

THE RISE AND FALL OF A CRONY CORPORATION

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The eventual collapse of a pulpmill described as a "crony corporation" is analyzed in terms of factors internal to the organization, e.g., mechanical or technological defects, limited supplies of raw materials, and other operational problems in pulping and logging. The author argues that the project proponents were more interested in securing the multi-million dollar loan than in seeing the project through.

Introduction

The Cellophil Resources Corporation (CRC) was a business enterprise established in 1973 to engage in pulp production in Northern Luzon. It was part of the Herdis group of companies organized by Mr. Herminio Disini, a close associate of then President Ferdinand Marcos. In the same year, Cellophil, using its political clout, acquired a logging concession covering vast tracts of forestlands in the Cordillera.

Three years later, Cellophil, with government guarantee, obtained a multi-million dollar loan from international banks for the construction and erection of a pulpmill in the province of Abra. In 1978, it became a state corporation by virtue of an order from President Ferdinand Marcos divesting its owners of its corporate stocks in favor of the state. Despite a multimillion dollar investment in French technology and equipment, and despite massive infusion of capital from the state, Cellophil never produced pulp on a commercial scale.

Moreover, Cellophil's acquisition of vast tracts of forestlands in the Cordillera to serve as its raw material base encroached on the

ancestral domains of the indigenous people, especially those of the Tinggians of Abra. It ignited a rebellion led by Catholic priests who eventually joined the the guerilla bands of the New People's Army. Cellophil's rapid growth in the 70's was oustripped only by the ire of the people negatively affected by its operations. Its collapse has been popularly attributed to operational disruption caused by armed attacks staged by the rebel New People's Army.

But were there other reasons internal to the organization that brought about its own collapse? This paper discusses and analyzes the factors that brought about the downfall of this crony corporation.

The Pulpmill

Cellophil's main product was pulp which was to be extracted and processed from Benguet pine trees abounding in the rugged and steep mountains of the Cordillera. Together with its sister corporation, the Cellulose Processing Corporation, Cellophil's logging concession area covered 198,795 hectares to form the raw material resource base for its pulping operations.

On Feb. 9, 1976, Cellophil entered into a contract with a French corporation, *Spie Batignoles*, for the construction and erection of the pulpmill on a turnkey basis in the province of Abra. The pulpmill, as stipulated in the Supply and Engineering Contract, was guaranteed to produce a daily output of 200 air dry metric tons (ADMT) of pulp³ daily and an annual output of 66,000 ADMT.

The cost of the pulpmill was US\$75,196,000 in French, Belgian, and Swiss Francs⁴ loaned out by a consortium of European banks. The total costs of the project guaranteed by the government, including escalation costs and interests pegged at the Euro currency markets of the London Interbank (LIBOR) rates, was US\$130 million.⁵

On Dec. 3, 1979, *Spie Batignoles* finished the physical construction of the pulpmill. After a year of operation, the pulpmill consistently failed to reach the minimum daily⁶ guaranteed production output of 200 ADMT. Moreover, the plant could not be operated for two consecutive days without a major breakdown or stoppage. Whatever pulp was produced during that period was below international standards; it contained plenty of impurities or shives.⁷

The multimillion dollar pulpmill operated from 1979 to 1984. It fell short of the daily rated output and the annual guaranteed output (see Table 1).

Benguet Pines

One reason for the failure of the pulpmill could be attributed to mechanical defects. A Canadian consulting operation estimated that it would take another US\$2.8 million to modify the French pulpmill and remedy its deficiencies.⁸

But there were other reasons for the failure, chief of which was the mismatch between the French technology and equipment

and the wood supply for pulping. French pulping technology was suited for 20 year old plantation pines but not for the century old Benguet pine trees of the Cordillera. For instance, during the pre-treatment stage of the pulping process, the chippers constantly broke down because the metallurgy of the knives were ill-suited for the wood chipped.⁹ Moreover, the massive logs had to be manually chopped before they could be fed into the chipper which was designed for¹⁰ plantation pines with a diameter of 20-30 cm.

Table 1. Annual Pulp Output

Annual	ADMT	Daily	ADMT
Rated:	66,000	Rated:	200
1980:	16,400		130-135
1981:	3,200		130-135
1982:	none		none
1983:	10,200		150-160
1984:	none		none

Source: Culled from Cellophil records.⁷

During the pulping stage, the nature of the wood supply bred a number of technical problems that resulted in longer cooking hours and an increase in wood to pulp ratio. Older trees had more heartwood than sapwood and were harder to cook through the alkaline process employed by CRC because of their high acidic resin content. CRC had three digesters which could cook pulp 19 times a day under ideal conditions. Under actual operating conditions, however, CRC could cook only 16 times a day. The wood to pulp ratio increased to 5 cubic meters of wood for every one ton of

pulp from the projected 4.5 cubic meters. Under these conditions, the daily rated capacity of 200 ADMT could not be generated.¹¹

Another major cause of the breakdown of the pulpmill was the clogging of the screens during the post treatment stage of pulp production. As the CRC mill supervisor commented:

The numerous holes in the screens were apart from each other by a pitch distance of 3.2 mm. The fiber length of the Benguet pines were 4.4 mm. The clogging occurred when both ends of the fiber entered two holes. The screen was designed for younger trees with shorter fibers.¹²

The mismatch between the trees and the technology was a major factor which contributed to the failure of Celloghphil to reach the guaranteed daily output of 200 ADMT.

Raw Material Supply

But even if the pulpmill operated perfectly and did not experience breakdowns or stoppages, Celloghphil would have faced tremendous difficulty producing pulp on a commercial scale. To produce 66,000 ADMT, the wood requirement was 330,000 cu. m. Table 2 indicates that Celloghphil was nowhere near its target at any point in time:

Table 2. CRC Logging Output

	(cu.meters)
1978	61,646.55
1979	45,740.16
1980	101,577.72
1981	3,589.64
1982-1983	19,068.71
1984	23,507.65
1985	12,753.00

Source: CRC Annual Concession Reports

The Tinggian opposition to Celloghphil, the failure of the river driving operations, the rugged terrain and the armed attacks staged by the New People's Army were the major factors that contributed to Celloghphil's inability to procure enough wood supply.

At the onset of Celloghphil operations in the mid-70's, opposition to Celloghphil hampered its logging activities and denied the corporation access to some of the areas in the logging concession. The Tinggians led by Fr. Conrado Balweg were initially opposed to Celloghphil because they feared that they would be driven out of their ancestral lands.¹³

In the course of CRC logging operations, even the mayors of Abra and leaders of the government-initiated peace pact association protested against the negative environmental impact of deforestation. In a joint resolution, they decried the massive soil erosion, destruction of irrigation systems, pollution of rivers, the death of fish, the loss of water for drinking and washing of clothes, and the marked decrease of produce from ricefields.¹⁴

A major factor which contributed to the insufficiency of wood supply for CRC's pulping operations was the failure of its river driving operation. CRC's scheme was to float the logs from the mountains through the interlocking rivers of Abra down to the pulpmill in Tayum, Gaddani which was built near the Abra River. The scheme was a massive failure. Thirty percent of the logs sunk, and half of these could not be retrieved because the retrieval system built at a cost of several millions did not work. Manual retrieval was next to impossible because of the strong currents of the Abra river. Many of the logs ended in the China Sea. During summer months, some portions of the rivers in the uplands were dry and logs could of course not be floated down.

In 1981, when two typhoons swept Abra, 30,000 cu.m. of cordwood came tumbling down

from the mountains, some destroying Tinggian fields and the rest ending up in the China Sea.¹⁵ By 1983, due to massive financial losses, CRC closed down its river driving operation, leaving behind 13 million pesos worth of inventory in the mountains.¹⁶

The very rugged terrain made logging very difficult and log hauling a very costly operation. Transportation costs rose by as much as 25 percent. Commenting on the viability of the pulpmill operation, a government official said that Cellophil's pulping operation was akin to making hamburgers out of prime steak. More revenues could be generated if the prime logs were exported rather than pulped.¹⁷

The NPA contributed to the paralysis of CRC by staging an attack on a Cellophil camp in Lamunan, Abra, sometime in the first week of August 1982. NPA guerrillas shoved a bulldozer down a ravine, burnt three logging trucks and confiscated a number of chain-saws, radios and other logging equipment. A nearby plantation was razed to the ground. A week later, Cellophil temporarily suspended its operation.¹⁸

Another armed attack was staged by the NPA in December, 1983 on a Cellophil camp in Ting, Abra. Logging equipment worth P3.2 million was destroyed.¹⁹

Long Term Operational Sustainability

The sustained and long term operational viability of Cellophil would still be questionable even if the corporation did not encounter operational problems both in pulping and logging. The original volume of pure pine strands in the concession was estimated at 6.3 million cu.m. but because of legal and operational constraints, extract volume was pegged at only 2.7 million cu.m. Legal constraints refer to areas off limits to logging

and watershed areas. Estimated pine volume in these areas was estimated at 2.8 million cu. m. Operational constraints meant areas which could not be used for logging since the hauling distance makes the operations economically unfeasible. This amounted to .8 million cu. m.²⁰

In 1981, if CRC continued its operation and could theoretically log 330,000 cu.m. of wood, the raw material supply in the the concession area would be consumed in five years.²¹ By this time the multimillion dollar loan for the pulpmill would not have been fully paid yet by Cellophil.

If the company were to log even in areas prohibited by law, an action made possible with the issuance of Letter of Instruction No. 1132 by Pres. Marcos empowering Cellophil to log even in these restricted areas, the supply would have run out in 11 years. By that time, no pine trees for a second cycle of cutting would be available. Benguet pine trees would need at least 18 years before they can be harvested. It was estimated that 1991 would be the first year when a second cycle of trees would be sufficiently mature for cutting and harvesting.²²

After it assumed control of CRC, the government tried to run the operation on a smaller scale of production to stretch the available wood supply. But due to high manufacturing costs and to the mounting interest of CRC's financial obligations in the 80's, the prospects of profitability were dim. Projections for a reduced capacity operation showed a declining negative loss of 222.24 million in 1981 to 22.5 million in 1990.²³ But short term loans were needed to prop up the operation even on a reduced output basis inasmuch as Cellophil had not realized any commercial sale of pulp.

But by 1983, after the assassination of Sen. Aquino, access to loans in the Philippines dried up. The international financing community lost confidence in the government of Ferdinand

Marcos.²⁴ In 1984, the Cellophil pulping operations ground to a halt.

After the EDSA revolution, Cellophil's logging concessions by the then Department of Natural Resources and the corporation were placed under the Asset Privatization Trust (APT). Today, the pulpmill juts out like a sore thumb in Abra, a mute testimony to the debacle in the Cordillera brought about by greed, abuse of power and incompetence of Marcos and his cronies.

Conclusion

Evidence indicates that the Cellophil business operation was ill-conceived and ill-planned. Detailed feasibility studies were not seriously and rigorously undertaken. How such dubious project could pass the scrutiny of local and international bankers is outside the scope of this paper's discussion. But it is not hard to imagine that the proponents of the project were more interested in securing the multi-million dollar loan than in seeing the project through. The founder of Cellophil is the same Mr. Herminio Disini who made US\$80 million from the infamous Bataan Nuclear Power Plant deal.²⁵

Business ventures such as the Cellophil pulpmill project were commonly undertaken during the Marcos regime by presidential associates who amassed fortunes through favored loans, business contracts, and commissions. Many of these ventures eventually collapsed, and government was ordered to bail these cronies out through corporate take-overs. Tragically, it is the Filipino people today who should shoulder the burden of paying these debts to international financial institutions.

Notes

¹Corporations owned by associates of then Pres. Ferdinand Marcos. For an insight into the workings of

"crony capitalism", see Emmanuel De Dios, ed. *An Analysis of the Philippine Crises: A Workshop Report* (Quezon City: University of the Philippines, 1984). See also Gary Hawes, *The Philippine State and the Marcos Regime: The Politics of Export* (Ithaca: Cornell University Press, 1987).

²Timber and Pulp License Agreement (TPLA) Nos. 261 & 268, Dept. of Agriculture and Natural Resources, Oct. 5, 1973 and March 11, 1974.

³Herminio Disini and Dominique Degot, Supply and Engineering Contract, February 9, 1976, Makati.

⁴Ibid. Art. XIV, Secs. 1-3, pp. 14-15.

⁵From a 27-page CRC financial document (without title) containing detailed information on CRC loans from European banks.

⁶The failure of the multimillion dollar pulpmill became an international legal and diplomatic issue which remains unsolved to this day. See Benjamin Bagadion, Jr. "The Cellophil-Spie Batignoles Controversy." Paper prepared for Gov. Vicente Valera, Abra, 1988.

⁷Oscar Carunungan, Cellophil Vice President for Operations (1983-1985), an interview by author, Muelle de Industria, Tondo, Manila, June 8, 1988.

⁸(Stadler Hurter) "Deficiencies in the CRC-Tayum Pulp Mill, 15-22.

⁹Report of Claudio Altura, CRC President on the chipper breakdown, Minutes of the Board Meeting, Aug. 2, 1980, 2.

¹⁰Forester Balbin, interview by author, Mudiit, Dolores, Abra, June 11, 1988.

¹¹Ponciano Villaber, Letter to author, January 8, 1989, Mabalacat, Pampanga.

¹²Ponciano Villaber, interview by author, Cabanatuan, Nueva Ecija, June 22, 1988.

¹³For a detailed discussion, see Philippine Association for Intercultural Development (PAFID), "The Cellophil Resources Corporation and the Tinggians of Abra," Nov. 2, 1978, report prepared by a PAFID team composed of 12 anthropologists. See also Richard Dorral, "The Tinggians of Abra and the Cellophil: A Situation Report," written for the 2nd National Congress of the Ugnayang Pang-Aghamtao (UGAT), Inc., April 22-24, 1979, Baguio City.

¹⁴The Highland Mayors' Association (HIMAS) and the Assosasion Dagiti Kana-keman A Lallakay Ken Ageg-eggem ti Peace Pacts iti Abra (ALKAPPIA) Joint resolution No. 1, May 10, 1980.

¹⁵Estimate by Stadler Hurter.

¹⁶Cellophil Resources Corporation, Minutes of the Annual Stockholders' Meeting, Makati, May 25, 1984.

¹⁷Director Salvador Batcagan, interview by author, Manila Domestic Airport, Feb. 23, 1988.

¹⁸"CRC Halts Wood Operations," Rangtay 5 (8), August 1982.

¹⁹Cellophil Resources Corporation, Minutes of the Annual Stockholders' Meeting, May 25, 1984.

²⁰Stadler Hurter, "Strategic Study for the Tayum Mill," Oct. 29, 1980, p. 44.

²¹A factor of 30% is deducted from the pine volume to inaccurate inventory, seedlings, losses, etc.

²²Ibid.

²³Ibid., 24

²⁴See De Dios.

²⁵See Belinda Aquino, *The politics of plunder: The Philippines after Marcos* (U.P., CPA, 1987) 48-49.