Paper Tiger, Hidden Dragons

The responsibility of international financial institutions for Indonesian forest destruction, social conflict and the financial crisis of Asia Pulp & Paper

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Executive Summary

In December 2000, The Centre for International Forestry Research (CIFOR) in Indonesia, together with WWF's Macroeconomics Program Office, released a landmark report entitled "Profits on Paper: the Political Economy of Fiber, Finance and Debt in Indonesia's Pulp and Paper Industries"[1]. This report provides compelling evidence that the Indonesian pulp and paper industry is causing serious damage to Indonesian forests and is likely to be responsible for a high level of illegal logging.

Despite this, the Indonesian pulp and paper sector has been one of the most popular investment targets in Asia for the international financial community for the last 10 years. More than US$15 billion of international investment has brought Indonesian pulp and paper companies into the major league of global producers.

There has been a sharp reversal in fortunes however for Indonesia's paper tiger economy with the financial collapse of Asia Pulp & Paper (APP), Indonesia's biggest pulp and paper producer. With debts of US$13.4 billion, APP announced a standstill on all debt repayments on 12 March 2001. This was followed on 4 April 2001 with a decision by the New York Stock Exchange to suspend all trading in APP's shares. They had crashed by 98.4% in only one year, falling from US$7.50 to US$0.12.

"Paper Tiger, Hidden Dragons" reviews the CIFOR-WWF report and supplements its findings with Friends of the Earth-EWNI's own research and investigations. This report documents the environmental and social impacts of APP, assesses the role of international financial institutions in fuelling APP's unsustainable and damaging operations and examines the link between this unsustainable practice and APP's financial crisis.

Financial institutions should acknowledge that it is far more than the financial failure of APP that proves that they seriously underestimated the risk in financing the company. Indeed international financial institutions have failed to sufficiently recognise and act upon a number of risks that are inherent in any investment in the Indonesian pulp and paper industry.

These risks are identified as follows:

Unsustainable supply of raw materials: Massive growth in pulp and paper capacity, fuelled by international investment, has not been matched by efforts to gain a sustainable supply of raw materials. As a result, of the 100 million m^3 of wood estimated to have been consumed by the pulp industry between 1988 and1999, only 8% was harvested from plantations[2]. The remaining 92% has mostly been sourced by clear cutting rainforest.

This has led the Indonesian pulp and paper industry to destroy 835,000 hectares of highly biodiverse rainforest[3]. The pulp and paper industry will depend upon clearing rainforests to supply their pulp requirements for at least the next seven years and possibly much longer.

Indah Kiat, one of Indonesia's largest pulp mills and part of the APP group, accounts for 77% of APP's pulp production capacity and 40% of Indonesia's overall pulp output[4]. In 2000 Indah Kiat sourced approximately 75% of its logs from clear-cutting natural forests and their operations have accounted for 287,000 hectares of deforestation over the last 10 years[5].

Financial institutions should recognise that financing a company that destroys a large part of the second richest forest habitat in the world carries a significant degree of reputational risk. They have also failed to recognise and act upon evidence that APP are running out of a legal wood supply in Riau, Sumatra. It is estimated that even with massively increased investment in their plantations, it will be seven years and possibly much longer before plantations are able to fully supply their pulp requirements. APP are now faced with having to buy timber from further afield, which will increase costs. At present Indah Kiat sources logs at US$19/cu m. Indah Kiat will either have to produce logs domestically at a higher cost or import them, which could cost US$45 / cu m at today's prices[6].

Illegal Logging: Financial institutions queued up to invest in the Indonesian pulp and paper companies because they perceived that they had a competitive advantage due to their access to cheap raw material resources. The low cost of timber supplies was made possible however because these companies were given access to natural forests by the Indonesian Government at virtually no cost, because they did not adequately develop their plantation resource and, in some cases, it appears that they have been able to buy substantial volumes of illegal timber[7].

The CIFOR-WWF report calculates that between 1995 and 1999, Indonesian pulp producers obtained as much as 20 million m^3 of timber from undocumented sources[8]. Although their figures are not conclusive, they suggest that Indonesian pulp producers have obtained as much as 40% of the wood they consumed during this period from illegal sources.

Distorted Global Paper Market : Financial institutions have also failed to appreciate that by offering paper products at such low cost, undercutting most of their competitors, APP may have distorted the global paper market, contributing to the falling global paper prices. Ironically, APP's supposed competitive advantage may have significantly contributed towards its mounting debt problems and consequently its tumbling share value.

Poor Financial Regulation: Financial institutions also failed to recognise and act upon the risk regarding the poor financial regulation of the Indonesian pulp and paper industry. According to the CIFOR-WWF report, each of the major pulp and paper conglomerates was involved in the banking industry before the 1997 financial crisis and some have regularly violated the Indonesian Government's capital adequacy requirements and legal lending limits for capital loans to related parties, including to their associated pulp and paper companies[9]. The use of financial 'markup' practices - that is the artificial inflation of the cost of an investment project - have allowed some pulp and paper producers to secure much larger amounts of financing for their projects than needed.[10]

Hidden Debt Burden: Financial analysis of APP's debt burden demonstrates that the company has incorrectly treated the shareholding of its financial subsidiaries as shareholder capital. This amount, US$1.18 billion, has to be treated as bond, not as equity. As a result we calculate that APP's debt burden is US$13.4 billion at the end of 2000 and not US$12.2 billion as officially announced by APP.

Debt-Driven Expansion: Foreign creditors have failed to recognise that they have enabled APP and other Indonesian pulp and paper companies to engage in debt driven expansion. It is reported that they have sometimes resolved outstanding debts to foreign creditors by raising funds through further expansion of their processing operations.[11]

Social Conflict: Financial institutions have not adequately recognised the high level of social conflict and the accompanying political risk that APP has generated as a result of its operations. Indah Kiat came into conflict with the indigenous Sakai people after they cleared 3000 hectares of their forested land[12]. The conflict came to a head on 3 February 2001 following the blockade of a logging road by the Sakai. According to various reports, employees of Arara Abadi were involved in serious clashes with the villagers of Betun Village, Pangkalankuas sub-district in Riau. According to those reports, at least five villagers were injured in the clashes, two seriously and 52 people were detained by Arara Abadi security forces before being handed over to the local police[13].

APP is also involved in a joint venture plantation project, Borneo Pulp & Paper (BPP), in Sarawak, Malaysia, which has been at the centre of major opposition from indigenous groups. The project has been given access by the Malaysian Government to more than 600,000 hectares of land. As a result, up to 20,000 Iban indigenous people may be forced off their land. One Iban community has already won a landmark court case against BPP after the Kuching High Court ruled that part of the land that had been handed over to the company for the plantation was the community's native customary land[14]. The Court declared that the land title issued to BPP which included the disputed area was void. We understand there are 2 other legal actions against BPP proceeding in the Sibu High Court in Malaysia, having been brought by more than 20 other Iban communities[15].

APP & Covert Marketing: Financial institutions should also consider the risk of financing a paper company which has a market strategy designed to bring paper to markets in a way which does not identify APP as the manufacturer and source. APP is flooding the UK market with un-branded and re-branded paper products. APP has covered up the environmental impacts of its operations, referring to ISO14001 certification in brochures and with references to plantation based forestry, obscuring the fact that most of the raw material is sourced by clear cutting natural rainforest. Although it is not clear to what extent the following are aware of the environmental and social impact of APP's activities, Robert Horne, Spicers and Kingsfield Heath, which together with the buyers groups they feed into represent more than 50% of the UK stationary market, all distribute APP paper in the UK.

The Responsibility of the Financial Institutions

This report provides details on the major financial institutions behind the finance of APP. APP's assets total US$ 17.5 billion. Shareholders have financed 25%, bondholders 38% and banks 20% of these assets. Over **300** international financial institutions, including many leading financial institutions and export credit agencies, are identified as being heavily involved in providing and guaranteeing this finance over the last 10 years. Detailed information is provided on their involvement. The private financial institutions include : Barclays Bank, Morgan Stanley Dean Witter, Credit Suisse First Boston, Goldman Sachs, Franklin Templeton, Merrill Lynch, Bank of America, Deutsche Bank, ABN Amro and Bank of China.

As a result of their inadequate investigation and understanding of the Indonesian pulp and paper industry, combined with their substantial investment in those companies over a number of years, financial institutions must accept their share of the responsibility for the crisis facing APP. They must recognise that unless they take immediate action to address the environmental and social impacts of APP's operations, they will be knowingly facilitating further rainforest destruction and social conflict. They should reflect on the reputational risk that their institutions face as a result of their involvement.

Lessons in risk learned from the APP crisis should be applied by financial institutions to all their pulp and paper investments. Without ensuring that their investments are both socially and environmentally sustainable, their investments will not be economically sustainable.

Recommendations for financial institutions

To help minimise risk and ensure the sustainability of APP and the pulp and paper industry both in Indonesia and other parts of the world, financial institutions are urged to undertake the following recommendations:

- Financial institutions should adopt and enforce more effective due diligence practices to fully assess the financial risks involved with the pulp and paper sector and to ensure that they are not providing funds for illegal or unsustainable practices.

- Financial institutions should not provide funds for any new pulp and paper processing capacity in Indonesia and Malaysia for the forseeable future. This should include halting investment in Borneo Pulp and Paper in Sarawak (Malaysia) and two other proposed pulp and paper plants in Kalakaban in Sabah (Malaysia) and at Sungai Danau in Kotabaru, South Kalimantan (Indonesia).

- Financial institutions supporting APP and its subsidiaries should take immediate action to ensure that the fibre supply to APP's pulp mills comes from legal and sustainable sources and does not involve the destruction of any more rainforest. Financial institutions should agree upon a strategy for achieving this with APP and make the group's raw material supply chain open to independent verification. To achieve this, financial institutions should take steps to ensure that APP's processing capacity is reduced and / or to ensure that timber from natural forests is replaced with sustainably harvested pulpwood from independently certified sources. Reducing capacity and ensuring supplies are legal may have the benefit of helping raise global paper prices.

- Financial institutions should ensure that they do not invest in pulp and paper projects that are likely to generate social conflict. In the case of APP, financial institutions should work with the group to resolve the conflict between its plantation company and the Sakai people in a manner that is equitable for the affected communities.

- To ensure the long term survival of the pulp and paper industry, financial institutions should support projects that utilise agricultural waste products and recycled materials as a more sustainable raw material replacement for timber. More sustainable sources of supply often carry lower risk.

Introduction

"Once I decide to do something, I will pursue it at any cost"

Eka Tjipta Widjaja, Head of Sinar Mas (APP) Group - 1990

In the wake of the Asian financial crisis in 1997/8, one Indonesian company, Asia Pulp & Paper (APP), appeared to emerge from the economic chaos relatively unscathed. Part of the Sinar Mas Group, APP has become the biggest pulp and paper producer in non-Japan Asia. Before and after the financial crisis, international financial institutions, including leading banks, investment groups and export credit agencies have queued up to finance and guarantee the rapid expansion of their operations. Three years later, APP is one of the largest corporate debtors in Asia, on the verge of bankruptcy and has been accused of rainforest destruction, pollution and conflict with local communities.

It is not only APP that has been involved in such destructive activity. All four of the major Indonesian pulp and paper groups have been implicated. They include, Asia Pulp & Paper (APP) - Sinar Mas Group, Asia Pacific Resources International (APRIL) - Raja Garuda Mas Group, P T Tanjung Enim Lestari (PT TEL) - Barito Pacific Group and Kiani Kertas - Bob Hassan's Kalimanis Group.

This report documents the environmental and social impacts of Asia Pulp & Paper (APP), assesses the role of international financial institutions in fuelling APP's unsustainable and damaging operations and examines the link between this unsustainable practice and APP's financial crisis.

APP are singled out because they are the biggest pulp and paper producer in Indonesia and have attracted particularly high levels of funding from the international financial community. Lessons in risk drawn from the APP crisis should be applied by financial institutions to their investments in all of Indonesia's pulp and paper companies.

Chapter 1 provides an overview of Indonesia's vanishing forests. Chapter 2 reviews the findings of the CIFOR-WWF report, "Profits on Paper : the Political Economy of Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industries", a landmark report that established that the pulp and paper sector in Indonesia was highly unsustainable and dependent on substantial financial subsidies. Chapter 3 examines the APP case study, with special attention given to assessing the environmental and social impacts of APP's Indah Kiat and Borneo Pulp & Paper's operations. Chapter 4 examines the marketing strategy of APP by focusing on the ways in which they have infiltrated the UK market by covering up the name of the original manufacturer and source of their paper.

To help understand the role of financial institutions in fuelling the unsustainable growth of the Indonesian pulp and paper industry, a corporate profile of APP is given in Chapter 5 and an analysis of the involvement of many of the financial institutions who have financed the company's operations in Chapter 6. Chapter 7 analyses the debt crisis of APP and relates this to the unsustainable operations that the financial institutions have fuelled. Chapter 8 concludes that as a result of poor due diligence, international financial institutions have failed to sufficiently recognise and act upon a number of serious risks related to their investment in APP. Recommendations are made on what action financial institutions need to take to ensure the sustainability of APP and the pulp and paper industry both in Indonesia and other parts of the world.

Chapter 1 Indonesia's Vanishing Forests

1.1 The ecological value of Indonesia's forests

Indonesian forests are extremely diverse and rich in wildlife. Although Indonesia occupies only 1.3% of the world's land area, it possesses about 10% of the world's flowering plant species, 12% of all mammal species, 17% of all reptile and amphibian species, and 17% of all bird species[16]. Famous species include the Orangutan, Sumatran tiger, Sumatran rhino and Asian elephant, contributing towards its status as the second richest country for biodiversity in the world. The forests are also home to millions of forest dependent peoples and provide essential ecological services such as water sheds, soil stabilisation and climate control for millions of people in the region.

1.2 Indonesia's vanishing forests

Indonesia's forest ecosystems and species are disappearing fast. Global Forest Watch estimates that Indonesia has now lost 72% of its original forest cover. Indonesia's Ministry of Forestry and Estate Crops admits that the nationwide annual deforestation rate is at least 1.7 million ha. A recent World Bank study estimates that the rate is now 2 million ha / year[17]. This area is the same size as Belgium. WALHI (FoE Indonesia), estimates that the deforestation rate has accelerated over the last three years to reach between 2.4 and 3 million ha / year[18]. At this rate, Indonesia is responsible for one of the highest rates of national tropical deforestation in the world.

According to the "Trial by Fire" report by the World Resources Institute, Indonesia lost at least 40 million ha of forest, equivalent to "the combined size of Germany and the Netherlands", during Suharto's 32 year rule[19]. It is also estimated that between 1985 and 2000, Indonesia lost a third of its supposedly "permanent" forest estate.

Although there may be 95 million hectares of forest left in Indonesia, the majority is either in poor condition or unsuitable for logging. It is estimated that there are only 17 million ha of good quality production forest left, of which 5 million have already been marked for conversion to plantation[20]. This is also the most important forest for biodiversity. A World Bank study estimates that unless logging practices radically change, there will be no more of this forest type left in Sumatra by 2005 and none left in Kalimantan by 2010[21].

1.3 Illegal logging in Indonesia

Illegal logging in Indonesia is rife. A study by the DfID funded Indonesia-UK Tropical Forest Management Programme in December 1999 assessed the probable level of illegal logging in Indonesia by comparing official log production in 1998 with an estimation of industry output in the same year. It concluded that there was a shortfall of 56.6 million cubic metres of timber[22]. This is equivalent to 73% of the total estimated output of 78 million cubic metres. On the basis of these figures it can be concluded that 73% of all logging in Indonesia is coming from undocumented, and presumably illegal, sources. Anecdotal reports from Indonesian NGO's suggest that levels of illegal logging in Indonesia have got worse since this study was conducted. The pulp and paper industry has been closely connected to illegal practice, as documented in Chapter 2.

Chapter 2 The Indonesian pulp and paper industry The CIFOR-WWF report

In December 2000, The Centre for International Forestry Research (CIFOR) in Indonesia, together with WWF's Macroeconomics Program Office, released a landmark report entitled "Profits on Paper: the Political Economy of Fiber, Finance and Debt in Indonesia's Pulp and Paper Industries"[23]. This report provides compelling evidence that the Indonesian pulp and paper industry is causing serious damage to Indonesian forests and is likely to be responsible for a high level of illegal logging.

The report partly points the finger of blame at poor governmental regulation. Significantly, it also finds that international financial institutions have played a key role in fuelling the unsustainable expansion of Indonesia's pulp & paper industry. In doing so they took on an extraordinary amount of financial risk by failing to ensure that the industry had secured a legal and sustainable source of raw material. This failure has resulted in the pulp and paper industry facing a plantation based raw material short fall for at least the next 7 years and possibly far longer.[24]

The implications of these findings is that not only has the Indonesian pulp and paper industry been responsible for sourcing most of its timber by destroying natural forests, often illegally, but it is likely to continue such damaging practice for many years to come.

The international financial institutions responsible for funding Indonesia's pulp and paper sector must accept a large degree of responsibility for fuelling the destruction of Indonesia's forests. They must take a lead in ensuring that the Indonesian pulp and paper industry rapidly changes its management practice to ensure a transparent, legal and sustainable supply of raw materials.

The key findings of the CIFOR-WWF report are as follows :

2.1 Rapid Growth

Indonesian pulp production capacity grew from 606,000 to 4.9 million metric tonnes per annum between 1988 to 1999, while the paper industry's processing capacity rose from 1.2 million to 8.3 million tonnes per annum[25]. By 1999, pulp and paper products generated US$2.65 billion in export earnings, accounting for over 50% of the country's forest-related exports. As a result, Indonesia suddenly moved into the ranks of the world's top 10 producers.

2.2 Unsustainable Supply

This massive growth in capacity was not matched however by efforts to secure a sustainable supply of raw materials. As a result, of the 100 million m^3 of wood estimated to have been consumed by the pulp industry between 1988 and1999, only 8% was harvested from plantations[26]. The rest has been sourced by clear cutting natural forest.

This is despite the fact the Government has distributed 23 pulpwood plantation licences covering an area of 4.3 million hectares[27]. The CIFOR-WWF report estimates that Indonesia only needs a plantation area of 1.1 million hectares to provide its pulp mills with a sustainable supply of timber. This suggests that the allocation of such a large area was motivated by the desire to make large areas of natural forest available to pulp producers regardless of whether the areas would be replanted.

2.3 Forest Destruction

On the assumption that, on average, producers are able to obtain 110 m^3 of pulp or wood from each hectare they clear it would appear that the pulp and paper industry in Indonesia has been responsible for the destruction of 835,000 hectares of highly biodiverse rainforest[28]. Virtually all this area was cleared to supply wood to four large mills. The pulp and paper industry will depend upon clearing rainforests to supply their pulp requirements for at least the next 7 years and possibly much longer.

A financial officer from one of Indonesia's pulp companies summed up the industry's attitude towards the preference for sourcing unsustainable supplies by saying: *"We're in no rush to switch our mill to acacia if there are still cheap supplies of mixed tropical hardwoods available. Why should we be? As* *it stands, we have access to a very low cost supply of raw materials. Developing good plantations not only involves higher costs, but also a good deal of risk. Right now our HTI's* (plantations) *are essentially an insurance policy and we will cash it in when the MTH* (natural forest concessions) *is no longer available."* [29]

2.4 Illegal Logging

In addition to the large volume of legal but unsustainably harvested wood that has been felled by the pulp and paper industry, a substantial volume of fibre consumed by Indonesia's pulp and paper industry has come from undocumented sources. The industry statistics indicate that the country's pulp mills processed approximately 50 million m^3 of wood during the period 1994/5 to 1998/99. Of that figure, less than 30 million m^3 of this can be accounted for as originating from licensed forest, pulp plantations or imported wood chips. While these figures are not conclusive, they suggest that Indonesian pulp producers may have obtained as much as 20 million m^3, or 40 percent of the wood consumed during this period from illegal sources[30].

2.5 Poor Financial Regulation

The Indonesian Government's weak regulation of the nation's financial system has enabled pulp and paper companies to gain economic advantage. Each of the major pulp and paper conglomerates was involved in the banking industry before the 1997 financial crisis and some have regularly violated the Indonesian Government's capital adequacy requirements and legal lending limits for capital loans to related parties, including to their associated pulp and paper companies[31]. The use of financial 'markup' practices - that is the artificial inflation of the cost of an investment project - has allowed some pulp and paper producers to secure much larger amounts of financing for their projects than they actually need. Companies have been encouraged to continually expand (unsustainably) due to tax laws that allow them to eliminate tax liabilities in the years that follow large capital investments. APP for instance, posted operating profits in 1999 of US$429 million, though until then had not paid any corporation tax to the Indonesian Government[32].

2.6 Financial Risk

The exponential growth of Indonesia's pulp and paper industry has been fuelled by an injection of U$12 billion in capital investment[33]. This investment was made without international financial institutions ensuring that the pulp and paper companies receiving their investment had secured a legal and sustainable raw material supply sufficient for their needs. As a result financial institutions took on a substantial if not inordinate level of financial risk.

2.7 Debt-Driven Expansion

APP's process of resolving outstanding debts to foreign creditors has been linked to further expansion of their processing operations[34]. APP has for example financed its growing debt in part by raising more finance to support new expansion of its pulp and paper facilities. Such a vicious circle of debt-driven destruction has directly led to forest destruction.

Chapter 3 APP's environmental and social impacts

The activities of pulp and paper companies in Indonesia directly conflict with the needs and rights of indigenous communities and have serious impacts on the environment. This places a heavy burden on financial institutions who finance such companies, and who do not want to face financial and reputational risk, to ensure that their activities are socially and environmentally sound and comply with the law. Examples of the social and environmental impacts of APP's Indah Kiat and Borneo Pulp and Paper operations are given below:

3.1 Indah Kiat - APP - Sinar Mas Group

The Indah Kiat company is the engine that drives APP, accounting for 77% of its pulp production capacity and 40% of Indonesia's overall pulp output[35]. In 1999, its mills ran at full capacity, consuming 6.8 million m^3 of wood - equivalent to one quarter of Indonesia's legal wood supply. APP report that they use 22,000 MT of wood / day, hauled in on 1,000 trucks.[36]

3.1.1 Natural forest destruction & logging

In 1999, Indah Kiat was only able to supply 13.4% of its wood fibre needs from its plantations[37]. It is calculated that for the year 2000, Indah Kiat has sourced approximately 75% of its logs from clearing natural forests[38]. Indah Kiat's operations have accounted for 287,000 hectares of deforestation, almost a third of the entire total attributable to all of Indonesia's pulp and paper companies[39].

Subsidiaries of Indah Kiat are reported to have been granted logging permits by the forestry ministry covering tens of thousands of hectares of swamp forest in Riau despite the fact a 1990 Presidential Decree prohibits exploitation of this type of forest. We understand that one local NGO has written to the President of Indonesia asking for those permits to be withdrawn.[40]

3.1.2 Unsustainable Supply

Indah Kiat has sourced the bulk of its raw materials from an affiliated company, Arara Abadi, which holds a 300,000 hectare eucalyptus plantation concession and conducts clearing operations of natural forest. Under a 15 year supply contract signed in 1994, Indah Kiat purchases mixed tropical hardwoods harvested by Arara Abadi.

Through the 1990's Indah Kiat regularly stated in its Annual Reports that Arara Abadi would supply "substantially all" of Indah Kiat's wood requirements by 2004. This estimate has recently been revised to 2007. However, even this estimate is considered, by at least one analyst, to be extremely optimistic. As a result, for the immediate future at least, it is likely that Indah Kiat will remain dependent for a significant proportion of its fibre requirements upon timber that is clear cut from natural forests. The CIFOR-WWF study estimates that even with a growth in timber volume sourced from plantations over the next few years, by 2005 Indah Kiat will still be sourcing no more than 50% of the companies timber needs from its plantations. A drop in the planting levels in 1998 and 1999 means that even this inadequate level may drop in 2006/2007[41].

It is also estimated that Arara Abadi's legal supply of timber from their own and nearby natural forest concessions is likely to be exhausted by the end of 2001[42]. Arara Abadi will then have to purchase timber from further afield, increasing costs and financial risk.

3.1.3 Forest Fires

It is estimated that during the massive fires of 1997/98 over 3.3 million hectares of forest were destroyed in Indonesia, including parts of 17 protected forest areas. The smog affected over 70 million people in the region and the economic cost has been calculated at US$10 billion. Up to 80% of the big fires were assessed to have been started by plantation companies clearing land[43].

In 1997 Arara Abadi / Indah Kiat was named by the Forestry Department as one of 176 companies whose concessions had been affected by fire, based on monitoring from 1 August to 15 September 1997. It is reported that Arara Abadi's wood use licence was temporarily suspended on October 3rd for failing to submit reports proving that they had not started fires in their area[44].

3.1.4 Social Conflict

A large part of the forestry concession held by Arara Abadi is land traditionally belonging to the local Sakai people. It is reported that Indah Kiat has seized and clear cut over 3000 hectares of the Sakai peoples forest gardens.[45]

According to various reports, employees of Arara Abadi were involved in serious clashes with the villagers of Betun Village, Pangkalankuas sub-dsitrict, in Riau Province on 3 February 2001[46] . According to those reports, at least five villagers were injured in the clashes, two seriously, and 52 people were detained by Arara Abadi security forces before being handed over to local police. These villagers were subsequently released following representations by the Pelelawan community leaders and NGO representatives. It is believed that the clashes resulted from an attack on the villagers following their blockade of the road through the village leading to the pulp plant's feeder plantation as a result of community frustration at the damage being caused to the forest.

Indonesia's Kompas newspaper reported that the Riau Provincial Government asked Arara Abadi to suspend its operations after the clashes. As a result of that, Indonesia's stock exchange temporarily suspended trading in Indah Kiat shares to allow investors time to digest the news. Following the clashes, APP issued a press statement stating that 'wood supply to, and pulp production at, the Indah Kiat Perwang Mill hasn't been adversely affected.'[47]

3.2 Borneo Pulp & Paper - APP

APP has been engaged in a joint venture, Borneo Pulp & Paper, with Malaysia's state owned Sarawak Timber Industry Development Corporation to set up an acacia tree plantation and build an integrated pulp and paper mill in Bintulu, Sarawak.

The joint venture project has been given access by the Malaysian Government to more than 600,000 ha of land. As a result, up to 20,000 Iban indigenous people may be forced off their land. Although a local indigenous group estimates that over 60% of the land belongs to the Iban people, the Government only recognises that 28% of the land is indigenous[48]. Not only is the Government not going to pay compensation for the whole area of indigenous land, they are also paying low levels of compensation for the land they do recognise as indigenous. In one case less than a third of the commercial value of the land was offered in compensation[49].

Prior to that venture, the local Iban people had already suffered greatly as this area has been heavily logged in the last 30 years, devastating the quality of the forest. However, the Iban recently won a landmark legal action in the High Court of Sarawak against Borneo Pulp & Paper[50]. In that action, the Iban claimed that they had acquired native customary rights over certain parts of land that had been wrongly granted to BPP by the Government of Malaysia. In a lengthy and reasoned judgement, the Court held that the Iban did have customary and native rights to the disputed land and held that those rights *"were exercised in the disputed area by (the Iban) and their ancestors until they were prevented to do so by the total destruction of the trees by (BPP) for the purpose of planting pulp trees."*

The court, in reaching its decision, noted that BPP *"sometimes work and think under delusions, such as the instant example of equating someone as being prosperous just because he can make it down to Kuching* (to observe the Court proceedings) *from a longhouse. That is an absurd measure of wealth. That attitude is of no surprise to me, after all they have regarded providing a job that pays a sum near the poverty line as being very charitable to (the Iban) which they should not have refused".*

Having ruled that the Iban were entitled to exercise their native customary rights in the disputed area, the Court also made an order against BPP preventing them or their employees from entering into the disputed area. The Court also declared that the land title issued to BPP which included the disputed area was void. BPP was ordered to pay the Iban's costs.

We understand that two similar actions against BPP are proceeding in the Sibu High Court in Malaysia, having been brought by more than 20 other Iban communities."[51]

Chapter 4 Marketing : APP & the UK Market - A Case Study

4.1 Marketing without Brands

Public interest in the impacts of the Indonesian pulp & paper industry has created problems for the Indonesian multinational paper groups, by limiting their ability to market paper and pulp products, particularly in Europe and the United States. As a result, companies such as APP have designed marketing strategies to bring paper to those markets in a way which obscures their identity as the original manufacturer of the paper.

Financial institutions should question why a company covers up the origins of its products and what implications the exposure of these origins might have for their investments. With the global dominance and economic value of brands, use of a non-branded strategy for distribution in the United Kingdom is a clear indication that APP is well aware of the sensitivity surrounding the issue of importing its paper into the United Kingdom.

APP states that it sells its products in more than 40 countries in five major geographic regions and has 24 marketing offices around the world, including offices in the UK, Belgium and Italy[52].

4.2 The UK Chain of Indonesian Custody

An investigation by Friends of the Earth - England, Wales & Northern Ireland into the marketing of APP paper in the UK confirms that the company sells few APP branded products. Instead the focus is on selling un-branded paper to UK agents and distributors, for on-selling under those companies' own brands.

Wholesale stationery product distributors sell APP material to either retail stationery distributors or directly to customers themselves. If sold to a wholesaler, the paper is often re-branded using the wholesalers brand. If the paper is sold directly to customers, the paper often remains un-branded.

It would appear that both the re-branded products and un-branded products sourced from APP do not even have country of origin labels. Using indirect marketing distribution ensures that the origin of the paper is "unknown". Indeed if there are questions about the origin of the paper, information could only be provided if the customer makes enquiries through a wholesaler willing to collaborate in tracking the chain of custody.

4.3 Environmental Green Wash

APP and its main distribution outlets are well aware of the sensitivity surrounding the issue of importing Indonesian paper and have worked hard to create an environmental personna for the company should its defences be breached. Brochures depicting ISO14001 certification with references to plantation based forestry obscure for most the reality behind the APP story that the majority of paper is sourced by destroying the Indonesian rainforest.

4.4 Growth in Indonesian Paper Imports

An analysis of Indonesian pulp and paper exports to the UK by weight and value show that there has been a significant increase. Between 1995 and 1999, imports into the UK rose from approximately 10,000 tonnes to 85,000 tonnes[53]. By sourcing their raw material by clearcutting rainforest and avoiding the costs of setting up sustainable plantations, APP are able to provide their paper at very low cost and significantly undercut many of their competitors. This analysis backs up claims from industry sources that APP agents are trying to flood the UK with cheap Indonesian paper. The marketing strategy of re-branding or leaving un-branded APP's paper products, has efficiently neutralised the market's, and the individual end-user's ability, to identify the source.

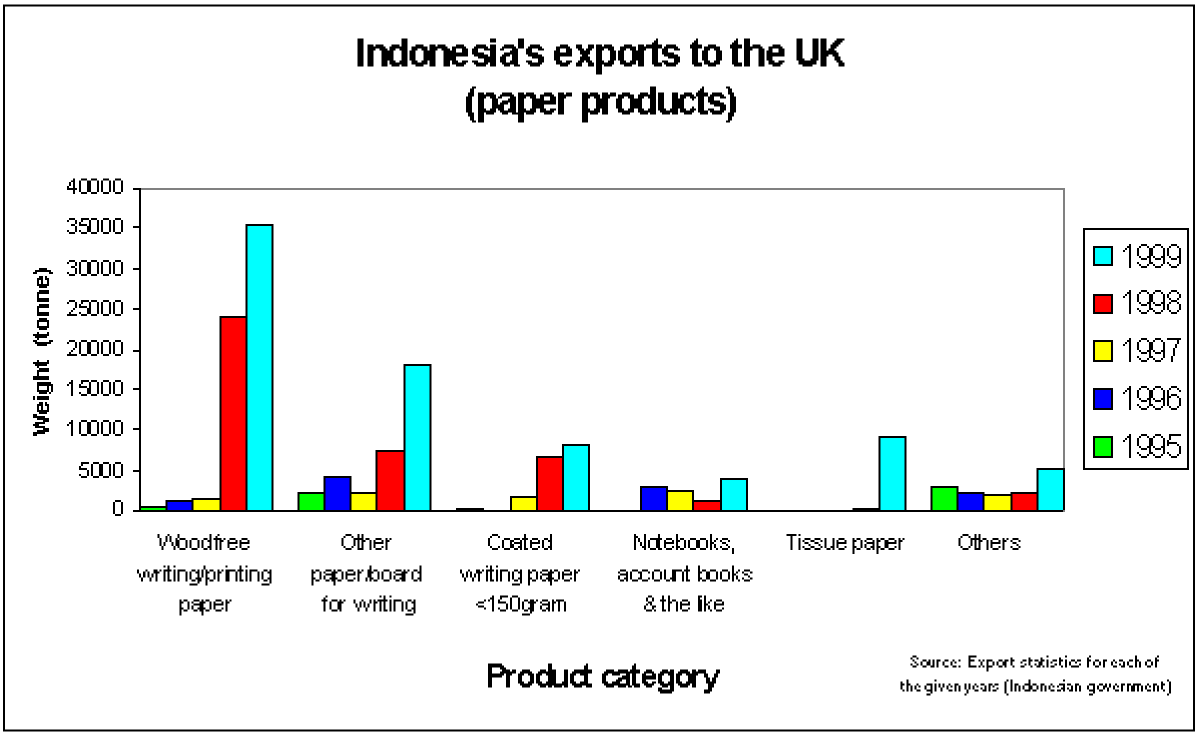
While it is extremely difficult to identify all the paper products in the UK made from APP paper, in-depth research has shown how this paper circulates in the UK market. The following companies and products have been identified as being involved in the import of APP paper into the UK. We should point out that it is not clear the extent to which any of the following are aware of APP's social and environmental record.

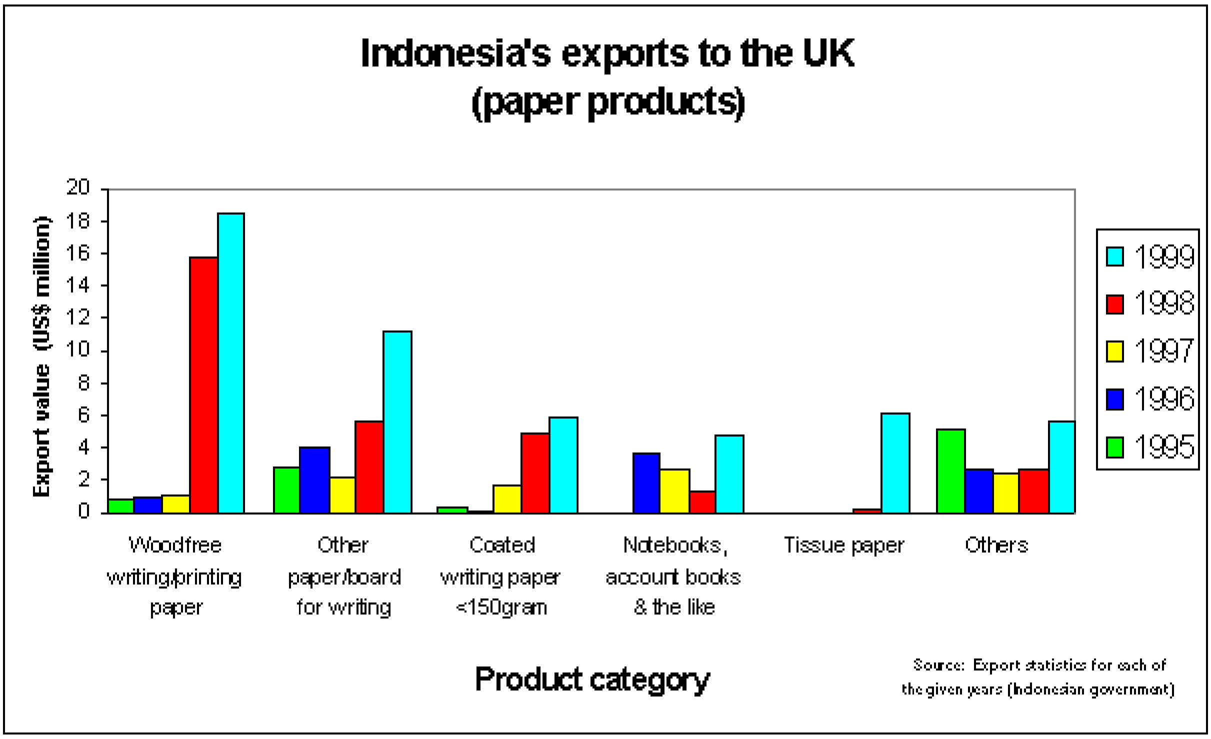
4.5 UK distributors of APP paper

Robert Horne	Office Point A4 copier paper; Gold East copier paper
Spicers	5 Star listing paper / 5 Star copier paper
Kingsfield Heath	Q Connect listing paper, Q connect copier paper

It is estimated that given the size of these distributors and the buyers groups that they feed in to, over 50% of the stationary wholesale supply business is contaminated with Indonesian paper from Asia Pulp & Paper.

The Robert Horne Group, with branches in 24 cities around the UK, presents itself as "the UK's leading paper merchant". It claims in its environment policy that "we have adopted responsible environmental policies that go beyond statutory requirements and ensure that care of the environment is a fundamental consideration in all spheres of our operation."[54] In its Purchasing Practice guidelines, it states that "we audit existing and potential suppliers on their own commitment to environmental best practice and adherence to local, national and international legislation." These commitments are clearly in stark contrast to the reality of APP's destructive forestry practices.




Indonesia's exports to the UK
(paper products)
Export value (US$ million)
20
18
16
14
12
10
8
6
4
2
0
1999
1998
1997
1996
1995
Woodfree writing/printing paper
Other paper/board for writing
Coated writing paper <150gram
Notebooks, account books & the like
Tissue paper
Others
Product category
Source: Export statistics for each of the given years (Indonesian government)

Chapter 5 Investor Case Study - APP

5.1 APP Corporate Profile

Asia Pulp & Paper Company Ltd. (APP) is a Singaporean company, belonging to the Indonesian Sinar Mas Group. APP is the holding company for the Sinar Mas subsidiaries in the pulp and paper sector. The company is listed on the New York Stock Exchange.

APP is a vertically integrated company, owning logging concessions of at least 1.5 million hectares in total in Indonesia; pulp and paper manufacturing facilities in Indonesia, China, and India; packaging plants across Indonesia, China, Singapore, the U.S., India, and Mexico; and marketing offices in six continents. The APP Group manufactures paper products (printing and writing paper and related paper products, tissue paper, BHK pulp and chemical by-products) and packaging products (linerboard, corrugating medium, corrugated shipping containers and boxboard). It employs 80,000 people in 22 countries.[55]

APP has an aggregate pulp production capacity of 2.3 million tonnes, located in Indonesia. Its paper and packaging production capacity in Indonesia, China and India totals 5.7 million tonnes. APP is the largest Asian paper producer outside Japan, and ranks 10th among the world's paper and packaging companies[56]. According to Asiaweek, APP ranked as the 15th largest company in Singapore in 2000 (494th in Asia), and its main subsidiary Indah Kiat ranked as the 6th largest company in Indonesia (883th in Asia).[57]

The Sinar Mas Group is one of Indonesia's largest business groups. The group is mainly active in pulp and paper, palm oil, instant noodles, property and finance, and is controlled by the family of its Sino-Indonesian founder, Eka Tjipta Widjaja. It also has interests in hotels and telecommunications. Sinar Mas was relatively unharmed by the devaluation of the Rupiah in 1997-1998 because of its bias to natural resources. In the past few years, the group towered over all surviving conglomerates in Indonesia. But since the end of 2000 the Sinar Mas group is also in serious trouble, mainly because of the huge debts of Asia Pulp and Paper.[58]

5.2 APP subsidiaries

APP has manufacturing and packaging facilities in Indonesia, China, Singapore, the USA, Mexico and India. The main manufacturing subsidiaries in Indonesia are:

PT Indah Kiat Pulp and Paper Tbk (Indah Kiat)PT Pabrik Kertas Tjiwi Kimia Tbk (Tjiwi Kimia)PT Pindo Deli Pulp and Paper Mills (Pindo Deli)PT Lontar Papyrus Pulp and Paper Industry (Lontar Papyrus). The main manufacturing subsidiaries in China are:

Gold East Paper (Jiangsu) Co., Ltd (Gold East)Gold Hongye Paper (Suzhou Industrial Park) Co., Ltd (Gold Hongye)Gold Huasheng Paper (Suzhou Industrial Park) Co., Ltd (Gold Huasheng)Ningbo Zhonghua Paper Co., Ltd (Ningbo Zhonghua). A full list of APP subsidiaries is given in Appendix I.

5.3 Sales and financial performance

The following table provides some key financial figures for APP in 1999: [59]

	Million US$	%
Sales	3135	100
Operating profit	807	26
Net income	-/- 23	-/- 1

As this table shows, APP suffered from poor profitability in 1999. Although operating profit was reasonable, the cost of servicing its growing debt burden resulted in the company posting a loss of US$ 23 million.

In 1999, total sales were divided over the two product groups as follows: [60]

	Million US$	%
Paper products	2086	67
Packaging products	1050	33
Total sales	**3135**	**100**

In 1999, the geographical division of total sales was as follows: [61]

	Million US$	%
China and Hong Kong	1030	33
Indonesia	521	17
Rest of Asia	645	21
European Union	377	12
Rest of the world	562	18
Total sales	**3135**	**100**

Chapter 6 APP Financial analysis

6.1 Financing structure - Asia Pulp & Paper (APP)

Among Indonesia's pulp and paper producers, the Sinar Mas Group has been the most successful at securing international finance to carry out masive expansion in processing capacity. In 1994 the group placed its pulp and paper assets under the control of the Singapore incorporated holding company, Asia Pulp & Paper. It did so to present itself to financial institutions as a bonafide multinational and to circumvent much of the sovereign risk premium associated with investments in Indonesia. In 1995 the group listed APP on the New York Stock Exchange. Apart from equity offerings, the company was also able to raise significant funding through bank loans and by entering the US bond market.

At the end of 1999, the assets owned by APP totalled US$ 17,512 million. These assets were financed by the following stakeholders: [62]

Stakeholder group	Official company data		Corrected figures	
	Million US$	%	Million US$	%
Shareholders	5615	32	4434	25
Creditors	11897	68	13078	75
of which:				
Bondholders	5493	31	6674	38
Banks	3569	20	3569	20
Suppliers	1691	10	1691	10
Tax collectors	351	2	351	2
Other creditors	794	5	794	5
Total assets	**17512**	**100**	**17512**	**100**

The corrected figures show that shareholders, bondholders, and banks each play a very important role in financing the company. In the following paragraphs, these three groups of stakeholders will be examined more closely, as well as the suppliers.

We have corrected the official company figures, as the company incorrectly treats the shareholdings of its financial subsidiaries (see paragraph 6.2.3) as shareholder capital. This amount (US$ 1.18 billion) has to be treated as bonds, not as equity. In the columns on the right, we have corrected this error. The corrected figures show that the total APP debt at the end of 1999 was already US$ 13.1 billion, in stead of the reported US$ 11.9 billion.

At the moment of writing (May 2001), APP still has not published an annual report for the year 2000. But on 9 April 2001, APP announced that its (official) consolidated indebtedness had increased from US$ 11.9 billion at the end of 1999 to approximately US$ 12.2 billion as of 31 December 2000.[63] After correcting these figures, we estimate that total APP debt has increased from US$ 13.1 billion at the end of 1999 to approximately US$ 13.4 billion at the end of 2000. This same figure was estimated by the Wall Street Journal.[64]

However, these figures do indicate that the total assets of APP probably have not increased dramatically during 2000. We will therefore take total assets at the end of 1999 as the reference to estimate the relative influence of the various stakeholders in the following paragraphs.

In April 2001, APP also presented the following overview of the debts of its subsidiaries:

Subsidiary	Country	Debt (US$ million)
PT Indah Kiat	Indonesia	2,700
PT Tjiwi Kimia	Indonesia	1,100
PT Pindo Deli	Indonesia	1,100
PT Lontar Papyrus	Indonesia	576
PT Purinusa Ekapersada	Indonesia	453
Gold East Paper	China	1,100
Sinar Mas Paper City	China	484
Ningbo Zhonghua	China	402
Gold Huasheng	China	384
APP China Group	China	336
Gold Hongye	China	213
Sinar Mas Paper (China)	China	100
Gold Hai	China	33
APP Holding	Singapore	1,800
Nippecraft	Singapore	23
Sinar Mas India	India	50

This overview of debts totals up to US$ 10.854 million. No data were presented on other debts.[65]

6.2 Shareholders

As analysed in paragraph 6.1, the shareholders of APP and its subsidiaries financed 32% of APP's assets at the end of 1999. This group of shareholders can be divided in three sub-groups: [66]

	Million US$	% of total assets
Shareholders of APP	2,874	16
Shareholders of normal subsidiaries	1,560	9
Shareholders of financial subsidiaries	1,181	7
Total shareholders	**5,615**	**32**

These three sub-groups of shareholders will be examined further in this paragraph. We will conclude that the shareholders of APP's financial subsidiaries should be treated as bondholders, bringing total shareholder capital at US$ 4,434 million (25% of total APP assets).

6.2.1 Shareholders of APP

At the end of 1999, APP had issued 1,152 million shares (with a nominal value of US$ 0.50) to its shareholders. These shares are traded as *American Depositary Shares (ADSs)* at the New York Stock Exchange (NYSE), with one ADS equalling 4 ordinary shares. The following table provides recent information on all owners of ordinary shares, and the most important owners of ADSs of APP. The value of their shareholdings provided is the intrinsic value at the end of 1999 (shareholding percentage combined with total shareholders' equity), which is quite different from the actual market value. A complete list of all shareholders is to be found in Appendix III.[67]

Owners of ordinary shares	Country	% of total shares	Value (US$ million)
APP Global and subsidiaries	Singapore	66.33%	1906
PT Sinar Mas Tunggal	Indonesia	0.52%	15
APP Global and subsidiaries	Singapore	66.33%	1906
PT Sinar Mas Tunggal	Indonesia	0.52%	15
Mitsubishi Corporation	Japan	0.12%	3
Hokuetsu Paper Mill Ltd.	Japan	0.06%	2

Owners of ADSs	Country	% of total shares	Value (US$ million)
Franklin Templeton Investments	United States	9.45%	272
Capital Group	United States	6.02%	173
ValueQuest/TA, LLC	United States	1.63%	47
Pioneer Investment Management Inc.	United States	0.86%	25
State of Wisconsin Investment Board	United States	0.84%	24
Smith Barney Asset Management	United States	0.71%	24
Wellington Management Company, LLP	United States	0.58%	17
Manning & Napier Advisors, Inc.	United States	0.31%	9
Zurich Scudder Investments, Inc.	United States	0.27%	9
Others		12.30%	8
Total		**100%**	**2874**

APP Global and its three wholly-owned special purpose finance subsidiaries (Sky Rocket International Limited, Star Pisces Limited and APP Global Finance (V) Limited) clearly are the dominant shareholders of APP. APP Global itself is controlled by the Widjaja family, the owners of the Sinar Mas Group. PT Sinar Mas Tunggal also belongs to the Sinar Mas Group, which therefore controls 66.8% of APP's shares.[68]

6.2.2 Shareholders of normal subsidiaries

APP is a holding company, owning several manufacturing and trading subsidiaries. But not all of these subsidiaries are fully (100%) owned by APP. According to normal accounting rules, majority (50% or more) owned subsidiaries are regarded as controlled by the holding company. And therefore 100% of the assets of these subsidiaries is added to the total assets of the holding company. But, of course, the minority shareholders of these subsidiaries also finance part of the assets of these subsidiaries, and therefore of the total assets of the holding company as a whole.

For example: if APP owns 70% of a certain subsidiary, it has to include (*consolidate*) 100% of the assets of this subsidiary in the total figure of its assets. The assets of this subsidiary might for instance make up 10% of APP's total assets. The minority (30%) shareholders of this subsidiary, in this case would finance 3% of APP's total assets.

All minority shareholders of the subsidiaries of which APP owns between 50% and 100%, together finance US$ 1,560 million (9% of APP's total assets). The major part of this financing is coming from APP's Indonesian subsidiaries Indah Kiat and Tjiwi Kimia, which are listed on the Jakarta stock exchange (figures for 1999):[69]

Subsidiary	Minority shareholding	Total equity (US$ million)	Value of minority equity (US$ million)
Indah Kiat	42%	2781	1168
Tjiwi Kimia	36%	916	330
Others			62
Total			**1560**

Around half of the minority shareholders belong to the Sinar Mas group, as is shown in the following figures: [70]

Shareholder	Country	Million of US$	% of total assets
Sinar Mas Group companies	Singapore	779	4
Others	Unknown	781	4
Total minority shareholders		**1,560**	**9**

The most important shareholders of Indah Kiat and Tjiwi Kimia which do not belong to the Sinar Mas Group, are listed below. Indirectly, these shareholders finance part of the total assets of APP. To assess which part of APP's assets is financed by these shareholders, their shareholding-percentages are combined with the value of the shareholders' equity of Indah Kiat and Tjiwi Kimia respectively, as of 31 December 1999. A complete list of all shareholders of Indah Kiat and Tjiwi Kimia is to be found in Appendix IV and V.[71]

Owners of ordinary shares of Indah Kiat	Country	% of total shares	Value (US$ million)
Capital Group	United States	5.336%	148
Franklin Templeton Investments	United States	3.503%	97
UBS Asset Management	Switzerland	1.070%	30
Montgomery Asset Management, LLC	United States	0.443%	12
Foreign & Colonial Management Group	England	0.442%	12
The Boston Company Asset Mgmt., LLC	United States	0.434%	12
Barclays Global Investors, N.A.	England	0.337%	9
Grantham, Mayo, van Otterloo LLC	United States	0.306%	9
INVESCO Asset Management (Asia) Ltd.	Hong Kong	0.303%	8
Dimensional Fund Advisors, Inc.	United States	0.301%	8
Loomis, Sayles & Company, L.P.	United States	0.216%	6
Morgan Stanley Dean Witter	United States	0.205%	6

Owners of ordinary shares of Tjiwi Kimia	Country	% of total shares	Value (US$ million)
Franklin Templeton Investments	United States	4.064%	37
Capital Group	United States	1.569%	14
Grantham, Mayo, van Otterloo LLC	United States	0.921%	8
UBS Asset Management	Switzerland	0.637%	6

Owners of ordinary shares of Tjiwi Kimia	Country	% of total shares	Value (US$ million)
Dimensional Fund Advisors, Inc.	United States	0.539%	5
Barclays Global Investors, N.A.	United States	0.331%	3
Emerging Markets Investors Corp.	United States	0.185%	2
Jupiter Asset Management (Asia) Ltd.	Hong Kong	0.151%	1
AEGON Nederland N.V.	The Netherlands	0.151%	1

6.2.3 Shareholders of financing subsidiaries

Whereas the role of minority shareholders of *normal* (manufacturing and trading) subsidiaries is common among holding companies like APP, this is not the case with the special financing subsidiaries APP has set up to attract more capital. These subsidiaries do not undertake activities, and their normal shares are wholly-owned by APP. But these subsidiaries have also issued *redeemable preference shares* to certain investors. These preference shares don't carry a voting right, but do promise the owner a fixed dividend. In other words: these *redeemable preference shares* issued by financing subsidiaries, are disguised *bonds*: redeemable securities with a fixed income and without voting rights. There could be several accounting and fiscal reasons why APP has chosen this construction in stead of issuing straightforward bonds, but we will not elaborate on this subject here. It is important to note, however, that APP treats these preference shares as equity, which is in practice is not correct. They should be treated as bonds, and added to APP's official debt figure. We have done so in the corrected figures in paragraph 6.1.[72]

The following information on the owners of the *redeemable preference shares* of APP's financing subsidiaries is available: [73]

Shareholder	Country	Million of US$	% of total assets
Itochu Pulp & Paper Asia	Japan	94	1
Nissho Iwai	Japan	54	0
Others	Unknown	1,033	6
Total shareholders of financial subsidiaries		**1,181**	**7**

6.2.4 Financial institutions involved in raising shareholder capital

The following information is available on the financial institutions which were involved in raising shareholder capital for APP and its subsidiaries:

- In May 1990, Indah Kiat launched an Initial Public Offering (IPO) at the Jakarta stock exchange. The total amount raised was Rp 236.2 billion (US$ 128.6 million). The lead manager of the share offering was **Nomura International**. Other banks involved in the syndicate were: **Baring Brothers**, **Goldman Sachs**, **Merrill Lynch**, **Phicorinvest**, **Morgan Stanley** and **Salomon Brothers**.[74]

- In April 1995, APP launched an Initial Public Offering (IPO) at the New York Stock Exchange (NYSE). During the IPO 27 million ADSs were issued, equivalent to 108 million ordinary shares. The total amount raised was US$ 310.5 million. The lead manager of the share offering was **Morgan Stanley** & Co. Other banks involved in the syndicate were: **Bangkok Bank**, **Carr Indosuez Asia**, **Development Bank of Singapore**, **LG Investment & Securities**, **Nikko Securities**, **Rashid Hussain Securities**, **Schroders**, **UBS**, **Yamaichi Merchant Bank**, **Crédit Suisse First Boston**, **Smith Barney**, **ABN AMRO Hoare Govett**, **Baring Brothers**, **Nomura Securities**, **James Capel**, **Credit Lyonnais**, **Enskilda Banken**, **Lazard Brothers & Co**, and **SG Warburg Securities**.[75]

- In February 1997, APP issued preference shares of its financing subsidiary APP Finance (II) Mauritius Ltd. The total amount raised was US$ 375 million. The underwriter was **J.P.Morgan**.[76]

- In November 1997 APP issued 18 million new ADSs on the NYSE, equivalent to 72 million shares. The total amount raised was US$ 207 million. The lead manager was **Morgan Stanley**. Other banks involved in the syndicate were: **Crédit Lyonnais**, **Development Bank of Singapore**, **WI Carr Indosuez**, **ING Barings**, **Nikko Securities**, **Goldman Sachs**, **Merrill Lynch** and **Salomon Brothers**.[77]

- In April 1999, APP issued 48 million new ADSs on the NYSE, equivalent to 192 million shares. The total amount raised was US$ 403.8 million. The underwriter for the offering was **Merill Lynch**. Other banks involved in the syndicate were: **Arnhold & S Bleichroeder**, **ING Baring Furman Selz**, **JP Morgan Securities** and **PaineWebber**.[78]

6.3 Bondholders

As analysed in paragraph 6.1, the bondholders of APP and its subsidiaries financed 31% of APP's assets at the end of 1999. When we take into account the shareholders of APP's financial subsidiaries, which should be treated as bondholders (see paragraph 6.2.3), bondholders finance even more: 38% of APP's total assets.

Various bonds and notes have been issued by APP, Indah Kiat, Pindo Deli, Tjiwi Kimia and various finance subsidiaries, in dollars, yens and rupiahs. Most of the long term dollar-denominated debt is believed to be held by U.S. financial institutions, and smaller amounts in Europe and Japan. Much of the short term debt and floating rate notes are believed to be residing in the vaults of banks around the region including Taiwan, Korea, Japan and Singapore.[79]

A considerable amount of the bonds are also held by the company itself. In the first six months of 2000, APP made open market purchases of approximately US$ 115 million of public debt securities issued by finance subsidiaries of APP and APP Global Ltd. A person familiar with the company said these bonds were purchased as investments because the company believed the bonds were undervalued at the time.[80]

The following data are available on the arrangers and owners of the bonds of APP and its subsidiaries.

6.3.1 Arrangers of bond issues

- In November 1990, **Citibank** arranged a US$ 50 million five-year convertible bond issue for Tjiwi Kimia. Lead managers for the deal were: **Bank Internasional Indonesia**, **Banque Nationale de Paris**, **Bank Rakyat Indonesia**, **Bumi Daya International**, **Crédit Agricole**, **Österrreichische Länderbank** and **Union Bank of Switzerland (UBS)**. The bonds matured in November 1995.[81]

- In March 1991, **Nomura International** together with **Salomon Brothers** and **Schroder Wagg** arranged a US$ 75 million convertible bond issue for Tjiwi Kimia. Other banks involved were: **Banque Indosuez**, **Barclays de Zoete Wedd**, **Baring Brothers**, **James Capel**, **Dresdner Bank**, **Goldman Sachs**, **Jardine Fleming**, **Lehman Brothers**, **Merrill Lynch**, **Morgan Stanley** and **Banque Paribas**.[82]

- In March 1992, **Wardley James Capel** arranged a US$ 40 million convertible bond issue for Tjiwi Kimia. Other banks involved were **Merrill Lynch** and **Morgan Stanley**.[83]

- In February 1992, **Crédit Suisse** arranged the issue of five-year Sfr 50 million (US$ 33.5 million) convertible notes for Tjiwi Kimia. Other banks involved in the deal were: **Bank in Liechtenstein**, **Baring Brothers**, **Bank Leu**, **Bank Sarasin et Cie**, **Banque Paribas**, **Union Bancaire Privee CBI-TDB**, **Clariden Bank**, **DG Bank**, **Lehman Brothers**, **Rabobank**, **Schroder**, **Nomura**, and **Merrill Lynch**.[84]

- In October 1993, **Morgan Stanley** arranged a US$ 175 million bond issue for Indah Kiat.[85]

- In September 1995, **Morgan Stanley** arranged a US$ 550 million bond issue for APP.[86]

- In February 1996, **Bank BIRA** arranged a US$ 100 million bond issue for Indah Kiat. Other banks involved in the deal were: **Banque Indosuez**, **Crosby Capital Markets**, and **HSBC**.[87]

- In August 1996, **Sumitomo Bank** Singapore arranged a US$ 72 million bond issue for Indah Kiat. Other banks involved were: **ABSA Bank** Singapore, **Bank Austria** HK, **Bank of Saga** Japan, **CBK** Singapore, **Daiwa Bank** Singapore, **First Commercial Bank** Singapore, **IBK** Singapore, **Kexim** International Singapore, **KorAm Bank** Seoul, **Korea Leasing** Singapore, **Natwest Bank** Singapore, **Nedcor** Asia, **NordLandes Bank** Singapore, **Swiss Banking Corp** Singapore and **Thai Farmers Bank** Singapore.[88]

- In 1997, **UBS Warburg** arranged a US$ 600 million bond issue for APP. These bonds were originally sold to banks in Taiwan, Malaysia and Korea, and are mainly owned by Asian investors. In September 2000, the Widjaja family owned US$ 19.1 million of these bonds, and APP itself US$ 15 million[89].

- In March 1997, **Peregrine** arranged a US$ 638 million bond issue for APP. These bonds were originally sold to banks in Taiwan, Malaysia and Korea, and are mainly owned by Asian investors. In September 2000, the Widjaja family owned US$ 77 million of these bonds, and APP itself US$ 87 million.[90]

- In October 1997, **Credit Suisse First Boston Corporation**, **BancAmerica Securities** and **Deutsche Morgan Grenfell** arranged a US$ 750 million bond issue for Pindo Deli.[91]

- In November 1997, **Merrill Lynch** arranged a US$ 294 million issue of LYONS (Liquid Yield Option Notes) for APP.[92]

- In April 1998, **Goldman Sachs** arranged a US$ 500 million convertible bond issue for APP. These bonds are mainly owned by US high yield funds.[93]

- In August 1998, **BankBoston** and **J.P.Morgan** arranged a US$ 370.5 million bond issue for APP.[94]

- In September 1999, **Bahana Securities** arranged a Rp 1.5 trillion (about US$ 200 million) bond issue for Indah Kiat.[95]

- In March 2000, **Morgan Stanley Dean Witter** arranged a US$ 403 million bond issue for APP China. About 70% of the deal was sold to US buyers, 20% in Asia and 10% in Europe, mainly to high-yield bond funds and other institutional investors.[96]

- April 2000, **Sinarmas Sekuritas** arranged a Rp 1,000 billion (US$ 131.5 million) bond issue for Lontar Papyrus.[97]

- In July 2000, **J.P. Morgan** arranged a US$ 100 million one-year bond issue for APP. The transaction sold to a combination of holders of the maturing deal in the US and new buyers from US funds and Asian private banking groups.[98]

- In July and August 2000, **Credit Suisse First Boston** arranged two private placements of notes, raising a total of $330 million for Indah Kiat Finance Ltd.[99]

- In July 2000, **ING Barings** arranged a US$ 100 million bond issue for APP.[100]

- In August 2000, **ING Barings** arranged a US$ 125 million bond issue for APP.[101]

6.3.2 Owners of bonds

There is no public transparency over the names of bondholders. The following names of bondholders are known: [102]

Name	Country	Million of US$
Franklin Templeton Investments	United States	
Credit Suisse First Boston	United Sates	250
Income Partners Asset Management	Hong Kong	
Bank Mandiri	Indonesia	25.7
Bank Niaga	Indonesia	5
Fidelity Management & Research Co.	United States	
Putnam Investments	United States	
Merrill Lynch Investment Managers	United States	
Loomis & Sayles Co.	United States	
New York Life Insurance	United States	
Morgan Stanley Asset Management	United States	
Metropolitan Life Insurance Co.	United States	

6.4 Banks

As analysed in paragraph 6.1, banks financed 20% of APP's assets at the end of 1999. Bank financing for APP and its subsidiaries can be sub-divided in the following way: [103]

	Million of US$	% of total assets
Long-term loans and export credit facilities	2457	14
Short-term loans	1,093	6
Capital lease obligations	20	0
Total banks	**3569**	**20**

The information known on bank financing is presented in the following sub-paragraphs. As the maturity of the loans is not always known, no difference is made between short-term and long-term loans. The loans are arranged by borrower.

6.4.1 APP

- In September 1990, various companies in the APP Group (Indah Kiat, Tjiwi Kimia and others) together obtained a two-year US$ 80 million credit facility from an international banking syndicate arranged by **Barclays Bank**. Other banks participating in the syndicate were: **Arab Banking Corporation**, **Banque Nationale de Paris**, **ABN-Amro Bank**, **Crédit Agricole**, **Dresdner Bank**, **Mitsui Taiyo Kobe Bank**, **Union Bank of Switzerland (UBS)**, **Crédit Suisse**, **Kredietbank**, **Royal Bank of Scotland**, **Sanwa Bank**, and **Toyo Trust & Banking Corporation**. The loan matured in September 1992.[104]

- In March 1996, **ING Barings** and **Fuji Bank** were mandated to arrange a US$ 300 million facility for PT APP International Finance Co. It is unclear if this facility has been realised.[105]

- In the beginning of 1998, APP was arranging a loan of US$ 220 million from several lending syndicates. APP's adviser was **Taylor DeJongh**. One of the syndicates, providing US$ 100 million, was arranged by **Greenwich NatWest**. This loan would be guaranteed by **SACE**. It is unclear if this facility has been realised.[106]

- In October 1998, APP Paper Trading obtained a one-year US$ 100 million revolving credit facility from a international banking syndicate arranged by **Bank of Boston**, together with **Dresdner Kleinwort Benson**, **Development Bank of Singapore (DBS)** and **Bayerische Hypo-und Vereinsbank**. The following banks participated in the syndicate: **Bank of Boston** (US$ 20 million),

Dresdner Kleinwort Benson (US$ 18 million), **Development Bank of Singapore** (US$ 15 million), **Bayerische Hypo-und Vereinsbank** (US$ 10 million), **Norddeutsche Landesbank** (US$ 10 million), **Natexis Banque-BFCE** (US$ 7 million), **Banque Worms** (US$ 5 million), **Bayerische Landesbank** (US$ 5 million), **Hua Nan Commercial Bank** (US$ 5 million), and **Bank of Nova Scotia** (US$ 5 million).
This facility matured in October 1999.[107]

- In September 1999, APP Paper Trading obtained a two-year US$ 75 million revolving credit facility from a international banking syndicate arranged by **Bank of Boston**, together with **Development Bank of Singapore (DBS)**, **Hua Nan Commercial Bank**, **KBC Bank**, and **Norddeutsche Landesbank**. The following banks participated in the syndicate: **Bank of Boston** (US$ 7 million), **Development Bank of Singapore** (US$ 7 million), **KBC Bank** (US$ 7 million), **Hua Nan Commercial Bank** (US$ 6 million), **Norddeutsche Landesbank** (US$ 6 million), **Raiffeisen Zentralbank Österreich** (US$ 5 million), **Arab Bank** (US$ 4 million), **Baden-Wurttembergische Bank** (US$ 4 million), **Bayerische Landesbank** (US$ 4 million), **E Sun Commercial Bank** (US$ 4 million), **Industrial & Commercial Bank of China** (US$ 4 million), **International Commercial Bank of China** (US$ 4 million), **Natexis Banque-BFCE** (US$ 4 million), **Cosmos Bank** (US$ 3 million), **Bank of Kaohsiung** (US$ 2 million), **Banque Worms** (US$ 2 million), and **Cassa di Risparmio di Lombarde** (US$ 2 million). This facility will mature in September 2001.[108]

- In October 1999, APP Paper Trading obtained a two-year US$ 100 million revolving credit facility from a international banking syndicate arranged by **Dresdner Kleinwort Benson** together with **MeesPierson**. This facility replaced the facility arranged in October 1998. The following banks participated in the syndicate: **Dresdner Kleinwort Benson** (US$ 27 million), **MeesPierson** (US$ 27 million), **DG Bank** (US$ 15 million), **ABSA Bank** (US$ 10 million), **Norddeutsche Landesbank** (US$ 10 million), **Arab Bank** (US$ 6 million), and **Development Bank of Singapore** (US$ 5 million). This facility will mature in October 2001.[109]

- In December 1999, APP owed a short-term loan of US$ 15 million to **Fuji Bank Internasional Indonesia**.[110]

- On 18 January 2001, the French bank **Crédit Lyonnais** filed a lawsuit in Singapore against APP. The bank states the APP's financing subsidiary APP BVI owes the bank US$ 2.21 million from an April 1997 swap and foreign exchange agreement and had not paid "despite repeated assurances" from APP and APP BVI.

- On 26 March 2001, Singapore's High Court ordered APP to pay US$ 1.91 million plus interest to Credit Lyonnais. APP had made a payment of US$ 300,000 already on March 5.[111]

- On 26 January 2001, the French-Arab banking group **Union de Banques Arabes & Francaises (UBAF)** filed a lawsuit in Singapore against APP. The bank states that APP and APP Import & Export Pte owe it money for credit facilities and trade-related financing valued at more than US$ 2 million.[112]

- On 27 February 2001, Dow Jones reported that APP, Indah Kiat, Tjiwi Kimia and finance company PT Sinar Mas Multi Artha together owed Rp 354.5 billion (US$ 36.1 million) in investment loans, Rp 524.1 billion (US$ 53.4 million) in export credits, Rp 252.5 billion (US$ 25.7 million) in notes, and Rp 154.98 billion (US$ 15.8 million) in working capital to PT **Bank Mandiri**.[113]

- On 1 March 2001, the Asian Wall Street Journal reported that APP recently held talks with several big export credit agencies (ECAs), which have arranged US$ 1.3 billion in export credits to help APP buy machinery and other goods from abroad. APP asked the ECAs, which are predominantly European, to give the group a three-month grace period to make payments.[114]

- On 2 March 2001, Paperloop.com reported that APP has reached an agreement with four Chinese state-owned banks. The four banks, led by the **Bank of China**, have agreed not to call in their bank loans to APP China, which are estimated at US$ 1 billion.[115]

- On 7 March 2001, **ABN Amro Bank** filed three lawsuits in Singapore against three of APP's operating subsidiaries, to recover US$ 31 million borrowed from the Dutch banking group. ABN

Amro claims US$ 8.88 million from Pindo Deli, US$ 7.14 from Tjiwi Kimia, and US$ 15.36 from Indah Kiat.[116]

- On 18 March 2001, Reuters reported that APP and its subsidiaries owed the following amounts to Indonesian banks:
  - 210 billion rupiah (US$ 21 million) to **Bank Central Asia** (BCA)
  - 90 billion rupiah (US$ 9 million) to **Bank Panin**
  - 27.9 billion rupiah (US$ 2.8 million) to **Bank Universal**
  - US$ 21 million to **Bank Danamon**
  - US$ 13 million to **Bank Lippo**
  - US$ 5 million to **Bank NISP** [117]

- On 3 April 2001, **Fortis Bank** filed a lawsuit in Singapore against APP for US$ 7.43 million over contracts related to credit facilities and overdrafts.[118]

- On 4 April 2001, APP announced two swap contracts from 1997 weren't reflected in its financial statements for 1997 through 2000. The swaps, which included an Indonesian rupiah/U.S. dollar swap and a Japanese Yen/U.S. dollar swap, were terminated in November 2000 with an agreement between APP and **Bankers Trust**, which was subsequently taken over by **Deutsche Bank**. APP had agreed in November 2000 to pay Deutsche Bank about US$ 220 million to settle. But the company is now in default under terms of the settlement, and is in talks to revise the settlement terms. APP plans to appoint an independent accountant to conduct a review of the "facts and circumstances surrounding the failure to reflect these obligations" in its financial statements.[119]

- On 9 April 2001, APP confirmed that its total debt includes an aggregate of approximately US$ 1.0 billion owed to **Bank Internasional Indonesia**.[120]

6.4.2 Tjiwi Kimia

- In January 1990, **Citibank** arranged a US$ 30 million bridge facility for Tjiwi Kimia that would be replaced by a convertible bond at the end of the year.[121]

- In January 1991, Tjiwi Kimia obtained a three-year US$ 30 million loan from a banking syndicate arranged by **Bank of America** to finance the purchase of equipment. The loan matured in January 1994.[122]

- In January 1992 Tjiwi Kimia entered into an agreement with the **Berliner Handels und Frankfurter Bank (BHF Bank)** for a credit facility of DM 5.2 million (US$ 3.152 million), to fund the import of machines. This loan was fully paid in 1997.[123]

- In April 1992, Tjiwi Kimia obtained a two-year US$ 93 million revolving credit from **Bank Internasional Indonesia**. The facility would mature in April 1994.[124]

- In January 1993, the revolving credit facility from **Bank Internasional Indonesia** was reduced to US$ 87.3 million, and extended to July 1995.[125]

- In July 1994, Tjiwi Kimia obtained a two-year US$ 12 million loan from **Bank of America**. This loan matured in July 1996.[126]

- In November 1994 Tjiwi Kimia obtained a three-year US$ 120 million loan from an international syndicate arranged by **Fuji Bank**, **ABN-Amro Bank**, **Union Européenne de Crédit Industriel et Commercial**, **Rabobank**, and **Sumitomo Bank**. Other banks participating in the syndicate were: **Sakura Bank**, **Sanwa Bank**, **Yasuda Trust & Banking Corporation**, **Daiwa Bank**, **Industrial Bank of Japan**, **Nationale Investeringsbank**, **Rabobank Duta Indonesia**, **Nikko Merchant Bank**, **D&C Bank**, **Hua Nan Commercial Bank**, **Kansallis-Osake-Pankki**, and **Taiwan Co-operative Bank**. The loan was used to refinance existing debt, and was fully paid in 1997.[127]

- In February 1995, Tjiwi Kimia obtained a five-year US$ 30 million loan from an international banking syndicate arranged by: **Deutsche Bank** and **Long-Term Credit Bank of Japan**. The banks participating in the syndicate were: **Deutsche Bank** (US$ 3.75 million), **Long-Term Credit Bank**

of Japan (US$ 4.25 million), **Daiwa Bank** (US$ 4.25 million), **Mitsubishi Trust & Banking Corporation** (US$ 4.25 million), **Norinchukin Bank** (US$ 4.25 million), **Banque Nationale de Paris** (US$ 2.75 million), **Crédit Lyonnais** (US$ 3.25 million), and **Development Bank of Singapore** (US$ 3.25 million).
The loan was used to finance a new paper mill, and matured in April 2000.[128]

- In November 1995, Tjiwi Kimia obtained a five-year US$ 122.5 million loan from an international syndicate arranged by **Sumitomo Bank**, **American Express Bank**, **Sakura Bank**, **Sanwa Bank**, **Société Générale**, **Banque Nationale de Paris**, **Union Bank of Switzerland (UBS)**, and **Commerzbank**. The banks participating in the syndicate were: **Sumitomo Bank** (US$ 12 million), **American Express Bank** (US$ 8.5 million), **Sakura Bank** (US$ 10 million), **Sanwa Bank** (US$ 10 million), **Société Générale** (US$ 4.5 million), **Banque Nationale de Paris** (US$ 8.5 million), **Union Bank of Switzerland (UBS)** (US$ 8.5 million), **Commerzbank** (US$ 8.5 million), **Bank Société Générale Indonesia** (US$ 4 million), **MeesPierson** (US$ 15 million), **Banque Paribas** (US$ 7 million), **Mitsubishi Bank** (US$ 5 million), **Korea Development Bank** (US$ 3 million), **Norinchukin Bank** (US$ 5 million), **Mitsui Trust & Banking Corporation** (US$ 5 million), **Inter-Pacific Bank** (US$ 5 million), and **Indover Bank** (US$ 3 million). The loan is used to refinance a bond issue led by Citicorp maturing in 1995 and to refinance existing debt. The loan would mature in November 2000, but was fully paid in 1997.[129]

- In April 1996, Tjiwi Kimia entered into an agreement with **NorWest Bank Minnesota** concerning the import financing of paper printing machines valued at US$ 11,969,285. The facility was guaranteed by the **Export Import Bank of the United States**. US$ 6,025,260 is payable over five years, and US$ 5,944,025 is payable over seven years.[130]

- In May 1996, Tjiwi Kimia entered into an agreement with **Bank of America** to set up a credit facility of US$ 1,090,388. This facility is guaranteed by the **Export-Import Bank of the United States**, and is payable in 10 semi-annual installments commencing in December 1996.[131]

- In June 1996, Tjiwi Kimia entered into an agreement with **ABN Amro Bank** to set up a five-year export credit facility of DM 7,710,400 (US$ 5.1 million). The facility is guaranteed by **Hermes**, the export credit agency of Germany, and is payable in 10 semi-annual installments commencing in October 1996.[132]

- In December 1996, Tjiwi Kimia obtained a five-year US$ 100 million loan from an international syndicate arranged by **Bank of America**, **Long-Term Credit Bank of Japan**, **Crédit Lyonnais**, **Deutsche Morgan Grenfell**, **Royal Bank of Canada**, **Sanwa Bank**, **Arab Banking Corporation**, **Banque Paribas**, **KEB**, **Nippon Credit Bank**, **Argentaria-Banco Exterior de España**, **Bank Sakura Swadharma**, **Christiania Bank og Kreditkasse**, **Creditanstalt-Bankverein**, **Korea International Merchant Bank**, and **Union Européenne de Crédit Industriel et Commercial**.

  The banks participating in the syndicate were: **Bank of America** (US$ 7 million), **Long-Term Credit Bank of Japan** (US$ 7 million), **Crédit Lyonnais** (US$ 7 million), **Deutsche Morgan Grenfell** (US$ 7 million), **Royal Bank of Canada** (US$ 7 million), **Sanwa Bank** (US$ 7 million), **Arab Banking Corporation** (US$ 5.5 million), **Banque Paribas** (US$ 5.5 million), **KEB** (US$ 5.5 million), **Nippon Credit Bank** (US$ 5.5 million), **Argentaria-Banco Exterior de España** (US$ 5 million), **Bank Sakura Swadharma** (US$ 5 million), **Christiania Bank og Kreditkasse** (US$ 5 million), **Creditanstalt-Bankverein** (US$ 5 million), **Korea International Merchant Bank** (US$ 5 million), **Union Européenne de Crédit Industriel et Commercial** (US$ 5 million), **First Commercial Bank** (US$ 3 million), and **Mitsubishi Trust & Banking Corporation** (US$ 3 million). The loan was used to refinance existing debt. The loan would mature in December 2001, but was fully paid in 1997.[133]

- In March 1997, Tjiwi Kimia entered into an agreement with the German branch of **ABN Amro Bank** for a credit facility of DM 7,779,965 (US$ 4.6 million). This loan is repayable in 10 semi-annual installments commencing in July 1998.[134]

- In March 1997, Tjiwi Kimia entered into an agreement with **IKB Deutsche Industriebank** for a credit facility of DM 11,310,950 (US$ 6.7 million). This loan is repayable in 14 semi-annual installments commencing in August 1998.[135]

- In May 1997, Tjiwi Kimia entered into an agreement with **Bayerische Vereinsbank** for a import credit facility of DM 18,615,000 (US$ 10.8 million). This loan is repayable in 14 semi-annual installments commencing in April 1998.[136]

- In September 1997 Tjiwi Kimia entered into an agreement with the **Bank of America** and **ABN Amro Bank**, where the banks agreed to an import credit facility amounting to US$ 67,698,384. This loan was covered by a guarantee of the **Export-Import Bank of the United States**. The loan is payable in 20 semi-annual installments commencing in November 1998.[137]

- In September 1997 Tjiwi Kimia entered into an agreement with **Merita Bank** for a loan of US$ 5,678,000 for equipment. The loan is payable in 10 semi-annual installments commencing in June 1998.[138]

6.4.3 Indah Kiat

- In September 1989, Indah Kiat obtained US$ 152 million project financing arranged by **Bank Rakyat Indonesia** and **Citicorp**. This facility was refinanced in December 1992.[139]

- In January 1992, Indah Kiat obtained a loan of US$ 185 million, arranged by **Bank Rakyat Indonesia**, to finance the acquisition of PT Sinar Dunia Makmur. One tranche of US$ 85 million matured in January 1997, and one tranche of US$100 million matured in January 1999.[140]

- In December 1992, Indah Kiat obtained a one-year loan of US$ 46.154 million from an international banking syndicate arranged by the Singapore branch of **Dai-Ichi Kangyo Bank**. Other banks participating in the syndicate were: **Korea Development Bank**, **Export-Import Bank of Taiwan**, **Hiroshima Bank**, **Mitsubishi Trust & Bank Corporation**, **Mitsui Trust & Bank Corporation**, **Yasuda Trust & Bank Corporation**, **Banque Paribas**, **Rabobank**, **Bank of Kaohsiung**, **Chung Chong Bank**, **Yamaguchi Bank**, **Bank of Kinki**, **Daisan Bank**, and **Musashino Bank**. This loan was meant to refinance the September 1989 loan, and was itself refinanced in August 1993.[141]

- In August 1993, Indah Kiat obtained a one-year loan of US$ 36.9 million from an international banking syndicate arranged by the Singapore branch of **Dai-Ichi Kangyo Bank**. The banks participating in the syndicate were: **Dai-Ichi Kangyo Bank** (US$ 6.1 million), **Export-Import Bank of the Republic of China** (US$ 6 million), **Korea Development Bank** (US$ 3.6 million), **Bank of Kaohsiung** (US$ 3 million), **Hiroshima Bank** (US$ 2.4 million), **Mitsubishi Trust & Bank Corporation** (US$ 2.4 million), **Mitsui Trust & Bank Corporation** (US$ 2.4 million), **Yasuda Trust & Bank Corporation** (US$ 2.4 million), **Banque Paribas** (US$ 2.4 million), **Rabobank** (US$ 2.4 million), **Bank of Kinki** (US$ 1 million), **Daisan Bank** (US$ 1 million), **Musashino Bank** (US$ 1 million) and **Chung Chong Bank** (US$ 0.8 million). This loan was meant to refinance the December 1992 loan, and matured in August 1994.[142]

- In April 1994, Indah Kiat raised a twelve-year export credit facility of DM 374.354 million (US$ 226.9 million) to fund the delivery and erection of board mill machinery, from a banking syndicate arranged by **Barclays Bank** and the **IKB Deutsche Industriebank**. Other participants in the syndicate were **Berliner Handels und Frankfurter Bank (BHF)** and **Creditanstalt-Bankverein**. The export credit facility matures in April 2006.[143]

- In July 1994, Indah Kiat obtained a five-year US$ 149 million loan from an international banking syndicate arranged by **ABN Amro Bank**, **Bank of America**, **Bankers Trust**, **Dai-Ichi Kangyo Bank**, and **Fuji Bank**. The banks participating in the syndicate are: **ABN Amro Bank** (US$ 10 million), **Bank of America** (US$ 10 million), **Bankers Trust** (US$ 12 million), **Dai-Ichi Kangyo Bank** (US$ 2.5 million), **Fuji Bank** (US$ 10 million), **Crédit Suisse** (US$ 10 million), **Sanwa Bank** (US$ 10 million), **Yasuda Trust & Bank Corporation** (US$ 10 million), **Bank of Taiwan** (US$ 5 million), **Banque Nationale de Paris** (US$ 2.5 million), **Bank BNP Lippo Indonesia** (US$ 2.5 million), **Dai-Ichi Kangyo Bank** (US$ 2.5 million), **Mitsubishi Trust & Bank Corporation** (US$ 5 million), **Mitsui Trust & Bank Corporation** (US$ 5 million), **Norinchukin Bank** (US$ 5 million), **Royal Bank of Canada** (US$ 5 million), **Sakura Bank** (US$ 5 million), **Union Européenne de Crédit Industriel et Commercial** (US$ 5 million), **Crédit Lyonnais** (US$ 4 million), **Asian Finance & Investment Corporation** (US$ 3 million), **Land Bank of Taiwan** (US$ 3 million), **Indover** (US$ 3 million), **Taiwan Co-operative Bank** (US$ 3 million), **United World Chinese Commercial Bank** (US$ 3 million), **Export-Import Bank of the Republic of China** (US$

2.5 million), **International Commercial Bank of China** (US$ 2.5 million), **Chiao Tung Bank** (US$ 2 million), **Bank LTCB Central Asia** (US$ 2 million), **Overseas Chinese Bank** (US$ 2 million), and **Shanghai Commercial & Savings Bank** (US$ 2 million). This loan is meant to refinance existing debt, and matured in July 1999.[144]

- In May 1995, Indah Kiat obtained a three-year US$ 200 million loan from an international banking syndicate arranged by **ABN Amro Bank**, **Fuji Bank**, **Union Européenne de Crédit Industriel et Commercial**, **Dai-Ichi Kangyo Bank**, **Deutsche Bank**, **Sakura Merchant Bank**, **Sanwa Bank**, **Société Générale**, and **Bank BIRA**. The banks participating in the syndicate were: **ABN Amro Bank** (US$ 20 million), **Fuji Bank** (US$ 7.5 million), **Union Européenne de Crédit Industriel et Commercial** (US$ 7.5 million), **Dai-Ichi Kangyo Bank** (US$ 7.5 million), **Deutsche Bank** (US$ 7.5 million), **Sakura Merchant Bank** (US$ 7 million), **Sanwa Bank** (US$ 7.5 million), **Société Générale** (US$ 7.5 million), **Bank BIRA** (US$ 20 million), **Bank BNP Lippo Indonesia** (US$ 7.5 million), **Royal Bank of Canada** (US$ 7.5 million), **KDLC Leasing** (US$ 3 million), **Toyo Trust & Banking Corporation** (US$ 7.5 million), **Barclays Bank** (US$ 5 million), **Hua Nan Commercial Bank** (US$ 5 million), **IBJ Indonesia Bank** (US$ 5 million), **International Commercial Bank of China** (US$ 5 million), **Mitsubishi Bank** (US$ 5 million), **Mitsui Trust & Bank Corporation** (US$ 5 million), **Peace Bank of Korea** (US$ 5 million), **Yamaguchi Bank** (US$ 5 million), **Export-Import Bank of Taiwan** (US$ 4 million), **Bank of Taiwan** (US$ 3 million), **Hiroshima Bank** (US$ 3 million), **Nippon Credit Bank** (US$ 3 million), **Norddeutsche Landesbank** (US$ 3 million), **OUR Commercial Bank** (US$ 3 million), **Union Bank of Taiwan** (US$ 3 million), **Yamaichi Merchant Bank** (US$ 3 million), **Nikko Merchant Bank** (US$ 2 million), **Shanghai Commercial & Savings Bank** (US$ 2 million), **Chinatrust Commercial Bank** (US$ 3 million) and **Chiao Tung Bank** (US$ 3 million). This loan is meant to refinance existing debt, and matured in May 1998.[145]

- In May 1996, Indah Kiat raised a US$ 4.59 million loan from the **Export-Import Bank of the United States**.[146]

- In May 1996, Indah Kiat entered into an agreement with the Jakarta branch of **ABN Amro Bank** for a five-year export credit facility of DM 8.5 million (US$ 5.584 million). The facility is guaranteed by **Hermes**, the export credit agency of Germany, and would mature in May 2001.[147]

- In June 1996, Indah Kiat entered into an agreement with the Jakarta branch of **ABN Amro Bank** for a five-year export credit facility of DM 7.7 million (US$ 5.015 million). The facility is guaranteed by **Hermes**, the export credit agency of Germany, and would mature in June 2001.[148]

- In July 1996, Indah Kiat obtained three months promissory notes worth US$ 75 million, arranged by **Sumitomo Bank**. other banks participating in the syndicate were: **KorAm Bank**, **Korea Export-Import Bank**, **Commercial Bank of Korea**, **Industrial Bank of Korea**, **Nedcor**, **NatWest**, **ABSA Bank**, **SBC Warburg**, **Bank of Saga**, **Bank Austria**, **Landesbank Schleswig-Holstein**, **First Commercial Bank**, **Thai Farmers Bank**, **Korea Leasing**, and **Norddeutsche Landesbank**.[149]

- In October 1996, Indah Kiat raised eight syndicated loans, each guaranteed by a foreign Export Credit Agency, totalling US$ 233.164 million. Financial advisers for this deal were **Barclays de Zoete Wedd** and **Crédit Lyonnais**. All loans have to be paid back in 16 semi-annual installments, starting in April 1999 and ending in October 2006. The following ECAs and banks participated in the eight syndicates:[150]

  - US$ 76.075 million, arranged by **EKN Exporkreditnamnden** (Sweden), **Barclays de Zoete Wedd**, and **Crédit Lyonnais**. Other participants were: **ABN Amro Bank**, **Nationale Investeringsbank**, **Rabobank**, and **Svensk Exportkredit**.

  - US$ 10.540 million, arranged by **EKN Exporkreditnamnden** (Sweden), **Barclays de Zoete Wedd**, and **Crédit Lyonnais**. Other participants were: **ABN Amro Bank**, **Banque Indosuez**, and **Svensk Exportkredit**.

  - US$ 19.399 million, arranged by **EKN Exporkreditnamnden** (Sweden), **Barclays de Zoete Wedd**, and **Crédit Lyonnais**. Other participants were: **ABN Amro Bank**, **Banque Indosuez**, and **Svensk Exportkredit**.

- US$ 73.270 million, arranged by **Finnish Guarantee Board** (Finland), **Barclays de Zoete Wedd**, **Crédit Lyonnais** and **Finnish Export Credit**. Other participants were: Christiania Bank and Rabobank.

- US$ 14.275 million, arranged by **Compania Española de Seguros de Credito a la Exportaçion** (Spain), **Barclays de Zoete Wedd**, and **Bank of America**.

- US$ 21.080 million, arranged by **Österreichische Kontrollbank** (Austria) and **Creditanstalt-Bankverein**. The other participant was: **Erste Bank der Österrreichischen Sparkassen**.

- US$ 6.525 million, arranged by **Eksportkreditfonden** (Denmark) and **Crédit Lyonnais**.

- US$ 12 million, arranged by **Export Development Corporation** (Canada) and **Barclays de Zoete Wedd**.

- In April 1997, Indah Kiat obtained a US$ 400 million three-year loan facility from an international banking syndicate, arranged by **Bank of America**, **Fuji Bank**, **American Express Bank**, **Bank Austria**, **Bankers Trust**, **Banque Paribas**, **Commonwealth Bank of Australia**, **Commerzbank**, **Dai-Ichi Kangyo Bank**, **Industrial Bank of Japan**, **KEB**, **Korea Development Bank**, **Long-Term Credit Bank of Japan**, **National Westminster Bank**, **Royal Bank of Canada**, **Sakura Merchant Bank**, **Sanwa Bank**, **Union Européenne de Crédit Industriel et Commercial**, and **Banque Nationale de Paris**.

  The banks participating in the first tranche of US$ 120 million were: **Bank BNP Lippo Indonesia** (US$ 15 million), Sanwa Bank (US$ 15 million), **Bank LTCB Central Asia** (US$ 12 million), **Korea Development Bank** (US$ 12 million), **Bank Central Asia** (US$ 10 million), **Bank Sakura Swadharma** (US$ 10 million), **ING Bank** (US$ 8 million), **IBJ Indonesia Bank** (US$ 7 million), **Indonesia Dai-Ichi Kangyo Bank** (US$ 5 million), **Bank Paribas-BBD Indonesia** (US$ 5 million), **Inter-Pacific Bank** (US$ 5 million), **Rabobank Duta Indonesia** (US$ 5 million), **Standard Chartered Bank** (US$ 5 million), **Hongkong & Shanghai Banking Corporation** (US$ 4 million), and **Bank Multicor** (US$ 2 million).

  The banks participating in the second tranche of US$ 280 million were: **Bank of America** (US$ 20 million), **American Express Bank** (US$ 12 million), **Bankers Trust** (US$ 12 million), **Banque Paribas** (US$ 10 million), **Commonwealth Bank of Australia** (US$ 20 million), **Bank Austria** (US$ 20 million), **Dai-Ichi Kangyo Bank** (US$ 10 million), **Fuji Bank** (US$ 11 million), **Hua Nan Commercial Bank** (US$ 15 million), **KEB** (US$ 12 million), **Mitsui Trust & Banking Corporation** (US$ 10 million), **National Westminster Bank** (US$ 12 million), **Oversea-Chinese Banking Corporation** (US$ 10 million), **Norinchukin Bank** (US$ 10 million), **Royal Bank of Canada** (US$ 15 million), **Sakura Bank** (US$ 10 million), **Toyo Trust & Banking Corporation** (US$ 8 million), **Union Européenne de Crédit Industriel et Commercial** (US$ 15 million), **Commerzbank** (US$ 12 million), **International Commercial Bank of China** (US$ 8 million), **Industrial Bank of Japan** (US$ 8 million), **Boram Bank** (US$ 5 million), **Comerica Bank** (US$ 5 million), **Korea Export-Import Bank** (US$ 5 million), and **Korean French Banking Corporation** (US$ 5 million). This total facility was refinanced in April 2000.[151]

- In July 1999, Indah Kiat raised US$ 100 million from a credit facility provided by the Singapore branch of **ING Bank**.[152]

- In April 2000, Indah Kiat raised an unsecured term loan facility of US$ 264.5 million, denominated in US dollars, Indonesian rupiah and Japanese yen, which was arranged by BA Asia (subsidiary of the **Bank of America**). BA Asia itself committed US$ 20 million. The co-arrangers were **Citibank** (US$ 25 million), **Bank Danamon** (US$ 20 million), **Banque Nationale de Paris** (Unknown), **Union Européenne de Crédit Industriel et Commercial** (US$ 20 million) and **Fuji Bank** (US$ 20 million). This facility, due on 10 April 2001 and 2002, is guaranteed by APP. The facility represents the first syndicated loan for an Indonesian borrower since the financial crisis hit the country in late 1997.[153]

- In April 2000, Indah Kiat obtained a credit facility from the Singapore branch of **ABN Amro Bank** amounting to US$ 100 million.[154]

6.4.4 Gold East

- In August 2000, Gold East Paper (Jiangsu) Co., Ltd. obtained a two-year revolving credit of US$ 123 million from an international banking syndicate arranged by **Development Bank of Singapore (DBS)**, **FleetBoston Financial Group** and **Overseas Union Bank**. Other banks involved in the syndicate were: **CITIC Ka Wah Bank**, **Hang Seng Bank**, **Industrial & Commercial Bank of China**, **Siam Commercial Bank**, **Natexis Banque-BFCE**, and **Zhejiang Commercial Bank**. The proceeds will be used to purchase pulp, and the loan is due in August 2002.[155]

6.4.5 Linden

- In June 1996, Linden Trading Co. Inc. obtained a revolving credit facility of US$ 60 million with a maturity of one year to finance the shipment of waste paper from the United States to Indonesia, for processing by Indah Kiat. The facility is arranged by BA Asia Ltd. (subsidiary of the **Bank of America**), **Comerica Bank**, **Crédit Lyonnais**, **First National Bank of Boston**, and **Overseas Union Bank**. Banks participating are **Bank of America** (US$ 10 million), **Comerica Bank** (US$ 7 million), **Crédit Lyonnais** (US$ 6 million), **Overseas Union Bank** (US$ 6 million), **First National Bank of Boston** (US$ 5 million), **Manufacturers Bank NA** (US$ 5 million), **Bangkok Bank** (US$ 5 million), **Sanwa Bank** (US$ 5 million), **Sumitomo Bank** (US$ 5 million), **Industrial Bank of Japan** (US$ 3 million) and **Nippon Credit Bank** (US$ 3 million). As this is a revolving credit facility it is renewed tacitly each year, unless the lenders want to pull out.[156]

- In June 1998, most banks only agreed to extend the revolving export credit facility to Linden Trading Co. Inc. for another month. Only **Bank of America** (US$ 10 million) and **Overseas Union Bank** (US$ 6 million) renewed their part for another year.[157]

- In July 1999, Linden Trading Co. Inc. obtained a credit facility of US$ 11.7 million from **Bank of America** and **Overseas Union Bank**, probably replacing their earlier credit facility.[158]

6.4.6 Lontar Papyrus

- In September 1994, Lontar Papyrus obtained a three-year US$ 100 million loan from an international banking syndicate arranged by **Fuji Bank**. The banks participating in the syndicate were: **Fuji Bank** (US$ 24 million), **Bank Internasional Indonesia** (US$ 15 million), **Dai-Ichi Kangyo Bank** (US$ 10 million), **Daiwa Bank** (US$ 5 million), **Norinchukin Bank** (US$ 5 million), **Sakura Bank** (US$ 5 million), **CNB Leasing** (US$ 3 million), **Saehan Merchant Banking Corporation** (US$ 3 million), **Union Européenne de Crédit Industriel et Commercial** (US$ 10 million), **National Westminster Bank** (US$ 10 million) and **Nationale Investeringsbank** (US$ 5 million). The loan was used to refinance existing loans, and matured in September 1997.[159]

- In February 1995, Lontar Papyrus obtained a five-year US$ 100 million loan from an international banking syndicate arranged by **Bank of America** and **Bank BIRA**. The banks participating in the syndicate were: **Bank of America** (US$ 7.5 million), **Bank BIRA** US$ 10 million), **Bank Tiara** (US$ 7.5 million), **Modern Bank** (US$ 10 million), **Private Development Finance Company of Indonesia** (US$ 10 million), **Tamara Bank** (US$ 10 million), **American Express Bank** (US$ 5 million), **Bank Dharmala Negara** (US$ 5 million), **Bank Nusa International** (US$ 5 million), **Bank Credit Lyonnais Indonesia** (US$ 5 million), **Bank Societe Generale Indonesia** (US$ 5 million), **Multicor Bank** (US$ 4 million), **Bank Rajawali** (US$ 2 million), **Aseam Bank** (US$ 2 million), and **Bank Putra Surya Perkasa** (US$ 2 million).The loan was used to refinance existing loans, and matured in February 2000.[160]

- In October 1995, Lontar Papyrus obtained a 18-months US$ 50 million loan from an international banking syndicate arranged by **Bank of America**. The banks participating in the syndicate were: **Bank of America** (US$ 30 million), **Dai-Ichi Kangyo Bank** (US$ 7 million), **Bank Credit Lyonnais Indonesia** (US$ 4 million), **ABN-Amro Bank** (US$ 3 million), **Fuji Bank** (US$ 3 million) and **Nippon Credit Bank** (US$ 3 million). The loan was used to refinance existing loans, and matured in April 1997.[161]

- In November 1995, Lontar Papyrus obtained a three-year US$ 110 million loan from an international banking syndicate arranged by **Union Européenne de Crédit Industriel et Commercial**, **Nationale Investeringsbank**, **Dai-Ichi Kangyo Bank**, **Fuji Bank**, **National Westminster Bank**, **Rabobank**, and **Sakura Bank**. The banks participating in the syndicate were: **Union Européenne de Crédit Industriel et Commercial** (US$ 10 million), **Nationale Investeringsbank** (US$ 10 million), **Dai-Ichi Kangyo Bank** (US$ 10 million), **Fuji Bank** (US$ 10 million), **National Westminster Bank** (US$ 10 million), **Rabobank** (US$ 10 million), **Sakura Bank** (US$ 10 million), **Crédit Suisse** (US$ 10 million), **Commerzbank** (US$ 8 million), **ABN-Amro Bank** (US$ 5 million), **Bayerische Vereinsbank** (US$ 5 million), **Crédit Lyonnais** (US$ 5 million), and **Royal Bank of Canada** (US$ 5 million). The loan was used to refinance existing loans, and matured in November 1998.[162]

6.4.7 Pindo Deli

- In October 1996, Pindo Deli obtained a twelve-year US$ 38 million export credit loan from an international banking syndicate arranged by **ABN-Amro Bank**. The proceeds are used to finance the purchase of two paper machines for the expansion of production capacity. Suppliers are various German, Finnish and Swedish exporters and the transactions are covered by Hermes, FGB and EKN. The loan will mature in October 2008.[163]

6.4.8 Univenus

- In December 1995, Univenus obtained a one-year Rp 35 billion (US$ 15.446 million) export revolving credit facility from an Indonesian banking syndicate arranged by **ING Bank**, **Bank BIRA**, **Panin Bank**, and **Bank BNP Lippo Indonesia**. The banks participating in the syndicate were: **Bank PDFCI** (Rp 6.5 billion), **ING Bank** (Rp 5,75 billion), **Bank BIRA** (Rp 4,25 billion), **Panin Bank** (Rp 4,25 billion), **Bank BNP Lippo Indonesia** (Rp 4,25 billion), **Bank Nusa International** (Rp 3 billion), **Bank Finconesia** (Rp 3 billion), **Inter-Pacific Bank** (Rp 2 billion) and **Multicorp** (Rp 2 billion). The credit facility was used for working capital purposes, and matured in December 1996.[164]

- In December 1995, Univenus obtained a five-year US$ 35 million loan from an Indonesian banking syndicate arranged by **ING Bank**, **Bank BIRA**, **Panin Bank**, and **Bank BNP Lippo Indonesia**. The banks participating in the syndicate were: **Bank PDFCI** (US$ 6.5 million), **ING Bank** (US$ 5,75 million), **Bank BIRA** (US$ 4,25 million), **Panin Bank** (US$ 4,25 million), **Bank BNP Lippo Indonesia** (US$ 4,25 million), **Bank Nusa International** (US$ 3 million), **Bank Finconesia** (US$ 3 million), **Inter-Pacific Bank** (US$ 2 million) and **Multicorp** (US$ 2 million). The loan was used for expansion and refinancing purposes, and matured in December 2000.[165]

6.4.9 Paperbox

- On 23 February 2001, The **Bank of East Asia** Ltd. filed a lawsuit against APP-subsidiary Paper Box over a claim of US$ 0.34 million.[166]

6.4.10 Overview of current loans

Based upon the information presented in this paragraph, we make the following assessment of loans which are still current. When possible, we estimate the amount which is still current at the moment of writing (May 2001). We assume that APP and its subsidiaries have paid all their installments until March 2001. When APP is mentioned as borrower, this could also mean one or more companies within the APP Group.

Bank / Syndicate	Borrower	Loan date	Original loan (US$ million)	Current (US$ million)
ABN Amro Bank	APP	?	?	31.0
ABN Amro Bank	Pindo Deli	October 1996	38.0	25.3
ABN Amro Bank	Indah Kiat	April 2000	100.0	100.0
ABN Amro Bank	Indah Kiat	June 1996	5.0	0.5
ABN Amro Bank	Tjiwi Kimia	June 1996	5.1	0.5
ABN Amro Bank	Indah Kiat	May 1996	5.6	0.6
ABN Amro Bank	Tjiwi Kimia	March 1997	4.6	1.8
Bank Mandiri	APP	?	?	105.3

Bank / Syndicate	Borrower	Loan date	Original loan (US$ million)	Current (US$ million)
Bank Universal	APP	?	?	2.8
Bank Danamon	APP	?	?	21.0
Bank Lippo	APP	?	?	13.0
Bank NISP	APP	?	?	5.0
Bank of China c.s.	APP	?	?	1,000.0
Bank Central Asia (BCA)	APP	?	?	21.0
Bank Panin	APP	?	?	9.0
Bank Internasional Indonesia	APP	?	?	1,000.0
Bank of America	Tjiwi Kimia	May 1996	1.1	0.1
Bank of America c.s.	Indah Kiat	April 2000	264.5	264.5
Bank of America / OUB	Linden	July 1999	11.7	11.7
Bank of America / ABN Amro Bank	Tjiwi Kimia	September 1997	67.7	50.8
Bank of Boston c.s.	APP	September 1999	75.0	75.0
Bank of East Asia	Paperbox	?	?	0.3
Barclays / IKB c.s.	Indah Kiat	April 1994	226.9	110.0
Barclays / Crédit Lyonnais c.s.	Indah Kiat	October 1996	233.2	174.9
Bayerische Vereinsbank	Tjiwi Kimia	May 1997	10.8	6.2
Crédit Lyonnais	APP	?	?	1.9
DBS / FBFC / OUB c.s.	Gold East	August 2000	123.0	123.0
Deutsche Bank	APP	November 2000	220.0	220.0
Dresdner / MeesPierson c.s.	APP	October 1999	100.0	100.0
Fortis Bank	APP	?	?	7.4
IKB Deutsche Industriebank	Tjiwi Kimia	March 1997	6.7	4.3
ING Bank	Indah Kiat	July 1999	100.0	100.0
Merita Bank	Tjiwi Kimia	September 1997	5.7	2.3
NorWest Bank Minnesota	Tjiwi Kimia	April 1996	12.0	2.7
UBAF	APP	?	?	2.0
Total				**3593.9**

At the end of 1999, APP owned US$ 3,569 million to banks. At this moment, this figure probably has increased to US$ 4 to 4.5 billion. The estimates given in the table above add up to US$ 3.6 billion, but this figure probably includes some double counting. Nevertheless, the table provides a fairly good indication of the banks involved in financing APP at the moment. As the table above includes some banking syndicates, the following table mentions the names of all the banks known to be involved in the loans mentioned here. No effort is made to estimate the involvement of each individual bank, as this is hardly possible. This list is only meant to indicate which banks at this moment probably are involved (directly or indirectly) in the debt restructuring talks of APP. These are the banks that are in a position to influence APP's policies.

Bank	Country
ABN Amro Bank	Netherlands
ABSA Bank	South Africa
Arab Banking Corporation	Bahrain
Baden-Wurttembergische Bank	Germany
Bank Internasional Indonesia	Indonesia

Bank	Country
Bank NISP	Indonesia
Bank of China	China
Bank Danamon	Indonesia
Bank Panin	Indonesia
Bank Lippo	Indonesia
Bank of America	United States
Bank Universal	Indonesia
Bank of East Asia	Hong Kong
Bank Mandiri	Indonesia
Bank Central Asia	Indonesia
Bank of Boston	United States
Bank of Kaohsiung	Taiwan
Banque Indosuez	France
Banque Nationale de Paris	France
Banque Worms	France
Barclays Bank	United Kingdom
Bayerische Landesbank	Germany
Bayerische Vereinsbank	Germany
Berliner Handels und Frankfurter Bank	Germany
Cassa di Risparmio di Lombarde	Italy
Christiania Bank	Norway
Cia Española de Seguros de Credito a la Export.	Spain
Citibank	United States
CITIC Ka Wah Bank	China
Cosmos Bank	Taiwan
Crédit Lyonnais	France
Creditanstalt-Bankverein	Austria
Deutsche Bank	Germany
Development Bank of Singapore	Singapore
DG Bank	Germany
Dresdner Bank	Germany
E. Sun Commercial Bank	Taiwan
EKN Exporkreditnamnden	Sweden
Eksportkreditfonden	Denmark
Erste Bank der Österrreichischen Sparkassen	Austria
Export Development Corporation	Canada
Finnish Guarantee Board	Finland
Finnish Export Credit	Finland
FleetBoston Financial Group	United States
Fortis Bank (former MeesPierson)	Netherlands
Fuji Bank	Japan
Hang Seng Bank (part of HSBC)	Hong Kong
Hua Nan Commercial Bank	Taiwan
IKB Deutsche Industriebank	Germany
Industrial & Commercial Bank of China	China
ING Bank	Netherlands
International Commercial Bank of China	China

Bank	Country
KBC Bank	Belgium
Merita Bank	Finland
Natexis Banque-BFCE	France
Nationale Investeringsbank	Netherlands
Norddeutsche Landesbank	Germany
NorWest Bank Minnesota	United States
Österreichische Kontrollbank	Austria
Overseas Union Bank	Singapore
Rabobank	Netherlands
Raiffeisen Zentralbank Österreich	Austria
Siam Commercial Bank	Thailand
Svensk Exportkredit	Sweden
Union de Banques Arabes & Francaises	France
Union Européenne de CIC	France
Zhejiang Commercial Bank	China

6.5 Suppliers

As analysed in paragraph 6.1, suppliers financed 10% of APP's assets at the end of 1999. These credits can be divided in long-term suppliers' credits and short-term suppliers' credits (accounts payable and accrued expenses):[167]

Form of suppliers' credits	Million of US$	% of total assets
Short-term suppliers' credits	1135	6
Long-term suppliers' credits	557	3
Total suppliers' credits	**1691**	**10**

6.5.1 Long-term suppliers' credits

This financing is provided by two of APP's main suppliers of machinery, who have granted long-term suppliers' credits: [168]

Supplier	Million of US$	% of total assets
Mitsubishi Corporation, Japan	241	1
Nissho Iwai International Pte. Ltd., Singapore	315	2
Total long-term suppliers' credits	**557**	**3**

Mitsubishi Corporation has financed the largest part of its suppliers' credits by loans from the **Export-Import Bank of Japan** and the **Long-Term Credit Bank of Japan**.[169]

6.5.2 Short-term suppliers' credits

This financing is provided by a large number of large and small suppliers. In the past few weeks, a few have filed lawsuits against APP. But their combined claims do account for only 1.4 percent of all short-term suppliers' credits owed by APP and its subsidiaries. Information on the other 98.6 percent is not available. [170]

Supplier	Claim (US$ million)
Avebe (Far East) Pte Ltd.	2.51
Fiber Source International Corp.	1.53
AHC Enterprises	0.69
Cellmark AB	10.81

6.6 Summary of stakeholders' interests

Based on the information gathered in the preceding paragraphs and the next chapter, the following is an overview of some of the main stakeholders financing APP. Only stakeholders financing 0.5 percent or more of APP's assets, which equals around US$ 85 million, are included.

Stakeholder	Country	Role*	Investment (US$ million)	%
Widjaja family	Indonesia	Sh Bo Su	2,795**	16%
Bank of China syndicate	China	Ba	1000	6%
Bank Internasional Indonesia	Indonesia	Ba	1000	6%
Franklin Templeton Investments	United States	Sh Bo	406	2%
Nissho Iwai	Japan	Sh Su	369	2%
Capital Group	United States	Sh	335	2%
Bank of America syndicate.	United States	Ba	265	2%
Credit Suisse First Boston	Switzerland	Bo	250	1%
Mitsubishi & Jexim & LTCB	Japan	Su	241	1%
Deutsche Bank	Germany	Ba	220	1%
ABN Amro Bank	Netherlands	Ba	200	1%
Barclays Bank & CL syndicate	UK/France	Ba	175	1%
Bank Mandiri	Indonesia	Ba Bo	131	1%
DBS & FBFC & OUB syndicate	US/Singapore	Ba	123	1%
Barclays Bank & IKB syndicate	UK/Germany	Ba	110	1%
Dresdner & Fortis syndicate	Germany/Netherlands	Ba	100	1%
ING Bank	Netherlands	Ba	100	1%
Itochu Pulp & Paper	Japan	Sh	94	1%
Major stakeholders			**7,914**	**45%**
Total assets			**17512**	**100%**

* Sh = Shareholder
Su = Supplier
Bo = Bondholder
Ba = Bank

** This figure is probably much higher. But it is important to note that the Widjaja family has not only financed a large part of APP and its subsidiaries, it has also used APP to finance other companies in the Sinar Mas Group. From about US$ 10 million at the end of 1997, receivables owed to APP by other Sinar Mas companies jumped to US$ 756 million at the end of 1999.[171]

Together, these major stakeholders finance at least 45% of the total assets of the APP Group.

Chapter 7 APP's debt crisis

7.1 Background of APP's debt crisis

APP and its subsidiaries at this moment owe US$ 13.4 billion in various forms of debt. The company has in particular accumulated much debt during the mid-1990s, among other things to finance an enormous capital expenditure programme in China. APP's total debt increased from US$ 2.4 billion in 1994 to US$ 9.1 billion in 1998, the bulk of which came in the form of bonds. Although the company was considered a safe bet by bond holders given its US$ 2 billion annual cash flow, rapidly declining paper prices have decimated its bottom line and placed it under enormous pressure to service its debt. It has estimated annual interest payments of US$ 800 million to US$ 1 billion, and an estimated US$ 1.5 billion of debt repayments due in 2001. But APP's income can barely meet the interest repayment, let alone pay down the principal.[172]

To enhance the problems, APP has a complex system of guarantees and cross-guarantees between its operations, which are spread over several Asian countries. This means that if one subsidiary defaults on its financial obligations, the whole group could fall.[173]

APP has been looking for ways to reduce its debt burden since early 1999. The company then formulated the intention to reduce its debt to equity ratio to 100%. This would be accomplished by reducing its debt by between US$ 1.5 billion and US$ 2 billion in scheduled amounts by the end of 2001, and by using net cash proceeds from strategic sales of its non-core assets to further reduce its debt. APP also decided to refrain from undertaking any new capacity expansion or other capital expenditure project during this period.[174]

This debt-reduction strategy has failed. The main reasons are low global pulp and paper prices, political instability in Indonesia and the unsustainability of its operations. The latter is directly related to the debt driven expansion of its operations. International investors must accept responsibility for fuelling this unsustainable expansion, especially given the failure of APP to acquire a sustainable and legal source of timber. Their failure to do so suggests that investors took on a huge level of risk which they had not properly assessed. This risk is likely to rise as logging resources run out in Sumatra and log prices rise substantially.

These factors reduced APPs cash-flow, and made it difficult to sell non-core assets for reasonable prices or to attract cheap forms of capital. The company therefore was forced to service its debt obligations with new, expensive borrowings. In stead of reducing its outstanding debt, APP has increased its debt during the past two years. And because of expensive borrowing, annual interest charges have gone up even further.

Aggravating the situation is the fact that virtually all of APP's capital expenditure in China had been funded through the holding company. Profits, on the other hand, are derived from operating subsidiaries, mainly Indonesian-listed vehicles Indah Kiat and Tjiwi Kimia. And these companies are legally constrained from upstreaming enough dividends to pay down the debt coming due for the parent.[175]

APP's share price fell from US$ 7.50 to US$ 0.12 between April 1999 and 4 April 2001, when trading was suspended. This means a decline of 98.4% in one year. As the share price has traded for under US$ 1 for over a month by March 2001, APP is now in danger of being delisted from the New York Stock Exchange.

7.2 Chronology of events in APP's debt crisis

A chronology of the main events in APP's debt crisis:

- In August 1999, APP succeeded in selling its 51% stake in three co-generation facilities at three of the company's major Chinese plants, for about US$ 197 million to a joint-venture of Singapore Power (51%) and the Sinar Mas group (49%). The advisers for this deal were **Morgan Stanley** and **Salomon Brothers**.[176]

- In September 2000, APP made an offer to holders of US$ 1.45 billion of its bonds to swap that debt for a combination of cash, new guaranteed 5-year notes and warrants for its American Depositary Shares (ADSs). The lead managers for this swap were **J.P. Morgan**, **Credit Suisse First Boston** and **Goldman Sachs**. At this moment, APP still has not received approval for this issuance from the US Securities and Exchanges Commission (SEC), because of some minor differences in opinion over APP's auditing policies. But some bondholders think APP might not go ahead with the proposed debt exchange offer because of the significant drop in the bond prices at the holding level to as low as 10-15 cents per U.S. dollar from above 60 cents when APP made the offer. They fear APP holding does not have sufficient funds anymore to finance the cash portion of the exchange offer.[177]

- In September 2000 APP reiterated that it had no intentions of reviving its planned Borneo pulp mill in Malaysia, which has been indefinitely delayed since late 1998. APP added that in the event the project is revived, it would be willing to dilute its ownership from the current 60%, down to a 20% level. APP would also not expect to be responsible for building or financing the project. The Borneo mill originally had a planned capacity of 865,000 tonnes of hardwood pulp and was scheduled to be completed in 2000 at an estimated cost of US$1,345 million. However, the project was halted in late 1998 for a number of reasons, including inadequate forestry concessions and unavailability of attractive financing.[178]

- In October 2000, several stock analysts lowered their ratings of APP, because of fears that APP would have to default on its US$ 2 billion repayments due in 2001. Ratings of Indah Kiat were also lowered, because of fears the APP would use the cash-flows of its most profitable subsidiary to repay its debts. Share prices of APP and its subsidiaries dropped considerably.[179]

- In November 2000, APP cancelled its proposed US$ 378 million purchase of a Canadian pulp mill after it was unable to arrange financing on "acceptable" terms. This means APP will lose a US$ 20 million deposit it had already paid.[180]

- On 18 January 2001, the French bank **Crédit Lyonnais** filed a lawsuit in Singapore against APP. The bank states the APP's financing subsidiary APP BVI owes the bank US$ 2.2 million from an April 1997 swap and foreign exchange agreement and had not paid "despite repeated assurances" from APP and APP BVI.[181]

- On 19 January 2001, an official of the **Bank of New York**, who represents APP's interests in the United States, said that the NYSE would soon send a warning letter to APP. A few days later, the NYSE notified APP that, since the company's ADRs had failed to close over US$ 1.00 for more than 30 consecutive days, the company had failed to meet the NYSE's continued listing criteria. If the price would not increase to US$ 1.00 within the next six months, the NYSE would commence delisting procedures. In response, APP promised the Exchange that it would seek to take actions to increase the price of the ADRs to more than US$ 1.00. Delisting could result in a default of some of APP's lending obligations.[182]

- On 23 January 2001, Reuters reports that some of APP's major bondholders are worried about the company's ability to repay more than US$ 700 million in debt set to mature this year. The main large maturing debts of APP and its operating units due this year are:US$ 506 million APP Finance IX guaranteed senior unsecured floating rate notes due in October 2001US$ 200 million guaranteed senior notes from PT Tjiwi Kimia due in August 2001Rp 200 billion rupiah (US$ 21 million) domestic bonds from PT Tjiwi Kimia due in November.[183]

- On 24 January 2001, Paperloop.com reports that APP is actively seeking to offload its China assets. The Swedish company Stora Enso Oy, the industry leader in Europe, is understood to be in talks with APP to buy as many as four of APP's Chinese mills for as much as US$ 1 billion.[184]

- On 26 January 2001, the French-Arab banking group **Union de Banques Arabes & Francaises (UBAF)** filed a lawsuit in Singapore against APP. The bank states that APP and APP Import & Export Pte owe it money for credit facilities and trade-related financing valued at more than US$ 2 million.[185]

- On 1 February 2001, Tjiwi Kimia failed to make two interest payments due on that date, totalling US$ 43.25 million. This included:
    - An interest payment of US$ 30 million on US$ 600 million senior unsecured notes due August 2004, issued in 1997 by Tjiwi Kimia Finance Mauritius Ltd.
    - An interest payment of US$ 13.25 million on US$ 200 million senior unsecured notes due August 2001, issued in 1994 by Tjiwi Kimia International Finance Co. B.V. in the Netherlands.

  Credit-rating agencies Standard & Poor's and Moody's Investors Service downgraded APP and its subsidiaries.[186]

- On 5 February 2001, the **Indonesian Bank Restructuring Agency (IBRA)** struck a new deal with the Sinar Mas Group on loans totalling US$ 1.3 billion which the Group owed to its former subsidiary, Bank International Indonesia (BII). A majority stake in BII was handed over to the IBRA in June 1999, to prevent a bankruptcy. The Sinar Mas group still holds 18% in the bank. APP accounts for US$ 500 million of the Sinar Mas debt to BII.

  In 2000, IBRA and the Sinar Mas Group had agreed that the loans would be paid pack fully before September 2002, while a first installment of 10% had to be paid before 30 March 2001.

  Early this year it became apparent that the Sinar Mas Group would not be able to pay the first installment in time. In a new deal signed on February 5, the IBRA accepted that the first installment was reduced to 2.5 percent and was postponed until 30 September 2001. Also, the full repayment was postponed until September 2003. In return, the Widjaja family agreed to pledge shareholdings and other assets worth 145 percent of its $1.3 billion debt to the IBRA.

  The IBRA is currently examining 45 Indonesian subsidiaries of the Sinar Mas Group, to determine if their assets are worth 145 percent of the debt. Analysts believe these assets would include the group's 300,000-hectare Arara Abadi concession on the island of Sumatra. If Sinar Mas can't repay its debts to BII, it could lose control of its main wood supplier, they say.

  Furthermore, IBRA has asked the Widjaja family to give personal guarantees to meet any shortfall in assets pledged. The Widjaja family has provided personal guarantees from the sons of Sinar Mas founder Eka Tjipta Widjaja, but the family has said that Eka Widjaja himself is too old to give such assurances. The IBRA nevertheless wants personal guarantees from Eka Widjaja as well.

  Foreign creditors see this new deal between the Sinar Mas Group and the IBRA as an effort by the Indonesian government to secure the full repayment of these loans, in case APP is forced to a debt restructuring by its foreign creditors. In this case IBRA will have a better position over many of the group's foreign creditors, who are mainly unsecured in the event of default. IBRA replies that repayment of the loans is vital to save BII.[187]

- On 6 February 2001, Tjiwi Kimia made the overdue interest payment of US$ 30 million on the bonds issued in 1997. Payment of US$ 13.25 million interest overdue on bonds issued in 1994, was promised before the end of February. Credit-ratings for Tjiwi Kimia were lifted a little bit, but remained at a very low level for APP and its other subsidiaries.[188]

- On 9 February 2001, the Sinar Mas Group failed to pay an interbank claim of Rp 220 billion (US$ 22,9 million) due on that date to Bank International Indonesia. This claim comes on top of the US$ 1.3 billion in loans owed to BII by Sinar Mas.[189]

- On 11 February 2001, trading in Indah Kiat's stock was suspended by the Jakarta stock exchange during an hour. Kompas newspaper reported over the weekend that the Riau provincial government asked PT Arara Abadi, a pulp unit of Indah Kiat, to suspend operations after clashes between company workers and local villagers.[190]

- On 16 February 2001, APP announced that it hadn't paid cash dividends of US$ 11.25 million on the US$ 375 million preference shares issued by APP Finance Mauritius Ltd. for the quarterly period ending 15 February. The company denied this amounted to a default, as the company is not obliged to pay if "the payment would exceed APP's distributable profits". The ratings on these bonds were lowered in response.[191]

- On 23 February 2001, The **Bank of East Asia** Ltd. filed a lawsuit against APP-subsidiary Paper Box over a claim of US$ 0.34 million.[192]

- On 27 February 2001, the Asian Wall Street Journal reported about a meeting between APP and its main suppliers, who are demanding stricter payment terms from the company. APP told suppliers it is taking steps to raise cash by selling assets in India and China, closing some overseas branches and cutting back its Singapore operations.[193]

- On 27 February 2001, Dow Jones reported that the Sinar Mas group is looking to sell its Indian subsidiary Sinar Mas Pulp & Paper (India) Ltd. The company is in talks with two European companies, besides India's largest paper company, Ballarpur Industries Ltd.[194]

- On 27 February 2001, Dow Jones reported that APP, Indah Kiat, Tjiwi Kimia and finance company PT Sinar Mas Multi Artha together owed Rp 354.5 billion (US$ 36.1 million) in investment loans, Rp 524.1 billion (US$ 53.4 million) in export credits, Rp 252.5 billion (US$ 25.7 million) in notes, and Rp 154.98 billion (US$ 15.8 million) in working capital to PT **Bank Mandiri**.[195]

- On 1 March 2001, Tjiwi Kimia paid the delayed US$ 13.25 million dividend payment, which was due for February 1. Ratings on Tjiwi Kimia's bonds were raised slightly.[196]

- On 1 March 2001, the Asian Wall Street Journal reported that APP has told some of its bankers that it might consider a so-called debt-standstill agreement. Under this arrangement, APP and its subsidiaries would seek to keep servicing their loans by paying interest, but would delay repayment of principal loan amounts. APP executives also recently held talks with several big export credit agencies (ECAs), which have arranged US$ 1.3 billion in export credits to help APP buy machinery and other goods from abroad. APP asked the ECAs, which are predominantly European, to give the group a three-month grace period to make payments.
  In the meantime, some of APP's bondholders have appointed Boston-based Bingham Dana LLP as their legal adviser, while some have talked to Houlihan Lokey Howard & Zukin, a New York-based financial-restructuring firm, about potentially serving as an adviser in the event of a restructuring.[197]

- On 1 March 2001, Paperloop.com reported that various market pulp producer and agent sources in North America said they have stopped shipping pulp to the APP mills in Indonesia and China.[198]

- On 2 March 2001, APP appointed **Credit Suisse First Boston** to coordinate the restructuring of some US$ 12 billion in debt and other obligations. APP also said it planned to accelerate its non-core asset divestments and has retained **J.P.Morgan** to advise on that. The company also announced it had signed a preliminary agreement relating to the sale of its Indian paper facility.[199]

- On 2 March 2001, Paperloop.com reported that APP has reached an agreement with four Chinese state-owned banks. The four banks, led by the **Bank of China**, have agreed not to call in their bank loans to APP China, which are estimated at US$ 1 billion.[200]

- On 7 March 2001, **ABN Amro Bank** filed three lawsuits in Singapore against three of APP's operating subsidiaries, to recover US$ 31 million borrowed from the Dutch banking group. ABN Amro claims US$ 8.88 million from Pindo Deli, US$ 7.14 from Tjiwi Kimia, and US$ 15.36 from Indah Kiat. Especially this last claim is very important, as the prospectuses for three of the bonds issued by Indah Kiat outline conditions that could lead to default on the bonds. Among them: if APP or any of its subsidiaries fails to make a payment of $10 million or more. If that occurs, the trustee for the bond can -- either at its own discretion, or at the request of bondholders who hold more than 25% of the total principal amount -- demand that the principal amount of the bond becomes payable immediately. APP and Indah Kiat could also risk being in default on these bonds if a court rules that they owe any party $10 million or more. This court case could therefore initiate a chain reaction of defaults among the APP Group.[201]

- On 9 March 2001, Avebe (Far East) Pte Ltd., a unit of the Dutch group that supplies starch used in the paper-making industry, filed a lawsuit in Singapore against APP for two separate claims: one for US$ 1.67 million, the other for nearly 900,000 euros (US$ 839,340).[202]

- On 12 March 2001, Fiber Source International Corp., a pulp-trading company, filed a lawsuit against APP claiming $1.53 million for contracts, credit facilities, overdrafts and guarantees, according to a search of court documents.[203]

- On 12 March 2001, APP announced that the company and all its subsidiaries are halting payment of interest and principal on their huge debts, effective immediately. The full debt standstill was recommended by **Credit Suisse First Boston**. "The sharp drop in pulp and paper prices, reduction of available lines of credit for working capital, combined with the rising cost of borrowing for Indonesian corporates, have significantly impacted our business and our cash position. While it is our hope that prices will recover during the next quarter, the company must at this time give first priority to our suppliers, and thereafter consider resuming payment of all or a portion of interest on a ratable basis." APP regrets having to have a standstill, but "we believe it is in the best long-term interest of the company and its creditors and we plan to seek a consensual arrangement with our creditors." In the days following the announcement, the credit ratings of APP and its subsidiaries were lowered by Standard & Poor's, Pefindo, and Fitch.[204]

- On 13 March 2001, construction firm AHC Enterprises filed a lawsuit against APP for US$ 686,000 over the sale of goods. [205]

- On 18 March 2001, Reuters reported that APP and its subsidiaries owed the following amounts to Indonesian banks:
  - 210 billion rupiah (US$ 21 million) to **Bank Central Asia** (BCA)
  - 90 billion rupiah (US$ 9 million) to **Bank Panin**
  - 27.9 billion rupiah (US$ 2.8 million) to **Bank Universal**
  - US$ 21 million to **Bank Danamon**
  - US$ 13 million to **Bank Lippo**
  - US$ 5 million to **Bank NISP** [206]

- On 19 March 2001, APP China Group Ltd. missed a bond coupon payment of US$28.2 million its 14% guaranteed senior discount notes due 2010 issued in March 2000. Standard & Poor's lowered the credit ratings of APP China Group Ltd. to default grade.[207]

- On 21 March 2001, Indah Kiat and Tjiwi Kimia lodged notices with the Jakarta bourse, informing officials of their intention to restructure their combined US$ 3.8 billion in debt. No details or timeframe of the restructuring were given.[208]

- On 22 March 2001, APP announced it would draw up a debt restructuring proposal in one month. A spokesman told Reuters the Indonesian government had given a one-month deadline. Foreign bondholders of APP immediately doubted the credibility of these plans. They fear the powerful Indonesian Bank Restructuring Agency (IBRA) has the inside track to get its hands on a lot of the assets from APP and the local operating companies. "The interesting thing here is not the headline news of a restructure, but the underlying story of IBRA taking collateral on bonds whose holders have already been pledged that same collateral," one APP bondholder in Europe is quoted by Reuters. "This has the potential to absolutely screw creditors who think they are secured."

  Meanwhile, at a meeting for Indah Kiat rupiah bondholders in Jakarta, several irate debtholders threatened legal action if the company was found to have breached certain regulations, such as increasing its debt without the knowledge of bondholders. Some investors also question the impartiality of **Credit Suisse First Boston** acting as APP's restructuring adviser. Market sources say CSFB has several hundred million dollars of exposure to the APP group. The bank has not made public its APP holdings.[209]

- On 23 March 2001, APP signed a memorandum of understanding (MOU) with India's Ballarpur Industries group on the sale of its wholly owned subsidiary, Sinar Mas Pulp and Paper (India). The deal is due to close on April 30.[210]

- On 25 March 2001, the Asian Wall Street Journal reported that the first meeting after the debt-standstill between APP and its main creditors had taken place. According to insiders, APP is expected to take at least six months to work out a proposal for the restructuring of its US$ 12 billion mountain of debt, and it could take as long as two to three years to complete any restructuring.

Such restructurings can generate millions of dollars in fees for bankers, lawyers and accountants, and APP is unlikely to be an exception. APP has already appointed **Credit Suisse First Boston** to advise it on its debt restructuring, and has retained international law firm White & Case LLP and Singapore's Drew & Napier to handle legal matters. APP is expected to use its auditors, Arthur Andersen, to examine the company's business operations. Several of the bondholders have already formed a group, appointing U.S. law firm Bingham Dana LLP to represent them.[211]

- On 26 March 2001, Singapore's High Court ordered APP to pay US$ 1.91 million plus interest to **Credit Lyonnais**. The French bank had filed the case on January 18, demanding US$ 2.21 million. But APP had made a payment of US$ 300,000 already on March 5.[212]

- On 28 March 2001, investment bank **J.P. Morgan Chase & Co**. announced that APP's China operations are "highly likely" to be sold in their entirety and could be valued at around US$ 2.6 billion.[213]

- On 30 March 2001, a senior Indonesian finance ministry official said the government would press Sinar Mas to resume servicing debts of the APP group to Bank International Indonesia (BII), if it fails to present a restructuring proposal on time. "We gave them about one month," Anggito Abimanyu, special adviser to the minister, told Reuters.[214]

- On 1 April 2001, APP and Pindo Deli defaulted on a new round of bond-coupon payments that were due April 1. The bonds affected include a US$ 450 million bond issued by APP International Finance that matures in 2005, and four separate bonds with a total face value of US$ 750 million, issued by Pindo Deli. Standard & Poor's cut its long-term local- and foreign-currency corporate ratings for APP and its Indonesian units to "D," or default.[215]

- On 3 April 2001, the **Bank of New York**, which represents APP in New York, announced that the New York Stock Exchange is holding off delisting APP while the company tries to renegotiate terms of its massive debt of nearly $12 billion. Reuters reports that sources at APP headquarters in Singapore and subsidiaries in Jakarta said the company had not paid the salaries of its international staffs for two months.[216]

- On 3 April 2001, **Fortis Bank** filed a lawsuit in Singapore against APP for US$ 7.43 million over contracts related to credit facilities and overdrafts.[217]

- On 4 April 2001, APP announces that two swap contracts from 1997 weren't reflected in its financial statements for 1997 through 2000. The swaps, which included an Indonesian rupiah/U.S. dollar swap and a Japanese Yen/U.S. dollar swap, were terminated in November 2000 with an agreement between APP and **Bankers Trust**, which was subsequently taken over by **Deutsche Bank**. APP had agreed in November 2000 to pay Deutsche Bank about US$ 220 million to settle. But the company is now in default under terms of the settlement, and is in talks to revise the settlement terms. On 24 April 2001, APP appointed Deloitte Touche to conduct a review of the "facts and circumstances surrounding the failure to reflect these obligations" in its financial statements.[218]

- On 4 April 2001, the New York Stock Exchange decided to suspend trading in APP shares, while it reviews the company's financial operations and monitors APP's listing status on the exchange. Before trading was suspended, the ADSs of APP traded at US$ 0.12.[219]

- On 9 April 2001, APP held a meeting with 500 creditors, many of them Japanese, in Singapore. At the meeting, the company announced that its consolidated indebtedness as of 31 December 2000 was approximately US$ 12.2 billion. But this figure does not include $1.18 billion in preference shares (see paragraph 6.2.3) and some floating-rate notes that the group has treated as equity (the LYONS issued in November 1997 by **Merrill Lynch**). Total debt and obligations therefore equal around US$ 13.4 billion. APP presented the following overview of the debts of its subsidiaries:

Subsidiary	Country	Debt (US$ million)
PT Indah Kiat	Indonesia	2,700
PT Tjiwi Kimia	Indonesia	1,100

Subsidiary	Country	Debt (US$ million)
PT Pindo Deli	Indonesia	1,100
PT Lontar Papyrus	Indonesia	576
PT Purinusa Ekapersada	Indonesia	453
Gold East Paper	China	1,100
Sinar Mas Paper City	China	484
Ningbo Zhonghua	China	402
Gold Huasheng	China	384
APP China Group	China	336
Gold Hongye	China	213
Sinar Mas Paper (China)	China	100
Gold Hai	China	33
APP holding	Singapore	1,800
Nippecraft	Singapore	23
Sinar Mas India	India	50

This overview of debts totals up to US$ 10.854 million. No data were presented on other debts.

APP also confirmed that its total debt included an aggregate of approximately US$ 1.0 billion owed to **Bank Internasional Indonesia**.

After the meeting, APP announced that informal committees representing the bank, export credit agency and trading company creditors have been formed. An informal committee representing holders of a substantial portion of APP's bond indebtedness has also been formed. These informal committees are in the process of forming a combined informal steering committee that will work with the Company to formulate a successful consensual debt restructuring plan. The Chinese state bank creditors of APP's Chinese operating subsidiaries have formed a separate committee, but the company hopes to convince them of working together with the other creditors.

APP and its adviser **Credit Suisse First Boston** aim to submit a definitive restructuring plan to its creditors in March 2002. Audited results for the year 2000 will be released in June 2001.

In the meantime, APP asked its creditors for additional working capital of US$ 200 million for its Indonesian operating subsidiaries "to stabilize our operations". The request irked creditors: "That's a bit much to ask and nobody in that room is going to give them that money," said one banker who attended the meeting, according to Reuters. "There's no sense of urgency and no plan in place." [220]

- On 11 April 2001, APP announced it would try to sell all its assets in China, as well as unproductive assets (machinery) at its Indonesian operations. UPM-Kymmene, Stora Enso and International Paper are seen as potential buyers of the China assets.[221]

- On 2 May 2001, APP clarified the settlement reached between the IBRA and the shareholders of the Sinar Mas Group regarding the debt of US$ 1.3 billion owned by the Sinar Mas Group to **Bank Internasional Indonesia** (BII). APP's principal subsidiaries in Indonesia each granted liens on all of their fixed assets (land, buildings and machinery), other than those fixed assets on which liens had been previously granted, to IBRA to secure the government guarantee in respect of the BII obligations. APP also granted liens on the shares of its Indonesian subsidiaries. For international creditors this means it has become much more difficult now to seize shares in those Indonesian assets as part of any legal settlement.

  The Sinar Mas Group also has pledged stakes in Sinar Mas-controlled holding companies that hold majority stakes in PT Arara Abadi and PT Wirakarya Sakti. These two timber firms supply wood to APP's major operating companies PT Indah Kiat Pulp and Paper and PT Lontar Papyrus, but are not part of the APP Group itself. Through the subholding companies, the government gets 96 percent of Arara and 80 percent of Wirakarya. But APP-subsidiary Purinusa Ekapersada at the same time has received the option to buy these stakes back from the government.

As part of the settlement, APP-subsidiary Purinusa Ekapersada has agreed to acquire 51% of the shares of Bank Internasional Ningbo, a Chinese bank previously majority-owned by BII. Completion of this acquisition is subject to approval by Chinese regulatory authorities. In connection with this acquisition, Purinusa incurred extra liabilities of approximately US$ 225 million to BII, which were already part of the US$ 1.0 billion owed by the APP Group to BII.[222]

- On 4 May 2001, the Singapore High Court ordered APP to pay US$ 9.9 million to Avebe (Far East) Pte. Ltd., and US$ 1.53 million to Fiber Source International Corp. The two suppliers had filed a lawsuit on 9 March and 12 march respectively. It is unclear whether APP will pay the money it owes, or how the court rulings will be enforced. Some legal experts said that if APP fails to pay, either of the two suppliers could try to force APP into bankruptcy or seek a court-appointed administrator of the company.[223]

- On 10 May 2001, the High Court of Singapore denied Cellmark AB a winding-up petition against APP. APP owes US$ 10.81 million to its Swedish supplier Cellmark AB. To get its money back, Cellmark applied for the liquidation of the company. The Singapore Court has denied this request, as APP was able to convince the court that the majority of its creditors support the company in a consensual debt restructuring process. This process is progressing, as creditors of APP now have formed two committees: one committee representing the international bank, export credit agency and equipment supply creditors, and one committee representing the international bondholders. **KPMG** has been appointed as financial advisor for these committees to work on a separate audit of APP. According to APP, **ABN Amro Bank** has announced it would drop the three lawsuits against APP subsidiaries it had filed on 7 March. Investors reacted positive, as this increases the chances for an effective debt restructuring proposal. APP also stated Indonesia was slowly coming out of a recession and a liquidation of its largest conglomerate would have serious economic consequences.[224]

- Malaysia's eastern Sarawak state is buying part of APP’s stake in Borneo Pulp and Paper Sdn Bhd (BPP), according to a Malaysian newspaper. The Sarawak state government already owns 40 percent of BPP, and now will become the majority shareholder. It will pay $11 million for the additional stake.[225]

Chapter 8 Conclusion

Financial institutions should acknowledge that it is far more than the financial failure of APP that proves that they seriously underestimated the risk in financing the company. Indeed international financial institutions have failed to sufficiently recognise and act upon a number of risks that are inherent in any investment in the Indonesian pulp and paper industry.

These risks are identified as follows:

Unsustainable supply of raw materials: Massive growth in pulp and paper capacity, fuelled by international investment, has not been matched by efforts to gain a sustainable supply of raw materials. As a result, of the 100 million m^3 of wood estimated to have been consumed by the pulp industry between 1988 and1999, only 8% was harvested from plantations[226]. The remaining 92% has been mostly sourced by clear cutting rainforest.

This has led the Indonesian pulp and paper industry to destroy 835,000 hectares of highly biodiverse rainforest[227]. The pulp and paper industry will depend upon clearing rainforests to supply their pulp requirements for at least the next seven years and possibly much longer.

Indah Kiat, one of Indonesia's largest pulp mills and part of the APP group, accounts for 77% of APP's pulp production capacity and 40% of Indonesia's overall pulp output[228]. In 2000 Indah Kiat sourced approximately 75% of its logs from clear-cutting natural forests and their operations have accounted for 287,000 hectares of deforestation over the last 10 years[229].

Financial institutions should recognise that financing a company that destroys a large part of the second richest forest habitat in the world carries a significant degree of reputational risk. They have also failed to recognise and act upon evidence that APP are running out of a legal wood supply in Riau, Sumatra. It is estimated that even with massively increased investment in their plantations, it will be seven years and possibly much longer before plantations are able to fully supply their pulp requirements. APP are now faced with having to buy timber from further afield, which will increase costs. At present Indah Kiat sources logs at US$19/cu m. Indah Kiat will either have to produce logs domestically at a higher cost or import them, which could cost US$45 / cu m at today's prices[230].

Illegal Logging: Financial institutions queued up to invest in the Indonesian pulp and paper companies because they perceived that they had a competitive advantage due to their access to cheap raw material resources. The low cost of timber supplies was made possible however because these companies were given access to natural forests by the Indonesian Government at virtually no cost, because they did not adequately develop their plantation resource and, in some cases, it appears that they have been able to buy substantial volumes of illegal timber[231].

The CIFOR-WWF report calculates that between 1995 and 1999, Indonesian pulp producers obtained as much as 20 million m^3 of timber from undocumented sources[232]. Although their figures are not conclusive, they suggest that Indonesian pulp producers have obtained as much as 40% of the wood they consumed during this period from illegal sources.

Distorted Global Paper Market: Financial institutions have also failed to appreciate that by offering paper products at such low cost, undercutting most of their competitors, APP may have distorted the global paper market, contributing to the falling global paper prices. Ironically, APP's supposed competitive advantage may have significantly contributed towards its mounting debt problems and consequently its tumbling share value.

Poor Financial Regulation: Financial institutions also failed to recognise and act upon the risk regarding the poor financial regulation of the Indonesian pulp and paper industry. According to the CIFOR-WWF report, each of the major pulp and paper conglomerates was involved in the banking industry before the 1997 financial crisis and some have regularly violated the Indonesian Government's capital adequacy requirements and legal lending limits for capital loans to related parties, including to their associated pulp and paper companies[233]. The use of financial 'markup' practices - that is the artificial inflation of the cost of an investment project - have allowed some pulp and paper producers to secure much larger amounts of financing for their projects than needed.[234]

Hidden Debt Burden: Financial analysis of APP's debt burden demonstrates that the company has incorrectly treated the shareholding of its financial subsidiaries as shareholder capital. This amount, US$1.18 billion, has to be treated as bond, not as equity. As a result we calculate that APP's debt burden is US$13.4 billion at the end of 2000 and not US$12.2 billion as officially announced by APP.

Debt-Driven Expansion: Foreign creditors have failed to recognise that they have enabled APP and other Indonesian pulp and paper companies to engage in debt driven expansion. It is reported that they have sometimes resolved outstanding debts to foreign creditors by raising funds through further expansion of their processing operations.[235]

Social Conflict: Financial institutions have not adequately recognised the high level of social conflict and the accompanying political risk that APP has generated as a result of its operations. Indah Kiat came into conflict with the indigenous Sakai people after they cleared 3000 hectares of their forested land[236]. The conflict came to a head on 3 February 2001 following the blockade of a logging road by the Sakai. According to various reports, employees of Arara Abadi were involved in serious clashes with the villagers of Betun Village, Pangkalankuas sub-district in Riau. According to those reports, at least five villagers were injured in the clashes, two seriously and 52 people were detained by Arara Abadi security forces before being handed over to the local police[237].

APP is also involved in a joint venture plantation project, Borneo Pulp & Paper (BPP), in Sarawak, Malaysia, which has been at the centre of major opposition from indigenous groups. The project has been given access by the Malaysian Government to more than 600,000 hectares of land. As a result, up to 20,000 Iban indigenous people may be forced off their land. One Iban community has already won a court case against BPP after the Kuching High Court ruled that part of the land that had been handed over to the company for the plantation was the community's native customary land[238]. The Court declared that the land title issued to BPP which included the disputed area was void. We understand there are 2 other legal actions against BPP proceeding in the Sibu High Court in Malaysia, having been brought by more than 20 other Iban communities.[239]

APP & Covert Marketing: Financial institutions should also consider the risk of financing a paper company which has a market strategy designed to bring paper to markets in a way which does not identify APP as the manufacturer and source. APP is flooding the UK market with un-branded and re-branded paper products. APP has covered up the environmental impacts of its operations, referring to ISO14001 certification in brochures and with references to plantation based forestry, obscuring the fact that most of the raw material is sourced by clear cutting natural rainforest. Although it is not clear to what extent the following are aware of the environmental and social impact of APP's activities, Robert Horne, Spicers and Kingsfield Heath which together with the buyers groups they feed in to represent more than 50% of the UK stationary market, all distribute APP paper in the UK.

The Responsibility of the Financial Institutions

As a result of their inadequate investigation and understanding of the Indonesian pulp and paper industry, combined with their substantial investment in those companies over a number of years, the financial institutions named in this report must accept their share of the responsibility for the crisis facing APP. They must recognise that unless they take immediate action to address the environmental and social impacts of APP's operations, they will be knowingly facilitating further rainforest destruction and social conflict. They should reflect on the reputational risk that their institutions face as a result of their involvement.

Lessons in risk learned from the APP crisis should be applied by financial institutions to all their pulp and paper investments. Without ensuring that their investments are both socially and environmentally sustainable, their investments will not be economically sustainable.

8.1 Recommendations for financial institutions

To help minimise risk and ensure the sustainability of APP and the pulp and paper industry both in Indonesia and other parts of the world, financial institutions are urged to undertake the following recommendations:

- Financial institutions should adopt and enforce more effective due diligence practices to fully assess the financial risks involved with the pulp and paper sector and to ensure that they are not providing funds for illegal or unsustainable practices.

- Financial institutions should not provide funds for any new pulp and paper processing capacity in Indonesia and Malaysia for the forseeable future. This should include halting investment in Borneo Pulp and Paper in Sarawak (Malaysia) and two other proposed pulp and paper plants in Kalakaban in Sabah (Malaysia) and at Sungai Danau in Kotabaru, South Kalimantan (Indonesia).

- Financial institutions supporting APP and its subsidiaries should take immediate action to ensure that the fibre supply to APP's pulp mills comes from legal and sustainable sources and does not involve the destruction of any more rainforest. Financial institutions should agree upon a strategy for achieving this with APP and make the group's raw material supply chain open to independent verification. To achieve this, financial institutions should take steps to ensure that APP's processing capacity is reduced and / or to ensure that timber from natural forests is replaced with sustainably harvested pulpwood from independently certified sources. Reducing capacity and ensuring supplies are legal may have the benefit of helping raise global paper prices.

- Financial institutions should ensure that they do not invest in pulp and paper projects that are likely to generate social conflict. In the case of APP, financial institutions should work with the group to resolve the conflict between its plantation company and the Sakai people in a manner that is equitable for the affected communities.

- To ensure the long term survival of the pulp and paper industry, financial institutions should support projects that utilise agricultural waste products and recycled materials as a more sustainable raw material replacement for timber. More sustainable sources of supply often carry lower risk.

Appendix I APP Subsidiaries

APP Subsidiary	Country	% owned
PT Purinusa Ekapersada ("Purinusa")	Indonesia	96%
PT Ekamas Fortuna	Indonesia	96%
PT Indah Kiat Pulp and Paper Tbk ("Indah Kiat")	Indonesia	58%
PT Pabrik Kertas Tjiwi Kimia Tbk ("Tjiwi Kimia")	Indonesia	64%
PT Pindo Deli Pulp and Paper Mills ("Pindo Deli")	Indonesia	94%
PT Lontar Papyrus Pulp & Paper Industry ("Lontar")	Indonesia	94%
PT Satria Perkasa Agung	Indonesia	96%
PT The Univenus Company	Indonesia	84%
Sinar Mas Pulp & Paper (India) Limited	India	100%
Asia Paper (Shanghai) Co., Ltd	China	100%
Gold East Paper (Jiangsu) Co., Ltd ("Gold East")	China	80%
Gold Hai Paper (Kunshan) Co., Ltd	China	100%
Gold Hongye Paper (Suzhou Industrial Park) Co., Ltd	China	100%
Gold Huasheng Paper (Suzhou Industrial Park) Co., Ltd	China	100%
Jin Xin (Qingyuan) Paper Industry Pte Ltd	China	100%
Jin Yu (Qingyuan) Tissue Paper Industry Co., Ltd	China	100%
Ningbo Asia Paper Converting Co., Ltd	China	100%
Ningbo Asia Paper Tube & Carton Box Co., Ltd	China	100%
Ningbo Zhonghua Paper Co., Ltd ("Ningbo Zhonghua")	China	89%
Shanghai Sinar Mas Paper Product Service Co., Ltd	China	97%
Sinar Mas Paper (China) Investment Co., Ltd	China	100%
Yalong Paper Products (Kunshan) Co., Ltd	China	100%
Zhenjiang Dadong Pulp & Paper Co., Ltd	China	60%
Zhenjiang Gold River Pulp & Paper Co., Ltd	China	60%
Nippecraft Limited	Singapore	64%
Paper Box Industries (Singapore) Pte Ltd	Singapore	75%
Toprint Computer Supplies Pte Ltd	Singapore	51%
APP Printing Pte Ltd	Singapore	90%
PAK 2000, Inc	United States	83%
APP Italia S.r.L	Italy	100%
APP (Hong Kong) Limited	Hong Kong	100%
APP International Trading (II) Limited	British Virgin Islands	100%
APP Paper Co., Ltd	Taiwan	75%
APP Paper Trading (S) Pte Ltd	Singapore	100%
Asia Pulp & Paper (Belgium) SA/NV	Belgium	100%
Asia Pulp & Paper (Japan) Co. Limited	Japan	100%
Asia Pulp & Paper (Spain), S.A	Spain	100%
Asia Pulp & Paper Trading (USA), Inc	United States	100%
Linden Tracing Co. Inc.	United States	100%
Asia Pulp & Paper (UK) Limited	UK	100%
Asia Pulp & Paper (Malaysia) Sdn Bhd	Malaysia	100%
Asia Pulp & Paper (Australia) Pty. Ltd	Australia	100%
Asia Pulp & Paper France EURL	France	100%

APP Subsidiary	Country	% owned
Campania Trading Limited	British Virgin Islands	100%
Borneo Pulp & Paper Sdn. Bhd	Malaysia	66%
APP International Marketing Pte Ltd (“APP IM”)	Singapore	100%
Caroman Services Limited (“Caroman”)	British Virgin Islands	100%

Appendix II APP Address & Website

Asia Pulp & Paper Co. Ltd
118 Pioneer Road
Singapore 639598
Tel: (65) 477 6118
Fax: (65) 477 6540
Email: investors@app.com.sg
Website: http://www.asiapulppaper.com

Appendix III Complete list of shareholders of APP

Owners of ordinary shares	Country	% of total shares	Value (US$ million)
APP Global and subsidiaries	Singapore	66.33%	1906
PT Sinar Mas Tunggal	Indonesia	0.53%	15
Mitsubishi Corporation	Japan	0.12%	3
Hokuetsu Paper Mill Ltd.	Japan	0.06%	2

Owners of ADSs	Country	% of total shares	Value (US$ million)
Franklin Templeton Investments	United States	9.45%	272
Capital Group	United States	6.02%	173
ValueQuest/TA, LLC	United States	1.63%	47
Pioneer Investment Management Inc.	United States	0.86%	25
State of Wisconsin Investment Board	United States	0.84%	24
Smith Barney Asset Management	United States	0.71%	20
Wellington Management Company, LLP	United States	0.58%	17
Manning & Napier Advisors, Inc.	United States	0.31%	9
Zurich Scudder Investments, Inc.	United States	0.27%	8
Harbor Capital Management Company	United States	0.27%	8
Schneider Capital Management, LP	United States	0.24%	7
Chase Fleming Asset Management	United States	0.24%	7
Merrill Lynch Investment Managers	United States	0.19%	5
Deutsche Asset Management	Germany	0.16%	5
Caxton Associates, L.L.C.	United States	0.13%	4
Pennsylvania Public School Employees	United States	0.13%	4
Morgan Stanley Dean Witter	United States	0.09%	3
TD Asset Management Inc.	Canada	0.09%	3
Newton Investment Management Ltd.	England	0.08%	2
Deutsche Postbank International S.A.	Germany	0.07%	2
Frank Russell Company	United States	0.06%	2
World Asset Management	United States	0.05%	1
PPM America Inc.	United States	0.04%	1
Cie FinancièreEdmond de Rothschild	France	0.04%	1
GW Capital Management, Inc.	United States	0.04%	1
Mainstream Investment Advisers LLC	United States	0.04%	1
Altamira Management Ltd.	Canada	0.04%	1
White Oak Capital Management, Inc.	United States	0.04%	1
Credit Suisse Asset Management, LLC	United States	0.04%	1
DWS Investment GmbH	Germany	0.04%	1
J. P. Morgan Private Bank (NY)	United States	0.04%	1
State Teachers Retirmnt Syst. - Ohio	United States	0.03%	1
The Manufacturers Life Insurance Co.	Canada	0.03%	1
Deltec Asset Management Corp.	United States	0.02%	1

Owners of ADSs	Country	% of total shares	Value (US$ million)
Prime Investment Management SIM, SpA	Italy	0.02%	1
Wells Fargo Bank, N.A.	United States	0.02%	1
Credit Suisse First Boston Corp.	United States	0.02%	1
Northern Trust Company of Conn.	United States	0.01%	0
CCF Capital Management	France	0.01%	0
Prudential Securities Inc.	United States	0.01%	0
Capital Guardian Trust Company	United States	0.01%	0
Morgan Guaranty Trust Company of NY	United States	0.01%	0
Tirolinvest Kapitalanlagegesellschaft mbH	Austria	0.01%	0
Bear, Stearns Asset Management Inc.	United States	0.01%	0
Banc One Investment Advisors (OH)	United States	0.01%	0
Key Asset Management, Inc.	United States	0.01%	0
BHIF Administradora Fondos Mutuos S.	Chile	0.00%	0
Schafer Capital Management Inc.	United States	0.00%	0
Cordius Asset Management N.V.	Belgium	0.00%	0
Branch Banking & Trust Co.	United States	0.00%	0
Gestora Bancaja S.G.I.I.C., S.A.	Spain	0.00%	0
BBVA Privanza S.G.I.I.C.	Spain	0.00%	0
B.I. Gestora S.G.I.I.C., S.A.	Spain	0.00%	0
Norwest Investments and Trust (WI)	United States	0.00%	0
United States Trust Co. of New York	United States	0.00%	0
Syd-Invest	Denmark	0.00%	0
Finanduero S.V.	Spain	0.00%	0
Legg Mason Wood Walker, Inc.	United States	0.00%	0
Wells Fargo Bank Minnesota, N.A.	United States	0.00%	0
Murphy Capital Management, Inc.	United States	0.00%	0

sources: APP Annual Report, Singapore, May 2000, p. 27, 32, 35, 58; ShareWorld Database, February 2001.

Appendix IV Complete list of shareholders of Indah Kiat

Owners of ordinary shares	Country	% of total shares	Value (US$ million)
Capital Group	United States	5.336%	148.4
Franklin Templeton Investments	United States	3.503%	97.4
UBS Asset Management	Switzerland	1.070%	29.8
Montgomery Asset Management, LLC	United States	0.443%	12.3
Foreign & Colonial Management Group	England	0.442%	12.3
The Boston Company Asset Mgmt., LLC	United States	0.434%	12.1
Barclays Global Investors, N.A.	England	0.337%	9.4
Grantham, Mayo, van Otterloo LLC	United States	0.306%	8.5
INVESCO Asset Management (Asia) Ltd.	Hong Kong	0.303%	8.4
Dimensional Fund Advisors, Inc.	United States	0.301%	8.4
Loomis, Sayles & Company, L.P.	United States	0.216%	6.0
Morgan Stanley Dean Witter	United States	0.205%	5.7
Carmignac Gestion	France	0.203%	5.7
Fidelity Investments Mgmt. (HK)	Hong Kong	0.164%	4.6
Brinson Partners, Inc.	United States	0.147%	4.1
Fortis Investments (Nederland)	The Netherlands	0.146%	4.1
The Vanguard Group	United States	0.145%	4.0
Union Investment Gesellschaft mbH	Germany	0.106%	2.9
ABN AMRO Asset Management	The Netherlands	0.081%	2.2
Fideuram Capital S.p.A.	Italy	0.078%	2.2
ING Investment Management	The Netherlands	0.075%	2.1
Nomura Asset Management Co., Ltd.	Japan	0.070%	1.9
Parametric Portfolio Associates	United States	0.069%	1.9
PT. Bahana TCW Investment Management	Indonesia	0.065%	1.8
Goldman Sachs Asset Management Int'l	United States	0.064%	1.8
Skandinaviska Enskilda Banken AB	Sweden	0.053%	1.5
Credit Suisse Asset Management, LLC	United States	0.046%	1.3
Citigroup Asset Management Ltd.	United States	0.041%	1.1
Merrill Lynch Invt Managers (NJ)	United States	0.041%	1.1
Emerging Markets Investors Corp.	United States	0.039%	1.1
JF Asset Management (Singapore) Ltd.	Singapore	0.031%	0.9
AEGON Asset Management	The Netherlands	0.031%	0.9
State Teachers Retirmnt Syst. - Ohio	United States	0.026%	0.7
Universal-Investment-Gesell. mbH	Germany	0.025%	0.7
Victoire Asset Management	France	0.023%	0.6
Newton Investment Management Ltd.	England	0.023%	0.6
Wachovia Asset Management	United States	0.023%	0.6
Frank Russell Company	United States	0.021%	0.6
AIB Govett Asset Management Ltd.	England	0.020%	0.6
Daiwa Asset Management (Japan)	Japan	0.020%	0.5
Indocam Singapore Ltd.	Singapore	0.019%	0.5
Acadian Asset Management, Inc.	United States	0.015%	0.4

Owners of ordinary shares	Country	% of total shares	Value (US$ million)
Banque Corluy N.V.	Belgium	0.014%	0.4
Scottish Widows Invst Partnership	Scotland	0.013%	0.4
Van Kampen	United States	0.013%	0.4
Lazard Asset Management (US)	United States	0.013%	0.4
Crédit Agricole Asset Management	France	0.012%	0.3
KBC Asset Management N.V.	Belgium	0.011%	0.3
Evergreen Investment Management Co.	United States	0.011%	0.3
Clariden Asset Management (SI) Ltd.	Singapore	0.010%	0.3
Robeco Groep N.V.	The Netherlands	0.010%	0.3
Lloyds TSB Bank plc, Geneva Branch	Switzerland	0.009%	0.3
Edinburgh Fund Managers p.l.c.	Scotland	0.008%	0.2
Nicholas-Applegate Capital Mgmt.	United States	0.008%	0.2
Legal & General Investment Mgmt. UK	England	0.007%	0.2
BNP Paribas Asset Management S.A.S.	France	0.007%	0.2
AXA Investment Managers HK Ltd.	Hong Kong	0.006%	0.2
Framlington Investment Management	England	0.006%	0.2
Dexia Asset Management (Dexiam)	Belgium	0.005%	0.1
JF Asset Management (HK) Ltd.	Hong Kong	0.005%	0.1
The Dreyfus Corporation	United States	0.005%	0.1
TAL Global Asset Management Inc.	Canada	0.004%	0.1
SSB Citi Asset Management Group (US)	United States	0.004%	0.1
Commerz Int'l. Capital Mgmt. (CICM)	Germany	0.004%	0.1
Cordius Asset Management N.V.	Belgium	0.004%	0.1
WestLB Asset Management KaG mbH	Germany	0.003%	0.1
Jyske Invest	Denmark	0.003%	0.1
BSCH Gestión, S.A., S.G.I.I.C.	Spain	0.002%	0.1
Aberdeen Asset Management (Asia) Ltd	Singapore	0.002%	0.1
BFT Gestion S.A.	France	0.001%	0.0
Worldsec Asset Management Ltd.	Hong Kong	0.001%	0.0
Polaris Unit Trust Managers Ltd.	Hong Kong	0.001%	0.0

sources: ShareWorld Database, May 2001; Form 20-F: Annual report pursuant to section 13 or 15(d) of the securities exchange act of 1934 for the fiscal year ended December 31, 1999, PT Indah Kiat Pulp & Paper Tbk., Jakarta, 12 June 2000.

Appendix V Complete list of shareholders of Tjiwi Kimia

Owners of ordinary shares	Country	% of total shares	Value (US$ million)
Franklin Templeton Investments	United States	4.064%	37.2
Capital Group	United States	1.569%	14.4
Grantham, Mayo, van Otterloo LLC	United States	0.921%	8.4
UBS Asset Management	Switzerland	0.637%	5.8
Dimensional Fund Advisors, Inc.	United States	0.539%	4.9
Barclays Global Investors, N.A.	United States	0.331%	3.0
Emerging Markets Investors Corp.	United States	0.185%	1.7
Jupiter Asset Management (Asia) Ltd.	Hong Kong	0.151%	1.4
AEGON Nederland N.V.	The Netherlands	0.151%	1.4
The Vanguard Group	United States	0.138%	1.3
SAMBA Capital Management Intl. Ltd.	England	0.131%	1.2
Altamira Management Ltd.	Canada	0.120%	1.1
Fideuram Capital S.p.A.	Italy	0.115%	1.0
PT. Bahana TCW Investment Management	Indonesia	0.088%	0.8
AIB Govett Asia Ltd.	Singapore	0.076%	0.7
Credit Suisse Asset Management, LLC	United States	0.060%	0.6
Edinburgh Fund Managers p.l.c.	Scotland	0.056%	0.5
ING Investment Management	The Netherlands	0.055%	0.5
Indocam Singapore Ltd.	Singapore	0.036%	0.3
Nomura Asset Management	Japan	0.053%	0.5
Commerz International Capital Management	Germany	0.015%	0.1
Daiwa Asset Management (Japan)	Japan	0.013%	0.1
Dexia Asset Management (Dexiam)	Belgium	0.010%	0.1
Legal & General Investment Mgmt. UK	England	0.009%	0.1
HSBC Investment Bank p.l.c.	England	0.003%	0.0
C. I. Mutual Funds Inc.	Canada	0.003%	0

sources: ShareWorld Database, May 2001; Form 20-F: Annual report pursuant to section 13 or 15(d) of the securities exchange act of 1934 for the fiscal year ended December 31, 1999, PT Pabrik Kertas Tjiwi Kimia Tbk., Jakarta, 12 June 2000.

Appendix VI Alphabetical List of Banks financing, arranging finance or guaranteeing finance for APP & Subsidiaries

ABN Amro Bank
ABSA Bank
American Express Bank
Arab Banking Corporation
Argentaria Banco Exterior de Espana
Aseam Bank
Asian Finance and Investment Corporation
Baden-Wurttembergische Bank
Bahana Securities
Bangkok Bank
Bank Austria
BankBoston
Bank Bira
Bank Central Asia
Bank Danamon
Bank Dharmala Negara
Bank Finconesia
Bank Internasional Indonesia
Bank Leu
Bank Lichtenstein
Bank Lippo
Bank LTCB Central Asia
Bank Mandiri
Bank Multicor
Bank NISP
Bank Nusa Internatioinal
Bank Panin
Bank PDFCI
Bank PutraSurya Perkasa
Bank Rakyat Indonesia
Bank Sakura Swadharma
Bank Sarasin et Cie
Bank Rajawali
Bank Tiara
Bank Universal
Bank of America
Bank of Boston
Bank of China
Bank of East Asia
Bank of Kaohsiung
Bank of Kinki
Bank of Nova Scotia
Bank of Saga
Bank of Taiwan
Banque Indosuez
Banque Nationale de Paris
Banque Paribas
Banque Worms
Barclays Bank
Barclays de Zoete Wedd
Baring Brothers
Bayerische Landesbank
Bayerische Vereinsbank
Berliner Handels und Frankfurter Bank
Boram Bank
Bumi Daya International
Cassa di Risparmio di Lombarde

CBK
Chiao Tung Bank
Chinatrust Commercial Bank
Christiania Bank
Chung Chong Bank
Cia Española de Seguros de Credito a la Export.
Citibank
CITIC Ka Wah Bank
Clariden Bank
Comerica Bank
Commerzbank
Commonwealth Bank of Australia
Cosmos Bank
Creditanstalt-Bankverein
Credit Agricole
Crédit Lyonnais
Credit Suisse First Boston
Creditanstalt-Bankverein
Dai-ichi Kangyo Bank
Daisan Bank
Daiwa Bank
Deutsche Bank
Deutsche Morgan Grenfell
Development Bank of Singapore
D & C Bank
DG Bank
Dresdner Bank
Duta Indonesia
E. Sun Commercial Bank
EKN Exporkreditnamnden
Eksportkreditfonden
Erste Bank der Österrreichischen Sparkassen
Export Development Corporation
Export Import Bank of the Republic of China
Export Import Bank of Taiwan
Export Import Bank of the United States
Finnish Guarantee Board
Finnish Export Credit
First National Bank of Boston
First Commercial Bank
FleetBoston Financial Group
Fortis Bank (former MeesPierson)
Fuji Bank
Goldman Sachs
Hang Seng Bank
Hermes
Hiroshima Bank
Hang Seng Bank (part of HSBC)
Hongkong and Shanghai Banking Corporation
Hua Nan Commercial Bank
IBJ Indonesia Bank
IKB Deutsche Industriebank
Indover Bank
Industrial Bank of Japan
Industrial Bank of Korea
Industrial & Commercial Bank of China
ING Bank
Inter Pacific Bank
International Commercial Bank of China
J.P.Morgan
James Capel

Jardine Fleming
Kexim International
Kansallis-Osake-Pankki
KBC Bank
KDLC Leasing
KEB
KorAm Bank
Korea Development Bank
Korea International Merchant Bank
Korea Leasing
Korean French Banking Corporation
Kreidetbank
Land Bank of Taiwan
Lehman Brothers
Long Term Credit Bank of Japan
Manufacturers Bank NA
Merita Bank
Merrill Lynch
Mitsubishi Bank
Mitsui Taiyo Kobe Bank
Modern Bank
Morgan Stanley Dean Witter
Musashino Bank
Natexis Banque-BFCE
Nationale Investeringsbank
NatWest Bank
Nedcor Asia
Nikko Merchant Bank
Nippon Credit Bank
Norddeutsche Landesbank
Nordlandes Bank
Norinchukin Bank
Nomura International
NorWest Bank Minnesota
Österreichische Kontrollbank
Osterreichische Landerbank
OUR Commercial Bank
Overseas Chinese BAnk
Overseas Union Bank
Peace Bank of Korea
Peregrine
Private Development Finance Company of Indonesia
Rabobank
Raiffeisen Zentralbank Österreich
Royal Bank of Canada
Royal Bank of Scotland
SACE
Saehan Merchant Banking Corporation
SakuraBank
Salomon Brothers
Sanwa Bank
Schroder Wagg
Shanghai Commercial & Savings Bank
Siam Commercial Bank
Sinarmas Sekuritas
Societe Generale
Standard Chartered Bank
Sumitomo Bank
Svensk Exportkredit
Swiss Banking Corp
Taiwan Co-operative Bank

Tamara Bank
Taylor Dejongh
Thai Farmers Bank
Toyo Trust & Banking Corporation
UBS Warburg
Union Bancaire Privee
Union Bank of Switzerland
Union Bank of Taiwan
Union de Banques Arabes & Francaises
Union Européenne de CIC
United World Chinese Commercial Bank
Yamaguchi Bank
Yamaichi Merchant Bank
Yasuda Trust & Banking Corporation
Zhejiang Commercial Bank

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