

Interview No. 34
Southeast Asia History
George Weyerhaeuser, Harry Morgan and AHJ
July 11, 1977

AHJ

George, how do you remember our initial involvement in Southeast Asia affairs? What was the philosophy that led to us being interested in it, over there?

GHW

Well, I think the primary thing we were interested in was the knowledge that we had a limited life of large and clear timber and there existed a fairly large resource base out in Southeast Asia which we could possibly develop for the purpose of providing large clear logs into various markets. We, over a long period of time, have been, and still are, for that matter, concerned about the changing product mix and declining volume of high quality sawable and peelable timber. How do we find a way, in effect, to extend our supply to various markets of these kinds of materials?

Now back before we were in there, you know, there were a lot of accidents that happened. I suppose that you become acquainted with successes and failures of others in international activities and then timber activities, and I think that this particular entry came as a result of the initiation on Elliott Bay's part. They had some older ownership and wanted to get out of certain parts of their business and, of course, they were close at hand.

I'm not sure about the sequence, but Jon Titcomb had a lot of contacts with them and they did go to both their manufacturing facilities and their timber concessions, but I look at the particular acquisition and point of entry as being perhaps a combination of things, the most important of which is the basic and underlying desire to, as they say, get into the continuation of large timber supply and then follow it by discussions with Elliott Bay about the particulars of their situation. So this is really how many of these things happen - a combination of the desire and interest, and then some accidental contacts and the pursuit of those contacts.

GHW (Cont'd.)

I think the thing that tended to strengthen our position was the fact that we saw a very strong Japanese situation developing, a shortage of materials there, so we expected the markets to - I don't think we were thinking about Europe at all in those days. I think we were thinking about the possibility of developing a timber source to come through into the United States markets for higher grade materials. And then you put that together with our view that, if anybody ought to be able to bring the production operating expertise to bear on big timber and then in the case of the Philippines, not only big timber but big timber and rough terrain, we felt we, as we got into it, that we had the people who knew how to do that and knew how to operate the equipment and build the roads. And we had a high degree of confidence that we not only had the markets but we had the capability of mounting a successful harvesting operation.

AHJ

At some point along the way, we began to recognize that there might be some limitations on softwood timber and we should be looking for this tremendous resource of hardwood timber, I take it.

GHW

And that's a part of a larger pattern, of course. We have been looking about, thinking about, dreaming about tropical hardwood timber as being a resource of the future that's going to be developed. And, of course, the Southeast Asian timber, in general, tends to contain less species and higher grade and more immediate marketability and operability than hardwoods anywhere else by virtue of the relatively high percentages of Lauan and Seraya and Meranti in those stands.

So I think we're looking at a continuing interest, then, in terms of future resource bases in tropical forests, coupled with a desire to, like I said, supplement and replace to some degree, some of the high quality materials that we're not going to be able to produce from our own timber. Now that last desire certainly has not been fulfilled in any great degree. While we are manufacturing and marketing some increasing amount of their lumber products in the United States, we haven't really found the means or the economics to go beyond that in any way.

We have, however, coupled together, through subsequent acquisitions, a supply of timber to the plywood plants in the Far East, to refinishing and marketing the paneling. So that

GHW (Cont'd.)

in that sense, we have produced a substantial quantity of interior paneling which, in some sense, probably has replaced lumber paneling and other plywood panelings, although none of our plywood, or never really very much, went into interior paneling.

So I guess you start with a presence and some markets, operating skills, a desire to expand, and the perception that international sources and markets are becoming more important; and that we've found a company that had a going operation and we were not displeased with what we saw in the way of timber quality. The result of all that was, after a lot of hard work and blood, sweat and tears, a very successful marriage of these various elements.

So I think it is a good illustration of some long-range views being coupled together with a resource base, and I certainly don't want to minimize the very, very critical and difficult steps between the concept and the execution, because I think that in the last analysis what we were able to do was overcome a lot of very, very substantial operating and political and organizational problems to produce the quantity of material that was very much needed. And on balance, we've been very well pleased and rewarded by the overall effort.

Now if you think about the process that we're involved in, I think the process is one of developing additional operations in existing timber stands from which we hope to be able to not only develop products and markets in the immediate term successfully and profitably, but then we hope to be able to manage these tropical soils to produce plantation crops beyond that. Of course, that still is very promising but there are all kinds of political and economic problems that may make that difficult. We're certainly going to be trying to extend those kinds of activities so that 10 or 15 years from now we'll have another cycle of different kinds of products, but on a reproduceable basis coming out of these tropical areas.

I think we felt when we went into Southeast Asia that that was the primary region and that we would be picking up some of the supplies in the developing country and that we had a good chance of being able to make, if not a tremendously large, at least a significant and a long-term part of our overall timber management product activities.

GHW (Cont'd.)

You always have to admit, though, that the particular timing and the particular place in these - you have to find a willing seller as well as a willing buyer, and sometimes the seller is the primary initiator. Maybe he - I think in Elliott Bay's case, and my recollections are not all that clear - but my suspicion is that they had a much more driving interest in liquidating than we did in acquiring that particular property. I think they had both - they had diverse ownership interest, they had different desires as to degree of liquidity.

So, as is often the case when you put together an acquisition, one or the other of the parties has a pretty strong driving interest. And I think it's fair to say, in this case, that Elliott Bay had a more immediate and driving interest than we did, although it matched with our longer-term strategies and desires, and we liked what we saw.

HEM

I think it's difficult to go back and say, "Hey, here is where some things started in Southeast Asia." If you're looking at the beginning, I think you have to think that some of us started with the Columbus Day blowdown. That really turned our thoughts and ideas in a different direction. We started looking, at that time, for a market that would absorb the excess volume that was developing from our blowdown salvage.

It was just a market before that, where lumber, and at that point in time even the lumber market was not all that good. So that pushed us into something different. We had an SRI study about the same time, to know what was going on during '64, '65 and '66, and part of those results had already been made available to us. And they certainly indicated the opportunity there and in Brazil as well. I think as early as '64 we were looking at Brazil. In Brazil, the forests were different and provided different opportunities.

I guess the other was in '65 and '66. I think it started appearing as a higher priority to the top people of the company. We really were going to do something different in the area. So we were looking, during the same time that Kennedy Bay was available. Maybe not as aggressively, but it was - if we went back and looked at discussions with different management groups, we'd find this became the thing - you know. We were changing direction in some ways. How much of that has happened, how much is the result of expert planning, is hard to differentiate.

GHW

I think you're dead right. The combination of things that happened and the awareness that we had of the Japanese situation accumulating post-Columbus onto a very large scale set of activities made us very much aware there were large scale markets out there that could be very attractive. And, of course, the Southeast Asian timber certainly related very closely to Japan as they were the dominant consumer, but it was also these SRI - maybe I'm talking about another set of studies, you remember we also had looked at our diminishing supply of clears.

So from a market point of view, which didn't have anything to do with Southeast Asia, we were aware that our percentage of clear and shop lumber was going to be declining. And we've had, over the years, sort of reiterations of discussions about, "Well, in a diminishing supply, does that mean values are going to escalate faster or slower? Do you reach a point at which your supply is so restricted you can't service the market? And, therefore, were we in danger of having the last of some very valuable large clear logs and trees that we'd have difficulty in servicing the market and might lose the market?"

There was an awareness that there were two areas of consumption that seemed to be large and important and on one of them we felt we were in position to service very well - the U.S. market - and yet we couldn't see all of the raw material supply we were going to need. So there's a pattern of those and then you'd say, maybe the most important element in Elliott Bay itself, in getting us started, was the people element, was really the confidence of Jon Titcomb, for one, forming a conviction that it was a fine opportunity and his judgment as to, "Is it operable?" had quite a little to do with that particular entry.

We were looking, but you get the people equation in there pretty fast because I think the same thing goes with respect to the key people in the logging development and all - the fact that we have confidence in the leadership in that area where, when we look at something, we think we know what we're doing, so can move forward. But if you didn't have some point of view that the markets and the resource made some sense, on a longer-term larger conceptual frame, I don't think we would have been looking, or Jon would have been spending his time out there. After all, Jon at the time was pretty well along in age and not in very good health.

AHJ

Incidentally, we're still looking for, we still haven't found his trip reports which he tape-recorded every evening while he was over there and sent them home. And they would be extremely valuable when we find them. I'm assuming that we will find them somewhere.

HEM

I told Alden my recollection - and this was when we were in the Tacoma Building - was Jon was really the leader assigned, or Jon had picked up the signal. He was the one who continued to have the enthusiasm for this project and for the dollars. And I haven't really looked at it, but Jon was the one who really said, "For those dollars, this is a good buy. This is a good place to be." It was reaffirmed by Bill, and Lowry was much more active, later on in the negotiations. But without Jon's real enthusiasm, and it was contagious, you'd go in his office and he'd put his feet up on the desk and you'd be talking about something else and Jon would invariably end up talking about the enthusiasm and excitement that he felt for this opportunity. That got us all enthused.

It took us longer than we thought, as usual, and people look back now and they assume that it was really a pretty easy matter to move in there and start getting logs into Kennedy Bay and Basilan. But when you look through the letters and reports, it didn't all fall into place neatly and tidily and quickly.

AHJ

Well, sometimes something real good is obscured by the problems that are on the surface and they're obvious and conspicuous and goodness knows there have been problems over there. You and I were talking the other day about it, Harry. It's just a matter of problem-solving. Every day you get up and you solve some new problems over there.

GHW

And even though - here were people who'd been out there a long time and had operated pretty successfully. They had plenty of problems, both people, and then you look at the amount of capital and equipment needed and risk and it was a very big and compelling undertaking for something that was in the condition that Elliott Bay was in at the time. So it was even significant for us, let alone a little company like that.

GHW (Cont'd.)

So if you want to talk about the problems, all the way from capital risk, political risk to the kinds of problems that you're talking about, Alden, that are very, very real, and that is, "Just how do you make something run and work on a day-to-day basis?" Those of us a long ways away, I think, tend to underestimate, what shall I call it, the debilitating influences of the tropics. All of the different kinds of hazards that you run into, whether they be supply, maintenance . . .

AHJ

. . . language . . .

GHW

. . . weather, soil, language, motivation, understanding. You put those together and you say, "Well, what does that add up to?" Well, it added up to a very significant opportunity with a lot of risk, I think. I think Harry's right. When it comes down to it, I'm sure that the original idea, the concept of an entry to the company and these kinds of activities was an underlying base in a group with some of the things we're talking about.

But when you come right down to how did we get from there to a decision to enter, then you're talking about the amount of time and effort and dedication and convictions that a few people brought to us that have certainly put us right up there at the head of the list, because we had confidence in him and his experience and his interests. I've never, to my knowledge, heard any of those tapes, but I have no doubt in my mind about the convictions he brought, from my recollections in talking to him. And, in fact, he carried on a good deal of the negotiations as well, but that's a separate matter. I think the first one was how do we get up to a point where we think this is the right thing for us - the right entry point.

HEM

The difference between this one and Brazil is that we didn't have anyone who felt that Brazil was really a place to go and had enough specifics to say we ought to move now strongly into a location with some people. We really - at one point in time they were almost parallel. I think Brazil was the leader, but not by very much.

GHW

I think a key difference, Harry, there is that when you were talking about Kennedy Bay and entering into the South Pacific, we were talking about going into business in a production-selling mode, and in Brazil we have always approached

GHW (Cont'd.)

it, in contrast, as a place where we wanted to be over a longer period of time with an extensive land base to go. But the difference is that, in the Southeast Asian situation, we found a vehicle where we could really get into business on a paying basis and, in contrast, going into a foreign environment (Brazil) where you're investing over very long periods of time without the operational experience and background, nor the opportunity to generate business as you generate your future, made it much more difficult to get into Brazil.

If we had found some - it could have been a eucalyptus forest, it could have been even down in the pine country, I suppose, in southern Brazil. But when we tried to, we weren't quite prepared to make a large entry into a remote area in Brazil and mixed tropical hardwoods. We could never find - you look for Virola or a little veneer or we looked for some way in which you could get in business on a small scale, but none of them seemed to fit all that well. Whereas here the combination of Japan and the U.S. markets, and the quality of timber, allowed us to get in on a significant scale.

I think someday we'll find that combination in Brazil. We may have to grow it, which introduces a long time period and, when you introduce, then the political risks arise. That's a very different thing than "two years from now, we're going to be in full scale operation." Well, we thought we were, in Southeast Asia. So I think the fact that a going operation was there, and something that we could see and evaluate and get into business with, was important.

AHJ

Okay, this is focused on the very beginning now. There is another little story that occurred a little later on that I've heard from two people, one of them Jed King, I don't remember the other, regarding our entry into Indonesia. And the story has to do with Norton Clapp running into Foreign Minister Adam Malik from Indonesia in Geneva during a trade conference or something. Have you fellows heard of this?

GHW

I don't know that specific. We ought to talk to Norton. But I do know that, once started in that area and then the logical place, as you think about it and look at it, obviously Indonesia was the coming developmental area - was the Brazil of Southeast Asia. Norton has had, continues to have, did then, a strong interest in the Pacific Basin. He later became the Chairman of the Pacific Basin Economic Committee, PBEC - that's not exactly correct - but . . . and I know, in connection with Indonesia, we - I think at that time maybe the foreign development, Sahdli - he participated in San Francisco and other meetings.

GHW (Cont'd.)

I know - I recall spending some time myself with - this was as a result of Bill Allen and his contact with Otto Miller - with the Cal-Tex Standard Cal people, because they had a lot of experience in Indonesia. And I had a couple of sessions with Julius Tahea, who was their top Indonesian in the Cal-Tex situation, to get his feeling of how you would go about doing business in Indonesia.

I think we had an interest - Norton had an interest - and we were started in Southeast Asia. And Indonesia was a logical place to try to go. We've used the next step as being one of sort of background in how do you get into business in Indonesia in an effective way and on a scale that is appropriate to Weyerhaeuser in a developmental. Now we're talking about, if we didn't have the opportunity to go into an existing - sufficiently large - existing operation.

Indonesia at the time was rebuilding and had very favorable foreign investment laws, and yet there were lots of difficulties in getting into business. So we tried to explore those difficulties with the attitude that, with a favorable foreign investment climate - relatively favorable - that we ought to be able to find a timber base there. So we did a lot of scouting. We looked -

HEM

We looked at the DeLong area before he ever did.

GHW

... before he ever did. And we also looked - pretty much I think from an airplane and a data survey - sort of all over. Not just Kalimantan, either. I can't even recall how many years we were at it, but it was several years in the gestation: "Where are the best timber stands?"

Then while we were still looking, in trying, on some other concessions, to develop a foothold, DeLong moved in on this one. Later on, we finally formed the conclusion that this one was better than the ones we've been working on - although we did go ahead with PTWI as a way to establish our presence with the government. That was a direct -

HEM

It secured a position for us.

GHW

. . . with Perhutani. We started in and we said, "Well, it may not be the biggest thing in the world and we may have to take some partners and this and that and the other thing, but we said we're going to go into business in Indonesia through that route." And then later on, we decided to.

I had a very strong desire, for us in Indonesia, to become a full-scale, large and long-term operator. That was - under the best of conditions, our initial entry would have permitted maybe 10 or 12 years at the outside. So we were still trying to look at something larger, more remote and which would be a more appropriate permanent position.

So, here again, Indonesia was a result of a continuing interest over a long period of time. The particular entry was a compromise and we had more trouble with the political aspects of getting into Indonesia than anything else. Finding that resource base, planning how to deal with the various provincial, army, governmental, investment laws. It was very difficult and the large scale concession that was finally - we did in effect have to buy out the existing operator and the Japanese trading companies that, in effect, did a good deal of the financing, in terms of the marketing.

We wanted freedom of action, large scale and longer-term. We found all of those possible. But it did follow from a continuing interest in the area, following the original entry into Southeast Asia and, more particularly, a strong interest in Indonesia, which I think our prognostications indicated, and were later proved correct, was going to be the principal supplying country for this type of material.

HEM

Fine. Can you - No. 1, I guess, are you able to put together a chronology of major events yet, Alden, or are you waiting until we get a little further along? I'm just curious in my own mind as to when we first made - what you can find in our letters. These are the '68 - there's nothing in here that I can spot, when we first made those initial visits to Balikpapan and we went from just a concept to an actual action on the first trip. Weren't you involved in this yourself?

AHJ

The Kennedy Bay transaction?

HEM

No. When we first started moving into Indonesia.

AHJ

Yes, I was there in 1970. That was seven years ago.

HEM

I was trying to think, when did someone go there initially?
It was before that.

GHW

Yes.

AHJ

About '68 or '69.

HEM

That's just what I was thinking. It had to be late '68
or very early '69.

AHJ

Right.

GHW

Ivan and Jackson Beaman, it was. And then I'm not sure
what the dates were on the Perhutani, PTWI actual. I think
it was '69 or, '68 or '69.

AHJ

It was '69, I'm sure. It may have been as early as '68,
maybe later in the year. But before I went over there for
nine months in 1970 I had been over there on a short trip
in '69. I went to Balikpapan. That's what you're referring
to. So shortly before that we made our first move in that
direction. Whether it lapped over in '60 I'm not sure.

HEM

The incredible thing is that, in looking back, you know,
you segregate those in your own mind - the Kennedy Bay-Milbuk
was kind of one thing, but then you imagine there were a
good many years before we did anything else. And it was
really not true. I think it was '65 to '68, a lot of things
happened there, in a relatively short period of time.

GHW

We had been working with the Indonesia government, of course,
the Forestry Agency and trying to find a place. They had
a number of different areas. And we did quite a bit of
data-gathering and flying and talking with the government.
But behind that we really were trying to find, all during
that period of time, following the entry into Kennedy Bay,
access into Indonesia in a major way.

AHJ

Back to your question, Harry, I haven't attempted to extract the chronology but I have complete confidence that it's there, from discussing it from different points of view with different people. I think we'll be able to come up with a calendar with dates on it where different things happened in a progression. I am hopeful, as indicated to you earlier today, that we may be able to catch Lee Jacobsen coming home from Brazil on a vacation this summer. And he, as well as anyone, would be able to fill in the dates on this - because he overlapped from the old Kennedy Bay operation - in a few hours. A few people like Lee should be able to tie this together for us, I'm sure.

GHW

Yes, I think that's accurate. He was active in "where and how" we might get started down there and the other thing I suppose is to find - in addition to these areas, we've talked a lot about the Philippines, but I don't know, even preceding all of this, I can't do it as to dates. But I know that I talked to Jon Titcomb and others about various possibilities in the Philippines. This was - I guess, way back in history, there have been various Philippine operations that, for one reason or other, they had found some success and might be looking for partners or disposition. And there were three or four companies in the Philippines, I can't even name them, that we had at least speculated about as being possibly of interest, prior to all of this. So, I guess what we're talking about really is kind of a 15-year or maybe even a 17- or 18-year pattern of some degree of investigation and interest discussion.

AHJ

But we need to try to identify those, I suppose, or at least a brief touch of our initial interest, even though nothing much came of it.

HEM

Excuse me, I just had a thought. Who was - was Kay Jon's secretarial support?

GHW

Yes.

HEM

Did anybody try to reach her to see if she knows where the tapes are at?

AHJ

I haven't, Harry. I will talk with Blanche or someone and see if they will do that.

GHW

I got a letter from Kay just the other day, so we know where she is if we want to contact her.

HEM

She might have some particular repository or some idea where they might be.

AHJ

Okay.

GHW

I think Kay was Jon's and my joint secretary, during that entire - he had her first. I adopted her.

AHJ

Well, George, before we run out of time, do you have any personal experiences in any of your travels over there, that would be well to have in our chronicle here?

GHW

Oh, I don't think so. I guess my personal and on-the-ground involvement was primarily related to Indonesia because, with respect to Kennedy Bay, apart from the Elliott Bay people and the discussions with Jon, we already had acquired it before I ever got out there for any particular contact with the deal in the Philippines and in Sabah. I guess my recollections are more slanted in the Indonesian direction because of what I consider to be rather exotic discussions with the Minister of Agriculture and Mr. DeLong. I'd have to say, I've seen a lot of unusual people in my life and unusual situations, but Indonesia has to be, dealing with the Indonesian government, has to be different than anything that ever happened to me. I guess Mr. DeLong has to be different than pretty nearly anybody. My impressions are sort of meshing a Jed King, Jon Titcomb, DeLong and some Indonesian officials. I suppose I ought to add Jackson Beaman, probably.

HEM

John Ireton would be hard to leave out.

GHW

Ireton and Emmett. But, Alden, I don't really - you know, my contacts were all sort of either negotiation or governmental or office type, you know. I didn't ever really spend any time out there in the midst of things. So they're not too pertinent.

HEM

Well, this - I've already spilled the beans on our part of the trip out there when you and I and Charley went out there in the helicopter, and they were going to shoot at us coming into Milbuk.

GHW

That was exciting, all right.

AHJ

Exciting for a while. I am not serious, but I could write a whole chapter on helicopter experiences over there. We've been through some dandy ones, in addition to this one. The one the Ziles were in, you know. Apparently, a piece of baggage shook loose and jettisoned and caught the tail rotor and broke it off so the machine started spinning like a top up there and came on down.

GHW

They came down without a tail rotor?

AHJ

That's right, but there've been a number of them.

GHW

Well, I heard a fascinating story. I don't know whether you told it to me or who - somebody - about, I guess it was when they cracked up the Indonesian helicopter. The new pilot hadn't received his clearance papers to fly it.

HEM

No, I hadn't heard that.

GHW

He cracked it up, out in the woods and they sort of covered it all up and left it out there and hoped nobody would find it. And he came back and then reported, after he got his papers, his approval to fly it, afterwards. They then reported an accident and took the people out and they said they made it sound very difficult. They told him he was going to have to walk five miles and this and that and made it very difficult for him to get there because they were afraid he would be able to discern that it had been down there a while. So the government guy that came down to investigate the accident, after the fact, at least weeks and maybe a month or so, never bothered to actually go check it. They managed to keep him from going to the scene of the crime, and he wrote up his report.

HEM

I hadn't heard that.

GHW

Yes, I don't know who told me that. That's hearsay evidence, but . . .

HEM

A lot of it is hearsay - some of the best ones are.

GHW

Well, we used to run into various people and the buyers around the Southeast, as I recall.

AHJ

Well, does that about cover it this time, then, fellows?

GHW & HEM

I think so.

AHJ

If so, I'll turn off my machine here.