COMPANY HISTORY

1906–1910

ORIGINS OF THE BUSINESS

The present business of R.E.A. Holdings plc, and the initials in the company's name, have their origins in a London plantation agency house called The Rubber Estate Agency Limited, established in 1906.

In today's era of air travel and electronic mail, it is easy to forget that in the early 1900s the transmission time for communications from the UK to overseas territories was very slow – a letter from London to South East Asia typically took six weeks. It was therefore not easy to establish a new plantation and investors looked to London agency houses to set up and operate the plantations in which they were investing. The agency houses provided executive management, regular reporting, procurement of supplies, marketing of produce, and secretarial and all other necessary administrative services.

Although by 1906 there were already several established eastern merchants based in London and providing plantation agency services (including such well known companies as Harrisons & Crosfield, and Guthrie), it is believed that the Rubber Estate Agency was the first UK company to be established for the specific purpose of financing the acquisition of rubber estates and of acting as secretaries and agents of rubber and other plantation companies. Its dedication to this single sphere of activity reflected the confidence of its two founders, William de Bois Maclaren and Frank Copeman, in the future of plantation agriculture. Such confidence derived from the founders' involvement with the India Rubber Journal a leading journal of the rubber industry published by Maclaren & Sons, a publisher of which the founders were the sole partners.

After an initial venture in Brazil, the Rubber Estate Agency was to concentrate mainly on the development of plantation properties in South East Asia. In 1907, the Agency commenced business in the Dutch East Indies (now Indonesia), with the establishment of Java Rubber Plantations Limited, which was formed to acquire the Sumber Tengah rubber estate from Dutch interests.

Further plantation companies followed in rapid succession and, by 1910, the Rubber Estate Agency had established a substantial portfolio of agency clients and had extended its geographical reach to Malaya (now Malaysia). With rubber reaching a price of 12s 10½d per lb (136p per kg) in 1910 (a peak not subsequently exceeded for more than ninety years), rubber plantations were very profitable and many of the Agency's client companies were publicly floated on the London Stock Exchange.

1911–1930

THE ANTWERP CONNECTION

Notwithstanding some slowdown during the period of the First World War, growth continued throughout the next two decades with steady expansion of the Rubber Estate Agency's client base and the promotion and flotation of several new plantation companies under the Agency's administration.

Of particular significance during this period was the sale, in 1919, of control of the Rubber Estate Agency to the Societé Internationale de Plantations et de Finance (later shortened to 'Sipef'), a company originally associated with the Antwerp trading house of Bunge & Co, with which a connection had been formed in 1909 when the Agency and Bunge & Co had jointly established the Eastern International Rubber & Produce Trust Limited to act as an investment trust investing in rubber related businesses. Although Sipef was later to divest its shareholding in the Agency, R.E.A. Holdings still enjoys cordial relations with Sipef, now a substantial listed Belgian plantation group, retaining significant interests in Indonesia.

1930–1950

THE GREAT DEPRESSION AND THE SECOND WORLD WAR

During the 1930s, rubber prices fell to very low levels causing great difficulty for the Rubber Estate Agency's client plantation companies. In many cases, harvesting was stopped and estates were reduced to care and maintenance only. Prices recovered in the second half of the decade, but the benefits of this recovery were short lived. Following the onset of the Second World War, much of South East Asia was occupied by Japan and all control over the estates in Malaysia and Indonesia was lost.

After the end of the war, the Malaysian estates were rapidly returned to their former owners but, in Indonesia, the struggle for independence meant that it was not until 1950 that foreign owners were able to reoccupy their former properties.

1951–1960

THE POST-WAR PERIOD

Operating conditions in Indonesia proved difficult in the immediate post-independence period under President Sukarno. In particular, expatriate managers had to contend with regular shortages, highly restrictive exchange controls and constant security issues. Malaysia too had its problems, with rubber planters finding themselves strategic terrorist targets during the Malay emergency. Such problems were balanced by the commercial situation, which was very favourable, with rubber demand generated by the Korean war pushing rubber prices to ever higher levels.

Thus, notwithstanding the difficulties, the Rubber Estate Agency recovered its losses of the war years and became increasingly prosperous. By the end of the decade, clients of the Agency had over 100,000 hectares under cultivation.

1961–1980

THE DECLINE OF THE AGENCY BUSINESS

In 1964, control of all UK-owned estates in Indonesia was taken over by the Indonesian authorities. Following the accession of President Suharto to the Indonesian presidency in 1968, UK companies had an opportunity to resume control of their former properties but none of the Rubber Estate Agency's client companies took advantage of this opportunity. The result was that the Agency's entire business in Indonesia was lost. As if this major blow was not enough, the Agency was then also to lose its entire Malaysian business, although for different reasons.

Increasing prosperity in Malaysia during the 1960s brought with it interest from Malaysian investors and entrepreneurs in investing in, and acquiring, Malaysian plantations. This led, over a period of a few years from the late 1960s into the early 1970s, to the sale to Malaysian owners of many formerly UK-controlled plantation companies. Some established London agency houses, which had protected themselves by acquiring substantial shareholdings in their listed client companies and establishing cross-holdings between those companies, were able to withstand the onslaught of takeover approaches from the East, but the Rubber Estate Agency had only modest share interests in its agency clients and those client companies were thus an easy target for takeover. When a period of steady attrition in the Agency's base of smaller clients was followed by the loss of the Agency's flagship client, Kuala Lumpur Kepong Amalgamated Limited (subsequently to form the nucleus of what is now Kuala Lumpur Kepong Berhad), it became clear that the decline in the Malaysian business was terminal.

Although the Rubber Estate Agency probably did not anticipate the speed with which its main agency activities would decline, it had taken steps over the years to establish a limited base of UK businesses independent of the agency business. When the agency business finally disappeared, the Agency was thus able to carry on trading. However, the heart of the business had been lost and many older staff elected to retire.

Accordingly, in 1979, the then shareholders decided to sell the Rubber Estate Agency. The buyer was a parent company of Gadek Indonesia Limited, a company that had commenced business in Indonesia in 1974 with the acquisition of a rubber estate in North Sumatra (which, by coincidence, had formerly been owned by a client company of the Agency) and had subsequently built up other plantation interests in Indonesia. The new association of the Agency with Gadek Indonesia thus restored the Agency's historic connection with plantation agriculture in Indonesia.

1981

FORMATION OF THE REA GROUP

A reorganisation in 1981 resulted in the businesses of the Rubber Estate Agency and Gadek Indonesia coming under the ultimate ownership of the company now called R.E.A. Holdings (although that name was adopted some time after the reorganisation had been completed).

Prior to its involvement with the Rubber Estate Agency and Gadek Indonesia, the R.E.A. Holdings company had had a long but separate history as a holding company of various plantation companies growing tea in Sri Lanka (formerly Ceylon). However, by 1981, the tea interests had long since been lost through nationalisation and, much as with the Agency, the business of R.E.A. Holdings had been reduced to a few small businesses derived from what had originally been diversifications.

The REA group as now constituted may be said to date directly from the R.E.A. Holdings' 1981 acquisition of the Rubber Estate Agency and Gadek Indonesia. Although the REA group was for much of the succeeding 20 years to continue to operate businesses deriving from the non-plantation interests held in 1981 by the combining entities, the principal focus of the group since 1981 has always been its plantation operations with the Indonesian component of those operations the mainstay.

1982–1989

THE TASIK PROJECT

An important step in the development of the REA group's latter day Indonesian interests was the commencement in 1982, under REA group management, of the Tasik project, a scheme for the development of a new oil palm estate on a 6,000 hectare concession in North Sumatra. This project was sponsored by R.E.A. Holdings and two other UK plantation companies, Plantation & General Investments plc and Anglo-Indonesian Corporation plc. This last company had earlier been associated with the Rubber Estate Agency, but the association had been lost in 1970 when a management disagreement within the Agency had resulted in the departure of two directors of the Agency who, on leaving, had been permitted to buy the Agency's shareholding in Anglo-Indonesian.

Anglo-Indonesian had had a very long association with Indonesia. Under its former name of Anglo-Dutch Plantations of Java Limited, it had, prior to 1964, been the holding company of P & T Lands which was one of the earliest Java-based plantation companies. Indeed, the land holdings of P & T Lands had included land grants made by Sir Stamford Raffles in his capacity as governor of Batavia (now Jakarta) prior to the colonial land swap that resulted in the ceding of Singapore to the UK and the transfer of Raffles to become governor of Singapore.

The significant Anglo-Indonesian contribution to the Tasik project was to provide the land upon which the project was to be developed. This land formed part of a total concession area of 25,000 hectares that had been allocated to Anglo-Indonesian in part compensation for the nationalisation of the P & T Lands company.

Although in February 1979, the Indonesian authorities indicated their approval in principle of proposals for the syndicated development of the Tasik project (which had initially contemplated eventual development of the whole of the Anglo-Indonesian concession of 25,000 hectares), the Indonesian government shortly thereafter sought to reallocate the Anglo-Indonesian concession to an Indonesian state plantation company.

Fortunately, in October 1979, President Suharto was to make a state visit to London and during the visit a representative of Anglo-Indonesian was invited to attend a lunch for the President hosted by Margaret Thatcher at 10 Downing Street. Over the lunch the President was prevailed upon to record on a scrap of paper his agreement that 6,000 hectares of the original Anglo-Indonesian concession area be reallocated back to Anglo-Indonesian and the Tasik project was thus able to proceed on this returned area.

Substantial areas of the Tasik project were planted up over 1983 and 1984 and with the development of the project expected to be completed by 1986, the REA group, Anglo-Indonesian and Plantation & General agreed to amalgamate their interests in the project, together with their other Sumatran plantation interests, under the umbrella of a new holding company, Anglo-Eastern Plantations plc. In what is considered the first post-war public offering of a new UK plantation company, Anglo-Eastern was listed on the London Stock Exchange in April 1985.

Despite careful attention in the public offering prospectus to 'Risk factors', the directors of Anglo-Eastern were obliged to record, in the Anglo-Eastern annual report for 1986, an unanticipated setback:

"A serious problem encountered in the first half of the year was that of elephant incursion. Some elephant damage had been sustained in earlier years but this was not at a level to warrant serious concern. Without warning, however, the frequency and degree of damage increased markedly to the extent that on one particular night early in 1986 a herd comprising over 50 elephants was noted on the estate and damage over a period of six months resulted in some 10 per cent of young palms being destroyed."

Fortunately, the problem was brought under control by construction of elephant fencing along the exposed boundaries of the Tasik area. This proved effective in causing the straying elephants to return to their traditional trails while resupplying of lost young palms ensured that no irreversible damage was sustained.

Not long after the flotation of Anglo-Eastern, Anglo-Indonesian became a subsidiary of Plantation & General and the principal shareholders of Anglo-Eastern were thus reduced in number from three to two.

In 1989, the REA group decided to withdraw from Anglo-Eastern and sold its Anglo-Eastern shareholding to Plantation & General, triggering a requirement for Plantation & General to make a takeover offer for Anglo-Eastern. An interesting aspect of this offer was the inclusion of a 'golden hold-fast' payment, which comprised an offer of a small cash payment to those Anglo-Eastern shareholders who agreed not to accept the Plantation & General offer. This was successful in inducing external Anglo-Eastern shareholders to keep their Anglo-Eastern shares in numbers sufficient to permit Anglo-Eastern to remain eligible for listing. Anglo-Eastern's London listing was therefore retained and continues to the present day, although Anglo-Eastern is no longer a subsidiary of Plantation & General (now called "PGI Group").

1989–2007

ESTABLISHMENT OF THE EAST KALIMANTAN PLANTATION OPERATIONS

The sale of its interest in Anglo-Eastern provided the REA group with significant cash resources. The group resolved to reinvest these monies in establishing a new, single site, large-scale oil palm scheme in Indonesia. To this end, in late 1989 the group set up an office in East Kalimantan, at that time one of the less developed provinces of Indonesia, and commenced negotiations to obtain a land concession. Although initial progress was slow, by 1991 provisional allocation of a suitable site had been obtained and, in 1992, the first nurseries were established.

The East Kalimantan plantation operations were initially set up under the ownership of a Jersey company, Makassar Investments Limited. This company was used as a vehicle for the initial funding of the operations. Such funding was raised in the form of equity and preference capital with the REA group providing half of the initial equity and the balance of the equity and the entire preference capital being provided by third party investors.

In 1996, Makassar began supplementing its shareholder capital with bank finance raised locally in Indonesia but, in late 1997, with the project development proceeding apace but no plantings yet in production, a serious reverse occurred. Economic destabilisation in several parts of South East Asia spread to Indonesia and led, in early 1998, to political destabilisation and the resignation of President Soeharto. Much of the Indonesian banking industry became insolvent, foreign capital was withdrawn and the Indonesian rupiah collapsed. For a time, it became virtually impossible to raise debt finance for investment in Indonesia. This meant that additional debt funding facilities upon which the East Kalimantan plantation operations had been relying did not become available and the operations were forced to rely on equity and equity related financing.

Initially, the burden of providing such further funding was shared between the owners of the Makassar equity but, by early 2001, with a continuing need for capital to fund the operations and the negative trading factors of a lower than expected build up in crops and a temporary fall in palm oil prices, the REA group increasingly became the underwriter of last resort of the operations' capital requirements. This led to a series of transactions over the period from 2002 to 2006 whereby the REA group acquired all of the third party investor interests in Makassar. As a result, Makassar is now a wholly owned subsidiary of R.E.A. Holdings and, apart from 5 per cent local investor participations in certain Indonesian plantation subsidiaries of R.E.A. Holdings, the East Kalimantan plantation operations are wholly owned by the REA group.

Recognising the potential of the East Kalimantan plantation operations and the prospective benefits from ultimately basing the future of the REA group entirely on those operations, the REA group concluded in 1998 that it should divest all of its other plantation interests together with the various non-plantation interests that derived from the original pre-1981 diversifications of the Rubber Estate Agency and R.E.A. Holdings. The divestment programme was completed in 2002.

As the Indonesian economy recovered from the difficulties of late 1997 and its aftermath, the REA group found that it was again able to access equity capital through the London Stock Exchange and several issues of equity or equity linked securities were made for cash over the period 2001 to 2007. Capital raised from these issues was augmented from 2005 onwards by issues of listed dollar and sterling bonds and of preference shares. This permitted the REA group to support the further expansion of the East Kalimantan plantation operations and to complete their establishment as the solid base for the future development of the REA group that they now represent.

2008–Present

RECENT INITIATIVES

Methane capture

During 2012, the REA group completed construction of and commissioned two methane capture plants as a measure to reduce both costs and the group's carbon footprint. The methane capture plants are generating electricity for much of the group's operations and employee housing, largely eliminating consumption of diesel oil for electricity generation, and achieving material consequential savings in energy costs as well as greenhouse gas emissions.

In addition, the group has installed an additional three megawatts of generating capacity dedicated to the Indonesian state electricity company (PLN) for PLN to use in supplying power to 26 villages and sub villages (comprising 13,000 households) surrounding the group’s estates by way of a local grid. Electricity is now distributed to these villages through infrastructure established by PLN, with prepay metres installed in village houses.

Methane production could be further increased by erecting a third methane capture plant in the group’s most recently constructed mill to supply power for that mill and potentially for sale to neighbouring companies. The group also continues to seek opportunities for cost reduction from the use of surplus methane, such as conversion of its vehicle fleet to run on a bio-methane and diesel mix, which would have the potential to reduce diesel consumption in the group’s vehicles by some 70 per cent.

Stone and coal operations

The stone and sand operations derive from original plans for the group to diversify in a limited way into mining activities. This diversification between 2008 and 2010 was initially by way of loans to a group of connected holding companies owning stone (ATP) and coal (IPA and PSS) concessions, located in East Kalimantan. The loans were made by the group in conjunction with arrangements which were intended to permit the group to acquire majority equity interests in the concession holding companies.

Changes in Indonesian mining regulations for a long time precluded implementation of such originally planned equity ownership, but further changes to those regulations altered the position.

The coal mining concessions originally comprised a high calorific value coal deposit near Kota Bangun (held by IPA) and the lower grade Liburdinding concession (held by PSS) in the southern part of East Kalimantan. Mining of the IPA concession between 2021 and 2023 permitted recovery of substantially all group loans to IPA but, at current coal prices, mining of the remaining coal at IPA and of the PSS concession is considered to be uneconomic. Accordingly, the group has withdrawn from providing further funding to IPA and PSS (except, as respects IPA, to the extent required for closure of the former coal mining activities), has relinquished its rights to acquire a majority equity interest in PSS and will rely on a guarantee given by ATP of loans made to PSS for recovery of those loans.

The group is, however, continuing its involvement with IPA because, in 2022, substantial silica (quartz) sand deposits were identified in the coal concession area held by IPA. Under Indonesian law, sand mining and coal mining are subject to separate licensing arrangements which must be held by separate legal entities. The rights to mine the sand deposits have been obtained by MCU. The group will also hold a 95 per cent controlling interest once MCU has been brought into commercial operation.

Given that IPA and MCU have concessions involving overlapping deposits within the same physical area, MCU is to assume ownership of IPA (which has hitherto been substantially owned by ATP).

In 2024, the group took over full responsibility for the management of ATP, with ATP being treated as a 95 per cent subsidiary of the company with effect from then.