

CHH acquisition of interest in ERN

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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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