

PLATFORM SUSTAINABLE BIOMASS



● German banks in the oil palm sector

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AUTHOR:

Jan Willem van Gelder, Profundo, www.profundo.nl
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EDITING AND CONTACT:

Imke Lübbecke	László Maráz
WWF – European Policy Office	German NGO Forum on
Phone.: +32 2 7438818	Environment and Development
E-Mail: lluebbecke@wwfepo.org	Phone: +49 30 6781 775 89
	E-Mail: maraz@forumue.de

PLATFORM SUSTAINABLE BIOMASS:

The Platform Sustainable Biomass of German environmental, nature conservation and development organisations takes up the issue of production, trading in and utilisation of bioenergy at the interface between environmental, agricultural, development and energy policy. It aims to network knowledge and develop positions and demands on specific key issues, in order to reinforce the ecological and socioeconomic dimension of the issue.

The platform is coordinated by WWF Germany and the German NGO Forum Environment and Development.

The expansion of bioenergy production in Germany requires widespread acceptance in society, but this can only be ensured if the ecological and social impacts are equally taken into consideration. Further information is available at www.plattform-nachhaltige-bioenergie.de (in German)

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Summary

The objective of this report is to identify which roles German banks have been playing in the past seven years in the financing of four oil palm plantation groups operating in Indonesia. German banks could be involved by providing loans and other credits, investment banking services, investments in shares and bonds, and by other means. The oil palm plantation groups researched are:

- Musim Mas Group, headed by Musim Mas (Indonesia)
- Salim Group, headed by Indofood Agri Resources (Singapore)

- Sinar Mas Group, headed by Golden Agri-Resources (Singapore)
- Wilmar Group, headed by Wilmar International (Singapore)

No evidence was found that German banks did play a role in the past seven years in the financing of the Musim Mas Group and the Wilmar Group. German banks did play a role in the past seven years in the financing of the Salim Group and the Sinar Mas Group, but their role was fairly small. An overview of the involvement of German banks in the financing of these two oil palm groups is given in the following table.

Bank	Date	Group	Company	Type of financing	Present status
HypoVereins Bank	August 2003	Salim	Indofood Sukses Makmur	Participation in a US\$ 100 million three-year syndicated loan	Repaid
WestLB	March 2006	Sinar Mas	Tapian Nadenggan	US\$ 40 million credit	Repaid
HypoVereins Bank	June 2006	Salim	Indofood Sukses Makmur	Participation in a US\$ 100 million two-year syndicated loan	Repaid
Norddeutsche Landesbank	June 2006	Salim	Indofood Sukses Makmur	Participation in a US\$ 100 million two-year syndicated loan	Repaid
DEG	December 2007	Sinar Mas	SMART	US\$ 32 million eight-year loan	Outstanding

Introduction

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The oil palm plantation groups researched are:

- **Chapter 1:** Musim Mas Group, headed by Musim Mas (Indonesia)
- **Chapter 2:** Salim Group, headed by Indofood Agri Resources (Singapore)
- **Chapter 3:** Sinar Mas Group, headed by Golden Agri-Resources (Singapore)
- **Chapter 4:** Wilmar Group, headed by Wilmar International (Singapore)

All financial relationships between the oil palm plantation groups and German financial institutions are described, providing the following information for each financial relationship:

- Name of the company receiving financing;
- Activities and location of the company;
- Type of financing activity: loan, guarantee, share issuance, bond issuance, or share or bond ownership;
- Total amount;
- Date;
- Purpose (if known);
- For loans and bonds: maturity and interest rate;
- Name of the German financial institution involved;
- Amount provided by the German financial institution.

A summary of the findings of this report can be found on the first pages of this report.

Chapter 1 - Musim Mas Group

1.1 BRIEF DESCRIPTION OF THE MUSIM MAS GROUP

The Musim Mas Group is an Indonesian business group, controlled by the Karim family. The activities of the Musim Mas are centered on its core business of oil palm cultivation and palm oil processing. It is a market leader in the manufacturing of palm oil, soap, margarine and owns refineries, biodiesel and oleochemical factories, ships, tankers, a grain terminal and bulk tank terminals. In Indonesia the Musim Mas Group ranks among the biggest producers in the vegetable oil refining and soap manufacturing industries. Its products are sold globally under the Musim Mas brand.¹

The Musim Mas Group owns oil palm plantations in North Sumatra, West Sumatra, South Sumatra, Riau and Central Kalimantan with a total area of 122,572 hectares. The company operates 8 CPO mills with a total annual capacity of 660,000 tons of CPO.²

The Musim Mas Group operates five palm oil refineries with a total annual capacity of 1.76 million tons, which also source from third-party plantations. The

market share of the Musim Mas Group on the Indonesian palm oil refining market is about 25%.³

- PT Bina Karya Prima Bekasi (West Java)
- PT Intibenua Perkasatama Dumai (Riau)
- PT Mega Surya Mas Sidoarjo (East Java)
- PT Musim Mas Medan (North Sumatra)
- PT Siringo-ringo Medan (North Sumatra)

In 2007 Musim Mas opened its first biodiesel plant in Medan, which has an annual capacity of 200,000 tonnes. A second plant on Banka island, with an annual capacity of 350,000 tonnes, is under construction. Opening was planned for the first quarter of 2009.⁴ It is not clear if this last plant is operating already.

1.2 FINANCIAL RELATIONSHIPS WITH GERMAN BANKS

No financial relationships were found between the Musim Mas Group and German banks in the past seven years.

Chapter 2 - Salim Group

2.1 BRIEF DESCRIPTION OF THE SALIM GROUP

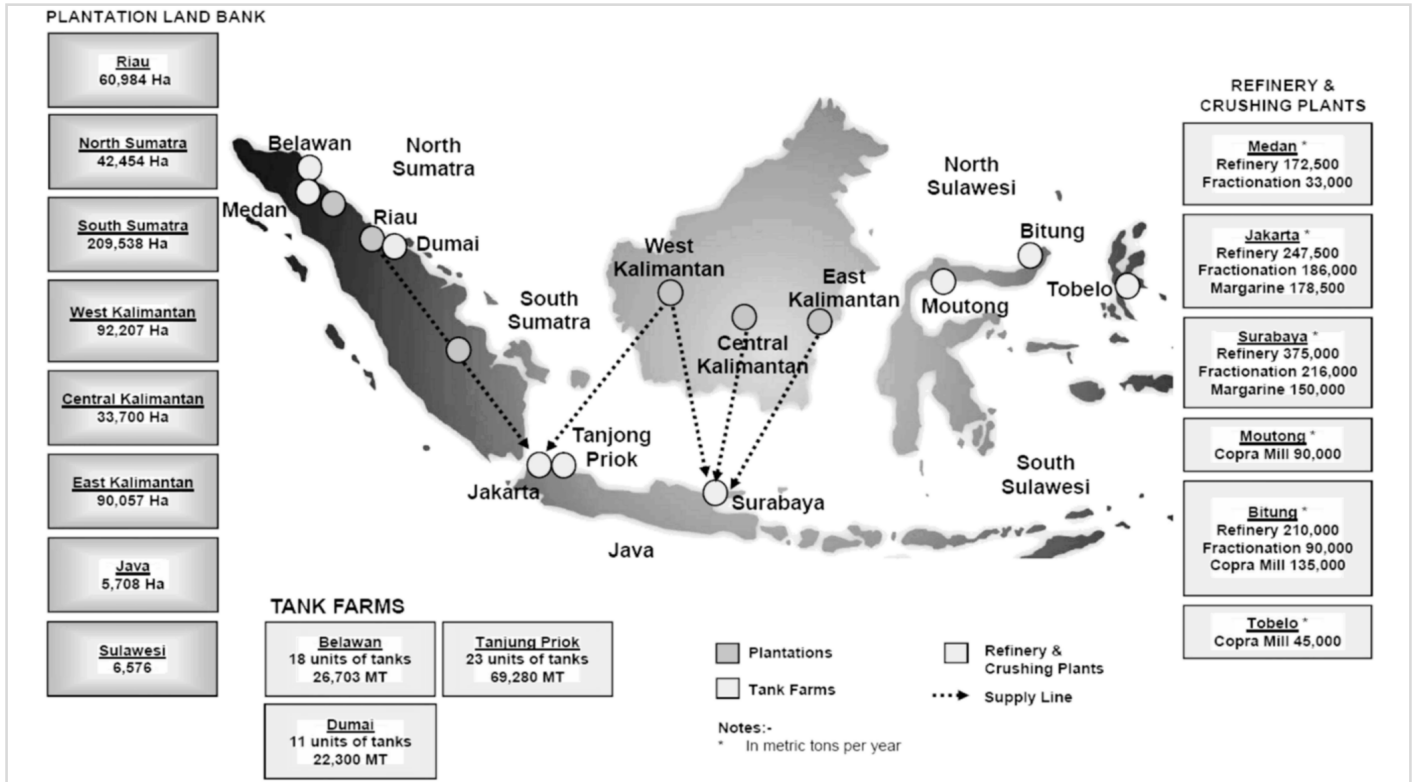
Until the economic crisis of 1998, the Salim Group was the largest private business group in Indonesia. The group generated US\$ 20 billion in annual sales, and comprised 500 companies with 200,000 employees. The Salim Group accounted for 5 percent of Indonesia's economic output, and was active in the food industry, the car industry, building materials, property, telecommunications, banking and trading.

The Salim Group was founded by the Chinese immigrant Liem Sioe Liong, who later changed his name to Sudono Salim. Liem was one of the closest friends and business partners of ex-president Suharto. The group is still controlled by the Salim family, and is now headed by Sudono's son Anthony.⁵

The flagship company of the Salim Group in Indonesia is PT Indofood Sukses Makmur Tbk., the largest food company in Indonesia. Currently Indofood is the largest instant noodles manufacturer and the largest flour miller in the world. The company also manufactures branded edible oils and fats, baby foods, snack foods and food seasonings products. To manufacture all these products, large quantities of palm oil are needed. Indofood's subsidiary Intiboga Sejahtera has two major refineries with a combined capacity of 734,000 tons of CPO per year.⁶

Until recently, most of its palm oil need was sourced externally. Four years ago, Indofood owned five oil palm plantations in Riau with a total planted oil palm acreage of just over 60,000 hectares. Total CPO out-

FIGURE 1. OIL PALM HOLDINGS OF INDOFOOD AGRI RESOURCES



put of Indofood amounted to 297,100 tonnes in 2005.⁷ In 2004 Indofood formulated the long-term goal to expand its planted oil palm plantation acreage to 250,000 hectares by 2015, to raise its CPO output to 1 million tonnes in 2015.⁸

To attract the funds to finance these expansion plans, Indofood listed its oil palm plantation holdings on the Singapore stock exchange in January 2007. The Singaporean company Indofood Agri Resources, which is 74.33% owned by Indofood Sukses Makmur, now is the holding company for all oil palm plantations of the Salim Group.⁹

In October 2007 Indofood reached agreement with the owners of PT PP London Sumatra Indonesia Tbk. (LonSum) to acquire this Indonesian plantation company for a total amount of Rp 5.7 trillion (US\$ 635 million). Indofood now has a controlling stake of 64.4% of LonSum's shares.¹⁰

The LonSum Group owns plantations in North Sumatra, South Sumatra, East Java, West Java, North Sulawesi, South Sulawesi and East Kalimantan, with a total land bank of 166,416 ha. At the end of April 2007 LonSum had planted a total area of 64,168 hectares with oil palm, and 22,211 hectares with

rubber, cocoa, coffee and tea. Additionally, the company was involved in 36,253 hectares of smallholder oil palm estates.¹¹

As a result of the take-over of LonSum and a series of other acquisitions, Indofood Agri Resources in April 2009 owned a combined landbank of 541,224 ha hectares, of which 184,651 hectares are planted with oil palm and 30,850 hectare with other crops (rubbers, sugar, copra and others). This leaves about 325,000 hectares unplanted.¹²

The Salim Group is also expanding into biodiesel production. In October 2006 Indofood Sukses Makmur obtained a permit to process 225,000 tonnes of CPO for biodiesel use.¹³ If this plant is operational is unclear.

2.2 GERMAN BANKS INVOLVED IN FINANCING THE SALIM GROUP

This paragraph summarizes the information found on the involvement of German banks in the financing of the oil palm companies of the Salim Group: Indofood Sukses Makmur (until January 2007), Indofood Agri Resources (from January 2007 onwards), PP London Sumatra Indonesia and all their subsidiaries involved

in oil palm plantations, palm oil processing and biodiesel production:

- In August 2003 Indofood Sukses Makmur secured a three year US\$ 100 million loan from a banking syndicate arranged by ING Bank (Netherlands). The loan would mature in August 2006. Participating in the syndicate were:¹⁴

- Bumiputra-Commerce Bank, part of CIMB Group Malaysia
- **HypoVereinsbank** (Germany), part of UniCredit Italy
- ING Bank Netherlands

In July 2004 Indofood repaid this loan.¹⁵

- In June 2006 ING Bank (Netherlands) arranged a US\$ 100 million two-year syndicated loan for Indofood Sukses Makmur. This was Indofood's first unsecured deal since the Asian crisis. The banking syndicate comprised twelve banks:¹⁶

- Bank Danamon, part of Temasek Holdings; Singapore – US\$ 5 million
- Bank of Tokyo-Mitsubishi UFJ; Japan – US\$ 10 million
- Bumiputra-Commerce Bank, part of CIMB Group; Malaysia – US\$ 10 million
- Chinatrust Commercial Bank; Taiwan – US\$ 10 million
- **HypoVereinsbank** (Germany), part of UniCredit; Italy – US\$ 10 million
- ING Bank; Netherlands – US\$ 10 million;
- Mizuho Bank; Japan – US\$ 7.5 million
- Moscow Narodny Bank; Russia – US\$ 5 million
- **Norddeutsche Landesbank**; Germany – US\$ 10 million
- Rabobank; Netherlands – US\$ 10 million
- Sumitomo Trust & Banking; Japan – US\$ 7.5 million
- United Overseas Bank; Singapore – US\$ 5 million

In March 2007 Indofood Sukses Makmur repaid this loan.¹⁷

Chapter 3 - Sinar Mas Group

3.1 BRIEF DESCRIPTION OF THE SINAR MAS GROUP

The Sinar Mas Group is one of Indonesia's largest business groups and is mainly active in pulp & paper, palm oil, food, property development, hotels, telecommunications and financial services. It was founded by the Chinese immigrant Oei Ek Tjiong, who later changed his name into Eka Tjipta Widjaja. Although many companies in the Sinar Mas group have been listed on various stock exchanges, the Widjaja family still owns controlling stakes.¹⁸

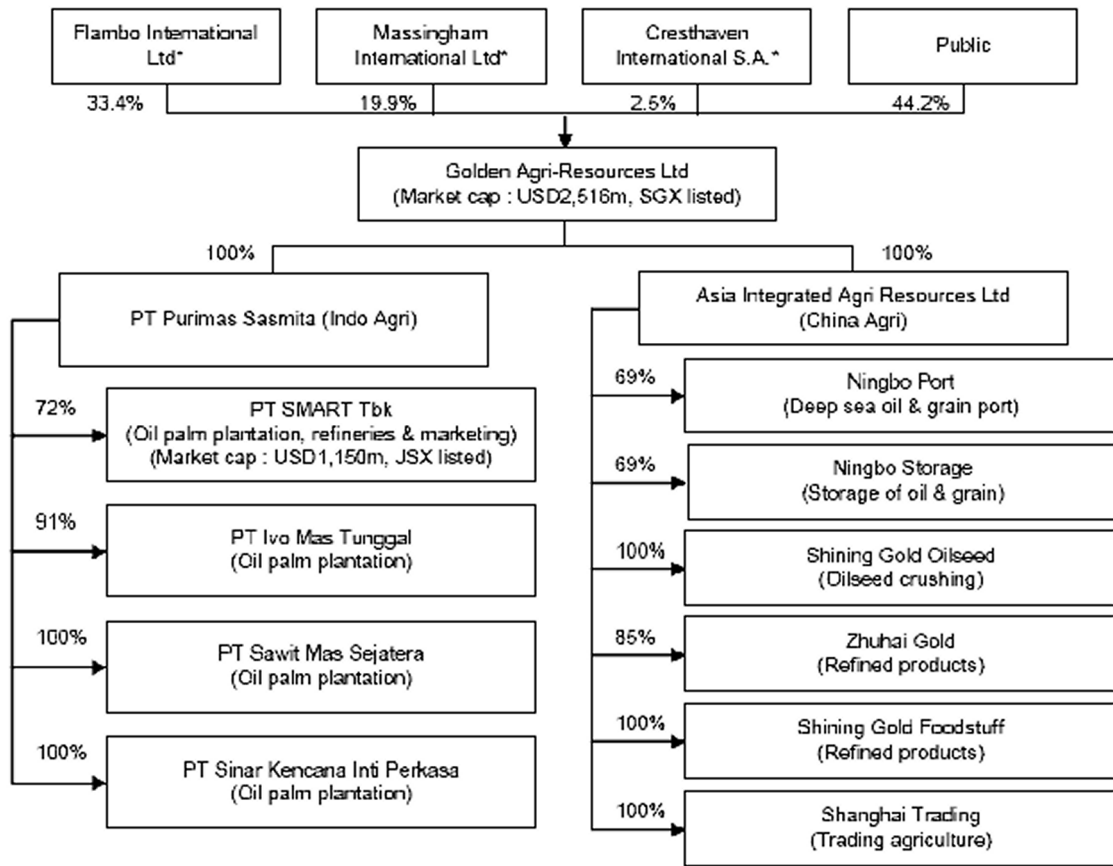
The oil palm activities of the Sinar Mas are grouped under the Singaporean holding company Golden Agri-Resources, which is listed on the Singapore stock exchange. As shown in the organisation chart below, the Widjaja family controls 55.9% of the shares through three investment companies.

The company has numerous subsidiaries in China and Indonesia, of which one is listed on the Jakarta stock exchange: PT SMART Tbk.

The oil palm plantation subsidiaries of Golden Agri-Resources own concessions in Sumatra, Kalimantan and Irian Jaya. Currently, Golden Agri-Resources has a total planted area of 392,000 hectares. The company operates 33 palm oil processing mills, three refineries and five kernel crushing plants.¹⁹ The company planned to increase its planted area to 427,000 hectares by 2009.²⁰

In May 2007 PT Bio Energi Mas, a subsidiary of the Sinar Mas Group, signed a deal with the American energy firm Fulcrum Power Services, to build a biodiesel plant with an initial capacity of 400,000 tonnes a year in Dumai. The plant will process palm oil and possibly jatropha. The two partners are considering a second plant with an annual capacity of 200,000 tons in Lumut (Malaysia).²¹ It is unclear if this plant is already operating.

In January 2007 PT SMART signed a cooperation agreement with China National Offshore Oil Corporation (China) and Hong Kong Energy (China) for the



Wijaya family's ownership of 55.8%
sources: Golden Agri-Resources; BNP Paribas

development of a bio-diesel project, using crude palm oil as the raw material, as well as producing bio-ethanol using sugar cane and cassava as the raw materials. Local governments in Kalimantan and West Papua have provided about 1 million hectares of land to support the project, according to SMART. Total investment over a period of eight years would amount to US\$ 5.5 billion.²² Since then, this project seems to have been stalled.

3.2 GERMAN BANKS INVOLVED IN FINANCING THE SINAR MAS GROUP

This paragraph summarizes the information found on the involvement of German banks in the financing of the oil palm companies of the Sinar Mas Group Group:

Golden-Agri Resources, PT SMART and other subsidiaries involved in oil palm plantations and palm oil processing:

- In March 2006 PT Tapian Nadenggan, a subsidiary of PT SMART, entered into a US\$ 40 million credit agreement with **WestLB** (Germany). The loan was intended to finance the establishment of a new oil palm plantation, but was repaid already in May 2007.²³
- In December 2007 PT SMART obtained a US\$ 32 million term loan facility from Deutsche Investitions- und Entwicklungsgesellschaft, which is now part of **KfW** (Germany). The loan is intended to finance the business expansion of PT SMART and will mature in December 2015. At the end of 2008 US\$ 32.0 million was outstanding.²⁴

Chapter 4 - Wilmar Group

2.1 BRIEF DESCRIPTION OF THE WILMAR GROUP

The Wilmar Group is Asia's leading agribusiness group. Its business activities include oil palm cultivation, edible oils refining, oilseeds crushing, consumer pack edible oils processing and merchandising, specialty fats, oleochemicals and biodiesel manufacturing, and grains processing and merchandising. Headquartered in Singapore, its operations are located in more than 20 countries across four continents, with a primary focus on Indonesia, Malaysia, China, India and Europe. Backed by a staff force of about 70,000 people, over 170 processing plants and an extensive distribution network, its products are delivered to more than 50 countries globally.⁸

The Wilmar Group was founded in 1991 by Kuok Khoon Hong and Martua Sitorus. As Kuok is nicknamed William, the name Wilmar probably is a combination of the names of the two founders. Later the American commodity trader ADM and the Chinese procurement agency COFCO became shareholders.⁹

The holding company of the Wilmar Group is Wilmar International, which was listed on the Singapore stock exchange in August 2006. In 2007 Wilmar International finalised a merger with the plantations, edible oil and grain businesses of the Malaysian Kuok Group - PPB Oil Palms, PGEO Group and Kuok Oils and Grains - and the edible oils, grains and related businesses of Wilmar Holdings (much of which are joint-ventures with ADM).¹⁰

Wilmar International has more than 380,000 hectares of oil palm plantations under management. Subsidiaries of the Group own oil palm plantations with a planted area of 160,805 ha. in Indonesia, 62,453 ha. in Malaysia, 4,000 ha. in Uganda and 36,000 ha. in West Africa. The Group also managed about 120,000 hectares under a smallholders scheme in West Africa.¹¹

Wilmar Bioenergi Indonesia operates three biodiesel plants in Pelintung in Riau province with a total capacity of 1,050,000 tonnes per annum. The company is planning to build a fourth plant there with an annual capacity of 350,000 tonnes in Riau. Also, the company is planning to open a biodiesel plant with a capacity of 350,000 tonnes per year in Gresik on Java, which would open early 2010.¹²

Another subsidiary of the Wilmar Group, Qinhuangdao Goldensea Bioenergy, is also producing biodiesel in China.¹³

2.2 GERMAN BANKS INVOLVED IN FINANCING THE WILMAR GROUP

This paragraph summarizes the information found on the involvement of German banks in the financing of the oil palm companies of the Wilmar Group.

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