

WORLD RAINFOREST MOVEMENT

The Pulp Invasion: The international pulp and paper industry in the Mekong Region

THAILAND The fast-growing pulp and paper industry *by Chris Lang*

[previous page](#)

4. COMPANIES (I)

The real beneficiaries of the support to the pulp and paper industry are the companies. This section profiles some of the Thai and international companies involved in the industry in Thailand.

- ADVANCE AGRO

Advance Agro Public Company Limited is the largest fully integrated pulp and paper manufacturer in Thailand. The company manufactures and distributes pulp and printing and writing paper in Thailand and exports to Europe, Asia, USA, Africa and countries in the Middle East (Wright www 1). Seventy per cent of the company's production is exported, the two largest markets being China and Japan (Woranuj 2000).

Advance Agro is part of the Soon Hua Seng (SHS) Group. SHS was founded in the 1950s by members of the Dumnernchanvanit family, which still controls the Group (AA www 2). SHS boasts of being the biggest rice and cassava exporter in the world (Mallet 1992) and started growing eucalyptus in 1982 as an alternative to crops such as rice and cassava. The company converted its cassava fields into eucalyptus plantations partly as a result of a European Community decision to reduce cassava imports (Malee 1992). In 1987, SHS started to plant eucalyptus on a commercial scale and formed Advance Agro to produce pulp and paper (AA www 4).

Advance Agro was incorporated in 1989, and listed on the Stock Exchange of Thailand in February 1995. The major shareholders are the Soon Hua Seng Group (47.1 per cent), officers and directors of Advance Agro (8.9 per cent), Stora Enso (19.9 per cent), Oji Paper (5.5 per cent) and the Commonwealth Development Corporation (1.1 per cent) (AA www 2).

Advance Agro's and the SHS Group's management are well connected with Thailand's political elite. Virabongsa Ramangkura, Advance Agro's chairman, served as an economic advisor to General Prem Tinsulanonda, Thailand's prime minister in the 1980s. In the mid-1990s, he was finance minister during General Chatichai Choonhaven's administration and was deputy premier in charge of economic affairs under Prime Minister General Chavalit Yongchaiyudh. Virabongsa is an advisor to Bangkok Bank, which has outstanding loans of approximately US\$850 million with the SHS Group (AA www 3). In November 2000, Virabongsa became chairman of the Thai language newspaper and magazine publisher Siam Rath Co (Achara 2000).

Chanchai Leetavorn, Chairman of Advance Agro's board of directors, has held the posts of Permanent Secretary of the Ministry of Finance, Minister of Commerce and Deputy Minister of Finance (AA www 3).

Kitti Dumnernchanvanit, President of SHS, was a Senator in the Thai Senate, and an economic advisor to

the Prime Minister (Sonnenfeld 1998a: 66). Until 2000, he was a director of Bangkok Bank. Kitti's son Yothin Dumnernchanvanit is the General Manager of Advance Agro (Bangkok Post 24 April 2000).

Prasit Kanchanawat, a former commerce minister, held the positions of chairman of SHS and Bangkok Bank simultaneously (Mallet 1992).

Advance Agro's first mill opened in 1996, and the second in 1998, at Tha Toom in Prachinburi province, 120 kilometres from Bangkok (AA www 1). Total production capacity is 430,000 tonnes of pulp per year (Srisamorn 2000). Raw material is eucalyptus and imported long-fibre pulp. (AA www 1) All short-fibre wood comes from eucalyptus trees grown in a 150-kilometre radius of the Tha Toom mills (AA www 3). SHS established a laboratory for conducting research into *Eucalyptus camaldulensis* and other fast-growing trees in 1982. Today, SHS Group's 67 hectare complex of greenhouses and nursery plots churns out 65 million hybrid clone seedlings every year (AA www 3).

Advance Agro manufactures an office paper called "Envirocopy Premium". Advance Agro markets the paper as elemental chlorine free, not using timber from rainforest, produced in a mill which uses minimum water and uses effluent to irrigate tree plantations. The company describes the plantation areas as old rice growing areas now degraded after generations of rice farming (Hobbs 1998).

Advance Agro exports pulp to mills in Tasmania belonging to AMCOR, the Australian paper and packaging giant (BWC 1999).

Advance Agro mills produce office copy papers marketed as "Speed copy papers". The paper is marketed by The Paper Company as coming from an "environmentally certified factory" using eucalyptus from its own plantations (Paper Company www 1).

In contrast with its internationally projected "green" image, in Thailand Advance Agro is notorious for the 1990 "Suan Kitti scandal", when 156 Soon Hua Seng employees were arrested for illegally logging a forest area in East Thailand. (See section 3, above.) After the scandal, SHS hired the Finnish-owned Presko public relations firm for advice, and swiftly changed the name of the proposed mill from "Suan Kitti Pulp Mill" to Advance Agro (Sonnenfeld 1999: 18).

Advance Agro does not actually own any of its own plantations, instead purchasing the wood from Agro Lines, another member of the SHS Group. Agro Lines obtains its wood from four sources:

- from its own plantations (which in 1997 covered 31,000 hectares);
- from plantations owned by the SHS Group;
- from local farmers under contract to Agro Lines (in 1997, 46,000 hectares); and
- from individual farmers (AA www 3).

The logs are transported to the mill either by farmers or by a trucking company which is also part of the SHS Group, working under subcontract to Agro Lines (AA www 3). Yet another SHS Group company owns the trucks which transport much of the finished product from the mills (AA www 3).

Shareholders and finances

In 1994, Advance Agro planned an initial public offering, aiming to raise US\$80 million, part of the US\$650 million required to build a pulp and paper mill. Barclays de Zoete Wedd was the international lead manager for the offering. The project's main backers were Bangkok Bank, Thai Farmers' Bank, Krung Thai Bank and the Commonwealth Development Corporation (see section on CDC, below) (Mallet

1994). The mill was financed with loans from export credit agencies with working capital and guarantee facilities provided by Thai banks (AA www 1). The International Finance Corporation lent Advance Agro US\$10 million in 1994 (IFC 2000).

In April 1994, Mitsubishi Corp, Japan's largest general trading house, and Mitsubishi Heavy Industries Ltd, a major Japanese machinery maker, received an US\$126 million order from Soon Hua Seng to build a paper mill. Under the agreement Mitsubishi Heavy provided the machinery for the plant, and Mitsubishi Corp handled the import and export arrangement (The Nation 14 April 1994).

Advance Agro was hit hard by the economic crisis in 1997. The company breached financial covenants on its loans as a result of foreign exchange losses. As almost all of Advance Agro's debt was in US dollars, the company was very vulnerable when the value of the Thai baht fell by almost half in 1997 (Bangkok Post 8 November 1997).

In November 1997, Advance Agro made a US\$111.35 million bond offering on US markets (Luce and Bardacke 1997). The company was the first from Thailand to issue high-yield bonds. The proceeds from the deal were to be used to build a new pulp mill (see Sino-Thai project, below), to pay off debt and for working capital (Bangkok Post 10 November 1997).

In 1997, Advance Agro posted losses of US\$200 million. To compensate for the losses, in 1998 Advance Agro planned to increase exports to the US, Europe, Australia, the Middle East and Asian countries (Bangkok Post 10 March 1998).

The economic crisis was also behind the sale of 19.9 per cent of Advance Agro shares to Enso (now Stora Enso, see section on Stora Enso, below). The benefits to Stora Enso are huge. For US\$82 million, in addition to the shares, Stora Enso received:

- exclusive international marketing rights outside Thailand and Japan (Burt 1998c);
- two members of Stora Enso on the Board of Advance Agro (Jirajaree 1998);
- a secure market for at least 12,000 tonnes of long-fibre pulp a year from its European mills (AA www 4); and
- Stora Enso has approval rights for major corporate decisions, as long as it holds at least 10 per cent of the company (AA www 4) .

In May 1999, Jukka Harmala, the president of Stora Enso group became a board member of Advance Agro (Bangkok Post 7 May 1999).

New Oji Paper, Japan's largest producer of pulp and paper, also bought 5.5 per cent of Advance Agro in 1998, at a cost of US\$22 million (The Nation 29 September 1998). Under the agreement a senior executive of Oji Paper will sit on the Board of Advance Agro (Bangkok Post 29 December 1998). Through the deal Oji Paper won the exclusive right to sell Advance Agro paper in Japan (AA www 4). In May 1999, Masahiko Ohkuni of Oji Paper became a board member of Advance Agro (Bangkok Post 7 May 1999).

Although Advance Agro hoped to make a profit in the year 2000 (which would have been its first profitable year since its pulp and paper mill opened in 1996), Soon Hua Seng Group's creditors were getting increasingly nervous about the Group's debt restructuring. Bangkok Bank has nearly 30 billion baht (approximately US\$850 million) in outstanding loans with SHS. SHS and Bangkok Bank have close links. SHS is a major shareholder of the Bank, and Kitti Dumnernchanvanit only resigned from the Board of Directors of Bangkok Bank in 2000. Bangkok Bank, Krung Thai Bank and Thai Farmers Bank have also offered export credits worth US\$510 million to SHS group, including a US\$300 million line for Advance Agro (Cholada and Darana 2000).

By August 2000, local banks were threatening to file a suit against Kitti Dumnernchanvanit, Advance

Agro's General Manager, after talks on debt restructuring broke down. Since June 2000, the Bank of Thailand has required local banks to submit restructuring schedules for non-performing loans. If the talks fail to meet deadlines, the banks are required to press legal suits, or face fines imposed by the Bank of Thailand. An executive at Bangkok Bank said the bank would file suits aimed at the individual companies within the group, starting with Advance Agro. Soon Hua Seng serviced its debt to foreign creditors through its export earnings, while failing to repay loans from Thai banks. SHS used funds from many loans to the group for alternative purposes, leaving no clear trace of where cash was transferred. The Soon Hua Seng case has proved "to be a huge headache for all the creditors", an executive of Thai Farmers Bank told the Bangkok Post (Cholada 2000a).

In 2000, Bangkok Bank, Krung Thai and Thai Farmers Bank paid out four billion baht (about US\$110 million) in guarantees to cover Advance Agro's debt to foreign creditors. The three banks covered Advance Agro's liabilities after the company defaulted on debt repayments (Cholada 2000b).

Related companies

Other SHS Group companies involved in plantations, or the pulp and paper industry include:

- Agro Lines, which as well as selling wood to Advance Agro also uses wood in its own fibreboard plant, sells wood to other pulp producers in Thailand, and exports wood chips to Japan (AA www 3).
- Hi-Tech, which operates a 35,000 tons a year paper mill at Ban Laem Kho Jan in Chachoengsao. The mill started operations in 1993. Surplus pulp from Advance Agro's mills is transported to the Hi-Tech mill (AA www 3) (Mallet 1994).
- Eka Udon Trading Company, which operates a wood processing factory in Chachoengsao province. The factory produces goods used in the rest of the SHS Group. For example, wooden pallets for forklift truck are used to transport paper products around Advance Agro's mills (AA www 3).
- Agro Mats Co., which operates a Medium Density Fibreboard factory (AA www 3).
- Suan Kitti Reforestation Co., which operates a 300,000 tons a year wood chip plant exporting to Korea and Japan, as well as selling to local markets. The company also delivers tree bark and undersized wood chips to the SHS Group's power plants for use as fuel (AA www 3).
- Advance-Alcore, a joint venture between Advance Agro (78 per cent) and Ahlstrom Alcore of Finland (22 per cent) started production in August 1996. The 3,500 tons a year cardboard plant is located in Prachinburi. Eighty per cent of the produce is used by Advance Agro subsidiaries, the remainder sold to other mills in Thailand or exported (Bangkok Post 3 September 1996).
- Advance-Oji Speciality Paper, a joint venture between Advance Agro and Oji Paper formed in October 1996 to produce carbonless copy paper at a new 30,000 tons a year plant in Prachinburi (Bangkok Post 3 October 1996). In February 1997, Advance-Oji Speciality Papers signed a loan agreement of US\$60 million with a group of Japanese banks, led by Sakura Bank, to finance machinery purchases and construction of its new plant (The Nation 18 February 1997). Oji made its decision to invest in the project after a Jaakko Poyry market study on carbonless copy paper. Advance Agro withdrew from the project because of funding difficulties after the 1997 financial crisis, leaving Oji as the sole owner. The mill started production in May 1998. Half the base paper for the mill is supplied by Advance Agro and the rest comes from Japan. The finished paper is marketed under the brandname "Phoenix", although there is no connection with the Phoenix pulp and paper mill. Seventy per cent of output is exported, mainly to Hong Kong, Malaysia, the Philippines, Singapore, South Korea and Taiwan (Ryan 2001).
- Advance Power Supply, a subsidiary of Advance Agro, received a credit facility in October 1996, to construct two 150 MW power plants. Advance Power Supply arranged the credit facility through the Bangkok Bank, Krung Thai Bank and the Industrial Finance Corporation of Thailand, as well as a group of finance and securities companies. The two new units were to be built by another subsidiary of Advance Agro, National Power Supply (Bangkok Post 11 October 1996). In

1998, National Power Supply reached a deal with Michigan-based CMS energy which bought up US\$60 million in shares. National Power Supply plans to build two 150 MW units – a US\$90 million investment (The Nation 2 May 1998).

- Wood Vision and Scene Co., which produces garden furniture, office furniture, flooring and household furniture in its Eucalyptus Wooden Furniture Plant in Chachoengsao province (AA www 3).

Expansion to China

In 1992, the Soon Hua Seng Group announced a US\$1 billion plantation and pulp and paper project in China's Guangdong province. On 5 November 1992, SHS signed an agreement with the Chinese state-controlled Forestry and Paper Mill Co. of Shanwei City to plant 32,000 hectares with eucalyptus and acacia trees from 1993, to build a 120,000 tons a year wood chip mill in 1997-98, and to construct a 120,000 tons a year pulp and paper mill in 1999 (Mallet 1992) (Ratchapol 1992). The land is to be rented from the Chinese government for 50 years (Khao Sod 10 July 1998).

Between 3-11 July 1998, Sanan Kachonprasat, Thailand's former Minister of Interior, led a group of Thai government representatives to China on a visit to SHS Group's Chinese plantations (Khao Sod 10 July 1998).

Advance Agro and the Sino-Thai pulp project

In March 1997, Virabongsa Ramangkura, chairman of Advance Agro, announced a project to construct a new 700,000 tonnes a year pulp mill in Prachinburi province, with 96,000 hectares of eucalyptus plantations to supply raw material. The Chinese government would hold 51 per cent of the joint venture, with Advance Agro the remaining 49 per cent (Bangkok Post 25 March 1997). At US\$1 billion the project would be China's largest single overseas investment. The pulp would be produced for export to China (The Nation 25 March 1997).

According to Virabongsa, Advance Agro was awarded the deal because it said it could build the plant in less than two years, compared to three or four years required by other potential partners (The Nation 25 March 1997). After more than four years of negotiations, however, the project is highly controversial in Thailand, land has not been found for the plantations, and China has threatened to move the project to Malaysia where it says land is available at a cheaper price (Woranuj 2001). In order to rescue the project, in May 2001, the Ministry of Agriculture and Cooperatives ordered the Forest Industry Organisation to look into the possibility of using its plantations to supply the mill (Ploenpote 2001b).

The project has been negotiated at the highest level of government. Chinese representatives met with then-Thailand's Prime Minister General Chavalit Yongchaiyudh on 24 March 1997, and Chavalit visited China in April 1997 (Achara 1998). In May 1998, Supachai Panitchpakdi, then-Thailand's deputy prime minister and commerce minister visited China for five days. The joint venture with Advance Agro was among the projects Supachai discussed with Chinese premier Zhu Rongji (Woranuj 1998) (Achara 1998).

Supachai also met with State Councillor Wu Yi and agreed to set up a joint working group on project investments consisting of government officials from Thailand and China (Achara 1998).

On his return to Thailand Supachai urged the Agriculture Minister Pongpol Adireksen to move ahead with the project. The Agricultural and Land Reform Office (ALRO) was to set aside 200,000 rai (32,000 hectares) for the project (Bangkok Post 21 April 1998).

In July 1998, Major General Sanan Kachornprasat, then-Thailand's interior minister, led another Thai delegation to China. The Bangkok Post reported that Chinese government officials asked Sanan to set aside areas in Thailand for the proposed eucalyptus plantation (Bangkok Post 14 July 1998).

In September 1999, China's President, Jiang Zemin visited Thailand with a 180-person official delegation for a five-day visit. Land allocation for the Sino-Thai project was a key part of the visit (Achara 1999). During the visit, Chuan Leekpai told Jiang Zemin that Thailand could not set aside the 96,000 hectares required for the project, but that 32,000 hectares could probably be found, and he suggested a contract farming agreement between the company and farmers to make up the remaining area (Bhanravee and Yuwadee 1999). The signing of a Memorandum of Understanding on the project scheduled as part of Jiang's visit was put on hold (Piyantart and Marisa 1999).

In the week following Jiang's visit, the Agriculture Ministry announced that land owned by the SHS company, Suan Kitti, would be allocated for the joint venture. The land is owned by former Senator Kitti Dumnernchanvanit, who received a 30 year concession on the land area before the ban on commercial plantations in 1992 (Pennapa 1999). (See section 3, above.)

On 1 February 2000, the Thai cabinet agreed in principle to cooperate on the project. An agreement was signed on 2 February 2000 by Supachai Pantitchpakdi and the Chinese Ambassador to Thailand (Bangkok Post 2 February 2000). The proposal was tabled before cabinet just before Commerce Minister Supachai travelled to China – the approval was apparently intended as a gift to Beijing (Wasant 2000).

Thailand's Royal Forest Department (RFD) has backed the project, and has attempted through the project to evict farmers living on forest land. The RFD also suggested increasing the area of land that could be allocated to individual farmers in degraded forest reserves from 8 hectares to 16 hectares. The Committee on National Forest Policy rejected the RFD's proposals (Matichon 3 September 1999) (Thai Rath 4 September 1999).

In October 1999, the RFD set up a working team of 20 people to search for 200,000 rai (32,000 hectares) of degraded forest reserve in six provinces. The government had already set up a committee – the Committee to Consider the Area for Eucalyptus Plantations within the Sino-Thai Pulp and Paper Project (Matichon 11-12 October 1999).

The RFD attempted to set a condition for the project: China should replant 100,000 rai (16,000 ha). According to Plodprasop Suraswadi, Director-General of the RFD, "We already have designated an area for the project. If China agrees to the area we propose, the project can go ahead but it has to be on condition to replant the forest land" (The Nation 10 September 1999). In January 2000, China accepted the conditions, by which time the area to be replanted appeared to have grown to 400,000 rai (64,000 ha) nationwide. Plodprasop attached six additional conditions, including the use only of degraded land that was already occupied by forest encroachers and that China was to cover all survey and compensation costs (Uamdao 2000a). Dismissing any potential ecological problems, Plodprasop told the Nation, "The trees won't have any effects on other trees because we will plant only eucalyptus and not mix them with other species. It is likely eucalyptus will scramble for water among themselves" (The Nation 10 September 1999).

RFD sees the project as a means to reasserting its control over forest land. In March 2000, at a panel discussion organised by the Thai Society of Environmental Journalists, Plodprasop stated that the project would help the RFD in solving encroachment problems on forest reserve land in the northeast. The company must negotiate with the villagers, and pay compensation to those agreeing to return land, "the department would get back large tracts of forest land without having to spend its own resources". Plodprasop argued that eucalyptus trees consumed relatively little nutrients while producing large volumes of wood. Apparently forgetting that the whole point of the project is to export pulp to China, Plodprasop added that the project would help reduce Thailand's imports of paper (Bangkok Post 20 March 2000).

Several Thai environmental NGOs oppose the scheme. Pakphum Withantiwat, an advisor the Forum of the Poor, Pornpana Kuanchakorn of Project for Ecological Recovery, Surapol Duangkae of Wildlife Fund Thailand and Daycha Siripat, an advisor to the Alternative Farming Network have all expressed their opposition to the scheme to the press. NGOs pointed out the ecological problems as well as the impacts of removing such a large area from farmland (Pennapa 1999) (Uamdao 1999c) (Uamdao 1999b).

Towards the end of September 1999, NGOs organised a seminar entitled "Eucalyptus and the Failure of Thai Forestry". The China-Advance Agro project was the focus of much of the discussion. NGOs pointed out that despite the scale of the project, the contract signing was not transparent, and no details were released to the public. In addition, the project was in contradiction with two Cabinet resolutions: that of the Chatichai Choonhaven government dated 15 May 1990, which temporarily revoked approval to rent degraded forest reserves for eucalyptus plantations; and that of the Anand Panyarachun dated 8 September 1992 which limited the area of national forest reserve that could be planted with eucalyptus to 8 hectares (50 rai) (Krungthep Thurakij 21,22,26 September 1999).

The "degraded" forest areas that the project would convert to monoculture are home to rare birds such as Rufous-winged Buzzard, White-rumped Falcon, Blossom-headed and Red-breasted Parakeets and Fulvous-breasted Woodpeckers (Round 2000). Although an environmental impact assessment would be required for the pulp mill, no study is planned to be carried out of the environmental and social impacts of the plantations (Montri 2000a: 5).

In addition to the NGOs, several government officials have spoken out against the project. In October 2000, the Chachoengsao Provincial Administration Organisation (PAO) filled a petition against the project with the cabinet. Somchai Asschaisophon, president of the Chachoengsao PAO stated that people living in Takiab district and provincial councillors opposed the project (Bangkok Post 4 October 2000).

Forestry officials at Kao Ang Ruenai Wildlife Sanctuary in Chachoengsao expressed their concern about the project to the Bangkok Post, pointing out that there was no further land available for farmers to resettle in once they were moved to make way for eucalyptus (Uamdao 2000b).

In July 1998, Krit Khongpetch, the former Deputy Minister of Agriculture and Cooperatives was reported in the Thai language newspaper, Khao Sod, disagreeing with the proposed Chinese joint venture. He pointed out the likely impacts on ecosystems, especially the impact on underground water and likelihood of drought. He questioned the motives behind the project and asked why China wanted to use land in Thailand when China has a very large area suitable for plantations (Khao Sod 11 July 1998).

Even the head of the Forest Industry Organisation (see section on FIO, above), Prasit Puaktow, came out against the project. "Nobody here is happy with the project because all the 200,000 rai [32,000 hectares] of degraded forest have owners and its not worth selling the land because the project only lasts for 30 years. After that, there's nothing they can do to earn a living" he said to the Bangkok Post (Uamdao 2000b).

In August 2000, Chang Noi (a pseudonym) reported in The Nation that Newin Chidchob the Agriculture Minister had disowned the project during a televised debate with the Assembly of the Poor. Newin said the Chavalit government started the project and that the present government (under prime minister Chuan Leekpai) found it a huge embarrassment and would like to get out of it (Chang Noi 2000).

The current status of the project (in January 2002) is not clear. Villagers in Chachoengsao report that the RFD continues to survey the area, apparently in order to allocate land for the project. Neither the Chinese nor the Thai government has issued any statement stating that the project will be relocated to Malaysia (Rajesh 2001). In May 2001, the Bangkok Post reported that the Ministry of Agriculture had instructed the Forest Industry Organisation to look into the possibility of using its plantations to supply the proposed pulp mill. Under this scenario, the mill could be developed either as a state investment or as a joint venture.

Advance Agro would be a potential partner if the project goes to the private sector, according to the Post (Ploenpote 2001b).

[next page](#)



[Go to Home Page](#)

World Rainforest Movement
Maldonado 1858 - 11200 Montevideo - Uruguay
tel: 598 2 413 2989 / fax: 598 2 410 0985
wrm@wrm.org.uy