

A tycoon's view

Sukanto Tanoto got rich through a paper and logging empire – but the Indonesian billionaire has seen the damage that has been done to the environment, particularly by illegal logging. Now he has recognised the merits of conservation and sustainable development. Here he talks about his various businesses and his new environmental philosophy

BY Jackie Horne

Ardent conservationist is probably not the first description that springs to most people's minds when they think of Indonesian pulp and paper tycoon Sukanto Tanoto, chairman of RGM International. But the billionaire businessman says the experience of the Asian financial crisis, the downfall of Suharto and the growing conservation movement has fundamentally altered his outlook on life and approach to business. Now in his mid-fifties, he is becoming concerned about creating a favourable legacy for his four children. But he still has many ambitions left including expanding and developing the group's energy assets.

You haven't really been interviewed since the beginning of the Asian financial crisis? Why is that? Do you think it's left people with a misguided impression about you?

Yes, I now realise staying silent was a mistake. In the past I didn't really care what other people thought of me as long as I believed I'd done something well myself.

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But I've come to the conclusion I need to communicate more and give people a more rounded picture. The financial crisis was a very difficult time for my group of companies. But we came through it and are working hard to regain the confidence of the social and financial community.

Do you think the outside world tends to bracket all the Indonesian pulp and paper companies together? Have you been unfairly tarnished by the ongoing battle between Asia Pulp & Paper (APP) and its creditors?

I don't want to make any specific comments on APP, but I certainly agree that investors often confuse the two groups. Let me give you an example. In spring 2001, APP announced a debt standstill after accumulating more than \$10 billion in dollar-denominated debt. We entered the financial crisis with \$1 billion in foreign debt and were working hard to restructure that debt when APP made its announcement. However, equity investors made no distinction between the two companies. We were both listed on the New York Stock Exchange at that time

and our share prices plummeted below \$1 as a result of the announcement. Six months later we were delisted.

What did the Asian financial crisis teach you?

A lesson I had already been starting to learn because of my problems at a company called PT Indorayan Inti Utama in northern Sumatra. This was my first pulp company. I set it up in 1988 for about \$200 million and it was the first time in my life I'd made an investment on such a scale. Before this my strengths had always been as an entrepreneur, pursuing deals and getting them done.

What I didn't realise was that when you get to a certain size you have to take care of the people in the surrounding area. I'd always assumed this was the government's job, but it doesn't work like that in a country like Indonesia. After the financial crisis, the social disruption was hard to handle and things got increasingly bad. There were four presidents in this country between 1998 and 2003 and it was a very challenging time. There was a lot of civil unrest and we had to



deal with constant violent confrontations between our security forces and the local people. Partly this was because of the environmental impact of the plant, partly because of the social impact on the community and partly because our competitors were stirring things up to trying to make things bad for us in order to gain market share at our expense.

It was a huge learning experience and it comes back to education. No human being wants to go crazy and run amok. People do so because they have nothing. It's one of the

community as well as the bottom line. Only then will it be sustainable in a resources business like ours. This is not something I just pay lip service to. It's something I fundamentally believe in these days. Our motto at APRIL (Asia Pacific Resources International) is people, planet and profits. Ten years ago I didn't realise any of this. But the fact is that if people are poor and have no money to buy kerosene, they'll cut down trees instead and either burn or sell them.

That's the main reason we set the CSR programme up. It's all about sustainability

How serious a problem is illegal logging and what is APRIL trying to do to combat it?

Indonesia has about 100 million hectares of forest and the World Bank estimates that roughly 1.5 million to two million hectares are being cut down each year. That's about the size of Wales and a lot of it's down to illegal logging. All corporates have a duty to do something about the environment. Combatting illegal logging is a huge priority for us. It's embedded in our entire operations and at all stages of the wood supply chain.

“Good business is about what's good for the environment and the community as well as the bottom line. Only then will it be sustainable”

main reasons why there's such a problem with illegal logging in this country. It's to do with lack of opportunity and education. I think one of the reasons why the palm oil business is very stable is because much of it is owned and operated by smallholders and maybe this is the right way. They feel they have ownership and therefore they don't protest.

Good business has to be about what's good for the environment and the

development. We plough about \$4 million into these projects each year in Sumatra. Last year we won an award from the Asian CSR Society based in the Philippines. Our integrated farming programme was also judged the best Indonesia CSR programme. Since we set the programme up more than 2,100 people from 73 villages have received training in integrated farming methods.

Four years ago we were opposed to it, but didn't have enough checks in place to make sure illegal logs weren't getting into our plants. Since then we've done a lot of work with the NGO's and we are sure no illegal wood gets into our mills these days. We know exactly where every log comes from.

What do you say to people who accuse you of being an illegal logger? They say

TANOTO'S EMPIRE

RGM International

RGM is a group of independent companies owned by a common shareholder - the Tanoto family. The group has total assets of \$7 billion, and employs approximately 50,000 people. It comprises:

APRIL - Asia Pacific Resources International Holdings

Operations - pulp and paper fibre
 Location - Indonesia and China
 Capacity - two million tonnes of pulp per annum and 380,000 tonnes of paper (Indonesia) and 220,000 tonnes of pulp and 170,000 tonnes of paper board per annum (China)
 Financials - 2004 turnover \$1.03 billion

Sateri International

Operations - rayon and speciality pulp
 Location - Brazil, Finland, China
 Capacity - 115,000 tonnes of dissolving pulp per annum and 120,000 tonnes of viscose fibre
 Financials - 2004 turnover \$228 million and \$44 million EBITDA

Asian Agri

Operations - agro products: palm oil, rubber and cocoa plantations
 Location - Philippines, Malaysia, Thailand
 Capacity - one million tonnes of crude palm oil

PEC-Tech

Operations - EPC (Engineering, procurement and construction) and logistics
 Location - Indonesia, China and Brazil

PO&G - Pacific Oil and Gas

Operations - energy resources development
 Location - Indonesia and China

Jambi-Merang Development Block. A 25% participating interest acquired in 2004. Block includes the Gelam field, which has been in operation since 1998.

Kisaran Exploration Block. In June 2005, a farm-in deal finalised with Chevron and Texaco. PO&G owns a 50% participating interest and has committed to drill two wells. A first exploratory well planned for summer 2006.

LNG plant East Kalimantan. Permission secured for the first privately-owned LNG plant in Bontang.

Jiangsu Rudong CCGT power plant, China. In 2005 an agreement signed with PetroChina and Guoxing to jointly develop a plant. PO&G will own a 55% stake, with PetroChina owning 25% and Guoxin the remaining 20%.

Xiamen CCGT power plant, China. Phase one approval granted to build, own and operate a CCGT plant.

you are cutting down virgin forest to service your plants?

We are not an illegal logger. We only harvest degraded forest land on our 330,000 hectare concession. By this I mean forest land that had already been stripped of trees which we reforest and turn into sustainable plantations. By the end of 2009, all the wood for our mills will be sourced from fast-growing plantations that can generate a renewable raw material source very quickly. This primarily means Acacia trees - a very fast-growing species which only takes seven years to reach maturity rather than 40 years in temperate climates. We've given a pledge that these plantations will supply nine million cubic metres of sustainable plantation fibre per annum from 2009 onwards. At the moment we're up to 40% of this target and on track. On top of this, we're also constantly trying to expand the number of tree species we use on our plantations to maintain bio-diversity.

We've also given a commitment not to touch HCFF (High Conservation Value Forest) land on our concessions and on average about 20% to 30% of our plantations are left in their natural state. We're actively trying to manage those forests to stop them being destroyed by illegal logging and to protect the wildlife. This has taken many forms. One has been to plant rings of Acacia trees around the plantations. The wild elephants and tigers don't like eating these types of trees and therefore stay in the forests and don't encroach on the local villages.

We also own and operate all the roads across our plantations and don't let any of the illegal logging trucks onto the ferries that cross the rivers. We also have in-house flying squads, which go into the illegal loggers camps and stop their operations.

We put out our first sustainability report in 2002. We were the first pulp and paper company to do so in Indonesia and we now publish one every two years. The report is personally overseen by APRIL's President, AJ Devanesan, and we use its findings as a management tool. I think it helps to foster a greater environmental awareness within the company. Everyone has sustainability targets and because they know they'll be in the

report it helps to embed the idea into everyone's psyche.

Do you think you've been given adequate recognition for what you're trying to do?

Yes I think so. Just recently we became the first pulp and paper company to gain LEI certification (Lembaga Ekolabel Indonesia) for sustainable plantation forest management. Only six Indonesian companies have this environmental certification, which has to meet rigorous international standards. Getting it was a long process, which involved numerous site visits and the LEI board is composed of a number of international NGOs and government officials. The presence of the NGOs helps to combat allegations that the process can be corrupted.

Isn't it a case of too little too late given the huge destruction that's taken place? It's been estimated that nearly a third of all virgin forest has disappeared over the past two decades.

It's never too late. We're working with the NGOs and government and if there's collaboration then there's a much greater chance of success. One great example of this is the protection of Tesso Nilo, a national park that borders our concession. At the moment, 38,000 hectares have been officially put under government protection, but this is about to be expanded to 100,000 hectares - an area almost twice the size of Singapore. It's taken four years work, but we hope an agreement is about to be signed between the government, World Wildlife Fund (WWF) and APRIL with support from other companies with concessions bordering the park. This will enable an Acacia ring to be built around the entire forest. APRIL has already built an Acacia buffer that's about 500 metres deep on our sections. Rangers will be put in and the forest will be actively managed to stop any more illegal loggers getting in. It's vital to stop them getting in because virgin forest like this is the most valuable to them.

You've talked a lot about the lessons you've learnt in your life? What do you think the young Sukanto Tanoto would think if he could see you now?

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He would see a very different person. I've made many mistakes in my life, but they've enabled me to learn a great deal and I have matured in the process. I don't want to make those kinds of mistakes again.

When I first started out it was about supporting my family and making money. I had to leave school when I was 17 because my father died of a heart attack. Now I want to give others an opportunity to have the kind of education I wasn't able to have. I've done this at all levels from building 15 primary schools in China, to creating scholarships in Indonesia and funding a library at INSEAD in Singapore.

I have also become more of a philosophical person. I recently went to Bhutan where I learnt that it's not just about me as an individual the whole time, but about helping others as well.

Are you now thinking about winding down and retiring?

Not really. I'm a doer. I still enjoy working.

You have four children. Do you want them to take over your businesses?

All my businesses rely on professional management and my children are also still quite young. One of my daughters is currently experiencing what it's like to work round the clock as she has an investment banking job in New York. I've also just sent one of my sons to a remote village in Indonesia to do an internship at Asian Agri. He's based in a very small village where there's no internet access. He talks to the people there and listens to their concerns. My other two children are still at school. So let's see. I always believe people have to perform to be employed by me, rather than be related to me.

What business lessons do you want to pass onto your children?

Well obviously a strong work ethic. When my father passed away, I worked for all sorts of different companies including a state-owned company and a Japanese exporter. That's where I learnt all the technical stuff. I learnt how to repair a car, how to install an air conditioner, how to build a golf course. I was a spare parts provider. I worked seven days a week.

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I then learnt a valuable lesson during the oil shock in the 1970s when the cost per barrel shot up from \$3 to \$12. It made me realise that no matter how hard you work, you can always be thrown off course by unstable surroundings. I saw that all those foreign companies I was working for could easily just pack up and leave Indonesia. This made me realise the importance of diversification.

Around the same time I noticed Indonesia was importing a lot of plywood. It seemed ridiculous that we were exporting logs and importing plywood. I was still a young man of about 24, but I went to the ministry and asked for a license. So I converted from being a trader to an industrialist.

It was another big learning curve. If you're a trader you know profit and loss, but not much about working capital. Suddenly I had to learn how to manage inventories, source raw materials etc. I also learnt that it's the people who manage the company that make a real difference. This really struck home when I went to Taiwan and saw a machine

reasons why the high yield bond for Sateri never got off the ground last year?

There were specific reasons why that bond never happened, but it was not as simple as people thought. At the right time we'll release the information. Sateri will return to the markets at some point over the next year, but this time it will either be a smaller deal or a syndicated loan. A loan probably makes more sense, as it's better to come back to the capital markets by taking one step at a time.

What did you want to use the proceeds for?

To expand production at Sateri's Brazilian plant from 115,000 to 365,000 tonnes of dissolving pulp per year.

You also now own an energy company, called Pacific Oil and Gas. Do you have ambitious plans for it?

At the moment PO&G is still quite small in scale. But I envisage it could grow rapidly over the next few years and rival the size of

businessmen to emerge from the Asian financial crisis with most of your asset base intact. How did you do it?

The Asian financial crisis was a very, very hard time for me. Things in Indonesia had been very stable for a long time prior to 1997 and then suddenly there was this big crisis. It came at a time when we were right in the middle of building the Riau Andalan mill and had just raised \$1 billion. We were only half way through the capacity installation and then suddenly all our credit lines were frozen and the banks disappeared. The domestic banks had no money and the foreign banks all pulled out of Indonesia.

In one sense I was very fortunate as I was in an export-oriented business and this at least meant both my earnings and liabilities were in the same currency – dollars. But I was still forced to make some really hard decisions and that's the true test: how clearly you can think in a crisis.

What I eventually decided to do was sell some of my foreign assets and bring the money back to Indonesia and finish the

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that was producing 9,500 panels a day. We had exactly the same machine, but were only producing 6,000 panels a day. I asked the Taiwanese team to come and work for us and within six months we were producing 10,500 panels a day.

What about the controversy surrounding Unibank? Recently there's been talk in the Jakarta press that the bank's collapse and your role in it will be re-investigated.

We paid all our debts in full and this was acknowledged by IBRA in April 2004 when it categorically stated that all obligations had been fulfilled. There has been a lot of speculation in the Jakarta press on this issue by those with vested and somewhat controversial interests. As far as I'm concerned the matter is closed.

Do you think a lack of trust in your financial propriety is one of the main

the pulp and paper operations. It certainly has the greatest growth potential of all my group of companies.

Do you think you have the right credentials to make a success of it?

Yes, my whole background is in the resources business. It's a business model I'm very familiar with and I think I can apply it to the energy sector as well. My first experience was in palm oil which is now under the Asian Agri operation. I then moved into pulp and paper. Recently I've been developing a couple of oil and gas fields in Indonesia, as well as setting up some joint ventures in China. You can't ignore the China market if you want to be a global player and we now have plans to install power generation capacity of about MW4,000 there. Our partners in the energy business include ConocoPhillips, Chevron, and PetroChina.

You were one of the few Indonesian

plant. I principally sold off a Chinese pulp and paper mill to Finnish group UPM-Kymmene in August 2000 for \$150 million. This sale had been under negotiation for a couple of years and was finalised at a time when most other Indonesian businessmen were still trying to take their money out of the country.

I was fortunate in having a contingency plan. One thing I've learnt in business is the importance of making sure you always have a way out when things go wrong.

What would you say to your critics?

I'd say it's been very easy to throw stones. But the fact is that they should come and see what we're doing in Sumatra. We have a vision and will stick to it.

And what is that?

I want to be the best and one of the largest, but not necessarily the biggest in whatever we do. ■