

# CHH acquisition of interest in ERN

Dennis Lee

On June 25 Carter Holt Harvey Ltd (CHH) announced that it had acquired Elders IXL's 53% interest in Elders Resources NZ Forest Products Ltd (ERN). The deal is structured on a base price of \$822 million which is adjustable upwards or downwards depending on the success of CHH in divesting ERN's mining and resource assets in Australia. The base price, however, will not exceed \$900 million nor be less than \$700 million. On settlement, \$546 million of the purchase price will be paid. The key determinant of final price and whether the purchase is a good deal, therefore, hinges on the sale of non-forestry assets.

Analysts are divided over the issue. Some are not too optimistic of the non-forestry asset being disposed of at a reasonable price with the current economic downturn in Australia and particularly with the poor prices for gold. The impact of a poor sale on CHH's debt levels can be severe because the company is relatively over geared.

The sale is subject to regulatory approval by the Commerce Commission in New Zealand and the Foreign Investment Review Board in Australia. One area which is likely to come under close scrutiny of the Commerce Commission is the packaging market. ERN supplies not only all the requirements of CHH's Printpac-UEB but also Kiwi Packaging, owned by Amcor Ltd of Australia. Both companies have 93% of the domestic corrugated board conversion market. If approved by the Commission, the acquisition will eventually lead to a merger between CHH and ERN to form a new New Zealand forestry company.

From the perspective of the sector, the move of CHH is significant because it transfers the ownership of NZFP back into the hands of New Zealanders. Hopefully, this will also inject some stability in the ownership structure of the company which has been plaguing the company for several years and exposing it to a series of takeover threats. Whether the move will benefit the sector is left to be seen. Competition in the domestic market is expected to decline in some product segments. At the same time, there is significant potential for the new company to achieve a higher level of efficiency through further rationalisation of production and distribution. The merger should also reduce CHH's concern over wood supply security to its mills.

**Footnote:** As this issue of NZ Forestry was going to press, it was announced in

the media that Brierley Investments Ltd (BIL) had purchased \$85 million of CHH shares giving the wide-ranging investment company a key role in the forestry industry at a time of sweeping change. BIL plans to buy a further \$45 million CHH shares. If this deal goes

ahead BIL will control 16.8% of CHH and with its present 4.0% in ERN it would have about 15% of the merged company. It would make them the largest holder in CHH or the merged company and it makes BIL a very significant player. (Editor)

## Policy statement by NZ Forest Owners' Association

As part of its lobbying as a lead up to the 1990 general election the New Zealand Forest Owners' Association has published the following policy statement. The full statement which includes a helpful preamble and explanatory notes is available from New Zealand Forests Owners' Association Inc., 85 The Terrace, Wellington 1. Phone (04) 727-919.

- New Zealand industry and the Government must jointly be progressive and co-operative in the thrust to market and promote our forest-based products.
- The combination of a major reduction in planting, continued tax impediments to the sale of immature forests, and movement of capital overseas to forestry projects, is irrefutable evidence that the current policy has numerous punitive aspects which need to be redressed by the Government.
- Immediate deductibility of planting and growing costs against current revenues from any source would reflect greater uniformity with other sectors. This will immediately remove the barriers to renewed investment in the industry, and will encourage a substantial increase in new planting. Rural jobs created will help reverse the urban population drift.
- No special treatment is sought, just parity with other sectors and common sense even-handedness.
- Further reform is essential if progress made at Tauranga is to be maintained, improved and extended to the country's other ports so that New Zealand's competitive position in world primary product markets can be enhanced.
- The industry will create the job opportunities if Government policy encourages the massive investment (estimated to be \$7 billion) required

to fund the processing of New Zealand's plantation forestry resource.

- If forestry is to be internationally competitive, the commerce laws must be modified to recognise the international nature of the business.
- The definition of 'competition' should be widened so that realistic regional development can be achieved.
- The Forest Owners' Association will continue to encourage commitment to good environment management to the highest level.
- It will work with Government and its agencies to capitalise internationally on the "clean, green and renewable" marketing opportunities which plantation-based forestry affords.
- The Government should encourage the rejuvenation of cut-over forests through sound forest management practices and sustained yield of specified production areas.
- Further refinement of rural fire co-ordination and funding is essential if the well-being of rural people is to be protected.
- Forest development strategies which live with a 30-year crop rotation need special consideration.
- An industry which could soon be providing one-third of the country's annual export earnings should be supported by a separate Ministry, and a Minister with high Cabinet ranking.
- The Ministry of Forestry should continue as a separate agency to specialise in: policy advice, regulation, statistics, forest health, research, and administration of Maori and Crown forest licences and leases.
- The Association urges Government that educational reform initiatives must establish education and training structures that are appropriate to the industry's needs.

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# Conference on Trees for Survival

John Novis

A conference convened by the Tree Council and the Centre for Continuing Education was held at Auckland University from June 1-3 this year.

In some respects the seminar just reinforced what I already knew, with the speakers putting the views of the groups they were associated with. I am fairly well aware of the position of the Royal Forest and Bird Protection Society on indigenous forests, and I am fairly familiar with the view of Geoff Chavasse (forester) that basic concepts like sustainable management and conservation have come to mean something they really are not.

However, having said that, there were many aspects to the conference which were new to me. David Bellamy was brilliant just for the enthusiasm and entertainment he brought. He also reinforced the important message that we must be managing ecosystems and all parts of the ecosystems interact with one another. Trees are such an essential part of ecosystems because so much of the world's biota is associated with trees. Conservation is about saving world diversity in the Bellamy view.

David Bellamy spent a day on the East Cape and noted that he had only seen erosion of the same degree in Nepal and California. His message was that you simply cannot afford to wait to reafforest the area. Radiata pine must be put on it immediately, with areas of native bush where practicable. Another important message from David Bellamy was that New Zealand's small population does make it difficult to fund many projects such as rehabilitation of the East Cape.

Of the other speakers the messages of importance that came through to me were:

- The need to educate children about trees and conservation. This was the thrust of both Maori speakers and the focus of the action they are taking. Other speakers tended to forget this and got carried away with tree planting projects (which really will have minimal impact) and wanting more government money for everything.
- Do not expect too much from Maori in terms of them understanding the traditional Maori ways. The majority have never had this taught to them.
- Possums are a real issue and conservationists are prepared to accept poisoning while recognising that it does not provide a long-term solution.
- There is still a lot of support for a total ban on the export of all indigenous wood products, although the motion that was finally passed only sought restrictions on the export of sawn timber, logs and chips.
- There seems to be acceptance that plantations are good, that we should have more of them to provide a product that the world needs and one that is environmentally friendly.
- There is not much mileage to be gained from the concept of plantations for mitigating CO<sub>2</sub> build up. Wood is fine as a carbon store, but ultimately it is going to break down and release the carbon. It was seen to be like the problem of disposal of nuclear waste. It would be a short-term measure which may buy some time, but it did not address the causes of the problem.
- There still seems to be a feeling that some issues, like the possum, the East Cape and research, are all problems which will be resolved if you throw enough money at them.

The objective of the conference was to produce a New Zealand manifesto for trees. With the exception of one or two hard-line conservationists there was reasonable agreement on the general direction this manifesto should take.

The manifesto will be formally presented for input to the National Forest Policy.

The keynote address was delivered by David Bellamy who carried the audience from Britain to New Zealand with examples of environmental issues. Like all Bellamy performances the presentation was quite brilliant and an amazing array of statistics and assessments held everyone spellbound. His message was about ecosystems and the way all the components interact. The human spe-

cies can use the ecosystem but must understand the interactions.

A few Bellamy comments of note:

- There are 16 million species on earth (plants and animals) and none can survive on their own, i.e. they all need to interact with other species.
- Every 24 hours 30 species become extinct and 100,000 people die from malnutrition.
- The area of the world originally covered in trees was about 70 million square kilometres.
- If all living matter was burned today about 7250 billion tonnes of CO<sub>2</sub> would be released into the atmosphere.
- Roots of trees stabilise about 20% of the earth's soil.
- Some 80% of the earth's biota are associated with trees.
- 15,000 years ago there were five million people on earth. Today there are 5.3 billion people and the earth has become a global city.
- The pollution of Poland and Romania today is no worse than the pollution in Britain 40 years ago.
- Children today are not interested in science because it is associated with "nasty things" like Chernobyl.
- 40% of the children around the Aral Sea are dying of cancer because the native ecosystems have been destroyed.
- The Himalayan mountains are growing so fast they could supply all the world's minerals.
- 25% of all species on earth are in the South East Asian countries.
- Tropical forests are in CO<sub>2</sub> equilibrium with absorption and release each occurring for about 12 hours a day.
- The most effective way of providing a carbon sink would be to harvest all the tropical forests, store the wood (Lockwood houses maybe) and grow another crop of tropical forests.
- 64% of Australia is eroding, due to the overgrazing of land originally in native bush.
- For every one tonne of wheat grown in Australia 14 tonnes of soil are destroyed, mainly because they have been cleared of forest and are affected by salination.
- The Tree Trust in Western Australia is looking to plant 10 billion trees to overcome their salination problems.
- The tropical forests in Queensland are the most ancient in the world and contain the basic genetic stock that gave rise to the flowering plant.
- New Zealand has the most "switched on" conservation bodies in the world.

## Policy statement

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- Government must financially assist all facets of education and vocational training, including secondary and polytechnic courses, universities and operator training programmes.
- Government must accept this fact and ensure consistency of policy so that forestry investment can reach its potential in providing a resource at minimum cost, which can be the basis for the whole community in New Zealand.