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## The financing of RAPP & APRIL

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Jan Willem van Gelder

### **Brief introduction of RAPP and APRIL**

Asia Pacific Resources International Holdings Ltd. (APRIL) in Singapore is the pulp and paper holding company of the Indonesian Raja Garuda Mas Group. This diversified business group is mainly active in the pulp and paper sector, crude palm oil and related businesses, oil and gas, viscose fibre, and engineering, procurement and construction. The ultimate holding company of the Raja Garuda Mas group is RGM International in Singapore, which is controlled by Sukanto Tanoto and his family.<sup>37</sup>

The main subsidiaries of APRIL in Indonesia are:

- PT Riau Andalan Pulp & Paper (RAPP)
- PT Riau Andalan Kertas (RAK)

RAPP started operations in February 1995 and now has built up a pulp production capacity of 2.0 million tonnes at its pulp mill in Kerinci (Riau). The adjacent paper mill of RAK has an annual production capacity of 350,000 tonnes, but is due to be expanded with 400,000-450,000 tonnes per year.<sup>39</sup> Riau Prima Energi is not a direct subsidiary of APRIL, but this company is partly owned by the Raja Garuda Mas group and supplies energy to the pulp and paper mills in Kerinci. In the past ten years much of the fiber used for RAPP's pulp production has been sourced from logging natural forests. Large-scale acacia plantations have now been developed, but they don't produce sufficient fiber to meet APRIL's 2009 sustainability target.<sup>40</sup> Despite of its public commitment to a sustainable fibre supply, APRIL continues to log natural forests in Riau.<sup>41</sup>

In the mean time the Raja Garuda Mas group is using its Indonesian base to expand its pulp and paper production capacity in China. The group's first investments in China took place in the mid-1990s, when a converting plant in Suzhou was acquired and a joint-venture was set up with UPM-Kymmene (Finland) to build a 350,000 tonnes/year paper mill in Changshu. But after the Asian financial crisis of 1997/98

APRIL ran into financial trouble and had to sell its stake in the Changshu paper mill to UPM-Kymmene.<sup>42</sup>

A few years later the Raja Garuda Mas Group tried again. In August 2002 RGM International announced a greenfield paper mill in Xinhui (Guandong province). The initial production capacity will be 450,000 tons per year, but this will be expanded to 1 million tonnes in the next few years.<sup>43</sup> In May 2004 APRIL acquired Shandong Rizhao SSYMB Pulp and Paper in Rizhao (Shandong province), which has an annual production capacity of 220,000 tonnes of pulp and 170,000 tonnes of paperboard. <sup>44</sup> APRIL plans to expand SSYMB's pulp capacity to 1.5 million tonnes per year and the paperboard capacity to 250,000 tonnes per year.

Another, related sector in which the Raja Garuda Mas group is the production of dissolving pulp and viscose fibre activities, which are grouped under Sateri International in Singapore. Sateri owns a dissolving pulp producer in Brazil (Bahia Pulp), whose capacity is currently expanded from 120,000 to 360,000 tonnes.<sup>46</sup> Bahia Pulp supplies dissolving pulp to Sateri's two viscose plants in Finland and China.

Probably these viscose mills are also supplied by dissolving pulp producer PT Toba Pulp Lestari in North Sumatra, which used to be owned by the Raja Garuda Mas group.

#### **APRIL's debt restructurings**

Indonesian and foreign financial institutions have played an important role in the strong expansion of Riau Andalan Pulp & Paper, Riau Andalan Kertas and their parent company APRIL, by helping them to issue shares and bonds, by buying their shares and bonds, by providing loans, and by extending credit guarantees.

Because of the Asian financial crisis Asia Pacific Resources International Holdings Ltd. (APRIL) ran into financial trouble at the end of the 1990s. While the company and its subsidiaries were looking for capital to expand their pulp and paper production capacity, they were also struggling with a total debt of US\$ 1.26 billion:

- PT Riau Andalan Pulp & Paper (RAPP) US\$ 550 million
- PT Riau Andalan Kertas (RAK) US\$ 280 million
- PT Riau Prima Energi US\$ 428 million

In June 2000, APRIL signed a debt restructuring agreement with its Indonesian creditors headed by the Indonesian Bank Restructuring Agency (IBRA), Bank Mandiri and Bank BNI, which had taken over the bad loans of some other banks. Around US\$ 1.2 billion of debt of the three subsidiaries was restructured. According to the agreement, the term of these loans was extended to the end of 2005.

The restructuring agreement allowed APRIL to defer interest payments for a maximum of US\$ 160 million until March 2001, to assist in financing the completion of the first phase of the second pulp line of PT Riau Andalan Pulp & Paper. Such an interest deferral arrangement is very unusual, and

therefore the IBRA first objected to the deal which was signed with the Indonesian banks already in September 1999. But after IBRA-chief Glenn Yusuf was replaced by Cacuk Sudarjanto the government agency changed its position and signed the agreement.

Several members of the Indonesian parliament, as well as foreign creditors of APRIL, criticised the fact that IBRA signed this debt restructuring agreement. The foreign creditors headed by ING Barings (United Kingdom), part of ING Bank (The Netherlands) refused to sign. The foreign creditors had a total debt of US\$ 117.8 million outstanding to APRIL's subsidiaries, only a small part of the total debt of US\$ 1.26 billion.

Despite of the favourable conditions of its debt restructuring, APRIL soon ran into trouble again because of collapse of global pulp prices. In March 2001, APRIL's subsidiaries defaulted on their first scheduled principal repayment. In June 2001, APRIL stopped interest payments. The company again started discussing a debt restructuring with its creditors. Also in September 2001, APRIL agreed a second debt restructuring with its Indonesian creditors, to which the foreign creditors objected again.

In April 2002, the Finnish company UPM-Kymmene and APRIL agreed upon a restructuring of UPM's US\$ 121 million loan to APRIL (which was a remains of their former joint-venture in China). The loan will now be repaid through regular installments the first of which was paid in April 2002. The final maturity of the loan was extended until December 31, 2006. Shares in PT Riau Andalan Pulp & Paper would continue to be the collateral for the loan.

As APRIL defaulted again after the second debt restructuring, a third debt restructuring with its Indonesian creditors was agreed in September 2002. The foreign creditors, owing about 8% of the debt, still asked for better terms. But as they did not succeed to realise their demands, some of them – Standard Chartered (United Kingdom) and Citibank (United States) – sold their debt at a discount to unknown buyers (maybe APRIL itself). Other foreign banks – ING Bank (The Netherlands) and Deutsche Bank (Germany) – were at that time still creditors of RAPP.55

### **Financial stakeholders of RAPP and APRIL**

As APRIL is no longer listed on a stock exchange, the company and its subsidiaries are not very transparent about their sales figures or on their balance sheet. Which part of APRIL's assets is being financed by different financial stakeholders is therefore unknown.

The following information on the various financial stakeholders of the company has been found:

#### ***Shareholder***

APRIL was listed on the New York Stock Exchange (NYSE) in April 1995, when part of its shares were sold to financial

institutions and private investors. As the company was defaulting on its loans, the New York Stock Exchange in September 2001 suspended the trading in its shares. APRIL then delisted itself from the NYSE and started trading its shares on the American over-the-counter Bulletin Board. But in May 2004 Gold Leaf Holdings from the Cayman Islands made a successful offer to acquire all outstanding shares of APRIL, making it the single owner in August 2004. Probably Gold Leaf Holdings itself is owned largely or fully by Sukanto Tanoto.

### **Bank loans**

Indonesian banks have provided a total amount of US\$ 1,143 million of bank loans to

APRIL and its subsidiaries, probably making them the most important group of financial

stakeholders of APRIL. These Indonesian bank loans have been restructured three times

in 2000-2002 (see paragraph 2.2). Since the last restructuring, APRIL is paying interest on

part of its loans. Interest payment for the other part of the loans is delayed to after 2010.

The following information is found on the Indonesian banks involved in these loans:

- Bank Mandiri is the most important creditor within this group of Indonesian banks, with US\$ 471.26 million outstanding to APRIL and its subsidiaries. Non-paid interest now amounts to US\$ 148.27 million. The lax treatment by Bank Mandiri of these loans, which were already partly written off by the bank before the Bank of Indonesia ordered a write-back, has been criticised as secret support for APRIL's expansion plans.<sup>58</sup> According to an audit by the Supreme Audit Body (BPK) on Bank Mandiri's loan management in March 2005, the bank had not received prior permission from the Minister of Finance for the third debt restructuring of APRIL in September 2002.<sup>59</sup> Because of this offence and other irregularities, in April 2005 a corruption investigation was started by the Attorney General's Office into loans with a total value of US\$ 1.3 billion by Bank Mandiri to 33 companies (including nine subsidiaries of the Raja Garuda Mas group). The probe is focussing on whether senior Bank Mandiri officials colluded with those corporate clients.<sup>60</sup>

- The Indonesian Bank Restructuring Agency (IBRA) had US\$ 286 million outstanding to APRIL and its subsidiaries. This debt was taken over from United City Bank, the former bank of the Raja Garuda Mas group which ran into trouble after the Asian financial crisis of 1997/98 and was closed in October 2001.

The IBRA is now dissolved. Reportedly it has sold its debt owed by APRIL to Asia Kapitalindo, a small Indonesian investment bank, in August 2002.

- Bank BNI is the third-largest creditor of APRIL and its subsidiaries, with about US\$ 150 million outstanding.

- Bank Niaga is a smaller creditor of APRIL and its subsidiaries, with a total amount of US\$ 50 million outstanding. The Raja Garuda Mas group is the largest non-

performing debtor of Bank Niaga, which is now majority-owned by Commerce Asset-Holding (Malaysia).

Other Indonesian banks which had smaller loans outstanding to APRIL and its subsidiaries are:

- Bank Panin, which is minority-owned by ANZ (Australia).
- Bank PDFCI, which later merged into Bank Danamon, which is now majority-owned by Deutsche Bank (Germany) and Temasek Holdings (Singapore)
- Bank Universal, which later merged into Bank Permata, which is now majority-owned by Standard Chartered (United Kingdom)

Most probably these loans are still outstanding.

Foreign banks are owed US\$ 117.8 million by the three APRIL-subsidiaries, which accounts for only 8% of their total debt. Many of the foreign banks which originally provided these loans have sold their debt at a discount in the meantime. Foreign banks which might still be creditors of RAPP and the other subsidiaries are:

- ING Bank The Netherlands
- Deutsche Bank Germany

### **Conclusions**

In this analysis we have tried to identify which financial institutions are involved in the financing of PT Riau Andalan Pulp and Paper (RAPP) and its parent company Asia Pacific Resources International Holdings Ltd. (APRIL). Figures on the total assets of RAPP and APRIL and on the relative role played by different groups of financial stakeholders are lacking, but it is clear that the Indonesian banks are playing a very important role in the financing of RAPP.

In the years 2000-2002 RAPP and other APRIL-subsidiaries have restructured their debts to Indonesian banks three times. The total debt of the three subsidiaries amounted to US\$ 1,300 million (excluding non-paid interest), of which 92% was financed by Indonesian banks and 8% by foreign banks. Although interest payments have been deterred, the financial position of RAPP still seems to be weak. As a consequence, the possible influence of the banks – especially the main Indonesian banks – on the company's policies might be somewhat stronger than is the case with Indah Kiat.

For NGOs worried about RAPP's fibre supply policy, it would therefore be useful to concentrate at first on the large Indonesian banks. Their involvement in the financing of RAPP is such that they should be able to exert considerable pressure on the company. The current corruption probe of the Attorney General's Office against Bank Mandiri, in which its loans to RAPP play a crucial role, might offer additional chances to make Bank Mandiri demand a more responsible behaviour of its main clients (especially RAPP).

It could also make sense to approach the foreign banks which have loans outstanding to RAPP or the foreign banks which are co-owners of the smaller Indonesian banks. The direct

influence of these foreign banks on RAPP's policies will be small but alerting them about the reality on the ground of RAPP's "sustainable sourcing", will certainly increase the attention of the financial markets towards the issue. As this could hamper the future growth of the company, it could certainly be of influence.

Some of the financial institutions mentioned below have sustainable investment policies in place (general policies or specific policies for the forestry sector), which should make them more susceptible to an appeal for help to change RAPP's sourcing policy.

To make some priority setting possible, we have listed all financial stakeholders below according to their estimated importance for RAPP and APRIL. The most important financial stakeholders are listed first, less important ones are at the end of the list.

- Bank Mandiri Indonesia <http://www.bankmandiri.co.id>
- Asia Kapitalindo Indonesia <http://www.asiakapitalindo.com>
- Bank BNI Indonesia <http://www.bni.co.id>
- Bank Niaga Indonesia <http://www.bankniaga.com>
- Bank Panin Indonesia <http://www.panin.co.id>
- Bank Danamon Indonesia <http://www.danamon.co.id>
- Bank Permata Indonesia <http://www.permatabank.com>
- ING Bank Netherlands <http://www.ingbank.nl>
- Deutsche Bank Germany <http://www.deutsche-bank.de>
- Commerce Asset-Holding Malaysia  
<http://www.commerz.com.my>
- Standard Chartered United Kingdom  
<http://www.standardchartered.com>
- Temasek Holdings Singapore  
<http://www.temasekholdings.com.sg>
- ANZ Australia <http://www.anz.com>

Beware that the ranking on this list is only indicative and that some creditors might have sold their debt in the mean time.

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