Foreign Control
Watchdog
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APEC

It's Not Worth It!
- Murray Horton

New Zealand hosts all 1999 meetings of the Asia Pacific Economic Cooperation (APEC), culminating in the September Leaders' Summit, in Auckland. Whoopee! The latter are usually held in November but were brought forward by deposed Prime Minister, Jim Bolger, so as not to clash with the New Zealand general election, and to relieve pressure on Auckland hotels in the build up to the America's Cup. You've got to get your priorities right. Well, of course, Bolger is long gone (his one major regret at being dumped was that he wouldn't get to bask in the reflected glory of the Leaders' Summit). And the concern about the election may well have been misplaced, as the smart money is on an early one, due to the minority National government's precarious hold on power being dependent on a bunch of unprincipled opportunists (the New Zealand First deserters) and ACT, who are definitely the last act of a very bad show called "The 80s". NZ officials organising APEC are hedging their bets by saying only that world leaders will be hosted by a woman Prime Minister (ie Jenny Shipley or Helen Clark). Usually the host PM gets to dress up the visiting leaders in matching garments symbolising the host nation, for the group photo. What could be more appropriate for either a National or Labour PM to fit out these visitors in a T shirt saying simply "For Sale"?

And what a fine bunch of leaders we'll be hosting. If Bill Clinton hasn't been impeached, he'll be here, doubtless with his fly sewn shut by Hillary, and an entourage of gun toting Secret Service (SS) agents. And Boozy Boris Yeltsin with an entourage devoted entirely to keeping him standing upright. Plus a supporting cast of Asian and Pacific Rim strongmen and dictators, some of whom make Clinton look like a slow starter. Take, for example, the Philippines' president, Joseph Estrada, who has a well earned reputation for boozing and womanising (having fathered ten kids by five women, only one of whom is his wife. All the kids' names start with J; the mothers have been set up in identical houses, so that the President knows where he is).

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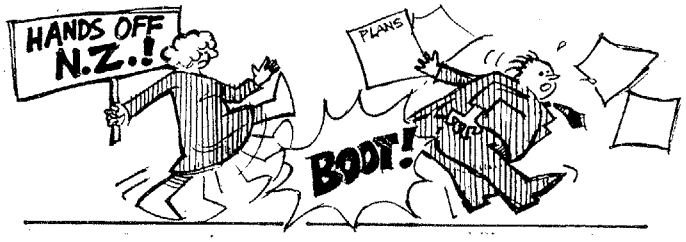

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But the Leaders' Summit is only the icing on this particularly stomach churning cake. Throughout the year there will be a whole series of other APEC meetings in New Zealand - Trade Ministers meet in Auckland; there are senior officials' meetings (SOMs) in Wellington; Christchurch; and Rotorua. There are all sorts of other related meetings, such as for corporate chief executive officers. The SOMs are the guts of APEC, where suitably somnolent officials coordinate the working programme, negotiate the wording of documents and pre-script documents for the Ministerial meetings.

The Government is already in full "sell APEC to the public" mode. We are told how much money it will bring into the country (which will doubtless trickle down to the grateful poor); a propaganda barrage is underway to persuade us that this, specifically the Leaders' Summit, will be the most prestigious meeting in New Zealand history (it will be only the second US Presidential visit); non-government organisations (NGOs) have their own liaison officer to ensure that they can have "constructive engagement" with APEC.

Ironically, APEC 99 might become a severe embarrassment to all concerned. There are internal rumblings about APEC's direction; its monomaniacal fixation on trade liberalisation to the exclusion of all else; and its lack of any response to the Asian Crisis. New Zealand's Asia 2000 Foundation has produced a number of very interesting papers on this subject, warning that APEC risks splitting between its First World members who see it solely as a means to open more markets, and its suffering Third World members, the "Tigers" of just yesterday, who want it to actually do something about the crisis which is exacting a huge cost in human misery. The Foundation papers recognise also the great depth of opposition to everything APEC is promoting, from people throughout the Asia/Pacific region, including New Zealand.

These Asia 2000 Foundation papers are available from its Web site
http://asia2000.org.nz/issues

What's Wrong With APEC?

For a very detailed critique of APEC's role in the international and domestic fiasco of unrestricted foreign investment, which is playing such a leading role in the current meltdown of global capitalism, read the following article by Bill Rosenberg (based on CAFCA's submission to Parliament's Foreign Affairs, Defence and Trade Committee which is conducting an Inquiry Into New Zealand's Participation In APEC). New Zealand's specialist group on the subject is the Aotearoa/New Zealand APEC Monitoring Group (of which CAFCA is a member). That Group's press release of July 13, 1998 puts the case against APEC most succinctly:

"Our experience of free trade and investment and free market policies here in New Zealand tells us that APEC is wrong. We plan to expose and oppose APEC and the aggressive free trade and investment agenda which it promotes. Its underlying model of development denies communities the right to determine our own future, and advances the government of big business, by big business for big business. New Zealand ministers are currently using APEC to justify its support for Business Roundtable demands for zero tariffs (*since postponed. Ed.*). and privatising the producer boards.

"We are told there is no alternative - but that is a lie. There is nothing inevitable about globalisation - it is being driven by identifiable players to advance the interests of an economic elite, especially the transnational corporations that dominate the global economy. More and more people in this country are seeing that the free market and open economy do not deliver.

"APEC is not just about free trade. There are many other reasons why New Zealanders should oppose APEC and its twisted logic. There's the secretive, anti-democratic way in which it functions. There's the $50 million or so budgeted for the 1999 APEC Summit coming at a time of continued cuts to health, education, welfare and other sectors. There's the massive disruption that will be caused to Auckland during the Summit next September. And there's the package of extremist market reforms which it promotes which people right around the country are already grimly familiar with through Rogernomics, Ruthanasia, and Jennycide.

"We are not calling for the reform of APEC. We believe that the economic model which it promotes is fundamentally flawed and that the deep faith in the free market which APEC's supporters cling to is misguided and dangerous. It is promoting greater gaps between rich and poor, and a race to the bottom to compete in a global economy being reshaped for the interests of a few. This is a recipe for social, environmental, economic and political disaster".

Opposition To APEC 99

The APEC Monitoring Group has built up unparallelled expertise about APEC. "Since the 1994 APEC Summit in Indonesia, the Group has been involved in ongoing research, education and media work on APEC. Members of the group have attended alternative meetings on APEC held parallel with APEC Summits in Jakarta (1994), Osaka/Kyoto (1995), Manila (1996) and Vancouver (1997) as well as monitoring the official APEC meetings and their impact on the cities that have hosted the events" (press release, ibid; 13/7/98). Most recently, Aziz Choudry of Christchurch and Robert Reid of Wellington attended the alternative meeting on APEC held in Kuala Lumpur during the November 1998 Leaders' Summit.

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(APEC: From Page 3)

The APEC Monitoring Group has already started a campaign on APEC to educate the public and to counter the "good news hype" of the Government and business sectors. "Public fora and other educational activities are scheduled around each of the Senior Officials Meetings (SOM) to be held in **Wellington (February), Christchurch (April/May), and Rotorua (August), as well as a two day conference around the time of the APEC Leaders Summit in Auckland (September)**. "Our February forum in Wellington will focus on the human costs to workers of the APEC agenda. The April/May activities in Christchurch will concentrate on transnationals and foreign investment. The alternative forum in Rotorua in August will focus on forestry and fisheries - two highly sensitive sectors which have been targetted for early voluntary liberalisation at the 1997 APEC meetings. The Auckland conference in September will have a strong focus on the connections between our own experience of the 'New Zealand experiment' and the regional and global drive towards economic liberalisation being promoted by APEC. There will be a major emphasis on alternatives to the 'free market' model" (press release, ibid; 13/7/98).

Preparing For The Clampdown

The Government is determined that no incidents shall ruffle the smooth pond of the Leaders' Summit. Previous such summits have seen major Asian cities such as Jakarta, Osaka and Manila virtually shut down for days on end by security procedures to enable the delicate leaders to be untroubled by seeing any of the actual people of their host nation. The September summit in Auckland will be the biggest police operation in New Zealand history. In October 1998, the military, police and Security Intelligence Service (SIS) held Lawman 98, the country's biggest counter-terrorist exercise, simultaneously in central Auckland and the former Wigram Air Force Base (Christchurch). It involved "truck bombs, hostages", the works. It was doubtless aimed at "international terrorists" but also fulfilled the psychological warfare objective of branding opponents of APEC as "terrorists". The police were off to an early start, paying a November 1998 visit on me to ask about any planned anti-APEC activities in Christchurch.

Not only will we be tripping over our own cops, goons and spooks, but there will be a whole lot of foreign ones here too. Most of them are routinely armed, which is currently illegal here. The Government plans to obligingly amend the Arms Act to enable these bodyguards to bring their guns with them. If the SS aren't allowed to bear arms, then Clinton won't come. The SIS has been given the job of vetting the several thousand Kiwis who will have temporary menial jobs during the summit. All those potential terrorists amongst the waiters and bartenders.

We've already had a small taste of what to expect. In July 1996, the annual meeting of the APEC Trade Ministers was held in Christchurch. Opposition activities were centred around the Trading With Our Lives conference. During that, two SIS agents were caught breaking into the home of conference organiser, Aziz Choudry. He sued the Crown for $300,000 (*regular updates on the case have been sent out with previous Watchdogs. Ed.*). In July 1998, it made its first appearance in the Christchurch High Court. The SIS admitted it was them but said its agents were acting lawfully under an interception warrant. The judge ruled that he wanted to see (in the local SIS office) the documents that Aziz sought and that the SIS had refused to produce, after Jenny Shipley, the Minister in Charge of the SIS, cited "national security". He wants to see them for himself before deciding if the plaintiff (ie Aziz) can see them. The judge also ruled that the SIS has the right to covertly break into any premises associated with a person named on a warrant (we still don't know if Aziz was named on the warrant; that is amongst the withheld documents). Aziz has appealed the latter ruling; the SIS has cross-appealed the judge's decision to view the withheld documents. Both appeals were heard by a full bench of the Court of Appeal, in Wellington, in November, with the SIS represented by the Solicitor General and decision was reserved (the secret State realises the high stakes in this case).

"Media coverage of the court case arising from the bungled 1996 SIS break in at the home of Aziz Choudry is not making the vital connection. It took place during activities opposing an APEC Trade Ministers' conference. New Zealand is hosting all APEC meetings in 1999. Those who value democracy and human rights will need to be vigilant for plenty more such skullduggery by local and foreign intelligence agencies. Not to mention the same sort of police heavyhandedness that was imposed when Canada hosted the 1997 APEC Leaders' Summit.

"All in all, APEC is not worth it. APEC's free trade and unrestricted foreign investment policies have got us into the current economic mess. We don't need it, nor its travelling circus and armies of police, spies and amateur burglars. The Government should advise it to take the year off and leave New Zealand alone, whilst we repair the damage" (Murray Horton, letter to *Press*, 25/9/98).

What happened in Vancouver at the 1997 Leaders' Summit is instructive. It was held on the campus of the University of British Columbia and the Mounties' heavyhandedness, particularly their liberal use of pepper spray, led to court cases being taken against them, and such a clamour that an inquiry was opened into the matter, in late 1998. It has become a fullblown political scandal in Canada. Groups ranging from the Anglican Church to the Raging Grannies (singing pensioners)

were classified "anti-Canada forces" according to official documents. Sid Shniad, of British Columbia, wrote (28/9/98) to the *Listener* (which published it only in its on line edition):

"I read with interest about the bungled SIS break-in at the home of activist Aziz Choudry. Canada's media is currently dominated by revelations about unprecedented tactics used by the Royal Canadian Mounted Police (RCMP) in dealing with citizens who exercised their democratic right to protest at the APEC Summit in Vancouver last November.These matters are currently the subject of a number of civil cases and a police Public Complaints Commission.

"Canadians have recently learned that prior to the beginning of the APEC meetings, there was widespread police surveillance of groups opposing APEC. Then, when the leaders came to town, dozens of non-violent protesters were pepper sprayed on the campus of the University of British Columbia. Some were arrested for holding signs saying "free speech". According to newly revealed police documents, other arrests were aimed at "eliminating some of the more high profile members" of anti-APEC groups.

"Internal documents from our Prime Minister's Office and the RCMP reveal a concerted effort, on the orders of the Prime Minister himself, to keep a lid on protest activities. These efforts were based not on concerns for the security of the APEC Leaders, but on assurances made to Indonesian dictator Suharto by the Prime Minister and the Minister of Foreign Affairs
that Suharto would be spared the embarrassment of being confronted by protestors who objected to his abysmal human rights record.

"The Canadian and New Zealand governments present themselves as models of democracy. But their willingness to violate the rights of their own citizens in hopes of promoting trade with visiting dictators offers the clearest possible demonstration of where their true priorities lie. Like many other Canadians, I will be watching attentively as your government inflicts APEC on its citizens next year".

The Canadian government bent over backwards to accommodate (the since overthrown) Suharto. But it drew the line when his bodyguards asked what would be the Canadian response if they opened fire on Canadian protestors! They were told "no way". As Aziz Choudry wrote to the *Press* (24/10/98): "A heavily armed Canadian police emergency response vehicle secretly tailed the Indonesians, five of whom were eventually arrested after repeatedly disobeying security protocols and raising grave concerns among Canadian police officers that they might shoot peaceful protestors rather than expose Suharto to demonstrations..."

So this is the deadly circus coming to our country in 1999 (how suitably millenial). It, along with the election, will be the Big Issue for the movement in what promises to be an action packed year. CAFCA's policy is quite clear: no engagement, constructive or otherwise, with APEC, and full support for the whole range of opposition activities. See you on the barricades!

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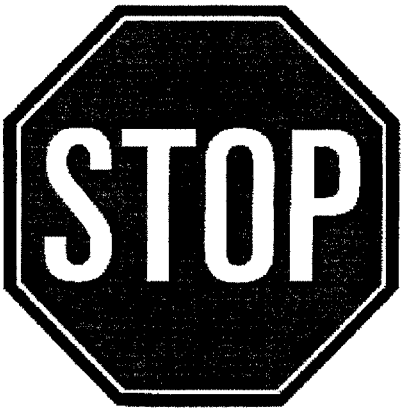

The Race To The Bottom

CHEQUES

Please Make Them Out Correctly

Please ensure that your cheques, for membership, donations, purchases, etc, are made out to CAFCA, and nobody else. If you wish to make a donation towards Murray Horton's pay, then make your cheque out to the CAFCA/ABC Organiser Account (which is a separate account).

MYTHS OF FOREIGN INVESTMENT IN NEW ZEALAND DEBUNKED:

CAFCA Submission To The Inquiry Into New Zealand's Participation In APEC

- Bill Rosenberg

Parliament's Foreign Affairs, Defence and Trade Committee is carrying out a little publicised inquiry into New Zealand's participation in Asia Pacific Economic Cooperation (APEC). The inquiry is a travesty of the democratic process: it is occurring years after New Zealand entered APEC, and indeed after it began making undertakings under its cloak, such as tariff reductions which have led to the loss of thousands of jobs. The Government is firmly committed to APEC, and is not going to change its mind simply on the basis of logic and facts.

Nonetheless, CAFCA, along with a number of other organisations opposed to APEC, decided it was worth taking the opportunity to make a submission in order to raise the level of debate. The following is a slightly edited version of CAFCA's submission, delivered to the Committee in August 1998. At time of writing, the submission awaits oral presentation to the Committee and no date has been set for hearings. Indeed there is no guarantee of any hearings.

The submission first looks at the lessons to be drawn from the Asian Crisis. Much of this material was drawn from the article on the economic crisis, in Watchdog 88. It then systematically pulls apart the common arguments for uncontrolled foreign investment in New Zealand.

Introduction

While APEC covers a number of policy areas, this submission focuses on foreign investment. This is not intended to minimise the importance of other areas including trade, tariffs, the environment, labour rights, education, both human and economic development, and the undemocratic nature of APEC's processes. Rather it is intended to be complementary to submissions by other organisations including the APEC Monitoring Group, CORSO, GATT Watchdog, and the Trade Union Federation, all of whose general approach we strongly support.

We focus on foreign investment because it is our area of specialist concern and expertise. Foreign investment has rapidly increased its presence in New Zealand's economy since the economic reforms started in 1984. Its influence has been economic and political. Government policy has been to encourage it by dismantling any restrictions, except where land is concerned (though remaining restrictions are largely unenforced). Claims are frequently made by Government and business spokespeople for its beneficial effects.

The essence of our submission is that those claims are based on anecdote and theory, not on an examination of the actual experience of New Zealand and the APEC region. When those experiences are examined, current deregulatory policies towards foreign investment are seen to be highly dangerous and indeed damaging to New Zealand's economic development and the welfare of its people. If foreign investment is to be part of a development strategy we must carefully control what we accept, and how it behaves if accepted.

APEC's investment principles are strongly deregulatory, and reminiscent of the Multilateral Agreement on Investment (MAI). They have learned nothing from the economic crisis in Asia which has caused significant rethinking about foreign investment even by supporters of otherwise open markets.

To directly address the objectives of the Seoul declaration which form the Foreign Affairs, Defence and Trade Committee's terms of reference for this inquiry, the evidence we present leads to the conclusion that:

* The current economic crisis, particularly the form it has taken in South East Asia, shows that uncontrolled foreign investment is a danger to the growth and development of the region, let alone the common good of its people;
* the crisis also dramatically illustrates that encouraging the mobility of capital leads to disasters;
* if the multilateral trade (and investment) system is to be strengthened in the interests of the region's peoples, it should be to increase controls on capital rather than to deregulate it;

* the uncritical acceptance of reduction of barriers to trade and investment needs urgent reconsideration – and indeed is receiving such consideration in other parts of the world.

We therefore conclude that unless the principles of APEC are radically changed it presents a danger to smaller and weaker economies in its region and submit that New Zealand should withdraw from it.

APEC's Investment Principles

APEC's "Non-Binding Investment Principles" were agreed at Jakarta, in November 1994. They are listed in Appendix 1 of this submission.

In the context of APECs over-arching agenda of trade and investment liberalisation (TILF) these principles can only be seen as a precursor to the Multilateral Agreement on Investment, being negotiated in the Organisation for Economic Cooperation and Development (OECD), with strikingly similar provisions and similar dangers. The MAI has attracted vociferous opposition from over 1,000 non-governmental organisations world wide. In particular it has been strongly opposed by local government, including Local Government New Zealand, the Invercargill, Dunedin and Christchurch City Councils, and community boards in the Waikato. In Canada and the US, municipal authorities of some of the largest cities have resolved to oppose it. The Toronto City Council and the San Francisco Board of Supervisors have stated their opposition, for example (*see elswhere in this issue for MAI update. Ed.*).

There is no doubt then that APEC will provide yet another international lobby for foreign investment in the region. This will be especially so under the agenda being advocated by the New Zealand government for 1999, which is to focus on the "basics" of trade and investment liberalisation rather than directly meeting human needs.

The Crisis In East Asia And Foreign Investment

Foreign Investment The Immediate Cause

The immediate cause of the crisis in South East Asia was the huge reliance on foreign investment by the worst affected countries, documented for example by Filipino academic, Walden Bello, who over a period of years has pointed out these structural problems and their likely consequences. Escalating current account deficits triggered the crisis[1].

In Indonesia, private foreign debt (US$55.5 billion) was at 25% of Gross Domestic Product (GDP) in 1997, two-thirds of which was due within a year, and a current account deficit which had risen from US$2.9 billion in 1994 to US$7.2 billion (about 3% of GDP) in 1995.

In the Philippines, the current account deficit was estimated to be around 7% of Gross National Product (GNP) in 1996, having doubled in three years. Its private foreign debt was about 13% of GNP in 1996, and total foreign debt about 40% of GNP (*see footnote 4 for explanation of GDP/ GNP. Ed).*

In Thailand, where the house of cards began its fall, foreign debt was US$90.5 billion (49.9% of GDP) in 1996, 81% of which was private debt and 42% of which was short-term debt (equivalent to eight months of exports). The current account deficit was mounting (7.9% of GDP) after falls in exports in 1996 due to investment going into property rather than export industries[2].

In Malaysia, foreign debt was 39.4% of GDP in 1996, of which 26.0% was short term. The current account deficit had fallen to 4.9% of GDP from a high of 10.0% in 1995[3].

In all these countries, high interest rates were encouraging overseas borrowing and investment in non-productive sectors such as property. All based their development strategies on International Monetary Fund (MF) and World Bank recommendations to welcome

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(Myths on Foreign Investment: From Page 7)
foreign investment and allow the free flow of capital and investment income. These strategies are virtually indistinguishable from APEC's investment principles.

Similarly, all were steadily dismantling any protection of their domestic economies under IMF pressure and APEC-backed World Trade Organisation (WTO) liberalisation programs.

Similarity To New Zealand's Economic Position

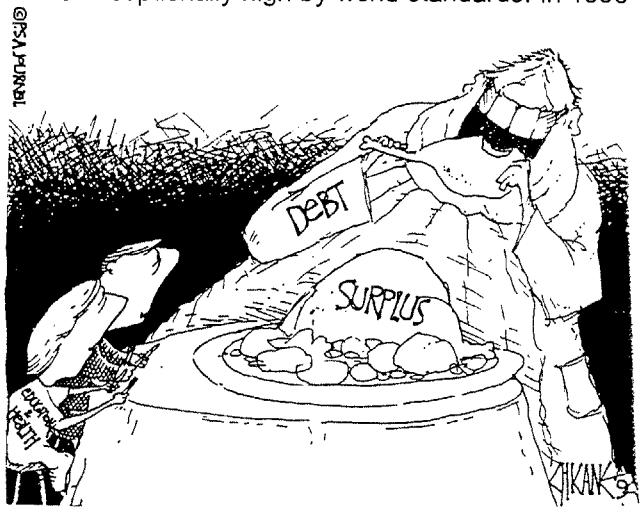
New Zealand's debt and current account deficit are both well above the levels that led to crisis and collapse in Southeast Asia. Rates of interest are amongst the highest in the OECD and insufficient investment is going into exports or into import substitution.

The current account deficit in the quarter to June 1998 was $6.6 billion, or 6.7% of GDP. Overseas debt is at yet another record – just a shade short of $100 billion, or 100.5% of GDP. If New Zealand completely stopped all imports of goods and services for three and half years, it would still not be paid off (*see Watchdog 88 for details and source. Ed.*). The fragility of the situation is indicated by the fact that of the March 1998 overseas debt, 41% was due in the next 12 months, yet it would take 18 months of exports to repay. Of the 1998 debt, 80% was private, 20% owed by Government.

Both the deficit and the debt compare very unfavourably with the IMF definition of "Heavily Indebted Poor Countries" (the most desperate of the developing countries). This definition includes low income countries with "present value of debt to exports higher than 220% or present value of debt to GNP higher than 80%"[4]. New Zealand's position is worse on both these criteria.

In addition, New Zealand's international liabilities are steadily worsening, as indicated by the international investment position. The stock of inward foreign direct investment has doubled as a percentage of GDP since 1991 and in March 1997 stood at 53.4% of GDP or $50,775 million[5].

This is exceptionally high by world standards. In 1995 (when it was 46.7% in New Zealand), the highest ratios for developed countries were Australia (30.8%), Belgium and Luxembourg (23.0%) Canada (21.7%), Ireland (20.2%), the Netherlands (28.4%), the U.K. (28.5%). Most were less than 20% and many less than 10%.[6] The position is even worse when it is considered that many of these countries had high outward investment to compensate.



The ratios were higher among a minority of developing countries, but with a few exceptions they do not make comforting company and are dominated by tax havens: examples include Liberia (113.9%), Seychelles (65.1%), Swaziland (80.4%), Dominica (78.5%), Grenada (62.8%) and other small Caribbean nations. The only significant developing economies with comparable ratios are Malaysia (52.1%), Pakistan (62.7%), and Singapore (67.4%).

This dependence on foreign investment is a direct cause of the current account deficit. It is in a vicious circle. Not only does the deficit lead to more overseas borrowing (or equity investment) and indebtedness, but that investment and indebtedness is the principal cause of the deficit. New Zealand is running a falling surplus on its trade in goods, an increasing deficit on its provision and purchase of services, and a healthy surplus – which fell substantially in the last year – on "transfers" (mainly financial transfers by migrants and Government). But there is a rapidly growing deficit on foreign investment income which dominates all the other components (*see tables in Watchdog 88. Ed.).*

As in Thailand, too much investment is going into the property sector as many commentators have pointed out. For example, analyst Brian Gaynor[7] has documented how investment is not going into the export sector: "New Zealand's exports grew by only 78% in the 1984-1997 period compared with 160% for Australia and 137% for the OECD average. Ireland, which has had little economic reform and no major asset sales, had export volume growth of 260% over the same period. ... The export sector has not been able to attract its fair share of the investment dollar". Thus our exports are not growing fast enough to pay for the runaway increase in payments to foreign investors. Neither are our import-competing industries able to compete sufficiently to reduce the demand for imports.

Our financial sector probably does not have the high bad debt levels of South East Asia, though this could change rapidly if property prices fall significantly, as has been predicted by some. It is also probably more transparently run and free from corruption. Those are, however, dominated by the other fundamentals – whether New Zealand can repay its debts and service its liabilities.

It would appear that the current position is sustained only by psychological factors – international financial dealers' confidence that Government

policies will continue to return them internationally competitive rates of profit at relatively low risk – not the state of the economy's fundamentals. It is difficult to overstate the danger inherent in this situation, both to the economy and to New Zealand's democracy.

Lessons Being Drawn

The events demonstrate dramatically the dangers inherent in reliance on foreign investment as a development strategy. It has led to rethinking of policy on foreign investment, and statements pointing out the problems it presents by prominent economists and political figures, including noted advocates of open economies and unregulated markets.

For example, Jagdish Bhagwati, one of the foremost authorities on trade, advocate of free trade, one of the architects of the General Agreement on Tariffs and Trade (GATT) Uruguay Round, and adviser to the Director-General of the GATT from 1991-1993, has written of "The Capital Myth: The Difference between Trade in Widgets and Dollars"[8]. Focusing on short-term, highly mobile, portfolio investment, he draws a sharp distinction between the theories favouring free trade and "the fog of implausible assertions that surrounds the case for free capital mobility."

Then why, he asks, has the world been moving in this direction? "The answer, as always, reflects ideology and interests – that is, lobbies. ... Wall Street's financial firms have obvious self-interest in a world of free capital mobility since it only enlarges the arena in which to make money".

He concludes: "And despite the evidence of the inherent risks of free capital flows, the Wall Street-Treasury complex is currently proceeding on the self-serving assumption that the ideal world is indeed one of free capital flows, with the IMF and its bailouts at the apex in a role that guarantees its survival and enhances its status. But the weight of evidence and the force of logic point in the opposite direction, towards restraint on capital flows. It is time to shift the burden of proof from those who oppose to those who favour liberated capital".

Dani Rodrik of Harvard University has raised similar questions. In a paper[9] which examined evidence relating economic success to unrestricted capital flows, he found "no evidence that countries without capital controls have grown faster, invested more, or experienced lower inflation. Capital controls are essentially uncorrelated with long-term economic performance..." In relation to the South East Asian crisis he concluded that it was much safer to control capital flows. "We can imagine cases where the judicious application of capital controls could have prevented a crisis or greatly reduced its magnitude. Thailand and Indonesia would have been far better off restricting borrowing from abroad instead of encouraging it. Korea might just have avoided a run on its reserves if controls on short-term borrowing had kept its short-term exposure to foreign banks, say, at 30%, rather than 70% of its liabilities. On the other hand, which of the recent blowups in international financial markets could the absence of capital controls conceivably have prevented? If the recent evidence teaches us anything, it is that there is a compelling case for maintaining controls or taxes on short-term borrowing. The three countries hardest hit by the Asian financial crisis—Indonesia, Thailand, and Korea—were the three in the region with the largest short-term obligations (in relation to reserves or exports)". Joseph Stiglitz, chief economist at the World Bank, has come to similar conclusions[10].

The objection may be raised that these comments refer to short-term capital flows, such as debt and portfolio investment, rather than foreign direct investment (where control is acquired) which tends to be long term. However the re-evaluation of capital mobility is important even for foreign direct investment for a number of reasons.

Firstly, the APEC principles, as with the proposed MAI and proposed changes to the IMF charter regarding capital convertibility, apply equally to all capital flows, whether short term or direct investment. Even if all foreign direct investment is regarded as "safe" (which we dispute below), the proposed actions to free it will also free these dangerous short-term movements.

Secondly, it is not easy in practice to draw a distinction between short term flows on the one hand, and direct investment and the remittance of the profits from those investments, on the other.

Thirdly, much of logic applied to the benefits (or rather lack of benefits) of short-term capital flows, also apply to foreign direct investment. The point is that foreign investment of any sort carries risks – to the economy, to the community, and to democracy. These studies exemplify in a dramatic way that a free market cannot be relied on to maximise the benefits of foreign investment to New Zealand. We must be selective of what we accept, and have controls to ensure New Zealanders see the promised benefits.

Perhaps most importantly in the present context, these re-evaluations indicate the dangers in cementing in through international agreements any economic policy as fundamentally important and as controversial as investment. It is bestowing the status of eternal truth on the liberalising policies APEC (and other agreements) advocate. Yet all economic policies must continually be revised in the light of real world experience.

Evidence Regarding Benefits Of Foreign Investment In New Zealand

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The list of benefits usually claimed for foreign investment is generally as follows. It should be emphasised that

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Myths of Foreign Investment: From Page 9)
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employment
increased efficiency and contributing to international competitiveness
access to technology
new management skills
use of capital
wider pool of assets and experience
access to markets

Employment

A variety of Government representatives, both political and official, have made the claim that "one third of working New Zealanders rely on jobs created directly or indirectly by foreign investment"[11]. This figure is now widely quoted, and misquoted as "foreign investment provides a third of all jobs". It is an estimate with minimal foundation in fact. The source is never given, so it is not easily verified, but our investigations trace it to the now defunct Foreign Direct Investment Advisory Group, whose secretariat informed us that it "probably" came from the executive summary of the United Nations' "World Investment Report 1994: Transnational Corporations, Employment and the Workplace". If that is so, it is a global estimate that has doubtful applicability to New Zealand.

Statistics New Zealand data showed only 17.6% of the labour force was employed in overseas companies in February 1995, the latest figures likely to be available when the "one-third" claim was concocted[12]. It had barely changed to 17.5% in February 1997. The "one third" claim presumably relies on doubling the 1995 figure to count those employed "indirectly" by foreign companies: for example employees of suppliers to those companies. The same logic can be applied in reverse. Many of the foreign firms rely on local operations for their existence: foreign companies, such as P & O, cleaning publicly owned hospitals are one example. It is just as true that over 90% of working New Zealanders rely on jobs created directly or indirectly by local investment.

The United Nations study mentioned above (pp 192-195) shows that the indirect employment generated by foreign investment varies greatly. Figures like the ones the Foreign Direct Investment Advisory Group quotes (one job indirectly reliant on every one directly created – a ratio of 1:1) are more likely for manufacturing where extensive use is made of local materials. In the recently destroyed motor vehicle assembly industry, the ratio of jobs created directly to jobs created in associated industries may have been as high as 1:3. However according to the United Nations report, most assemblers of products (such as in the Mexican maquiladoras, and many operations in New Zealand) had much smaller benefits to indirect employment. Much recent foreign direct investment in New Zealand has been in service industries or property where indirect employment is of quite a different nature, if it exists at all.

An example which is important because it involves the major site of "greenfields" foreign investment in New Zealand – forestry – is contained in a study of Japanese foreign investment in that industry. It found that "the resource-based investment, plus the export-focused manufacturing of the Japanese investors, somewhat limits the development of linkages within the New Zealand economy". Direct linkages (which might lead to the creation of indirect employment) were described as "minimal"[13].

Most jobs in overseas companies were not "created" by the foreign investor. Most recent foreign investment has been takeover rather than creation of assets and jobs. For example the Foreign Direct Investment Advisory Group estimated that the sale of privatised state assets "accounted for approximately 42% of total inbound investment to New Zealand over the decade [1986 to 1996]"[14]. Among published Overseas Investment Commission decisions in 1995, just half (50%) of the investments appeared to be greenfield activity, but these were worth only a quarter (24%) of the value, the great majority being in forestry. The remaining 76% by value were takeovers or restructuring of the ownership of existing investment[15].

Moreover, many of those working directly for overseas companies are not likely to lose their jobs if the foreign investor withdrew. For example, the withdrawal of the original overseas owners of Telecom has not in itself had any effect on jobs. There is still a need for a telephone system. The employees do not "rely" on foreign investment for their jobs: they rely on the existence of the industry.

On the other hand, many examples could be given of jobs being destroyed after a New Zealand company was taken over by a foreign investor: Telecom, TranzRail, the major banks, and Maine Investments (Goldman Sachs) are just a sample.

This trend is given credence by comparing the increase in foreign investment with the employment statistics quoted above. While foreign direct investment stock more than doubled between March 1992 and March 1997 from $22,743 million to $50,775 million (an increase of 123%), employment in overseas companies increased by only 43% from 183,021 to 262,110 full-time equivalent jobs. Or put another way, while foreign direct investment stock as a proportion of GDP rose from 31.5% to 53.4%, the employment it directly provided as a proportion of the workforce rose only from 15.1% to 17.5%[16].

policies will continue to return them internationally competitive rates of profit at relatively low risk – not the state of the economy's fundamentals. It is difficult to overstate the danger inherent in this situation, both to the economy and to New Zealand's democracy.

Lessons Being Drawn

The events demonstrate dramatically the dangers inherent in reliance on foreign investment as a development strategy. It has led to rethinking of policy on foreign investment, and statements pointing out the problems it presents by prominent economists and political figures, including noted advocates of open economies and unregulated markets.

For example, Jagdish Bhagwati, one of the foremost authorities on trade, advocate of free trade, one of the architects of the General Agreement on Tariffs and Trade (GATT) Uruguay Round, and adviser to the Director-General of the GATT from 1991-1993, has written of "The Capital Myth: The Difference between Trade in Widgets and Dollars"[8]. Focusing on short-term, highly mobile, portfolio investment, he draws a sharp distinction between the theories favouring free trade and "the fog of implausible assertions that surrounds the case for free capital mobility."

Then why, he asks, has the world been moving in this direction? "The answer, as always, reflects ideology and interests – that is, lobbies. ... Wall Street's financial firms have obvious self-interest in a world of free capital mobility since it only enlarges the arena in which to make money".

He concludes: "And despite the evidence of the inherent risks of free capital flows, the Wall Street-Treasury complex is currently proceeding on the self-serving assumption that the ideal world is indeed one of free capital flows, with the IMF and its bailouts at the apex in a role that guarantees its survival and enhances its status. But the weight of evidence and the force of logic point in the opposite direction, towards restraint on capital flows. It is time to shift the burden of proof from those who oppose to those who favour liberated capital".

Dani Rodrik of Harvard University has raised similar questions. In a paper[9] which examined evidence relating economic success to unrestricted capital flows, he found "no evidence that countries without capital controls have grown faster, invested more, or experienced lower inflation. Capital controls are essentially uncorrelated with long-term economic performance..." In relation to the South East Asian crisis he concluded that it was much safer to control capital flows. "We can imagine cases where the judicious application of capital controls could have prevented a crisis or greatly reduced its magnitude. Thailand and Indonesia would have been far better off restricting borrowing from abroad instead of encouraging it. Korea might just have avoided a run on its reserves if controls on short-term borrowing had kept its short-term exposure to foreign banks, say, at 30%, rather than 70% of its liabilities. On the other hand, which of the recent blowups in international financial markets could the absence of capital controls conceivably have prevented? If the recent evidence teaches us anything, it is that there is a compelling case for maintaining controls or taxes on short-term borrowing. The three countries hardest hit by the Asian financial crisis—Indonesia, Thailand, and Korea—were the three in the region with the largest short-term obligations (in relation to reserves or exports)". Joseph Stiglitz, chief economist at the World Bank, has come to similar conclusions[10].

The objection may be raised that these comments refer to short-term capital flows, such as debt and portfolio investment, rather than foreign direct investment (where control is acquired) which tends to be long term. However the re-evaluation of capital mobility is important even for foreign direct investment for a number of reasons.

Firstly, the APEC principles, as with the proposed MAI and proposed changes to the IMF charter regarding capital convertibility, apply equally to all capital flows, whether short term or direct investment. Even if all foreign direct investment is regarded as "safe" (which we dispute below), the proposed actions to free it will also free these dangerous short-term movements.

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It is therefore truer to say that foreign direct investment is a net destroyer of jobs than that it is a job creator. Again this is reinforced by the estimate that though in 1995 "around 50% of all operating surpluses (profits before interest and tax) made in New Zealand were made by overseas companies" they only provided 17.6% of the direct employment[17].

Thus to say one third of workers "rely" on jobs "created" by foreign investment is extremely elastic with the truth.

The rejoinder to the reality that foreign direct investment destroys jobs is that it increases efficiency and competitiveness. We discuss this below. That does not undermine the fact that provision of employment is a very weak justification for encouraging uncontrolled foreign investment.

Increased Efficiency And Contributing To International Competitiveness

If it were true that foreign direct investment brought increased efficiency to New Zealand, then the enormously increased role it now plays in the economy should have brought a noticeable increase in productivity to the economy as a whole. Yet a number of observers have noted, to their surprise, the very weak growth in labour productivity. In the economy as a whole, the rate of growth of labour productivity has fallen over the period since 1989, at a time of large increases in foreign direct investment[18].

The Reserve Bank Governor in a recent speech noted that "labour productivity averaged 1.9% per annum between 1985 and 1995, virtually indistinguishable from the 1.8% achieved between 1978 and 1985, while total factor productivity actually fell from 1.2% per annum in the earlier period to 0.9% per annum in the later period"[19]. Dr Brash noted his puzzlement: "In terms of productivity per person, however, the results are perplexing. This is, after all, where one would expect to see the dividend from all the reforms of the last 14 years. Yet the statistics on aggregate productivity do not show the dramatic improvement which one would have expected. Indeed, in recent years growth in labour productivity has been less than the 1% per annum which is the US norm, and well below the rates of productivity growth prevalent, at least until recently, in the fast-growing economies of East Asia."

We have already noted New Zealand's unexceptional export performance, indicating its lack of international competitiveness. One reason for this may have been the failure to increase productivity as rapidly as competitors. We are not saying that foreign investment has necessarily caused this position – simply that it has clearly not performed as its advocates claim. An analysis of *Management* magazine's 1995 Top 200 companies and Top 30 financial institutions adds weight to this. For the 210 companies in the Top 230 for which employee numbers were stated, turnover per employee was $392,000. For the overseas companies alone it was $383,000, and for the New Zealand companies alone, $413,000. Overseas companies were therefore 7% less productive per full-time employee than New Zealand companies. When broken down by major New Zealand Standard Industrial Classification (NZSIC), New Zealand companies were more productive for division 1 (Agriculture, Hunting, Forestry and Fishing), 3 (Manufacturing), 4 (Electricity Gas and Water) and 6 (Wholesale and Retail Trade and Restaurants and Hotels). The position was reversed for divisions 7 (Transport, Storage and Communication, although not for the majority subdivision 7.1, Transport and Storage), and 8 (Business and Financial Services). Divisions 2 (Mining and Quarrying), 5 (Construction) and 9 (Community, Social and Personal Services) were too poorly represented to make such comparisons useful[20].

But another, major, reason for the lack of competitiveness is indeed foreign investment. The exchange rate was greatly overvalued for an extended period by the huge influx of foreign investment attracted by high interest rates. We are now paying the price (in the current account deficit) for that influx.

Technology

There is no doubt that some foreign direct investment brings new technology to New Zealand. That is not sufficient reason to welcome the investment without further consideration however. Rather, it should be a criterion on which its acceptance depends. Some of this technology could be acquired simply by importing it for example, and by training suitable New Zealand employees or hiring them from overseas.

Telecom is frequently cited as an example of how foreign investment brings innovative technology to the country. Yet most of Telecom's new technology was installed before its privatisation. Since then it has slowed its rate of investment in favour of higher rates of dividend payments and share buy-backs, and has been widely criticised for being slow to introduce technologies commonly available overseas – let alone genuinely innovative ones[21].

It should also be borne in mind that New Zealand has been an exporter of innovative technological developments originating in the country, losing the long term commercial benefits to foreign investors who have purchased companies or technologies. In some of these examples, the takeover led to important aspects of an innovative operation being moved overseas, arguably leading to loss of skills, and certainly intellectual property, from New Zealand.

Some examples:

Allflex, the world leader and innovator in developing plastic and electronic animal ear tags, was sold first to

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Goodman Fielder Wattie, Australia, then Societé Française D'Innovations Pour L'Élevage, France, then resold to Goldman Sachs U.S.A. With its overseas ownership, its manufacturing operation in New Zealand was closed down in favour of plants elsewhere in the world.

Dynamic Controls Ltd, a leader in motorised wheelchair controls with 35% of the world market for the controllers in 1992, was taken over in 1993 by its main competitor, Invercare Corporation of Ohio, U.S.A.

Network Dynamics (now Teltrend NZ), a spin-off company from the former Department of Scientific and Industrial Research, marketing and developing computer network routers it had developed, was taken over by Securicor 3net of the U.K. which moved its manufacturing operations and co-founder to Australia. Production engineering decisions are made in the U.K., but research and development remains in Christchurch. The founders said the company was of insufficient size to survive on its own.

Trigon Industries Ltd, an innovator in plastic packaging with 730 employees internationally, was sold to the Sealed Air Corporation of the U.S.A. in 1994. Its founders and majority shareholders were to be employed as consultants for Trigon for the next five years.

Unisys (U.S.A.), which bought out the Christchurch developers of the LINC software development system in the early 1980's and then contracted them to develop it further, in 1992 moved the development operation to Australia contributing to the loss of 96 jobs, including many skilled computer professionals[22].

The U.S. owned Blue Star group bought a number of innovators including Auldhouse Computer Training, one of the leading computer training companies in New Zealand, in 1998, and PC Direct, the leading New Zealand computer manufacturer, in 1996.

In addition, overseas ownership can have a deadening effect on innovative research and development. A study in 1992 by Australian Professor Ron Johnston for the Ministry of Research, Science and Technology found that where transnationals do any research and development in New Zealand, it is largely just adaptation of existing products to local conditions. Among firms conducting research and development in New Zealand were "multinational firms operating in New Zealand to serve the domestic market, largely with industrial staples (petroleum products, chemicals, telecommunications equipment). Competitive strategy was largely determined by the parent firm. R&D was focused on the adaptation of overseas-developed technology to meet the local market or environ-mental conditions and to meet government regulations."[23] This is consistent with international experience: in 1992, only 12% of R&D expenditure by U.S. based transnationals was spent abroad[24].

Management skills

There is little other than anecdotal evidence on the contribution of management skills from overseas investors. However, the prima facie evidence is not good. Given the productivity problems already noted, Dr Brash's view is that: "there are at least some people beginning to worry in New Zealand that our management skills have not been up to the demands of operating in a global environment." He thought "one might reasonably expect this problem to disappear, now that we have a very open, competitive, economy, with low inflation creating no artificial distortions. Our openness to foreign investment and immigration can also be expected to help in this regard, and it is already true that the senior executives of some of our most dynamic organisations, in both the public and private sectors, are non-New Zealanders". Given that the openness has been in place for a decade and a half, that "expectation" seems more a pious hope. It would be safer to conclude that foreign investment has not provided a solution.

A noted management disaster was Maine Investments, a leveraged buyout backed by Goldman Sachs of the U.S.A. It led to the failure of a number of members of the group – formerly (as the Skellerup Group in 1995) the 25th largest company in New Zealand. Though locally managed, Goldman Sachs as the 84% owner cannot avoid responsibility for the loss of jobs and capital.

Another example is provided by the banks. Consumer Institute surveys have consistently showed the New Zealand owned banks attracting top rankings from customers. Similarly, the Tower Financial Services group, one of the few remaining major New Zealand owned groups in that sector, was voted fund manager of the year for the third consecutive time in 1998[25].

The management of the parents of a number of prominent companies in New Zealand have extensive records of convictions for corruption, price fixing and serious breaches of environmental and other statutes and regulations. Waste Management for example has had over US$170 million in fines ordered against it since 1980, with one judge citing fraud and dishonesty as part of the company's operating culture. It has had expansion plans blocked in the U.S. state of Indiana under its "Good Character" law (*see Watchdogs 86 & 87. Ed*) .[26]

Use Of Capital

New Zealanders are in fact good savers by OECD standards, as surveys by Westpac and FPG Research have shown. However a large part of household savings goes into housing – more than many other countries. The problem is therefore not so much lack of capital from household savings, but directing it into appropriate investment.

However on a national basis, the major leakage of savings of companies – always a large part of savings – to overseas owners is a significant problem. On average, 70% of income from foreign direct investment was remitted abroad and not reinvested in New Zealand between 1989 and 1997. However that has varied considerably over the period. For example, between 1989 and 1991, 41% more was paid out to foreign investors than was earned – a divestment rather than reinvestment. In 1997, after several years of significant (47%) reinvestment, a further divestment of 1.3% occurred[27]. Telecom, for example, has paid out between 70% and 95% of its annual profits as dividends since privatisation.

In other words, much of our capital requirement is due to the cost of servicing existing foreign capital. Foreign direct investment may not always be the most beneficial way to attract foreign capital when it is required. Borrowing may leave more control with New Zealand.

Wider Pool Of Assets And Experience

Again, there is no doubt that some foreign direct investment brings wider experience to New Zealand. Some clearly does not (at least, not in acceptable or useful ways): the purchase of Lilybank Station in the South Island high country by Suharto's son Tommy is one example (*see previous Watchdogs. Ed*); another, the Goldman Sachs role in the Skellerup Group's demise, has already been referred to. Again, rather than accepting wider experience as fact, it should be one criterion on which acceptance of the investment depends. Some of this experience can be acquired with more certainty and probably at lower cost by hiring staff from overseas or use of consultancies.

Access To Markets

Once again, this should be one of the criteria for acceptance, rather than taken as universal truth. The continuing, and worsening, balance of payments problems, and the evidence above regarding export performance, indicate that the large increase in foreign investment has not been significantly beneficial in finding new export markets; or at least that any advances in exports have been offset by increased imports. In fact, since the service industries have been the dominant area of recent foreign direct investment, there is relatively little potential for increased export markets.

Forestry is a major exception to this trend, but many of the foreign operators are vertically integrated, providing possible new markets but with the risk of being tied to those markets. If the company goes, the markets go with it, and it has little incentive to diversify its markets (*see elsewhere in this issue for details of the crisis in forestry exports. Ed.*).

Market access through foreign direct investment can be a two edged sword if it means being tied to markets. The history of British owned meat companies tying our markets to the U.K. before it entered the European Union, and the reliance on a relatively small number of markets for log exports, are two examples.

We have seen other examples of foreign investors buying their New Zealand suppliers of raw materials including wasabi (Tominaga Boeki Kaisha Ltd and Marui K.K. of Japan), flowers (Mitsui Group), vineyards (various), cherries (All Nippon Airways of Japan), vegetables (Grocorp, owned 49% by Sanyo General Capital Company of Japan), forestry and tourism. New markets are not necessarily the result: it is more likely the suppliers become tied to the vertical supply chain. Further, a transnational company with operations in many parts of the world may have no interest in seeing a New Zealand subsidiary compete with its other subsidiaries by exporting into their markets.

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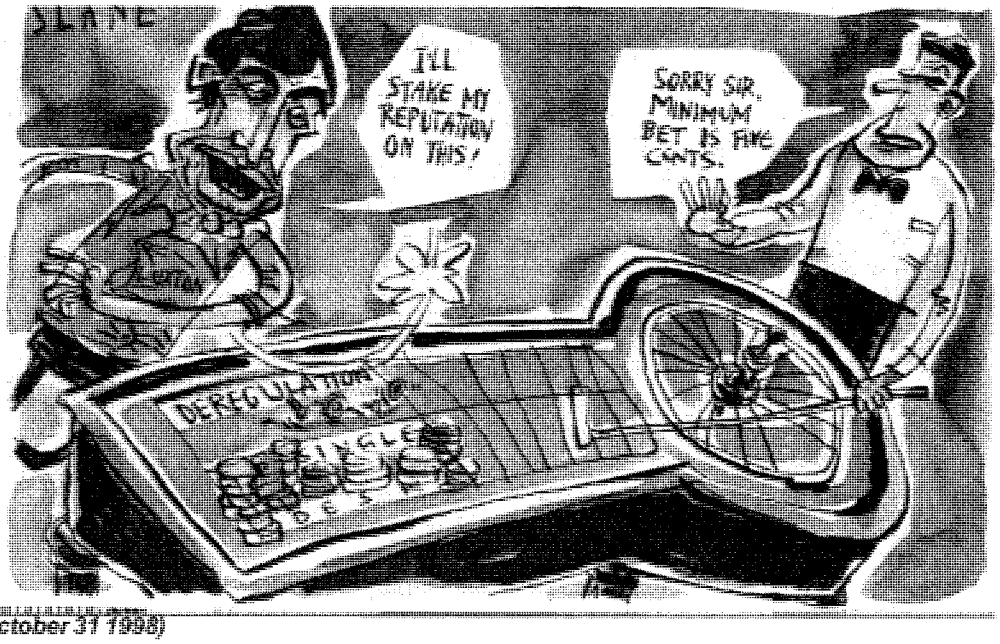


(Listener, October 31 1998)

(Myths of Foreign Investment: From Page 13)

Evidence Of Disadvantages Of Foreign Investment In New Zealand

Disadvantages

A partial list of disadvantages often cited is:

Reducing sovereignty and policy options
Export of profits and burden on current account
Dominance

Reducing Sovereignty And Policy Options

It is claimed that there is no danger to New Zealand's sovereignty from transnational companies because they are subject to New Zealand law. While that is technically true, it ignores the reality of their ability to influence Government policy. This can be through relentless persuasion via their ability to hire lobbyists, favourable researchers, public relations and advertising experts, and other advocates, to influence public opinion and those in power. An example is the ongoing campaign waged by the pharmaceutical companies against Pharmac and restrictions on availability of certain drugs.

An example of the type of research produced in this cause is the widely quoted 1995 KPMG survey on foreign investment in New Zealand. Its report gave little clue as to the methodology used. It is of doubtful validity. For example, it was based on a survey of 700 New Zealand registered companies with more than 25% foreign ownership, of which only 130 companies (19%) replied and an additional 59 companies were partially included (it is not made clear in which results) using public information. No analysis was given as to whether the 700, the 130 or the 59 formed a representative sample, and in fact it appears that they did not: the distribution of the companies and employees across industrial sectors was quite different from the authoritative Statistics New Zealand survey of all economically significant enterprises. Neither has the questionnaire or methodology been published. It appears to have asked loaded questions of a limited sample of business people.

Even this unsatisfactory report has been misquoted. The Ministry of Foreign Affairs and Trade, for example, in its defence of the MAI, claimed that only 10% of profits were remitted overseas. But the survey stated that 10% of *value added* was remitted. Value added includes such major items as wages and depreciation. It also includes interest, which very likely will go overseas (it almost certainly goes to an overseas company, given the overwhelming overseas ownership of our finance sector, and may well go to the parent company). Depreciation and the profit retained in the business may well be spent overseas, perhaps with a parent company. The KPMG survey did not analyse these other items. The usual measure of retention of profits is the proportion of net profits that are unremitted. KPMG's data indicate that only 37% of net profits were retained in the companies surveyed, and 47% retained in New Zealand. This compares with Statistics New Zealand's data on international investment income which for the period 1989-95 showed average retention in New Zealand of 40%.

Representatives of transnational companies are used as close advisers to government on policies which directly affect their interests. An example is the disbanded Government-funded Foreign Direct Investment Advisory Group whose membership consisted largely of prominent executives of transnationals represented in New Zealand. Its objectives included to "act as a source of advice and information on international investment issues to the Government and general public" reporting directly to the Prime Minister, Deputy Prime Minister and Minister of Finance. Its publications and press statements were one sided advocacy of foreign investment.

The companies' enormous financial strength allows them to intimidate all but the most determined opposition when matters are taken to the courts (such as the case of mining in the Coromandel where huge Environment Court costs penalised opponents). But most distinctive and decisive are their ability to rally support from foreign governments, and to threaten withdrawal of capital and jobs.

The use of foreign governments has been documented by CAFCA in the case of Comalco's negotiations over its power price with the Muldoon Government, when political leaders in the U.K., U.S., Japan and Australia were called on for support. It has been seen in recent months over the issues of parallel importing and Government policy on pharmaceuticals, where U.S. officials have effectively threatened action on other trade relationships.

The threat of capital flight is a very real one for short-term investment. It puts an extraordinarily high price on Government policies which are not favoured by those investors. Those policies are frequently ones favourable to ordinary New Zealanders – such as ones which increase Government spending or increase wages and salaries at the expense of corporate profits.

An example of large scale capital movement for speculative purposes, which indicates the power available to such operators, was given by a U.S. currency trader for Bankers Trust, Andrew Krieger. He claimed that in late 1987 he "played" several hundred million – possibly as much as a billion – New Zealand dollars against New Zealand's currency, leading to a crash by 10% of the value of the New Zealand dollar[28].

Some pretend this is a virtue out of necessity. The former chairman of the Foreign Direct Investment Advisory Group and Chief Executive of Bankers Trust New Zealand, Gavin Walker, put it like this: "The indirect effects of any significant action to limit foreign investment would go further. If we were to backtrack, there would

be a loss of confidence in the country's direction, an increased country risk premium (meaning higher interest rates), and a fall in the value of the New Zealand sharemarket. Investors – foreign and domestic – would conclude if New Zealand was foolish enough to take such a step, worse would inevitably follow... A liberal policy on foreign investment has much to commend it, both for traditional reasons and for the greater constraints it places on government today to follow sound policies".[29] Dr Brash has made similar statements[30]

Yet that line of argument can only be attractive to those who support policies which Bhagwati described as favouring "Wall Street's financial firms" and their like. Unless it is thought there will never again be any policy alternatives and that current policies are an eternal truth, there clearly is in practice a severe restraint on sovereignty and policy.

Export Of Profits And Burden On Current Account

As has been documented above, the remittance of profits overseas is causing considerable problems to New Zealand's economy. It is the major cause of the continuing balance of payments problems, which are currently at a crisis level and expose the country to considerable risk.

A significant portion of New Zealand's growth since 1984 has accrued to overseas investors. Approximately a quarter of New Zealand's real growth per capita during that period increased income to overseas investors (net of the relatively small income from New Zealand investments overseas). In other words, while the economy grew 16% per New Zealand resident from 1984 to 1998, only 12% growth benefited New Zealanders, the remainder went to overseas investors. Between 1990 and 1998 the trend intensified: of the 9% real growth per capita, only 5% stayed with New Zealand residents. The usual rejoinder is that export of profits does not matter: the beneficial effects to the rest of the economy outweigh those problems. We have already shown that those benefits are theoretical rather than real.

Dominance

Overseas companies dominate many sectors of the New Zealand economy. To that extent the New Zealand is highly reliant on them, increasing their influence in both commercial and political arenas.

For example, of the *Management* Top 200, in 1995, 118 were overseas companies, and were larger on average than the New Zealand ones. They dominated all the industrial sectors other than primary production, research, and transport and tourism, taking 60% to 100% of the top places. Most of the remaining companies were majority owned by central government, local government, or cooperatives. A number have since become overseas owned[31].

Some examples:

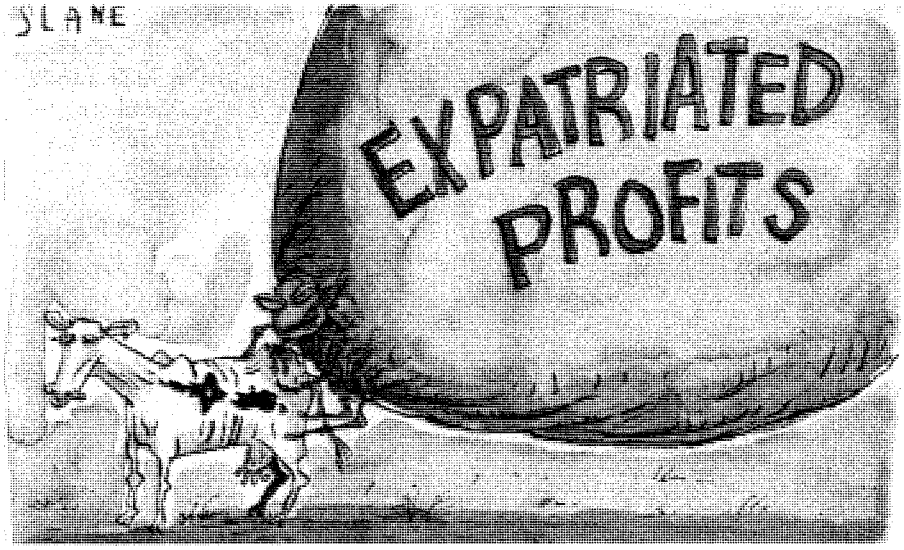
In biscuits, Arnotts (U.S.A.) and Griffins (France) hold 90% of the market.

Flour production is dominated by two overseas companies: Goodman Fielder and Allied Foods who together are estimated to have up to 85% of New Zealand flour milling sales and are the top two bread bakers.

In brewing, DB (Singapore/Netherlands) and Lion Nathan (Japan) hold over 90% of the market . Circulation of daily newspapers is dominated by Independent Newspapers Ltd (News Ltd, Australia/U.S.A.) and Wilson and Horton (Ireland) which in 1998 together owned 81% of daily press circulation of newspapers with under 25,000 circulation (the main provincial newspapers), and 92.4% of the metropolitan readership (those newspapers with more than 25,000 circulation)[32].

Petroleum supply (including about 20% of petrol stations selling 80% of all petrol) is owned all but 3 to 4% by BP, Caltex (Socal/Texaco), Mobil, and Shell, who control the only petroleum refinery. A report by the Institute of Economic Research for the Ministry of Commerce,

(Continued on Page 16)



(Listener, July 11 1998)

(Myths of Foreign Investment: From Page 15)
released in February 1997, concluded that the oil companies had gained from increasing petrol price margins since deregulation of the industry in 1988, which "suggest at least tacit collusion".

Domestic airlines are dominated by Ansett (Australia/ U.S.A.), and Air New Zealand (Australia, Singapore/ Malaysia/diverse). Rail transport is fully overseas owned (U.S.A.).

New motor vehicle supply is entirely overseas owned (Ford, General Motors, Toyota, Mazda, Honda, etc).

New computer hardware and software supply is largely overseas owned; the main national retailers are Brimaur and Renaissance (Singapore), Computerland (Singapore), Software Spectrum (formerly Essentially: U.S.A.), Noel Leemings (U.K.), PC Direct (U.S.A.), and Southmark (Japan/U.K.).

Telecommunications, where Telecom (USA) has a monopoly over domestic telephone connections, and approximately 80% of the tolls market , and whose main competitors in other areas are all overseas companies: Clear (USA./UK), BellSouth (USA./Singapore), Telstra (Australia), Ericsson (Sweden), and Blue Star (USA).

Blue Star also dominates the office supplies and equipment market to the extent that it has attracted Commerce Commission monitoring . Its main competition is U.S. owned Corporate Express Australia, and the Office Products Depot group, an owner-operated chain of shops with a "strategic alliance" with two Australian chains, Office Products Promotions Co-operative and Office Network.

There is only one significant New Zealand owned pharmaceutical manufacturer.

All major banks are now overseas owned, the much smaller Taranaki Savings Bank the only significant choice. *Management's* 1995 Top 30 financial institutions, 20 were overseas owned. Of the top ten insurance companies (ranked by assets), only one was a New Zealand company, a mutual: Tower Corporation, which is in the process of demutualising.

The sharemarket is also overseas dominated, approximately 60% of shares being held overseas. The takeover activity, largely overseas-led, of the last decade, has led to a significant reduction in the number of listed companies, making new investment opportunities relatively rare. This is one symptom of a crowding out of local investment.

Conclusions

The policies of freeing movement of capital and investment income are an integral part of APECs principles and its programme for new agreements. Intent to create agreements on foreign investment is implied by the Investment Principles, and is implicit in the current focus on infrastructure in APEC's forums, particularly its Business Advisory Council. These discussions are closely tied to privatisation policies and programmes.

The policies are justified in terms of uncritical views of foreign investment, frequently based on little more than theory, ideology and carefully chosen anecdote. Often the advocates have clear vested interests in such policies. That is why we have gone to some lengths in this submission to look at foreign investment in New Zealand on the basis of evidence rather than assertion.

We believe that uncontrolled foreign investment constitutes a danger to New Zealand's well-being, and that APEC's record and dominant philosophy is to strongly encourage this state of affairs.

While affirming our internationalist outlook and our active wish for closer cooperation and cultural ties between the peoples of the region, we submit that APEC is a creature of the past whose policies have been shown in recent years and months to be a dangerous failure. Unless the principles of APEC are radically changed, it presents a danger to smaller and weaker economies in its region and we submit that New Zealand should withdraw from it.

APPENDIX 1

APEC's Non-binding Investment Principles

Transparency
Member economies will make all laws, regulations, administrative guidelines and policies pertaining to investment in their economies publicly available in a prompt, transparent and readily accessible manner.

Non-discrimination Between Source Economies

Member economies will extend to investors from any economy treatment in relation to the establishment, expansion and operation of their investments that is no less favourable than that accorded to investors from any other economy in like situations, without prejudice to relevant international obligations and principles.

National Treatment

With exceptions as provided for in domestic laws, regulations and policies, member economies will accord to foreign investors in relation to the establishment, expansion, operation and protection of their investments, treatment no less favourable than that accorded in like situations to domestic investors.

Investment Incentives

Member economies will not relax health, safety, and environmental regulations as an incentive to encourage

foreign investment.

Performance Requirements

Member economies will minimise the use of performance requirements that distort or limit expansion of trade and investment.

Expropriation And Compensation

Member economies will not expropriate foreign investments or take measures that have a similar effect, except for a public purpose and on a non-discriminatory basis, in accordance with the laws of each economy and principles of international law and against the prompt payment of adequate and effective compensation.

Repatriation And Convertibility

Member economies will further liberalise towards the goal of the free and prompt transfer of funds related to foreign investment, such as profits, dividends, royalties, loan payments and liquidations, in freely convertible currency.

Settlement Of Disputes

Member economies accept that disputes arising in connection with a foreign investment will be settled promptly through consultations and negotiations between the parties to the dispute or, failing this, through procedures for arbitration in accordance with members' international commitments or through other arbitration procedures acceptable to both parties.

Entry And Sojourn Of Personnel

Member economies will permit the temporary entry and sojourn of key foreign technical and managerial personnel for the purpose of engaging in activities connected with foreign investment, subject to relevant laws and regulations.

Avoidance Of Double Taxation

Member economies will endeavour to avoid double taxation related to foreign investment.

Investor Behaviour

Acceptance of foreign investment is facilitated when foreign investors abide by the host economy's laws, regulations, administrative guidelines and policies, just as domestic investors should.

Removal Of Barriers To Capital Exports

Member economies accept that regulatory and institutional barriers to the outflow of investment will be minimised.

Footnotes

[1] The following data where not otherwise stated comes from "Addicted to Capital: the ten year high and present day withdrawal trauma of Southeast Asia's economies", by Walden Bello, in *Focus on Trade*, Number 20, November 1997, and Asian Development Bank data.
[2] IMF Article IV Consultation with Thailand, concluded 10 June 1998.
[3] IMF Article IV Consultation with Malaysia, concluded 20 April 1998.
[4] See for example the IMF's Web site, http://www.imf.org/external/pubs/ft/pam/pam51/annex.htm. The IMF uses the measure "net present value" of a country's debt, rather than its face value to try to take account of the concessionary interest rates (and hence lower cost of debt service) that developing countries may have for some of their debt. It is not possible to calculate the net present value of New Zealand's overseas debt without detailed knowledge of the terms of the loans involved, but since almost all of New Zealand's debt will be at market rates, its net present value in the IMF's terms should not differ greatly from face value. The IMF also uses GNP rather than GDP. GNP is GDP less the part of the country's income that goes to overseas residents, net of equivalent income from abroad. In other words, while GDP is the total output of the country, GNP is the part that remains in the country and directly benefits New Zealanders. In New Zealand's case, GNP is therefore significantly lower than GDP, and debt ratios are even worse: e.g. the current account deficit was 7.8% of GNP in 1998.
[5] Statistics New Zealand: *New Zealand's International Investment Position*.
[6] All data in this paragraph other than for New Zealand are from the *World Investment Report* 1997, United Nations, Annex Table B.6, p.339ff. The New Zealand data is calculated from revised Statistics New Zealand data, and is therefore more accurate than that provided in the UN report (which gives 43.9% for NZ).
[7] *New Zealand Herald*, "Roundtable wedded to rigidity", 13 March 98, p.E2.
[8] *Foreign Affairs*, May/June 1998.
[9] "Who needs capital-account convertibility?", February 1998, available at http://www.stern.nyu.edu/~nroubini/asia/AsiaHomepage.html.
[10] For example, "More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus", WIDER Annual Lectures 2, 1998; "Boats, planes and capital flows", *Financial Times*, 25 March 98.

[11] For example, the MFAT presentation in support of the MAI; and address by Lockwood Smith, Minister Of Forestry, to the New Zealand Forestry Owners Association Annual General Meeting: "The MAI: Securing New Jobs", Waipuna Hotel, Auckland, 12 November 1997.
[12] Employee numbers (full and part time) from *Business Activity Statistics*, "Enterprises and Full-time Equivalent Persons Engaged by Degree of Overseas Equity and Industrial Classification", as a percentage of the Labour Force (see for example, the *New Zealand Official Yearbook* 1998, pp.305-306).
[13] "Japanese Foreign Investment in the New Zealand Forestry Industry", by Elizabeth Jarray, in "Foreign Investment: the New Zealand Experience", edited by Peter Enderwick, Dunmore Press, 1997, p.109.
[14] "Inbound Investment: Facts and Figures", Foreign Direct Investment Advisory Group, August 1997, p.6.
[15] "Foreign Investment in New Zealand: the Current Position", by Bill Rosenberg, in "Foreign Investment: the New Zealand Experience", edited by Peter Enderwick, Dunmore Press, 1997, p.59.
[16] The data for the stock of foreign direct investment comes from *New Zealand's International Investment Position*; the employment data is from *Business Activity Statistics* and labour force data for the two years.
[17] Rosenberg, op. cit., p.48.
[18] See for example, "The New Zealand Macroeconomy: a briefing on the reforms", by Paul Dalziel and Ralph Lattimore, Oxford University Press, Auckland, 1996, p.69.
[19] D. Brash, "New Zealand's economic reforms: A model for change?", 3 June 1998, quoting Viv Hall, "New Zealand's Economic Growth: Fantastic, Feeble, or Further Progress Needed?", *Victoria Economic Commentaries*, March 1996.
[20] Rosenberg, op. cit., p.44.
[21] See for example "Tough Calls", by Gordon Campbell, *Listener*, 17 May 1997.
[22] The examples above are updated from Rosenberg, op cit, pp. 39-40.
[23] "Technology Strategy in New Zealand Industry" by Professor Ron Johnston, Centre for Technology and Social Change, Illawarra Technology Corporation, University of Wollongong, Australia. Ministry of Research, Science and Technology, *Report* No. 12, November 1991, p.4.
[24] *World Investment Report* 1995: "Transnational Corporations and Competitiveness", United Nations, New York and Geneva, 1995, p.151.
[25] "Tower on top", *Press*, 25 June 1998, p.19.
[26] "WMX Payout to Developers is Ordered", by Jeff Bailey, *Wall Street Journal*, 16 December 1996; Environment Background Information Center,
http://www.envirolink.org/orgs/ebic/company/wmx; and judgement transcripts.
[27] Statistics New Zealand - *Direct Investment Income*.
[28] "The Money Bazaar - inside the Trillion-dollar world of Currency Trading", Andrew J. Krieger with Edward Claflin, Times Books N.Y., 1992, p.93ff.
[29] *Evening Post*, "Foreigners can't take our land away", 31 July 95.
[30] For example, "New Zealand and International Financial Markets: have we lost control of our own destiny?", speech by D. Brash, 29 June 1998 to the 31st Foreign policy School, University of Otago, Dunedin.
[31] This and the following two paragraphs are updated from Rosenberg, op cit, p.45 ff.
[32] "Newspapers - Daily, non-daily, Weekly, Community", Summary of Audited Circulations, New Zealand Audit Bureau of Circulations, period ended 31 March 1998.

"A BEGINNER'S GUIDE TO FOREIGN CONTROL" Murray Horton's Paper Available

For the past several years, Murray Horton has used his "A Beginner's Guide to Foreign Control" as the basis for speeches and papers delivered in Christchurch, and around the country. He makes sure that it is continously updated. But at 39 pages it's far too long for us to consider publishing.

That's why we have decided to make copies available to members who request them. It covers: the global context; foreign control in Aotearoa; myths about foreign control; future trends; "free" trade; the MAI; and what we can do about it.

You can order it from CAFCA. Enclose $5 to cover copying and postage.

MAI

They Seem To Have Trouble Starting Its Engine

The proposed Multilateral Agreement on Investment (MAI), aka the Magna Carta for transnational corporations (TNCs), was fought to a standstill in early 1998 by a truly magnificent international and New Zealand campaign (*for a detailed critique of the MAI, see Watchdog 85; the campaign against it was detailed in #87. Ed.*). The Organisation for Economic Cooperation and Development (OECD) agreed to suspend all negotiations on it for six months, resuming in October 1998. The six month period was supposed to allow the OECD to sell the message better (where have we heard that before?) and the 29 member governments to consult their people about it. You don't remember being consulted? You must have been out the day the Government's intensive, door to door consultation team came knocking on your door. Not.

New Zealand was one of the vast majority of OECD members not to undertake any consultation whatsoever. And the only previous consultation here had been exclusively with Maori, through a series of 1998 hui that went disastrously wrong for the Government (*see Watchdog 87 for details. Ed.*). Basically the MAI dropped out of both the media and public consciousness. But it certainly hadn't gone away.

Vive La France!

October rolled around and problems started for the OECD before the negotiations even began. France pulled the plug and announced that it would not rejoin the OECD negotiations. Lionel Jospin, the Prime Minister, said that France is still committed to free trade and investment: "'But I think in light of recent turmoil — the hasty and sometimes unreasonable movements that have gripped markets — it does not seem wise to us to see, to an excessive degree, private interests encroaching on the State's sphere of influence. It is one thing to delegate sovereignty within the framework of our own community, that of the European Union, in a process controlled by governments...it is another thing to concede sovereignty to private interests under the pretext of a discussion of a code on international investment,' Jospin said to cheers from Socialist and Communist deputies. Magda Aelvoet, president of the environmentalist Green Group in the European Parliament, said France's decision was a 'great victory'' for the Greens and for non-governmental organisations. 'We hope that this is the fatal blow for an agreement which ... would have reduced the sovereignty of states in favour of private investors and would not have respected social, environmental and cultural rights'...'Clearly this is a disaster for the OECD,' a source close to the agency said. The source said inclusion of developing countries in the talks, a key French demand, could pose nearly insurmountable problems in reaching an accord..." (Reuters, 14/10/98).

France wants the MAI negotiations transferred to the World Trade Organisation (WTO) but with seven conditions attached: "I) to exclude portfolio investment and operations on the financial market from the definition of investment, thus limiting the scope of the Agreement to foreign direct investment; ii) open the dispute settlement mechanism solely to States and not to investors, in order to respond to criticism that only the large companies would have the means to initiate legal proceedings; iii) do away with the notion of `complete and constant protection' in the article on `general treatment' granted to foreign investors (which would have allowed them to claim compensation in the event of strikes or demonstrations); iv) abolish the notion of `measures with effect equivalent' to nationalisation or expropriation, which leaves too large a margin to international judgement; v) reduce the list of measures banned in matters where there is an `obligation to achieve results'; vi) abandon the `pawl' clause which prevents a State from going back on a concession; vii) ensure the effective participation of emergent countries..." (Agence Europe; 19/10/98; "Lalumiere Report Specifies The Conditions Whereby France May Resume Negotiations On the MAI [But Not Within The Framework Of The OECD"]).

New Zealand Waits And Sees

Then, lo and behold, New Zealand (formerly the staunchest of the staunch in pushing for the MAI) announced that it was not happy with the MAI and was not prepared to sign it yet. NZ officials would attend the negotiations but only in a wait and see capacity. "As a fundamental principle, New Zealand will retain the right to make and implement policies in respect of New Zealand's indigenous Maori people, arising out of the provision of the Treaty of Waitangi which is the founding document of our nation. This principle will not be subject to future negotiation or rollback. On the question of other such Reservations - of a generic or country specific nature - New Zealand will retain sovereignty over such assets and services as the New Zealand Government may deem appropriate... It remains to be seen, in light of these considerations, whether it will prove possible for the OECD's resumed work to develop a draft treaty that will genuinely enhance world trade and investment. The New Zealand Government's position is that it could only sign a MAI which it considered, after careful reflection, to be in the interests of all New Zealanders..." (Ministry of Foreign Affairs and Trade, New Zealand

(Continued on Page 20)

(MAI: From Page 19)

Statement To The Meeting Of The Negotiating Group Of The Multilateral Agreement On Investment, 20-21 October 1998).

GATT Watchdog, the Christchurch based group which has led the opposition to the MAI, was justifiably sceptical of the Government's change of mind. "It is desperate to put a domestic spin on the mess that the MAI is in, hoping that people will forget the profoundly anti-democratic way in which it has dealt with the Agreement, the uncritical zeal with which it has promoted it, and the puerile, patronising way in which it has treated critics of the Agreement..." (press release, 19/10/98). But the Government's reversal did embarrass Labour, which is committed to globalisation and whose front bench contains Mike Moore, the most fervent supporter of the MAI and the whole globalisation shooting box. Indeed Mad Mike has just had published a whole book supporting it. He is currently lobbying hard to be appointed the next secretary general of the WTO, and GATT Watchdog has offered to contribute to any collection to help finance his bid. Having one such as he out of NZ and in charge of the world's biggest trade body can only be a win-win situation, to use their language.

International Campaign

The October negotiations came and went, without anything being resolved. Any OECD decision was deferred until later in 1998. This year, next year, maybe, never. French NGOs organised a major international conference and protest activities to coincide with the Paris negotiations. The only Australasian representative present was CAFCA's very own Liz Griffiths (who Chunnelled to Paris, at the end of a UK holiday). Several hundred people from 23 countries roundly denounced both the MAI and the broader agenda of unfettered TNC rule. This mob stormed, not the Bastille, but the International Chamber of Commerce, identifying it as a key player in the drive for the MAI. The bright light of publicity has been shone on all sorts of shy slugs hiding under rocks. During an international day of action in September, New Zealand pickets singled out the Employers Federation, which is virtually the sole NZ representative on the very powerful and influential Business and Industry Advisory Committee of the OECD.

It would appear that the MAI is dead at the OECD, to all intents and purposes. But the battle is far from over. The move is on to transfer it to the WTO, from whence it originally sprang. If passed there, it commits over 160 countries to it, not just the 29 who belong to the OECD. But the movement, both in New Zealand and globally, can take great heart in the success we have achieved thus far in fighting this monstrosity to a standstill. The TNCs and their mouthpieces are not used to things not going their way. The precedent has been established, so let's build on that foundation.

NO MAI, NO WAY!

PHOTO: [illegible]

1998 AGM MINUTES

The 1998 CAFCA AGM was held at the Christchurch WEA on September 21. 21 members were present. Bill Rosenberg chaired. Apologies were accepted from Mick Robertson, Wolfgang Rosenberg, Martin & Lois Griffiths, Leigh Cookson, John Graham, John & Katherine Peet, and Marie Venning. The 1997 Minutes were read by the secretary, Murray Horton, and accepted. One matter arising - although CAFCA is unable to open a bank account with the Taranaki Savings Bank (see Organiser's Report), we now do have a term deposit with it.

The 1997/98 accounts were presented from the chair, as both the bookkeeper (Liz Griffiths) and the auditor (Wolfgang Rosenberg) were absent. Despite expenditure being $1,100 more than income, CAFCA is in a healthy financial position. There were heavy expenses, notably financing the Taking Control conference. The meeting accepted the accounts, and thanked both Liz and Wolf for their essential work.

Bob Leonard reported on the CAFCA/ABC Organiser Account, which pays Murray Horton. 1997/98 was $836 down on 1996/97. The balance, as of the AGM, was $6,849.99. Bob once again stressed the importance of donations. The meeting passed a vote of thanks for Bob.

Election of officers. Murray Horton was re-elected as secretary. The committee was re-elected - Bill Rosenberg, Dennis Small, John Ring, Reg Duder, Ray Scott and Liz Griffiths (who had accepted nomination for re-election before going overseas). Wolfgang Rosenberg (who had accepted nomination) was re-elected honorary auditor. The meeting passed another vote of thanks for Wolf.

Murray Horton presented his Organiser's Report (see below). The only item of general business concerned the possibility of New Zealand First being interested again in foreign control issues. Discussion on this was free and frank.

At the conclusion of business we screened two videos: "Naked Into The Jungle", an Australian union documentary about Rio Tinto's attempts to smash unions at its Australian mines; and a TVNZ *60 Minutes* programme on the nine (surviving) Bluff smelter workers suing Comalco NZ after having contracted industrial asthma (*both available for hire from CAFCA for $10 each, including postage, for one week*).

Campaign Against Foreign Control of Aotearoa Inc. (CAFCA)

Income and Expenditure Account 1997/98

Income		Expenditure	
Subs	$6,580.75	*Watchdog*	$9,860.53
Donations	3,714.61	Postage, copying & office supplies	4,916.20
Seminars, activities 7,123.15			
less Cost 5,488.79	1,634.36	Research cost	234.45
Publication Sales	1,586.99		
OIC Sales 450.00			
less Cost 321.11	128.89		
Interest & Tax Refund	234.70		
Excess of Expenditure over Income	1,130.88		
	15,011.18		15,011.18

Cash Statement as at 31st March, 1998

Opening Balance 1st April, 1997: (Current Account)	$15,628.55
less Cash loss 1997/98 as above	1,130.88
	14,497.67
= Closing Balance Current Account	6,497.67
+ Term Account	8,000.00
	14,497.67

I have checked the above accounts and certify that they have been accurately kept.

Wolfgang Rosenberg
Hon.Auditor
8th August, 1998

ORGANISER'S REPORT

- Murray Horton

For a change this report covers just under 12 months. The unglamorous basics of my work don't change very much, so great chunks of my 1997 report and those of earlier years can be repeated verbatim. I am CAFCA secretary, and it is routine administrative work that takes up a lot of my time. That is the pitfall of having just one fulltime worker.

Because we have recently conducted our annual membership renewal, a disproportionate amount of time has been spent updating the membership list and banking the loot. Not that I'm complaining. Membership fees and donations are the backbone of our finances, which, as you can see from the accounts, are in a healthy state. Unlike so many other small groups we don't routinely have to ask for loans or grants, and we can substantially finance major undertakings, such as the Taking Control conference and the Roger Award, largely out of our own resources. We are not constantly having to fundraise or worry about where the money is going to come from.

Mind you, we are aware that times are tough out there - after the first big rush of membership renewals, I banked just under $3,000. In 1996, at the comparable time, I banked $4,000. Donations are down, to both CAFCA and the CAFCA/ABC Organiser Account, which provides my income. Mind you, CAFCA has been generous and allowed other groups to collect money via *Watchdog* mailouts. We have distributed GATT Watchdog raffle tickets and appeals for the Democratic Rights Defence Fund, which is financing Aziz Choudry's court case against the SIS. We don't regret that, because they are worthy causes that we fully support, but we may need to review our policy on it. The membership rate remains at $15 but we have instituted a $25 institutional rate (matching the overseas rate). That only affects a handful on the mailing list. Membership remains steady, at 500+, with a constant supply of new ones to replace those who don't renew or who are removed as non-payers. Quite a few of our members pay for others to join. (On the subject of money, we can report that, following the inquiry at the 1997 AGM as to why we don't bank with the Taranaki Savings Bank, the only remaining NZ owned bank, we tried, only to be told that it can not handle the business of groups. However, just recently, we were able to transfer our term deposit from the ANZ to Taranaki, so we've done our patriotic duty).

My daily routines haven't changed - collecting and processing mail six days a week (including e-mail); correspondence; reading and analysing publications for

fortnightly committee meetings; banking; handling orders for CAFCA material; clipping papers and gathering material for our files and as research for articles. In the last few months, we've gone onto the Internet, so that's another source of information to be checked out. This stuff has to be done daily, otherwise it can easily get away on me, and become a major headache. A big banking tally can take the best part of a day to itemise and prepare. Then there are the spontaneous approachs from members, the public and the media for information or statements on a whole raft of subjects.

Watchdog

We like the look of *Watchdog* now and we get a lot of positive feedback on that, from both NZ and international members. For the first time, it is on sale regularly in three Christchurch bookshops (and one in Auckland). We are not going to pursue bookshop sales, because they are a lot of hassle for very little return, and because *Watchdog* is never going to look or read like the other magazines on the shelves. We are constantly aiming to get more graphics into but it's not an easy subject to illustrate. We are delighted that Dylan Horrocks, the former *Listener* cartoonist, agreed to supply us with one cartoon per 1998 issue. They're bloody good ones too, and hopefully will continue.

The content remains *Watchdog's* greatest strength. Firstly, the meticulous chronicling and analysing of the monthly giveaways of the country by the Overseas Investment Commission (Bill deserves a knighthood for that. Right now, the OIC is trying to charge us $600 per year to supply us their data on disc. To add insult to injury, we have to supply the discs). The membership appreciates that exhaustive approach, as evidenced by the response we got to the survey on the subject this year. Then, there is the political and economic analysis, nowhere better illustrated by Bill's cover story on the economic crisis in #88, along with Dennis Small's book review which was nearly longer than the book in the same issue, dissecting and demolishing the case for an economy dominated by foreign investment. I keep up a constant barrage against regular targets, such as Telecom, Comalco, forestry and mining companies, banks and Tommy Klepto. We have other regular writers, such as Wolfgang Rosenberg, whose work is always appreciated. One member wrote this year: "I like Wolfgang Rosenberg's articles and sometimes I can actually understand them". #88 featured CAFCA committee member Liz Griffiths as a welcome new contributor. We maintain a strong international focus, on subjects such as the MAI and Rio Tinto, because our subject is by definition both transnational and international. Nor are we afraid to criticise those that might be felt to be on our side, such as the Public Service Association leadership for its shameful sacking of *PSA Journal* editor Pat Martin (for his bucking the gutless party line on the MAI). *Watchdog* is the definitive publication on foreign control, packed with facts, formidable in size (the two 1998 issues thus far total nearly 150 pages), and one with its very own style and humour. Every home should have one.

Other Publications

We haven't published any books for a couple of years and there are no plans to do so in the foreseeable future. The last few copies of my 1995 book "Clearcut" sold this year. We haven't produced any new *Fact Sheets* but have recently updated all four of the existing ones - on foreign ownership of rural land; the politics of foreign debt; ownership of the media; and a case study of Telecom. Plus we have updated our basic handout "Sovereignty Versus The Transnationals". We have thought about producing more *Fact Sheets* but, as with everything, time is the problem. We have produced de facto ones on Waste Management, Onyx and the MAI in the course of our lobbying the City Council on those issues throughout this year. More on that later.

There is one other CAFCA publication that I've been involved with for years, and I've just realised that I've never mentioned it in my annual reports. That is, of course, my "Beginner's Guide To Foreign Control", which I've just updated again last week. At 39 pages, it's of *Watchdog* proportions, and we have seriously discussed publishing it. It's a never ending job - gathering material for it is a permanent task; the actual periodic updates take several days at a time. We sell it for $5, which just covers costs, and receive a small but steady flow of orders.

The other major publication with which CAFCA has been associated is the book "Foreign Investment: The New Zealand Experience", edited by Waikato University professor, Peter Enderwick. I refer you to Dennis' encyclopaedic review of it in *Watchdog* 88. It is a book entirely in support of foreign investment, with a foreword by the estimable Don Brash, but pride of place, Chapter 1, goes to Bill. Enderwick states that he could find nobody else with a better overview of foreign investment in NZ. That is a tribute to CAFCA's credibility. Even better, Wolfgang gets a chapter as well (earning the ire of his former student, Brash). And no, we don't intend to reciprocate and invite Enderwick, Brash et al to write for *Watchdog* - they have the entire news media at their disposal.

CAFCA material appears regularly in all manner of other publications, some of them quite unexpected, such as farmers' papers which welcome the detail on land sales that they can't get anywhere else. You'll find us cited in the media bastions of our ideological enemies, ie the business papers, for the same reason.

Work With Other Groups

I am co-employed by the Anti Bases Campaign, although it is no secret that CAFCA work takes the great bulk of

(Continued on Page 24)

(Organiser's Report: From Page 23)
my time. Warren Thomson spent a year teaching in Bangkok - I stepped up to being co-editor of *Peace Researcher*, with Bob Leonard. However that suffered grievously under the strain of full on CAFCA activity at the beginning of this year (such as organising the Taking Control conference) and *Peace Researcher* did not appear again until Warren returned. He has put out two issues and is currently doing an ABC speaking tour around the country. However he is only back for six months and is very soon to return to Bangkok for another year's work. I will step into the *PR* breach again but it will be difficult.

Over the last year my ABC work has been pretty much low key - some writing for *PR*; stuff like circulating the petition calling for the abolition of the Government Communications Security Bureau (which runs the Waihopai spybase); finding venues for the excellent Waihopai display currently touring the country. There was no Waihopai protest camp and/or action this year. ABC hosted a strategy session in Picton and decided to adopt a lobbying approach for a change. So we launched the petition; we leafleted people on the streets of Blenheim; we have successfully worked on the issue with Labour, Alliance and Green MPs. The base was not forgotten - en route to Picton we turned up unannounced at the front gate, dressed in joke shop spy costumes and rang the bell. We had a fascinating little meeting with the nonplussed base commander. I recommend that you all do likewise - it's your taxes that pay his wages. Pop in for a cup of tea. This Show Weekend we're going back to Picton for another strategy session, to present the petition and to visit the base again.

I am on the committee of GATT Watchdog, which is an extremely active group. CAFCA has developed a very close relationship with it in recent years, so much so that we work together on all manner of projects and frequently our work overlaps. The perfect example of this was, and is, the campaign against the Multilateral Agreement on Investment (MAI) - it's a CAFCA issue, but virtually all the work is being done by GATT Watchdog, which is fine by us. I want to congratulate Aziz Choudry for slogging his guts out on the MAI, churning out articles and press releases, speaking up and down the country. He can take most of the credit for the massive public opposition which stopped this juggernaut in its tracks. I'm pleased to report that GATT Watchdog is now paying him for his work, which includes editing *The Big Picture*, travelling the Asia/Pacific region on APEC campaigning, etc. As a spin off from that, I am involved with the Democratic Rights Defence Fund, which is fundraising for his court case against the SIS, which broke into his house and tried to frame him as a terrorist in their infamous bungled 1996 covert operation. I spent a fascinating day in the High Court in July (my first time to attend that court) watching the history making hearing to force the SIS to hand over documents in the case. This one has got a long way to run, but already it has shed light on corners of the secret State that have never been exposed before.

Campaign for Peoples Sovereignty continues in name only. Its only activities in the past year has been to picket Southpower over price rises and to take part in a joint submission to the City Council on Southpower's Annual Statement of Corporate Intent. The joint submission was an interesting exercise involving Tim Barnett, the Labour MP for Christchurch Central, the Engineers Union, Grey Power, Beneficiaries Advisory Service (and even Federated Farmers at one point). In many respects, CPS has been supplanted by the Campaign Against People Last Economics. Reg Duder is our representative on that.

Likewise, I was involved with the Society for Publicly Owned Telecommunications (SPOT) throughout the past year. This grew out of CAFCA's 1997 Telecom Exposed! Seminar. It picketed Telecom a couple of times, on the days of its quarterly profit announcements, and circulated the petition calling for the immediate return of Telecom to public ownership. That petition collected over 2,500 signatures and was presented to local Alliance list MP Rod Donald, in May. Don't hold your breath. SPOT has gone into recess while we restrategise on Telecom.

I remain actively involved with the Philippines Solidarity Network of Aotearoa (PSNA). I edit its newsletter *Kapatiran (Solidarity)* but time is always the problem. I've only got out one issue this year, with the second issue complete except for my long delayed contributions. In August we hosted our first Filipino visitor in years, Tony Tujan, a leading researcher. In 1999, as our contribution to the APEC activities in NZ, PSNA is touring a leading Filipino trade unionist throughout the country.

I remain on the winding up committee of the Monthly Review Society, which hasn't actually met since sometime in 1997. The decision to wind up and disburse funds took place in 1996. It's all taken a very long time, not helped by one recalcitrant bad debtor and the unexpected and very sudden death of Geof Pearce, who was in charge of the winding up. Hopefully it will be finalised this millennium, and the final disbursement will take place (CAFCA, ABC, CAFCA/ABC Organiser Account, GATT Watchdog and PSNA are amongst the beneficiaries).

I reported at the 1997 AGM on my minor health problem and resultant surgery. Happily, I have no such tale to tell this AGM, and I have not seen a doctor this year. The big disruption on the personal front was several months of major house renovations. For one month, we lived in a building site with no toilet, bathroom, laundry, kitchen, or dining room. I came home from CAFCA meetings at midnight to confront the cheery prospect of a Portaloo on the back lawn and a wash under an outside cold tap lit by a garage security light. Noise, dust and

an endless procession of tradesmen, all with expensive additions to the original quotes, were the constant accompaniment to my daily work for months on end. It started the day after Taking Control finished, so I was totally worn out by the finish of it all. I think it's called character building. I haven't had a proper holiday for several years, and will definitely make that a priority in the next year.

I have been the Organiser for nearly seven years now, which is an extremely long time for a job funded entirely by the regular pledges and donations of CAFCA and ABC members and supporters. Once again, I take the opportunity to thank you for your generosity. The Organiser Account stays steady at $5,000 - $6,000 + but is still healthy and viable. My pay is $280 per week gross, which is the minimum wage. Some pledgers have left; others have joined. This continuing financial support is a most gratifying vote of confidence in the work that we, and I, do. I particularly thank all the donors (some who have given hundreds of dollars), because it is the donations which make the vital difference.

Campaigns And Events

There have been a number of major events in the past year that deserve special mention. CAFCA had a philosophical debate in 1997 - we discussed whether we want to kick the bastards out, or to allow them to operate here under tighter control. The transnational corporations (TNCs) can breathe easier - on pragmatic grounds we opted for the latter.

So we decided to be pro-active and draw up a Corporate Code of Responsibility for TNCs operating in this country (we believe that TNCs are much more deserving of a Code than are beneficiaries). Throughout 1997, CAFCA, specifically John Ring, scoured international codes for a model applicable here. It was a lot of work, which went through several drafts, and was sent to various sector groups for comment.

We publicly launched this Code this year. Unusually for CAFCA, it is not 80 pages long. It is but a single A4 sheet. It is a statement of very broad principles, covering human rights, workers rights, legal and government, the Treaty, environment, commercial practices and consumers, and general. This Code lists all the positive and useful things we want TNCs to abide by. Are we terminally naive? Not a bit of it. So who is this Code aimed at? Only incidentally at the TNCs themselves. Although I see no problem in sending them a copy and asking them to sign it.

Primarily, we see the Code as a campaigning tool. For example, that political parties be asked to adopt it as the basis of their policies towards TNCs. That local bodies require TNCs to agree to it before moving into their region. That ordinary people say that they will only accept foreign investment into NZ by TNCs which accept this Code. And, most importantly, that it be used as an indication of what we are for, rather than simply a reiteration of what we are against. We urged people - when they got the glossy brochure and questionaire from the Government, asking their views on the beneficiary bashing Code of Social Responsibility - to send back a copy of this Corporate Code of Responsibility instead and demand that the Government get this enforced. Let's concentrate on the mugger, not the mugger's victim. We have already sent it to both sitting Christchurch City Councillors and candidates for this year's local body elections, urging them to adopt the Code as the basis of their dealings with TNCs. It has attracted plenty of interest from groups around the country and overseas.

On the other side of the coin, we, along with GATT Watchdog and Corso, organised the first Roger Award For the Worst Transnational Corporation In New Zealand In 1997. It took plenty of work to get it publicised and plant the idea in people's minds. We had to do a bit of targeted chasing to get some nominations. But once underway we got a good variety of well thought out and documented nominations. Particular thanks are due to Dennis Small for collating and writing up all the evidence against the winner, Tranz Rail. It certainly attracted plenty of attention from both the media and the PR mouthpieces of the transnationals. The event itself, organised by Corso, was a great night out and the actual award (courtesy of Gaye Dyson) is a collector's item. Far from ignoring it, the winners came out bellowing like wounded bulls, which only increased media interest in the whole thing. We owe a great debt of thanks to our four judges, particularly Dunedin Mayor, Sukhi Turner, who took all the flak and more than gave as good as she got. The three groups have decided to make it an annual award, so Corso is organising the 1998 one. Get those nominations in, folks!

Both the Roger Award presentation and the launch of the Code took place at the Taking Control: The Fightback Against Transnational Corporate Power conference, organised by the same three groups, and held in Christchurch in February. I spent months working on that, to the exclusion of all else towards the end. Leigh Cookson of Corso and GATT Watchdog was the other key worker, until her health packed up. Aziz Choudry then stepped into the breach. It wasn't all plain sailing - I mentioned in my 1997 report that CAFCA and Corso differ over the emphasis to be given the indigenous struggle. We disagreed over who should be one of the international speakers, but the matter was amicably resolved. Indeed it couldn't have taken place if Corso hadn't paid for the two overseas speakers. Organising an event of this magnitude, with so few people to call on to help, is a guaranteed cure for sanity, but it happened and it was a great success, with over 100 people attending. CAFCA underwrote it, to ensure that it did happen. We spent several thousands dollars on it but recouped nearly all of that, by soliciting donations from sympathetic groups.

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(Organiser's Report: From Page 25)
This was the first conference in NZ to focus on TNCs and the fightback against them. It brought together an impressive range of people from all around the country. Despite the obvious scope for disagreement, there was a high degree of unanimity, and a desire to get stuck into action. From the outset, three broadbased campaigns were identified that we could all work on. Firstly, 1998 is local body election year. We resolved to fight "market forces" at the local level. Secondly, to intensify the already strong campaign against the MAI. And thirdly, to build a campaign against APEC, which is being held throughout New Zealand in 1999.

Taking Control was unlike most conferences, which only analyse the problem. It concentrated on what we can do about it. The title was carefully chosen and meant what it says - taking control back from those who have taken control of our country. Disarming the hijackers, in short. We brought in the Canadian and Bougainvillean speakers (whom Corso subsequently hosted on national speaking tours) because our problems and struggles are far from unique (the personal highlight for me was the session where Catherine Delahunty and Moses Havini spoke about the battle against mining TNCs in Coromandel and Bougainville). The only difference is one of degree.

We set ourselves no overly ambitious aims for Taking Control. No ringing declarations were issued, no new parties or organisations were launched. Simply getting all those key people together to focus on TNCs and to discuss how to combat them was a major achievement. We wanted a better functioning network (not a new one) and Taking Control was a key step in achieving it. The feeling of participants was overwhelmingly positive, everybody had a great time. As a follow up we have distributed the papers, done a couple of mailouts, and are in the process of setting up a Taking Control electronic discussion group.

Local government has been our speciality in the past year. It's where the ideological battle is being keenly fought; it's where the TNCs see their next major market; and it's where people can have more influence on politicians, as opposed to the variety who spend most of their time hiding in Wellington. Late in 1997, we campaigned (by press releases, lobbying and pickets) against the Christchurch City Council contracting out the city's rubbish collection to French TNC, Onyx. This year we have lobbied all sitting City Councillors and most candidates for both the City and Regional Councils to oppose the plan to enter into a joint landfill venture with US garbage TNC and corporate criminal, Waste Management. We have urged both the incumbent and aspiring politicians to take their lead from US states which have "Bad Boy" (or "Good Character") laws which take into account a company's record and corporate culture before allowing it to do business on their turf. We have suggested they adopt our Corporate Code of Responsibility as their basis for dealings with TNCs.

GATT Watchdog has run the MAI campaign, but CAFCA's contribution has been in the field of local government. Bill Rosenberg built on Jane Kelsey's 1997 paper on the impact of the MAI on NZ local government and researched its effect on Christchurch and our City Council. Last year he and Leigh appeared before a joint City/Regional Council committee to talk about the MAI; this year he and I appeared before a City Council committee on the subject. It worked - the Christchurch City Council came out strongly against the MAI and urged other councils to do likewise. Lobbying local bodies around the country was one of the most successful strategies in the whole MAI campaign. We don't ignore the Parliamentary arena. Bill is our submissions expert, having presented one earlier this year on the 1998 Overseas Investment Amendment Act; and most recently having written an excellent one on APEC and foreign investment.

All of this was on top of our usual CAFCA work, which is itself on top of the administrative stuff I've already mentioned. This ongoing work includes Bill's decade long battle with the Overseas Investment Commission (which takes a myriad of forms) to my doing a whole variety of media work, ranging from the front page of the *Press* (which, when Jakarta was in flames, decided it was safe to highlight Suharto ownership of Lilybank Lodge) to behind the scenes work, such as assisting the *Listener* to research the article on Aziz's case against the SIS, which appears in the current issue.. I've done a number of local speaking engagements, most recently to Polytech students (on ethics!) and an encore appearance at a Grey Power meeting. My speech at a union picnic in Hagley Park, which attacked both the CTU and the PSA for their craven collaboration on the MAI, most satisfyingly put a very stroppy pigeon among the union fatcats. I've had one CAFCA trip out of town - to the National Conference Against Privatisation, in Wellington. Just how much we've got on the go can be judged from the fact that our fortnightly committee meetings now routinely run to midnight and later. My fellow committee members - Bill Rosenberg, Liz Griffiths, Dennis Small, Reg Duder, John Ring, and Ray Scott, our newest member - all work extremely hard. Liz, in particular, does the thankless but absolutely vital job of bookkeeping. And remember, I'm the only one that gets paid - they do it for love.

Future Activities

There are a few upcoming and/or ongoing campaigns worth highlighting. The local body elections have nearly been and gone, but the issue of TNC inroads into local assets and services won't go away. We will keep working in that area, and have made valuable contacts there. CAFCA is now regarded as having great credibility by both councillors and their advisers.

The MAI campaign is hotting up again. Negotiations resume in Paris, in October, and there will be international action there. Liz Griffiths, who is currently

holidaying in the UK, will represent CAFCA there. This very week is an international week of action on the MAI - there is a picket on Friday; and we've already done one action. After joining the Hikoi of Hope on Saturday morning and marching 12 kms, from Hornby to Cathedral Square, we leafleted the crowd on the MAI. If the MAI goes ahead, in any way, shape or form, the campaign against it, both national and international, will resume at full intensity. It has been one of the biggest battles in recent years and definitely the most successful.

New Zealand hosts all the APEC meetings in 1999, including the Leaders Summit, in Auckland, in September. Inevitably this is going to consume the energy of a lot of groups. I will be involved, both in my CAFCA and GATT Watchdog capacities. Activities against APEC (and the whole free trade, free market ideology that it embodies) will be the most intense and sustained that any of us have experienced for some time.

CAFCA is looking at sending me on another national speaking tour in 1999, my first for several years. It is election year (with an early election most likely); foreign control will loom ever larger as an election issue (it was the ostensible cause of the Coalition bust up); APEC and the MAI will all add to the urgency of our overall campaign. We're only at the exploratory stage on this tour, but we're looking at doing it in the first quarter of the year. At this year's annual strategy session we also looked seriously at doing another Resistance Ride (CAFCA grew out of the 1975 South Island Resistance Ride), a travelling roadshow about foreign control, a grand version of our "Who Owns Christchurch?" tours of the past. But it would need a fulltime organiser, and if I did it, it would be to the exclusion of all else. As we haven't found anyone suitable yet, that idea's on hold. We're open to suggestions.

I'll finish by repeating the conclusion to my 1997 and 1996 reports, because it's still relevant. The future offers us more of the same. Regardless of who is the Government, the reality is that TNCs control the economy, so this is not a problem that will solved through parliamentary means. It needs grassroots organisations to educate and mobilise people to take back what has been stolen from us. That is the role of CAFCA. And we're more necessary than ever, because our issue is centre stage. Nor is it only a single issue as it permeates all aspects of people's daily lives. So there's no shortage of things to be done. The only problem is prioritising them. We intend to continue giving it our all, and we know that we can count on your continued active support. Morale is high, tempered with realism. We know what we're up against. But the bigger they are, the harder they fall.

LILYBANKRUPT

Lodge Closed And For Sale

Watchdog has chronicled for years the tawdry saga of Tommy Klepto's Lilybank Lodge, in the Mackenzie Country (*see #88, for example. Ed.*). 1998 has seen the long overdue overthrow of Indonesia's ruling Klepto family, after 32 years of mass murder, institutionalised oppression, corruption and kleptocracy on a truly heroic scale. The 1965 bloodbath that brought Klepto to power killed up to a million people, leaving small rivers and streams literally clogged with bodies. Not to mention several hundred thousand more corpses in East Timor during the genocidal Indonesian occupation, which continues to this day.

The walls have come crashing down on the Kleptos. In September 1998, President Habibie finally bowed to public pressure and launched a public investigation into his predecessor's wealth, estimated to be in the billions (Austrian newspapers reported that a $US7 billion increase in bank deposits there in early 1998 may have been Klepto money being shipped out of Indonesia). The ex-President was personally grilled about his wealth, for the first time ever. His children, who all became fabulously rich during his rule, have also been questioned. George Aditjondro, who fled Indonesia in 1995 and spent the last three years in Australian exile scrupulously researching the Klepto empire (he tried to visit Lilybank in February 1998 but was turned away), returned in September for a week long visit to spearhead moves to investigate the Klepto wealth. And CAFCA has been approached by Indonesian activists to provide details of the Klepto holdings here. We were delighted to oblige.

All this has impacted in faraway New Zealand. In October, it was announced that Lilybank was closed and for sale. What's more, according to its manager, the highly peculiar Gerard Olde Olthof, it had been for sale ever since it opened in 1994. He refused to answer any more questions when the *Press* rang, saying that the NZ Security Intelligence Service was tapping his phone. "Asked how he knew his phone was being tapped, Mr Olde Olthof said: `Can you hear that? Someone is tapping the line'..." (23/10/98). Perhaps

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(Lilybankrupt: From Page 27)

the SIS is doing something right for once, but we don't envy them if they do have to listen in to Gerard's extra-terrestrial musings. For the record, the asking price may be $10 million (the 1997 Government valuation for the lodge and land was $3.2 million).

Learning from his Indonesian masters, Olde Olthof regularly runs amok. He has called the police more than 100 times to complain about hunters trespassing on Lilybank (and claiming that some of them were off duty cops). He himself has been most recently interviewed by police over an incident in which fuel was emptied from a camp cooker. He and Lilybank staff shot more than 800 thar and 40 chamois in a three week period in August/September to discourage hunters. He is threatening to sue the Department of Conservation (DOC) for illegally directing hunters to Lilybank. 25,000 hectares of Lilybank's 27,500 ha were supposed to be surrendered to the Crown, and administered by DOC, as of December 1995. But, for a variety of technical reasons, that still hasn't happened and the insufferable Olde Olthof is resisting a final surrender. In September 1998, DOC admitted it was temporarily in the wrong, and cancelled 100 hunting permits. There's an awful lot of people that will be very glad to see the back of Gerard Olde Olthof. But CAFCA doesn't think that Tommy Klepto should be able to cash up Lilybank quite so easily. We released the following press statement (23/10/98) and we'll keep you posted:

(Suharto and Tommy: NZ Herald, 17.12.97)

LILYBANK MUST BE SEIZED

The news that Tommy Suharto's Lilybank Lodge is closed and for sale should be the cue for the Government to stop the sale or, better still, seize the property. There is no doubt that the overthrown Suharto family amassed their enormous wealth by massive, institutionalised corruption. "Kleptocracy" was the phrase applied to President Suharto's 32 years in power. *Forbes* estimates the wealth of him alone at $US4 billion, not including his family.

The undisputed expert on the Suharto wealth is exiled Indonesian academic, Dr George Aditjondro. He toured New Zealand in February 1998 and attempted to visit Lilybank (being one of the many turned away by its inhospitable manager, Gerard Olde Olthof). Aditjondro's conclusion was succinctly summed up in the *Press* headline of his visit (13/2/98): "Lodge bought on `proceeds of corruption'".

Aditjondro has returned to Indonesia this month, and is a leading expert assisting the Habibie government to investigate the Suharto wealth. There is a rapidly growing movement in Indonesia calling for the seizure of the Suhartos' illgotten gains. We call on the New Zealand government to do its bit and seize Lilybank while evidence is assembled in Indonesia. There is ample New Zealand precedent for property to be seized as the proceeds of crime.

The current arrest of former Chilean dictator Pinochet, in London, shows that international law does have teeth when applied to tyrants. It is simply a matter of political will. And patience is essential - Filipino human rights victims filed an American class action suit against the Marcos family as soon as they were overthrown in 1986 and have since been awarded over $US1 billion damages. Only now, 12 years later, is any money about to be paid to them.

The other lesson from this Lilybank fiasco is that the Government, and its agent, the Overseas Investment Commission, needs to tighten up considerably the criteria for foreign investors. Closely examining the children and cronies of dictators would be a good start. Why should New Zealand get a reputation as a safe haven to stash the loot which rightfully belongs to their impoverished compatriots?

OIC SURVEY

Everything Stays As It Is

Thanks to all those CAFCA members who took the time and trouble to respond to the survey, sent out earlier in 1998, with *Watchdog* 87. That asked you if you wanted *Watchdog's* coverage of the monthly approvals of the Overseas Investment Commission (OIC) to remain in its present very detailed form (which occupies a great chunk of each issue); whether you'd prefer only highlights; or indeed, none of it.

In round figures, 10% of the total membership responded, which is enough to give a firm indication. Some of you sent detailed and very flattering comments about the OIC section of *Watchdog*. After second preferences were taken into consideration there was only one vote in it between keep it as it is and publish only highlights (in favour of the latter). There was no clear majority one way or the other. That being the case, the Board of Foreign Control Watchdog Inc. (the publisher) voted unanimously to retain the status quo and is happy to take responsibility for that decision.

This is the second such survey that we've carried out in recent years and both have produced the same result. That being the case, we conclude that members are basically happy with things the way they are. We plan no further surveys on the subject and the OIC section of *Watchdog* will stay as it is, until further notice.

MAY TO JULY 1998

OVERSEAS INVESTMENT COMMISSION DECISIONS[1]

- Bill Rosenberg

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May 1998 decisions

Liberty Oil sets up company

Liberty Oil, which has announced with much fanfare that it is entering the petrol retailing market in Aotearoa, but has yet to be seen in action, has approval to set up a joint venture company here. The joint venture company (JVC) is **Liberty Oil (NZ) Ltd**, which is owned by **Liberty Oil Holdings Pty Ltd** of **Australia** (through its subsidiary **Liberty Oil Holdings (NZ) Ltd**) and by **Freedom Oil NZ Ltd** "of New Zealand", though its ownership is not noted by the OIC.

> "The JVC which is incorporated in New Zealand has been established for the purpose of operating a petroleum products business in New Zealand. It is stated the Liberty Group's vision has always been to provide petrol consumers with consistently lower prices in any market in which it operates. The Liberty Group believes that the prices at which the JVC will sell petroleum products in New Zealand, will bring substantial benefits to New Zealand consumers".

Liberty gives the value of its investment only as "in excess of $10 million" ($10 million being the lower limit at which an overseas investment must be reported to the OIC). However research by an Australian economic research company, ACiL estimated it would cost a new entrant to the petrol market about $100 million to have a viable market presence, though that could be reduced as low as $30 million if it made use of existing retail outlets such as supermarkets (*Press*, 23/10/97, "Oil firms get price warning", p.6).

It is about time petrol prices came down. "Falls in petrol prices from deregulation have been lost, with prices rising rather than falling" said the Institute for Economic Research in a report commissioned by the Ministry of Commerce, in February 1997. It estimated oil prices might be too high by $160 million, of which companies got $100 million, and "increasing margins suggest at least tacit collusion". The Ministry itself estimated that since 1990, the gap between the prices in New Zealand and Singapore had widened by about 1.1 cents a litre each year. Not only were they using their power as importers and wholesalers, but according to the Consumers Institute, deregulation, which allowed them to own petrol stations, had allowed them to buy 20% of all stations selling no less than 80% of all petrol. The Institute's Chief Executive, David Russell, said "there's no genuine competition" (*Press*, 14/2/97, "Consumers 'paying too much for petrol'", p.2; 21/2/97, "Oil company revenue 'too high'", p.8; 26/2/97, "Petrol too expensive – claim", p.6).

CAFCA can say "we told you so": in 1986, in an article published in the *Sunday Times* (7/9/86, "Deregulation debunked", by Bill Rosenberg), we pointed out the international record of the transnational oil companies, Mobil, Shell, BP and Caltex (jointly owned by Chevron and Texaco), in forming cartels, and predicted that

(Christchurch Press, 21.10.97)

deregulation would not bring down petrol prices. Instead competition would be limited to advertising, give-aways, service, and price-cutting on the secondary products service stations sell. We said it would be an interesting test of the "free market" whether the other two of the "Seven Sisters" which dominate the international oil industry – Exxon and Gulf – took the opportunity to enter New Zealand. "The suspicion is that they have an agreement with the other five to stay out". We said the only way to ensure real competition was to set up an independent oil, CNG and LPG distributor. Not a bad set of predictions if we say it ourselves.

So at last, after a dozen years, and several hundred million dollars lost in higher prices, something is happening. Whether it has any long term benefits we should wait another decade to decide. Perhaps with this in mind, Energy Minister Max Bradford, warned the existing companies not to engage in "predatory pricing" to stifle competition from Liberty and Fletcher's Challenge Energy (*Press*, 23/10/97, "Oil firms get price warning", p.6). We are sure the companies are quaking in their boots, given the Government's fearless record to date against them, Telecom, and other predators.

The old guard are indeed acting true to form, Automobile Association data indicates. In a survey reported in *AA Directions*, (July 1998, "Petrol Prices Tumble", p.16), they showed that prices had fallen where Challenge offered competition, but not significantly elsewhere – notably in the South Island where Challenge has yet to begin selling. They also pointed out a downside to the competition: the loss of service in stations. A response to that is that many stations no longer offer service in any case, without the benefit to the consumer of lower prices. The fact that the existing oil companies' prices have fallen so quickly and easily however, certainly lends support to the charge that they have been milking the market.

The North Island/South Island price differential could actually worsen, David Russell pointed out, if the existing companies used higher South Island prices to subsidise price cuts where they were in competition, currently solely in the North Island. Liberty responded at that stage that it would enter the South Island within six months of "putting the North Island to bed" (*Press*, 23/10/97, "Cheap NI petrol may raise cost in south", p.1). That might help main centres, but smaller centres and rural districts are likely to be major losers. There is unlikely to be room for competition in such areas, leaving the big four a free hand to raise prices to compensate for their lower margins elsewhere.

In fact, Liberty (as did Challenge and another new entrant, Gull) met more problems than it bargained for in starting up. It announced its intention to sell petrol at a discount of ten cents a litre within six months, in October 1997. (David Russell thought the ten cents was "pre-launch hype" likely to turn out to be five or six cents.) By August 1998 its operation still was not under way. Instead, Challenge, which made its initial announcement a month later than Liberty, was up and running well ahead of it.

Part of the problem lay over an insistence by the Tauranga District Council that Liberty share a pipeline with Gull which would run from the Port of Tauranga to storage tanks at Mt Maunganui. Both have applied for resource consents, but Liberty considered the condition put it "at the whim of a competitor" and threatened to move to Wellington (*Press*, 4/5/98, "Liberty told to share pipeline with Gull", p.35).

Liberty plans to import oil rather than use the Marsden Point Refinery, which even Fletcher found difficulty getting supply from, despite it being a significant shareholder. The other shareholders are the big four oil companies, with obvious implications.

Before Challenge's entry, BP held 29% of the market, Shell 27%, Mobil 25% and Caltex 19%. There were 1,890 service stations, of which about 1,000 were able to switch to Liberty in the next five years (*Press*, 15/11/97, "Fuel for a high-octane price war", *Weekend* section, p.11). However Liberty is also talking to supermarket operators Progressive Enterprises (Australian owned, running Countdown, Supervalue, Foodtown and 3 Guys) and Woolworths NZ (Hong Kong owned, running Deka, Woolworths, Big Fresh and Price Chopper). Petrol bowsers would be set up in their car parks. Progressive reportedly had already had talks with Malaysia's state-owned oil company, Petronas to the same purpose; Woolworths sells petrol in Australia; and on the other hand BP is trialling petrol sales from supermarkets in Canberra (*Press*, 1/12/97, "Liberty eyes supermarkets", p.31).

Liberty has 8% of the Australian petrol market, having gained it in three years, running 270 outlets. It found partners in Wellington businessmen Stephen Bryant (Liberty's New Zealand managing director) and Simon Wallace, joint owners of commercial furniture maker, Corporate Interiors. They also control Damba Holdings (through Corporate Interior's 57% shareholding) which, despite a loss in 1997, is looking at buying and operating a tank farm for Liberty at Mt Maunganui. Liberty Oil in Australia is owned by David Goldberger of the U.S.A., and David Wieland of Australia (*Press*, 15/11/97, "Fuel for a high-octane price war", *Weekend* section, p.11; 28/2/98, "Damba in the red but confident on outlook", p.23; 2/4/98, "Damba in oil deal", p.30).

Approval to both Emerald and AMP Asset Management to buy Direct Capital

On 22/5/98, two companies with major shareholdings in the company received approval for a 100% take over of **Direct Capital Partners Ltd**.

AMP Asset Management New Zealand Ltd, a

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subsidiary of **AMP Ltd** of **Australia**, gained approval to acquire **Direct Capital Partners Ltd**, of which it previously owned 18%. The OIC notes that Direct Capital owns **49%** of **Nobilo Vintners Ltd** which has a total of **95 hectares**[2] of land:

* **25 hectares** in Huapai, **Auckland**;
* **38 hectares** of leasehold land in **Gisborne** ("part of **Mohaka** C12, in the **Waihua** Survey District"); and
* **33 hectares** in **Marlborough**.

The price is "to be advised".

On the same day, **Emerald Capital Ltd**, owned **90%** by **Gardiner Group Ltd** of **Canada** and **10%** by **Mr G. A. Cumming** of **Aotearoa**, gained approval to buy the **81%** of Direct Capital it did not already own for **$50-$55,000,000**. Also that day, **Gardiner Group Capital Ltd**, owned by **the estate of Mr George R. Gardiner**, had gained approval to buy up to **90%** of Emerald for **$0**. Gardiner Group Ltd had previously owned 87.5%.

In fact, AMP used its approval to increase its shareholding to 29.74% (*Press*, 18/6/98, "AMP sells DCP stake", p.25), before selling out to Emerald. AMP's tactics were interesting: it presumably was considering (or threatening) a counteroffer as Emerald had announced its intentions to take over Direct Capital a month before the three approvals were given by the OIC on 22/5/98. Yet the OIC states:

> "It is stated AMPAM [AMP Asset Management] intends to acquire further shares on market to take its existing shareholding in DCP up to 100%. It is advised AMPAM is committed to its investment in DCP which is clearly demonstrated by the fact that it has held an equity stake in DCP for a number of years..."

Commitment obviously only goes so far.

Emerald gained a controlling **48%** of **The New Zealand Experience Ltd** in 1996 (see our commentary for June that year). This owns the **Mount Cavendish Gondola** on the Port Hills, **Christchurch**, and **Rainbows End, Manukau, Auckland**. Together they own **four hectares** of freehold land and **seven hectares** of leasehold land in Christchurch and Manukau respectively.

Direct Capital is a venture capital investor, specialising in unlisted companies. Most of its success has been in its ability to sell them. According to Datex's *New Zealand Investment Year Book 1998*, the company was formed and listed in 1994 and had invested some $72m up to 1998. It lists its major investments as:

* Robinson Industries – rangehood and small appliances manufacturer (40% later sold down to 12.5%)
* Nobilo Vintners – New Zealand's fourth largest wine maker (49%)
* Palliser Estate Wines, Martinborough (10%)
* Genesis Research – biotechnology research company (13%)
* Pacific Flight Catering – formerly the flight catering operations of P & O (45%)
* Communicado – media production company (32.5%)
* Gallagher InfoManagement – information management and mailing services (24%)
* Airwork NZ – general aviation and Air Post operator (44.5%)
* Ryman Healthcare – retirement village developer and operator (25%)
* EFT-POS NZ Ltd – the dominant installer of EFT-POS terminals in New Zealand (33.3%)
* Open Group – telecommunications equipment and software provider (33.3%)
* A shareholding in Tasman Building Products Pty Ltd, the consortium acquiring Carter Holt's building products division (see our commentary on the OIC's March 1998 decisions). The consortium also included AMP Asset Management.

It sold its 20% holding in the Blue Star Group (see our commentary on the February 1996 decisions), and its 25% in PC Direct (see September 1996), both to U.S. Office Products, both at significant profits. Datex says "a smaller stake in Sky City (initially $12.1m) has also been sold in stages realising a total of $18.2m". However profits have been falling in the last two years.

Emerald Capital's bid was at 83 cents a share, "some 32% in excess of previous price levels but well below underlying asset values of 92-96c per share as assessed by Price Waterhouse" says Datex. Emerald has now acquired all shares, giving a cost of $57.2 million, somewhat more than notified to the OIC. The low price is a disappointment for Direct Capital's directors, who included Business Roundtable member and company chairman, John Fernyhough, and presumably the same Mr G. Cumming who owns 10% of Emerald. It also indicates the thinness of New Zealand's capital markets.

Critic Investments, U.S.A., buys ENZA's Frucor Beverages (including Fresh Up)

Critic Investments Ltd, majority owned by **Bain Capital** of the **U.S.A.**, has approval to acquire **Frucor**

Beverages Ltd from the **Apple and Pear Marketing Board (ENZA)** for **$65,000,000**. In August 1997, the Board "made a decision to divest its interest in Frucor Beverages and appointed a Wellington investment bank to promote the sale nationally and internationally". Some growers were not happy however, accusing the Board of "selling the orchardists' family silver". It was justified as not being a "core" business (presumably apples and pears are "cores"). The juice processing plants were being retained. The sale includes the Kiwi icon of Fresh Up, plus Just Juice, McCoy, NZ Natural, Citrus Tree, and V brands (*Press*, 5/6/98, "Frucor sale", p.22; *Otago Daily Times*, 5/8/97, "Fruit juice firm to go on market" and "Apple and Pear Board subsidiary sale criticised"; and http://www.nzway.co.nz/Brand/brand_partners.html).

The Board considered it had made a net gain of no less than $50 million from the sale (*Press*, ibid).

Amtrust (formerly Gulf Pacific) buys Telecom Tower and Karangahape Plaza

Amtrust Pacific, owned by **Michael and George Karfunkel** of the **U.S.A.**, has approval to acquire **ST CI Ltd** and **Equal Assets Ltd** for **$38,000,000**. The companies own a total of **0.7991 hectares** known as "**The Telecom Tower**" and "**Karangahape Plaza**", on **Hopetown, Hereford and Howe Streets** and **Karangahape Rd, Auckland**.

Amtrust was formerly known as **Gulf Pacific Ltd**, which was previously **City Realties Ltd**, which were highly controversial companies due to their flight from environmental responsibilities in the U.S.A., and their business practices in Aotearoa (see for example our commentaries on the October 1991 and January 1996 OIC decisions). In September 1997, Amtrust bought the Price Waterhouse Centre in Auckland for $82,750,000. At that time they stated that "Amtrust intend to embark on an expansion programme with the intent to grow the company's current asset base to between NZ$500 million to NZ$600 million over the next year". The identical phrasing appears in the present decision.

Telecom buys last cell phone company, Cellnet – shows competition sham

Telecom New Zealand Ltd, a subsidiary of **Telecom Corporation of New Zealand Ltd**, has approval to acquire the business of **Cellnet Mobile Services Ltd**, its only remaining independent Telecom Accredited Service Provider. The business "relates to the resale of airtime by Cellnet as a Telecom sales agent on the Telecom cellular network". The price has been suppressed.

This acquisition was the subject of an investigation by the Commerce Commission. Its report of 15/5/98 (p.6) gives Cellnet's parentage and its relationship to Telecom:

> "Cellnet is a wholly-owned subsidiary of Fisher & Paykel Industries Ltd. Its sole business is the sale of cellular equipment, and cellular connections to, and air time on, the Telecom cellular network. Cellnet's rights to sell cellular connections and air time is governed by an agreement between Telecom and Cellnet dated 8 November 1990, and amended on 25 June 1997. It is a Telecom Accredited Service Provider (a "TASP").
>
> Cellnet has three subsidiaries:
> * Cellnet Paging Services Limited
> * Cellular Communications Limited
> * Modern Communications Limited
>
> Following the acquisition by Telecom of the cellular air time businesses of Motorola and Ericsson within the last year, Cellnet is the only remaining independent TASP."

The Commerce Commission's investigation reveals the phoney (no pun intended) nature of the distribution outlets Telecom has set up, seemingly competing to provide telecommunications services based on Telecom's network. The "TASPs", in this case, were a marketing device set up by Telecom. They existed at its whim. The Commerce Commission quotes Telecom itself as saying (p.17):

> "A practical examination of the behaviour of TASPs and the other market participants (Telecom and BellSouth) demonstrates that the TASPs have an insignificant competitive effect in the market. What might at first appear to have been competition between TASPs was, in fact, driven not by normal market dynamics but by the TASP agreements each had with Telecom. The TASPs act not as independent wholesalers or distributors, but rather as contractual agents of Telecom in the provision of cellular services. This is reflected in the lack of significant service or pricing initiatives coming from the TASPs and their reluctance in adopting Telecom initiatives. These attitudes and behaviour reflect the TASPs' reliance on the TASP agreement to suggest that they need do no more or less than that set out in the strict

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terms of the TASP agreements."

And

> "TASPs have an existence only by virtue of those contracts created by Telecom. In effect the TASPs are simply commission agents of Telecom for a distribution of a service."

Though an angry competitor opposing the Cellnet buyout, BellSouth, disagreed:

> "The reality is that the three TASPs (ie. Cellnet, Ericsson and Motorola) have never been mere 'commission agents'. Instead they have provided superior service standards and innovative pricing packages, won business at the expense of Telecom's own vertically integrated distributor, and as at June 1997 they had respectively 11%, 19% and 20% of the market...
>
> Moreover, as BellSouth understands the position, Cellnet has always been the most independent and innovative of the TASPs. BellSouth believes that this is in part due to the customer contacts which were available to it through the Fisher & Paykel network, and partly because Cellnet carried out all accounting functions in-house ..., whereas the other TASPs relied on Telecom to provide the accounting function for them. This has resulted in a greater degree of independence for Cellnet, and in particular meant that Telecom has no access to information about Cellnet retail customers. BellSouth also believes that it is this facility which has enabled Cellnet to package and price its products in a more innovative way than the other TASPs." (p.17)

Commerce Commission staff recognised that Cellnet does have "some competitive influence on Telecom" (p.20) but that Telecom had competition from BellSouth, and Telstra as from May 1998, although "Telstra has reached an agreement with BellSouth whereby it will offer its own cellular service using BellSouth's network".

> "Other telecommunications companies (Clear and, at some time in the future, Saturn) have indicated a wish to add cellular services to their range of telecommunications services. It is anticipated that they would do this by using one of the existing networks..."

It concluded that "Telecom is not currently dominant in the market for the distribution of cellular services in New Zealand" and that

> "the proposal would not materially change the present level of competition in the distribution market, and not such as to result in Telecom acquiring dominance. Post-acquisition, Telecom would continue to face effective competition from BellSouth, while it is anticipated that Telstra will become an additional significant player in the distribution market in the near future." (p.20)

It therefore allowed the acquisition.

Interestingly, the major shareholders of Telecom are still cited as **Ameritech Holdings Ltd** and **Bell Atlantic Holdings Ltd**, both with **28.82%** ownership and both of the **U.S.A.** despite Ameritech having sold all its shares in April 1998 for US$2.1 billion, making a $US1 billion (NZ$1.84 billion) after-tax profit (*Press*, 17/4/98, "Ameritech makes $1.84b", p.13).

Capital Properties New Zealand Ltd formed to buy privatised GPS group

Capital Properties New Zealand Ltd, a newly formed company to be publicly floated on the New Zealand and Australian Stock Exchanges, has approval to acquire the **Government Property Services group** which the Government has announced will be privatised. It has approval to acquire **GPS Investments Ltd**, **GPS Kingsway Ltd** and **GPS St Pauls No. 1 Ltd** for **$190-200 million**. It is unusual for such a decision to be released in full at this early stage of a transaction. It is also remarkable that the OIC can predict that the persons controlling the company will have business experience and acumen, demonstrate financial commitment towards the proposal, and be of good character (the criteria under the Overseas Investment regulations) before the company has found its shareholders.

Glenburn Station (5,899 ha.), Wairarapa, sold to GMO, U.S.A., amid controversy

GMO Renewable Resources LLC, the general partner and manager of **GMO Forestry Fund ILP**, registered in Delaware, **U.S.A.**, has approval to acquire the large, historic **Glenburn Station** of **5,899 hectares**, which is sensitive with regard to Maori and conservation values. The price has been suppressed but the *Wairarapa*

Times Age put it at around $4.6 million (2/6/98, "Overseas bids for property"). It

> "contains two natural features included on the Proposed District Plan of Carterton District Council: the **coastline**; and **Honeycomb Rock**. Part of Glenburn Station also adjoins land which exceeds 0.4 hectares in area and is held for conservation purposes under the Conservation Act 1987; and which contains a large **Maori pa** site and ancient stone walls of Maori gardens comprising a total area of 11 hectares..."

The place has an aristocratic (not to mention Tory) history:

> "Glenburn Station is currently run as sheep and cattle station carrying approximately 30,000 stock units. The property has been owned by members of the **Riddiford family** for over 90 years and is presently held in trust for two members of the **Vogel family** (the **Vogel Trust**)."

The Riddifords also owned the Lagoon Hill station at Tuturumuri near Martinborough which they sold in December 1993 (*Wairarapa Times Age*, 20/12/97, "$4.4m bid for station fails").

GMO plans to develop a significant part of Glenburn in forestry and introduce approximately $9 million in development capital. Tourism is also being considered, and higher density sheep farming over 2,000 hectares.

Regarding the conservation values:

> "Glenburn Station contains two natural features included on the Proposed District Plan of Carterton District Council: the coastline; and Honeycomb Rock. These features must be kept in their natural state. A Department of Conservation (DOC) walkway is registered over [part of the property] and runs from the end of a public road 6km down the coast to Honeycomb Rock. DOC maintains the walkway for public access to Honeycomb Rock and the coastline. The walkway is an easement registered on the title to the land and is therefore not affected by a change in ownership of that land.
>
> A coastal area 60 metres wide and

> parallel to the mean high water mark is zoned 'Coastal Management' and runs the entire length of the coastal boundary of Glenburn Station. The purpose of the zone is to protect the land adjoining the coastline from development which might be harmful to the coastal environment. Pastoral farming is a permitted land use within this zone. DOC has fenced off small areas of native plants on Glenburn Station to protect them from grazing stock. The 'Coastal Management' area attaches to the land and applies irrespective of who owns the land."

GMO bought the property by private negotiation after it was passed in at auction in November 1997, with a top bid of $4.4 million from a local farming syndicate. The top bidders reportedly matched GMO's price of $4.6 million in the negotiations, but the American offer was accepted because they were able to complete final settlement earlier (*Wairarapa Times-Age*, 26/2/98, "Glenburn sale to America could be test case", p.1).

GMO

> "is an investment fund which is currently being organised to make investments in timberland and related businesses and assets. The limited partners of 'the Fund' are expected to be large United States based institutional investors, including corporate pension funds, charitable foundations and university endowment funds along with certain natural persons who possess a high net worth."

It is a subsidiary of Grantham, Mayo, Van Otterloo and Co., LLC, which is a major shareholder in Tasman Properties Ltd (*Rural News*, 20/7/98, "New Zealand for sale!", by Ross Annabell).

The sale attracted huge controversy in the Wairarapa,

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fanned by the sale of a second big coastal station, the 2,954 hectare Castlepoint Station which includes a holiday park and 12 km of coastline.

Though knowledge of it was denied by the auctioneers, the station was the subject of "at least four claims" yet to be heard by the Waitangi Tribunal, according to Ngati Kahungunu ki Wairarapa Maori Executive Taiwhenua Iwi Authority. A major concern was the alienation of the foreshore with "profound effects" on fishing rights and access to traditional fishing sites. "It will also have an effect on the protection of burial grounds and any place that is, or was, of cultural or spiritual significance to a whanau, a hapu, or an iwi" said Tom Paku, resource planner for the Authority (*Wairarapa Times Age*, 10/12/97, "Maori claims on coast land"). The land is also subject to another claim, by Rangitaane O Wairarapa (*Wairarapa News*, 26/11/97, "Sale unaffected by land claims").

Other locals, including a Councillor, Chris Peterson, feared that large parts of the Wairarapa coastline would become overseas owned. The length of time for the OIC decision to be made is an indication of the pressure on the Ministers involved in the decision: it was sold in February but not approved until May. The OIC prides itself on the speed of its decisions – usually days at most. This decision, and the next, show that the Government will not prevent even the most sensitive land being sold overseas.

Scenic reserve, wahi tapu land in Onemana, Coromandel sold

A joint venture consisting of **Mr Fred Kingery** of the **U.S.A. (35%)** and **The Hillbrook Family Trust** of **Aotearoa (65%)** has approval to acquire **70 hectares** of land at **Peninsula Road, Onemana, Coromandel**, for **$3,100,000** from **U & P Nielsen (1988) Ltd**. Mr Kingery (who says he has applied, via **Malcolm Pacific Ltd** for permanent residency and plans to live permanently in Aotearoa) has been given **25 hectares** of the block for a "nominal" sum.

The land could scarcely be more sensitive in terms of the Overseas Investment Regulations. It adjoins the foreshore and "contains a scenic reserve and several registered archaeological sites, and wahi tapu areas held under the Historic Places Act 1993".

As a consequence, they propose

> "that five hectares of reserves of native forest and bush reserves will be established adjoining the foreshore of the property. This is to restore the natural habitat and enhance the coast. It is advised these reserves have been identified in association with the Department of Conservation and the local Iwi, both of whom have submitted suggestions and approval towards the proposal. The management objectives and key conservation values include flora and fauna protection, protection of indigenous pohutukawa forest stands, estuarine habitats for the NZ Dotterel, Reef Heron and various oyster catcher species ... A restrictive covenant preserving the conservation values in these areas will be noted on the relevant Certificates of Title."

The proposal also has Mr Kingery leasing the pasture section of his land back to the joint venture. "It is advised the pastoral land contained on the property will initially continue to be farmed as a drystock and dairy run-off unit. The joint venture parties' ultimate intention is to establish an olive plantation on the property".

Havelock North land to U.S. trust for organic farming for Annie's Home-grown

Heather Trust, whose beneficiaries are **Mr Andrew McGovern Martin** and **Heather Smith Martin**, both citizens of the **U.S.A.**, has approval to acquire **302 hectares** of land in **Mantangi Road, Havelock North, Hawkes Bay** for **$2,000,000**.

> "Heather Trust intend to convert the current conventional sheep and cattle farm operation to organic farming ... Mr Martin is a shareholder in an American based company (**Annie's Home-grown Inc**) which specialises in organic food products which it markets and distributes throughout the Unites States, Canada and Europe... The proposal is likely to result in the creation of new job opportunities and the introduction of natural food technology production techniques. In addition the Commission is advised that Mr Martin's contacts will allow access for organic produce grown in New Zealand to the United States market."

Land for forestry

* **Carter Holt Harvey Ltd, 51%** owned by **International Paper Products** of the **U.S.A.**, has approval to acquire "approximately **0.0353 hectares**" of land at **Ngunguru Ford Rd, Ngunguru, Northland** in exchange for "approximately **0.7363 hectares**" of land "representing a 'tidying up' of boundaries of convenience".
* **Carter Holt Harvey Ltd's** subsidiary **New Zealand**

Forest Products Ltd is selling forestry rights in two blocks of forest at **Kinleith**. It is selling **456 hectares** to **Dartmoor Forward Ltd**, owned by **Dartmoor Investment Trust Plc** (DIT) of the **U.K.**, a public company incorporated in **England** and **Wales**. The price is **$7,431,283**. "Dartmoor was set up for the purpose of DIT investing in forestry within New Zealand". It is also selling **259 hectares** to **Highland Timber Plc** of the **U.K.** for **$4,489,842**.

- **Southland Plantation Forest Company of New Zealand Ltd** of **Japan** has approval to buy **203 hectares** of land in **Mathesons Road, Southland** for **$400,997.87** for forestry. It will be developed under contract by **South Wood Export Ltd**. Southland Plantation has changed its shareholding since we last saw it, in January 1998. Then it was owned by **New Oji Paper Company Ltd** and **Itochu Ltd**. Now those two companies have **51%** and **39%** respectively and **Fuji Xerox Company Ltd** and **Fuji Xerox Office Supply Company Ltd**, each with **5%**, have the remainder.

Other rural land sales

- **Mr Josef Hodel** of **Switzerland** has approval to buy two blocks of freehold land and one of leasehold land at **Ohangai** near **Hawera, Taranaki/Wanganui** for dairy farming. In 1992 he loaned money to **Othmar and Marlies Hebler** "to enable them them to establish and continually improve the dairy operation on the property". He is now converting that debt (**$516,444**) to **35%** equity in **Othmar and Marlies Hebler (1993) Ltd** and **Marlies Hebler (Farm) Ltd**. He has set up **Hodel Farms Ltd** presumably for these purposes. The land involved is **16 hectares** and **117 hectares** freehold on **Urupa, Ohangai, Somerville and Tihi Roads, Ohangai**, and **49 hectares** leasehold.

June 1998 decisions

Auckland International Airport sold

The majority privatisation of **Auckland International Airport Ltd**, owner of **Auckland International Airport, Mangere, Auckland**, is approved in two separate decisions. The airport, the largest and busiest in Aotearoa (78% of international visitors arrive or depart from it according to the *Press*, 2/7/98, "Investors check in for Auckland airport float", p.26), includes "approximately **1,501 hectares**" of land which adjoins the foreshore and contains two buildings listed on the Historic Places Register.

The airport was owned as follows:

The Crown	**51.6%**
Auckland City Council	**25.8%**
Manukau City Council	**9.6%**
North Shore City Council	**7.1%**
Waitakere City Council	**3.7%**
Franklin District Council	**1.2%**
Infratil Investments Limited	**1%**

The approvals relate to the sale of the Crown's majority 51.6% share.

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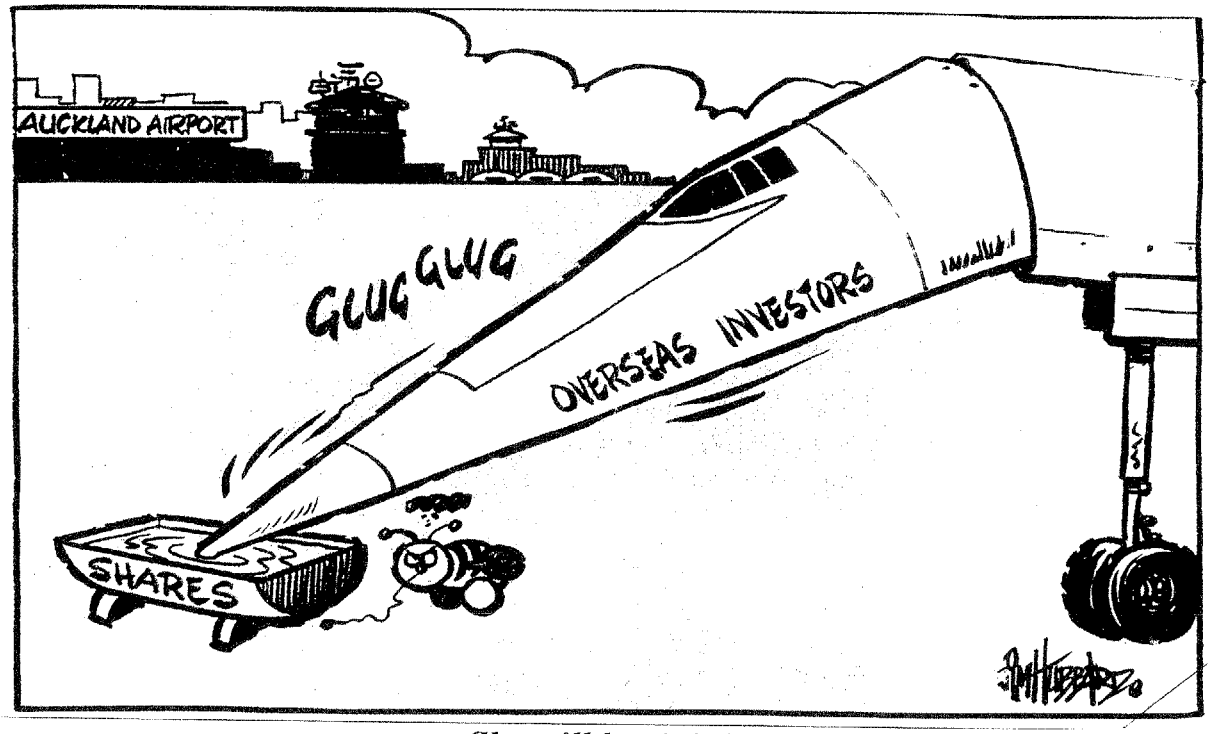

Share'll be right?

(Village Press, 29.7.98)

(OIC Decisions: From Page 37)
The two decisions are firstly, for undefined "persons who may be 'overseas persons'" to acquire "25% or more" of the company (despite the Government's stated intention to keep overseas ownership below 25%); and secondly for the international investment banks organising the sale to acquire the entire 51.6%. The latter is presumably for technical reasons. The banks are **Merrill Lynch and Company Inc. (U.S.A.)**, **Credit Suisse First Boston Corporation (Switzerland)**, and **ABN Amro (Netherlands)**. The price in both cases is "to be advised", but the market value was estimated to be "in the vicinity of **$500 million**". The Government actually realised $390 million (*Press*, 28/7/98, "Airport shares power up for take-off", p.26).

The Government also squeezed the company before sale, which distributed $135 million to its shareholders from retained earnings and increased debt, threatening its debt rating with Standard and Poor's, but adding $70 million to the Government's sale proceeds (*Press*, 25/5/98, "Auckland Airport payout threatens credit rating", p.30).

The sale ran immediately before that of Wellington Airport, which was the trigger for the collapse of the Coalition Government. It attracted only slightly less controversy. For the first time in the central government's privatisation programme of the last fourteen years, it was carried out by a public offering of shares rather than by tender. The process was "one of the largest offerings of shares ever conducted in respect of a New Zealand company" involving a tollfree 0800 number and widespread distribution of the investment statement (abbreviated prospectus) through NZ Post shops. It was intended to "result in achieving a maximum participation by New Zealand investors". In other words it was an exercise in emulating Margaret Thatcher in trying to create "popular capitalism" and maintain 75% local ownership. It will probably fail on both counts. Most of the New Zealand investors, who received only tiny packets of shares, will sell them very quickly as has happened in local government privatisation share allocations, particularly as a heavy capital investment programme is expected for the airport in the next decade. The shares will – like 60% of the sharemarket – end up in overseas hands.

The share allocation did succeed in attracting first-time investors, in numbers described by one stock broker as "amazing". The Government guaranteed a share allocation to all New Zealanders applying. The minimum they could apply for was $1,000 worth of shares (*Press*, 2/7/98, "Investors check in for Auckland airport float", p.26). The ANZ Bank announced loans for people wanting to buy, attracting criticism from politicians and academics (*Press*, 8/7/98, "Loan for shares attacked", p.1). In the end 68,000 New Zealanders bought shares, with 48,000 new to the sharemarket according to the Government. Of these, 55,000 were issued from a public pool of shares. All received the minimum (and uneconomic) $1,000 parcel (556 shares). Indicating the type of investors attracted, 30% had asked for only $1,000 and another 30% for $2,000 worth. Another 12,400 privileged investors received shares through a $10 million broker pool. They averaged $8,000 shares per person. All transactions were provisional until the international share offer had completed.

Individual investors ended up with just a quarter of the shares they applied for, and 22.1% of the company. Institutional investors within Aotearoa received 18% of the shares they asked for and got 9.9% of the company. Overseas investors took about 40% of the shares offered, giving them an initial 20.6% of the airport company, though it was clear from the huge oversubscription within Aotearoa that no sales overseas were needed to sell all the shares on offer. (*Press*, 28/7/98, "Airport shares power up for take-off", p.26; 29/7/98, "Airport in cruise mode with 13.9% first-day gain", p.28).

The first problems occurred over the mass advertising campaign for the float. Even ACT leader Richard Prebble, displaying the hypocrisy he has made a trademark of his career, feigned unhappiness that the advertisements implied that only New Zealanders could apply. (The advertisements featured former All Black captain Sean Fitzpatrick.) In fact, a separate float to overseas institutions was taking place. In a statement only a politician could understand, Prebble protested: "That statement is more than false. It's untrue". He took his complaint to the Advertising Standards Authority (advertising pros may also understand such logic) (*Press*, 7/7/98, "Airport advert claim 'untrue'", p.7). He also took complaints to the Registrar of Companies and to the Securities Commission – and called for its abolition when it refused to act (ACT press release; 20/7/98). However, *National Business Review*, usually unfailing ACT loyalists, rapped him over the knuckles for his unashamed populism.

Alliance leader Jim Anderton complained to the Commerce Commission for similar reasons, with the same results (*Press*, 21/7/98, "Airmail may be too late to catch airport", p.24).

However there was some truth in Prebble's and Anderton's claims that the advertising was misleading. While it was advertised as a share issue for all New Zealanders, in fact it was *their* share allocations that were scaled back rather than reduce the allocation to foreign investors. Prebble also pointed out in his letter to the Registrar of Companies (5/7/98) that "the deal has been structured so that Merrill Lynch have an incentive to offer shares to foreigners rather than New Zealanders. On page 102 of the prospectus it is stated that Merrill Lynch will receive 2.5% commission on foreign sales and 0.5% commission for sales to the New Zealand public". Share brokers added weight, saying "at least half of the shares will end up in institutional and overseas investors' hands", not to Kiwi

small shareholders as the Government claimed (*Press*, 3/7/98, "Brokers dismiss PM's airport holdings claim", p.33). In fact more than half did.

Investment analyst Brian Gaynor criticised the deal for expecting investors to put up their money without knowing the value that would be put on the shares (*Press*, 1/7/98, "Airport issue pool topped up for public", p.30). Sharebrokers were unhappy about the lack of shares allocated to them, and domestic institutions furious about the scaling back of their shares (for example *New Zealand Herald*, 28/7/98, "Allocation of airport shares angers AMP", by Geoff Senescall).

Chris Lee (*Press* investment columnist) called the float a farce.

> "The fact is that only the favoured clients of a few major brokers were allocated sensible parcels of shares. Merrill Lynch, small here and new, decided which brokers should get sensible allocations based on some criteria invented by the Government or ML. Others to get sensible allocations were overseas investors, who are unloading most of the 50 million shares they scored, making a fat profit at the expense of the New Zealand institutions. Clever eh!...
>
> "The Auckland International Airport float used a method that has made a bundle for Merrill Lynch, a bundle for the international investors (who scored 22% of the shares), and it made a few bob for Sean Fitzpatrick and the other beneficiaries of the record-breaking advertising and printing bill that sucked in so many first-time investors. It has made next to nothing for small punters, and because the airport was eventually sold at a discount to market value, the sale has made too little for the vendors – us, the taxpayers." (*Press*, 10/8/98, "Lessons from Auckland Airport share float", p.25.)

Lee's last comment reflects the fact that the share price rose 13.9% (from the 180 cents issue price to 205 cents) on the first day of trading. Those profits were almost certainly made by overseas and institutional investors: individual investors had not by then received the reference numbers required to organise sales.

Lee's comments are among the few that focus on the lack of integrity and the conflict of interest in this and previous privatisations. A further issue is that Merrill Lynch both advised the Government on the sale (it recommended privatisation, to noone's surprise) and then profited from organising the privatisation process.

The reasons the Government gave to the OIC for the privatisation were the need for increased investment in the airport, risks in the increased property development required, using the proceeds to reduce Government debt, and a statement that "investments in airports such as Auckland International, are best made by the private sector". Leaving aside the opportunity to reduce debt, the other reasons would seem to argue strongly against the float.

The need for increased investment, if a big issue, also makes it an unsuitable investment for most small investors as the returns are likely to be low. The Government can't have it both ways. But the Government has exaggerated this, saying an "estimated $1 billion in capital works [are] required at the airport over the next 20 years". But the prospectus lists up to $100 million in the next two to three years on runway repairs; around $100 million on a new domestic terminal in the medium term; and about $300 million over ten years for a second runway. The company expected to fund that out of cash flows (*Press*, 11/7/98, "Heavy airport costs no bar to investment", p.21). The $1 billion over 20 years (if true) is very likely manageable from the company's own resources.

If it is true that there are "risks" in the "greater focus on property development", then they were not properly explained to the investors. In fact, the statement is exaggerated or untrue: given the company's monopoly position, the investment risks are extraordinarily low. The more likely outcome is a risk to the region (and given the airport's importance, the country) from the privatised company using its position to increase charges.

A company owned by myriad small investors and by institutions will be run by its managers (who could equally well be employed by a publicly owned enterprise), so it is hardly credible that it will be best managed in this way rather than subject to some representative control. The statement that "investments in airports such as Auckland International, are best made by the private sector" has scant evidence. Auckland will be the only listed airport in the Southern Hemisphere, and among only five listed airports in the world: British Airports Authority, Rome, Vienna, and Copenhagen (*Press*, 1/7/98, "Airport issue pool topped up for public", p.30; 3/7/98, "Brokers dismiss PM's airport holdings claim", p.33). There are considerably more privatised airports around the world – but there is minimal long term experience of their effects.

In the end, the logic of the sale escaped most people except the investment banks, sharebrokers and institutions making their margins on the sale. As Paul Little, editor of the *Listener* put it:

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> "If we can't own and run something as basic as an airport, perhaps we should just stop pretending to be a country, close the place down and all go and live somewhere that takes itself seriously and has enough respect for its inhabitants to inform them when they're being done over." (8/8/98, "Flights of fancy", p.7.)

After all, Auckland airports had been run by Government and local governments very successfully for sixty years.

Novartis "enables rationalisation" of animal health industry: buys Youngs

In an exceptionally public spirited act, the giant pharmaceutical and chemical transnational, **Novartis AG** of **Switzerland** (through its subsidiary **Novartis Animal Health Inc.**) has acquired **Youngs Animal Health (NZ) Ltd**. The price is suppressed, but it clearly was unimportant anyway: Novartis bought Youngs for a higher purpose, namely to "enable the New Zealand animal health industry to be rationalised, which is currently characterised by a number of relatively small companies with limited product ranges" (excuse their syntax). Quite incidentally it will increase profitability: "the proposal will provide the opportunity for economies of scale which would be expected to result in associated benefits of cost savings and an enhanced service to the company's New Zealand customers". We need not worry too much anyway: Novartis bought Youngs from another transnational, **Crampian Pharmaceuticals Ltd** of the **U.K.** We should presumably watch out for more such highminded acquisitions until no further "rationalisation" is possible, and prices are fully under their control.

We documented the merger of Ciba-Geigy Ltd and Sandoz Ltd, both of Switzerland, into Novartis, in August 1996. It was then said to be the "largest merger ever", but that record has since been broken a number of times. The new company was to have a market value in excess of US$60 billion, making it the second largest pharmaceuticals company in the world, with a market share of 4.4%, sales of 14 billion Swiss francs, and in its own words, "number one worldwide position in life sciences".

Sterling Grace of the U.S.A. takes over Claymore Asset Management

Sterling Grace L.D.C., owned by members of the **Grace family** of **New York, U.S.A.**, has approval to acquire a further **25.6%** of **Claymore Asset Management Ltd**, a "New Zealand resident company" in which it already had a 24.2% shareholding, for **$720,000**. Claymore owns **Stableford Investments Ltd**, which in turn owns **Spicers Portfolio Management Ltd**.

> "Spicers is a funds management company offering tailored investment options to its customers in New Zealand. It is stated the proposal provides Claymore with development capital and continuity of ownership necessary to ensure that the company has the financial resources required to compete in an every increasing competitive marketplace. It is also stated that Claymore will continue to be operated and controlled from within New Zealand at all times following the proposed acquisition."

Claymore Asset Management Ltd is a rather strange company according to its New Zealand Companies Office record. It has only one share, held jointly by two of the directors, Craig Dawon and George Kerr. The directors include James Livingstone Reeves of New York. So it is not clear how the current 24.2% is held by Sterling Grace.

We can find little on Sterling Grace, other than that *Forbes* reported in 1997:

> "Khaled Sobhy, vice president of Middle East operations at Sterling Grace Capital Management, recently invested more than $5 million in Egyptian stocks on behalf of brothers John Grace and Oliver Grace Jr., after two years of research. What made them jump? The privatisation last May of a big Cairo real estate development company.
>
> Word in Cairo was the Government would sell 10% of its holding to the public and 10% to employees, but in the end 75% was privatised. 'That showed the Government is finally serious about ceasing to be an obstruction,' says Sobhy." (http://www.forbes.com/forbes/97/0421/5908376a.htm)

A Claymore Group with a subsidiary called Claymore Asset Management Ltd has a Web page at http://www.claymore.tc. "What does 'tc' stand for?" I hear you cry (it normally stands for the country of origin, except in the imperial U.S.A.!). It doesn't stand for "tax cover" though it might as well. The page states:

> "The Claymore Group is a diversified financial services group offering a range of financial, investment, insurance and management services to overseas

> and domestic businesses and individuals.
>
> The Group offers high return on investment opportunities within the zero tax domicile of the Turks and Caicos Islands and a full range of international investment opportunities and services in major markets.
>
> Each Group company operates autonomously but at Group management level we are able to ensure cooperation between the member companies and to provide overlap where one event or transaction can benefit from expertise in another member company."

We don't know if the Turks and Caicos Islands group is connected with the New Zealand one.

Symantec takes over Binary Research for $52 million

Software manufacturing giant, **Symantec Corporation** (or **Symantec Ltd**), has approval to acquire the assets of **Binary Research Ltd** and its subsidiary **Binary Research International, Inc**. for **$52,370,977**. According to the OIC,

> "Symantec is a world leader in utility software for business and personal computing and is the seventh largest software company in the world. It is advised Symantec currently has a very small sales office in New Zealand and the proposed acquisition of the business assets of Binary Research Limited will significantly increase Symantec's presence in New Zealand. Furthermore, it is stated the New Zealand Office of Binary Research Limited will become a software development office for Symantec and most of the existing employees of Binary Research Limited will be retained. Additionally it is stated the proposal provides for the introduction of further capital for development purposes and will significantly increase the sales of Binary Research Limited's software products as part of the Symantec product line."

Binary Research had created a product called Ghost, which considerably simplifies the management of networked computers which are the basis of most large organisations' computing. Ghost allows a standard image of a computer's hard disc to be made and then "cloned" to other computers over the network. The management of such computers is highly labour intensive without software such as this. Symantec estimated the market for disk cloning software had grown from $US1 million to $US16 million just from 1996 to 1997. According to a Symantec news release, "Ghost is the clear leader in the disk cloning market with more than 3.5 million seats installed in the last 18 months. The product is used by more than half of the *Fortune* 500" and also many university computer laboratories. It is part of Symantec's strategy "for serving corporate customers", under which it recently announced an alliance with IBM.

About half the price of buying out Binary Research will be written off as research and development (R&D) expenses. Symantec also owns the popular Norton brand of utility software, and Ghost will be marketed under the Norton name in future. Symantec's other products include ACT!, Mobile Update, pcANYWHERE, Visual Café for Java, Visual Page, and WinFax. (*Press*, 29/6/98, "Symantec buys BRL for Ghost", p.28; Symantec news release, "Symantec Acquires Ghost, Expanding Corporate Solutions Set", 24/6/98, http://www.symantec.com/press/n980624.html; http://www.symantec.com/cgi-bin/menu.cgi).

Sanga takes over SolNet, exclusive agency for Sun computers

Sanga International Inc. of **Canada** has approval to acquire **SolNet Technologies Ltd** from the **McNae Family Trust** for **$18,000,000**. SolNet is the exclusive independent sales agent for **Sun Micro Systems New Zealand Limited** within Aotearoa. "Sanga believes SolNet has an excellent management team which is expected to add to the overall value of the business globally as well as within New Zealand."

The majority shareholder (**52.8%**) of Sanga is **Ventures North International Inc.** which in turn is ultimately owned by the **Majere Group of Companies Limited**, which is ultimately owned by the **Maine Family Trust**, the trustees of which are **Shane Main and Shaun Main**, who are both Canadian citizens.

Noahs buys Lakeland Hotel in Queenstown

Noahs Regency Hotel Ltd, owned by **Amalgamated Holdings Ltd** of **Australia**, has approval to acquire the **Lakeland Hotel** in **Queenstown, Otago**, from **Lakeland Tropical Resorts Ltd** of **Singapore**. The price has been suppressed. Lakeland Tropical Resorts is owned by **Kwon Ping Ho** and **Te Hwee Liang** of Singapore.

> "It is stated the applicant's parent company, **Noahs Hotels (NZ) Limited** has a substantial presence in New Zealand through its operation of hotels in Auckland, New Plymouth, Rotorua and

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Christchurch. The applicant wishes to re-establish a business presence in Queenstown. To achieve this, Noahs' have decided to own and operate a Queenstown hotel of the quality of the Lakeland Hotel which it has previously owned and which it has managed for the preceding five years."

In October 1993 we reported:

A Singaporean controlled company, Tropical Resorts Ltd, has approval to buy the Lakeland Hotel in Queenstown for approximately $14,787,916. "The Commission is advised that the shareholders of Tropical have extensive investments in the tourism and related industries and view the acquisition as an opportunity to extend their activities into New Zealand. The applicants state that they will undertake a significant refurbishment of the hotel which is required to maintain the hotel's position in the strengthening three to four star tourist market of Queenstown. The Commission is further advised that Tropical will market the hotel and New Zealand in general through its marketing group in South East Asia. The vendors of the hotel (Noahs Hotels Ltd, which is part of the Amalgamated Holding Group of Australia) have advised that their cash flows did not permit them to undertake the much needed refurbishment. The Commission is further advised that the vendors will be retained to manage the hotel and that they view this as an ideal situation being able to maintain control of the property by way of a Management Agreement without the risks associated with a continuation as owner". The owners of Tropical Resorts are Wah-Chang Group of Singapore (40%), Chang-Fung Company Ltd of Hong Kong (12%), Natsteel Resorts International Ltd of Singapore (19%), Japan-Asia Investment Company Ltd of Japan (19%), and Asian Strategic Capital Ltd of Hong Kong (10%).

Six thousand hectare Poronui Station sold by Carter Holt to U.S. investors

Approval has been given for the sale of the **6,334 hectare Poronui Station,** 44 kilometres from **Taupo**, **Waikato**, to **Poronui Station Ltd** which is owned by **Mark Christopher Blake (56%), Wendy Margarete Blake (33%)** and **Todd Austin Blake (11%)**, all residents of **San Francisco** in the **U.S.A.** The vendors were two subsidiaries of **Carter Holt Harvey Ltd** (itself a subsidiary of **International Paper Products** of the **U.S.A.**), **Matapapa Farm Ltd**, and **Pokirikiri Farm Ltd.** CHH has retained ownership of forests which are on part of the land. The sale price has been suppressed. The station adjoins land held for conservation purposes. It will be used for tourism as well as forestry.

The station is currently the focus of commercial deer hunting and trout fishing operations. One company, Helisika, operates "wilderness hunting and fishing trips" from the station, which was the original liberation site of Sika deer in 1905. It operates two Hughes 500 turbine helicopters (ref http://taupo.com/hunting/helisika.html). Fishing at "Poronui Ranch" is advertised on a number of Internet sites overseas.

One Rotorua angler was not happy at the sale or how it was carried out. He wrote on a fishing and hunting bulletin board:

The gatecrashers spot the party food

"I just wonder how other anglers feel about real estate companies who advertise properties for sale by emphasising things like 'beautiful trout stream', 'your own private river', 'trout stream, tourist potential', or 'great for lodge, river runs through property'. I for one am tired of them promoting the tourism potential of what is a public fishery. The end result is that tourist operators do buy the property and then capture the public resource by not allowing anyone to cross their land to the river except their clients. I say boycott them.

I read in the paper that Poronui is to be sold. The real estate company is promoting it as having wilderness fishing and tourism potential. Anglers have been denied access to this prime fishing water for too long because of greedy tourism fishing guides. Now the real estate companies want to try and sell it to more tourist operators. Its about time we anglers took a stand. I for one will never buy any land from Bayleys Real Estate while they continue to promote places such as Poronui Station as in such a way as to imply a private fishery could be had. Join with me and Boycott them." (http://www.fishnhunt.co.nz/bulletin/messages/7.htm)

The OIC's lengthy "rationale" for the approval does not allay these fears:

"It is stated the property is currently predominantly used for forestry purposes (approximately 2,704.4 hectares), with a smaller area (approximately 70.8 hectares) being utilised for beef and deer farming, together with recreational trout fishing and deer hunting sports. A further area of some 1,000 hectares is utilised for pastoral grazing. The remainder of the property is primarily steep hilly terrain, upon which both native bush and scrub is located. The native bush is to be protected by a registered encumbrance that will prohibit it clear felling or milling.

Carter Holt Harvey (CHH) has decided to divest its interest in Poronui Station, thus forming the basis of this application. CHH state there are several reasons prompting the sale including:

(a) Poronui is peripheral to CHH's Tokoroa and Hawkes Bay forest estates;

(b) Poronui is not a highly productive site owing to its altitude and harsh climate;

(c) CHH does not view deer farming and tourism as businesses in which it has experience or expertise; and

(d) the underlying land value is higher than is justified for forestry at Poronui.

Accordingly, Poronui was offered for sale by a tender process and was widely marketed to ensure that CHH maximised the sale price. It is stated the proposal will allow CHH to release capital for further investment elsewhere in its forestry and processing business in New Zealand while retaining (under a forestry right) the ownership of the pinus radiata and douglas fir forests contained on part of the land. Additionally it is stated the proposal will allow the development of the tourism potential of the property, something that would not otherwise have happened under CHH's current ownership.

Poronui Station advise they will introduce substantial additional capital to develop the existing fishing hut facility, which consists of three removable buildings, to a world class sporting lodge. The sporting lodge will be developed to allow for accommodation of up to 20 guests and will be open seven days a week for a period of eight months of the year. The lodge will be utilised as a base for guided trout fishing and sika deer hunting. Additionally it is advised eco-tourism will be developed on the property, including nature trails, mountain biking, horse trekking and hiking. It is the intention that the lodge will be opened on the evening of the Millennium, namely 31st December 1999"

Two applications refused: in Northland and Canterbury

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Two residents of **Switzerland** have had an application refused to acquire land in **Northland** for a homestay and backpackers lodge. **Leroy Downs Ltd** owned by a citizen of **Canada** has had an application to acquire a land for deer farming in **Canterbury** refused. Neither was "considered to be in the national interest". Most other details are suppressed in both cases.

Land for forestry

* **New Zealand Plantation Forest Company Ltd** owned by **Chuetsu Pulp and Paper Co, Ltd (30%), Hokuetsu Paper Mills Ltd (30%), Marusumi Paper Co. Ltd (30%)** and **Marubeni Corporation (10%)**, all "substantial **Japanese** companies, involved in forestry and commerce within Japan", has approval to acquire **233 hectares** of forestry cutting rights in **Tinopai, Northland** for a suppressed amount. "NZPFCL intends to acquire a forestry right over approximately 233.3 hectares of the property for a term of 22 years, for the purpose of establishing a commercial forestry operation on the property".
* **Dr Franklin Daniell** and **Cassandra Daniell**, both citizens and residents of the **U.S.A.**, have approval to acquire **20 hectares** of land at **Ashton Road, Whangateau, Warkworth, Northland**, for **$1,150,000** for forestry and lifestyle purposes. "... approximately 40% of the land is currently utilised for afforestation purposes. The applicants intend to develop a further 25% of the property for afforestation ... [and] take up permanent residence in New Zealand by 31 August 2000".
* **Yaquina Kiwi Forest Corporation** incorporated in the **U.S.A.** and owned by **Fred M. Van Eck**, of the U.S.A., has approval to acquire "approximately" **167 hectares** of land on **Mimiha Road, Matata, Bay of Plenty**, for **$450,000** for forestry. In April 1996, we reported that "Yaquina Forestry Corporation ... has approval to buy 319 hectares of land at Otamarakau, in the Bay of Plenty, for $1,200,000 for forestry planting".
* **Trustwood Forests (Kiteroa) Ltd** is selling an interest in a block of land for forestry at **Ihungia Road, Te Puia Springs, East Cape, Gisborne**, this time "approximately **280 hectares**". A one-third share goes to **Vetorino Forestry Group Ltd**, owned by **Mr Frank Vetorino** and **Janet Vetorino-Howard**, both residents of the **U.S.A.** for **$325,000**. A one quarter share goes to **Trees Pacifica Ltd**, owned by **Mr Charles P. Garrison** of the **U.S.A.** for **$243,750**.

  > "The land, the subject of this application, forms part of a larger property owned by Trustwood ... Trustwood was incorporated solely for the purpose of acquiring the property and developing it for afforestation purposes. The company has entered into several joint venture agreements with other parties, including overseas persons, in order to reduce existing indebtedness and to assist in maintaining the integrity of the development of the whole property as a commercial forest. The proposal represents the last title owned by Trustwood for sale in Kiteroa Station in a joint venture arrangement with a forest partner. It is stated the land is currently planted in two year old pinus radiata trees".

  Trustwood will be responsible for the day-to-day management of the forest and the two companies "substantial development capital". Trustwood similarly sold interests in its land overseas in October 1997, December 1996 and September 1996.
* **Pelorus Properties (NZ) Ltd**, a subsidiary of **Pelorus Properties LLC** owned by **David Teece**, a New Zealand citizen residing in **California, U.S.A.**, has approval to acquire **413 hectares** of land in **Maungatapu Road, Rai Valley, Marlborough** for **$288,000** for forestry planting. "A large part of the property is covered in native forest, most of which is protected by forestry rights granted for 999 years". Approximately 120 hectares is currently planted in pinus radiata and a local forestry manager will be responsible for the day-to-day management and operation of the property". The land is being acquired from the **Marlborough Pine Corporation Ltd**.
* **Southland Plantation Forest Company of New Zealand Ltd**, of **Japan**, has approval to acquire **408 hectares** of land in **Tahakopa Valley Road, Southland** for **$522,000**, for forestry. It adjoins conservation land. Southland Plantation is owned by **New Oji Paper Company Ltd (51%)**, **Itochu Ltd (39%)**, **Fuji Xerox Co. Ltd (5%)**, and **Fuji Xerox Office Supply Company Ltd (5%)**, all of Japan. The company bought 203 hectares in Southland in May and 284 hectares in January 1998.

Other rural land sales

* **Carrington Farms Ltd**, owned by **Carrington Trustees Ltd** whose beneficiaries are members of the **PHII Group** of the **U.S.A.**, has approval to acquire for **$38,000**, **0.0809 hectares** of land at **Inland Road, Doubtless Bay, Tokerau Beach, Northland** adjoining the **414 hectare** property it acquired in 1995.

  > "Carrington Farms wish to acquire this further parcel of land (0.0809 hectares) in order to improve the access to their beef farming operation. It is stated that since the initial acquisition approximately $700,000 in development capital has been injected in order to improve the property, stock numbers run on the property have increased from

nil-840 and four persons have been employed on a full time basis within the farming activities undertaken on the property".

* Two residents of **Japan** who have been granted permanent residency in Aotearoa, have approval to acquire **five hectares** of land on State Highway 10, **Kerikeri, Northland** for **$287,000**. They intend to acquire the property as a residential base/lifestyle block on which they will reside permanently.
* **Corbans Wines Ltd**, a subsidiary of **DB Group Ltd** which is **58.39%** owned by **Asia Pacific Breweries Ltd**, has approval to acquire **12 hectares** of land in **Rapaura Road, Blenheim, Marlborough**, for **$570,000** "in order to secure a supply of grapes for its wine business". Asia Pacific Breweries is **80%** owned by **Heineken NV** of the **Netherlands** and **Fraser, Neave Ltd** of **Singapore**. It also bought land in Rapaura Road (eight hectares) in April 1998.

July 1998 decisions

Emerald Capital can buy remaining shares in New Zealand Experience

Emerald Capital Ltd, which is **90%** owned by the **Gardiner Group Ltd** of **Canada**, and **10%** by **Mr G.A. Cumming** of Aotearoa, has approval to acquire the **51.8%** of **New Zealand Experience Ltd** that it does not already own. New Zealand Experience owns the controversial **Mount Cavendish Gondola** on the Port Hills in **Christchurch** (including **four hectares** of land) and the **Rainbow's End** theme park at **Manukau, Auckland** (including **seven hectares**) of land. The price is **$2,100,174** for **34%** which it is acquiring from **Malcolm North**, director and former chairman of New Zealand Experience.

Despite the OIC decision being made in July, the *Press* reported the sale of the North shares on 31/3/98 (*Press*, 31/3/98, "North confirms sale", p.27). Emerald stated that it had no immediate plans to bid for the remaining 17.8% held by minority shareholders. The sale was with the background of plummeting profitability of New Zealand Experience. Its audited preliminary financial result for the year to June 1998 showed after-tax profit dropped 94.3% to $17,000 compared to the previous year. Dividends were skipped. The directors said the poor result was due to disappointing attendances at Rainbow's End after a fire, adverse weather and the troubled economy.

The Mount Cavendish Gondola was, if anything, worse off, though showing small signs of improvement. It had been a controversial project from the start, meeting opposition from many in the local community. It was built on Port Hills reserve land, and on a particularly sensitive part of it at that, Mount Cavendish, with rare plants on its slopes. The constant noise of the gondola annoyed neighbours in the semi-rural Heathcote Valley.

As the *Press* reports, "attendances dropped consistently since the peak attendance of 240,000 people during the 1992/93 opening season. Budgeted on a patronage of about 300,000 each year, the gondola never reached its target. Instead, numbers continued to drop by 10 to 16% each season" until the current year. One of the many "hobby" shareholders described it as "an unmitigated disaster". Staff numbers dropped from 72 to seven fulltimers. About half the patrons are from overseas. Originally owned by an independent company, it was paired up with the successful Rainbow's End by Malcolm North in 1995. He had been the owner of the theme park since 1993 and had traded it out of receivership. Instead of the success rubbing off on to the gondola, the gondola dragged down Rainbow's End. North lost heavily in the sale to Emerald: he bought at between $1 and $1.40 a share, and sold at 11 cents (*Press* Weekend section, 5/9/98, "Tough climb to profitability on Mount Cavendish", p.6.)

Emerald assert that they will provide the development capital the company needs, though whether they are able to do anything for the company is less than clear: they have had plenty of opportunity through their controlling 48% interest since 1996 (see our commentary for June that year).

In May 1998, Emerald bought venture capitalist, Direct Capital Partners.

AMP, Goldman Sachs finance management buyout of McKechnie Pacific (NZ)

In what is described as "a management buyout of McKechnie Pacific business operations in both New Zealand and Australia", **MCK Holdings (NZ) Ltd** has approval to acquire **McKechnie Pacific (NZ) Ltd** for **$124,540,387** from **McKechnie Plc**, of the **U.K.** MCK Holdings is owned as follows:

* **AMP Ltd** of **Australia**, **44%**
* **GS Private Equity Fund** of **Australia**, **34.32%**
* the **Australian public**, **8%**

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* **Capital Partners Ltd, Aotearoa, 6.16%**
* the **New Zealand public, 4%**
* **Impala Trust** of **Singapore, 3.52%**

We assume GS Private Equity Fund is a Goldman Sachs subsidiary, and wish McKechnie's better than Skellerup/ Maine Investments' experience.

The sale also includes a total of **15 hectares** of freehold land in **New Plymouth**, and **two hectares** of leasehold land in New Plymouth and **Pakuranga**. McKechnie Pacific deals in metal products.

Richard Ellis buys out its Aotearoa subsidiary

CB Richard Ellis Inc, owned by **CB Richard Ellis Services Inc** of the **U.S.A.**, is "consolidating the existing business operations of Richard Ellis in New Zealand and Australia under a single management structure" as part of an international restructuring. Accordingly the company has gained approval to acquire the business assets and undertakings of **Richard Ellis Agency Ltd** and **Richard Ellis Ltd** in Aotearoa. The two companies were owned by **Brian White** of **Australia** (holding 44.96% and 44.91% respectively), **Relam Amsterdam Holdings BV** of the **Netherlands** (25.01% and 25.03%), and the **McKellar Family Trust** (19.98% and 20%) and the **Steur Family Trust** (9.99% and 10%) of **Aotearoa**. Brian White is Chairman of Richard Ellis Australia. Michelle McKellar is the Managing Director of the New Zealand group's Auckland office, and Mike Steur is in charge of Professional Services in that office. (ref. http:/ /www.richardellis.com.au/services.asp and http:// www.richardellis.com.au/offices/nz/auc.asp).

The New Zealand group has offices in Wellington and Christchurch as well as Auckland. In Australasia, it has 16 offices, 80 directors and 500 staff. It was established in Australia in 1965 and in Aotearoa in 1988 (http:// www.richardellis.com.au/about.asp).

CB Richard Ellis describes itself as "the world-market leader in real estate services. Headquartered in Los Angeles with over 9,000 employees worldwide, the company serves real estate owners, investors and occupiers through over 200 principal offices in 29 countries. The company's core services portfolio includes property sales and leasing, property management, corporate advisory services and facilities management, mortgage banking, investment management, capital markets, appraisal/valuation and market research.

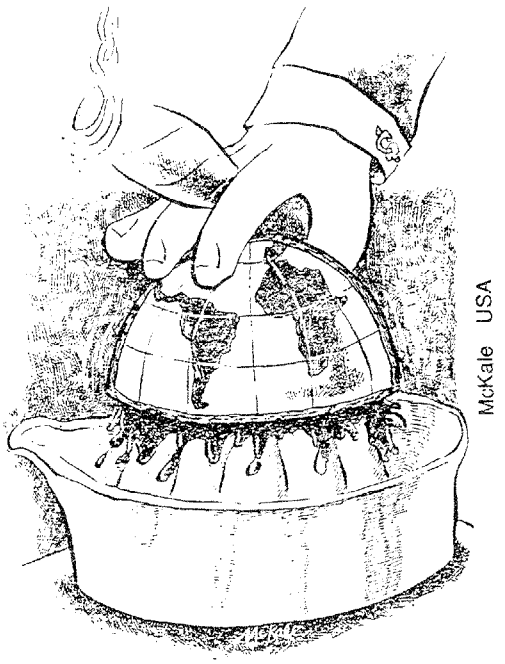
"By a number of measures – revenues, transaction volume, employees and company-owned principal offices – CB Richard Ellis is the largest vertically integrated commercial real estate services firm in the world. CB Richard Ellis was created in May 1998 after CB Commercial, formed in 1906, acquired REI Limited, the holding company for all Richard Ellis operations outside of the United Kingdom. CB Commercial and REI had combined 1997 revenues of $848 million.

"In 1997, CB Commercial completed 22,100 sale and lease assignments, with an aggregate consideration value of approximately $24 billion, and nearly 3,700 appraisal and consultation assignments. The company placed over $5 billion of commercial debt (including 1998 acquisitions by the company's mortgage banking subsidiary, L.J. Melody & Company) and $9 billion of equity in 1997. The company's property and corporate facilities management portfolio is 432 million square feet. The company's investment management business (CB Richard Ellis Investors) manages approximately $4.5 billion of real estate assets". (http:// www.cbcommercial.com/corp/shareholder.htm) CB Hillier Parker Limited is another member of the group according to the company's SEC filing.

The original Richard Ellis company, based in the U.K., also describes itself as "one of the world's largest real estate organisations... represented in all major financial centres". This includes "some 56 offices in Europe, the Americas, Australia and the Far East". In Asia it is represented in New Delhi, Bangalore, Mumbai, Tokyo, Hong Kong, Greater China, Singapore, Taipei, Jakarta and Bangkok. It was founded in the City of London in 1773 but this year merged with Insignia/ESG, combining "one of the world's foremost commercial advisors with one of the top commercial real estate service firms in the United States" http://www.richardellis.co.uk/ and http:/ /www.indialog.com/palmasgoa/profile.htm).

Internatio-Muller buys BP Chemicals

Internatio-Muller Australia/New Zealand Pty Ltd, which is owned by **Internatio-Muller NV** of the **Netherlands**, has approval to acquire **BP Chemicals ANZ Ltd** for **$10,479,975** from **BP New Zealand Holdings Ltd**, in turn owned by **British Petroleum**



Company Plc of the **U.K.**

In the June 1996 OIC decisions, we reported that I-M Australia/New Zealand Pty Ltd, ultimately owned by Internatio Muller N.V. of the Netherlands, had approval to buy Swift New Zealand, a division of New Zealand Food Industries Ltd, owned by Burns Philp and Co. Ltd of Australia. The price (only released in February 1998) was $8,806,000. In March 1995, ICI bought Chemical Cleaning Ltd from Burns Philp.

BMW takes back 49% of BMW Financial Services from Allied Finance

BMW New Zealand Ltd, a subsidiary of **BMW AG** of **Germany**, has approval "to acquire up to the remaining **49%**" of **BMW Financial Services New Zealand Ltd** from **Allied Finance Ltd** for a suppressed price. "In 1993, BMW and Allied Finance entered into a joint venture arrangement intended to govern the relationship between the two shareholders and the ongoing operation of BMW Financial Services. This arrangement included standard pre-emptive rights provisions and also enabled either party, at any time after 31 December 1997, to give written notice terminating the joint venture arrangement. It is advised BMW has now given notice terminating the joint venture with Allied Finance. It is proposed that BMW will acquire Allied Finance's 49% shareholding..."

Endeavour Services Corporation of the U.S.A. acquires land in Rotorua

Endeavour Services Corporation Ltd has approval to acquire "approximately **0.1110 hectares**" of land at **76 Pururu Street, Rotorua, Bay of Plenty**, for **$39,000**. The land is to enable the expansion of the company's existing factory on adjoining land, and adjoins a reserve. Endeavour is a subsidiary of **Alsco Linen Service Pty Ltd**, itself a subsidiary of the **Steiner Corporation** of the **U.S.A.**, which is **80%** owned by the **George A. Steiner Trust**, whose beneficiaries are the descendants of George A. Steiner.

"The acquisition of the land represents the completion of the transaction initially contemplated in May of this year whereby Alsco was to acquire the **Young Nick "Group"** including the shares in Endeavour Services Corporation Ltd, which operates in New Zealand within the textile industry, namely: **NZTS** [New Zealand Towel Supplies], **Deane Apparel** and **Endeavour Properties".** NZTS is the largest towel supply business in Aotearoa.

We have no record of the OIC approving such an acquisition in May. In February 1998, Endeavour was owned by Neal Hutton Plowman and family. According to NZPA (*Press*, 19/5/98, "Plowman reward in Endeavour", p.18), the Steiner Group offered around $200 million for Endeavour.

Indonesian starts to subdivide Closeburn Station, Queenstown

In April 1998, **RMI Resources Ltd**, the principal shareholder of which is **David Salman**, a national of **Indonesia**, gained approval to acquire the 935 hectare **Closeburn Station** on **Glenorchy Road, Queenstown, Otago**. Closeburn is owned through **J. F. Investments Ltd**, and RMI acquired **70%** of it. The remaining 30% is owned by **D. Bloomfield** of Aotearoa.

The proposal provided for a 21-27 lot residential subdivision of nine hectares. $5.5 million is expected to be raised from the subdivision which will be invested in farming on the Station. "The lots themselves will be marketed towards buyers looking to become part of the concept of a marriage of the protection of a high country farming station, conservation values and lifestyle living. The establishment and sale of the residential lots will provide capital that will enable the farming operation of 'Closeburn Station' to be preserved, developed and operated as an economic unit".

This month, the first three approvals are given for the sale of such blocks:

* **High Country Lakes Ltd**, majority owned by **Mr Ang Kong Hua** of **Singapore**, has approval to acquire **0.2907 hectares** of land;
* **Greenland Timber Industries Ltd**, majority owned by **Surin Upatkoon** of **Penang, Malaysia**, has approval to acquire **0.4542 hectares**;
* **Lot 10 Closeburn Ltd**, 100% owned by **Suppiah Dhanabalan** of **Singapore** has approval to acquire **0.2572 hectares**.

Each will also acquire "**an undivided 1/27th share in 926 hectares** of land being the area of Closeburn Station not set aside for residential development". It adjoins land held for conservation purposes under the Conservation Act 1987. In each case, the sale price is **$500,000 plus an annual levy of $3,000**.

Salman has a number of other investments in Queenstown including an interest in 17 hectares of land at Tuckers Beach Road near Queenstown, for residential subdivision; and Woodlot Farm Ltd, a Singapore/ Indonesia owned company involved in a golf course and housing development near Queenstown.

U.S. owner buys second Taihape farm to help his bulls mate

David Dean Smith of **Oregon, U.S.A.** has gained approval to acquire a property near his existing 86 hectare Taihape stud in order to keep mating bulls apart and thereby enhance their mating "efficiency and productivity".

In this decision, he bought **11 hectares** of land at the corner of **Paengaroa** and **State Highway One, Taihape**, for **$128,000**. It includes a house "which is

(Continued on Page 48)

(OIC Decisions: From Page 47)

able to be utilised in conjunction with the 86 hectare cattle farming unit" about 1.1 km away.

Smith obtained consent to buy the first farm in April 1998 for $375,000. He said then that he intended to run it "as a sheep/cattle farming unit running approximately 850 stock units" and to develop it to carry at least 900 stock units. "Mr Smith has extensive knowledge and expertise of the Simmental pedigree, Arubrc Stud and Brahman Cross cattle breeds" which he intended to develop. He would employ a farm manager for the day-to-day management and operation of the property.

In this decision, the OIC reports that "Mr Smith is actively proceeding with establishing two breeding cattle studs on the property he acquired in April. It is stated that due to the value of the animals, it is imperative that the breeding bulls be kept entirely separate during breeding seasons... The acquisition of the second property will enable better security because having two dwellings will ensure at all times the farming operation is properly supervised and it will also ensure that each breed is able to mate without disturbance from the other... The ability to isolate the breeding bulls is likely to enhance the efficiency and productivity of the Simmental Stud operation".

Flight Park in Queenstown sold to Australia-resident Japanese

Club Flying Kiwi Ltd, owned by **Mr Koichi Yasuda** and **Miss Miwako Muramoto**, "both of whom are Japanese citizens who predominantly live in Perth, Western **Australia**", has approval to acquire a "**flight park**" in **Malaghan Road**, near **Queenstown**, for **$535,000**. The land involved is **22 hectares** and adjoins a municipal reserve. The flight park caters for "paragliding, hang gliding and parapenting, winch on site launching, off site launching from a number of elevated peaks in nearby areas". It has resource consent for tandem hang gliding, paragliding and winch towing, and operates all year round, seven days a week, weather permitting.

Land for forestry

* **New Zealand Plantation Forest Company Ltd** of **Japan** has approval to acquire **15 year** cutting rights over two blocks of land in **Northland**. One is over **23 hectares** in **Kaiikanui Road, Opuawhanga**; the other is over **142 hectares** at **State Highway 12** and **Jordan Road**, near **Kaikohe**. In both cases the price has been suppressed. New Zealand Plantation Forest Company is owned **30%** each by **Chuetsu Pulp and Paper Co. Ltd**, **Hokuetsu Paper Mills Ltd**, and **Marusumi Paper Co. Ltd**, and **10%** by **Marubeni Corporation**, all of Japan. In June 1998, it received approval to acquire 233 hectares of forestry cutting rights in Tinopai, Northland.
* **Old Mill Forest Partners**, owned by the **Paulus Family** of the **U.S.A.**, has approval to acquire **1,618 hectares** of land at **Tauwhareparae Road**, north east of **Huanui** and north west of **Tolaga Bay**, in **Gisborne/Hawkes Bay**, for **$2,750,000** from **Tuarua Land Partnership** of **Aotearoa**. "The property is currently predominantly planted as a commercial Pinus Radiata plantation. To date 1,033 hectares of land has been planted in Pinus Radiata. It is advised approximately 287 hectares of additional plantable area of land will also be planted in Pinus Radiata on the property following the proposed acquisition". Old Mill previously purchased land for forestry in February 1995 (370 hectares at Te Reinga, Hawkes Bay for $864,660), in January 1996 (342 hectares of land, known as Grand Vue and Pine Park Forests, in Gisborne for $739,390, to be developed as part of "the larger 900 hectares Craills Brothers Forestry development"), and in February 1997 (approximately 536 hectares known as Braeside Forest, at State Highway Two, 36 km from Gisborne for $758,000).
* **Rayonier New Zealand Ltd**, owned by **Rayonier Inc** of the **U.S.A.**, has approval to acquire forestry cutting rights over **13 hectares** of land in the **Gisborne/Hawkes Bay** region, in the **Hikurangi** Survey District. The rights are being purchased from **Christopher's Management Services Ltd** of Aotearoa, as a boundary adjustment to "reflect the position that already exists on the ground and will allow Rayonier to gain legal title to the trees already planted on the land". In exchange, Christopher's Management Services, who own the neighbouring property, will be given grazing rights over "approximately 13 hectares of Crown Forestry Licence land" for which Rayonier is the licensee, with the net effect of formalising the status quo.
* **Southland Plantation Forest Company of New Zealand Ltd**, of **Japan**, has approval to acquire **282 hectares** of land in **Tahakopa Valley Road, Southland** for **$468,000**, for forestry. Southland Plantation is owned by **New Oji Paper Company Ltd** (**51%**), **Itochu Ltd** (**39%**), and **Fuji Xerox Co. Ltd** (**10%**), all of Japan. The company bought 408 hectares in Tahakopa Valley in June, giving it "approximately" **10,917 hectares** in the Southland region. The forestry operation will be managed by **South Wood Export Ltd** of Japan.
* The **Catlins Forest Company Ltd** has approval to sell **22 hectares** of land on the **Tahakopa Valley-Wyndham Road**, approximately 39 miles south of **Balclutha**, to two citizens of **Singapore** for **$70,000**. It adjoins land held for conservation purposes. The land will be used for radiata pine forestry and "woodlands" grown **Ginseng**. The land owners will enter into a management agreement with the Catlins Forest Company. "The proposal can be viewed as a type of joint-venture arrangement with the overseas parties providing the necessary capital and the New Zealand parties providing the expertise and business skills". The block is one of 19 freehold land titles which the company has marketed locally since February 1996 but has sold only one block.

Other rural land sales

* A resident of **Hong Kong** who "intends to reside permanently" in Aotearoa, has approval to acquire **20 hectares** of land at **Ararimu Road, Ararimu, Franklin District, South Auckland** for **$320,000**. Though it has been used by a neighbour for grazing, it is being acquired as a "lifestyle/farmstay facility" and will be the new owner's home.
* **Robert Pryke Investments Ltd**, owned 50/50 by **Robert and Joan Pryke** of **Australia**, has approval to acquire **82 hectares** of land at **154 Godfrey Road, Te Pahu, near Hamilton, Waikato**, for dairy farming, for **$1,000,000**. It is their second purchase and the Prykes "have given an undertaking that they will reside permanently in New Zealand by 2 June 1999". The land is under the management of a 50/50 sharemilker, and will remain so. Their first investment was an interesting one: it was first refused in February 1998, and then approved three weeks later. That land was a dairy farm of approximately 142 hectares at Grove Road, Te Pahu, for $1,900,000.
* **Bonenzio Pty Ltd** of **Australia** has approval to acquire **eight hectares** of land at **346 Orepunga Road, RD2, Cambridge, Waikato** for **$559,621** for poultry farming. The company is owned by **G. Bonaccordo** of Australia. The acquisition is the result of the falling out of a joint venture approved by the OIC in September 1997 between Australian and New Zealand partners. "Rather than embarking upon protracted litigation" after "substantial disputes", they agreed that the Australian syndicate or its nominee would purchase the remaining 50% interest in the business.

We reported the September 1997 decision as follows: "Half of Donjay (NZ) Ltd, the 'main supplier of ducklings to duck rearers within New Zealand' is being sold to an Australian syndicate for $1,240,250. The deal, which will enable the owners to 'expand the current operation from a cottage industry into significant entity within the duck breeding industry', includes eight hectares of land at 346 Orepunga Road, RD2, Cambridge, Waikato. The current owners, W. M. and K. M. O'Donnell will still own half of the company. The Australian side is a complex arrangement of three trusts:

  * Bonenzio Pty Ltd, trustee for the Bonaccordo NZ Land Trust, whose beneficiary is Giuseppe Bonaccordo of Australia;
  * Forsenzio Pty Ltd, trustee for the Forsenzio Holdings Trust, whose beneficiary is Mark Keith Forster of Australia; and
  * Ilenzio Pty Ltd, trustee for the Ilenzio Holdings Trust, whose beneficiary is Lloyd Richard Ilett of Australia".

* **Gregory Alan Best** of the **U.S.A.**, "whom the Commission is advised has a wealth of knowledge and expertise as a horse rider and trainer of horses" has approval to acquire **six hectares** of land at **Rosser Road, Hastings, Hawkes Bay**, for **$280,000**. The land, currently used for crop farming, will be developed "as a world class equestrian training facility. This will be used for two purposes. First, to train equestrian horses which will be exported to the U.S.A. Second, to train the New Zealand equestrian team for the Sydney 2000 Olympics".

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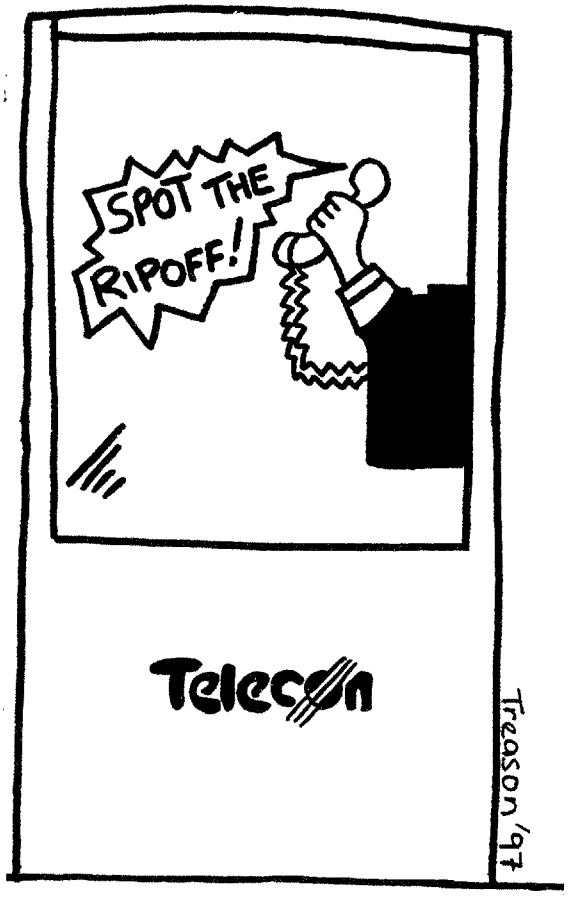
1. All spelling of geographic and company names is as supplied by the OIC unless otherwise it is clear from the context that the source is from elsewhere. Errors are those of the OIC. Areas are rounded to the nearest whole number. Information quoted, unless otherwise noted, comes from the "decision sheets" of the Commission. The information in this article is also available on CAFCA's Web site: http://canterbury.cyberplace.org.nz/community/CAFCA
2. The individual areas do not add to the total because of rounding.



TIMBER

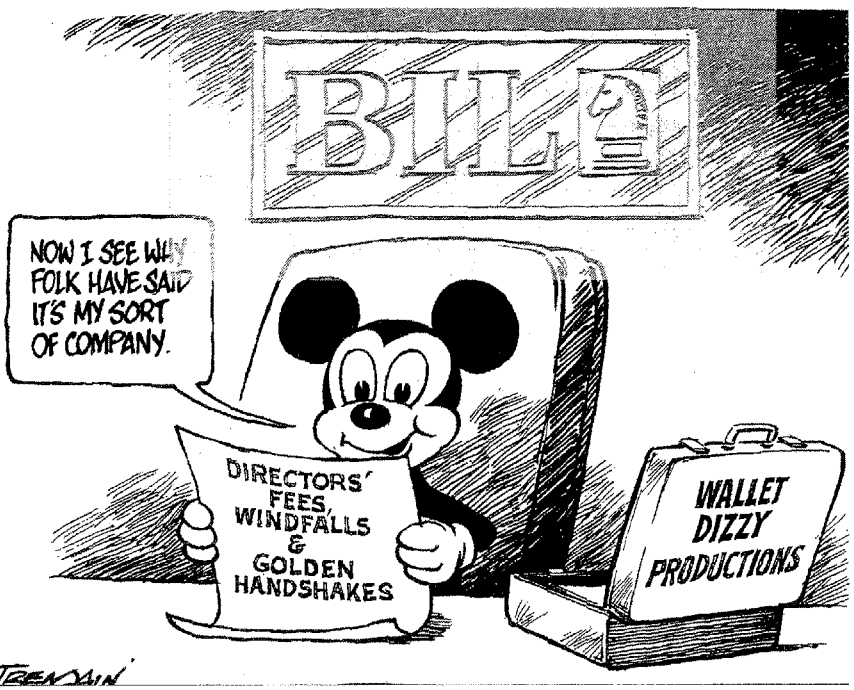
Forestry TNCs Felled By Asian Crisis; Workers Suffer

Until 1997 forestry was touted as New Zealand's next big thing, and it has become a sector completely dominated by transnational corporation (TNCs). What a difference a year makes. The Asian economic crisis (which has now become a crisis for the much touted global economy) erupted in mid 1997, and has steadily got worse since then. In the case of forestry, it is the perfect example of putting all your eggs into one basket. New Zealand exports $2.5 billion worth of forest products per year, nearly all of which go to Asia - Japan takes 33% and South Korea 14%. And a lot of those exports to north Asia are unprocessed raw logs, which contribute absolutely nothing to the New Zealand forestry industry (beyond growing, felling and shipping them out). That trade has been hit particularly hard by the virtual collapse of the Korean economy (which accounted for 20% of Fletcher Forests revenue). The volume of log sales to Korea has fallen by as much as 80%. Total exports of wood and wood articles fell by more than 11% in the year ending May 1998; wood pulp exports fell 6%. (Even processed timber faces problems - Japanese buyers don't like pinus radiata because its high moisture absorption content causes it to swell and cause problems for buyers. Sumitomo Forestry's Shigeru Sasabe told a Japan-New Zealand Business Council meeting that the forestry TNCs must invest in "safe chemicals" to solve the problem [*NZ Herald*, 16/10/98]).

And the all important share prices have fallen throughout 1998. In the five months to September, the NZ Stock Exchange's index of forest company share prices more than halved (from 780 points to 350). In the space of less than 12 months, Fletcher Forests' share price has dropped 75% and that of Carter Holt Harvey by two thirds. A collapse of this magnitude has major downstream effects - increasingly port companies around the country (such as Whangarei based North Port) are devoting themselves to forestry. Tauranga, the biggest forestry port, has been hit hard - June 1998 saw its log exports to Korea 57% below budget. Tranz Rail has laid off hundreds of workers, citing the recession in forestry as one reason.

But the heaviest impact falls on forestry workers. By one estimate, $100 million in spending and 6,000 jobs have been lost to the economy in 1997/98 because of the forestry slump. Forestry used to be a labour intensive industry and one of the biggest employers in the country. Not any more. The wholesale selloff of State forest cutting rights in the late 1980s and early 90s added thousands to the dole queues, destroyed single industry towns, and converted remaining workers into contractors. Now the axe has fallen on those contractors - in 1998, the Big Boys, Fletchers and Carters, have been demanding that contractors amalgamate to bring about economies of scale. This has had a disastrous impact in towns like Tokoroa and Rotorua. The TNCs have their priorities right - they have to service debt and keep dividend demanding shareholders happy.

Contractors have been hit hard throughout the country as forestry TNCs retrench. In Southland, US giant Rayonier has simply pulled out of trading logs, jeopardising 50 jobs and $4 million worth of machinery. Men such as Steve Millard of Otautau who, in 1997, bought a $200,000 log skidder after being instructed by Rayonier to upgrade. He is still paying for it and struggling to find work for a six man crew. Straight out plant closures are another TNC response - Winstone Pulp International, owned by Hong Kong based Indonesians, started 1998 by closing its Tangiwai pulpmill, near Ohakune, putting 76 workers out of work. Asian capital planned for



(Christchurch Press, 14.6.98)

a plant expansion was no longer available to the owners, due to the Asian crisis, so it was shut. Other Asian forestry moguls have pulled the plug on "non-core" assets. Malaysia's Tiong family, which owns Ernslaw One's 34,000 ha of NZ forests, diversified into media in 1995 when it bought Tauranga radio station, BoP 1521 (renamed Good Time Classics). The good times came to an abrupt end in October 1998 when the Tiongs pulled their money out, ordered the immediate closure of the station and just to reinforce the point to its 16 staff, had the locks changed immediately.

The biggest crash has been that of our old mate, Brierley's (to be fair, the forestry recession is only part of its massive problem). Headed by the very same Sir Roger Douglas who so convincingly rogered the New Zealand economy in the 1980s, Brierley's recorded a $904 million loss for the 1997/98 year, and wrote off $1.9 billion in assets. The share price has been in freefall for some considerable time. Douglas is true to form - sell everything. Indeed, Brierley's is such a Mickey Mouse outfit that it has now attracted the attention of the Disney empire. Perhaps they want to exhibit Sir Roger in Yesterdayland.

In 1996 Brierley's took a 25% stake in the Central North Island Partnership which bought the cutting rights to Forestcorp's 188,000 ha forests from the Government for $2.2 billion (the other partners, holding 37.5% each, are Fletcher Forests and China's CITIC). In September 1998, Brierley's announced that it is selling out, although there was uncertainty over which of the partners would buy the stake, with the market not being happy at the prospect of Fletcher Forests issuing yet more shares to finance any buyout. Which brings us to the Big Boys.

Fletcher Forests

Fletcher Challenge Ltd, a New Zealand based TNC, is one of the companies listed by the Overseas Investment Commision as exempt from being defined as an overseas company despite meeting the legal definition (ie more than 24.9% foreign ownership). The OIC's reasoning is that FCL remains in "New Zealand control". This is a very tenuous argument - as of August 1997, Fletcher Building had only 45.5% NZ shareholding; Fletcher Energy 42.3%; Fletcher Paper 45.4%; and Fletcher Forests was the lowest of the lot, with 34.8%. So overseas ownership of all divisions is now over 50%, and that of Forests is nearly two thirds. Despite being "controlled" in NZ, the overseas ownership is now so overwhelming that it is the dominating influence on management.

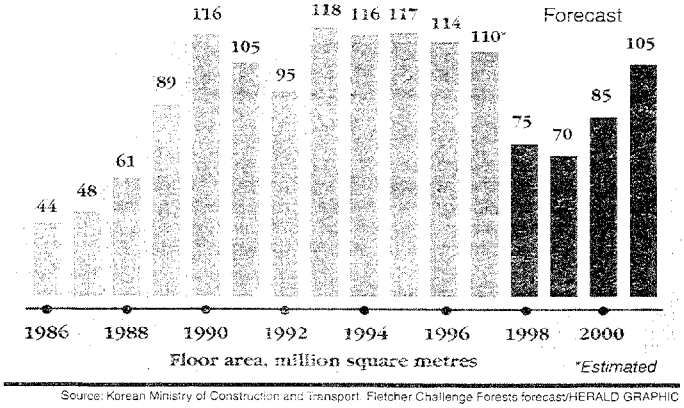
FCL has seen profits steadily decline. For the 1997/98 year, it was $260 million, down 43% on the previous year. Fletcher Forests recorded a $15 million loss for the year (1996/97 had seen a $153 million profit), which is a huge reversal and directly attributable to the Asian crisis. Business activity levels are only 80% of the previous year's. The share price has fallen by two thirds in six months. This has impacted most on the Central North Island Partnership (CNI), which recorded an overall loss of $73 million for the 1997/98 year. The 1996 buyout of the State's huge Kaingaroa and associated forests involved the new owners incurring a $1.2 billion debt. Sales of Douglas fir (no relation to Sir Roger) were to have provided substantial revenue towards repaying that. But the collapse in the Asian market put paid to that. The partners had to find $250 million themselves. At that point, basket case Brierley's decided to sell out. Fletcher Forests was left with the choice of increasing its ownership to at least 50% and maybe as high as 63% if CITIC doesn't buy out the Brierley's stake. There is a possibility of a new, outside partner. And CNI has had to undertake extensive negotiations with its 12 banks to restructure and reschedule debt repayment. No principal will be repaid until 2000 but the loan has to be repaid in full in 2003. Once again, the slump in Douglas fir prices was the cause. And the remaining partners still have to come up with the $250 million cash injection.

Fletcher Forests' response has been those hardy perennials - look for assets to sell; and cost cutting. It's looking to save $60 million, on top of $40 million already saved. Analysts see problems. As well as low Douglas fir prices, prices for pinus radiata products, the company's bread and butter, are at 20 year lows. The prices for logs sold to Japan and Korea have fallen 30% in a year. So it passes its costs and losses on down the food chain, starting with its forestry contractors. In April 1998, it demanded that contractors submit proposals to cut their costs by a fifth, whilst simultaneously offering one or two year contracts, not the three to five year terms of the past. In 1997, Fletchers used 120 contractors to fell its trees and a similar number to transport them. It announced that, in

(Continued on Page 52)

Boxed out – Korean demand for Radiata

Korean building construction permits issued



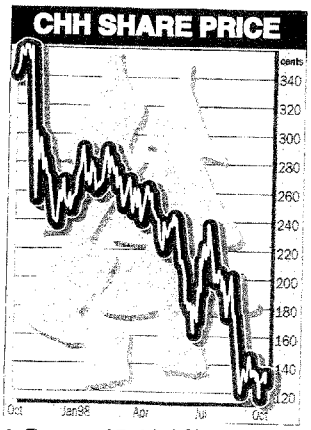
Source: Korean Ministry of Construction and Transport, Fletcher Challenge Forests forecast/HERALD GRAPHIC

(NZ Herald: 1.7.98)

(Timber: From Page 51)
future, it wanted to reduce those numbers by 100 each. Consolidate or die, was the motto. In April and May 1998, Fletchers cut its harvest by 30% and terminated deals with 28 contractors, affecting up to 300 workers. Some contractors had taken out mortgages to finance the expensive equipment upgrades demanded by Fletchers - they now faced losing their homes, as well as unemployment and repossession of the gear. Chris Emmens, chief executive of the Forestry Contractors' Association, said: "The forestry companies are being totally cost driven and are being extremely opportunistic. There seems to be no assessment of the loss of value they are forcing on the contracting industry and the impact this could have on the forestry industry as a whole" (*Press*, 15/4/98). Rotorua and other Bay of Plenty towns were hit hard. A contracting industry in both meanings of the word.

Then there were its own workers to bash. When it bought Forestcorp, it inherited the Waipa sawmill, near Rotorua. Opponents of the sale predicted that it would be closed post haste. That hasn't happened but Fletchers wants to cut staff and reduce conditions. In the six months to April 1998, 104 workers were laid off - nearly one third of the staff. The company offered a new contract (12 months after the old one expired) wanting more shifts, scrubbing "outdated" allowances, etc, etc. There was a $300 sweetener for workers who signed before a company deadline - holdouts didn't get that. This new contract has a five year term. The Wood Industries Union was critical of the contract, its term and the fact that it was cut out of the negotiating loop, with the company approaching workers directly. Also in April, Fletcher Forests cut 30 management and technical positions. In November, it announced the axing of 100 workers, one third of the workforce, at its Taupo sawmill and mouldings plant. More processing jobs are expected to go at Kawerau, Tauranga and Rotorua.

New Zealand is not the only country at which Fletchers, the world's fourth biggest newsprint maker, has had trouble at mill. Fletcher Paper owns 51% of Fletcher Challenge Canada (FCC). In July 1997, the 2,400 workers at its three British Columbia pulp and paper



(Christchurch Press, 15.10.98)

mills went on strike. The company wanted to bust the unions, and cut conditions. It was to be the longest strike in BC's pulp and paper industry, lasting nine months and only being settled in April 1998, with a new six year contract. It was a very, very bitter strike (one e-mail we received from Canada was the most wonderfully libellous message we've possibly ever received, casting all sorts of aspersions on the personal ethics of named executives). The unions called for a worldwide boycott of Fletcher Challenge products. The Canadian strike impacted severely on Fletcher Paper (FCC recorded an $NZ121 million loss for 1997/98) and it announced that it will be cutting up to 300 jobs from its Australasian mills at Kawerau, NSW and Tasmania over the next 18 months.

Fletcher Challenge is a classic transnational. By March 1998 it had grown tired of being deprived of profit by these impudent Canadian workers and announced that FCC was going to buy Trust International Paper (Tipco), the Philippines largest newsprint producer. Tipco's mills, about 100 kms from Manila, can produce 230,000 tonnes of newsprint per year. FCC's president, Doug Whitehead, said: "We were patient to wait for the unions, but since Christmas, we decided to get on with life. Our customers in California want product, our customers in Asia want product, and we could no longer sit back and stay out of business" (*Press*, 31/3/98).

So that's what you do when you're a transnational (even a New Zealand one). If irritated by a strike in one part of your empire, you buy a company in another part of the world to get round it. Add job cuts in New Zealand, Canada, Australia and you have the classic behaviour pattern of the TNC - profits before people; and above all else, the bottom line is the bottom line.

Carter Holt Harvey

There's no coy ambiguity here - Carter Holt Harvey, which was a New Zealand based TNC in its own right (just like Fletcher Challenge), is now simply one of the global subsidiaries of gigantic American forestry TNC, International Paper, which owns 50.2% of CHH (the second biggest listed company in NZ). It was the biggest plantation forest owner in New Zealand, but was overtaken by Fletcher Forests when the latter bought Forestcorp in 1996. That large mouthfull seems to have stuck in Fletcher's throat and led to major forest divestments in Nelson and the East Coast. These divestments allowed CHH to once again leapfrog Fletcher's and re-establish itself, by mid 1997, as the biggest, with 333,000 ha or 21.6% of the total (Fletcher's had 288,000 ha; 18.6%).

CHH is hurting just as much as Fletcher's. 41% of its pulp and paper exports went to Asia; Japan and South Korea were key markets for unprocessed raw logs. Export volumes of forest products, particularly to Korea, fell 78% against 1996/97 figures. Profits have tumbled - the 1997/98 figure of $151 million was down 39% on

the previous year. It hasn't got any better in 1998 - for the September half year, profit was $10 million, down 90% compared to the comparable 1997 half. Log export volumes were down 85% on 1997. CHH's share price has fallen 63% in a year. The chairman, Sir Wilson Whineray, described trading as "extremely difficult" at the AGM (*Press*, 13/8/98). In July, CHH suffered the indignity of having its credit rating downgraded (to BBB) by Standard & Poors, the transnational credit rating agency. International Paper had its rating downgraded to BBB plus.

CHH's response to the crisis has been the same as Fletcher's - cut costs, close plants and sack workers. In August 1998, it announced that it was laying off 64 workers at its Whakatane pulp and paper mill, one fifth of the workforce. In September it announced the gradual mothballing of its Taupo sawmill, putting 175 out of work and having a huge impact in a town the size of Taupo (especially as Fletcher's is also shedding large numbers of staff in Taupo). Other smaller plants have been closed or "consolidated". 300 administrative and support staff have been laid off. Pruning, purchasing and harvesting costs have been cut by $75 million by striking new deals with a few big contractors - this has forced many smaller contractors out of business. A mill closure in a very small area can have a huge impact - for example, CHH closed its Topuni (Northland) Roundwood Plant in July, transferring its functions to the huge Kinleith mill at Tokoroa, and putting 32 out of work. The prospects for other work are bleak. "Asked what he would do now, one simply said, `I think I'd better buy a flounder net'" (*Coast to Coast Courier*, 15/7/98). CHH turned down an offer to buy the 70 year old, low tech mill and may simply plant the site in pinus radiata. CHH is Northland's biggest forest owner, with 55,000 ha (1997 figures) and thus has the power to further depress a region that already suffers fron higher unemployment rates and lower annual incomes than elsewhere in the country. There is now no guarantee that CHH's planned $100 million Ruakaka (Northland) laminated veneer lumber mill will be built as scheduled in 1999. It was slated to be the first processing plant that CHH has ever built from scratch; the odds must be heavily against it now. Worse is to come. The parent company, International Paper, employs more than 80,000 people in 31 countries (some of its projects are highly politically controversial. For example, IP is amongst the forestry TNCs moving into the fiercely contested Chiapas province of southern Mexico, the home of the Zapatistas. IP plans to plant 300,000 ha of largely eucalyptus trees in Chiapas and surrounding provinces. It has already been booted out of several heavily indigenous regions of Chihuahua). IP has multi billion dollar problems of its own. It divested $US1 billion worth of businesses in 1997/98; in August 1998 it announced a further $US500 million divestment programme but assured that CHH was not for sale. The story had changed again by October - IP announced that it will close plants and cut 1,500 jobs around the world (1.8% of its global workforce), including unspecified CHH plants.

As Kawerau is the jewel in Fletcher's crown, so Kinleith is in Carter's. In 1998, CHH completed a $300 million upgrade of the mill, which necessitated a 16 day shutdown. Naturally the upgrade allows Kinleith to become more "efficient", meaning less jobs - 300 workers face redundancy. Kinleith workers attended the company's AGM in Auckland to distribute their own material to shareholders - the cops were called but not needed. CHH has adopted a highly confrontational stance at Kinleith. In August, the *New Zealand Herald* obtained a secret company report entitled "Kinleith Culture Change", part of the company's Genesis project, which aims to reduce costs by accelerated redundancy and increased productivity. The *Herald* summarised the report: "Kinleith mill workers are just in it for the money and live in a mini social welfare state called Tokoroa" (14/8/98). The report also revealed that CHH wanted to change Kinleith workers from wages to salaries (thus removing overtime) and break its collective contract in favour of individual contracts. In 1997, the Employment Tribunal ruled that CHH's agreement prevented compulsory redundancies. By 1998 the TNC was hellbent on implementing them, regardless. CHH is a leading example of a union busting, bad employer.

And at the individual level, CHH is a bad employer. In May 1997, Hamish George lost two fingers from his right hand in an accident on a machine in the company's Christchurch cardboard plant. CHH was fined $20,000 for failure to identify potential hazards and failure to train (George was awarded $16,000 of that). A *Press* feature (1/9/98; "Nightmare at work") described the accident's effects on him in detail - not only inability to perform everyday tasks but the end of a flourishing career as a musician. "I dislike showing my hand. I live my life very much like a hermit". He was tormented by the knowledge that his brother was now working in the factory, on the same machine which maimed him. And CHH has been found guilty of ageism by the Employment Tribunal - in 1997 it tried to retire Whakatane accounts clerk, Beverley Pawson, at the age of 63. The Engineers' Union took it to court. CHH testified that as an "international company operating in a dynamic commercial environment...it needed to be able to incorporate policies as part of its employees' terms and conditions of employment in order to effectively run its business" (*NZ Herald*, 4/8/97). The Tribunal ruled that the company had no contractual entitlement to vary Mrs Pawson's retirement age of 65, as there was no retirement age in her contract. This is how CHH rewards a woman who had worked 20 years for it.

CHH has got problems offshore too. Its single biggest asset, accounting for more than a fifth of its total assets, is a 30% stake in Chilean resources conglomerate

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(Timber: From Page 53)

Copec (dating back to the glory days of the 1980s when NZ forestry TNCs fell over themselves to get a slice of the action in the murderous dictatorship that was Pinochet's Chile. Perhaps a few CEOs should be behind bars along with the old mass murderer himself). But things are very unhappy in that particular family, so much so that CHH has spent four years in a court battle to demand a greater role in running Copec. True to form, it involves CHH wanting to break the joint venture agreement with its partner, the Angelini family. In April 1998, a Chilean arbitrator upheld the 1980s agreement and gave the Angelinis the right to seek damages from CHH. The agreement, signed by CHH's then owners, the Carter twins, gave Angelini full control of the joint venture until 2007, with CHH having no managerial input. When IP bought CHH, it sought to change all that. It has cost CHH money and enormous amounts of time. CHH chief executive officer, John Faraci, has visited Chile half a dozen times in the first half of 1998 alone to try to resolve the mess. Now it could get really expensive, as the Angelinis are about to take court action seeking up to $1 billion damages. A key issue identified by the Chilean arbitrator was that of competition: "Carter Holt Harvey, after having signed the joint venture, has seriously breached it by undertaking acts of disloyal competition against its partner, by having carried out and increased its forestry plantations in levels which exceed 800%. In addition, Carter Holt Harvey, at the beginning of the association, was a forestry producer involved in the New Zealand market only. Today it is in daily and close competition with (Angelini's) Arauco in the export markets for products derived from pinus radiata" (*NZ Herald*, 12/8/98).

There's one thing that both Fletcher's and Carter's are agreed on - the right to pollute. The Tarawera River, in the Bay of Plenty, has been so horrendously fouled by mill effluent from Fletcher's Tasman Pulp and Paper Mill and Carter's tissue mill that it is more accurately known as the Black Drain. Greenpeace and locals have campaigned long and hard to have the TNCs clean up the river. But, in March 1997, Environment Bay of Plenty (the regional council) ruled that although Tasman breached the Resource Management Act and Carter's mill was deemed to have a significantly negative impact on the river, there were exceptional circumstances in each case and the status quo could continue until 2005. If Tasman couldn't reduce its waste outflow to recommended levels by then, the council will commission an independent report. But it has the right to discharge treated effluent for a further 15 years (it sought a 35 year perod). The ruling stunned both campaigners and locals.

The Rest

While the Big Boys stumble, other sharks are circling in the TNC pool. Weyerhaeuser of the US was an unsuccessful bidder to buy Forestcorp. It established itself in New Zealand (*see Watchdog 85 for its singularly nasty track record. Ed.)* by buying Fletcher Forests' 78,000 ha Nelson/Marlborough forests in 1997. Now it has a half share, along with a subsidiary of the Union Bank of Switzerland (UBS), in the World Timber Fund, a $1 billion fund to buy southern hemisphere forests. It is a potential buyer of Brierley's stake in the Central North Island Partnership which did buy Forestcorp. Fellow US TNC, Rayonier, has entered a similar joint venture with UBS, which has involved in them consolidating their respective forest ownership in Northland, Marlborough and Wanganui. Rayonier is the third largest forest manager in NZ, with more than 100,000 ha under its control.

It's not all doom and gloom for the forestry TNCs. The braver pundits are picking that log sales to Asia will double by 2002 (seeing they're down to about zero now, doubling that should be easy). Medium density fibreboard (MDF) is predicted to flourish, which is good news for Rayonier, which built a new MDF plant at Mataura and may now double capacity. In July 1998, China announced plans to ban the logging of most of its natural forests and import more lumber. This is seen as a potential godsend for New Zealand forest products exporters. On the public relations front, forest owners are seeking to improve their image. Funnily enough, the public has reacted badly to large scale job cuts and greed driven exporting of unprocessed logs. The industry faces an uphill battle - the NZ Institute of Forestry has moved to improve the calibre of advice given by its more than 700 members to prospective investors, after concluding that some of the latter had been led up the forest path by overly optimistic projections. And the Forestry Owners Association committed a major PR gaffe by enthusiastically supporting the Government's proposed commercialisation of the nation's roads. Furthermore they wanted maximum axle weights on logging trucks to be increased (which means further damage to public roads, to be paid for by the taxpayer). There's a way to go yet before the public comes to love the new TNC owners of our forests.

There is some genuine good news. For years, *Watchdog* has followed the saga of the Matakana Islanders' battle to gain control of their forest resource (in Tauranga harbour). They partially won it from the TNCs in a 1994 court case. But then they were threatened from another quarter, namely Rotorua businessman, Chris Wingate, who won a 1997 case that he had been disadvantaged in his original 1992 bid to buy the 4,000 ha forest (*see Watchdog 85 for details. Ed.*). But, in July 1998, the Court of Appeal overturned his High Court victory and awarded the islanders' Te Kotukutuku Corporation $20,000 costs (their actual legal bill was in the hundreds of thousands). They were ecstatic, because now they could face the future with some certainty and provide work for their young people. What a pity the rest of the TNC dominated forestry industry can't offer the same.

'TAKING NEW ZEALAND SERIOUSLY'

By Tim Hazledine
Harper Collins NZ, 1998. $24.95
- Wolfgang Rosenberg

Two factors drew the attention of readers to this new book, by the University of Auckland 's Professor Tim Hazledine, on "the economics of decency": (1) That a New Zealand academic dared to denounce the prattle of the present generation of academic, Treasury and Government repeaters of what they call "economics" as the "rubbish" (p.10) it clearly is; and (2) that the Christchurch *Press* asked no one else but Roger Kerr, the notorious ideologue of the Business Roundtable, to review the book. Naturally, Kerr headed his review "Flawed attack on a decade of economic reform in NZ" (*Press,* 26/9/98).

Amazing as it may sound, to see a "professional economist" these days coming close to the real crux of the world's economic crisis and deterioration, namely the ideology of "free trade", is a welcome shock. Economists are so indoctrinated from school economics onwards with the idea that "free trade" is - like God - untainted goodness, and that an attack on free trade is, therefore, equal to blasphemy, that one wipes one's eyes before seeing under the general heading "MYTHS" a chapter in Hazledine's book entitled "The Great Free Trade Con".

Hazledine develops a number of ideas concerning protection of New Zealand value-creating activities although he does not discuss exchange and import controls. Most of his suggestions for the encouragement of domestic industry are very good. But he thinks that full employment can be restored, too easily. Consequently on pp.188 and 189 he discusses the abolition of most benefit payments in his chapter on "The Welfare State, a Modest Proposal", including reduced taxation. That in a full employment economy the need for social benefits is greatly reduced is clear. But to assume that Hazledine's suggested fairly modest changes of policy can (or even should) lead within a short period to the Jenny Shipley situation of low taxes and abolition of social welfare expenditure without harming those who are objects of capitalist exploitation (even if employed by capitalists) is a dangerous delusion.

Yet, there is so much positive return to commonsense ideas on economics in Hazledine's book that it is very much worth reading.

Mr Kerr objects that Professor Hazledine does not refer to other New Zealand economists. However, the basis of Hazledine's argument is taken from a publication by the Lincoln University economists Dalziel and Lattimore who showed that, during the protected years 1956-76, economic growth was 2% on average, but during the years of "reform" economic growth had shrunk to an average of 1.05%. Real wages during the first 20 years rose by 1.4% annually, then fell by 1.6% during the "reform" years. Unemployment was 0.2% during, the "protected" years, but 6.9% under "reform". And things are getting far worse, as we are being told now day by day.

If one remembers that the pulling down of the protected Welfare State of full employment and slowly rising living standards for all, in a realisation of a quest for security, was accompanied by constant protestations that all this was necessary to achieve more rapid growth as the basis for rising living standards, we must share Professor Hazledine's reasons for writing his book:

> "All these numbers add up to a strong case for a fundamental re-evaluation of the New Zealand experience. The old New Zealand performed better than it should have according to current orthodox economic wisdom, the new society has been a grave disappointment".

Professor Hazledine considers that the basic reason for the failure of the liberalisation experiment in New Zealand is basically its amoral approach to economic life. He strongly criticises the approach that only selfish search for more money incomes on the part of the business classes and their managers and consultants can, indeed must, lead to a wealthier and therefore better society.

Since it has turned out that New Zealand's society, after putting in place commercialisation on the basis of profit maximisation by private individuals, and possibly even some remaining State operated institutions, has achieved a degree of poverty not known in New Zealand before, side by side with a degree of wealth, neither previously known, and growing universal insecurity, Professor Hazledine's diagnosis is worth studying,.

The Cult Of Managerialism

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(Taking NZ Seriously: From Page 55)

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We have indeed displaced direct producers (including service workers) by computerisation and automation. But what Professor Hazledine shows is that this displacement is one by managers to the point that back in 1956 each manager handled about 20 frontline production workers. By 1981 nine workers needed one manager - and the number continued to decrease to the point when (in l996) there is one manager for every four frontline workers (p.124). Hazledine's conclusion is:

> "A decentralised market economy is more costly to operate than one based on centralised rules and custom" (p.124).

In terms of maldistribution of income Hazledine shows that the results of commercialisation in terms of private bureaucratic bloat can be quite spectacular. He quotes the 1996 Fletcher Challenge report showing 2,301 employees drawing incomes of over $100,000. The total salary bill for these 2,301 Fletcher "executives" came to $292 million. That money, Hazledine comments, would cover the entire operating budget of the University of Auckland with enough left over to halve student fees.

If it is considered that a number of these managers are employed at their high incomes in order to reduce the number of workers at the "coal face" we can see that the managerial society (with what Hazledine refers to as "the Washington consensus") has created increased inequality, unemployment and slow, if any real productivity rises.

Hazledine also deals with the welfare aspects of these developments and believes in a "fair wage for a fair day's work" rather than the fixing of wages in a mostly uneven bargaining process between employer and worker under the Employment Contracts Act.

Where Hazledine gives us hope is that there is now a growing realisation that the ideology of absolute free trade with Its concommitant tendency to force countries into permanent import surpluses and consequent rising international indebtedness is a guarantee for catastrophic economic breakdowns. The stimulation of this addiction to over-importing by international law - as in GATT, World Trade Organisation and the proposed Multilateral Agreement on Investment (MAI) - is now running into opposition. Hazledine himself writes on p.57:

> "The Washington. consensus is already crumbling. What was to be its crowning glory - the Multilateral Agreement on Investment - has been stalled, perhaps stopped by a remarkable international grassroots campaign".

Even New Zealand's own ignorant Government is now mumbling words of disagreement with MAI (*see elsewhere in this issue for an MAI update. Ed.*). But that is nothing compared with the English *Guardian Weekly* (which has recertly started publishing the radical and excellent French *Le Monde Diplomatique*) and which announced that in its 25th October (1998) issue it:

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Hazledine looks at the free trade ideology which displaces New Zealand production by imports, and its effects on permanent and growing balance of payments problems and foreign debt. If profitability of New Zealand enterprises serves largely to transfer potential savings from New Zealand to their overseas owners, a "buy New Zealand goods first" and New Zealand ownership of New Zealand production facilities policy seems to be one way for a return to fuller employment.

No doubt Hazledine is voicing opinions which are contrary to the official theory of the last 20 years. They are rather understandably and sometimes hilariously presented for the average reader. What Hazledine has tried to show is that the battle cry of the orthodox economists of the 1980's, TINA (There Is No Alternative), was wrong. With hoped for Government changes towards a more people-friendly approach to economics, Hazledine's book gives cause for hope that there is a better alternative to our present state of affairs, than the ruling economic ideology.

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(NZ Herald: 24.4.98)

GENETIC ENGINEERING

The Road To Corporate Control Of The Food Supply

- Chris Wheeler

The First Grassroots Gathering on Biodevastation took place July 17-19, 1998 in Saint Louis, Missouri, the home of giant pesticide (Roundup) and genetic engineering (GE) corporate, Monsanto. The choice of conference site was deliberate. Monsanto leads the charge both in genetic engineering and industrial no-till farming where use of its widely advertised herbicide, Roundup, replaces the plough.

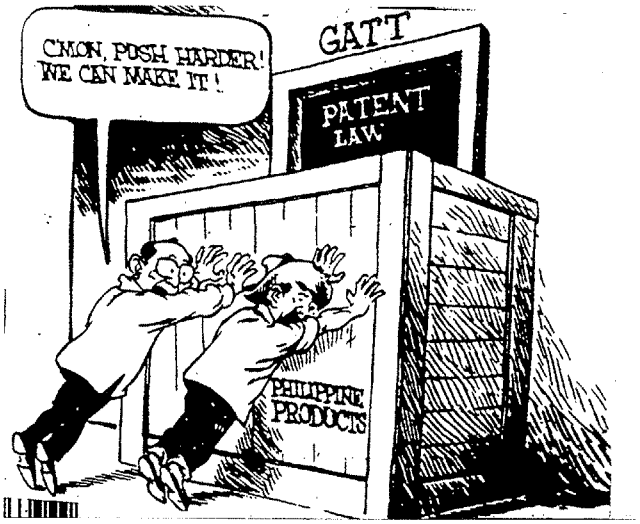
A statement issued from the Conference is highly relevant to the New Zealand situation, where the recently floated Crown Research Institute/Monsanto quango, Gene Pool, and the Royal Society (representing this country's scientific establishment) are jointly campaigning in support of New Zealand as a key site in the development of GE despite growing misgivings on the part of an influential group of internationally recognised experts in the genetics field including New Zealand's own Dr Peter Wills, of Auckland University.

"We are at the crossroads of history with one road leading to Monsanto and multinational corporations and industrial agriculture," said Ronnie Cummins, director of the Pure Food Campaign, a leading US consumer advocacy group. "If we don't organise a mass movement to go down the other road (of sustainable agriculture), in 30 years the next generation is going to curse us".

The NZ public need to understand that GE opposition is not based on the flimsy foundations attributed to opposition representatives by such public critics as former American President Jimmy Carter, whose homily on GE featured in the *New Zealand Herald* (15/9/98). Neither should the GE opposition be labelled as technology Luddites. There are perfectly valid and acceptable lines of GE research taking place. The GE opposition are not arguing over the broad principles. It is the reckless GE work being bulldozed past weak governments and regulatory authorities by powerful corporates for nothing more than market control over the total food supply that particularly concerns GE opposition groups worldwide.

It is not too late to turn the tide. Presently, despite the growth of GE patents on specific seed lines, probably close to 100% of the world's food gene lines still lie in the public domain, owned by nobody, or, rather, owned by everybody. That means any farmer and the public in general can openly save and trade seed and stock lines without let or hindrance.

The present corporate-sponsored push for genetic



engineering aims at reversing this situation. In particular, GE corporates like Monsanto aim at claiming patent rights eventually over the 20 major food crops that make up 90% of the world's annual food consumption - a potentially disastrous situation for the world's poor and farmers in particular. Just four of these 20 crops - rice, wheat, maize and potatoes - account for 50% of all food grown worldwide. Six crops of huge economic importance have already been genetically engineered and patented and are already in commercial production worldwide - maize (corn), soya, rape (canola), tomato, sugar beet and cotton. Biotechnology to modify other crucial crops such as rice, wheat, potato, and cassava is in progress. Already just seven transnationals, such as Cargill, already control the international trade in most of those 20 major food crops.

Genetic engineering potentially spreads that control literally to the roots of our food supply. Genetic engineering of the sort we are opposing has nothing to do with providing food with improved nutritional value; something which can be done by simple good husbandry on the part of the farmer and grower. The secret agenda that the GE industry's spin doctors are NOT talking about is the gradual replacement of a publicly owned food supply by a corporate-controlled food supply containing a limited range of GE items farmed under unsustainable industrial conditions.

The groundwork has already been put in place for this nightmare. Monsanto is now the world's largest agrochemical corporation and second largest seed company with reputed control over 10% of the global seed supply. Monsanto's total 1996 revenues were $US9.26 billion, and the company's genetically

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engineered crops are expected to be used on approximately 50 million acres worldwide in 1998.

We know already that at least 3.5 million hectares of Monsanto's GE Roundup-Ready soya beans were sown in the USA last season and that Monsanto expect another 1.4 million hectares to be reaped in Argentina. An estimated 40% of the US soya bean crop in 1998 will be GE beans. An unofficial cartel already controls seed access. Six are major chemical corporations who also dominate genetic engineering research and development - Monsanto, Enimont, Du Pont, Sandoz, Zenecca and Ciba Geigy. These corporates, together with Shell, WR Grace and Cargill (the world's largest grain and oilseed trader) effectively control the international seed market.

They already have an inordinate influence on what seed varieties go on sale. For simple commercial reasons they have already severely limited what crop varieties are readily available and their influence is particularly apparent in European Union regulations which actually limit what varieties may be commercially traded and grown. Similar controls exist in the Third World tied to World Bank loans and could be made mandatory under the World Trade Organisation favouring GE varieties.

In other words, the mechanisms for ultimate control of the food supply already lie in the hands of the GE industry. It only remains for consumer apathy over GE issues to result in a rollover that would make anything we have seen in New Zealand in terms of growing foreign control of our power, telephone and other resources look like minor sideshows. Hence the New Zealand GE opposition's concern. Something is being "fixed" which is not broken. What is more, many New Zealanders on whom we rely for "expert" opinion have already jumped on board the GE bandwagon.

The Gene Pool travelling road show which has just completed a tour of New Zealand, not only prominently features a Monsanto video trotting out a Disneyland vision of GE, but includes a significant amount of visual material bearing an uncanny resemblance to Monsanto propaganda I saw recently on a visit to Europe and the UK, where Monsanto is leading a major PR campaign in support of GE.

The price we pay for democracy and individual freedom, we have been told, is eternal vigilance. I would suggest that where something so desperately close to our very lives is concerned, our daily bread, we should not lightly ignore the question of who owns it lock, stock and barrel.

MONSANTO BRIEFS

"After 28 years of continuous publication, *The Ecologist*, England's leading environmental magazine, is having a tough time finding its audience. Perhaps that has something to do with the subject matter of the current issue: Monsanto and genetic engineering. Penwell, a small Cornwall-based company that has printed *The Ecologist* for the past 26 years, decided late last month to shred all 14,000 copies of the September/October 1998 special Monsanto issue. England's stringent libel laws apply not only to publishers but to printers as well (*so do New Zealand's. Ed.*). After the pulping of the Monsanto issue, the editors of *The Ecologist* then found another printer who printed a second run of 16,000 copies. But now, the U.K.'s two major retailers are refusing to carry the magazine on newsstands.

"The Monsanto issue carries tough attacks on the St. Louis- based biotech giant, including reviews of its links to major corporate disasters involving Agent Orange, polychlorinated biphenyls (PCBs), genetically engineered bovine growth hormone (rBGH), Round-Up herbicide, and the Terminator seed. (*Get this: When you plant this seed, you get a plant and sterile seeds. That way, farmers can't save the seed for the next planting season — they have to go back to Monsanto and buy more seed*). Also included in the magazine is a broadside against genetically engineered foods written by the Prince of Wales.

"Monsanto says it had nothing to do with the shredding of the magazine or with the fact that big retailers are refusing to carry it. Monsanto says it did not contact the printer prior to the pulping of the issue and that it has not contacted the retailers. Yet, it is clear that Monsanto could not have been pleased with the current issue of magazine. Late last month, after sending the issue to the printer, Zac Goldsmith, co-editor of the magazine, received a telephone call from Penwell's. "They were having doubts about whether or not they should release it," Goldsmith said in an interview from his office in London. "I pointed out to them that not only have we been with them for 26 years, but there had never been any conflict of any sort at all prior to this issue. I asked — 'have you been approached by Monsanto?' They said 'no'" ...

"Goldsmith believes that Monsanto contacted the printer before the printer decided to pulp the issue. "I'm quite sure of it, but I have to take the printer's word for it," he said. "I have no evidence to support this. If they weren't contacted by Monsanto, then that is even more scary. This company, through reputation alone, has managed to bring about what is, as far as we are concerned, de facto censorship"... (*Focus on the Corporation*; "Pulp Non-Fiction: *The Ecologist* Shredded"; Russell Mokhiber and Robert Weissman; 23/10/98).

"From India to New Zealand, Zimbabwe, the UK, and even in cyberspace the Monsanto Corp. has recently found itself at a loss for bombast in efforts to counter the criticism and articulate any good reason why the world needs the Terminator seed technology. (Officially,

Monsanto calls the Terminator "TPS - Technology Protection System"). "In August 1998, Monsanto's disastrous defence of the technology in India resulted in the Indian Minister of Agriculture announcing a national ban on the Terminator. More recently the technology has continued to get Monsanto into trouble across the world.

"For example:

"On September 30th in Auckland, Monsanto officials again found themselves in hot water, when the Terminator ruined a pro-biotech celebration that was supposed to promote genetically engineered crops. The half-day seminar was sponsored by Gene Pool, a local government-funded NGO with tight corporate links. It was after the attendees delved into numerous rounds of food and drink, watched a Monsanto video extolling the company's virtues, and heard a series of predictable speeches, that Auckland University lecturer Peter Wills took the podium.

"After questioning the wisdom of Monsanto's agbiotech strategies, Wills blasted the Terminator. At that point, a visibly flustered Murray Willocks, Monsanto's New Zealand Business Manager, took the floor and tried to distance the company from its own technology, saying "The Terminator is just a concept" and "We have no plans for the Terminator Technology at this time" trying to establish the impression that Monsanto had acquired the technology merely as a spin-off from its recent acquisition [Delta and Pine Land] and that there were no direct plans to actually use it"... (*The Agribusiness Examiner*; "Terminating The Terminator"; Issue 6; 22/10/98)

FILIPINO FARMERS PROTEST PATENTING OF LIFE FORMS

Still reeling from the year long devastation by El Nino's dry spell, about 10,000 farmers, students, religious and others marched, in July 1998, through the streets of the new city of Kabankalan, south of Negros Occidental, rejecting a disaster-in-the making for Filipino farmers - the patenting of life forms.

The patent system, proposed in 1995 through the World Trade Organisation (WTO) agreement on the Trade Related Aspects of Intellectual Property Rights (TRIPS), gives global corporations the right to claim monopoly ownership over plant and animal lives, says a statement of the farmers' organisations read at the rally.The statement, titled "No to life patents!," is being circulated before signing throughout Asia. The statement says local farmer-breeders will be obliged to pay loyalties on every generation of plants and livestock they buy and reproduce. They will cease to have free access to seeds for developing new varieties of plants and animals. Consumers, the statement adds, will likely end up paying higher prices for food, medicines, seeds and other products of modern biotechnology.

The rally was to be the start of what organisers said will be a nationwide campaign. The goal is to inform the people of the ill effects of patenting life forms, particularly of plant varieties as stipulated in article 27.3 of the TRIPS. One of the most contested provisions in the General Agreement on Tariffs and Trade (GATT), TRIPS will be reviewed by WTO members in 1999. "We are doing this to send a strong signal to our government that the people do not want patents on all life forms, to oppose biopiracy, and to urge the government negotiators to take a strong stand in the coming TRIPS re-negotiations," said Max Oyos, local rally coordiantor.

Representatives of farmer, scientist and consumer groups and federations from Luzon, Visayas and Mindanao joined the rally, organized by MAPISAN, an alliance of 12 farmers' federations in Negros Occidental and the non government Paghidaet sa Kauswagan Development Group (PDG). Support came from the Magsasaka at Siyentipiko Para sa Kaunlaran (MASIPAG - Farmers - Scientists Partnership for Development), an organisation based in Laguna. Kabankalan was chosen as a rally site because here the farmers have firm control of the rice cultivars that they have adopted and been using, according to Manny Yap, rally organiser and chair of PDG. The patenting of life forms will alter or wipe out this situation, he added. Many of the farmers who joined the rally have adopted the MASIPAG farming technique which uses traditional varieties selected, bred and produced by them through organic farming.

There are now crops "owned" by their developers, and farmers could not plant them unless they paid a fee, said Roberto Verzola, secretary-general of the newly-organized Philippines Greens. Some 160 biotech patents on rice are held by transnational companies, most of them based in the United States and Japan, according to *Suhay*, a MASIPAG newsletter. The top 13 rice patent holders hold over half of the patents covering Asia's staple food. The top biotechnology patent holders on rice are: Pioneer Hi-bred International, USA (17 patents), Mitsui-Toatsu Chemicals, Japan (13), **Monsanto, USA** (7), Japan Tobacco, Japan (8) and Novartis, Switzerland (5). Other plants which have been processed and patented by foreign companies are banaba for curing diabetes, sambong for tumours, and lagundi for hair restoration.

Dr. Oscar Zamora, Professor of Agronomy at the University fo the Philippines, said the Philippines and India are the first two WTO member countries to come up with a bill protecting plant varieties. But the bill is still pending in Congress. Roger Samson, a Canadian farmer, said patenting will only strengthen transnational control over life forms. One way to fight it is to develop rice varieties that will make the farmers self-reliant and quit buying foreign products. "We must develop farms that will be independent from these companies," he urged. (*Kapatiran* 14, November 1998; Philippines Solidarity Network of Aotearoa).

FIRST (AND LAST?) FILIPINO INVESTMENT IN NEW ZEALAND

"**Pacific Marina Holdings Ltd**, owned by **Mr Victor Villavicencio** of the **Philippines**, has approval to acquire **Lyttelton Marina Ltd, Lyttelton Marina Management Ltd**, and **Canterbury Marina Ltd** for **$600,000**. Approximately **seven hectares** of leasehold land is involved. The companies are owned by the **Lyttelton Port Company**, which is owned **66%** by the **Christchurch City Council**, **14%** by **AMP**, **4%** by the **Ashburton District Council,** and **12%** by "members of the public" (it is not clear who owns the other 4%); and the **Banks Peninsula District Council**. This privatisation of the marina is opposed by many locals. However the Overseas Investment Commission, insists that

> 'Mr Villavicencio has significant business experience with marina development and management including a leading interest in the Subic Bay marina development at Subic Bay (north of Manila)...The proposal represents the introduction of approximately $5,400,000 in risk capital which will ensure the development of the new Lyttelton Marina. The Commission is advised the Canterbury area is in desperate need of an upgrade/enhancement to its existing marina facilities. In addition it is stated the proposed development is fully supported by both the Lyttelton Port Company and the Banks Peninsula District Council.The port company and council originally planned to undertake the development themselves however, the initial offer did not proceed' (Overseas Investment Commission Decision Sheet, February 1998; *Watchdog* 88)".

This was the first investment into New Zealand from the Philippines. And a controversial one too. Seven hectares of publicly owned land picked up for a song - $600,000. It represented yet another chapter in an increasingly voluminous book of local body privatisation, and, more reprehensibly, one by the City Council of what the Business Roundtable has dubbed the "People's Republic of Christchurch". Mind you, it fitted the pattern of a "socialist" administration that has contracted out the city's rubbish and recyclables collection for five years to Onyx, a French transnational; and is leading a joint venture with the downright criminal US TNC, Waste Management, to operate a new regional landfill (*see Watchdogs 86 & 87 respectively. Ed.*).

So who is Victor Villavicencio? According to the IBON Foundation, he is "the proprietor of the highly successful Kamayan chain of restaurants. This chain includes such large restaurants as Saisaki, Philippine Fisherman/ Fisherman's Wharf and Dads owned by Triple WCorp. He is a sportsman and a sports buff, including fishing. As a result of his interests, he has now invested in a large world-class marina complex at Subic Free Port (includes hotels etc)...." (e-mail, 5/5/98). His restaurant interests include Japan.

He is one of the nouveaux riche who have done very nicely out of the transformation of the former US Navy base at Subic Bay, and accompanying brothel city of Olongapo, into Subic Bay Freeport, which exists to serve transnational and Filipino Big Business. To quote from a 1996 gush piece in the *Manila Bulletin*:

"`All work and no play makes Jack a dull boy', this old adage seems very appropriate at Subic. Rising income from the Philippines middle and upper classes, combined with expatriates from foreign corporations, are acting together to create a surging demand for leisure activities near Subic...Malaysian group Metroplex will be building a 1.3 billion peso hotel inside the Subic Bay freeport zone. Called the Grand Legenda, this 12-storey hotel will be built on a 10,000 sq m. lot near the waterfront. The construction of the 500-room Grand Legenda is expected to be completed by mid-1998. Subic Bay Golf and Country Club... sits on a magnificent mountain - with rainforests and rivers woven together. The designer says it is one of the world's most perfect sites for golfing.

"**Victor Villavicencio**, chairman of privately owned Subic Bay Waterfront Development Corp., intends to set up a Subic Bay Yacht club by April 1997. `Our $US266 million waterfront city will see the transformation of Subic Bay Freeport into Asia's water sports centre, a world class resort and sailing community, boasting state of the art marina facilities, waterfront villas, tower condominium and a five star hotel,' said the businessman..."

Villavicencio himself is a keen sailor and ocean racer and owns a number of large powered and sail yachts, and is head of the Game Fishing Association of the Philippines. According to Martin Ford, one of his two New Zealand directors (the other being Mark Truscott) he envisaged Lyttelton being the southern link in a chain of top quality marinas (starting at Subic Bay) developed by Villavicencio throughout the Pacific. The past tense is the operative one for Villavicencio, because he's now a goner as far as Lyttelton is concerned.

The first sign of trouble for our Vic-Vic appeared in the *Philippine Daily Inquirer* (1/8/98) with a report that the Securities and Exchange Commission (SEC) imposed a cease and desist order on Subic Bay Yacht Club, in June 1998. This prevented the club from selling membership shares to the public, and was imposed

because the club was late in filing its quarterly reports and annual report.The SEC moved towards suspending and/or revoking the club's registration. The cease and desist order was lifted in July after the club paid a 404,840 peso fine (about $US10,000) and was warned of heavier penalties should it be late in reporting again. The club's lawyer said the SEC order was causing "irreparable harm to the company because whatever few buyers that we can convince to buy are apprehensive because of this (order)..." This was a very clear indication of problems in the company.

By September 1998, the Lyttelton Marina project (routinely described in the media as "troubled") was up for sale. The Asian economic crisis was cited as the reason why Villavicencio had pulled out. Like so many of Asia's nouveaux riches, he had been swept away by the economic tsunami engulfing the erstwhile "tigers". He was the first Filipino investment into New Zealand, and by the look of the current global economy, he might be the last for some time.

First published in Kapatiran (Solidarity) 13, November 1998, the newsletter of the Philippines Solidarity Network of Aotearoa, Box 2450, Christchurch. Annual membership costs $15. Make cheques to PSNA.

COMALCO

Comalco NZ goes quietly about its business. It expressed pleasure in the fact that its after tax loss for the 1997/98 year was only $2.7 million, as opposed to $13.5 million in 1996/97. But Kerry McDonald, the managing director, is upset about the effect of rising power prices on its Bluff aluminium smelter (the country's largest electricity consumer). Electricity accounts for 30% of the smelter's costs. As for Comalco itself (67% owned by Rio Tinto of Britain, the world's biggest mining transnational corporation [TNC]), earnings shot up 78% in the first half of 1998. Cost cutting was cited as one reason. It's a fashionable policy at the parent company, Rio Tinto, which is very pleased that savings from the merger with CRA are running at $US350 million, better than the forecast $300 million. Be that as it may, Rio Tinto's before tax profit for the first half of 1998 was down 8% (to a mere $US942 million).

What does cost cutting mean in human terms? Well, at Rio Tinto's notorious Rossing uranium mine, in Namibia, it means all employees being offered voluntary retirement, followed by "voluntary departure packages", as the company seeks to shed 200 jobs over 15 months (having already retrenched 800 workers in 1991). These are the very same workers that it has fatally contaminated with radioactive dust. Former Rossing worker, Edward Connelly, and the widow of Peter Carlson, are both suing Rio Tinto, in Britain, for compensation for their cancers. In July 1997, the House of Lords (Britain's highest court) ruled that they have the right to sue in Britain. Rio Tinto is trying to have the case heard in Namibia and the British government is highly alarmed at the prospect of British courts being used to hear claims against British TNCs.

Australia

Rio Tinto has led the way in job cutting and union bashing in Australia. In October 1998, it announced the sacking of 115 coalminers at its Hunter Valley No 1 open cut mine, in NSW. This is aimed directly at the Construction, Forestry, Mining and Energy Union (CFMEU), which is spearheading the international union campaign against Rio Tinto. 28 of the 30 union delegates have been sacked. This follows on from the six week long strike by Hunter Valley coalminers in mid 1997 (*see Watchdogs 86 & 87. And the CFMEU video "Naked Into The Jungle", available from CAFCA [$10 hire for one week].Ed.).* The union intends to challenge the sackings in court. Rio Tinto made $A34 million out of the Hunter Valley No 1 mine in the first six months of 1998. Nor is it just the jobs of the 115 coalminers that will go - for every job lost in the mine, the union estimates that three are lost in the wider workforce. And Rio Tinto is a bad employer to its remaining workers. In September 1998, the Australian Industrial Relations Commission ordered it to pay three months wages to a white collar worker at its Mt Thorley coalmine, Hunter Valley, as compensation for her dismissal which the court called "harsh, unjust and unreasonable".

Austria

In July 1998, ten talc miners were killed in a cave in at Rio Tinto's Lassing mine, in Austria (*see Watchdog 88. Ed.*). It was Austria's worst mine disaster since WW11. GMBE, Austria's metal, mining and energy union, released a scathing report:

"Management at Austria's disaster-struck Lassing mine sent ten workers to their deaths for purely economic reasons. That is the main accusation in a highly critical

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(Comalco: From Page 61)

report released September 18, by GMBE. The report was prepared for GMBE President Rudolf Nurnberger by Richard Hollerer, the union's secretary in the Lassing area. It includes a chronological account of the disaster from 17 July onwards. Rudolf Nurnberger, the GMBE's President, is also a member of the Austrian Parliament. The responsibility for the Lassing disaster must rest `at the top,' Nurnberger told Parliament - notably with Rio Tinto, the minister and the head of the mining authority. On the reports that the accident was caused by illegal mining, he said that, if proved, this would mean that the miners' deaths were in fact caused by `the lust for profit'. "Reminding Austria's lawmakers of `the pressure that can be exerted on workers by the threat that their jobs will be lost,' Nurnberger insisted that `for those who have a close knowledge of the ultimate owner, namely Rio Tinto, all this will not seem unusual'. He went on to cite "Rio Tinto -Tainted Titan", the "stakeholders' report" produced jointly by the 20-million-strong International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) and a number of human rights and environmental organisations (*see review in Watchdog 88. Ed.*).

"`The ICEM,' Nurnberger told Parliament, `is the worldwide federation in which chemical unions, miners unions ... and therefore also the union that I represent are united. On the occasion of Rio Tinto's last annual general meeting, we produced a very comprehensive report and, Minister, if you don't want to bother going on to the Internet, I am very willing to place this Rio Tinto report at your disposal'. As Nurnberger told the minister, "Rio Tinto - Tainted Titan" gives a detailed worldwide critique of Rio Tinto's `approach to human rights, particularly the rights of workers and local populations, rights concerning natural resources ... environmental protection regulations, and its very lax approach to occupational health and safety'.

"Noting that `last year, Rio Tinto earned 1.2 billion US dollars clear profit on a turnover of 9.2 billion', Nurnberger told a cheering Parliament that, once responsibilities had been clarified, Rio Tinto should be made to pay back `every schilling and groschen' of the costs caused by the Lassing disaster" ("Austrian Mine Disaster: Rio Tinto Blamed", ICEM Update, No 76/1998; 18/9/98).

Claims of illegal mining at Lassing are not merely union rhetoric. The Austrian mining inspectorate has opened proceedings against the site manager, and the managing director of the wholly owned Rio Tinto subsidiary which owns the mine. Apparently mining was being carried out in an area which had no current valid permit. Rio Tinto has countered that the mining was "unauthorised" rather than "illegal". So that's all right then. After all, only ten men died there.

West Papua

Rio Tinto has a particularly shocking human rights record worldwide, and nowhere more so than in the occupied Indonesian province of "Irian Jaya" (West Papua to the rest of the world). The systematic brutality involved in running and securing the Grasberg copper and gold mine (Rio Tinto is the 12% junior partner, with Freeport McMoRan, of the US) has been detailed in previous *Watchdogs*. The mine also generates one of the worst waste problems of any in the world, ruining entire river systems with its tailings. But the situation has loosened up just a bit, with the overthrow of Suharto. In August 1998, the previously unthinkable happened. Up to 5,000 workers went on strike, demanding a 50% pay rise. Some were Freeport workers but most worked for contractors. All were non-unionised. But they brought production to a halt for several days.

Freeport was an extremely important member of the inner clique of crony capitalists who did so well out of the Suharto dictatorship. The *Wall Street Journal* (29/9/98; "Hand In Glove: How Suharto's Circle, Mining Firm Did So Well Together") gave a very detailed account of the ties. Consequently, PT Freeport (the Indonesian subsidiary, which runs Grasberg) has been singled out for criticism in the "corruption, collusion, nepotism" storm which is sweeping post-Suharto Indonesia.

"A parliamentary commission said yesterday that PT Freeport Indonesia, which operates a huge gold and copper mine in Irian Jaya, has not proved to be of sufficient benefit to the local people. A study by the group, following a visit to the remote region last month, recommended that the Government should study whether it was worth having the company in the country.

"It accused the US-Indonesian joint venture of exploiting the gold and copper resources of the country for 25 years but leaving the people around the area impoverished.The commission said people were dissatisfied and wanted some type of profit-sharing in the giant mining company. Freeport Indonesia denied the report, saying it spent more than $US2.3 million to help the local community last year. The aid, which includes housing roads, schools, fishing and farm projects, has been increased to $US3.2 million this year, it said. Some 300 students from tribes in the area have also received scholarships from the company, it said.

"A study in 1996, by Labat and Anderson, an international auditor, found that Freeport was not responsive to the social needs of neighbouring tribes in the remote Indonesian province of Irian Jaya. In March the same year, rioting by tribespeople in Timika and the mining town of Tembagapura, killed three people. The rioters demanded more economic benefits and job opportunities from the mine (*see Watchdog 83. Ed.*). It said Freeport has met both the letter and spirit of Indonesian law concerning local people's land rights, but it should do more to understand and work with the

local indigenous leaders because of their markedly different cultures" *(Indonesian Observer*, 4/9/98).
From both sides of the political spectrum, there is now talk of renegotiating or cancelling Freeport's contract. In October 1998, Indonesia's Mines and Energy Ministry said that it might be renegotiated if corruption could be proven in the 1991 contract renewal. And the Free Papua Movement (OPM), which for decades has been waging a low tech but persistent armed struggle for independence, has told Rio Tinto that Freeport would not be welcome in an independent West Papua. An OPM government may very well cancel the mining and exploration contracts.

Bougainville

Nowhere in the world has a more spirited resistance been mounted against Rio Tinto, or any other TNC, than on Bougainville. A bloody and costly war of independence has closed the gigantic Panguna mine for a decade. Peace has now returned to Bougainville, but Rio Tinto hasn't. Nor is it likely to. Francis Ona, the founding father of the Bougainville Revolutionary Army (BRA), played no part in the peace process, which he does not recognise. Consequently, he is at odds with the leadership of both the BRA and the Bougainville Interim Government (the wonderfully acronymed BIG BRA). But he and his followers still control central Bougainville, including Panguna, so the mine remains off limits to anyone. Ona remains committed to full independence (for a new state he has christened Mekamui), not autonomy within Papua New Guinea (PNG). He has called on TNCs and foreign owned businesses to stay away from Bougainville, saying the war was caused by Rio Tinto's attitude to landowner participation and royalty payments. He wants only businesses owned by Bougainvilleans or Papua New Guineans to operate on the island.

Meanwhile, PNG is still dealing with the fallout from the 1997 Sandline mercenary fiasco, which was intended to reopen Panguna and secure a military victory on Bougainville (*see Watchdog 85. Ed.*). Sandline, the British company which supplied the mercenaries and equipment, sued the PNG government for full payment of its contract. The Skate government refused to pay the debt, which had been contracted by the Chan government, saying it was unconstitutional and illegal. The dispute went to an independent arbitration panel of retired judges, including New Zealand's Sir Edward Somers. In October 1998, the panel ruled that the contract was legal and ordered PNG to pay the outstanding $US18 million, plus Sandline's costs (which, plus interest, bring the award closer to $US30 million).

An initial inquiry into Sandline had cleared the Chan government of any culpability. Bill Skate, Chan's successor as PM, ordered a second one. It reported in September 1998 that it could find no evidence that any Chan government Ministers tried to profit from insider knowledge of Sandline's impending mission by trading in Bougainville Copper shares. Both the Australian Securities Commission and Sandline refused to cooperate with the commission. It did find that Chris Haiveta, Chan's Deputy PM, did receive a bribe, but couldn't prove whether it was from Sandline.

The Army mutiny, which saw the Sandline mercenaries unceremoniously kicked out of PNG, was led by Brigadier General Jerry Singirok, the commander of the PNG Defence Force. It saw him hailed as a hero by the people, but fired from his post and charged with sedition. In October 1998, his successor was fired and Singirok reappointed. He immediately visited Bougainville (where he had been seriously wounded during the war), met the BRA leadership and proclaimed that there is no military solution to the Bougainville problem. Singirok is no saint - under his command, the Army committed atrocities on Bougainville; and the second Sandline commission found that he had taken a bribe from an British arms dealer. He has other problems. In November 1998, the police (who were pitted against the Army during the 1997 mutiny and subsequent public uprising) announced that they have reactivated the sedition charges against him. What's more, they plan to investigate the activities of a number of national leaders, including the PM, Bill Skate, during the Sandline crisis. For their part, NGOs have called for Sir Julius Chan, Chris Haiveta and the former Defence Minister to be charged for their role in Sandline. So the whole business is unlikely to go away any time soon. But the central point is that the world's biggest mining company has been kept off Bougainville for a decade by a "Stone Age" people who are enjoying a hard earned peace. These "primitives" have a lot to teach us sophisticates, it would seem.

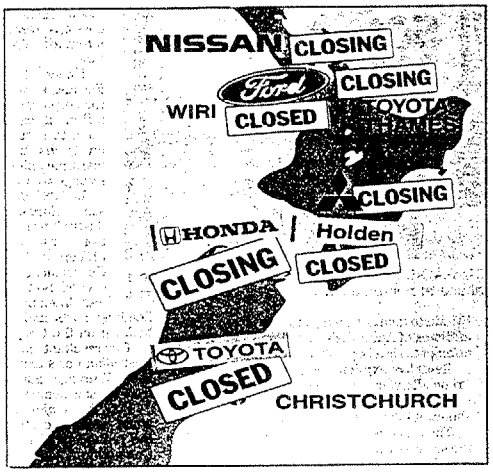
Bougainville is not the only Third World country where public opposition has forced Rio Tinto out. It had a 600,000 hectare claim in the Philippines' Zamboanga province (Mindanao), a claim which was strenuously opposed by the indigenous Subanen people, backed by local officials, the Catholic Church and NGOs. In mid 1998, Rio Tinto announced that it is pulling out of the Subanen's territory, after a campaign of petitions and marches by thousands of people. Rosmario Balikantoz, a Subanen spokesman, said: "I am against this mining...Everything will be destroyed...even the mountains...the mountains and fields are our only livelihood" (*Survival*, August 1998). All across the Philippines, there is enormous opposition to the 1995 Mining Act, which the former Ramos government passed to throw huge tracts of the country open to mining TNCs.

The people of Bougainville and Mindanao have shown the rest of us how to successfully deal with a TNC which has profiteered and pillaged its way across the world, exacting a huge price in human life, environmental destruction, and exploitation of people and resources. Rio Tinto can be beaten; that is the lesson that people all around the world are learning fast. It's not easy and it comes at a high price, but the result is worth it. Removing a tumour always is.

CAR INDUSTRY DESTROYED BY IDEOLOGY

In one of his last acts as Treasurer (before he too was consigned to the scrapheap), Winston Peters used his 1998 Budget to administer the coup de grace to the country's vehicle assembly industry. He did so by immediately scrapping all remaining tariffs on imported cars. For their part, the car TNCs fell over themselves to close their New Zealand operations, dump the thousands of workers who had worked for them for decades, and leave for greener pastures. The result can be seen in this graphic. The Engineers Union fears the loss of 20,000 jobs, including those who work in the auto componentry supply industry. The effect is devastating in small towns such as Thames, where the Toyota plant is closing in December 1998. To add insult to injury, the Government refused the Automotive Component Manufacturers' Federation's request for a measly $3.5 million to help to manage plant closures and redundancies (although it did give the TNCs $10.25 million to compensate them for the early closure of the car assembly industry).

But, hey, there are sunrise industries just as there are sunset ones. And Nelson workers made redundant by the closure of the city's Honda plant were dangled the possibility of 100 jobs at a proposed new prison there (it didn't happen, because Nelson wasn't among the lucky sites chosen). Now prisons are definitely a growth industry, particularly as we head into a depression (sorry, recession, wash your mouth out). Keep the poor manageable by locking up more of them. Anyone who has seen Michael Moore's wonderful 1989 documentary "Roger And Me" will remember how Flint, Michigan, built a brand new gaol and employed some of the thousands of laid off General Motors workers as gaolers (to lock up some of their former workmates).Yes, that's the logical outcome of the flat Earth free market ideology that is running the country - less jobs, more prisons. And it's all for our own good.



CAFCA SAYS WORKFARE SUCKS

25 September 1998

Mr Tony Gavin
General Manager
New Zealand Employment Service
Private Bag 92145
Auckland Mail Service Centre

Dear Mr Gavin,

I am replying to your letter of September 18 advising us of how we can avail ourselves of workers on the "Community Wage". CAFCA has, over the past decade, employed several people on various job schemes and had a productive relationship with NZES.

However, on principle, we will have nothing to do with taking on people who are on this Community Wage. The whole concept of workfare is completely abhorrent to us and we will not be a party to it.

New Zealand needs real jobs, not forced labour schemes that exploit the very people who are the victims of the economic and political policies that dumped them on the welfare scrapheap in the first place.

Yours, sincerely
Murray Horton

(Christchurch protest against workfare: Christchurch Press: 21.10.98)