidence in the company structure, management and location of the project.
2. No financing of projects that cause tropical rainforest logging/clearing.
3. (Preference to or exclusive financing of plasma programmes).
4. CPO production facilities are expected to live up to European standards.<sup>4</sup>

Rabobank's effort to define these criteria is a useful first step. However besides that these criteria do not seem to be lived up to by some of the bank's clients, the criteria themselves are still far too basic, considering the complexity of the environmental, social and economic concerns related to the oil palm sub-sector. A number of certification schemes provide a good basis for developing better criteria. They include the Principles and Criteria and certification mechanisms of the Forest Stewardship Council (FSC) and the Indonesian Eco-labelling scheme (LEI), criteria for biological agriculture or the Dutch Minimum-Criteria for sustainable forest management ("Stortenbeker criteria"). The actions for each environmental and social issue described in Chapter 3 also provide directions for formulating criteria. It is crucial that criteria for responsible oil palm plantation development are developed in consultation with all stakeholders involved.

Rabobank states that for every investment proposal, one of its staff visits the site to assess the impact on the landscape with the use of maps. Investment decisions are furthermore based on consults with the Centre de Cooperation Internationale en Recherche Agronomique pour le Developpement (CIRAD) in Montpellier (France). Rabobank frequently hires CIRAD for independent agronomic research for investments under consideration or those already financed.<sup>5</sup>

This verification approach offers no guarantee that the bank and its clients act according to the criteria. Complications are the lack of transparency on the end of the financier, the sometimes indirect forms of financial involvement, the lack of reliable maps and the difficulty of monitoring projects in the remotest parts of Indonesia. The need for independent third-party verification of any environmental or social claims is particularly pressing when the financiers or their clients are not transparent about what specific companies and projects are financed and under what conditions and to what extent the criteria are applied.

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<sup>4</sup> Letter from H. van Mierlo and E. Riedlin to I. Bloemink (Milieudéfensie) dated 19 July 1999. In its letter, Rabobank implies it has a preference for plasma programmes.

<sup>5</sup> Letter from H. van Mierlo and E. Riedlin to I. Bloemink (Milieudéfensie) dated 19 July 1999. In its letter, Rabobank implies it has a preference for plasma programmes.

## Appendix 3 Malaysian investment in the Indonesian oil palm sector

Malaysian Plantation Company	Indonesian Partner	Location	Land bank (Ha)
Agro Hope Sdn Bhd	PT Agro Indomas	Kabupaten Kotawaringin Timur, Central Kalimantan	17,500
		Kabupaten Kotawaringin Timur, Central Kalimantan	10,000
Aras Suci Sdn Bhd	PT Aras Malindo Makmur	South Bengkulu	7,200
	PT Andalas Etika Plantation	Sawahlunto-Sijunjung, Sumatra	14,000
Austral Enterprises Berhad	PT Mitra Austral Sejahtera (PT MAS I & II)	Tayan, Hulu, Bonti, Kembayan Sanggau, West Kalimantan	26, 250
Cidar Engineering Sdn Bhd	PT Agroindo Cidar Corporation	Kab Labuhan Batu, Sumatra	5,000
Boustead Holdings Berhad	PT Dandimaka	Lubok Ingau, South Sumatra	17,500
	PT Anam Kotor	Pasaman, West Sumatra	12,300
The Brooklands Selangor	PT Kebunnira	Pontianak, West Kalimantan	40,500
Creative Investor Ltd	PT Nusantara Indah Api-Api		14,000
EPA Management Sendirian Berhad	PT Trimitra Sumber Perkasa	Lahat, South Sumatra	12,000
	PT Trimitra Panquiet	Lahat, South Sumatra	15,600
	Pt Sumber Mahardika Graha	Kota, Central Kalimantan	15, 000
	PT Graha Cakramulia	Kota, Central Kalimantan	15,000
	PT Harapan Ibrida KalBar	West/Central Kalimantan	12,500
	PT Bintara Tani Nusantara	Sumatra	7,000
	PT Gonjong Limo	Sumatra	3,000
	PT Salanok Padang Mas	Kalimantan	13,000
	PT Bisma Derma Kencana	Kalimantan	10,000
	PT Subur Sawit Lesatri	West Kalimantan	10,000
Dara Lam Soon	PT Bakrie Sumatera Plantations I & II	Simpang Hulu, Ketapang, West Kalimantan	41,750
Geroda Jaya Sdn Bhd	PT Sawit Karmia Seriang	Kapuas Hulu, West Kalimantan	16,000
Golden Hope Plantations Berhad	PT Benua Indah	Kalapang, West Kalimantan	76,000
	PT Budidaya Agro Lestari	Marau, Kabupaten	22,000



	PT Sandika Natapalma	Ketapang, West Kalimantan Kabupaten Ketapang, West Kalimantan.	24,000
Hak Corporation Sdn Bhd	PT Plantana Razsindo	Badau, Kapuas Hulu, West Kalimantan	47,000
Inch Kenneth Kajang	PT Ceria Prima PT Ceria Karya Purnama	Sanggau Sanggau	6,200 4,000
KBS Properties Sdn Bhd of Malaysia	PT Bina Pitri Jaya	Sam-Sam Mandau Bengkalis, Riau	8,500
Klau River Enterprise Sdn Bhd	PT Langgam Inti Hibrino	Kampar, Riau	15,000
KPLB Plantation Sdn Bhd	PT Kebon Ganda Prima	Kampar, Riau	15,000
Kretam Holding	Pt Kretam Ira Mondo PT Terum Citrawara	Bengkulu Sanggau, West Kalimantan	40,000 20,000
KUB Agrotech	PT Dirgahayu Palmma	Bengkulu	25,000
Gopeng Bhd	PT Bina Usaha Warga Sejahtera	Jambi, and South Sumatra	35,000
Kuala Lumpur Kepong Bhd	PT Adei Plantation and Industry PT Steelindo Wahana Perkasa	Riau Belitung	42,000 14,000
Kumpulan Guthrie Berhad	PT Guthrie Pecconina Indonesia	Musi Banyuasin, South Sumatra	60,000
Ladang Likir Sdn. Bhd	PT Pinang Witmas Sejati	Banyu Lincir, Kabupaten Musi Banyuasin, South Sumatra	14,000
LKKP Pahang	PT Jambi Tani Tulen	Jambi	25,000
Liminvest Resources Sdn Bhd	PT Sarpindo Graha Sawit Tani	Dumai, Riau	8,500
Minat Warisan Sdn Bhd	PT Anam Koto	Pasaman, West Sumatra	14,000
Nafas Estate Sdn Bhd	PT Ubertico	South Aceh	14,000
Pelaburan Johor Bhd	PT Trimatra Sumber Perkasa	Palembang, Lahat	12,000
Perisind Plantation Bhd	PT Dendymarker Indahlestari	Musi, South Sumatra	40,000
Perlis Plantation Bhd	PT Tidar Sungkai Sawit	Solok, South Sumatra	10,000
Permdalan Perak Bhd	PT Pinang Witmas Sejati	Kalbar, Sanggau, West Kalimantan	15,700
Selasih Permata Sdh Bhd	PT Gunung Maras Lestari	South Sumatra	22,000
Selat Bersatu Sdh Bhd	PT Rebinas Jaya	Belitung, South Sumatra	25,000
Semai Sempurna Sdn Bhd	PT Pusaka Megah Bumi	Pekanbaru	7,000

Sentri Holdings	PT Dutawangsa Keriasi	East Kalimantan	25,000
Tenaga Lestari Sdh (Oriental Holdings)	PT Gunung Sawit Bina Lestari	Bangka Island, South Sumatra	20,000
	PT Bumi Permai Suryalestari	Bangka Island, South Sumatra	8,000
Pahang Enterprise Sdn Bhd	PT Patriot Andalas (Bakrie Plantations)	Belitung Hulu, Sanggau, West Kalimantan	23,000
Sap Holding Bhd	PT Bengkulan Kelapa Sawit	Bengkulu	20,000
Sime Darby Bhd	PT Sime Indo Agro	Sanggau, West Kalimantan	22,000
Suka Chemical Berhad	PT Kalimantan Oleo Industri	Nanga Mahap, Sanggau, West Kalimantan	24,000
	PT Kalimantan Oleo Industri	Simpang Hulu, Ketapang, West Kalimantan	21,500
Tenaga Lestari M Sdn Bhd	PT Bumipermai Suryalestari	Kabupaten Bangka, South Sumatra	8,000
Tiara Etika Industry	PT Andalas Tuan Sakato	Padang	14,000
Tradewinds Bhd	PT Sadin Tradewinds Indonesia	Kab Bangka, South Sumatra	20,000
	PT Satia Dinamic Corporotama	Kab Bangka, South Sumatra	30,000
Lembaga Tabung Haji Pilgrimage Fund Board	PT Tidar Sungkai Sawit	Riau	80,000
		Taloto and Sungai Sungkai, Solok, West Sumatra	10,000
Yayasan Pelaburan Johor	PT Agritasari	Riau	10,700
YPJ Holdings	PT Agritasari Prima	Kampar/Langgar, Riau.	9,000
<b>Total</b>			<b>1,341,200</b>

Source: Casson, A. 1999 (Draft). The Hesitant Boom: Indonesia's Oil Palm Sub-Sector in an Era of Economic Crisis and Political Change. Programme on the Underlying Causes of Deforestation. CIFOR.

## Appendix 4: Addresses

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#### ING Merchant Bank (Singapore) Ltd.

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#### ABN AMRO Bank N.V.

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