



HBS Entrepreneurs Oral History Collection

Baker Library Special Collections

Interview with Erling Lorentzen

Aracruz

March 2000

Interviewer: Amy Blitz, HBS Director of Media
Development for Entrepreneurial Management

Transcript available for research purposes only. Cannot be remounted or published without permission of Baker Library Special Collections.

Research Inquiries & Requests to Cite:

Baker Library Special Collections
Baker Library | Bloomberg Center
Harvard Business School
Boston, MA 02163
617.495.6411
specialcollectionsref@hbs.edu
<http://www.library.hbs.edu/sc>

Preferred Citation:

Interview with Erling Lorentzen, interviewed by Amy Blitz, March 2000, HBS
Entrepreneurs Oral History Collection, Baker Library Special Collections, Harvard
Business School.

ERLING LORENTZEN

The Early Years

In my youth, I was part of a big family. I was number six, and it was a big advantage being with older brothers doing different things. My parents were also very strong and gave us a normal but very, very interesting life. I had a good life as a youth. Then the war came in 1940. I was seventeen years old and I volunteered to serve. I wasn't old enough for the army, but I volunteered and was accepted to help in the medical sector treating the wounded and so on. That was in itself an important experience.

Then after a while I got into the underground organization that gradually was organized in Norway. I spent practically the rest of the war working in the underground. I had to escape from Norway at the end of 1942. I escaped to Sweden and was there for a while before I was flown over to England. I had to escape because the Germans were discovering me. I was working then directly for the head of the underground. The Germans discovered him, got his name and so on, so the two of us actually walked out of his apartment as the Germans were coming in through the other door. But we got away.

We drove for part of the way and then walked across the border through the forests. There were escape routes that were organized.

I came to England, where I got into the Secret Operation Executive, similar to the U.S. O.S.S. There I was trained for a year, and in early '44 I was sent back to the middle of Norway in order to organize, train, and lead the underground in this area. We had an area that was our responsibility right in the middle of the country, where there was an important train connection from the South and the West. And so there I stayed, and I organized the underground for more than a year before the war ended.

The people wanted to do something, but they needed someone to lead and then to organize them. I wasn't a local in the area, so I didn't select the people. The local people selected those who would be part of the underground. And I ended up with 800 people by the end of the war, all prepared and trained and equipped. We got over thirty planeloads with weapons and equipment, even uniforms, and we did sabotage. The people lived at home. I only took them up in the mountains for training and instructions and so on. And so my job was to organize, to train, and to prepare for whatever might come, and also to do some sabotage from time to time.

It was discovered that a factory in Norway was producing heavy water, which could be used for making atomic bombs. First, the Americans tried to bomb the location, but it was so close to a high mountain that they couldn't really hit it. Second, the English tried to bring in soldiers to sabotage the place, bringing them in by gliders. I don't know why they didn't use parachutes, but that was not a success. One of the gliders fell down in the North Sea, and the other fell down somewhere in Norway, and the soldiers were shot and killed. The third alternative was to take people from the underground resistance and, together with a group

from England, get in and do sabotage at the mill. They did enough damage with the V1 and V2 bombs and with rockets, and if they had also been equipped with atomic bombs it would have been even worse. It was a very important attack because it helped prevent the Germans from making atomic bombs.

Looking back, it was a very important period of my life, living for years and years while not knowing whether you were going to be dead or alive the next day. And probably the most important thing, I think, was to live with people under these stressed conditions. It made a very important impression on me. I was just a young man, just seventeen when the war started, twenty-two by the end of the war, and with responsibilities and risks and bluffs that I had to handle for such a long time. That made a strong impression on me. Under those circumstances, I think you really see what people are really made of, what they're worth. There's nothing artificial about it.

The HBS Experience

When the war was over, I was very anxious to go to school. I felt I had been doing things that I really didn't have the age for, the background for, or the knowledge to do as well as I would have liked. Many times I really had to bluff and say things that I didn't know enough about, but I couldn't show any doubt to the people who relied on me. I felt a very strong desire to go to school and to feel that I knew more about what I was doing.

I was very lucky, and happened to get into Harvard Business School. I was, at the time, one of a few who didn't have any college experience. Presumably I was accepted on my war record rather than my scholastic record. Undoubtedly, it was my experience organizing, managing, leading, deciding what to do, and analyzing how to do it that HBS saw. In a way, what I had done in the underground was like running a business.

My experience during the war also had a great bearing on what I wanted to find and get out of the business school. I was anxious to understand world issues and international finance, and I was interested in labor relations. I was very active in General Doriot's course called manufacturing. I thought it was a wonderful experience to go to the school and get knowledge across the whole spectrum of business from A to Z, and I came out of the school with a feeling that I had a knowledge of what I might be faced with, and that I didn't need to feel I was inferior to others.

Early Career

After finishing business school, I went back to Norway to work in my family's business, but I also went back to military service. I did some teaching about small-group operations. I thought that we had really not been trained in leadership of isolated small groups and the psychological problems you might face in that kind of leadership. I was also involved with some special services that the army was establishing. I was working on that for two or three years, and at the same time I was working in the family business.

The family business was in shipping, going back several generations, back to the Vikings, practically. My family had one shipping line that ran from the Gulf of Mexico to the east coast of Brazil and Argentina. In 1951, I wanted to take a trip to Brazil to visit the agents and see what the operations were. At the time, we were also transporting liquefied petroleum gas from the Gulf of Mexico to Brazil. And I visited one of our companies in New York on my way to Brazil. They told me that Esso, as Exxon was called at the time, was interested in selling their gas-distributing company in Brazil. They suggested that I study the possibility of buying that to transport gas and compete on the distribution in Brazil.

So instead of visiting the agents as I had planned, I looked into this company that Esso wanted to sell. And we ended up buying that, and then I moved here permanently. We had been transporting liquefied petroleum gas, LPG, to Brazil, and in order to expand that business, we bought the distributing company in Brazil. And so we started taking over a business that was quite different from what we had been doing. When we bought it, the company had 50,000 customers, household customers, and we had to deliver the gas in bottles to these houses.

We grew and grew and grew, and when I sold the company in 1972, we had 2,600,000 customers. We sold it because I had a partner then, and he had some psychological problems. I offered to buy him out, but in order to make it a fair deal, I said, “You can buy me at the same price.” I had much more than he did in the company, so I never expected him to be able to buy me out. To my surprise, he managed to mobilize the money, and inasmuch as I had given him the chance to do that, he bought me out, instead of the reverse.

Living and Doing Business in Brazil

In the meantime, I had started several other businesses in shipping, some other industries, and particularly Aracruz. I had studied the business opportunity for Aracruz thoroughly, and thought it was a very interesting opportunity in itself, but also thought that it would expand the family business beyond transportation. At the time, I realized that it was not easy to predict what was going to happen in Brazil. I remember discussing this with an American who was living here in Brazil and very successfully doing business here. He and I discussed the risks and the uncertainties of doing business in Brazil, and finally he said, “Well, in the end, all you have to do is close your eyes and jump.” So that was good advice, and that’s what we did.

First of all, despite the uncertainties, I chose to stay in Brazil because my family had some background here. My grandfather had come to Brazil to develop the family business, and my father lived here from the ages of ten to seventeen. Then my grandfather got sick and went back to Norway and died, so there was no continuation in Brazil after that, except for this shipping line from the U.S. Gulf. But in view of my father’s background in Brazil, we all grew up with the idea that Brazil was special, a land of the future. So that was why I looked at Brazil with favorable eyes. And I did what this American said. I closed my eyes and jumped, in the end.

I was married just before I resettled here, and then we came here practically on our honeymoon. I think it must have been very hard on my wife to change her life so dramatically, leaving the sheltered life and her position as part of the royal family in Norway, and then coming here, where we had to face every kind of problem in the beginning. We didn't know the language and we didn't know many people here. That was, in many ways, a tough beginning. My wife had to learn to be a housewife here and I had to learn to work here.

To work in Brazil, you have to be very observant. You have to understand what is really going on, not only what appears to be going on, but also the underlying moods, both politically and economically. Brazilians have a tendency to become very pessimistic when things are bad, and very optimistic when things are good. I try to avoid being either too pessimistic or too optimistic. During the turbulent 1960s, I think I saw that the country risked going communistic. I felt that there were forces trying to undermine the political and economic situation of the country in order to turn it more communistic. I wasn't that pessimistic, though, and felt that it would turn the right way.

For example, after the revolution in '64, when the military took over, one of my friends here joked, "Now I'm sure that Erling, always being such an optimist, is satisfied with what's happening." Actually, from my experience during the war, I think I had ability to judge the situation, and I think I was right. What I saw was that the takeover was stabilizing. At least the political scenery for quite some time was pretty stable. You could foresee to a certain extent what was happening. I think the military period was good in the beginning. It cleaned up a number of things, but they stayed too long and they could have turned it back to democracy at an earlier stage. It would have been better for Brazil. It would have been better for the military, too.

Finding the Opportunity

Despite all of the uncertainties of doing business here, I decided to stay in Brazil and look for opportunities beyond shipping and gas distribution. And that led to Aracruz. What happened was that two Brazilian friends of mine were exporting iron ore to Japan, and they were seeing these vessels leave Brazil for Japan with a little pile of iron ore in the bottom and a lot of open space. They thought that this space might be utilized for other cargoes, lighter cargoes. One idea they had was to export wood from Brazil for pulp making in Japan. My friends came to me and discussed this idea of constructing vessels to transport both iron ore and wood chips.

I started to study the idea, started to talk with people in the pulp business, and they said that the worst thing that you can get in the wood chips would be iron ore dust. Second, I saw that if you wanted to carry 100,000 tons of iron ore, you would need a ship of one size. If you also want to put in 30,000 pounds of wood chips, you would need a much larger ship. Third, I said, why don't we make the pulp here in Brazil instead of exporting it? So I started to get involved in the project and, in a way, took control and leadership of the project, to see about building

up forests and setting up a pulp mill here in Brazil instead of exporting the wood and having the pulp made elsewhere. So that was the way I got into it.

We started out studying a pulp mill that had 170,000 tons capacity per year, but that didn't make economic sense. So we went to what was normal at the time, to studying a mill of 250,000 tons a year. I didn't think that was too interesting either. Eventually, we found that we could build a pulp mill of 400,000 tons and that this would make the most economic sense because of economies of scale. It would be one of the biggest pulp mills in the world at the time. So we decided upon that.

Then there was the question of finances. It was a \$650 million project at the time. We capitalized the building up of the forest, and we also received some fiscal incentives, like using tax money to build up the forest. But we needed a lot of money too. The Brazilian Development Bank was very anxious to see this project carried out, and gave me a lot of moral support. But my idea was to get as much private capital into this as possible. I traveled around the world to get partners into this: Japan and Europe and the States and even Kuwait, with some success. Rich American tobacco went in with a good amount of money. But the major part of the private equity capital was from building up the forest. Then the market for pulp went down, and I had to go back to the Development Bank and tell them we needed equity, loans, and guarantees, and we got it.

This venture was a big change from what I had been doing, but I felt that this was such an interesting project, it was such a valuable project for Brazil, and I recognized that I couldn't totally control the outcome of the project, but I felt that I wanted to spend my time on it anyhow.

I realized early on that we had a big competitive advantage over pulp mills in the northern hemisphere, where most of our competitors were. In the northern hemisphere, you locate a pulp mill where there is already a forest, while here we had to create the forest. That was a challenge initially. But once the forest was created here, it was very advantageous, competitive-wise, because we grow trees that can be harvested in five to seven years, while in the northern hemisphere, in Scandinavia or Canada and the northern parts of the eastern United States, it takes from fifty to seventy years to have a mature forest. The growth rate of our trees also creates an opportunity to have a geographically more-concentrated forest. Compared with most other countries, we have a \$100 to \$200 advantage per ton of pulp in our forestry or wood costs.

I frequently say that our advantage is not that we can have a beautiful pulp mill. Our competitive advantage, and really why we have succeeded more than most others, is in the forestry, in the development of the forest. The research we have put into forestry is where we have an edge. And therefore, I feel that we should stay close to the forest.

For me, research is fundamental. To run research in forestry when a tree grows for seventy years or 100 years, there's so little you can do about it. But when you have trees like we have

here that you see grow an inch per day, and they become big trees in five, seven years, you can do something about it. We have actually more than doubled the growth rate from the trees that we started with to the trees that we make today. More than doubled. We started out with about twenty cubic meters per hectare per year. We are now at forty-five cubic meters per hectare per year.

Environmental Leadership

Some of my attraction to the Aracruz project was also that it was developing nature. For me, it's a beautiful forest, and to see the growth of these trees is something that gives me a lot of satisfaction. I suppose it has something to do with my background, being close to nature, and also during the war, when I lived in the forest, and was hiding in the forest. I was also attracted to Brazil because I felt that I could do a job here. There was a need for things to be done. I felt that I'd spent five years in the war, I'd done my job in Norway, and I saw so many opportunities, so much need for development in Brazil. The misery you saw—and still see—was something that I felt maybe I had to do my little share to alleviate.

But it became clear to me through the Brundtland Report published by the United Nations in 1987 that we needed to focus more on what the report termed “sustainable development.” I thought that was exactly what we had been doing by creating this enterprise which gave employment to a lot of people, social benefits and development, and we had tried to keep it environmentally sound, right from the beginning. I had had some experience with projects that were not environmentally sound, and so I had learned from those projects what I thought was environmentally sound.

I thought we had been doing a good job, but I also saw that we were being criticized. The whole industry worldwide—the forest, pulp, and paper industry—was being criticized by certain organizations, and I felt that we really had to do something about this. I was already a member of the World Business Council for Sustainable Development. When the Earth Summit meeting was here in Rio in '92, a business group was organized to weigh in on key environmental issues and I was invited to participate in this group and to come up with a presentation from a business point of view. I was also asked to coordinate a chapter in the book that the World Business Council was presenting at the summit. The chapter was called *Changing Course*.

I didn't write the chapter but I organized the research and the writing of it, which had to do with agriculture and forestry. Little did I know when I took on that role that agriculture and forestry represented about 40 percent of world business and about 50 percent of world employment at the time. So it was a big and interesting task. I got a lot of help from Harvard Business School, both intellectually and financially. I had proposed in the World Business Council that we have a study made on this industry. I felt that if it were as bad as the critics said, we should see what was wrong and what we might do to improve the industry. But I made it clear that such a study must be independent. If it were done by industry, you might as

well tear it up, since nobody would pay attention to it. So it had to be a totally independent study.

I proposed to the board at Aracruz that we put in some of the financing for the study. One of the board members asked me, “Well, can you guarantee that this study will go in our favor?” I said, “No, I cannot guarantee that, and I think it’s just as important for a board like ours to know what is wrong as what is right.” I got approval for financing, and with that I was able to go around the world and raise more funds for it. So I traveled around the world to find financial support for this study and got funding from seven governments, from the World Bank, and from the European Union.

I also got funding from the Harvard Business School. The dean at the time, John MacArthur, had invited me to talk about the study at a faculty luncheon. I explained what it was all about, and after lunch he said, “I want to talk with you a little about this study. Can I help you with it?” I said, “Well, I’m getting a lot of help with this from Professor Goldberg and others at the school, and—.” He interrupted, “No, no, I want to do something more,” he said. And finally he came out and said, “I want to support this study with \$50,000.” And that was very, very good moral as well as financial support.

To make the study independent, we hired an organization in London called the International Institute for Environment and Development. They had a free hand to come up with a study and, just to be sure they had full independence, there was a clause in the contract to the effect that if the World Business Council for Sustainable Development refused to publish the report, then the Institute in London had the right to publish it on their own.

That then helped me very much when I asked for financial support elsewhere. For instance, I got support from the Norwegian government, and when I talked to the Prime Minister there, she said, “We can support this if it’s a totally independent study.” And I said, “Well, I’m going to London tomorrow to sign a contract with the International Institute for Environment and Development,” and she said, “Well, I know those people, and you are in good hands.”

I think for Aracruz the results of the study have been both good and bad. I think it created a respect for Aracruz that we had been behind this study, but I think we also became more of a target for NGOs’ questioning and criticism and so on, in a way. I suppose if you stick your neck out, people can attack you. And obviously we all learned from the study, which has been highly respected. The World Bank, for instance, said two years ago that this study raised several questions, presented several recommendations, and must be followed up. And so the World Bank is following up on the study’s recommendations. The study is also now being copied by other industries: the cement industry, the mining industry, even the transportation industry wants to make studies, initiated by General Motors. They want to make studies exactly along the lines of what we did for this study of the paper industry.

Challenges Faced over the Years

It's no doubt that we had our difficult moments, particularly in the beginning. I think that we were about two-thirds of the way to completing the mill when we got quite short of money, and I had to cut here and cut there and so on. It was a lot of money at stake, and the market wasn't favorable, so there were a lot of people that started to doubt the success of Aracruz. For us, it was important then not to lose confidence. Here, again, my attitude was that you mustn't become too pessimistic when things are difficult, and so we managed to carry it through. We managed to get more money for the project, and eventually we were able to complete it, but it was touch and go.

We were also faced with the environmental questions and criticisms. I mentioned, partly because we stuck our necks out and partly because the environmental questions themselves have evolved since we first started Aracruz. It's new rules today, not the same as in the beginning.

Hyperinflation is another issue. It's something you had to learn to live with, and I have argued many times that, really, the hyperinflation was not so bad for business; it was bad for the people, the salaried people, the employees, and for the general economy. For business, what the employees lost in salary or in purchasing power, in a way the business benefited from. We sell practically everything in dollars because most of what we sell is for export. So the local currency deteriorated while we were earning dollars.

The employees' salaries were adjusted every month, but when you have inflation at these levels, the adjustments were smaller than needed. So when you have a 40 percent inflation or more per month, what the employees got on the first of the month was worth much less by the end of the month. It was terrible for the employees, but for us, inasmuch as our expenses were in local currency and our earnings in dollars, we gained what the employees lost. And they lost a lot. And therefore, the importance of the stability drive that Brazil is going through now is so basic, in my mind.

The Internet, or the high-tech revolution in general, is something we are now trying to understand. What, we ask, will it mean to our business? How will this affect the paper market, paper consumption in the world? Ten years from now, fifteen years from now, and so on, will the computer substitute paper? Or will it not? So far it hasn't. So far, paper consumption in the world has increased with computers and high tech and so on. Just look at what's around me here! I get so much paper every day, it's crazy.

Where I see the greatest impact is in rationalizing systems, automation of mill operations, and communications. It's a revolution that's going on, and I try to understand it. Fortunately, my son understands it much better than I do. He has gone into that very deeply, and we have also invested something in the Internet and in high tech. And we are trying to understand what it might mean to our business on a long-term basis. Actually, that's what I'm working on as the chairman of the company, focusing on what our long term strategy should be.

There are some who believe we should diversify, as most other pulp businesses have done. I think that we have so many opportunities within the pure pulp business that we should concentrate on that for a long time before we think of diversification. We have recently developed a sawmill, though, for making furniture from our eucalyptus trees to see what else we can do with the forest development.

I'm probably long past retirement age, but I have a few things that I still want to do, particularly in regard to Aracruz. I think we should try to become quite a lot bigger than we are today. The consolidation happening today in our industry, and in so many others, is just extraordinary. We were talking about the Internet and IT revolution and what that means, but the other revolution or the other tremendous change that's going on is the consolidation and the globalization of industry. As an example, two years ago Aracruz had twenty-one clients within one sector. Today there are just three. So in other words, our clients are becoming fewer and much bigger. And unless we also become much bigger, we're going to be squeezed. We have to be big to be able to serve our customers, our clients, but also to be able to negotiate.

To address this, we are looking at acquisitions. We are also in the process of deciding on an expansion. We now produce 1.3 million tons a year, and we will decide soon on an expansion of another 700,000 tons to come up to 2 million tons. One of the preoccupations, obviously, is the market. What's the market going to be three, five, ten years from now? Also, we do not have sufficient forests for this expansion at the moment, so we would have to go through a period of three or four years where we would have to buy from third parties, at a higher cost than if it were from our own forest.

We might also diversify and go global in our production. But so far, there is so much we can do here in Brazil, and the ease of our operating in one country compared to several countries is a factor to consider. Sooner or later, though, if we grow as I hope we will grow, and believe we will grow, we might very well go into other countries too. My feeling overall is that we should stay for as long as we can with forests and pulp and other wood products. I don't think we should diversify into paper, as some think, because that would be going into competition with our own clients. I believe in staying with what we really know.

Summary Reflections

I think success is when you are satisfied, and satisfied that you have been doing the right thing. Undoubtedly, Aracruz is what I'm most proud of, and that's what I'm most known for as well. We have built up considerable shipping here. We also have some other industries, but smaller. But Aracruz is closest to my heart. I'm very satisfied with what I've been able to do in life. I wish I could live longer! I don't feel old in any way, but I recognize that I'm getting up in age.

There is a saying that "Nothing is impossible; it's only that the impossible takes a little more time to realize." I think that it's very important to be convinced of what you're doing, and

then not to give up, because along the way you will have a hundred difficulties. But don't give up. I've been active both in sailing and in skiing, and I've learned that when you really want to win, it's possible. In sailing you're always up against so many different factors. The wind can shift and so on. And one of the things I say on my boat is, "You're never sure if you've won or lost until you are crossing the finish line." So much can happen along the way. Succeeding is all about persistence.