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RM4.3bn joint venture project

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THE Lion Group of Companies and China Pulp & Paper Industry Co Ltd have jointly signed an agreement with the Sabah Government to establish a RM4.3 billion joint venture in forest plantation and an integrated pulp and paper mill project in Sabah.

Prime Minister Datuk Seri Dr Mahathir Mohamad and his visiting counterpart Li Peng witnessed the signing of the agreement in Kuala Lumpur yesterday.

Sabah Chief Minister Datuk Yong Teck Lee signed on behalf of Sabah, while Lion Group was represented by its chairman Tan Sri William Cheng and China Pulp & Paper Industry by China vice chairman of China's State Planning Commission.

The agreement was a follow-up to a memorandum of understanding (MOU) executed in August last year between the Primary Industries Ministry and the State Planning Commission to promote cooperation in the pulp and paper industry on the basis of mutual benefit.

Pursuant to the MOU signed last year, China and Malaysia designated the China Pulp & Paper Industry, a state-owned enterprise in China and Lion Group respectively to carry out a feasibility study on the project, which led to the signing of agreement yesterday.

Under the agreement, the three parties agreed that the joint venture will be undertaken through two companies.

The first is for the purpose of undertaking plantation forest development and forest management, with Malaysian interests holding 60 per cent equity and China the remaining 40 per cent stake.

In the second joint venture company, the equity ratio is 60 per cent China and 40 per cent Malaysian company for the purpose of carrying out the business of a pulp and paper mill.

The two companies will enter into a long-term contract to ensure the supply of logs and pulpwood for the operation of the mill.

Speaking to reporters after the signing, Yong said Sabah recognises a substantial portion of the pulp processed from logs will be exported to China at internationally competitive prices while the balance of the pulp will be utilised for the production of paper at the mill.

Noting that such a joint venture will bring about mutual benefits to both countries, Yong said it will bring benefit to Malaysia, especially Sabah in terms of providing jobs, economic growth, foreign exchange earnings, utilisation of idle land and the provision of infrastructure.

Describing the joint venture as a single largest overseas investment committed by China, he said the size and nature of the project will put Sabah ahead of other states in terms of forest development and environmental conservation.

"Not only that, the project will also put Sabah into the Asia Pacific profile as well," he said, adding that the fact China and Malaysia are willing to start a nation-to-nation project of such magnitude in Sabah, clearly shows their confidence in the forestry policies and management of the state.

He also said the project, with a forest area of 220,000ha, will enhance the economic activities as well as development for the forest area to be leased by the State Government for a period of 99 years.

Yong said the joint venture companies will be required to pay premium and other charges for the lease of the land, adding that the State

Government is giving assurance that the project will be required to follow the sustainable forest management practices similar to those at the Deramakot Forest Reserve in Sandakan, which Dr Mahathir visited last Saturday.

He also said Malaysia will also gain from the joint venture in terms of foreign exchange earnings estimated to be RM1 billion per year through import substitution of paper.

The proposed pulp and paper mill is expected to produce 750,000 air dried metric tonnes of pulp of which 75 per cent will be exported to China and the balance will be converted into 225,000 metric tonnes of paper.

This will be the second pulp and paper mill in Sabah, with the first set up in early 1980s by Sabah Forest Industries (SFI). However, the SFI mill is much smaller in terms of investment cost and capacity in pulp production.

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