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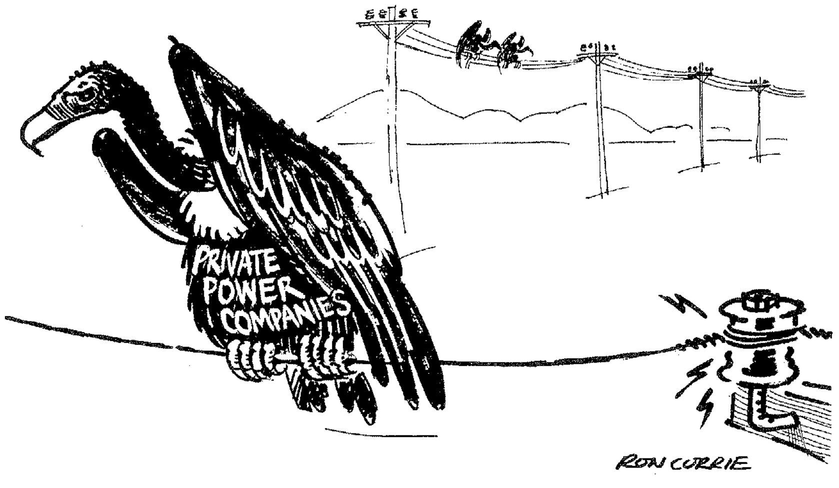
POWER FRENZY THE TAKEOVER OF THE ELECTRICITY INDUSTRY

- Bill Rosenberg

The Electricity Reform Act 1998 was supposed to bring lower power prices through more competition in the industry. Some lower prices have been offered. But the overwhelming effect of the legislation has been to set loose an astonishing and speculative auction for power companies. This auction will end in electricity retailing and generation controlled by a very few companies, some or most of them overseas owned.

But most immediately, any efficiencies brought about by the Electricity Reform Act will disappear into the coffers of the victors in this auction, who will raise electricity prices to service the enormous prices they paid to gain control of the industry. To give just two examples: the Dunedin City Council's advisers valued its 42% owned electricity retailing company, United Electricity, at $6.5 million; United was sold initially for $42 million, and shortly after resold for considerably more. Southpower's electricity retailing was valued in 1997 by independent consultants at about $13 million. It received $171 million.



For the first time in our history, significant parts of our electricity industry will be out of New Zealand hands. The process will complete previous restructuring which demolished community and State control of this essential industry.

Two of the first overseas purchases in the auction concerned the Canadian power company, TransAlta.

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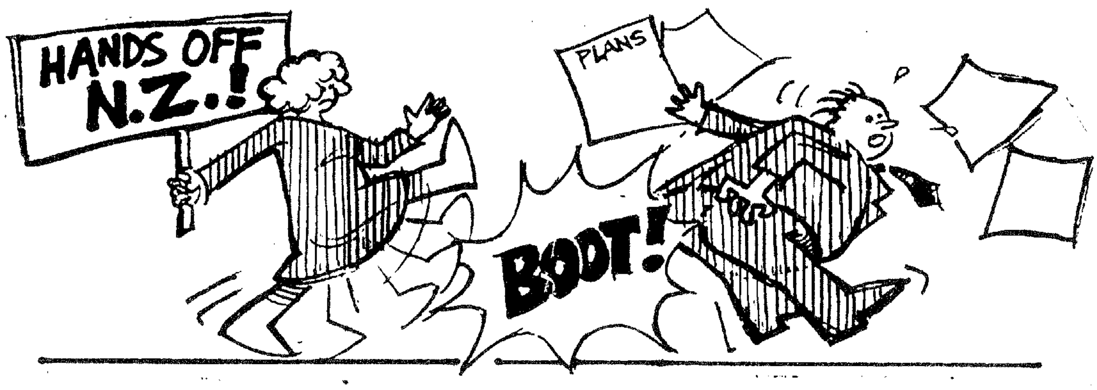

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(Power Frenzy: From Page 1)
In October 1998, TransAlta New Zealand Ltd, which is 67% owned by TransAlta Corporation of Canada, gained Overseas Investment Commission (OIC) approval to acquire the energy supply business of Southpower Ltd. Southpower is owned by Canterbury local councils, including 88% by the Christchurch City Council, through its company, Christchurch City Holdings Ltd.

In November, TransAlta New Zealand gained approval to acquire the largely Auckland retail electricity supply business of Power New Zealand Ltd. Power New Zealand is 80% owned by Utilicorp United Inc of the USA, 10.7% by Waitemata Electricity Region Territorial Local Authorities and 9.3% in small shareholdings.

The sales were forced on the vendors by the Electricity Reform Act. The Act banned any company from owning an electricity supply network (lines) operation as well as either an electricity retailing or generation operation. Most power companies chose, like Southpower, to retain their network, regarded as much easier territory, presumably because of its natural monopoly position. However, TransAlta, which owns Capital Power and EnergyDirect, selling electricity in Wellington and the Hutt, instead opted to amass as many retail supply customers as possible.

The Southpower purchase gave TransAlta 160,000 new electricity customers, and the Power New Zealand purchase bought it a further 227,000, giving it a total of 530,000 or about one third of the market (*Press*, 14/11/98, "TransAlta NZ powers ahead", p.23).

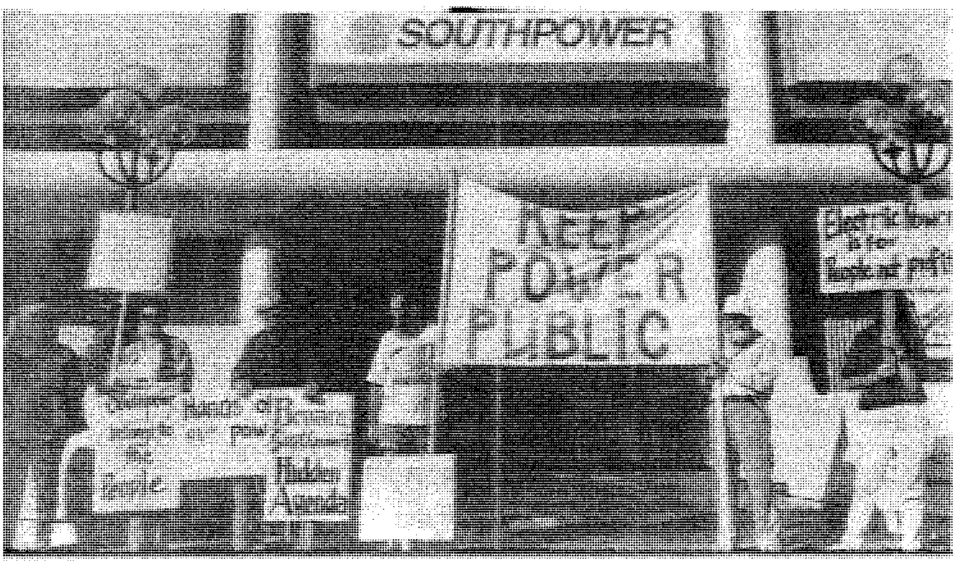
It paid $140.4 million for the Auckland purchase and $171 million for Southpower. That was only $470 customer to Power New Zealand compared to $770 for Southpower (and $347.50 paid by Contact Energy for each of United's 130,000 customers - see below). Small surprise that it wanted Southpower's price suppressed until it had completed the Power New Zealand purchase*.

At about the same time as it purchased Power New Zealand's retail business, TransAlta announced that it had offered $52.5 million to Power New Zealand for its interest in the Rotokawa steam field and electricity generation station (*New Zealand Herald*, 30/11/98, "$52.5 offered for Rotokawa station", p.D2)

Southpower

Southpower's first attempt to sell its retail business, after it became clear the electricity reforms were inevitable, was to sell it to a company which would be the country's biggest energy retailer, and which would still be local government controlled. It announced, in June 1998, that it was selling its electricity retail operations, plus the gas retail operations of its subsidiary, Enerco New Zealand (then 69% owned), to a company jointly owned by United Electricity, Southpower, and Enerco. United was owned by Dunedin City Council's Dunedin Electricity, Invercargill City Council's Electricity Invercargill, Alpine Energy (owned by a South Canterbury local authority and trust), and Government-owned The Power Company. The new company would start with 400,000 customers, including 160,000 from Southpower, 130,000 from United, and 110,000 from Enerco in the North Island. It would immediately look for more electricity customers in the North Island (*Otago Daily Times*, 19/7/97, "Dunedin Electricity to raise stake in United", by Fiona Hill; *Press*, 25/6/98, "Lower power prices promised after merger", p.1, 3; 26/6/98, "Pledges of cheaper power welcomed", p.2).

Southpower's logic was that, firstly, energy companies not selling quickly "were losing value by the week", and secondly, that "the lion's share of every energy company's profit comes from its network". Retailing represented less than 5% of Southpower's and Enerco's assets, according to their chairman, John Gray. The lines might in future carry phone and data traffic (*Press*, 8/7/98, "Money in line ownership, says Southpower", p.28). As will be seen, Southpower was emphatically proved wrong on the first rationale: prices rose rapidly in the auction for retail customers.



But almost as quickly as the sale announcement was made, it was mysteriously shelved. Instead it was announced that Southpower's retail operation was open to offers.

What happened to prevent what apparently was a marriage made in heaven? On the public record, Southpower's John Gray

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blamed delays arising from the Dunedin City Council's public consultation over the sale (*Otago Daily Times*, 15/8/98, "Minister angry at failed deal"). But greed seems a more likely explanation. Large profits were made from the change in plan. Last minute advice of the price they could get certainly swayed Dunedin City Councillors, according to Dunedin Mayor, Sukhi Turner (*Otago Daily Times*, 29/8/98, "Councillors fell for sales pitch: Mayor"). Perhaps Southpower received offers that made it want to take any excuse to back out.

In Dunedin's case, it was revealed that Eric Watson, wheeler dealer chairman of the US-owned Blue Star group, and Evan Christian, of the Advantage Group, bought 55% of United for $23 million in September 1998 through their company Fernhill Power Ltd. That put a valuation of $42 million on the whole company - which would have appeared like manna from Heaven to Dunedin City Councillors who had put on a reserve of $6.5 million after consultants' advice (*Otago Daily Times*, 28/8/98, "Waipori, United, Citigas to be sold"). To make matters worse (at least for Dunedin City and its citizens) Fernhill built up its shareholding to 100% over the next three months - at a yet to be revealed price - and then resold it three months later to soon-to-be-privatised Contact Energy, taking most of a reported $25 million capital gain. Sukhi Turner called the forced split of Dunedin's electricity assets "draconian" and said the "accounting, legal and banking industries had done very well out of the changes" (*Press*, 25/9/98, "Watson seeks Sthpower arm", p.35; *Dow Jones Newswires*, 3/12/98, "Contact Energy to buy Fernhill Stake in United Electricity", http://www.nbr.co.nz; *Press*, 4/12/98, "Alp Energy stake goes to Contact", p.15; 16/12/98, "Watson firm reaps quick $25m", p.30; 17/12/98, "Turner: local bodies advised to sell", p.35).

In the meantime, Watson was cheeky enough to put in a bid for Southpower's retail business. Another bid reportedly came from Contact Energy (which purchased Enerco's retail business for $100.5 million in October: *Press*, 28/10/98, "Enerco selling retail business to Contact", p.27).

The price paid by TransAlta for Southpower's retailing assets was astonishing at $171 million, because the operation had been valued in 1997 by independent consultants at about $13 million. That was $770 for each of the 160,000 customers, compared to $347.50 paid by Contact Energy for each of United's 130,000 customers. It left Southpower (now Orion) and its owners bathing in cash (*Press*, 18/8/98, "Trading arm under offer", p.7; 28/11/98, "Power sale brings $70m", p.1; Dow Jones Newswires, 23/12/98, "Electricity Sector Ends Year of Crisis, Reform, Takeover", by Tracy Withers, http://www.nbr.co.nz).

In purchasing Southpower's lines business, TransAlta also purchased the "Southpower" name, presumably to profit from the confusion and loyalty of the original Southpower's customers. The local government-owned lines company is now called "Orion". Interestingly, the wording of the OIC's approval allowed TransAlta to also take over Southpower's gas retail business (owned through Enerco New Zealand), though TransAlta publicly denied any such intention and it has since been sold to Contact Energy (*Press*, 24/10/98, "TransAlta denies gas bid", p.24). In fact TransAlta paid $2.6 million for Southpower's relatively minor Port-a-Gas assets (statement by TransAlta to the New Zealand Stock Exchange 30/11/98).

Settlement date for the TransAlta takeover was 1/12/98. Yet another bidder for electricity retail dominance seized the hiatus: First Electric, owned by the Electricity Corporation of New Zealand. Completely new to the game, but with the backing of the largest electricity generator in the country (shortly to be split into three by the Government), First Electric launched an offer to TransAlta's new customers in TV and full page newspaper advertisements. It promised price reductions of at least 15%. Within a few weeks it had gained a thousand customers**, signed up through an 0800 number which was answered by a call centre in Melbourne. In a situation likely to be a signature tune of the new structure of the industry, it bogged down in the changeover of its customers when Orion refused to offer the lower line rentals First Electric demanded, though it acknowledged Orion's charges to be among the lowest in the country. The old Southpower was a pioneer in allowing competitors (including United and TransAlta) to offer electricity sales over its network, and claimed it had settled its charges amicably with eight other retailers. While First Electric naturally played to the gallery, accusing Orion of anti-competitive behaviour, First Electric was hardly blameless in making promises it could not fulfil, as Orion pointed out.

The changeover of customers would also be a test case (see the Consumers' Institute's comments below) of the practicality of the whole complex structure. If custom-

Don't Let Them Get Away With It.

ers could not change suppliers easily and at no cost, then the theory of competition between electricity retailers would be a fantasy.

The sale is expected to lead to redundancies amongst Southpower staff, although those who retain their jobs will retain their conditions of employment for the time being. Like First Electric, the new operation could be run from a call centre anywhere in Aotearoa - or Australia. As the *Press* recorded, (24/10/98, "S'power lay-offs expected", p.2), "TransAlta has a history of large lay-offs with other New Zealand power companies it has bought into". In June 1995 Capital Power laid off 41 of its 184 staff when TransAlta bought a 49% share (now 100%). In late 1996 it merged Capital Power and EnergyDirect, resulting in almost 200 redundancies.

TransAlta

TransAlta is no model of service. In October 1998, the Ministry of Consumer Affairs described its contracts as "onerous and harsh on customers". The contracts limited the company's liability (to $10,000 for an incident or $50,000 in a year) if negligent, which is in breach of industry standards. They also allowed the company to disconnect power for non-payment of bills, even if the power account is up to date. Its price list did not clearly specify the services covered by each charge. However, TransAlta rated sixth best company in the survey (*Evening Post*, 30/10/98, "Harsh contracts earn rap for power firms").

This breach of standards is not just theory. "A Naenae, Lower Hutt, man got the shock of his life after receiving a power bill for nearly $12,000. To add insult to injury TransAlta then cut off Govind Susarla's power even after acknowledging the bill was a mistake. Mr Susarla received a bill from TransAlta on November 16 for $11,780.44. TransAlta corrected the mistake on the same statement, leaving Mr Susarla with a more respectable bill of $46.69. Mr Susarla then received a letter from TransAlta on December 11 saying that if payment was not made for $46.69, the company would take action to recover the outstanding bill". He had already sent a cheque for $50, but they still turned the power off. TransAlta admitted its fault and agreed to pay for food spoilt in Mr Susarla's fridge, but not for a $220 restaurant meal he had to shout friends whom he had intended to entertain at home (*Press*, 30/12/98, "Power cut follows shocking bill").

According to the Canadian Electricity Association (http://www.canelect.ca/media/industry_background.html), TransAlta is one of three major electric utilities in Alberta which together supply about 98% of Alberta's electrical energy requirements. All are linked by a transmission network largely owned by TransAlta. TransAlta is unusual in Canada in that it is one of only five private (the politically correct term in Canada appears to be "investor-owned") major electric utilities. In 1995, the five accounted for only 7.5% of all Canadian electric utility capacity and produced about 9.4% of total electricity.

"TransAlta Utilities Corporation is Canada's largest investor-owned electric utility, operating in Alberta since 1911. TransAlta Utilities has major assets and operations for the generation, transmission and distribution of electricity in Alberta. TransAlta Utilities has a total net generating capability of 4,476 MW of electricity and owns more than 100,000 kilometres of operating transmission and distribution power lines. About 62% of the electric energy requirements of Alberta are supplied by TransAlta Utilities, to over 1.7 million people directly and indirectly in 1995. TransAlta Utilities and TransAlta Energy are the main operating subsidiaries of TransAlta Corporation. Based in Calgary, Alberta, TransAlta Corporation has interests in other parts of Canada as well as internationally".

Over 83% of the electricity generated by Alberta utilities is produced by large coal-fired generating stations, and TransAlta is no exception: it has three coal-fired generating plants and 50% ownership of a fourth. Only 5% of its production is hydro based; the other 95% is thermal (coal) based, and this is mirrored by its power station interests in Aotearoa (see below). It has 13 hydroelectric plants, and two coal mines in Canada.

TransAlta is expanding rapidly outside Canada, particularly in Australia. TransAlta Energy has a joint venture with Gold Mines of Kalgoorlie in a 75 megawatt, gas-fired power plant, supplying power to Australia's largest gold mine. In November 1997 it gained a $300 million contract with ABB Power Generation to build and operate the Oakajee power generating plant in Western Australia. They won a tender let by An Feng Kingstream Steel Limited which is building a mill that will produce 2.4 million tonnes of steel annually. To do this, the plant will need nearly 325 megawatts of power. Surplus power will be sold to nearby industrial customers. Construction of the plant was expected to begin in 1998 and to begin electricity production in early 2000 (http://

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CHEQUES

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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).

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www.electricityforum.com/news/novnews/trans.html). In October 1998 it took a share in the Goldfields Gas Transmission Pipeline, and in November 1998 it became the second biggest generator in Western Australia when it formed a partnership with Australian Gas Light (one third owner of the Natural Gas Corporation in Aotearoa - see below) called Southern Cross Energy. The company, in which TransAlta has 85%, bought four gas-fired power stations, nearly 5,000 km of transmission lines and 15 diesel generators from WMC Resources Ltd, a mining company, which will continue to buy the plants' output. The natural gas will be supplied by Goldfields (*Globe and Mail*, 28/11/98, "TransAlta takes No. 2 spot in Western Australian market").

It also has interests in Argentina, where it is part owner of a corporation that holds a 30 year concession for a 1,400 megawatt hydroelectric project on the Limay River providing 10% of the country's energy needs. In the USA, it has interests in wholesale energy marketing in the Pacific Northwest (see TransAlta's website: http://www.transalta.com/Website/corpinfo.nsf).

TransAlta was one of the companies that complained most loudly about the electricity reforms. It threatened to withdraw from Aotearoa if the Government forced it to split its business. In an unusually blatant piece of "capital flight" blackmail, Stephen Snyder, the Canadian TransAlta group president and chief executive, wrote to the Minister for Energy, Max Bradford. He said TransAlta

"was very concerned about the forced ownership split and that if that occurs it may only serve to tilt adversely the relative attractiveness of New Zealand as a focus for its activities. We have invested $600 million here in the last five years and it has been a good investment. But what has happened is the rules are changing. We will now rethink our investment and the worst case scenario is that we may have to think of exiting".

He said the corporation was looking internationally to make investments.

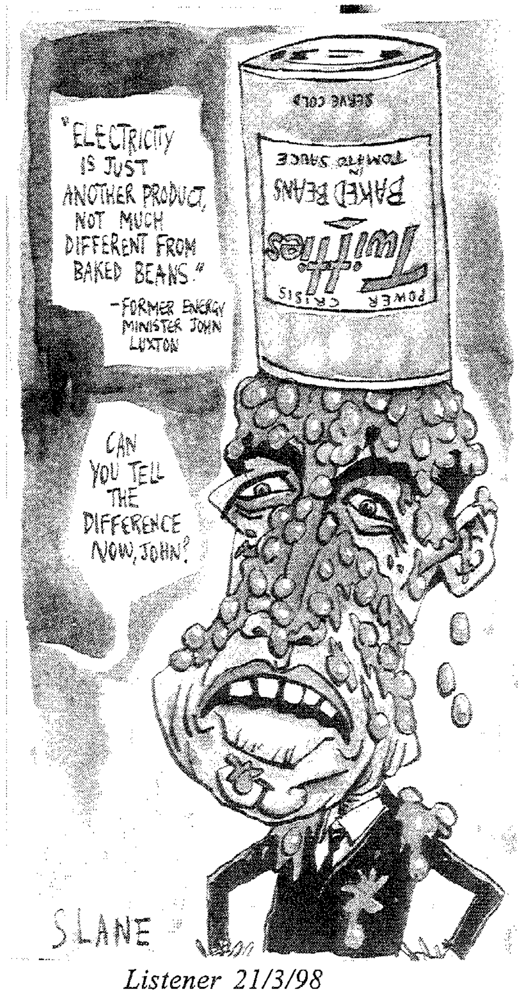
"We want to double our investment in New Zealand and that is our intention but these proposed reforms, and particularly the ownership split issue, will cause us to rethink that" (*Press*, 2/6/98, "TransAlta threatens to pull out of New Zealand", p.18).

Instead, they have rethought the benefit of the reforms to them. They are likely to end up one of two or three companies dominating electricity retailing in Aotearoa, and possibly an important position in electricity generation as well.

Utilicorp

The original business of Utilicorp United was running lines networks in the USA. On the basis of rulings of US regulators and courts, Utilicorp has been described as "belligerent, dangerous, incompetent, litigious and given to price gouging" by Gregory Palast, a New York energy consultant who has testified as an expert against their price increases. In a recent example, it had its charges cut by a regulator in Missouri, USA, instead of granting the 9.3% increase it had applied for (*Press*, 11/3/98, "UtiliCorp charges cut", p.29; Utilicorp United 1997 Annual Report, p.6). Palast's assessment matches Auckland opinion, which labelled it as "American alligators" for its tactics in engineering control of Power New Zealand.

The company was founded only in 1985, and appears, from its 1997 Annual Report, that acquisitions are as at least as much its objective as selling energy (it also sells natural gas in the USA). It describes itself as "clearly a first mover in mergers and acquisitions, international operations, non-regulated energy marketing and national



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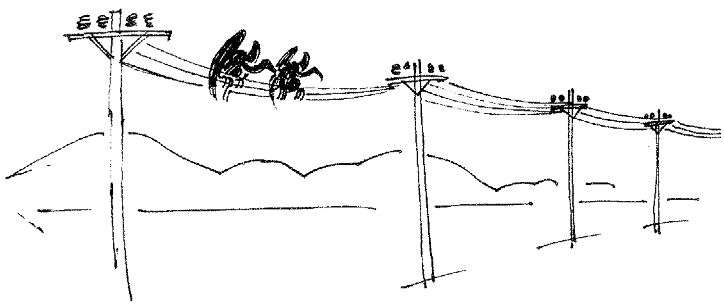

concept that the MAI "must be consistent with the sovereign responsibility of governments to conduct domestic policies. The MAI would establish mutually beneficial international rules which would not inhibit the normal non-discriminatory exercise of regulatory powers by governments and such exercise of regulatory powers would not amount to expropriation". The NZ Government had previously ridiculed the need for such provisions (whose expression has yet to see the light of day).

In practice, while the transnationals would undoubtably have claimed loss of profits or asset values if compensation were available, the legislation has led to meteoric rises in asset values as speculation takes over. As Mark Reynolds commented in the *New Zealand Herald* (27/11/98, "Where to now for rationalised new-look electricity companies?", p. C2), "it is difficult to see enough expenses being stripped to justify the high prices paid for some of the line operations", and the same applies to electricity retailing.

branding" and boasts in large print: "We still have mergers and acquisitions in our blood". It operates in 17 US states, Canada, Australia (where it is manager and 49.9% owner of United Energy Ltd) and the UK. A major subsidiary is Aquila Energy which is a natural gas and electricity wholesaler, as well as dealing in "a wide range of related financial and risk management products". Utilicorp and its subsidiaries have interests in all areas of the two energy sectors: electricity generation, lines networks and retailing; natural gas processing plants, pipelines, and retailing. It is branching into other areas such as appliance repair, and is using its customer base to market unrelated products including security and long distance telephone services.

The Electricity Reform Act and the MAI

There was a strong irony - hypocrisy might be more accurate - to the Government's actions in passing the Electricity Reform Act. If the Multilateral Agreement on Investment (MAI - see 1997 & 98 *Watchdog* issues for details. Ed.) had been agreed as proposed, in 1998, (at the time the Act was being drafted), its expropriation provisions would have made the industry restructuring impossible without expensive and drawn out legal challenges, likely followed by compensation to the overseas companies affected. (Those challenges and compensation would not have been available as of right to the locally owned electricity companies) .

The Minister of Energy expressly ruled out paying compensation, in an answer to a question in Parliament (15/5/98). Then, when asked in Parliament whether the MAI would allow companies to claim compensation from the Crown in respect of losses of profit and/or asset value caused by Government legislation or regulation, the Minister of International Trade, Lockwood Smith, was forced to fall back on the Organisation for Economic Cooperation and Development (OECD) Ministerial communique which began the backdown on the MAI negotiations (27-28 April 1998). That communique introduced the new

The Electricity Reform Act: who wanted it? Who benefits?

In line operations, the Government has recognised that the new structure may well lead to problems - after all, one company has a monopoly over line networks in each area of the country. The Minister of Energy has threatened to introduce price controls if the companies breach three parameters: prices, profits and service quality. He proposes giving the Commerce Commission power to investigate breaches and impose controls over the 25% worst performers (*Press*, 17/12/98, "Price control threat for line companies", p.37). That implies either permanent price controls (by definition, there must always be a company in the bottom 25%) or ineffective ones - or so few companies that the rule becomes inoperable. None of these sounds like a well functioning "free market". Utilicorp is trying hard to achieve the last option.

The Major Electricity Users' Group, which includes companies like Comalco, and which saw the reforms as attaining "lowest possible power prices", acclaimed them. However, the group's corporate bias prevented it from conceding that many residential consumers received lower prices by other means. In many cases people received rebates (in the case of community trust-owned companies) or benefited from dividends that allowed lower local body rates or improved community amenities (in the case of local government-owned companies, such as Southpower). It is likely that the loss of these benefits outweighs any price savings.

The Consumers' Institute, also a member of the group, joined in welcoming the reforms with "cautious optimism", particularly because the cost to consumers for changing supply companies was "likely to be removed". Its

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(Power Frenzy: Continued from Page 7)
welcome was qualified. It was made "leaving aside questions about the wisdom of the reforms to the generation sector". The Institute warned that any falls in retail electricity prices would not impact greatly on the cost of living, so the main benefits may instead be in standards of service, and flexibility in billing options and methods. (*Press*, 10/6/98, "Power wars go to Parlt", p.9; *Consumer Online,* What's News, 20/6/98, "A better deal for electricity consumers", http://www.consumer.org.nz/whatsnews/98apr20.html).

Local government and consumer trusts also energetically opposed the reforms. The WEL Energy Trust (Waikato) - one that has long been battling for control of its own power company (see for example our commentary on the August 1998 OIC decisions) - commissioned an opinion poll on behalf of eight other trusts. It found 78% of the public believed power companies should be in community hands, in contrast to the expected outcomes of the reforms (*Press*, 30/3/98, "Public power ownership favoured - poll", p.6). Christchurch's Mayor, Vicki Buck, described the reforms as "Stalinist", disallowing anyone but the Government itself to own more than one element in the industry. She said that the changes would not harm the City Council as owner of Southpower, but would lead to a few large nationwide organisations taking ownership of electricity retailing (*Press*, 6/6/98, "Power plans 'Stalinist', says Buck", p.3). A group in Dunedin announced plans to take the Electricity Industry Reform Act to the World Court to prevent privatisation (*Press*, 26/8/98, "Electricity battle heads towards World Court", p.9).

The Chief Executive of TOP Energy, Roger de Bray, pointed out the consequences to families in remote areas, who would lose the cross-subsidisation of their line charges. Charges might rise by up to $1,000 he said. Others criticised the haste with which the legislation was pushed through, and the effect on low income consumers. *The Press* quoted government officials' advice that forced separation of ownership would result in higher costs because of loss of economies of scale (*Press*, 15/6/98, "Social costs of power reform", p.4). Electricity analyst, Hugh Barr, agreed, saying it would continue the trend of the 1992 electricity "reforms", which had raised domestic prices by 17% (after inflation), but cut prices for most industrial users by 20% (*Press*, 22/6/98, Letter to the Editor: "Electricity prices", p.4).

Cheerleaders for deregulation

Both TransAlta and Utilicorp have an ideological commitment to deregulation (presumably meaning deregulation that allows them to buy in). Utilicorp's 1997 Annual Report devotes two pages (14-15) to deregulation, highlighting "Utilicorp has been a vocal advocate of deregulation", and describing it as "customer choice".

"We still have a lot of advocating to do", says its Chairman and Chief Executive Officer, Richard C. Green Jr. The company says that "about 15 states [of the USA] have either passed legislation or issued regulatory mandates to provide customers the right to choose their supplier by a certain date. Industry restructuring bills are pending in many states, and nearly every state is at least studying the issue" [their emphasis]. Like here, it is leading to further privatisation. Utilicorp gloats: "One issue under intense federal scrutiny is taxpayer subsidies for agencies like the Tennessee Valley Authority when investor-owned electric suppliers will be expected to compete against them. Such supports may get cut or ended altogether to 'level the playing field'". Utilicorp also notes similar developments in natural gas supply.

TransAlta Corporation is a "founding sponsor" of the Centre for Regulatory Affairs, based at the University of Calgary, Alberta, Canada. The Centre for Regulatory Affairs was created to lobby for deregulation:

"The purpose and function of the Centre for Regulatory Affairs (CRA) is to promote education and research in regulatory theory, regulatory practice in Canada, and regulated industry management, with an emphasis on the opportunities, challenges, and consequences of introducing competition and relaxing regulatory constraints. The intent is to achieve a critical mass of expertise and academic excellence that provides a basis for influencing public policy and regulatory practice in Canada, and for the development of effective management practices in regulated industries, through research, teaching, and public advocacy. The goal of the CRA is to become a strong independent voice and play a leadership role in determining and fashioning public policy in regulated industries.... The CRA's interest in regulatory economics is broadly defined and includes not only regulatory economics, law, and management but extends to competition policy, privatization, and public enterprise".

The company's president and Chief Executive Officer, Stephen G. Snyder, in March 1997 called for the acceleration of deregulation of Alberta's electric utility sector (TransAlta press release 17/3/97) - an action and speed many Albertans now regret.

Deregulation is occurring in TransAlta's home, Alberta, but in a very different form to that in Aotearoa. There, any power generator can sell into a "Power Pool" which is governed by an independent Council that has authority to monitor markets, investigate complaints and resolve disputes. The regime recognises the natural monopoly position of transmission and distribution systems, which remain regulated. An independent Transmission Administrator oversees the use of the transmission system. "Existing distribution utilities will continue to provide connections to customers and maintain the distribution wires. In addition, the Alberta government maintains ongoing responsibility for monitoring the market and ensuring that it is working fairly and efficiently". From 1999, large industrial customers will be able to choose retailers, and all other customers will be able to do so by 2001. A Market Surveillance Administrator will have powers to monitor electricity markets and to investigate complaints "to ensure efficient and fair operation of the markets and compliance with all rules, laws and regulations governing the behaviour of participants in those markets". (See "Backgrounder on the Electric Utilities Amendment Act, 1998", http://www.energy.gov.ab.ca/electric/restruct/euaa.htm).

Deregulation was blamed for a fiasco during the 1998/99 (Canadian) winter. Citizens of Calgary, Alberta's largest city and TransAlta's home town, were "scrambling" to buy their own generators, according to the *Winnipeg Free Press* (2/11/98, "Albertans prepare for winter in dark. Blackouts imminent in energy-rich province") after 15,000 homes and businesses had blackouts for 37 minutes. The newspaper asked

"Just how did Canada's energy province come to this? The answer is simple: deregulation. Alberta has dismantled the safeguards of a regulated system and is going through the painful birth of an open market...

... electricity demand is precariously close to total supply. Generation capacity within the Alberta grid is 7,640 megawatts. In a pinch, the province can draw another 850 megawatts from neighbouring provinces. With power consumption peaking at 7,222 megawatts during last year's mild winter, the energy industry and the Alberta government agree there likely won't be enough to go around.

A deep-freeze winter is forecast for Alberta, where both population and industry have been growing by leaps and bounds. Most observers agree the shortage wouldn't be happening under the old regulated system, where utilities operating as a monopoly were responsible for building power plants to ensure a reliable supply.

To safeguard against an electricity shortage, a provincial body monitored population growth and energy supply, and told utilities when to build new generators. But that watchdog was put down in 1994, when the Alberta government announced deregulation plans".

The scene at the end of 1998

In December, ECNZ/First Electric bought the retail operations of Mercury Energy, the largest in the country, and Wairarapa Electricity. It paid between $900 and $1,300 for each of the 343,000 customers it bought in this modern type of trade in people (*Press*, 23/11/98, "Power move patience plea", p.3; 25/11/98, "Complaint from energy trader", p.3; 3/12/98, "ECNZ buys Mercury retail", p.30).

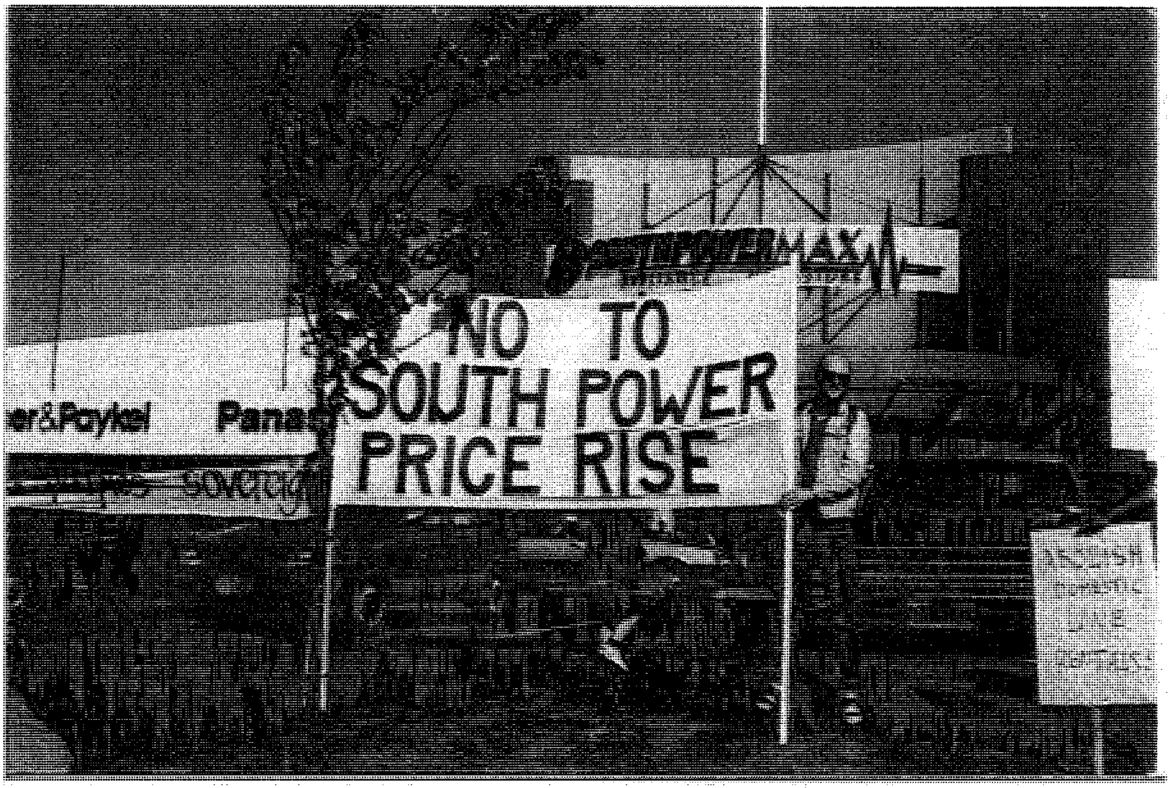
The frenetic auction saw TransAlta shares rise to $2.51 from a low of $1.32 in early October; Power New Zealand to $6.25 from $4.10 in early July; and Trustpower to $2.72 from $1.55 in late August. It resulted in the following position at the end of 1998:

Electricity retailing:

According to a KPMG survey, about 90% of electricity companies have decided to sell their energy retailing operations (*Press*, 19/10/98, "Electric firms opt to sell", p.22). The retailing sector is divided approximately as follows:

TransAlta	530,000 customers (approximately one third of the market)
ECNZ	470,000 customers
Contact Energy	430,000 customers
Trustpower	114,000 customers

(Continued on Page 10)



(Power Frenzy; Continued From Page 9)
In addition, the Natural Gas Corporation (which is one third owned by Australian Gas Light and one third by Fletcher Challenge) has bid for WEL Energy in Hamilton, which would bring its electricity and gas customers to 132,000.

"Virtually all New Zealand's approximately 1.9 million electricity and natural gas consumers are being supplied from seven companies as opposed to 39 at the start of the year", according to *Dow Jones Newswires* (23/12/98, "Electricity Sector Ends Year of Crisis, Reform, Takeover", by Tracy Withers, http://www.nbr.co.nz, which is also the source for the above share prices and market shares, except for TransAlta's customer tally, which comes from the *Press*, 14/11/98, "TransAlta NZ powers ahead", p.23).

However, questions remain over Contact and ECNZ. The Government has announced the sale of Contact Energy. TransAlta is almost certain to be a contender, as, according to a TransAlta news release on 22/10/98 ("TransAlta Becomes Largest Electricity Retailer in New Zealand", http://192.139.81.46/scripts/ccn-release.pl?1998/10/22/1022011n), it has a goal "of being the largest private generator" as well as the largest retailer in Aotearoa. TransAlta and Contact combined would have 960,000 customers or over half the market. The Government has also announced the split of ECNZ into three smaller power generators. If ECNZ's retail operation is split with them, it may become uneconomic (TransAlta reckons 400,000 customers is the minimum needed to compete - *Press*, 12/11/98, "TransAlta to lift wrap on Southpower deal price", p.31) and lead to its sale and further coagulation of the retail sector.

Lines Networks:

Most local electricity companies have retained their lines networks for reasons stated above, Orion being one of the largest. However, Power New Zealand has made an aggressive play to become dominant in this sector. It has added to its own network that of TransAlta's in the Wellington region, and Trustpower's in Tauranga, giving it about 30% of the national market and making it the largest network operator in the country with 470,000 customers (*Press*, 9/12/98, "Power NZ earnings may double", p.28). Operationally, Power New Zealand swapped its retail operations for TransAlta's Wellington lines network, buying the lines at the same time as the sale of its retail operations. It then paid $485 million (twice the book value) for TrustPower's network (*New Zealand Herald*, 27/11/98, "Where to now for rationalised new-look electricity companies?", by Mark Reynolds, p. C2; *Press*, 21/11/98, "Energy companies scramble for position", p.26).

The TransAlta sale is opposed by the Hutt Mana Energy Trust which represents 83,000 people in the Hutt Mana region and "an obligation to" 200,000 Wellington residents, and has 12% ownership of TransAlta New Zealand. It says there has been inadequate consultation over the sale. The Trust wants a local regional lines business established in the Hutt Mana and Wellington region, in which it would have a 26% share to give it some influence to protect consumers. It had been "pushed by TransAlta into bidding for the lines business with a partner suggested by them", but had been unsuccessful (*Press*, 10/12/98, "Energy trust seeks help to block sale", p.28). The original sale of local body owned power companies to TransAlta aroused bitter local opposition and a series of broken promises from the local authorities. The Trust was a last remnant of local influence, but one that seems to have been outmanoeuvred once more.

Generation:

Around 90% of power generation is still in the hands of ECNZ (66% in 1997 according to the New Zealand Official Yearbook 1998) and Contact (24% in 1997, though it now claims 27%). If the trisection of ECNZ goes ahead as announced, the South Island unit will have about 30%, being the largest of the three.

However TransAlta claims 12% of generation, with the offer for Power New Zealand's stake in the Rotokawa power station (*Globe and Mail*, 28/11/98, "TransAlta takes No. 2 spot in Western Australian market"). It has one third of the 350 megawatt Stratford Combined Cycle power station in Taranaki, and 47% of the 115 megawatt Southdown plant in Auckland, with a pre-emptive right to buy Mercury's generation assets (another third of Stratford and its share of Southdown). That pre-emptive right is significant: Mercury has decided to retain its lines network and therefore must sell its generation assets (*New Zealand Herald*, 16/11/98, "Mercury write-off to cost trust $500m", p.D1; and our commentary on an OIC decision in July 1997, "TransAlta restructures interests in Wellington, Stratford and Southdown").

Contact also has substantial gas interests, owning three gas fields and rights to 43% of Maui output (*Press*, 1/12/98, "Govt floats Contact", p.23).

Government role

The Government's role in this astonishing lolly scramble must be seen as devious. There can be no doubt that without its explicit consent Contact and ECNZ could not have bid huge, possibly ruinous, sums for retail customers: when New Zealand Post wanted to expand into far more familiar territory to defend itself against deregulation, the Government refused it permission. Yet the Government also has a policy to privatise Contact and split ECNZ. Privatising Contact will privatise almost a quarter of the retail market. Splitting ECNZ will split another quarter into non-viable portions which are then likely to be sold - most likely to one of the big retailers and hence privatised. If they are not sold, they will likely be albatrosses around the necks of their owners. The purchase by the generators of retail market share must therefore be seen both as a means to speed the privatisation of the electricity market and to discredit the remaining state-owned generators to provide an excuse for their privatisation.

Even putting these politics aside, the prices the Government is allowing its SOEs and others to pay for retail customers must inevitably lead to power price rises or bankruptcies.

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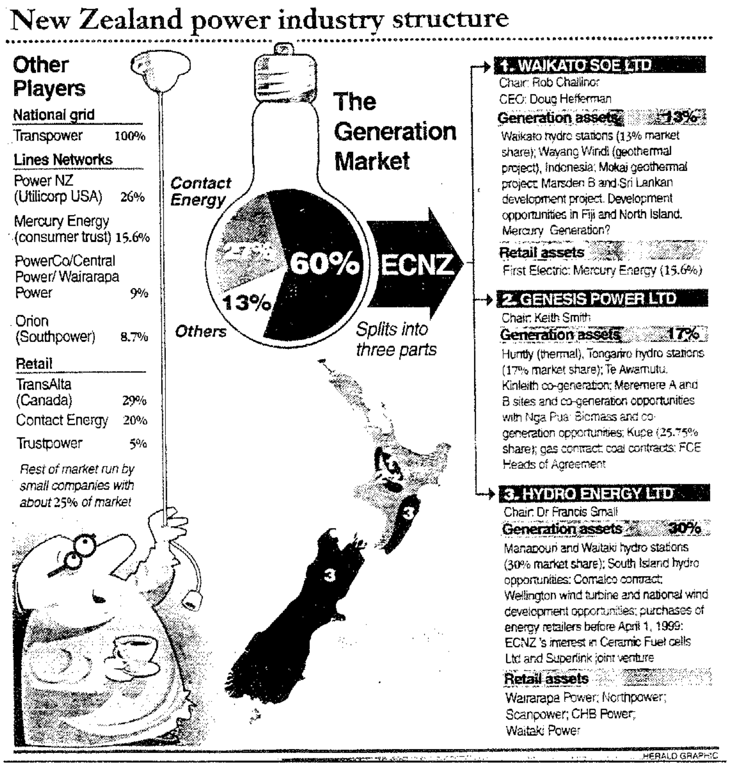
*The OIC suppressed the prices of TransAlta's purchase of both Southpower and Power New Zealand assets, when it released its decisions to CAFCA. Yet, by then TransAlta had made a statement to the New Zealand Stock Exchange (30/11/98) announcing the prices - in the Power New Zealand case, a month before the OIC's 31/12/98 censored release. The news media had known at least two days before that.

** Statement of interest: the author is one of those customers.



NZ Herald 16/12/98

THE SIS COCKUP PATCHUP BILL

- Murray Horton

Highest Court Rules SIS Has Been Breaking The Law For 30 Years

The December 1998 decision by the Court of Appeal that the July 1996 Security Intelligence Service (SIS) break-in at the Christchurch home of Aziz Choudry was illegal really set the cat among the pigeons. The full bench of the country's highest court overturned the August 1998 finding by Justice Panckhurst that the 1969 SIS Act, and subsequent amendments, gave the spies an implicit right to covertly break and enter premises in the execution of their interception warrants. Instead, the Court of Appeal accepted the argument by Rodney Harrison QC, Aziz's lawyer, that New Zealand law is explicit, not implicit ie if something is not specifically permitted by law, then it is illegal. The judges could find nothing in the 30 year old Act that permitted break-ins. This exposed the untenable position of the Inspector-General of Intelligence and Security (Laurie Greig). He had ruled, in response to Aziz's official complaint, that "nothing unlawful" had taken place, whilst never actually confirming or denying that the SIS was in any way involved. So much for the "proper channels"! If Aziz hadn't taken civil action, at his own expense, the Court of Appeal would not have had the opportunity to rule that, in fact, everything about this SIS break-in was unlawful and what's more that the Act which "governed" the SIS for 30 years gave them no right to covertly enter anyone's property. Where was the oversight of the 1969 SIS Act? It had never been put to the test and as soon as it was, it was deemed to be fatally flawed and illegal. Greig has since written to Aziz admitting that, in light of the Court of Appeal decision, he was wrong.

That was Aziz's appeal. The SIS had also appealed Justice Panckhurst's finding that he was not prepared to accept a blanket defence of "national security" as good enough reason to withhold from Aziz a large number of documents (including the interception warrant) needed to pursue his $300,000 civil damages claim against the Crown (arising from the break-in). Panckhurst had specifically rejected a certificate signed by Jenny Shipley, Minister in Charge of the SIS (it's always the PM) asserting immunity from producing the documents. Panckhurst ruled that he wanted to inspect the documents for himself, at the SIS's Christchurch office, before ruling on their release. Even this was too much for the SIS. The Court of Appeal ruled that Shipley be given until February to produce an amended certificate with more details on why the documents should be withheld; then it would rule on whether or not they should be released (this has been produced, and awaits a further ruling by the Court). The judges were quite scathing in their opinion of the Crown case. Justice Thomas said: "The Courts today are not prepared to be awestruck by the 'mantra' of national security".

Although the Crown announced plans to appeal, to the Privy Council, in London, the ruling regarding turning over documents, it decided not to appeal the ruling declaring all SIS break-ins illegal. Instead, the Government, with the connivance of Labour, decided to rush through a Bill giving the SIS explicit powers to covertly break and enter, and making such power retrospective (with the exception of Aziz's case). The so-called intelligence oversight body, the Intelligence and Security Committee (which must never be confused with a Select Committee, because it very deliberately isn't one), suddenly found a new lease of life (its 1998 annual report to Parliament had been "nothing to report") and the 1998 SIS Amendment Bill was introduced into Parliament just before Christmas, with submissions due in by the end of January. This is a very old trick. National, Labour, ACT and the various mercenaries voted for it; only the Alliance, the Greens and Independent Neil Kirton voted against it. Rank and file Labour supporters felt totally betrayed by their Parliamentary party.

Northern Advocate 16/12/98

(SIS; Continued From Page 11)
The Court of Appeal decision and the NatLab cynical reaction (retrospectively legalising burglary by the buggers) touched off a storm of public protest. For years, law and order supporters have always supported each erosion of civil liberties by justifications such as "the innocent have got nothing to fear" or "what have you got to worry about if you've got nothing to hide?". But this whole saga strikes at one of the foundations of the Kiwi Way Of Life - home ownership and the inviolable sanctity of private property. It became a mainstream issue, featuring extensively in the media (including numerous cartoons) and in everyday conversations in homes and workplaces throughout the country. It was no longer just a political activist with a foreign name up against an obscure State agency; people realised that this could very well be them next time. The hypocrisy of the Government legalising State burglars whilst simultaneously fulminating about "home invaders" was not lost on people either.

Submissions Against The Bill

Rod Donald, Green MP, launched a petition calling for the Bill to be scrapped. Despite being launched right on Christmas, and having only until February to get around, it got over 6,000 signatures. The Intelligence and Security Committee (Shipley, Don McKinnon, Sir Douglas Graham, Helen Clark and Mike Moore) heard public submissions in February. It refused to travel outside Wellington, meaning that those who wanted to personally appear had to travel there at their own expense for their few minutes in front of the bored senior politicians who had already made up their minds. But the Government was quite happy to fly out Dame Stella Rimington, former head of Britain's MI5 (at a cost of over $18,000, paid for out of the SIS budget) to tell the Committee how vital it is for spies to have the power to break and enter. To their shame, former Labour PMs, David Lange and Sir Geoffrey Palmer, both appeared to support the Bill. Don McIver, Director of the SIS, testified that it had foiled nuclear terrorists and was on the lookout for Islamic terrorists targeting US embassies in "soft" countries. None of which explains what his agents were doing in Aziz's house during a 1996 activity opposing an APEC Trade Ministers' Conference. No plutonium was found in his laundry cupboard and despite being Pakistani, he is definitely a lapsed Muslim.

The vast majority of submissions opposed all or part of the Bill. Of the latter, some wanted the power to issue interception warrants transferred from the PM to a judge (both Lange and Palmer strenuously opposed any involvement by judges. This whole saga has become a very interesting constitutional battle between the Executive and the judiciary). Many submissions pointed out the danger of allowing the SIS to covertly enter and seize "things" (the actual wording of the Bill). This gives them the power to cripple organisations by legally stealing the likes of computer discs or other documents such as membership lists, financial records, etc. There is no obligation to return them, produce them in court, or in any way acknowledge that the SIS are the thieves. Don McIver, the SIS Director, reinforced this fear by stating, in his submission, that computer discs are exactly the sort of "things" the SIS would be targeting. Maori organisations were concerned about being the targets of State spying. That's not mere hypothesis either - a December 1998 sweep of the Maori Legal Service's Wellington office revealed that phone calls were being intercepted.

Some submissions went way beyond calling for amending or scrapping this Bill. They called for the scrapping of the Intelligence and Security Committee, and for the abolition of the SIS itself (see CAFCA's submission, below).

The APEC Clampdown

Submissions were heard in Wellington over two days. There was a protest outside Parliament (Aziz was one of the speakers) and, in Christchurch, more than 100 people marched to the "secret" SIS office (which was well guarded by police), where there was a rally outside, in the middle of the street, and a protest banner was

(Continued on Page 14)

"OH SORRY SANTA - I THOUGHT THE SIS WAS BREAKING IN".

NZ Herald 17/12/98

(The SIS Cockup, Patchup Bill: From Page 13)
hung from the top of the building. One third of the total submissions had come from Christchurch, but the Intelligence and Security Committee refused numerous requests to come to Christchurch. So Christchurch organised its own hearings, in front of local worthies including the Chancellor of the University of Canterbury, the Catholic Bishop, the Human Rights Commissioner (Southern), the national co-president of the Conference of Churches, a Ngai Tahu representative, a Canterbury Regional Councillor and wellknown writer and lawyer, A.K. Grant. Several local Opposition MPs also attended. These very busy people were all prepared, at less than a week's notice, to give up several hours of their time to hear Christchurch submissions (the City Council was happy to make the historic Provincial Chambers available for the hearing). This eminent persons group produced a report calling for an inquiry into the SIS, before Parliament allows any increase in its powers.

CAFCA was one of the groups affected by the Intelligence and Security Committee's refusal to conduct hearings outside Wellington. Our submission, written by Bill Rosenberg, was presented to the Christchurch eminent persons' group by Murray Horton. Bill, wearing another hat, appeared before them to represent the Canterbury branch of the Association of University Staff.

Of course, the SIS break-in at Aziz's house and everything that has happened since has not happened in a vacuum. It has all taken place in the general context of free trade/foreign investment/globalisation being the prevailing ideological orthodoxy, and the specific context of New Zealand's gungho membership of APEC. The break-in took place during GATT Watchdog's activities opposing an APEC Trade Minister's Conference; the SIS Amendment Bill and other new laws (such as the Arms Amendment Bill, which allows foreign bodyguards to bring their guns into the country) are being rushed through as part of the security clampdown accompanying New Zealand's hosting of all APEC meetings in 1999, climaxing in the September Leaders' Summit in Auckland. The media is pouring out the propaganda - on the one hand, how marvellous these APEC meetings will be for New Zealand (a highly doubtful proposition) and, on the other, how tight security is needed to protect all these VIPs from "terrorists" and protesters. So, fasten your seatbelts everybody, it's going to be a bumpy old ride. And you'd better wear your gumboots. Very handy for wading through all the bullshit.

CAFCA'S SUBMISSION

Security Intelligence Service Amendment Bill 1998

1. Introduction

1.1. This submission is in response to the above Bill. However CAFCA has long opposed the Security Intelligence Service in its present form, objectives and powers. It was established as a political instrument of the Cold War and has failed to convince the New Zealand public of its necessity, efficiency or effectiveness in that role. Its function had more to do with Cold War military and intelligence alliances than any needs within New Zealand.

1.2. Since the end of the Cold War, while almost every other arm of Government has been reviewed and often radically restructured, the governments of the day have yet to allow public scrutiny, let alone reform, of this expensive, unaccountable, antiquated and bungling apparatus. It has powers and practices that undermine most common standards of democracy and civil rights, and the current Bill only worsens that situation.

1.3. The alleged protections built into the legislation have been shown in the Choudry case to be completely inadequate. It is a travesty for the Intelligence and Security Committee, a part of this failed structure, to be the body considering submissions. This reinforces the lack of public accountability of this edifice.

1.4. Therefore our primary submission is that the SIS should be abandoned in its present form. The present debacle represented by the case of *Choudry v. Attorney General* should not be cause to extend and patch a rotting structure. It demonstrates to all who have eyes to see, that the SIS is dangerous, inept, and subversive of democracy. It should be the occasion for a complete rethink of whether the SIS serves any purpose in our society, and which, if any, of its functions it should retain.

2. The Security Intelligence Service Amendment Bill 1998

2.1. The present Bill reinforces the potential of the SIS to be used for political ends against opponents of the government of the day, and against opponents of political and economic orthodoxy, whatever those may be at any point in time. The definition of security includes "the making of a contribution to New Zealand's international well-being or economic well-being". The definition of "New Zealand's international well-being or economic well-being" is so far within the political domain, and so much the essence of political debate, that it allows any government to approve surveillance of opponents.

2.2. Though the principal Act states (in section 4(2)(a)) that it shall not be a function of the SIS to enforce measures for security, the proposals in this Bill effectively allow punitive action to be taken under the cloak of surveillance. They also allow the work of an organisation or an individual to be effectively disabled.

2.3. We refer here to the broadening of the rights to break in and to seize.

2.4. Under the proposed amendments (Clause 3(5), proposed section 4A(3B)), breaking in can occur at "any place" where persons whose communications are sought "are or are likely to be at any time". Any unwanted entry to a person's home, work or other place is likely to be intimidatory if discovered. This power is thus able to be used to intimidate not just one person, against whom a

(Continued on Page 15)

warrant is authorised, but all that person's associates - perhaps a whole organisation.

2.5. Similarly the right to "seize" is extremely broad. It can include not just communications, but documents and "things". (See Clause 2, Interpretation, and Clause 3, Issue of interception warrant.) It could be used, for example, to seize the computers, correspondence, membership and financial records of an organisation, effectively disabling that organisation.

2.6. We note that there is no procedure to return objects seized. Even if there were, there is no way that the subject of an interception warrant would know who had taken the objects, in order to take action to have them returned. It is unlikely the SIS would voluntarily return them as that would reveal the existence of the surveillance. This power is therefore legalised theft. It goes well beyond the comparable right of police to take "things" in evidence, even though no illegal act may have been committed or even alleged.

2.7. We see little protection in the principal Act's provision (Section 4(2)) stating that it shall not be the function of the SIS to enforce measures for security or to carry out surveillance against people by reason only of the involvement in lawful protest or dissent. Firstly, it does not rule out such actions - it is simply not their function. Secondly, as we have already pointed out, the surveillance allowed under the Act and its proposed amendments is intimidatory in itself and has the effect of suppressing dissent. Thirdly, the Choudry case shows clearly that the powers of the SIS are indeed being used against a person whose only actions have been lawful protest and dissent.

2.8. Therefore the proposed legislation could easily be used to suppress dissent and against political opponents if the authorities of the day so wished. There is strong suspicion it was being so used in the Choudry case. Legislation should not rely on the good nature of politicians and security agents to protect fundamental civil rights. Why should New Zealanders rely on politicians who are universally distrusted to prevent a security agency that is bungling and ineffective from intimidating political opponents of highly unpopular economic policies?

2.9. We also strongly oppose on principal the retrospective action of the Bill (Section 5).

Dominion 16/12/98

TAKING CONTROL LIST SERVER
New Members Welcome

One of the practical initiatives that came out of the 1998 Taking Control: The Fightback Against Transnational Corporate Power Conference (see #87 for detailed coverage) was the creation of the Taking Control list server (electronic discussion group). It took quite a while to set up, but it's now up and running. It serves as a useful (and private) electronic network for circulating and discussing material relevant to the fightback against transnational corporate power. For instance, CAFCA regularly sends out press releases and other material through Taking Control.

If you're interested, then e-mail us at: **cafca@chch.planet.org.nz**

Membership is free but conditions apply.

And, on the subject of new members, we believe the most effective means of getting our message around is by word of mouth. If you've got friends or workmates whom you think are likely to join CAFCA or be interested in what we have to offer, then put them in touch with us. We're always ready to welcome new members. You, our existing members, are our most effective recruiters.

SIS Bill Update

Between layout and printing, this most fluid of situations changed again. In March 1999, the Government introduced the SIS Amendment Bill (No. 2), due to come into force midyear. There is no room here for a detailed analysis. It does address some of the concerns raised in submissions eg interception warrants to spy on New Zealanders will now have to be jointly issued by the PM and a newly created Commissioner for Security Warrants (a retired High Court judge). But the right to break into homes remains. Aziz Choudry accurately described the new Bill as weasel words.

Helen Clark, Leader of the Opposition, told *North and South* (April 1999) that the SIS broke into Aziz's house not to spy on him but "foreign visitors". The only foreigner he had staying with him at the time was Dr Alejandro Villamar Calderon, a Mexican speaker at the 1996 Trading With Our Lives conference. One problem with Clark's story - the warrant used to authorise the break-in was dated September 1995; Aziz didn't meet Alejandro until November, and it wasn't until December 1995 that GATT Watchdog invited him to NZ. We're sure that there are plenty more revelations to come.

CAFCA AND THE SAS

For members only familiar with the *Watchdog* of the 90s, it may come as a surprise to learn that we have not always concentrated almost exclusively on economics. Far from it. CAFCA grew out of the anti-war movement of the 1960s and 70s, and this was reflected in *Watchdog* right through the 80s. We used to specialise in military and intelligence issues, both in this country and regionally. One particularly shy sector of the NZ military we used to keep a close eye on was the Special Air Service (SAS). We ran story after story on the dirty deeds of this secretive killer elite, which is at the disposal of our current and former imperial masters, namely the US and the UK.

For instance, in 1981, we broke the story that two members of the NZSAS had been among 23 soldiers from the US, Australia and the Philippines killed in the crash of a US military aircraft inside the gigantic US base at Subic Bay, in the Philippines. We followed this particular story for several years, as part of our exposure of NZ's military links with both the US military in the Philippines, and with the late Ferdinand Marcos' murderous and kleptocratic dictatorship. It transpired that the NZSAS regularly took part in Special Warfare Exercises with special forces from the US, Australia, the Philippines inside the US bases in the Philippines. Well, that's all history now - Marcos was overthrown and died in exile; New Zealand was expelled from ANZUS and all exercises with the US military ceased; and the US military itself was kicked out of the Philippines and the bases converted to something useful. So why bring it up now?

The final TVNZ *Assignment* programme for 1998 ("Secret Soldiers"; 26/11/98) was about the NZSAS. It was a very interesting piece of work, much more so than the 1997 piece of PR puffery it did on the British SAS. Indeed the 1998 Assignment was so interesting that the British government went to the extraordinary lengths of trying (unsuccessfully) to get an injunction in a New Zealand court to stop it being screened. This was because it detailed, via a former Kiwi member of the British SAS, what that latter body actually does and revealed the ongoing colonial relationship between the NZ and British militaries. The New Zealander had served with the British SAS in wars from Northern Ireland to Iraq, with other exotic spots like Belize tossed in. It also featured some quite incredible NZSAS home video footage of an exercise starring the then PM, David Lange, as the "hostage" rescued by masked SAS troops firing live bullets inside what was called the "killing house". Lange loved it so much he tried out the weapons, and asked if it could be restaged for the benefit of his kids (permission denied)!

Assignment also featured that 1981 fatal plane crash in the Philippines. That wasn't coincidental. CAFCA had been approached and asked for help in researching the NZSAS, which we gladly did. We provided *Assignment* with a wealth of material from back issues of *Watchdog*. The programme spoke to the widow of one of the two New Zealanders killed (back in 1981, when we broke the story in the mainstream media, one widow had rung the journalist for help in finding out how her husband died, because the Army wouldn't tell her). She is still searching for the truth - his death certificate describes his occupation as "fisherman"! At the time, there were persistent rumours that the low flying US plane, specially adapted for covert infiltration and exfiltration, had been shot down (presumably by the Communist New Peoples Army, which is still fighting the Philippines military today). We went to the length of actually securing, under the US Freedom of Information Act, the official US Air Force report on the crash. They were happy to release the most intimate personal details (eg, an itemised list of what was found on the bodies of the dead soldiers and airmen) but nothing about the cause of the crash. *Assignment* tracked down the sole survivor, who is still in the US military, but he said he couldn't speak about it until he becomes a civilian again.

Mysterious deaths of NZSAS men in Third World countries have happened much more recently too. In 1995, one was killed in Zimbabwe. The Army stated his cause of death to have been "trampled by an elephant". His family found no signs of this on his body, but did find several bullet holes in his chest. *Assignment* uncovered that he had been on a covert exercise with the British SAS and local special forces. Accidental death by "friendly fire" is suspected.

Watchdog no longer covers the SAS, we leave that to *Peace Researcher*, the journal of the Anti Bases Campaign. But it's invigorating now and again to get the old juices flowing and revisit the wealth of material that we uncovered on this outfit. Nearly 20 years later, the mainstream media obviously still regards us as an invaluable source on the subject.

The SAS is still in business. 1999 will see them glamourised once again for their behind the scenes role in providing VIP protection during the APEC Leaders' Summit. They are still supplying men to their counterpart units in Britain and Australia. They are even being used as guinea pigs in an international trial of performance enhancing drugs. Most recently, they featured as hosting the All Blacks at a boot camp. Should our World Cup squad take the field this year blindfolded, dressed in matching overalls and carrying a power pole, we'll know who to blame. It was shortly after that camp that one All Black waged his own one man war by smashing his way barehanded into a Queenstown private residence, whilst somewhat the worse for wear (not to mention nearly bleeding to death in the process). No wonder the SAS are keen to keep secret everything about themselves. They call it mystique. Others would simply call it brutality, and a dangerous anachronism.

SCROOGECOACH STAGECOACH EXTENDS ITS EMPIRE*

- Bill Rosenberg

Just before Christmas 1998, Cityline, the Hutt Valley subsidiary of transnational transport company, Stagecoach, locked out its workers. The Trade Union Federation described the situation as follows in an urgent *Action Alert* on 21/12/98:

"60 members of the Tramways Union in the Hutt Valley, Wellington, went on strike on Friday 18 December and have been locked out of work from Saturday 19 December by Cityline, a fully owned subsidiary of Stagecoach Ltd. The company is seeking to impose a "scab" collective contract. It secretly signed up a small minority group of non union workers to this contract earlier in the year. Since then it has, in flagrant breach of the union contract, imposed the scab contract on all new workers. It has now decided the time is ripe to force the contract on union members.

"The contract is for three years with cuts to conditions on hours of work, disciplinary code protections, union rights, leave provisions and overtime payments. It is aimed at destroying any meaningful union organisation amongst the drivers.

"This is a very aggressive campaign. When challenged over breaches to the union contract management have indicated they are indifferent to questions of compliance. Police have been notified in advance and have responded to pickets in excessive numbers. Cityline have even had them present at negotiations with union representatives. Cityline have refused mediated negotiations. While a strike preceded the lock-out, the provocation displayed by management suggests that the lock-out was premediated and intended to catch union members at their most vulnerable time of the year".

Drivers were locked out throughout the Christmas period. By early January 1999, the company was running only 85% of its services and was advertising for new staff while staff who had been on the payroll for decades struggled to protect their employment conditions and their families. Cityline managed to sign up some drivers onto a company-designed contract, including some on temporary contracts, leading to heated exchanges on picket lines and at bus stops (*Press*, "Striking bus drivers 'beginning to struggle'", 6/1/99, p.16; "Employment dispute leaves driver fearful", 11/1/99, p.11).

However the dispute ended with a significant victory for the drivers when the lock out ended on 14 January. Their actions had gained considerable public support, and financial and practical backing from the two Auckland bus driver unions and other Trade Union Federation affiliates. The final agreement provided effective protection for the union contract and the position of the union, and some gains to working conditions.

Parallel events were occurring in Auckland, where Stagecoach had taken over the privatised Yellow Bus Company in August 1998, and 51% of Fullers Ferries in September. It already owned the smaller Cityline company there. Though it promised no redundancies amongst Yellow Bus's drivers, in November it told its 100 maintenance staff that half of them would lose their jobs when it contracted out their work. By January 1999, industrial action was threatening when Stagecoach tried to force its 870 drivers onto new, inferior, employment contracts months before their old ones expired. It wanted to abolish paid meal breaks in exchange for a one-off payment of $2,000, and change the rules so that drivers could be made to work five and a half hours without a break. It was also threatening long unpaid breaks, extending their work hours (*New Zealand Herald*, "Bus firm puts maintenance staff on notice", by Chris Daniels, 18/11/98; "Disruption threat to ferries and buses", by Nick Perry, 8/1/99).

In October 1998, Stagecoach had announced a series of fare cuts in Auckland. "The monthly pass system has been redesigned and prices cut by up to 50% so as to make 'all day - all month' local travel available from $1.96 per day, and total regional travel available from $3.03 per day", boasted a press release. What was extraordinary was that the press release was not by the company, but by the New Zealand government, showing the Government's close involvement with the privatisation of the Yellow Bus Company ("Stagecoach Slashes Up To 50% Off Travel Costs", 30/10/98, Press Release: New Zealand Government, http://www.newsroom.co.nz/stories/GE9810/S00128.htm). We saw no followup chiding the company for paying for these cuts from the wages of its workers. ***(Continued on Page 18)***

(Stagecoach: Continued from Page 17)
Unfortunately, this pattern of price cuts paid from sackings and attacks on drivers wages and working conditions is simply a pattern of operation for this company - internationally. That it should happen was entirely predictable from its record. Also in its record is close political involvement, and, perhaps most notably, one of the worst records of dubious and downright illegal trade practices in the U.K.

On Christmas Eve, CAFCA put out a press statement in support of the Hutt Valley drivers. It expressed its support for the bus drivers in their lockout saying: "We deplore the attempts by Cityline to undermine your union with a 'scab' collective contract, and its action in locking you out. The lockout is calculated to be particularly hurtful to you and your families at this time of year".

"It is clearly not short of money, yet it cries poor when trying to force down its workers' pay and conditions, and when safety of drivers is an issue, as it has been in Wellington," we said.

We suggested Stagecoach should be renamed Scroogecoach. We outlined Stagecoach's appalling record. That record is so extensive that we must be selective here in detailing something of what we know from our research. The more we look, the more we find, and the more distasteful the company appears.

Stagecoach in Aotearoa

In August 1998, the Overseas Investment Commission gave New Zealand Bus Ltd, owned by Stagecoach Holdings Plc of the U.K., approval to buy Transportation Auckland Corporation Ltd (TACL, or the Yellow Bus Company) from the Auckland Regional Services Trust for $111,555,555. This included six hectares of land in Swanson Road, Mt Roskill, and on State Highway 16, Whenuapai.

In September, the Commission gave New Zealand Bus Finance Company Ltd, which is a subsidiary of Stagecoach Holdings Ltd, approval to acquire Fullers Group Ltd for $25,995,000. Fullers was previously owned 27.9% by Devonport Steam Ferry Company Ltd of Aotearoa, 12.08% by Gardiner Capital Ltd of Canada, 1.73% by Geoff Cumming of Aotearoa and 58.3% by the "New Zealand public". Although the approval was for a 100% takeover, in fact Fullers only took 51% at this stage (see New Zealand Government press release quoted above).

Fullers appear to be doing well financially:

"It is stated to-date the ferry service conducted by [Fullers] has been largely responsible for the growth of economic activity on Waiheke Island. At present Fullers Group Ferries are a high profile, attractive part of the Auckland maritime transport scene. The company has grown steadily with prudential management and without great access to capital".

Stagecoach describes itself as "the world's largest and most experienced urban transport operator". It has operations in bus services, rail, airports and toll roads, and has gained a reputation for tough tactics in the UK. But the OIC only reported that

"Stagecoach will introduce 60 new buses to the Auckland market immediately at an estimated cost of NZ$13 million. The average age of the Yellow Bus fleet is approximately 12 years. Many are 20 years old. Stagecoach plan to attract more customers by the introduction of 30 new buses per year under a steady programme of fleet improvement as is company policy. ... Stagecoach propose to integrate the bus operations of TACL with its own Cityline bus operations in Auckland. It is expected that the integration of the two operations will yield substantial efficiencies and service improvements which will be of benefit to individual bus users and to the authorities which fund urban bus services in Auckland".

Stagecoach's ownership of the Auckland Cityline company initially led the Commerce Commission to refuse it permission to buy the Yellow Bus Company (*Press*, 25/2/98, "Yellow Bus appeal", p.33). The company appealed and won. That should not have given Aucklanders any comfort, given Stagecoach's international record. The sale of the Regional Authority's prominent asset was accomplished by decree from Wellington, leading to considerable bitterness in any case. Jenny Shipley gave the order to sell as Transport Minister, in May 1997, demonstrating the large holes in the then-existing Coalition Agreement that specified consultation with local ratepayers or consumers over the sale of other local government assets.

Stagecoach began business in Aotearoa in 1992 when it took over the privatised Wellington City bus system. Then called Stagecoach NZ Ltd, it changed its name a few weeks later to New Zealand Bus Ltd. In October that year it was given OIC consent to buy Wellington City Transport Ltd for $5,750,000. Its record in Wellington has been mixed. While passenger numbers have increased, its industrial relations (as we have seen) have plummeted, and its safety record has forced the authorities to break new ground.

In September 1997, Tom Dowling, a Stagecoach bus driver in Wellington for three years, was robbed and repeatedly kicked in the head. It was the second time he had been assaulted while working for the company. At the police station he called his supervisor and was told to go home without pay for the rest of the shift, and he would have to pay for his taxi home (*Press*, 8/9/97, "Bad night for capital bus driver", p.5). The company relented the next day, said he would be paid for his shift and the taxi, and sent him and his wife on a mystery weekend holiday. However the incident was simply one further example as far as the company's drivers were concerned. By August 1998, the problem still remained. As the *City Voice* reported (20/8/98, "Stagecoach told to protect drivers", by Mary Hobbs, http:// www.cityvoice.co.nz/ 20_aug_98/pages/news.html#1):

"A government agency has issued Stagecoach with an official notice requiring it to take reasonable means to protect its bus drivers from assault.

"The notice climaxes a seven year campaign by the Tramways Union to get two-way radio communications in all buses because of a spate of attacks on drivers. However, Stagecoach has appealed against the notice to the District Court - the first appeal ever lodged in Wellington against an improvement notice issued under the Health and Safety in Employment Act 1993.

"The Wellington manager of the Occupational Safety and Health Service, Keith Stewart, says the improvement notice does not specify that Stagecoach must install two-way radios - merely that it takes 'reasonable steps' to improve driver safety. Stagecoach operations manager Darryl Bellamy would not comment.

"Tramways Union secretary Phil Griffiths says the union has been trying since 1991 to have two way communication in all buses. There are only about 15 radios working and new buses have not been equipped with them.

"Griffiths says drivers are very worried about the increasing number of assaults on on drivers and the increasing amount of vandalism and attempted robberies they are faced with, often in situations a long way from the help of even a public telephone".

Griffiths said Stagecoach was too mean to spend money on safety though it spent $110 million acquiring Auckland's Yellow Bus Company.

He might have added that Stagecoach, with its associated company, Stagecoach Aviation, also had enough to be one of the (unsuccessful) bidders for Wellington International Airport. At about the same time as it announced its Wellington bid, Stagecoach Aviation bought Glasgow Prestwick International Airport in Scotland for about $125 million (41 million pounds) (*Press*, 4/5/98, "Stagecoach seeking Wellington Airport", p.34). Rivals in both bids were rival Scottish company FirstGroup, which was also a bidder for the Yellow Bus company. Stagecoach was also bidding for Sweden's South Stockholm Airport and looking at similar purchases in the former Soviet Union (*Scotland on Sunday*, 10/5/98, "Stagecoach takes wing for NZ").

We commented at that time of the Wellington City bus takeover that its parent, Stagecoach Holdings Plc of Perth, Scotland had grown rapidly since 1980, feeding on privatisations, and "has 3,000 buses, a turnover of $500 million and operates in Britain, Canada, Kenya, Malawi and China. It has 11,000 employees worldwide".

Taking on the world

That was only the beginning. According to its Web site (http://www.stagecoachholdings.com), Stagecoach, which "started in 1980 as a family business by brother and sister, Brian Souter and Ann Gloag",

"... today operates 12,000 buses and coaches in seven countries: the UK, Sweden, Kenya, New Zealand, Portugal, Australia and Finland. The Stagecoach group also owns and operates some 4,000 rail units in the UK through its leasing subsidiary, Porterbrook, and its train operating companies, South West Trains and Island Line. Stagecoach employs over 30,000 staff, the majority of whom are shareholders following the introduction of an employee share ownership plan in 1991. The company was floated on the London Stock Exchange in April 1993".

Though Stagecoach likes to describe itself as a family company, founded by former bus driver and workers' friend, Brian Souter, in fact Souter only drove buses to make ends meet while he did his accountancy degree. He did apparently come from a working class background, being brought up in a council estate on the out-

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(Stagecoach: From Page 19)

skirts of Perth, his father being a bus driver (*Accountancy Age*, profile on Souter, 26/11/98).

Its dramatic growth is indicated by its financial statistics, which show that from 1993 to 1998 its turnover grew more than nine times (to 1.38 billion pounds), profits before interest and tax 12 times (to 216.5 million pounds), dividends 50 times (to 30 million pounds), and total assets almost 16 times (to 1.93 billion pounds). According to one financial analyst, Stagecoach had a rate of return of 92% in the year ended 15/5/98 (Nick Pachetti at http://www.worth.com/articles/Z9807C02.html).

In 1996 it acquired major Swedish bus company, Swebus, one of the top ten UK acquisitions in mainland Europe during that year, according to *Acquisitions Monthly* (January 1997 - see http://www.acquisitions-monthly.co.uk/magazine/html/1996_uk_acquisitions_in_europe.htm), making it the second largest foreign company in Sweden, by number of employees, in 1996/97 according to the official Invest in Sweden Agency (http://www.isa.se/default.cfm?page=/report98/foreign.htm).

Swebus has grown hugely as a result of the introduction of "competitive tendering" of bus services in Sweden. The effect has been that "major operators tend to grow and expand (e.g., Swebus and Linjebuss), while smaller operators, including several public transport operators, have been absorbed or gone out of business".

"Virtually all bus operations are now being competitively tendered. Two major international private bus companies - Swebus, recently bought by Stagecoach Holdings of the United Kingdom, and Linjebuss - have won an increasing number of the tenders. Swebus now accounts for 31% and Linjebuss for 19% of the urban bus lines that have been put out to tender. SL Bus [Stockholm Transport, a company owned by the county council] has also won several tenders and provides a significant portion of the bus service. When a new operator wins a tender, that organisation, by law, must accept the employees of the former organisation and continue their salary and benefits at their existing level for at least 1 year" (Transit Cooperative Research Program, Sponsored by the U.S. Federal Transit Administration, May 1998, http://www.apta.com/intnatl/tcrp27.htm.).

Stagecoach has also expanded into Hong Kong and China, by, in April 1998, becoming the second largest shareholder in Road King Infrastructure Limited. This company, though incorporated in Bermuda, is 334th of the 500 largest Chinese commercial enterprises in the world, and 17th out of the 20 largest Chinese commercial enterprises in terms of growth of assets. "Road King and its subsidiaries specialise in the investment, development, operation and management of toll road projects in China. At present, the Group has investments in road projects in eight provinces involving a total length of 975km" (press release, http://irasia.com/listco/hk/roadking/annual/97/respress9712.htm.).

The Stagecoach fan club (yes! - see http://www.geocities.com/MotorCity/Downs/8661/links.html) lists information about a long list of Stagecoach subsidiaries, among them those in Wellington which include the Kelburn Cable Car as well as the bus service.

Out of Africa

The OIC, in approving the takeover of Fullers, said that that Stagecoach "provides urban bus and rail transport services in the UK, Sweden, Finland, Portugal, Kenya, Australia and New Zealand".

In fact its activities in Kenya have all but ceased, its monopoly stripped from it because of continual fare increases and other failings. On 25/10/98, *Africa Economic Digest* ("Stagecoach pulls out"), reported:

"UK-based Stagecoach Holdings, which operates the Nairobi and Mombasa city commuter bus services and the long distance Stagecoach Express service, has pulled out of the country, after selling its 95% share holding in the Kenya Bus Services, the company has announced..."

The *East African* (16/10/98, "Heavy losses force Stagecoach Holdings to leave Kenya", by James Macharia) explained:

"Stagecoach Holdings sold its stake in Nairobi's commuter bus service last week after making losses of Ksh50 million (US$833,000) a month since April last year. The company sold its 95% shareholding to a group of Kenyan businessmen, headed by insurance broker Mr Karanja Kabage, at a "concessionary" price. The remaining 5% is held by the Nairobi City Council. Company sources said they had also incurred a Ksh200 million ($3.3 million) repair bill for their fleet of 320 buses, 60% of which was related to damage to the vehicles inflicted by potholed city roads.

"Stagecoach's exit from Kenya after eight years marks the end of the company's investments in developing countries. It sold its 66% stake in a Malawi transport company in September last year. Indications that the company was planning to leave came in July, when it declared 160 drivers and conductors redundant and appointed two managing directors within six months. ...

"The new team hopes to reclaim ground lost to competitors and announced a 30% fare reduction on several routes shortly after it took over. The Kenya Bus Services-Stagecoach partnership had lost out to matatus (commuter taxis). Early this year, the company increased fares by 150% to make up for the cost of repairs incurred at the height of the El Nino rains, which rendered some roads in the city impassable. Apart from the stiff competition from matatus, recent moves in parliament to revoke the company's 60 year monopoly had put it in an even more precarious position. In July, an Assistant Minister for Transport and Communications, Mr Chris Obure, confirmed its monopoly would be revoked to liberalise access to all city routes to other private transporters.

"We hope to improve not only the profitability of the company, but also its image," said Mr Thuo. The bus firm had been criticised for a number of failings, including high fares".

The Nation (Nairobi) confirmed this saying (3/11/98, "Team seeks KBS turn-around"):

"Before the takeover of the Kenyan operation, Stagecoach had frequently raised fares to high levels, in many cases surpassing the rates charged by matatus.The frequent fare raises provoked a public outcry and caused the company business losses, as many commuters opted to use matatus, leading to the withdrawal of the giant bus company from loss-making routes".

Aggressive reputation: "far out at one end of the cultural spectrum"

In the UK, major acquisitions have included bus companies, railway companies, a railway rolling stock company and an airport. Its tactics were described at a seminar on competition run by the University of Auckland Centre for Research in Network Economics and Communications in Melbourne in September 1997 (see http://www.crnec.auckland.ac.nz/workshop/SEP26PUB.html). There, Professor David Newbery, Director of the Department of Applied Economics at Cambridge and Professor of Applied Economics, commented that it is "extremely costly" for large operators to compete with new competitors by lowering prices, so

"you would be better off buying them out. There is a very good example of that in Britain in the bus industry where the owner of Stagecoach, who early on acquired a reputation for aggressive competition, now just shows up at a town with a bus company and he says to the bus company owner, 'There's an easy way and a hard way of solving our problem: the easy way is for you to sell me your company; the hard way is I bankrupt you and buy it out,' and they usually sell him the company".

That's a fair introduction to the reputation the company has earned in the UK. According to the *Electronic Telegraph* (produced by the publishers of the *Daily and Sunday Telegraph*, 20/12/95, "Bus chief greets his Waterloo. . . after 24 fair trade inquiries and nine monopoly reports", by Toby Moore and Michael Fleet):

"The Stagecoach bus company gallops on to the railways trailing more referrals to the Monopolies and Mergers Commission than any other firm. The company ... has been the subject of nine reports in its 15 years. There have also been 24 inquiries by the Office of Fair Trading, although the company has been cleared of unfair practice in all but two cases. But the tough tactics have brought a reward for the industry as a whole.

"Bus travel has experienced a similar decline to rail. Many of the small companies acquired by Stagecoach suffered chronic under-investment. Drivers in one Scottish subsidiary received their first pay rise in 15 years when Stagecoach recently took over. The company is now so robust it invests heavily in new buses and is revitalising many, often rural, services in the North-East and Scotland.

"But the firm's activities in Darlington earned a damning observation from the Monopolies and Mergers Commission, that it was 'predatory, deplorable and against the public interest'. The 90 year old municipal Darlington Transport found that its drivers were poached and Stagecoach arrived two minutes earlier at bus stops offering free trips. The company went into liquidation.

"Such brazen manoeuvres are part of the key to Stagecoach's success. Running the free services probably cost the Perth-based company about 30,000 pounds a week. But starting from scratch would have cost about 270,000 pounds and buying Darlington Transport outright some 1 million pounds".**

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(Stagecoach: Continued From Page 21)

In another example, in South East Hampshire, Stagecoach took over two local bus companies, Southdown and Portsmouth CityBus and then in 1991 was forced to sell Portsmouth by the Secretary of State for Trade and Industry and the Monopolies and Mergers Commission (http://www.hants.gov.uk/scrmxn/c6121.html).

That record is not simply an historical one. Stagecoach shows no sign of mending its ways. In just one recent example, the U.K. based Public Services International Research Unit, a mine of such information, quoting the *Guardian* (U.K., "Firms accused of running school bus cartel", by David Gow, 20/11/98), reports that that "companies running school buses in Hull were referred to the Restrictive Practices Court for observing a secret pricing and market-sharing cartel. Thirteen bus operators, including Stagecoach's Cleveland Transit, met secretly in a Hull hotel and agreed on the minimum prices at which they would tender to supply school bus services and the routes each would tender for. This case is the latest of 18 promoted by an Office of Fair Trading cartels' taskforce set up in February 1995. Stagecoach denied the accusations". "But," said the Guardian, "it is the second time this month that the Perth-based train and bus operator has been accused of unfair practices in running school-bus services. Thanet district council in Kent protested about Stagecoach's decision to put all child fares up to the full adult rate before 8.45am and after 3.30pm".

And neither is the Telegraph comment about drivers' wages typical. Paul Foot, in the *London Review of Books* ("They should wear masks", 7/1/99, a review of "Stagecoach: A classic rags-to-riches tale from the frontiers of capitalism", by Christian Wolmar) describes a number of counterexamples where wages were cut. He says that "before privatisation bus workers' wages were 7% above the national average and after it 13% below". The title of his article comes from a bus worker at Burnley who asked "Why should they come and reduce our wages by 20%? We've all got mortgages and children and we just can't afford it. These people are bandits - they should wear masks."

The railways privatisation bonanza

The privatisation of British railways has been another bonanza for Stagecoach - and one where its reputation has been confirmed. In February 1996, it gained control of South West Trains Ltd. The *Surrey Advertiser* (21/3/97, "Rail firm risks losing franchise", http://www.surreyad.co.uk/news/21-3-97/news131.html) reported:

"Beleaguered rail firm South West Trains faces fines of 1.75 million pounds and risks losing its franchise unless services significantly improve within six weeks. Stung into action by scores of complaints from irate passengers, the Government's rail watchdog issued the stark ultimatum on Friday last week and levied a 750,000 pound penalty for poor performance in February.

"Thousands of Surrey commuters have already suffered five weeks of long delays and disruption after Britain's first privatised rail network axed 71 drivers. The decision plunged the network into chaos and forced SWT to slash 39 services every day as it failed to find sufficient trained drivers...

"The Office of Passenger Rail Franchising (Opraf) has urged SWT to invest GBP 1 million on improving train reliability after failing to meet key pledges listed in its original franchise".

As Foot described it:

"Stagecoach started at South West Trains as they had on the buses: sacking some workers and making the rest work harder and longer for the same money or less. Many drivers left and Stagecoach discovered a fact which they had apparently not anticipated: they couldn't run trains without drivers. They were obliged to negotiate with the regulator for 39 trains cancellations. The new South West Trains director Brian Cox tried to blame this management disaster on the workers. The service which had not seen a major strike since 1982 was, he declared, 'a hotbed of Trotskyism'. He told MPs that there was a fundamental clash between Stagecoach and South West Trains - 'we are at one end of the cultural spectrum, far out at one end, and they are at the other'".

In December 1998, Cox was moved from SWT to become Stagecoach Group Commercial Director in charge of "thinking of ways to win an extension to the train franchises" amongst other duties (*Times*, "Chiefs leave as Stagecoach heads south", by Fraser Nelson, 7/12/98).

While one market research firm went so far as to say that "Stagecoach Holdings PLC's experience with South West Trains Ltd (SWT) has, so far, been a public relations disaster, and has damaged goodwill towards the privatised rail industry" (http://www.keynote.co.uk/public/cw/ratr97/ratr9706.htm), Stagecoach had no regrets. According to the *Financial Times Television* (2/12/97, "Stagecoach pretax profits hit 70.5 million pounds"), South West Trains "notched up profits of 7.8 million pounds, with passenger income at 151.9 million pounds. Revenues grew by 8.3% and passenger journeys rose by almost 6%" (http://www.ft-television.com/today/stories97/40212974.htm). Stagecoach also owns the Island Line Ltd, another rail operator, and in June 1998 bought a 49% share of the Virgin Rail Group, co-owned by Richard Branson (*Press*, 23/6/98, "Stagecoach move", p.26).

Almost as controversial has been Stagecoach's other entry into rail: the provision of rolling stock to rail companies. Rail privatisation set up "Roscos" - rolling stock companies - which lease trains to "train operating companies" (TOCs). The same *Financial Times Television* article reported that the Government was threatening to regulate the Roscos. Stagecoach's Rosco, Porterbrook, had "been a hugely profitable acquisition for the group. At present 17 of the 25 train operating companies which hire trains from the Roscos, use Porterbrook trains". Stagecoach chairman, Brian Souter warned his company "would legally challenge any attempt to alter terms of existing contracts". He said "the industry momentum to regulate Porterbrook and other rolling stock companies had not come from the Government itself, but from 'jealous' rivals.'... Souter said some TOCs could be using the issue of Rosco regulation as a tactic to persuade the Government to cut leasing prices in existing contracts".

The original purchase of Porterbrook by Stagecoach was not universally welcomed. The Office of the Rail Regulator noted (http://www.rail-reg.gov.uk/docs/64/section2.htm) that "This acquisition raised a number of concerns, primarily related to the fact that Stagecoach owned two passenger rail franchises. It was therefore thought possible that there could be some conflict of interest, and the Rail Regulator undertook public consultation before providing advice to the Director General of Fair Trading. After consideration by the Secretary of State for Trade and Industry, it was agreed that the acquisition could proceed, subject to a number of undertakings being given".

The very circumstances of the purchase were clouded in controversy. It had been privatised very cheaply by the lame duck Conservative government to a group of British Rail managers led by Sandy Anderson, who himself invested just 120,000 pounds. Its value soared when Labour changed its tune and accepted the privatisation. Stagecoach bought Porterbrook from the new owners just six months later for 300 million pounds, giving Anderson a profit of 33 million pounds - and a close relationship with Stagecoach, according to Foot.

Politics

Stagecoach head Brian Souter has some convenient political views. He gave public support to the devolution of parliamentary power to Scotland, where the company is based, and, crucially, support for the right of the Scottish parliament to raise taxes. That was seen to be a major boost to the Labour government. He is a leading figure behind Business for Scotland, a pro-Scottish Nationalist group and an important funder of the Scottish Nationalist Party. However, business is business, and in December 1998 he announced the move of the company's headquarters from Scotland south to Tyneside: precisely the kind of move which led Scottish businessmen to support devolution (*The Scotsman*, 9/9/97, "Thatcher returns to haunt 'No' Campaign", http://www.scotland-forward.org.uk/mirror/970909_1.htm; *Times*, "Chiefs leave as Stagecoach heads south", by Fraser Nelson, 7/12/98).

He also publicly supported Tony Blair's controversial "Welfare to Work" scheme.

Souter's political views appear to share some philosophies with the Business Roundtable and Roger Kerr. "If we were to apply the Sermon on the Mount to our business," he has written, "we would be rooked within six months. Don't misunderstand me, ethics are not irrelevant, but some are incompatible with what we have to do because capitalism is based on greed". Souter is a worshipper at the evangelist Church of the Nazarene (Foot, op. cit.).

Those attitudes are consistent with the company's operations in Aotearoa and elsewhere.

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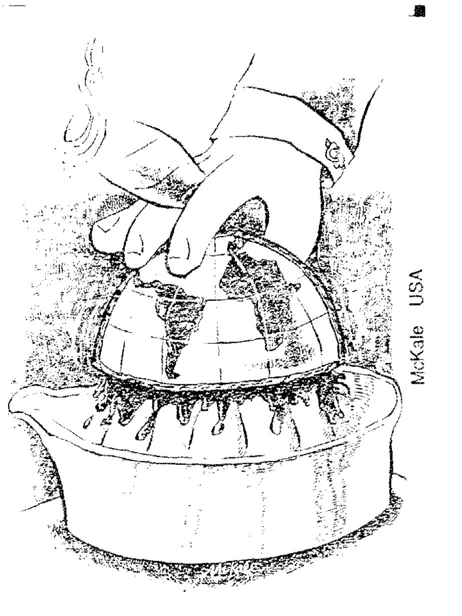
*We gratefully acknowledge the wealth of information provided by the Public Services International Research Unit, London, U.K., which greatly assisted in compiling this article. See their web site at http://www.psiru.org.

** See: http://www.telegraph.co.uk:80/et?ac=001198953950449&rtmo=LKG3dNdd&atmo=99999999&pg=/et/95/12/20/1rail220.html)



GLOBAL SPOTLIGHT FALLS ON LILYBANK

- Murray Horton

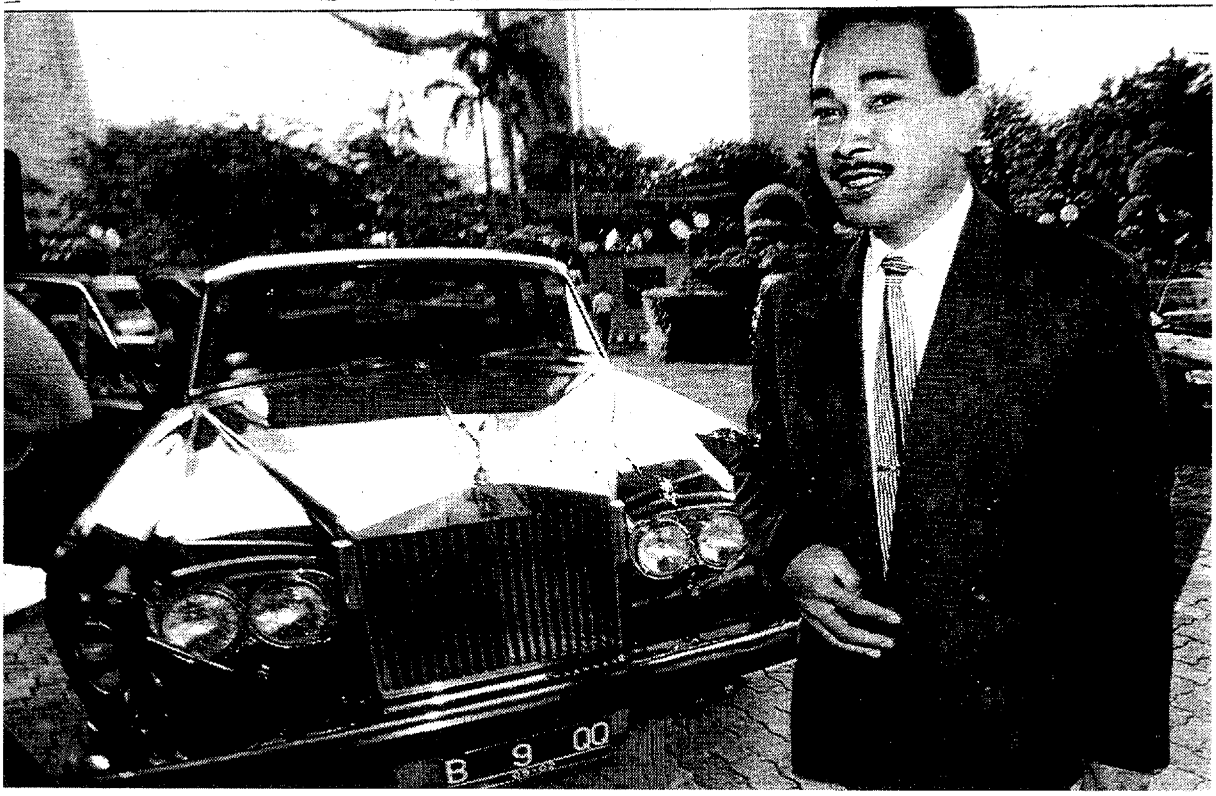
For years, *Watchdog* has chronicled the saga of Tommy Klepto's ownership of Lilybank Lodge in the Mackenzie Country. In # 89, we reported that, as of 1998, Lilybank was closed and for sale. This had everything to do with the overthrow of the murderous and thieving Klepto family by the long suffering Indonesian people (perhaps instead of grand theft auto, the Suhartos' crime should be be described as grand theft autocracy).

The 1998 uprising made the Kleptos a safe target, so suddenly the NZ media started taking an interest in Lilybank. They were considerably aided by the extremely bizarre behaviour of its manager, the highly peculiar Gerard Olde-Olthof, a journalist's dream (see previous issues for copious examples). Now the global media are taking an interest. In late 1998, CAFCA was contacted by the Sydney reporter for the *Wall Street Journal* (not one of our usual bedmates). She wanted Lilybank material for both it and the *Sydney Morning Herald*, which we dutifully provided.

The Journal was first off the mark, running a very interesting study of the whole Klepto empire which concluded that they were extremely maladroit thieves (a highly arguable proposition. All we can say is, in light of their multi-billion dollar haul, what more does it take to be a "good" thief?). The title says it all: "Fortune Hunting: Decades in Power Enriched the Suhartos, But It's All Relative: They Bungled Many Deals, Buried Firms in Debt, And Left Trail of Losses" (30/12/98; Peter Waldman, Marcus W. Brauchli and Jay Solomon). Tommy featured in the subtitle: "Mr Tommy Counts Sheep".

"...After Mr. Bambang, the most active Suharto child in business was youngest son Hutomo Mandala Putra, better known as Tommy. His top executives tended to be avid race car drivers like himself. In 1989, Mr. Tommy's Humpuss Group won the right to establish Indonesia's first private airline with jet aircraft.

"Sempati Airlines was an instant success in this nation of far-flung islands. Its new jets and snappy service won business passengers from stodgy flag-carrier Garuda. Sales peaked at about $US700 million in 1996. Investment bankers valued the company at $US400 million to $US500 million for a possible initial public offering (a share offering to the public. Ed.).



Tommy Klepto

"But the low-margin, high-capital-cost airline business didn't generate the kind of cash for Mr. Tommy that he wanted, say executives who ran Sempati. So his cronies created a separate company to broker Sempati's aircraft leases, resulting in jacked-up rates, these executives say. Later, they say, Mr. Tommy forced Sempati to buy the planes at wildly inflated prices. Then, the executives say, Mr. Tommy assigned Sempati's maintenance operations to another Humpuss unit that more than doubled the airline's maintenance bill.

"Sempati, wallowing in debt, has been grounded since earlier this year. A former top Sempati manager says Mr. Tommy had no clue what building corporate value meant. `He got cash from other businesses counting sheep,' he says. Mr. Tommy didn't respond to requests for comment.

"Actually, sheep haven't worked out, either. In the early 1990s, as their businesses multiplied, the Suharto kids diversified their holdings overseas. One early foreign foray was Mr. Tommy's sheep ranch in the snowy mountains of New Zealand's Southern Alps.

"Gerard Olde-Olthof, a former professional hunter, says he persuaded Mr. Tommy to invest in the hunter's dream of converting the Lilybank ranch from a sheep operation into an exclusive hunting lodge when the two men met at the Monaco Grand Prix auto race in 1989. With Singapore insurance broker Alan Poh Lye Yee, they poured $US2.5 million into building a rustic, stone-and-timber inn with eight plush guest suites, majestic views and a trophy room bristling with antlers. (Mr. Tommy's prize-winner, a giant wapiti elk, presides in the corner.) It opened in 1995, but even at $US580 a night per suite, Lilybank never came close to breaking even, Mr. Olde-Olthof says. It's up for sale.

"Mr. Tommy also tried to buy New York's Plaza Hotel, says Doug Hercher, the Jones Lang Wootton agent who brokered the sale of the Manhattan landmark and who worked with Mr. Tommy on other failed real-estate bids. Mr. Hercher says Mr. Tommy's Plaza offer was never taken seriously because he insisted on highly concessionary terms from the bank group coordinating the sale and wasn't willing to plunk down his own cash.

"`It wasn't like the Sultan of Brunei, who comes in with a suitcase full of cash and says, 'I'll take this and this', Mr. Hercher says. `Tommy was just a rich kid with 14 bodyguards and seven black cars in tow'.

"Mr. Tommy's acquisition of Italian sports-car maker Lamborghini SpA in 1993 was another flight of folly, says Setiawan Djody, Mr. Tommy's Indonesian partner in the venture. Though Mr. Tommy sold Lamborghini for a profit this year, the company never came close to fulfilling Mr. Tommy's purpose in buying it: to put Indonesia and Asia on the map in big-time auto racing. According to Mr. Djody, a partner in several Suharto-family businesses, Mr. Tommy's meddling drove several key Lamborghini executives to quit, leaving it rudderless. `Tommy never listened to anybody', the Indonesian says...".

The Taxman Cometh

No mention of CAFCA. That's fine by us, we're not sure we'd want to be seen dead in the pages of the *Wall Street Journal.* The *Sydney Morning Herald* report (13/1/99; "Closed: hot-shot Tommy's $A1.9m patch of paradise"; S. Karene Witcher) could nearly bring itself to name us: "A concerned citizens' group in Christchurch is calling on the New Zealand Government to seize Lilybank from the Suhartos..." (too bloody right we are). This piece had the new detail that what prompted Olde-Olthof to close Lilybank and put it on the market was the clammy hand of the taxman going through his business affairs. "`I would have done better if I hadn't had the Indonesian connection', he says. The charges of nepotism and corruption around the Suhartos have `caused us a major problem'..." (ibid). We do agree with him on one thing: "Tranquil New Zealand, he says, isn't the kind of place the Suhartos would retire to anyway: `Those people don't come to a place like this'..." (ibid). Thank God for that. But if Tommy does show up here, then he should be arrested, along with any other family members or cronies.

Not only does Olde-Olthof have Inland Revenue on his case, the cops have got it in for him too. He's been involved in so many incidents involving him confronting hunters, fishermen and trampers on Lilybank's claimed land (which is in dispute) that he was finally charged with an August 1998 one. He was charged with intentionally damaging a cooker pump and stealing white spirits valued at $7 (not exactly crime of the century stuff). In his defence, he said that a rifle was pointed at him and his helicopter pilot, after a shouting match about Lilybank's boundaries. The judge dismissed the charges on the grounds that, although there was damage, there was no evidence as to who had caused it.

Tommy Klepto stands in rather more substantial legal jeopardy in his homeland. In December 1998 prosecutors formally named him as a suspect in a corruption case involving a shady land deal. He was banned from leaving Indonesia (another reason why he's unlikely to be seen in Tekapo anytime soon). Initially he refused to see the prosecutors, but eventually underwent a 12 hour interrogation in early 1999. Thus far, no charges have been laid. Indonesian investigations into the empire of the whole Klepto family continue - in November 1998, they were found to own or have shares in nearly three million hectares of land in four provinces (mainly logging concessions in Kalimantan, Borneo).

Nobody should think that the ex-President is a spent force, however - he retains great behind the scenes power, along with fabulous wealth. He is widely believed to be heavily involved with, if not masterminding, the wave of

(Continued on Page 26)

(Lilybank; Continued From Page 26)
brutal violence, especially inter-religious savagery, that has swept Indonesia since his overthrow, violence that has played such a key role in destabilising the regime of his ineffective successor, President Habibie. Muslim leader, Amien Rais, has said: "He's acting like a Javanese king. In ancient times, if the king collapsed, the people had to go along with him. So he thinks if he's going to collapse, he'll bring the whole country down too" (*Time*, 8/2/99; "Suharto In The Shadows"; John Colmey & David Liebhold). Suharto can see for himself the rehabilitationof his fellow kleptocrats and murderers, the Marcoses, in the neighbouring Philippines, where Imelda Marcos is now brazenly claiming that her late husband "owned" virtually the entire Filipino economy, so she wants it all back. Indonesia's Klepto likes that precedent.

And indeed it is to the Philippines that Klepto cronies are directing his loot. In late 1998, the Salim Group, via its Hong Kong subsidiary First Pacific, bought a controlling interest in Philippine Long Distance Telephone Company (PLDT), the equivalent of Telecom. Salim is headed by Liem Sioe Liong, Indonesia's richest man (indeed, one of Asia's richest), and Suharto's oldest crony. He has done very well out of cronyism. There is a New Zealand connection - Salim is one of the partners in the Asian consortium which holds a controlling 20% stake in Brierley's. There is a great irony in Suharto money moving into the Philippines - PLDT is one of the multitude of blue chip companies that Imelda Marcos claims to own, and wants back pronto. What a wonderful thieves kitchen - the Marcoses and Suhartos fighting over the spoils. Meanwhile their victims go unavenged and their peoples remain desperately impoverished. New Zealand can do its small bit by seizing any Suharto assets here, starting with Lilybank.

FOCUS ON THE CORPORATION LIST SERVER

Corp-Focus is a moderated listserve which distributes the weekly column *Focus on the Corporation*, co-authored by Russell Mokhiber, editor of *Corporate Crime Reporter,* and Robert Weissman, editor of *Multinational Monitor* magazine.

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* Globalisation and corporate power;
* Trends in corporate economic blackmail, political influence and workplace organisation;
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MICHEL CHOSSUDOVSKY

Dr. Michel Chossudovsky is Professor of Economics at the University of Ottawa, and Research Fellow at the Center of Developing Area Studies, McGill University, Montreal. He has taught as Visiting Professor at academic institutions in Western Europe, Latin America and Southeast Asia, has acted as economic adviser to governments of developing countries and has worked as a consultant for several international organisations.

His recent research has focused on the global financial crisis and the impact of currency speculation on national economies. He has worked closely with NGO's, people's organisations and trade unions in the international campaign against the policies of the Bretton Woods institutions and the Multilateral Agreement on Investment (MAI). His most recent book is entitled "The Globalisation of Poverty: Impacts of IMF and World Bank Reforms".

Chossudovsky, an internationally renowned critic of globalisation, holidayed in New Zealand, in February/ March 1999, and was happy to address well attended public meetings in Christchurch, Wellington and Auckland. CAFCA hosted his Christchurch meeting, which was entitled "The Globalisation Of Poverty: The Global Financial Crisis And Its Impacts". He also kindly gave us permission to reproduce one of his most recent articles.

GLOBAL POVERTY IN THE LATE 20TH CENTURY

- Michel Chossudovsky

The Globalisation Of Poverty

The late 20th Century will go down in world history as a period of global impoverishment marked by the collapse of productive systems in the developing world, the demise of national institutions and the disintegration of health and educational programmes. This "globalisation of poverty" - which has largely reversed the achievements of post-war decolonisation - was initiated in the Third World coinciding with the onslaught of the debt crisis. Since the 1990s, it has extended its grip to all major regions of the World including North America, Western Europe, the countries of the former Soviet bloc and the Newly Industrialised Countries (NICs) of South East Asia and the Far East.

In the 1990s, local level famines have erupted in Sub-Saharan Africa, South Asia and parts of Latin America; health clinics and schools have been closed down, hundreds of millions of children have been denied the right to primary education. In the Third World, Eastern Europe and the Balkans there has been a resurgence of infectious diseases including tuberculosis, malaria and cholera.

Impoverishment - An Overview
Famine Formation in the Third World

From the dry savannah of the Sahelian belt, famine has extended its grip into the wet tropical heartland. A large part of the population of the African continent is affected: 18 million people in Southern Africa (including two million refugees) are in "famine zones" and another 130 million in ten countries are seriously at risk. In the Horn of Africa, 23 million people (many of whom have already died) are "in danger of famine" according to a UN estimate.

In South Asia in the post-independence period extending through the 1980s, starvation deaths had largely been limited to peripheral tribal areas. In India, there are indications of widespread impoverishment of both the rural and urban populations following the adoption of the 1991 New Economic Policy under the stewardship of the Bretton Woods institutions (*ie International Monetary*

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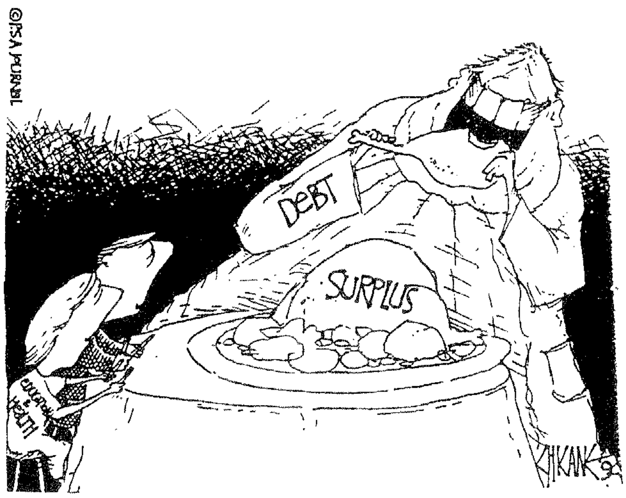

(Global Poverty: Continued From Page 27)

Fund/World Bank/General Agreement on Tariffs and Trade. Ed.).

In India, more than 70% of rural households are small marginal farmers or landless farm workers representing a population of over 400 million people. In irrigated areas, agricultural workers are employed for 200 days a year, and in rain-fed farming for approximately 100 days. The phasing out of fertiliser subsidies (an explicit condition of the IMF agreement) and the increase in the prices of farm inputs and fuel is pushing a large number of small and medium sized farmers into bankruptcy.

A micro-level study conducted in 1991 on starvation deaths among handloom weavers in a relatively prosperous rural community in Andhra Pradesh sheds light on how local communities have been impoverished as a result of macro-economic reform. The starvation deaths occurred in the months following the implementation of the 1991 New Economic Policy: with the devaluation and the lifting of controls on cotton yarn exports, the jump in the domestic price of cotton yarn led to a collapse in the pacham (24 metres) rate paid to the weaver by the middleman (through the putting-out system). "Radhakrishnamurthy and his wife were able to weave between three and four pachams a month bringing home the meagre income of 300-400 rupees for a family of six ($12-16), then came the Union Budget of July 24, 1991, the price of cotton yarn jumped and the burden was passed on to the weaver, Radhakrishnamurthy's family income declined to Rs. 240-320 a month ($9.60-13.00)". Radhakrishnamurthy of Gollapalli village in Guntur district died of starvation on September 4, 1991. Between August 30 and November 10, 1991 at least 73 starvation deaths were reported in only two districts of Andhra Pradesh. There are 3.5 million handlooms throughout India supporting a population of some 17 million people.

"Economic Shock Treatment" in the former Soviet Union

When assessing the impact on earnings, employment and social services, the post-Cold War economic collapse in parts of Eastern Europe appears to be far deeper and more destructive than that of the Great Depression. In the former Soviet Union (starting in early 1992), hyperinflation triggered by the downfall of the ruble contributed to rapidly eroding real earnings. "Economic shock treatment" combined with the privatisation program precipitated entire industries into immediate liquidation leading to layoffs of millions of workers.

In the Russian Federation, prices increased 100 times following the initial round of macro-economic reforms adopted by the Yeltsin government in January 1992; wages on the other hand increased tenfold; the evidence suggests that real purchasing power had plummeted by more than 80% in the course of 1992.

The reforms have dismantled both the military-industrial complex and the civilian economy. Economic decline has surpassed the plunge in production experienced in the Soviet Union at the height of the Second World War, following the German occupation of Byelorussia and parts of the Ukraine in 1941, and the extensive bombing of Soviet industrial infrastructure. The Soviet Gross Domestic Product (GDP) had, by 1942, declined by 22% in relation to pre-war levels. In contrast, industrial output in the former Soviet Union plummeted by 48.8% and GDP by 44% between 1989 and 1995, according to official data, and output continues to fall. Independent estimates, however, indicate a substantially greater drop and there is firm evidence that official figures have been manipulated.

While the cost of living in Eastern Europe and the Balkans was shooting up to Western levels as a result of the deregulation of commodity markets, monthly minimum earnings were as low as ten dollars a month. "In Bulgaria, the World Bank and the Ministry of Labor and Social Assistance separately estimated that 90% of Bulgarians are living below the poverty threshold of $4 a day". Old age pensions in 1997 were worth two dollars a month. Unable to pay for electricity, water and transportation, population groups throughout the region have been brutally marginalised from the modern era.

Poverty and Unemployment in the West

Already during the Reagan-Thatcher era, but more significantly since the beginning of the 1990s, harsh austerity measures are gradually contributing to the disintegration of the Welfare State. The achievements of the early post-war period are being reversed through the derogation of unemployment insurance schemes, the privatisation of pension funds and social services, and the decline of Social Security.

With the breakdown of the Welfare State, high levels of youth unemployment are increasingly the source of social strife and civil dissent. In the United States, political figures decry the rise of youth violence, promising tougher sanctions without addressing the roots of the problem. Economic restructuring has transformed urban life, contributing to the "thirdworldisation" of Western cities. The environment of major metropolitan areas is marked by social apartheid: urban landscapes have become increasingly compartmentalised along social and ethnic lines. Poverty indicators such as infant mortality, unemployment, and homelessness in the ghettos of American (and increasingly European) cities are in many respects comparable to those prevailing in the Third World.

Demise of the "Asian Tigers"

More recently, speculative movements against national currencies have contributed to the destabilisation of some of the world's more successful "newly industrialised" economies (Indonesia, Thailand, Korea), leading virtually overnight to abrupt declines in the standard of living. In China, successful poverty alleviation efforts are threatened by the impending privatisation or forced bankruptcy of thousands of State enterprises and the resulting layoffs of millions of workers. The number of workers to be laid off in State industrial enterprises is estimated to be of the order of 35 million. In rural areas, there are an estimated 130 million surplus workers. This process has occurred alongside massive budget cuts in social programmes, even as unemployment and inequality increase.

In the 1997 Asian currency crisis, billions of dollars of official Central Bank reserves were appropriated by institutional speculators. In other words, these countries are no longer able to "finance economic development" through the use of monetary policy. This depletion of official reserves is part and parcel of the process of economic restructuring leading to bankruptcy and mass unemployment. In other words, privately held capital in the hands of "institutional speculators" far exceeds the limited reserves of Asian central banks. The latter acting individually or collectively are no longer able to fight the tide of speculative activity.

The Causes Of Global Poverty

Global Unemployment: "Creating Surplus Populations" in the Global Cheap Labour Economy

The global decline in living standards is not the result of "a scarcity of productive resources" as in preceding historical periods. The globalisation of poverty has indeed occurred during a period of rapid technological and scientific advance. While the latter has contributed to vastly increasing the potential capacity of the economic system to produce necessary goods and services, expanded levels of productivity have not translated into a corresponding reduction in levels of global poverty.

On the contrary, downsizing, corporate restructuring and relocation of production to cheap labour havens in the Third World have been conducive to increased levels of unemployment and significantly lower earnings to urban workers and farmers. This new international economic order feeds on human poverty and cheap labour: high levels of national unemployment in both developed and developing countries have contributed to depressing real wages. Unemployment has been internationalised, with capital migrating from one country to another in a perpetual search for cheaper supplies of labour. According to the International Labor Organisation (ILO), worldwide unemployment affects one billion people or nearly one third of the global workforce.

National labour markets are no longer segregated: workers in different countries are brought into overt competition with one another. Workers rights are derogated as labour markets are deregulated.

World unemployment operates as a lever which "regulates" labor costs at a world level: the abundant supplies of cheap labour in the Third World (e.g. China with an estimated 200 million surplus workers) and the former Eastern bloc contribute to depressing wages in the developed countries. Virtually all categories of the labour force (including the highly qualified, professional and scientific workers) are affected, even as competition for jobs encourages social divisions based on class, ethnicity, gender, and age.

Paradoxes Of Globalisation
Micro-Efficiency, Macro-Insufficiency

The global corporation minimises labour costs on a world level. Real wages in the Third World and Eastern Europe are as much as 70 times lower than in the US, Western Europe or Japan: the possibilities of produc-

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(Global Poverty: Continued From Page 29)
tion are immense given the mass of cheap impoverished workers throughout the World.

While mainstream economics stresses efficient allocation of society's scarce resources, harsh social realities call into question the consequences of this means of allocation. Industrial plants are closed down, small and medium sized enterprises are driven into bankruptcy, professional workers and civil servants are laid off, and human and physical capital stand idle in the name of "efficiency". The drive toward "efficient" use of society's resources at the micro-economic level leads to exactly the opposite situation at the macro-economic level. Resources are not used "efficiently" when there remain large amounts of unused industrial capacity and millions of unemployed workers. Modern capitalism appears totally incapable of mobilising these untapped human and material resources.

Accumulation of Wealth, Distortion of Production

This global economic restructuring promotes stagnation in the supply of necessary goods and services while redirecting resources towards lucrative investments in the luxury goods economy. Moreover, with the drying up of capital formation in productive activities, profit is sought in increasingly speculative and fraudulent transactions which in turn tend to promote disruptions on the world's major financial markets.

In the South, the East and the North, a privileged social minority has accumulated vast amounts of wealth at the expense of the large majority of the population. The number of billionaires in the US alone increased from 13 in 1982 to 149 in 1996. The "Global Billionaires Club" (with some 450 members) has a total worldwide wealth well in excess of the combined GDP of the group of low income countries with 56% of the world's population.

Moreover, the process of wealth accumulation is increasingly taking place outside the real economy divorced from bona fide productive and commercial activities. According to Forbes: "Successes on the Wall Street stock market [meaning speculative trade] produced most of last year's [1996] surge in billionaires." In turn, billions of dollars accumulated from speculative transactions are funnelled towards confidential numbered accounts in the more than 50 offshore banking havens around the world. The US investment bank, Merrill Lynch, conservatively estimates the wealth of private individuals managed through private banking accounts in offshore tax havens at $US3.3 trillion. The IMF puts the offshore assets of corporations and individuals at $US5.5 trillion, a sum equivalent to 25% of total world income. The largely ill-gotten loot of Third World elites in numbered accounts is placed at $600 billion, with one third of that held in Switzerland.

Increased Supply, Reduced Demand

The expansion of output in this system takes place by "minimising employment" and compressing workers' wages. This process in turn backlashes on the levels of consumer demand for necessary goods and services: unlimited capacity to produce, limited capacity to consume. In a global cheap labour economy, the very process of expanding output (through downsizing, layoffs and low wages) contributes to compressing society's capacity to consume.

The tendency is therefore towards overproduction on an unprecedented scale. In other words, expansion in this system can only take place through the concurrent disengagement of idle productive capacity, namely through the bankruptcy and liquidation of "surplus enterprises". The latter are closed down in favour of the most advanced mechanised production: entire areas' branches of industry stand idle, the economy of entire regions is affected, and only a part of the world's agricultural potential is utilised.

This global oversupply of commodities is a direct consequence of the decline in purchasing power and rising levels of poverty. Oversupply contributes in turn to further depressing the earnings of the direct producers through the closure of excess productive capacity. Contrary to Say's law of markets, heralded by mainstream economics, supply doesn't create its own demand. Since the early 1980s, overproduction of commodities leading to plummeting (real) commodity prices has wreaked havoc particularly among Third World primary producers, but also (more recently) in the area of manufacturing.

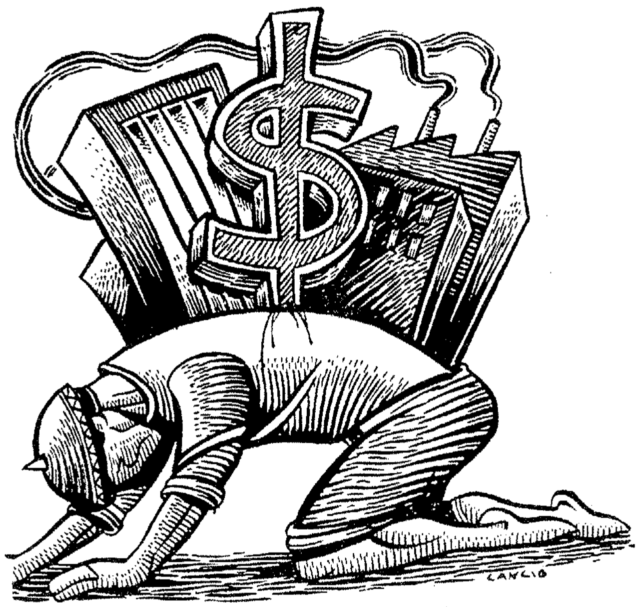
Global Integration, Local Disintegration

In developing countries, entire branches of industry producing for the internal market are eliminated, the informal urban sector - which historically has played an important role as a source of employment creation - has

The Press 26/11/94

been undermined as a result of currency devaluations and the liberalisation of imports, including primary commodities. In Sub-Saharan Africa, the informal sector garment industry has been wiped out and replaced by the market for used garments (imported from the West at $US80 a ton).

Against a background of economic stagnation (including negative growth rates recorded in Eastern Europe, the former Soviet Union and Sub-Saharan Africa), the world's largest corporations have experienced unprecedented growth and expansion of their share of the global market. This process, however, has largely taken place through the displacement of pre-existing produc-



tive systems, i.e. at the expense of local level, regional and national producers. Expansion and "profitability" for the world's largest corporations is predicated on a global contraction of purchasing power and the impoverishment of large sectors of the world population.

Survival of the fittest: the enterprises with the most advanced technologies or those with command over the lowest wages survive in a world economy marked by overproduction. While the spirit of Anglo-Saxon liberalism is committed to "fostering competition", the Group of Seven (G-7) macro-economic policy (through tight fiscal and monetary controls), has in practice supported a wave of corporate mergers and acquisitions as well as the bankruptcy of small and medium sized enterprises. In turn, large transnational companies (particularly in the US and Canada) have taken control of local level markets (particularly in the service economy) through the system of corporate franchising. This process enables large corporate capital ("the franchiser") to gain control over human capital, cheap labour and entrepreneurship. A large share of the earnings of small firms and/or retailers is thereby appropriated while the bulk of investment outlays is assumed by the independent producer (the "franchisee").

A parallel process can be observed in Western Europe. With the Maastricht treaty, the process of political restructuring in the European Union increasingly heeds to dominant financial interests at the expense of the unity of European societies. In this system, State power has deliberately sanctioned the progress of private monopolies: large capital destroys small capital in all its forms. With the drive towards the formation of economic blocs both in Europe and North America, the regional and local level entrepreneur is uprooted, city life is transformed, individual small scale ownership is wiped out. "Free trade" and economic integration provide greater mobility to the global enterprise while at the same time suppressing (through non-tariff and institutional barriers) the movement of small local level capital. "Economic integration" (under the dominion of the global enterprise), while displaying a semblance of political unity, often promotes factionalism and social strife between and within national societies.

The Ongoing Internationalisation Of Macro-Economic Reform
The Debt Crisis

The restructuring of the global economic system has evolved through several distinct periods since the collapse of the Bretton Woods system of fixed exchange rates in 1971. Patterns of oversupply started to unfold in primary commodity markets in the second part of the 1970s, following the end of the Vietnam War. The debt crisis of the early 1980s was marked by the simultaneous collapse of commodity prices and the rise of real interest rates.

The balance of payments of developing countries was in crisis, the accumulation of large external debts provided international creditors and "donors" with "political leverage" to influence the direction of country-level macro-economic policy.

The Structural Adjustment Programme

Contrary to the spirit of the Bretton Woods agreement of 1944 which was predicated on "economic reconstruction" and stability of major exchange rates, the structural adjustment programme (SAP) has, since the early 1980s, largely contributed to destabilising national currencies and ruining the economies of developing countries.

The restructuring of the world economy under the guidance of the Washington-based international financial institutions and the World Trade Organisation (WTO) increasingly denies individual developing countries the possibility of building a national economy: the internationalisation of macro-economic policy transforms countries into open economic territories and national economies into "reserves" of cheap labour and natural

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(Global Poverty: Continued From Page 31)
resources. The State apparatus is undermined, industry for the internal market is destroyed, national enterprises are pushed into bankruptcy. These reforms have also been conducive to the elimination of minimum wage legislation, the repeal of social programmes, and a general diminution of the state's role in fighting poverty.

"Global Surveillance"

The inauguration of the World Trade Organisation (WTO) in 1995 marks a new phase in the evolution of the post war economic system. A new "triangular division of authority" among the IMF, the World Bank and the World Trade Organisation (WTO) has unfolded. The IMF had called for more effective "surveillance" of developing countries' economic policies and increased coordination between the three international bodies signifying a further infringement on the sovereignty of national governments. Under the new trade order (which emerged from the completion of the Uruguay Round at Marrakesh in 1994), the relationship of the Washington based institutions to national governments is to be redefined. Enforcement of IMF-World Bank policy prescriptions will no longer hinge upon ad hoc country-level loan agreements (which are not "legally binding" documents). Henceforth, many of the mainstays of the structural adjustment program (e.g. trade liberalisation and the foreign investment regime) have been permanently entrenched in the articles of agreement of the new World Trade Organisation (WTO). These articles set the foundations for "policing" countries (and enforcing "conditionalities") according to international law.

The deregulation of trade under WTO rules combined with new clauses pertaining to intellectual property rights will enable transnational corporations to penetrate local markets and extend their control over virtually all areas of national manufacturing, agriculture and the service economy.

Entrenched Rights for Banks and TNCs

In this new economic environment, international agreements negotiated by bureaucrats under intergovernmental auspices, have come to play a crucial role in the remoulding of national economies. The 1997 Financial Services Agreement under the stewardship of the WTO, as well as the proposed Multilateral Agreement on Investment (MAI) until recently under Organisation for Economic Cooperation and Development auspices, provide what some observers have entitled a "charter of rights for transnational corporations".

These agreements derogate the ability of national societies to regulate their national economies. The Multilateral Agreement on Investment (MAI) also threatens national level social programmes, job creation policies, affirmative action and community based initiatives. In other words, it threatens to lead to the disempowerment of national societies as it hands over extensive powers to global corporations.

Conclusion

Ironically, the ideology of the "free" market upholds a new form of State interventionism predicated on the deliberate manipulation of market forces. Moreover, the development of global institutions has also led to the development of "entrenched rights" for global corporations and financial institutions. The process of enforcing these international agreements at national and international levels invariably bypasses the democratic process. Beneath the rhetoric on so-called "governance" and the "free market", neoliberalism provides a shaky legitimacy to those in the seat of political power.

The manipulation of the figures on global poverty prevents national societies from understanding the consequence of a historical process initiated in the early 1980s with the onslaught of the debt crisis. This "false consciousness" has invaded all spheres of critical debate and discussion on the "free" market reforms. In turn, the intellectual myopia of mainstream economics prevents an understanding of the actual workings of global capitalism and its destructive impact on the livelihood of millions of people. International institutions including the United Nations follow pace, upholding the dominant economic discourse with little assessment of how economic restructuring backlashes on national societies, leading to the collapse of institutions and the escalation of social conflict.

October 1998

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AUGUST TO NOVEMBER 1998
OVERSEAS INVESTMENT COMMISSION DECISIONS[1]

Bill Rosenberg

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This month has a particularly significant collection of overseas takeovers:

- the final play in the long-fought battle for control of Power New Zealand;
- the privatisation of most of Auckland's bus services by a company notorious in the UK;
- the event which triggered the collapse of the Coalition Government – the sale of the Government share in Wellington International Airport;
- the transfer of Countrywide, one of the smaller major banks, to a different overseas owner;
- the company behind the Britomart development and Dairy Brands playing with itself;
- the largest international supplier of McDonald's hamburger patties (OSI) taking over a local company; and
- a major coastal Wairarapa sheep station being sold amidst controversy.

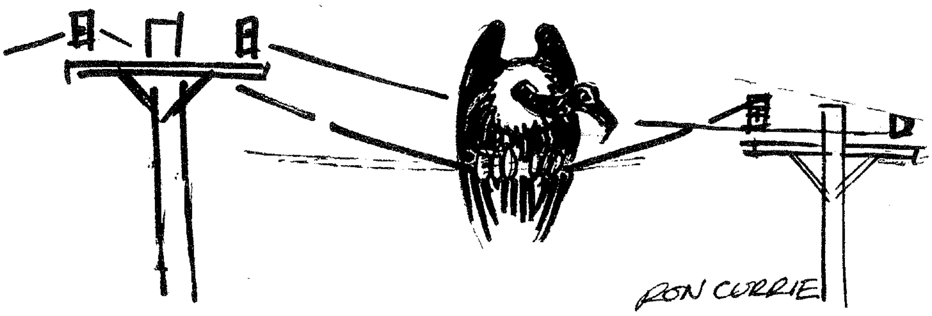
Utilicorp grabs Power New Zealand

After years of stalking, **Utilicorp NZ, Inc** has approval to acquire control (up to **80%**) of Auckland electricity company, **Power New Zealand Ltd.** The price is "to be advised". The approval also applies to **Utilicorp United Inc**, the **79%** owner of Utilicorp NZ. The other 21% of Utilicorp NZ at the time of the decision was the **Todd Family** of Aotearoa. Since then the Todd Family have sold out and Utilicorp United is now the 100% owner of Utilicorp N.Z. (*Press*, 8/10/98, "Mercury sells its Power NZ stake", p.27).

The OIC advises:

> "UtiliCorp United Inc is based in Kansas City, Missouri, the United

States of America and is listed on the New York, Toronto and Pacific Stock Exchanges. UtiliCorp United's core business is the operation of gas and electricity networks in the United States, Canada, Australia, the United Kingdom and New Zealand... Utilicorp United serves over 449,500 electric distribution customers and over 828,100 gas distribution customers in the United States...



"Utilicorp currently owns approximately 37.5 percent of the specified securities in Power New Zealand and believes that by increasing its shareholding it could introduce various new business skills and technologies to Power New Zealand...

"The Commission is advised that the extent of the expertise that Utilicorp could bring to Power New Zealand is illustrated by the relationship between Utilicorp United and its Australian associate, United Energy Limited. United Energy is a major power supplier in Melbourne. Utilicorp has entered into an operating services agreement with United Energy which commits Utilicorp to provide support services to United Energy".

Utilicorp has been fighting Auckland's Mercury Energy for control of Power New Zealand since October 1994. Mercury and Power New Zealand are the two major suppliers of electricity to the greater Auckland region. Both Utilicorp and Mercury have spent enormous sums in advertising, litigation, and buying shares at increasingly high prices. In December 1997 a truce was apparently reached, to the great dislike of many local people. As we reported that month in some detail, the two companies formed a joint venture which gained OIC approval to take up to 100% of Power New Zealand and up to 51.18% of Waikato electricity supplier, WEL Energy Group Ltd. The Utilicorp/Mercury takeover of Power New Zealand was bitterly fought by minority shareholders and the directors ousted by the new owners. The prospective owners were described as "Australian crocodiles and American alligators." The WEL Energy Trust, a community trust that owns 43% of WEL Energy, also vehemently opposed the takeover.

Two court actions were threatened. One was to challenge the OIC's approval of the December 1997 decisions. The other challenged the right of the joint venture to own Power New Zealand on the basis that Utilicorp made a "cornerstone shareholding" agreement with Power New Zealand in 1994 allowing the directors of Power New Zealand to veto any sale of Utilicorp's 30% shareholding in Power New Zealand.

The WEL Energy Trust's worry was that Mercury and Utilicorp would control WEL Energy through their 51.18% shareholding if the joint venture transaction was allowed to proceed.

The current bid took quick advantage of Mercury's weakness after the fiasco of the February to May 1998 central Auckland power blackout and the death of its chief executive and ruthless empire builder, Wayne Gilbert. As a result, Mercury faced high costs – estimated at $128.3 million – to compensate its angry customers and to carry out the work to remedy the power supply problems permanently. It announced in July that it could not afford to pay a dividend, having gone from a profit of $82.1 million in 1997 to a loss of $25.3 million in the year to March 1998 (*Press*, 4/7/98, "Power crisis costly", p.27). In addition, the government's power industry reforms, which were forcing both Power New Zealand and Mercury to split their retail and network (line) interests, were likely to reduce the value of the companies. That would particularly hurt Mercury as it planned to retain its line business, forcing it to sell its power purchase agreements and Southdown and Stratford electricity generation interests – possibly at a loss given falling power prices and a surplus of generation capacity (*New Zealand Herald*, 26/8/98, "Mercury boss ponders most profitable option", by Mark Reynolds, p.E1). Power New Zealand itself was exhausted, having spent $605,000 on "takeover response costs" in the year ended March 1998 alone.

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Utilicorp also takes control of Bay of Plenty Electricity in the purchase. Power New Zealand owns 52.3% of Bay of Plenty (*Press*, 11/5/98, "Power NZ up, despite fight", p.27).

Utilicorp's approval from the OIC was for only 80% of Power New Zealand so that it could leave the Power New Zealand Shareholders' Society with 10.7%, the public with 9%, and an employee share ownership scheme with 1.7%. Utilicorp ended up with 78.6%.

To gain the further shareholding, Utilicorp bought Mercury's 33.2% for a reported $333.2 million (and Mercury a profit of over $100 million), the 7.94% owned by WEL Energy for $78 million, and shares owned by Waikato district councils (ironically, gifted to them by Power New Zealand to prevent a hostile takeover by Mercury: *Press*, 6/7/98, "Utilicorp nearing Power NZ control", p.34). The price paid to the councils was 805 cents per share: well above both the 662.5 cents paid to Mercury and WEL Energy, and the going rate on the stock market of about 500 cents (*Press*, 11/9/98, "UtiliCorp bid on for PNZ", p.29; 12/9/98, "No pressure for Power NZ sale – Utilicorp", p.24; *New Zealand Herald*, 25/9/98, "Short-circuit for power proposals", p.C1).

In 1996, the High Court found that Utilicorp had broken the Securities Amendment Act by failing to disclose deals it had done with the Thames-Coromandel, Hauraki, Matamata-Piako and South Waikato district councils. They had promised to get Utilicorp's permission before selling their Power New Zealand shares. The judge "found it hard to believe" that Power New Zealand had no knowledge of the deals, leading to a Stock Exchange investigation. A subsequent disclosure showed Utilicorp had done a similar deal with WEL Energy. (*Press*, 10/9/96, "Mercury battles Utilicorp in court", p.16; 18/9/96, "Utilicorp discloses new verbal agreement for Power NZ shares", p.40; 24/9/96, "Utilicorp bid backed despite no appraisal", p.32; 8/10/96, "Mercury back to court", p.40; 20/11/96, "Power New Zealand releases hold on councils", p.37; 30/11/96, "Power New Zealand holding", p.27).

In return for getting the WEL Energy shares in Power New Zealand, Utilicorp has agreed to sell back to the WEL Energy Trust the strategic 39.7% shareholding it has long held in WEL Energy, at 1,400 cents per share: a total of $100 million. That shareholding had been strongly opposed by the WEL Energy Trust which has been fighting Power New Zealand and Utilicorp for local control for many years. Ironically, as alluded to above, in 1995 WEL was used by Utilicorp to try to get control of Power New Zealand by WEL buying up Power New Zealand shares, effectively giving Utilicorp 35% control (*Press*, "WEL makes bid for Power New Zealand", 28/1/95, p.28).

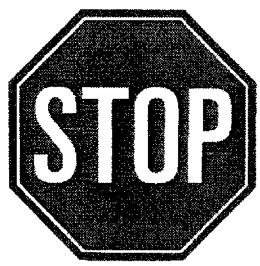
Aggressive Stagecoach (UK) buys privatised Auckland Yellow Bus Company

New Zealand Bus Ltd, owned by **Stagecoach Holdings Plc** of the **UK**, has approval to buy **Transportation Auckland Corporation Ltd** (TACL, or the **Yellow Bus Company**) from the **Auckland Regional Services Trust** for **$111,555,555**. This includes **six hectares** of land in **Swanson Road, Mt Roskill**, and on **State Highway 16, Whenuapai**.

Stagecoach describes itself as "the world's largest and most experienced urban transport operator". It has operations in bus services, rail, airports and toll roads, and has gained a reputation for tough tactics in the U.K.

> "The Commission is advised that Stagecoach will introduce 60 new buses to the Auckland market immediately at an estimated cost of NZ$13 million. The average age of the Yellow Bus fleet is approximately 12 years. Many are 20 years old. Stagecoach plan to attract more customers by the introduction of 30 new buses per year under a steady programme of fleet improvement as is company policy. ... Stagecoach propose to integrate the bus operations of TACL with its own **Cityline** bus operations in Auckland. It is expected that the integration of the two operations will yield substantial efficiencies and service improvements which will be of benefit to individual bus users and to the authorities which fund urban bus services in Auckland".

For further details, see the article on Stagecoach in this issue.



The Race To The Bottom

Coalition buster: UK joint venture buys Wellington International Airport

The asset sale that triggered the collapse of the National/ New Zealand First coalition is approved this month. **NZ Airports Ltd** received approval to acquire up to **66%** of **Wellington International Airport Ltd** (WIAL), for **$96,360,000.** WIAL owns **Wellington International Airport**, including **110 hectares** of land. NZ Airports is owned **40%** by **Alliance Life Common Fund Ltd** of the **UK**, **20%** by **Foreign and Colonial Special Utilities Investment Trust Plc** of the **UK**, and **40%** by **Infrastructure and Utilities NZ Ltd (Infratil NZ)** of **New Zealand.**

The sale had a relatively low profile, shadowed by the highly publicised and controversial sale of Auckland International Airport, until the political drama that arose from it. Even then, most news reports focussed on the political posturing rather than the facts of the sale itself.

The airport, like many airports around Aotearoa, was jointly owned by the Government and local councils. In the case of Wellington, it was 66% owned by the government and 34% by the Wellington City Council (WCC). Initially the government appeared to assume that the WCC would also sell its share. That was apparently all that was required to satisfy the Coalition Agreement's promise that, for sales of such airports, "any sale of over 24.9% would require prior approval of ratepayers or consumers", though originally it seemed that ratepayer polls or formal consultations would be required. The only consultation the WCC carried out was as part of its routine consultation on its draft annual plan, which included the proposal to sell the shares.

However there was strong lobbying of the WCC, not least by a group of regional MPs, local body councillors, residents' groups and business interests. Convened by Rongotai's Labour MP, Annette King, it called a public meeting in May to stop the sale of both the WCC and Government shares. The concerns were that the airport was a natural monopoly, and hence able to raise prices at will; its potential to pay dividends to the public, particularly after the completion of the new terminal being constructed; and its place in the development of Wellington. The group proposed a trust to buy the Government's shares (*City Voice*, 11/5/98, "Regional bid to keep airport in local hands").

In the end, the WCC decided against selling its shares. That should have put the Government in no doubt: the people had spoken. Indeed, New Zealand First deputy leader Peter Brown said the caucus was against selling the Government's 66% unless the WCC agreed to sell (*Press*, 7/8/98, "Airport sale split looms", p.3). Instead, the political argument was over the half-problem of ensuring the airport company was at least 50% New Zealand owned. The structuring of NZ Airports Ltd was carefully devised to achieve that. Only 40% of the company's dividends will go overseas (ignoring any overseas shareholding in Infratil). But since 60% of NZ Airports is overseas owned, and NZ Airports has 66% of WIAL, control is overseas. So only half the problem was solved in the compromise – and, given that this is a strategic asset and a monopoly, the less important half.

The price was reportedly dropped from $150 million to achieve this dubious compromise (*Press*, 5/8/98, "Infratil cited for Wgtn Airport", p.26). The $96.36 million sale price was seen as cheap – on the basis of its earnings, cheaper than similar airports in Australia. Infratil naturally defended it as "fair and equitable" (*Press*, 19/8/98, "Airport price tag 'fair'", p.27).

Infratil NZ was set up to raise money to buy up utilities – principally, in practice, privatised utilities – in Aotearoa. It is a publicly listed company with diversified shareholding, but control is largely in the hands of the management company it contracts to run it, Infratil Management. This management company is 80% owned by Morrison and Co, Wellington investment bankers, and 20% by Mr Duncan Saville. Infratil was largely the creation of Lloyd Morrison of Morrison and Co, who heads Infratil Management. Datex's *New Zealand Investment Yearbook 1998* lists Infratil NZ's principal investments as Trustpower (Rotorua, 21%), CentralPower (Palmerston North/New Plymouth, 20%), Port of Tauranga (21%), Powerco (New Plymouth, 9%), South Port (owner of Port Bluff, 8.9%), and "modest holdings" in Ports of Auckland. It is also involved in a development project with Solid Energy to assess the viability of medium scale coal fired electricity generation. It made a windfall gain of $2.199 million on the purchase and quick resale of a shareholding in Auckland International Airport (*Press*, 21/10/98, "Boost for Infratil NZ", p.31).

Sister company Infratil International was publicly listed in 1997 following a rights issue to the shareholders of Infratil NZ. It invests in similar businesses overseas and Morrison and Co also manage it. According to *Datex*, its main asset is 11.8% of Airport Group International (AGI), based in California, whose operations consist of airport management and development, and airline services. Co-owners include billionaire speculator George Soros, and Lockheed Martin Corporation. "It is one of the world's leading specialist airport owners and operators with operations at 22 airports world-wide". While the sale of Wellington Airport was being finalised, it was buying the cargo division of USAirports (*Press*, 26/8/98, "AGI buys USAirports cargo arm", p.24). It is in the market for airports in Australia, and jointly owns a long term concession for Perth International Airport. Infratil International also has a 50/50 joint venture with Sea-Land Orient to run a Brisbane container terminal, and is looking for airports or ports for sale in Western Europe (*Press*, 7/10/98, "Infratil Int has shopping list ready", p.27).

The OIC acknowledges that the other two shareholders in NZ Airports are just "investment companies". So while

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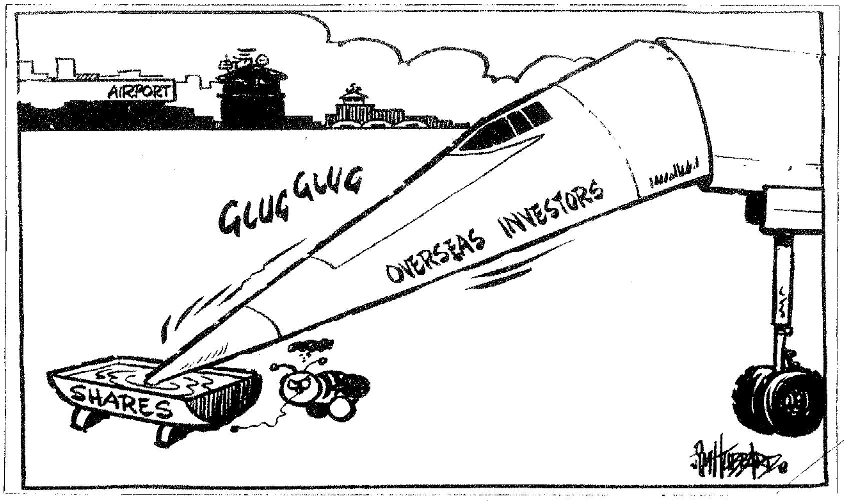
the OIC "is advised that the shareholders of NZ Airport Limited believe that collectively they have the necessary strengths required to further develop the efficiency and profitability of WIAL", there is nothing in the new majority owner that suggests it has special expertise in running airports – only in taking profits from them. That is, the management of the airport won't benefit from the change of ownership – unless Infratil invites in AGI to run the airport. In that case, consent has been given to the wrong party, and what little local participation New Zealand First saved in the takeover is likely to be for nought. More likely what we will see is more profits being wrung from the company.



Share'll be right?

A consortium led by AGI was reported to be a bidder for the airport. Other reported bidders included Stagecoach (owner of Glasgow Prestwick International Airport in Scotland, simultaneously bidding for Sweden's South Stockholm Airport and looking at similar purchases in the former Soviet Union: see elsewhere in this commentary), FirstGroup of Scotland (also a bidder for the Yellow Bus company in Auckland), TBI of Cardiff, UK (which also runs airports in Cardiff, Belfast, Orlando in Florida, and Skavsta near Stockholm), and Serco (*Press*, 4/5/98, "Stagecoach seeking Wellington Airport", p.34; *Scotland on Sunday*, 10/5/98, "Stagecoach takes wing for NZ"; *New Zealand Herald*, 23/7/98, "Cardiff group in race for airport").

Lloyds TSB of the UK buys Countrywide Bank from Bank of Scotland

NBNZ Holdings Ltd, owned by **Lloyds TSB Group Plc** of the **UK**, has approval to acquire **Countrywide Banking Corporation Ltd** from its owner, the **Bank of Scotland** (of the **UK**) for **$850,000,000** "subject to adjustment". The sale includes **280 Queen Street, Auckland (0.2253 hectares)**.

The National Bank of New Zealand (NBNZ) was listed by *Management* (December 1997) as the fourth largest bank (and financial institution) by assets, in Aotearoa that year. Countrywide was sixth. Together they would be second, pushing the Bank of New Zealand down to third. The largest is WestpacTrust which of course carved its place at the top via the takeover of Trust Bank – which Lloyds TSB initiated by beginning negotiations to buy it, but was outbid by the outsider.

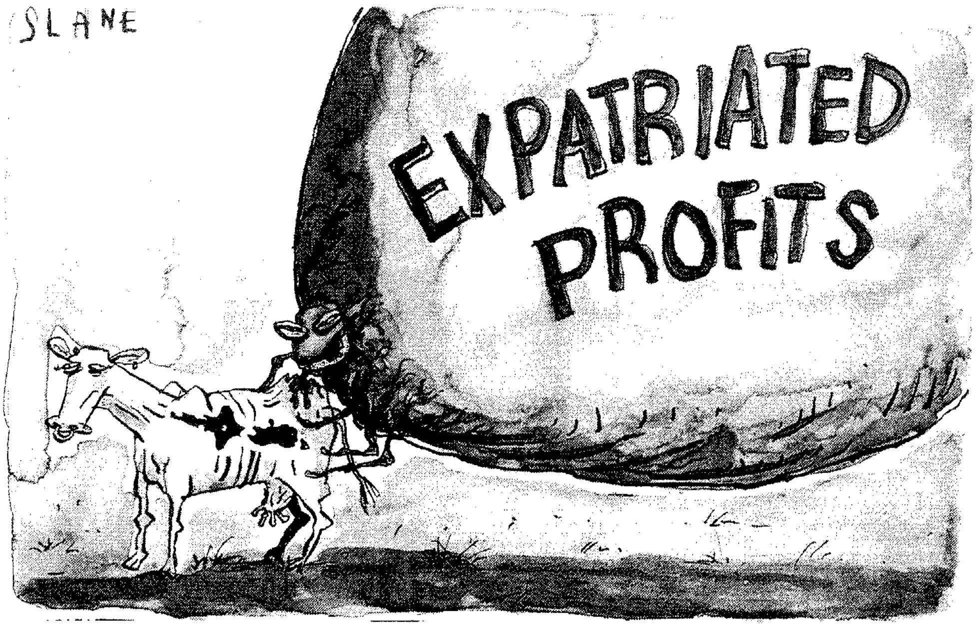
Countrywide was originally a building society. It privatised itself into a bank, and was initially owned 40.1% by the Bank of Scotland and 20.05% by General Accident Insurance Company New Zealand Ltd of the UK. In May 1992, Bank of Scotland bought out General Accident's share, and soon after, the remaining shareholding, accompanied by complaints at the low price it was offering. At the same time, Countrywide took over and absorbed the United Bank. United was another former building society, which was bought by the State Bank of South Australia. SBSA then went broke to the tune of $3 billion, suffering from its excessive enthusiasm for expansion and loans to such sure winners as Equiticorp and Chase Corporation. Such were the triumphs of the deregulation of banking in the 1980s.

The 1992 merger led to many layoffs among the 250 United head office staff in Christchurch as the head office was merged with Countrywide's Auckland headquarters. The present merger will have the same effect, according to Paul Goulter, secretary of the financial sector trade union, Finsec, even though the two banks are complementary to a degree. National was based in Wellington and Countrywide in Auckland, leading to concerns for the jobs of head office staff. Countrywide is strong in Auckland with 70 branches nationally, of which 25 are in Auckland, while National is strong rurally (it bought the Rural Bank in 1992) with 163 branches including 41 in Auckland and 40% of the rural banking market. Some reduction in numbers of branches is likely, with consequences for the combined 5,000 staff.

The Bank of Scotland sold Countrywide because it felt it "had a limited future on its own" and had grown as far as it could on its own. Mergers amongst the remaining 18 banks are expected by industry analysts, some possibly driven by mergers between the Australian parents which own four of the top five (*Press*, 29/7/98, "Nat Bank moves on C'wide", p.28; 30/7/8, "Banks merger means job losses – unionist", p.9; 30/7/98, "Right time to sell Countrywide – bank", p.29).

At one time after the privatisation of the BNZ, the National Bank was a leader in lowering interest rates. In recent times it has been considered weaker than other banks because of falling profit rates.

However a reason for its falling profit rates may be the greed of its parent. The National Bank has twice lent more money to Lloyds than Reserve Bank rules allow. In 1995, Lloyds (in a parallel to what happened here the following year) bought the UK Trustee Savings Bank, TSB, for $2.3 billion. The National Bank lent $1.06 billion to TSB in the first three months of that year, and exceeded the limit of 75% of total capital required by the Reserve Bank as a condition of the bank's registration. The loan was "unwound" at the end of 1995, but repeated again (to the tune of $1.02 billion) in the first three months of 1996, taking 21% of its capital. The Reserve Bank showed itself to be toothless in this process: it did little but get the National Bank to promise not to do it again. It is to be hoped that the takeover of Countrywide is not "open wide" to former colonial masters forgetting they are no longer former (*Press*, 29/6/96, "Nat Bank lending exceeds RB rules", p.27).



NZ Listener 11/7/98

The pattern is consistent with Lloyds' behaviour in the UK. In January 1997, the British investment watchdog, the Investment Management Regulatory Organisation, fined Lloyds $784,000 for breaches of rules relating to its pensions transfer business between 1988 and 1993 (*Press*, 13/1/97, "Lloyds Bank fined", p.42).

At the end of 1997, Lloyds' total group assets were £158 billion, and Lloyds TSB had over 82,500 employees, according to the OIC.

Counterpoint takes over Pacific Capital and T/A Pacific's shares in Dairy Brands

Counterpoint Equities Ltd of Aotearoa, **Australia** and **Singapore**, is involved in two decisions.

In the first, it has approval to acquire all the shares of **Pacific Capital Assets Ltd** for "between **$33 and $49 million**". In the same decision, one of its main shareholders, the **Hudson** group (specifically **Hudson Corporate New Zealand Ltd**) also gained approval to acquire up to **44.9%** of Counterpoint. Counterpoint is offering shares as payment for Pacific Capital. Hence Hudson will end up with more than 25% of Counterpoint, which requires OIC approval. The merged company has since been renamed Savoy Equities.

In the second decision, Counterpoint gets approval to acquire up to **28.72%** of **Dairy Brands New Zealand Ltd** from **T/A Pacific Select Investments LP** of the **Bahamas** for **$3,900,000**.

Counterpoint was owned before the Hudson purchase as follows:
The Savoy Trust (Jihong Lu, Yoshie Itakura and David Wong-Tung, Aotearoa) 27%

Hudson Investment Group Limited (Australia) 24%

Tsang Jat Meng (Singapore) 15%

New Zealand public 34%

Pacific Capital Assets was owned as follows:

Hudson Investment Group Limited (Australia) 29%

Iris Hydraulic (Malaysia) Bhd (Malaysia) 23%

The Savoy Trust (Jihong Lu, Yoshie Itakura and David Wong-Tung) (New Zealand) 16%

First KL New Zealand Limited (Albert Check 45%, Donna Sophonponich 45%, and Matthew Ng 10%) (Malaysia) 12%

New Zealand and Australian Public 20%

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Pacific Capital Assets owns the **3.46 hectare** site on which it plans to develop the controversial **Britomart** centre in central **Auckland** on **Customs Street East, Britomart Place and Quay Street**. The OIC gave approval for the Britomart development in April 1997.

Dairy Farms owns **3,961 hectares** of land in **Canterbury, Otago** and **Southland** and "is the second largest listed dairy farming company in New Zealand". Originally part of corporate farmer and anti producer board activist, Apple Fields (see for example January and July 1995 decisions), it "processes the milk produced from its farms and manufactures ice cream, including the brand 'Killinchy Gold'", which Apple Fields bought from its founders in 1994.

At the time of the current transaction, Counterpoint owned approximately 50% of Dairy Brands and controlled three of the six members of its board. In July 1997 it bought Apple Field's 43.8% stake for $9.1m, at about $6.5m below book value (*Datex*, June 1998).

T/A Select Pacific, from which Counterpoint is now buying the shares "is an overseas company whom the applicants advise is a relatively short term investor in Dairy Brands". That is a turnaround from January 1995, when it originally bought into Apple Fields. Then, the OIC stated: "The applicant states that over the past few years it has been the only substantial investor in Apple Fields and claim that their *[sic]* increased shareholding will provide a level of stability to the share register of Apple Fields..."

The OIC says that "Counterpoint acquired its majority shareholding in Dairy Brands with the intention of identifying opportunities for Dairy Brands to undertake value added processing of dairy products for both domestic and international markets". However its main achievement to date appears to be selling assets:

> "The applicants advise that since its acquisition of a majority shareholding in Dairy Brands, Counterpoint and Dairy Brands have focused on the reduction of the liabilities of, and the sale of non-performing or non-strategic farms held by, Dairy Brands. The Commission is advised that the Counterpoint board representatives have contributed management and strategic planning advice, particularly as Dairy Brands seeks to reduce debt and realise non-strategic assets".

Both the Britomart project and Dairy Brands are in some trouble. Savoy declared a loss of $1.49 million in year ended 31/8/98 (*Press*, 17/11/98, "Savoy loss widens in latest year", p.28).

The Auckland City Council and Tranz Rail are appealing against the Auckland Regional Council's refusal to give resource consents to the central Auckland underground Britomart transport centre. But the Environment Court failed to resolve the case after incomplete hearings in September 1998, leading to speculation that the newly elected councils would use the delay to get out of the controversial project (*National Business Review*, 16/10/98, "Cost of quitting Britomart deal could be as low as $1m", p.13). The delays caused further losses to Pacific Capital, which reported a $961,000 after-tax loss in the six months to 30/6/98.

Meanwhile Counterpoint was under heavy criticism for its takeover offer of Pacific Capital. Accountants Arthur Andersen, making an independent report to Pacific Capital directors, said the offer (of 5.5 Counterpoint shares for each Pacific Capital share) was unfair, and other conditions were also flawed. Nonetheless, the takeover succeeded, valued at 33 cents a share. This may put the company into further trouble however. The prospectus allowed shareholders to sell back their shares at 50 cents each if the project was not underway by 30/6/98 (*Press*, 1/7/98, "Pac Cap positive", p.27; 14/9/98, "Britomart hearing delay hurts PacCap", p.30; 18/9/98, "Counterpoint offer near 100%", p.27).

And as the OIC relates:

> "... Pacific Capital Assets is obligated to buy back their companies *[sic]* shares from ordinary shareholders because the Britomart development agreement was not declared unconditional by June 1998. These shareholders will have the alternative to elect either to require Pacific Capital Assets to buy back their shares or take up the offer from Counterpoint.
>
> "The Commission understands that the rationale beyond the proposal is to merge the resources of Counterpoint Equities and Pacific Capital Assets to assist the group in securing sufficient funding to undertake the Britomart development. For the Britomart development to proceed, Pacific Capital Assets must raise finance of approximately $63 million. Counterpoint Equities considers that consolidating the two companies will mean that they are in a better position to raise the necessary finance".

Dairy Brands was split off from Apple Fields, which has moved from agribusiness into subdividing its disused orchards into large (two to four hectare) semi-rural sections for the wealthy. Its first project was called "Parc Provence" and "incorporates an imposing Oamaru stone gateway, whitestone paved boulevard, a canal, and classic architectural lines" (*Press*, "Apple Fields in Gallic vein", 24/2/98, p.26). In a style typical of the company, Apple Fields' plans rest heavily on yet to be approved rezoning consents from local councils.

Apple Fields was subject to Securities Commission investigation and criticism over its "Rural Super Bonds" scheme (see our January 1995 commentary), and Dairy Brands has inherited some of the mess. Dairy Brands' chair, former Minister of Finance, Ruth Richardson, said in October 1998 that Dairy Brands still owed about $8.9m to bondholders, but expected to announce soon that this had been paid off (*Press*, 10/10/98, "We can pay – Kain", by Neill Birss, p.21). Apple Fields was not in as good shape: that month it was being raked over the coals for being late on a Rural Super Bonds $300,000 quarterly payment. But Dairy Brands' debt levels were given as the reason for the sale of the farms. It has reduced the number of farms it owns from 31 in 1997 to 14 in October 1998. That reduced its debt ratio from an unhealthy 60% to 30%. Its rate of return was 5%, but it was aiming for 15% (*Press*, 9/10/98, "Dairy Brands in better condition", p.27).

According to the *Press* (27/8/98, "D Brands stake increased", p.26), Counterpoint paid 39 cents a share for ten million T/A Pacific shares, 79% above the market price of 22 cents. Pacific Capital had earlier bought two million shares at 32 cents a share from T/A Pacific, whose remaining shareholding was 4.1%, down from 24.6%.

Singleton Group of Australia in joint venture owning Ogilvy and Mather

John Singleton Advertising Pty Ltd, of **Australia**, has approval to acquire **Ogilvy and Mather (New Zealand) Ltd** from **WPP Group Plc** of the **UK** for a suppressed price. John Singleton Advertising is owned **67%** by the **Singleton Group Ltd**, an Australian publicly listed company, and **33%** by WPP Group.

OSI subsidiary, Leges, of the USA taking remainder of Glovers Food

An associate company of the giant OSI Group, **Leges Corporation Inc** of the **USA**, which already owns **45%** of **Glovers Food Processors Ltd**, has approval to acquire up to **100%**. It will acquire the 45% shareholding of retiring Glovers' founder, **Mr M. Glover**, "over the course of the next three years". The price is stated to be **"$659,699 for 30%"**. The company manufactures, processes and distributes beef, poultry and fish products. The major shareholders in Leges, with **45%** each, are **Gerald A Kolschowsky** and **Sheldon Lavin**, with the remaining **10%** owned by **OSI Industries Inc**.

According to the OIC, they "have been involved in similar businesses in the United States and elsewhere in the world for much of their working life. They are currently major shareholders in a large multi-national food company". Since their involvement in Glovers, "shareholders have reinvested the profits back into the Company".

OSI is "one of the largest privately held meat-processing corporations in the world" according to its own Web site, http://www.osigroup.com. It was founded by the Kolschowsky family. More controversially, it is "McDonald's biggest burger supplier" in the world according to *Meat Marketing & Technology*, October 1997, "Bulletin From the Burger Battles" (http://www.mtgplace.com/magazines/M_c871.asp).

OSI describes its own history on its Web site (http://www.osigroup.com/osiind/osi.htm):

> "Otto Kolschowsky immigrated from Germany in 1907 and opened a family meat market located in Oak Park, Illinois, in 1909. The business prospered and in 1917 had expanded to include the wholesale meat trade and moved to Maywood, Illinois. In 1928, the growing business took the name Otto & Sons. By 1955, the operation had established its reputation as a quality meat business and was chosen to supply fresh ground beef patties for a national food chain.
>
> Following years of extensive research and development on high volume patting-forming machines and liquid nitrogen freezing tunnels, Otto & Sons began supplying frozen ground beef patties. In 1973, a plant was opened in West Chicago, Illinois to handle the high volume operations. Otto & Sons became OSI Industries, Inc. in 1975 followed by another high volume operation opening in West Jordan, Utah in 1977 to further supply the western United States. OSI moved into its corporate headquarters in 1982 based in Aurora, Illinois.
>
> Today we are one of the largest privately held meat-processing corporations in the world. In addition to the pure ground beef patties that are our primary product, we also produce circular sliced bacon, chicken nuggets, chicken patties, formed pork steaks, breakfast beefsteaks, julienne ham and turkey, pork sausage patties, and fillet of fish portions".

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Gerald Kolschowsky gave $200 to Republican Representative Jim Nussle in both 1995 and 1996 (http://www.com/hpi/fedind/0ia02040.html).

Meat Marketing & Technology, quotes a "key industry consultant and fast-food insider" saying that

> "McDonald's biggest burger supplier, Aurora, Illinois-based OSI Industries, is rumoured to be up for sale. OSI supplies more than 60% of Mickey D's hamburgers worldwide, with plants in more than 30 countries. Keystone Foods and Golden State Foods, both key domestic McDonald's hamburger suppliers, may also be on the block.
>
> Why? These suppliers are so squeezed on costs that there's little room for growth and only minimal profit margin left.
>
> 'The stakes are so high now that only companies with deep, deep pockets can afford to gamble with fast food accounts,' the insider says.
>
> Of course, the ongoing E. coli problem doesn't make the odds any shorter, but the ultimate solution, this consultant contends, is precooked patties. He says the fast food chains are badgering their suppliers to develop prototypes, but a rush to market precooked burgers seems to be about as imminent as a revival of McLean DeLuxe.
>
> 'Because of the way they're getting hammered, [the suppliers] are adamant about not investing their own capital to make precooking feasible,' he says. There's another catch: You need to add ingredients to the patty formulation to bind extra water so the burgers stay juicy after re-heating. The problem? 'McDonald's is totally arrogant,' he says. 'They refuse to even consider formulating such a patty. They want it developed and funded totally by suppliers-which is never going to happen'".

OSI lists operations in Australia, Austria, Belgium, Brazil, Bulgaria, China, Costa Rica, Croatia, Czech Republic, Denmark, France, Germany, Guatemala, Hungary, India, Indonesia, Italy, Latvia, Mexico, Netherlands, New Zealand, Northern Ireland, Panama, Philippines, Poland, Portugal, Puerto Rico, Romania, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Taiwan, Turkey, Ukraine, United Kingdom, United States, and Yugoslavia.

One of its more grotesque jobs for McDonald's was in the Ukraine as a result of the Chernobyl disaster. The *Seattle Times*, on 24/6/97, in an article entitled "War and peace: Do Big Macs make the world safer?", by Tom Hundley of the *Chicago Tribune* (see http://www.seattletimes.com/extra/browse/html97/mcdo_062497.html) reported from Kiev on the process McDonald's went through to start up in the Ukraine:

> "McDonald's normally attempts to buy all of its products locally. But to do this the company has had to build a supplier network from the ground up – literally.
>
> **The Chernobyl factor**
>
> Soil samples were taken and tested – radioactive fallout from Chernobyl is still a concern in the Ukraine – before the company settled on a salad supplier from the Crimea and a beef herd from the distant reaches of eastern Ukraine.
>
> 'We started looking for beef in 1994. We investigated the ground, the feed, the quality of the herd. We looked at about 25 slaughterhouses before we finally found one that was up to EC standards', said Fritz.
>
> After reaching an agreement with the slaughterhouse, McDonald's brought in Chicago-based OSI Industries, a longtime McDonald's partner, to handle the meat patty production and logistics.
> At the moment, McDonald's in Kiev

> is serving imported beef, but the first all-Ukrainian Big Mac is scheduled to be put on the menu sometime in September".

But perhaps OSI's most controversial moments were in association with McDonald's during the McLibel trial in the U.K. when McDonald's accused Greenpeace activists David Morris and Helen Steel of defamation. The seven year court case became a trial of McDonald's itself, including its industrial record and its effect on the environment. One of the key accusations made by Morris and Steel was that McDonald's were destroying rainforests and forcing tribal people off their lands. In the words of the final judgement in 1997, these statements "depended upon the contention that cattle ranching to provide McDonald's restaurants with beef patties has caused deforestation and displacement of small farmers in Costa Rica and Guatemala, and that both cattle ranching and soya farming to produce cattle feed to provide McDonald's restaurants with beef patties has caused deforestation and displacement of small farmers and indigenous peoples in Brazil". The judge found these claims unjustified (see http://www.enviroweb.org/mcspotlight-na/case/trial/verdict/verdict_jud1d.html for this part of the judgement, from which the following information comes).

The judge ruled that allegations against McDonald's on rainforest destruction, heart disease and cancer, food poisoning, starvation in the Third World and bad working conditions were unproven. On the other hand, he ruled that they had proved that McDonald's "exploit children" with their advertising, falsely advertise their food as nutritious, risk the health of their most regular, long term customers, are "culpably responsible" for cruelty to animals, are "strongly antipathetic" to unions and pay their workers low wages (http://www.enviroweb.org/mcspotlight-na/case/trial/story.html).

In reality it was companies like OSI who were being judged as much as McDonald's regarding rainforest destruction and the dispossession of tribal people and small farmers of their land.

In Brazil, the centre of the claims about destruction of rainforests and brutal eviction of tribal people and small farmers, McDonald's beef supplier was

> "a company called Braslo Produtos de Carne Led which was a joint venture with a German company Lutz, and the U.S. company OSI Industries Inc., hence the name Bras(il)L(utz)O(SI). Both Lutz and OSI are major suppliers of patties to McDonald's elsewhere in the world. Since 1982 Braslo has been McDonald's sole supplier of beef patties in Brazil... "

The judge did not dispute the fact that there had been massive destruction of rainforest in Brazil, and enormous human misery. For example, he quoted Mr George Monbiot, "writer, broadcaster and academic who spent two years in Brazil, between 1989 and 1992, investigating the causes of deforestation in the Brazilian Amazon", saying he was "patently a decent witness who knows Brazil well. I do not have any real reservations about his evidence of the general causes of destruction of rainforest and forest generally, including the large part, direct and indirect, played by cattle ranching generally. There was ample support for that. Nor do I have any real reservations about his evidence of the general causes of displacement of small farmers and indigenous peoples generally where they have been displaced, including the part played by some cattle ranches and soya farming" .

To quote the judgement:

> "Mr Monbiot said that cattle ranching outside the Amazon was the principal reason for the movement of peasants into the Amazon. This was because so much land had been taken over by cattle ranchers elsewhere in Brazil that the forests were the only place available for peasant agriculture. Land concentration in Brazil was extreme, and most of the largest properties took the form of cattle ranches. Cattle ranching in the Amazon and elsewhere in Brazil had significant social costs. In many cases the ranchers, both individual and corporate, had seized their lands from weaker and poorer citizens without due process. This was often done through the use of hired gunmen, and every year rural people in Brazil were shot dead as they tried to resist the annexation of their lands by ranchers. There were documented cases of torture, rape and unlawful imprisonment by ranchers and their gunmen trying to push people off their lands. Colonists pushed off their lands by ranchers outside the Amazon were in many cases forced to travel into the forest to start a new frontier, causing deforestation. Some of the land that ranchers had seized belonged to the indigenous inhabitants of the forest, the Indians, according to Brazilian law. In many Indian reserves, ranchers had taken over large tracts of land. Nearly all the land in Brazil previously belonged to the Indians

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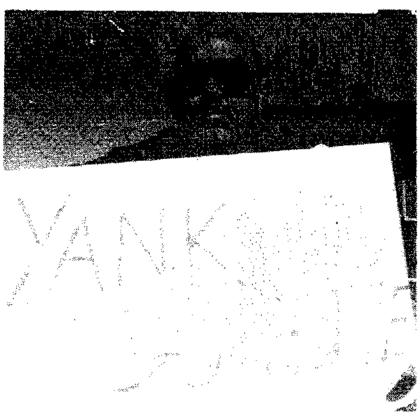
> or peasants who were displaced by force or economic change designed to favour large landowners".

Where the evidence fell down was that no witnesses called were able to say definitively that Braslo's beef suppliers were using dispossessed or ex-rainforest cleared land, though it was clear that some of the beef came from areas in which considerable clearing and dispossession had occurred. Further, while Braslo certainly supplied beef to McDonald's Brazil, the judge found that no beef was imported by McDonald's suppliers for use in the USA, because McDonald's specified homegrown meat, and very little was imported from outside Europe for McDonald's in the UK.

Similarly, OSI is a 55% owner of McKey Food Services Ltd, the sole supplier of beef hamburger patties and many pork products to McDonald's restaurants in the United Kingdom itself, the location of the anti-McDonald's campaign and the trial. In fact, McKey's was originally majority owned by McDonald's U.K. subsidiary. In Germany, McDonald's patties are supplied by L. & O. Fleischwaren, a joint venture between OSI and Lutz of Germany (a partner in Braslo).

Castlepoint Station in the Wairarapa sold to US residents

The large sheep, cattle and deer station, **Castlepoint Station** occupying 12 kilometres of the **Wairarapa** coast, has been sold to **Anders Nash Crofoot** and **Emily Wood Crofoot**, residents of the **USA**, for **$5,900,000**. The station is approximately 65 kilometres from Masterton. The sale of the station aroused major local controversy, occurring at the same time as the even more unpopular sale of the historic 5,899 hectare Glenburn Station to a U.S. forest company for around $4.6 million (see May 1998 decisions).



According to the Commission, "the Crofoot's have been granted permanent residency status and will be arriving in New Zealand in mid-September with the intention then of residing here permanently". They want the station "in order to utilise the property as a home/residential base upon residing in New Zealand permanently later this year".

"Castlepoint Station is an extensive coastal hill country sheep and beef property capable of intensive utilisation. It is stated there is a full range of buildings and facilities with a new centrally located woolshed and yard facilities having only recently been completed. Additionally it is stated the Station has a very good reputation for quality stock. Castlepoint Station currently runs approximately 22,831 sheep, 1,039 cattle and 120 deer stock units *[sic]*.

"Additionally it is stated a small part of the property comprising approximately 2.6 hectares in area is utilised for tourist related ventures commonly known as **Castlepoint Holiday Park**".

The above details from the OIC appear to contain some errors or inconsistencies. The station was quoted as being of 2,954 hectares in its Wrightsons Real Estate "for sale" advertisement and in the *Wairarapa Times Age*. The OIC quotes 2,951 hectares when detailing the land involved, but later describes it as "approximately 2,955 hectares of land". The advertisement showed 22,813 sheep, not 22,831.

The advertisement also boasted "two homesteads plus numerous other facilities".

Sumitomo takes full ownership of Summit-Quinphos

Sumitomo Corporation of **Japan** has approval to take 100% ownership of **Summit-Quinphos (NZ) Ltd** by acquiring the remaining **32.26%** from **Grant McComb** for a suppressed amount.

Summit-Quinphos is a fertiliser importer. It was formed ten years ago and has gained a 15% share of the North Island market, and recently entered the South Island with its first store at Timaru, from which it aimed to expand to three South Island ports and "a spread of" stores. According to the *Press*, "it is the third-largest fertiliser company, behind the two big farmer co-operatives, Ravensdown and BOP Fertiliser, which together hold a 90 per cent share of New Zealand's fertiliser sales". In 1996 it tried to take over Southland's SouthFert. Instead, SouthFert was sold to BOP Fertiliser.

It specialises in imported reactive phosphate rock-based (RPR) products. The *Press* reported that "independent scientist Doug Edmeads said RPR was not the same as superphosphate – the phosphorus in superphosphate was immediately available, while RPR released it slowly. Most soils in the South Island needed both phosphorus and sulphur, but unlike superphosphate, RPR did not have significant amounts of sulphur. All the fertiliser companies sold RPR products, but these were not all the same – some were slower-acting than others, he said" (*Press*, 12/11/98, "Third player in fertiliser sales", by Heather Chalmers.)

Singapore resident buys 34% of company subdividing land at Ruakaka

Edwin Sheares of **Singapore** has approval to acquire **34%** of **La Pointe Beach Estates Ltd** from **RD Paris and others** for **$1,000,000**. The company owns "approximately **48 hectares**" of land at **One Tree Point, Ruakaka, Northland** on which it plans a "major subdivision scheme". The first stage has been completed and involves "the creation of 50 individual dwelling sites" of which a quarter have been sold. The $1 million will allow further expansion, and Mr Sheares or his associates "will be in a position to raise some funds off-shore".

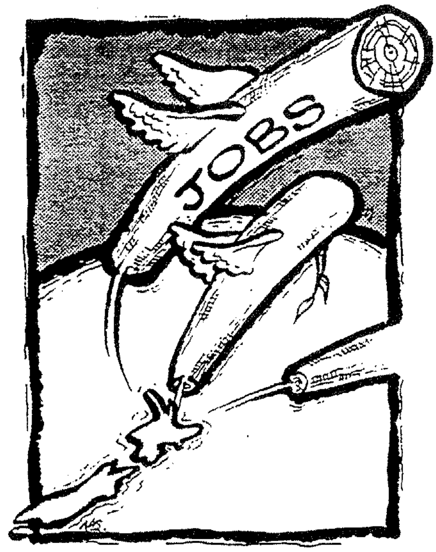
Swiss capital into Framingham Wine Company of Marlborough

Andreas E. Rihs of **Switzerland** has taken a **40%** shareholding in the **Framingham Wine Company Ltd** which has approval to buy almost **three hectares** of land at **Conders Bend Road, Marlborough** for **$210,000**. The land, part of an existing vineyard owned by the original owners of Framingham Wine Company who are together now 40% shareholders in the company, will be used to develop a winery. Previously Framingham labelled wine was made through a third-party wine processing facility.

> "Framingham Wine Company Limited makes wine and markets it nationally and internationally... It is stated the proposed development is critical to enable better control in the processing of Framingham's product. However, the present owners do not have the necessary development capital to carry on the proposed development of the winery. Accordingly, it is stated Mr Rihs involvement is critical to the proposed development in terms of the introduction of risk capital he is to commit. It is stated that without this capital the present proposal would not occur. In essence the proposal can be viewed as a joint venture whereby the overseas person provides the necessary risk capital and international marketing expertise and the New Zealand participants provide the corporate opportunity and expertise in grape growing and wine making within New Zealand".

Hawera Forest Owners Assn (49% Taiwan) buys 99 ha. more land for forestry

Four members of the **Hawera Forest Owners Association (Hawera Forest II)**, which consists of "43 members, of which 21 are 'overseas persons'", have approval to acquire a total of **99 hectares** of land at



Tangahoe Valley Road, Hawera, Taranaki for **$423,980** for forestry. Each "member" is two to five people, or, in one case, a limited liability company, **Greens Trading Co Ltd.** All are domiciled in **Taiwan.** The seller of the land is in each case **New Zealand Forestry Group Ltd**, and the OIC states that

> "In essence the proposal is a joint venture between overseas persons who are providing capital for development purposes and a New Zealand forestry company which is providing the necessary expertise to the forestry operation".

The New Zealand Forestry Group appears to specialise in these modus operandi: it gets small-holders (often overseas) to buy small blocks of a larger block of land it owns, and then contract it to manage the land for forestry. It is the same company that has been selling land in Paparangi, Wanganui and elsewhere.

The last time it made similar arrangements with the Hawera Forest Owners Association was in December 1997 when the association consisted of 22 members, of which 17 were 'overseas persons'. On that occasion it had approval to acquire a total of 668 hectares of land at Morea Valley, Hawera, Taranaki for $2,805,600 for forestry.

Land for forestry

- **NZ Forest Products Ltd**, a subsidiary of **Carter Holt Harvey Ltd** (itself **50.2%** owned in the **USA**) has approval to acquire **one hectare** of land off **Harris Road, Putaruru, Waikato** for **$2,870**. It will be amalgamated with adjoining land it already owns, of which it is selling back almost **five hectares** to make a boundary adjustment.
- **Teresita Noblejas** of **Northridge, California, USA**, has approval to acquire **eight hectares** of land at **State Highway 2, Te Wera, Matawai, Gisborne/ Hawkes Bay** for **$44,700** from **Longbow Forestry**

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Ltd. "Longbow Forestry Limited, a New Zealand forestry company, established a forestry block on approximately 300 hectares known as the **Te Kapu Tree Farm**. Te Kapu is situated at Matawai on State Highway 2, between **Whakatane** and Gisborne. Longbow is marketing the sale of 31 freehold forest blocks within the tree farm to prospective overseas and New Zealand investors. The applicant intends to acquire one of these blocks and employ **PF Olsen Limited** to manage the forestry development".

- **Southland Plantation Forest Company of New Zealand Ltd**, of **Japan**, has approval to acquire **136 hectares** of land in **Fox Road, Southland** for **$248,580**, 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 forestry operation will be managed by **South Wood Export Ltd** of Japan. Southland Plantation bought 408 hectares in Tahakopa Valley in June, giving it "approximately" **10,917 hectares** in the Southland region, and a further 282 hectares in Tahakopa Valley Road in July.

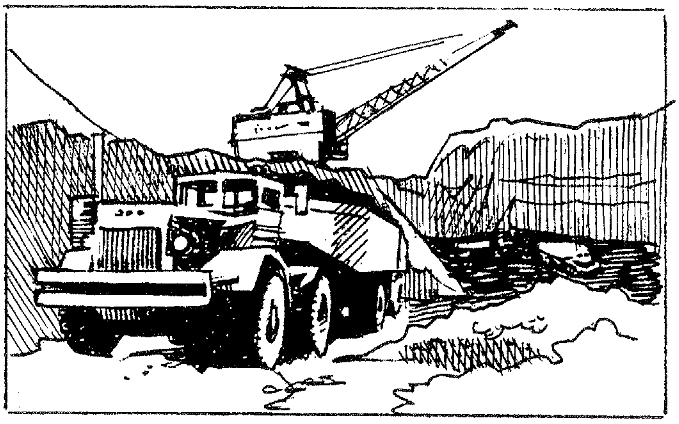
Other rural land sales

- **Dybud Holdings Ltd**, which is owned **75%** by **Archibald Allan Scott** and **25%** by **Edna Grace Scott** of **Australia**, has approval to acquire **13 hectares** of land at **Maungatautari Road, Cambridge, Waikato** for **$400,000**. The land adjoins historic and reserve lands. It is currently used for cattle grazing, the only building being a hayshed. "Mr Scott has had business investments in New Zealand for 25 years principally in the bloodstock industry. The property is being purchased so that Mr Scott might continue with his thoroughbred interests in the country". He intends to build a house for a farm manager on the property which "will provide accommodation for he *[sic]* and his wife and other employees while in New Zealand on thoroughbred business and also while supervising the other business interests which Dybud has in New Zealand". Dybud already has another, four hectare, property in Maungatautari Road. In March 1990 the Scotts received approval from the OIC to buy Dybud, which included a 34 hectare property in Hautapu for seed growing and cattle and thoroughbred production. In March 1992, Mr Scott was given consent to buy the remaining 50 percent of Cochrane's Transport Ltd that he did not already own, for $1,500,000. The same month he also bought a further 18 hectares of land, at which time he already had 97 hectares. He bought the original 50 percent shareholding in Cochrane's Transport for $1,350,000 in 1990.
- More land is being bought for the **Martha Hill** gold mine at **Waihi, Coromandel** (the last was bought in March 1998). **Waihi Gold Company Nominees Ltd** of **Australia** has approval to acquire
    - **0.3587 hectares on the corner** of **Grey Street and King Street** for **$55,000** from **L.S. Scott** and **M.J. Gilmore**;
    - **0.4047 hectares** at **20 Mataura Road** for **$196,900** from **R.J.** and **F.J. Osborne**;
    - **0.0929 hectares** at **3 Islington Terrace** for **$177,000** from **J.K.** and **S.L. Hawkes**; and
    - **2.1239 hectares** at **Richmal Street and Grey Street** for **$369,000** from the **McClung Family**.

The ownership of Waihi Gold Company Nominees Limited has changed since March. It is now owned **67.06%** by **Normandy Mining Limited**, and **32.94%** by **AUAG Resources Limited**, both of **Australia**. The blurb has been almost identical for some years:

> "Waihi Gold holds rural and urban land in around Waihi as trustee for the participants in the Waihi Gold Mining Joint Venture... The property is being acquired to assist in providing a buffer zone between the **Martha Hill mine** and existing residential areas and to enable the extension of the existing mining operation ... The proposed extension of the mine will extend the life of the mine for (approximately) seven years and this will result in continued employment for the 135 people employed in the operation."

- **Morton Estate Wines Ltd** owned by **Mark Coney and Family** of **Canada** has approval to acquire **160 hectares** of land at **Matapiro Road and Omapere Road, Matapiro, Gisborne/Hawkes Bay** for **$1,200,000** for converting from sheep and beef farming to a vineyard. "The Commission is also advised that further vineyards are required by Morton Estate if the company is to continue with its planned market expansion both domestically and internationally".
- **Morton Estate Wines Ltd** also have approval to acquire **20 hectares** of land at **Maraekakaho Bridge Pa, Hawkes Bay** for **$325,000**. It is Lot 1 of a



subdivision of land, and Morton Estate have first option on Lot 2. The property is currently used for grazing cattle and will be converted to viticulture.

- DB Group subsidiary, **Corbans Wines Ltd**, owned **23.36%** each by **Heineken NV** of the **Netherlands** and **Fraser and Neave Ltd** of **Singapore**, and **11.68%** by the **Singapore** public, has approval to acquire three properties, all "to secure a continued supply of grapes for its wine business":
  - **six hectares** at **Ormond Valley Road, Gisborne** for **$420,000**, acquiring an existing **contract grower's** property giving Corbans "greater control of the viticultural processes" and enabling it to market its produce "as an estate or 'single vineyard' wine, thus creating a significant advantage from an export perspective";
  - **42 hectares** on **State Highway 50, Hastings** from **Wai-iti Farms Ltd** and **T.R. and S.F. Averill** for **$1,040,000** on which to establish a vineyard; and
  - **18 hectares** at **456-470 Tuki Tuki Road, Hastings**, for **$800,000** which is currently bare land, to develop as a vineyard.

September 1998 decisions

Telecom, Optus and WorldCom building new communications cable to USA

A new fibre optic communications cable network is being constructed across the Pacific to the USA. It is called the Southern Cross Cables Network Project, and **Telecom Corporation of New Zealand Ltd**, **Optus Communications Pty Ltd** of **Australia**, and **WorldCom Inc** of the **USA**, will initially take **50%**, **40%** and **10%** shareholdings respectively in the controlling company, **Southern Cross Cables Holdings Ltd**. However, each has approval to acquire up to 100% of the company. The cost has been suppressed. Optus is the second largest telecommunications carrier in Australia and WorldCom is the fourth largest long distance telecommunications carrier in the USA.

The Southern Cross submarine cable network is being constructed because existing cables have reached capacity. The last one completed, PacRimWest, which entered service in March 1995, was fully sold by June 1996, according to Southern Cross Cables (http://www.southerncrosscables.com/project.htm). They attribute the demand to "the increasingly competitive international telecommunications scene and the remarkable growth of the Internet". According to one commentary, "the new network would also end Telstra's near-monopoly on overseas Net access into and out of Australia and dramatically increase trans-Pacific capacity and Internet access speeds" (http://www.ausmall.com.au/acnews20.htm, 7/10/97).
The new cable network

> "will be using high capacity fibre optic cable linking Australasia with North America with landing points in California, Hawaii, Sydney and Auckland New Zealand... Phase one of the network, the Sydney-Auckland, Auckland-Hawaii and Hawaii-California segments will be ready for service in September 1999. Phase Two of the network, the Sydney-Hawaii (including a spur to Fiji) and a second Hawaii-California segment will be ready for service in September 2000" (http://www.southerncrosscables.com/content.htm).

The cable will have a 40 gigabit per second[2] capacity and will be designed as a "self-healing" ring so that if one part is damaged, traffic automatically is re-routed the other way round the ring. The ring will total 30,000 km in length. Southern Cross Cables has been set up to be the "developer, owner and marketer of the network" (http://www.southerncrosscables.com/project.htm).

Although the OIC has suppressed the value of the companies' shareholdings in the company, the project "has an estimated capital cost of $US1.1 billion". In its financial statements for the quarter ended 30/6/98, Telecom says that in March 1998 it

> "signed a capacity use agreement committing the Company to purchase total capacity on Southern Cross of approximately US$140 million. The first payment of US$70 million is due on the first ready for service date ('RFS') in December 1999. The second payment of US$57 million is due in September 2000 with the balance payable over the following two years. No payments will be due in the event that the project is terminated. The Board of Directors has granted conditional approval to a 50% equity investment in Southern Cross Cables Limited. The equity investment of US$75 million is due on the earlier of RFS or early termination of the project" (http://www.telecom.co.nz/invest/detail/finance/1998-08-18/1998-statement-q1-notes.html).

According to a Telecom press statement, the three shareholders "have appointed Deutsche Bank AG, Barclays Capital and ABN AMRO as lead arrangers and underwriters to arrange a US$900 million project finance facility. Funding is currently scheduled to occur no later than third quarter 1998. The facility will be provided on a

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limited recourse basis and therefore will not be accounted for on the balance sheet of the Sponsors" (http://www.telecom.co.nz/media/file/tech/bodies/894947170.html).

The OIC calculates the ownership of Southern Cross Cables as follows:

New Zealand public
37.53%
U.S. public
22.48%
Cable and Wireless (Investments) Ltd, UK
19.65%
Australian public
10.32%
Mayne Nickless Ltd, Australia
10.02%

This appears to assume that the ownership of the three companies is as follows:

Telecom:	24.94% Bell Atlantic (USA), 75.06% New Zealand public
Optus:	49.1% Cable and Wireless (UK), 25.05% Mayne Nickless (Australia), 25.8% Australian public
WorldCom:	100% U.S. public

In fact, Telecom's 1998 Annual Report (p.20) gives its New Zealand shareholding as only 22%. The addresses of its beneficial (i.e. looking beyond nominee or "front company") shareholdings at March 1998 were as follows:

New Zealand	22%
North America	45%
United Kingdom	12%
Australia	7%
Asia	3%
Europe	5%
Other	6%

Included in the 45% from North America was 24.94% belonging to Bell Atlantic (USA) and The Capital Group Companies, Inc (USA) 6.45%, both substantial security holders in the company (p.86). Bell Atlantic has announced its intention to sell its shares, and this will take effect from September 1999.

So in fact the ownership of Southern Cross Cables will be

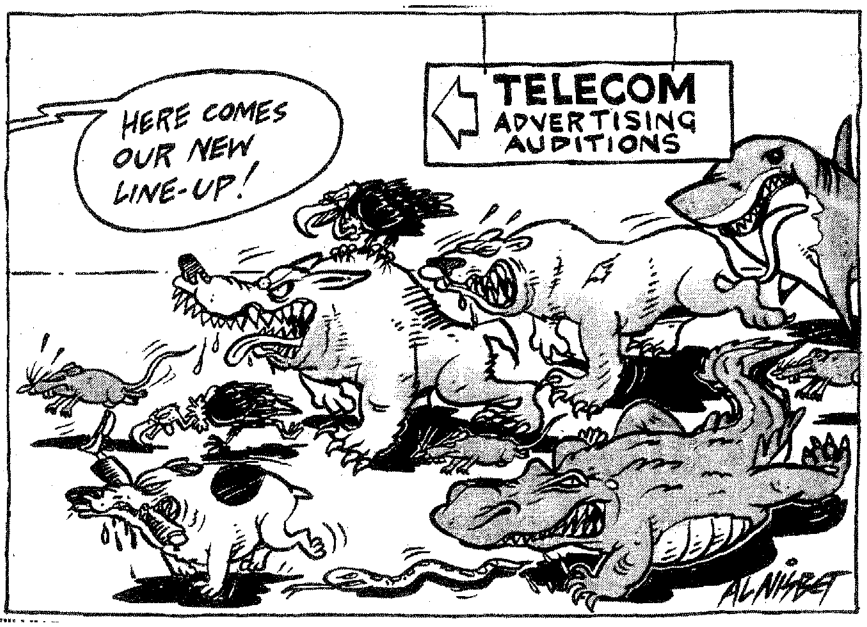
New Zealand	11.0%
North America	32.5%
U.K.	25.7%
Australia	23.9%
Other	7.0%

Vodafone of the UK buys BellSouth New Zealand for $750 million

Vodafone Group Plc of the **UK** has approval to acquire all the property of **BellSouth New Zealand Partnership** and take over **BellSouth New Zealand Ltd** for **$750,000,000**. BellSouth Partnership and BellSouth New Zealand Ltd are both **65%** owned by **BellSouth Corporation** of the **US**, and **35%** by **Singapore Technologies Pte Ltd** of **Singapore**.

Vodafone is the largest cell phone company in the UK, and was one of several bidding for BellSouth New Zealand after its US parent decided to leave Australasia. BellSouth New Zealand has not made a profit since it began operating five years ago, though it expects a small profit this year. It has over 120,000 customers, or about 20% of the cellphone market in Aotearoa, compared with Telecom's 492,500. Vodafone Australia is the third-biggest cellphone operator in Australia (*Press*, 27/8/98, "Vodafone cellular phone firm to buy BellSouth NZ", p.26).

Vodafone's network is digital (using the GSM system), which allows services – such as paging, messaging, and electronic mail – not provided by Telecom's analogue service. It also has the advantage that its cellphones can be used in both Aotearoa and Australia. Telecom is currently considering constructing a new digital mobile



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phone network in order to compete (*Press*, 24/11/98, "Telecom ponders digital network", p.30).

Vodafone is considering a public float in the next 18 months (*Press*, 24/11/98, "Vodafone aims to list", p.30).

Nobilo and Selak into National Liquor Distributors of Australia and Canada

National Liquor Distributors Ltd has approval to acquire **Nobilo Vintners Ltd** for a suppressed amount. At the same time (and a condition of the first acquisition), Nobilo has approval to acquire **Selaks Marlborough Ltd**, putting both wine producers under the same ownership. National Liquor is **33.33%** owned by **BRL Hardy Ltd** of **Australia** and **14.29%** by **Gardiner Capital Ltd** of **Canada**. Its remaining shares are owned **33.33%** by **Brian Vieceli**, **17%** by the **Nobilo family**, and **2.04%** by **Geoff Cumming**, all of **Aotearoa**. However a share float is in progress. It appears that the company will be known in future as Nobilo Wines rather than National Liquor Distributors.

Nobilo Vintners was owned before the takeover **51%** by the Nobilo family, **42.88%** by Gardiner Capital, and **6.13%** by Cumming. Selaks was owned by the **I.P. & M.K. Selak Trust Partnership** of **Aotearoa**.

The sale involves **75 hectares** of land:

- **13 hectares** at **Hammericks Road, Blenheim, Marlborough** (formerly part of Selaks);
- **25 hectares** at **Huapai**, west of **Auckland**;
- **38 hectares** at **Valleyfield, Marlborough**; and
- **38 hectares** leasehold at **Mohaka, Waihua, Hawkes Bay**.

According to the OIC, Nobilo before the takeover was the fourth largest wine company in Aotearoa by volume, with 50% of its sales being exported. In 1995 it accounted for 10% of the country's wine exports by volume. National Liquor is the third largest liquor distributor in Aotearoa, behind **New Zealand Wines and Spirits** (a **Lion Nathan** subsidiary) and **Allied Liquor** (a **DB Group** subsidiary).

Brian Vieceli is an executive director and distribution specialist with Nobilo. He has a long history with the liquor industry. Twelve years ago he was managing director of Quill Humphreys until it was merged into the DB Group (then Magnum). He ran Magnum's marketing division from Auckland for two years, then bought the Halswell Tavern in Christchurch. He and a former Quill Humphreys associate, Tom Sexton, formed National Liquor, which marketed BRL Hardy's Renmano wines. BRL Hardy is Australia's second biggest wine company (*Press*, 2/12/98, "Nobilo Wines offers shares, plans market listing and expansion", p.31).

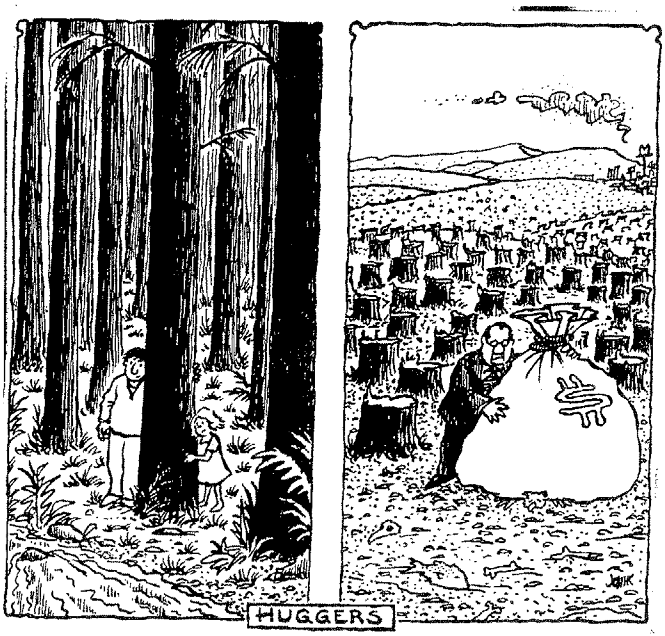
Gardiner Capital is the 90% owner of Emerald Capital Ltd, which owns both venture capitalist, Direct Capital Partners Ltd, and 82% of entertainment and leisure company, New Zealand Experience (see our commentary on the May and July 1998 OIC decisions respectively). Geoff Cumming is the other 10% shareholder in Emerald. Gardiner and Cumming were also shareholders in Fullers Group (including the Waiheke Island ferries) until its sale to Stagecoach (see below).

Following this transaction, Nobilo announced a $7 million public share float to fund expansion. The Nobilo family will take up 1.25 million of the 8.75 million new shares. The shareholding will then be the Nobilo family 31.6%, BRL Hardy 23.6%, Emerald Capital 18.5%, the Vieceli family 9.2%, and the public 17.1%. The board of the company will include managing director Nick Nobilo, executive director Brian Vieceli, and non-executive directors Geoff Cumming, Stephen Nobilo, and David Woods of BRL Hardy. Its chair will be former chief executive of Heinz Wattie New Zealand, David Irving. All receive "a generous wine allowance" (*Press*, ibid).

The OIC refers to a decision in August 1998 relating to this transaction. Most of the details of that decision have however been suppressed.

Stagecoach buys Fullers Group, including ferries to Waiheke Island

New Zealand Bus Finance Company Ltd, which is a subsidiary of **Stagecoach Holdings Ltd**, has approval to acquire **Fullers Group Ltd** for **$25,995,000**. Fullers was previously owned **27.9%** by **Devonport Steam Ferry Company Ltd** of **Aotearoa**, **12.08%** by **Gardiner Capital Ltd** of **Canada**, **1.73%** by **Geoff Cumming** of **Aotearoa** (see the item on Nobilo above) and **58.3%** by the "New Zealand public".



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Fullers appear to be doing well financially:

> "It is stated to-date the ferry service conducted by [Fullers] has been largely responsible for the growth of economic activity on Waiheke Island. At present Fullers Group Ferries are a high profile, attractive part of the Auckland maritime transport scene. The company has grown steadily with prudential management and without great access to capital".

Stagecoach intends to introduce more capital and integrate services with "the bus company" – presumably the Yellow Bus Company which they bought in August 1998, and Cityline, which they owned prior to that.

For detail see the article on Stagecoach in this issue. Stagecoach is notorious in the UK.

Housing Corporation sells further mortgages to Westpac

Westpac Banking Corporation Ltd or its subsidiary, **The Home Mortgage Company Ltd**, have approval to acquire further mortgages from the **Housing Corporation of New Zealand** for a suppressed amount. According to the OIC, the Home Mortgage Company bought mortgages from the Housing Corporation in 1996.

Chubb buys assets of Alarm Control and Answer Services

Chubb New Zealand Ltd, a subsidiary of **Williams Plc** of the **UK**, has approval to acquire "part of the business assets and undertakings" of two local companies: **Alarm Control (NZ) Ltd** and **Answer Services (NZ) Ltd** of Aotearoa for a suppressed amount. In both cases. "Chubb wishes to acquire the client base" of the company "in order to spread the fixed cost for its monitoring station and to give Chubb New Zealand Ltd and its subsidiaries an opportunity to provide other security and protective services to its client base".

Alarm Control monitors security alarms. It has a control room in the ASB Bank Building in Auckland, from which it monitors alarms all over Aotearoa. The company's Web site (http://www.nz-security.co.nz/monitoring/alarmcontrol/news/innovmag.htm) quotes a gushing piece from *Innovative Magazine*, May 1996.

> "Through glass the control centre to a casual observer looks something akin to space control at NASA.
>
> Buried deep in the heart of the ASB Bank building in Albert Street is not only a highly sophisticated intelligent monitoring station protecting one of the country's most secure and intelligent buildings, but the nerve centre of the nationwide alarm monitoring company Alarm Control (NZ) Ltd, which looks after security surveillance needs of thousands of buildings throughout New Zealand...
>
> The national monitoring centre in the ASB Bank building is electronically secured, bullet proof, bomb proof, intruder proof and totally self sufficient operating environment. The security detail is testimony to the company's commitment to provide complete and uninterrupted monitoring protection at all times and under any circumstances. Alarm Control's chief executive Barry Ulyatt leads an organisation that proudly claims ownership of some of the most advanced monitoring technology available in the world. It is driven by software – written by Alarm Control – which Barry Ulyatt says is without parallel and takes Alarm Control to the forefront of alarm monitoring...
>
> Back at the ASB Bank building, the national monitoring centre has fail-safe systems that include its own power source, air conditioning, radio and telephone lines, all secured separate to the ASB Bank building's own essential services".

It is not clear from the OIC decision just how much of this is being sold. However the company's New Zealand Companies Office record shows that on 6/10/98 it changed its name to Alcon Holdings Ltd and is in liquidation. Its shareholders are Barry and Linda Ulyatt, and Ian Papworth, all of Pakuranga, Auckland. Barry Ulyatt, Administration Manager, and Ian Papworth, Chartered Accountant, are directors of the company, along with John Delugar, solicitor, Jeffrey Meltzer, Chartered Accountant, and Adrian Osborne. What is being sold out though is a distinguishing features which it advertises as one of "ten reasons to choose Alarm Control": that it is "Independent: Alarm Control is solely a specialist alarm monitoring company" (http://www.nz-security.co.nz/monitoring/alarmcontrol/TENREASO.HTM).

Answer Services has been in business since 1964. It provides answer phone services through a number of call centres to "clients throughout New Zealand, processing in excess of five million inbound calls a year". It has a "paging network [which] covers the major metropolitan areas transmitting in excess of three million messages a year", and an alarm monitoring operation which "logs in excess of six million signals a year" (http://www.answer.co.nz/). Again, it is not clear from the OIC decision how much of its operation is being sold. Its directors are Colin Devine of Waiheke Island, Terence Nowland of Wellington, and Peter O'Connor, a Company Accountant, of Auckland. It is owned by Answer Services (Holdings) Ltd which has the same directors plus Jillian Devine of the same address as Colin Devine. The Devines and Nowland jointly own 281,250 A and B shares in the company, and Nowland additionally owns 468,750 A shares in his own right (the significance of the two types of share is not explained in the Companies Office record).

Quexco of the USA gets approval to buy GNB from Pacific Dunlop

Quexco Inc of the **USA** has approval to buy the **GNB Technologies Group** from **Pacific Dunlop Holdings (NZ) Ltd** of **Australia**. This includes "substantially all of the ... industrial battery, automotive battery and recycling operations" of Pacific Dunlop. The principle asset in Aotearoa is a recycling plant on four hectares of leasehold land at **31-43 Seaview Road, Lower Hutt**. This is the former **Ford Motor Company workshop** which is registered with the Historic Places Trust as a place with historical or cultural heritage significance or value. The price has been suppressed.

However, according to the *Australian Financial Review* the sale almost fell through because of the international financial crisis which has made banks more careful about lending. Pacific Dunlop had to cut the original price of A$900 million for the international deal by 13% (A$117 million) and finance 20% of the amount itself (*Australian Financial Review*, "Doubts on Quexco fund raising to buy GNB", September 1998; "PacDun says GNB sale may go flat", October 1998; "PacDun's battery hopes go flat", October 1998; "PacDun cuts GNB price tag", October 1998, http://www.afr.com.au).

Quexco is based in Dallas, Texas. According to GNB itself (6/7/98, http://www.gnb.com/ourstory/quexco.htm) the original sale price was US$550 million and required regulatory approvals in the USA, Australia and New Zealand. "Quexco Incorporated is a closely-held, private holding company for a group of businesses whose main focus is the manufacture and distribution of recycled metals in the United States and Europe. Quexco Incorporated and its affiliates currently have sales in excess of $1 billion, and 2,300 employees". It is "the largest industrial battery manufacturer in the USA, and the country's third largest producer of automotive batteries". Following the takeover, Quexco will have sales of over US$2 billion and more than 7,000 employees.

> "GNB Technologies was purchased by Pacific Dunlop in 1987 and is headquartered in Atlanta. With sales of US$730 million (A$1.2 billion) in its last fiscal year, it is one of the world's largest manufacturers of automotive and industrial batteries under the brand names Champion, Marshall Absolyte, MarathonT and Sprinter. Manufacture takes place at 18 facilities in the USA, Australia and New Zealand...
>
> "Quexco Incorporated, operating through its United States and European subsidiaries, is principally engaged in the recycling of scrapped lead-acid batteries, and the production of refined lead and lead products. The manufacturing operations are conducted from fourteen locations, three in the United States, three in Germany, three in France, two in Italy, two in the United Kingdom and one in Austria...
>
> "GNB Technologies is an integrated provider of power technology products. It manufactures and recycles lead-acid batteries for the automotive, recreational, boating, farm, heavy duty truck, electric utility, electric vehicle, photovoltaic, railroad, telecommunications and uninterruptible power supply markets in more than 50 countries".

Given the large increase in employee numbers and apparent duplication of manufacturing facilities, it looks likely the merger will lead to staff cuts and asset sales, though none of the three companies acknowledge this.

VA Tech Group of Austria buys Rolls-Royce Industrial Power

Elin Energieversorgung GmbH, a subsidiary of **VA Tech Group** of **Austria** has approval to acquire the **transmission and distribution business** of **Rolls-Royce Industrial Power (New Zealand) Ltd** from **Rolls-Royce Power Engineering Plc** of the **UK**, for a suppressed amount. It is "part of a global acquisition of the transmission and distribution business of **Rolls-Royce Plc**".

TiGold of Canada buys Westland Ilmenite, including 1,380 hectares of land

TiGold Minerals Inc, which is **80%** owned by **Bradley A. Quam** of **Canada** and **20%** owned by the public in **Canada** and the **U.S.A.**, has approval to acquire **Westland Ilmenite Ltd** for a consideration "to be advised". Westland Ilmenite is being sold by **New Zealand Titania Ltd**.The sale includes **277 hectares** of land at **Barrytown, Westland** and **906 hectares**, also

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at Barrytown, over which Westland Ilmenite holds a mining permit. The land, including this land and the farm land mentioned below, is "the site of existing ore processing facilities and/or overlies the ore deposit and is required for mining and ore processing".

The project has been controversial amongst locals because of its effect on farmland and bush.

According to the OIC, New Zealand Titania is owned by **North Ltd** of **Australia**, which bought the company from **Fletchers Challenge Ltd** in 1990. However, its relevant May 1990 decision said that Fletcher Challenge had sold its subsidiary, Fletcher Titanium Products Ltd, to Peko Wallsend Ltd, a North Broken Hill (Australia) subsidiary. The sale included 109 hectares of land, which in August 1990 was added to by an 87 hectare farm on State Highway 6 in Barrytown (by which time Fletcher Titanium's name had been changed to Westland Ilmenite). North Ltd have been trying to sell the project since 1994.

> "Westland Ilmenite owns the Barrytown Ilmenite venture that includes the mining permit, resource consents, building equipment, ore processing plant and land related to the venture. Westland also owns a 50% shareholding in **Amhana Farms Ltd** which owns **196 hectares** of farm land overlying ore deposits".

Presumably this is the 196 hectares involved in the two 1990 decisions.

> "North Ltd undertook feasibility studies on the viability of treating the ilmenite located at Westland and decided to dispose of its interest. North Ltd has been trying to dispose of its interest in the project since 1994... The applicant advises that they intend to acquire the project, update the feasibility studies and if practical develop it to the extent that is commercially viable as a producer of ilmenite concentrate and possibly TiO_2 pigment for export".

Ilmenite is used in the manufacture of pigment that is an ingredient in paint.

CITIC gets approval to buy Brierleys out of Central North Island Forests

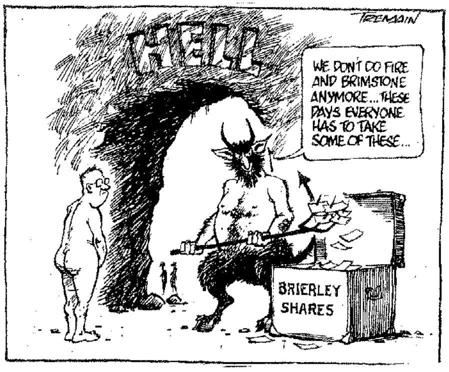
With the increasing senility of **Brierley Investments Ltd**, **CITIC New Zealand Ltd** has moved to get approval to take half of Brierley's share of the **Central North Island Forests Partnership**, which bought the **Forestry Corporation of New Zealand Ltd** in 1996. The Partnership consisted of **Citifor Inc. (37.5%, a CITIC subsidiary)**, **Fletcher Challenge Ltd** (through its forestry division, **Fletcher Challenge Forests Ltd, 37.5%**), and **Brierley's (25%)**. Citic New Zealand, which is 100% owned by the Government of **China**, has approval to acquire half of Brierley's 25% share for a suppressed amount.

> "The partnership agreement provides for the sale by a partner of all or part of its interest in the partnership subject to certain conditions. Additionally, the partnership agreement contains a dilution clause to the effect that if a partner is unable to meet its share of a cash call, the partners' beneficial interest in the partnership may be reduced. Accordingly, while a partner cannot be required to increase its interest in the partnership, it has the opportunity to do so as a result of the operation of the transfer provisions or practically as a result of dilution of another partner's interest".

However, at the time of the privatisation of the Forestry Corporation, it was reported that Brierley's had been given an option to sell its 25% stake after three years to Fletcher Forests for the market value of 93.3 million Fletcher Forests shares, to be paid in cash or shares. Fletcher Forests may in turn force Citifor to buy half Brierley's holding for cash (*NZ Herald*, 22/8/96, "BIL able to quit forestry holding in three years").

The consummation of the deal was made public only in December when it was announced that both Fletchers and Citic had bought half of Brierley's share, giving each of them half of the partnership. Fletcher Forests issued 46.65 million new shares (worth about $32.19 million on the sharemarket at the time) to pay Brierley's. Citic's cost was still undisclosed (*Press*, 08/12/98, "CNI restructure", p.24).

Brierley's exit will have been encouraged by financial problems in the partnership, which in July 1998 announced it was negotiating to restructure over $1.2 billion of debt after its Douglas Fir prices collapsed. The debt was raised to buy the Corporation. The partnership's "cash flow forecasts were based on heavy early harvesting of the former corporation's Douglas Fir crop. Unfortunately harvesting had to be reduced when Douglas Fir prices collapsed. The 12 banks involved have been kept aware of the situation". (New Zealand Forestry Web server, http://www.nzforestry.co.nz/generated/news/13027.html, 2/7/98, "Debt restructure talks for forestry partnership").



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Brierley's owned its share through **Tethys Investments Ltd** and **Semele Investments Ltd**. Its ownership is given as **20%** by the **Camerlin Group Bhd** of **Malaysia**, **6.4%** by the **Government of Singapore**, **6.7%** by **Franklin Resources Inc** of the **U.S.A.**, **40%** by the **"New Zealand Public"**, and **26%** by "unknown public" – presumably owned overseas. Brierley's overseas ownership is therefore around 60%.

The partnership's "core activities" are listed as including:

- management of **183,898 hectares** of plantation forests;
- log making;
- production of processed wood products ("timber and mouldings and millwork products");
- marketing and distribution of logs and processed wood products.

Its assets include **181,683 hectares** of Crown forestry licences. The balance of the forests it manages consists of

- **189 hectares** of forestry cutting rights over land beside the **Rotorua-Tauranga Highway**, approximately 30 km north of **Rotorua**;
- **1,857 hectares** of freehold land in **Canterbury, Whakatane, Rotorua, Tauranga, Mt Maunganui, Taupo** and the **Hawkes Bay Districts**;
- **169 hectares** of leasehold land in **Hawletts Road, 1-3 Maru Street, Mt Maunganui**, **Sala Street** and **Te Ngae Nursery, Rotorua**.

PPG (USA) buys technical coating business of Orica (formerly ICI)

PPG Industries Inc of the **USA**, through its subsidiary **PPG Industries New Zealand Ltd**, has approval to acquire "part of the business assets and undertakings of" **Orica New Zealand Ltd**, a subsidiary of **Orica Ltd** of **Australia** for **$40,711,234**.

Orica is the former ICL Australia which in February 1998 sold its pharmaceutical division to Zeneca Pharmaceuticals New Zealand Ltd, a subsidiary of Zeneca Group Plc of the UK. In January 1998 it bought the rights to the Levene paint brand name and Levene's Wairau Park "Levene Extreme" store on Auckland's North Shore following Levene's receivership, having bought Levene's paint factory a year before (*New Zealand Herald*, 15/1/98, "ICI buys rights to Levene name", p.D1). In February 1998 Orica also bought H. B. Fuller Powder Coatings (New Zealand) Ltd in New Zealand and Australia from H.B. Fuller Company Inc of the USA, again for a suppressed price.

The OIC says:

> "PPG is a global producer of industrial and decorative coatings, continuous-strand fibreglass, flat and fabricated glass and chemicals... It is stated the acquisition will enable PPG to extend its global reach and will provide synergies generated from the combined operation of automotive, automotive finish and industrial coatings business throughout Australia and Asia."

PPG's own Web site (http://www.ppg.com) says PPG "operates 74 major manufacturing and nine research & development facilities worldwide". The company in the year ended December 1997 had US$7,379 million in sales, US$1,175 million in profits before taxes and minority interests, and US$6,868 million in assets. It had 31,900 employees. It lists operations in the USA, Argentina, Australia, Brazil, Canada, China, England, France, Germany, Ireland, Italy, Japan, Mexico, and the Netherlands.

On 26/8/98, PPG announced that it

> "expects to complete the acquisition within a month, for about US$150 million, of the technical coating business of Orica Ltd., Melbourne, Australia, following government review.
>
> The business PPG is acquiring includes Orica's automotive refinish, automotive original equipment, coil, packaging and production coatings, generating annual sales of about US$100 million.
>
> Orica, the largest producer of automotive and industrial coatings in Australia and New Zealand, retains its architectural and powder coatings businesses.
>
> PPG's acquisition will include manufacturing, office, laboratory and warehouse facilities at Clayton, near Melbourne. About 600 Orica employees will join PPG" (http://www.ppg.com/frames/corpnews.htm).

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According to PPG's filing with the US Securities and Exchange Commission (SEC) for the fiscal year ended 31/12/97 (see http://www.ppg.com/frames/edgar.htm), "PPG is involved in a number of lawsuits and claims ... in which substantial money damages are sought. These lawsuits and claims relate to product liability, contract, patent, antitrust, environmental and other matters". It says that "a significant portion of such exposure involves three operating plant sites and one closed plant site. Initial remedial actions are occurring at these sites. Studies to determine the nature of the contamination are reaching completion and the need for additional remedial actions, if any, is presently being evaluated". Under "Environmental matters" it states that "PPG is negotiating with various government agencies concerning 65 cleanup sites, including 31 sites on the National Priority List. While PPG is not generally a major contributor of wastes to these sites, each potentially responsible party or contributor may face governmental agency assertions of joint and several liability as to each cleanup site".

Matsushita (Panasonic) buys dealership for its products from Fisher and Paykel

Panasonic New Zealand Ltd, a subsidiary of **Matsushita Electric Industrial Co. Ltd** of **Japan**, has approval to acquire the distributorship of its products (including Panasonic, Technics, and Ramsa) from **Fisher and Paykel Ltd** for **$10,000,000**. Fisher and Paykel has had the distributorship for "over 30 years" but "has decided to restructure its business operations and concentrate on certain core aspects of its business."

The ownership of Fisher and Paykel is interesting. It is **67.11%** owned by "the New Zealand public", but the remaining 32.89% is owned by "unknown public" of unknown countries. Given that the OIC has given Fisher and Paykel an exemption from the regulations because it is considered to be controlled in Aotearoa, it seems that 32.89% is overseas owned.

Pacific Capital buys back shares after failure to finalise Britomart

Hudson Corporate (New Zealand) Ltd of **Australia**, and **Idris Hydraulic (Malaysia) Berhad** of **Malaysia**, have approval to increase their shareholding in **Pacific Capital Assets Ltd** for a price "to be advised". Pacific Capital Assets, whose takeover by **Counterpoint Equities** was approved in August 1998, is the principal behind the controversial **Britomart transport development** on **three hectares** in **Britomart Place, Customs Street East**, and **Quay Street**, in central **Auckland**.

Its shareholders are currently

- **Hudson Investment Group Ltd (29%)**;
- **Idris Hydraulic (Malaysia) Bhd (23.2%)**;
- **Jihong Lu**, **Yoshie Itakura** and **David Wong Tung** of **Aotearoa (16.4%)** (The Savoy Trust);
- **First KL New Zealand Ltd**, of **Malaysia**, whose shareholders are **Donna Sophonponich**, **Albert Cheok**, and **Matthew Ng (11.6%)**; and
- the New Zealand and **Australian** Public (**19.8%**).

> "Pacific Capital entered into a "Master Development Agreement" with the **Auckland City Council** which was conditional on a number of things. Securities in Pacific Capital were issued to the public on the basis that if the Agreement was not declared unconditional by 30 June 1998, Pacific Capital would buy-back and cancel shares subscribed for by the public in the initial public offering. The Master Development Agreement has not been declared unconditional. Accordingly the buy-back process of the securities in Pacific Capital is presently under way".

Hence the proportion of shares held by Hudson and Idris will increase, requiring OIC consent. The decision allows the proportion to rise to **36%** in the case of Hudson Corporate, and **28.8%** in the case of Idris.

On the completion of the share buyback, the Counterpoint takeover will proceed.

Vermont completes acquisition of Viking Pacific after Maine/Skellerup collapse

Vermont Investments Ltd, which is **83%** owned by merchant banker **Goldman Sachs & Co.** of the **USA** and **17%** owned by "the New Zealand public", has approval to take 100% of **Viking Pacific Holdings Ltd** for **$3,675,000**. Approximately **74.4%** of Viking was already owned by Vermont, the other shareholders being **West LB** of **Australia** (**47%** of the remaining 25.6%), the New Zealand public (**38%**), and banks in **Australia** (**15%**). The sale includes **nine hectares** of land at **15-31 Thomas, Cass and Wilmhurst Streets, Temuka, South Canterbury**, and **seven hectares** at **1-37 Mt Wellington Highway, Auckland**.

> "The proposed acquisition arises as a consequence of the restructuring of the **Maine Investments Ltd** group of companies, and the establishment of the holding company Viking Pacific Holdings Ltd... In July 1998 there was a re-organisation of the Maine group resulting in the 'industrial assets' of the Maine group being transferred to Viking Pacific. The remaining businesses and assets stayed with

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> Maine. Immediately following the asset transfers, new shares in Viking Pacific were issued ... Vermont has offered to purchase certain shares in Viking held by former **Skellerup Finance** bondholders."

Viking was set up to own the eleven profitable companies taken from the ruins of the collapsed Skellerup group. The diversified group had been sold by Brierley Investments to former Skellerup chief executive, Murray Bolton, through Maine Investments, in a highly leveraged buyout with the help of Goldman Sachs. It crashed under the weight of its debt. The 11 companies include Skellerup Industries, Flo Max, Projex, Batavian Rubber, A and G Price, Harding Electronic Systems, Masport, New Zealand Insulators, Pacific Wallcoverings, and Paykel. The remaining companies, including DML Resources, Palmers Gardenworld, Brentex, Watkins, and Levenes, would be sold off.

Bondholders who invested $77 million in Maine via high interest bonds issued by its subsidiary, Skellerup Finance, lost heavily. Goldman Sachs offered them shares in Viking and the option to buy more, making them large losses on the deal. Initially the offer was refused. After considerable haggling a deal was accepted in June – only to have Goldman Sachs almost renege because of the rapidly falling New Zealand dollar which increased the cost of much of Maine's debt. Goldman Sachs asked for further concessions from the banks holding $230 million of Maine's first-ranking debt: Citibank (which broke ranks and sold its share before a deal was reached), BNZ, National Bank, Hong Kong and Shanghai Bank, Bank of Scotland, BBL (Belgium) and Societe Generale of France. Finally, a deal was settled in July, in which Goldman Sachs put in $32 million (reduced from $42 million) to reduce debt and provide working capital.

(References: *Listener*, 28/3/98, "The Maine Chance", pp.32-35; *Press*, 18/4/98, "Maine launches Viking Pacific", p.27; 2/5/98, "Maine deal announced", p.29; 17/6/98, "NZ dollar squeezes Maine Inv", p.30; 18/6/98, "Crunch looms for Maine deal", p.24; 23/6/98, "Citibank off-loads Maine Invest debt", p.26; 29/6/98, "Skellerup patience wears thin", p.28; 2/7/98, "Maine gets agreement", p.26).

The price being paid for the Viking shares in the current transaction shows how much the bondholders have lost, leaving Goldman Sachs with control of the remains of the group.

US resident buys 9,300 ha. Glenhope high country station

Douglas Alan Randles of the **USA** has approval to acquire up to **90% of Twin Rivers Ltd** which will purchase **Glenhope Station** on the **Lewis Pass Road, State Highway 7, Canterbury**. The station consists of **30 hectares freehold** and **9,265 hectares** of **pastoral leasehold land**. The price is not clear. The mechanism is that Randles is purchasing 90% of Twin Rivers Ltd from **Philip Wilson**. Randles is "making an advance of **$1,100,000** to the company to enable the company to complete the purchase of Glenhope Station". Wilson retains the remaining 10% of the company. The owners of Glenhope since 1993, **Mr and Mrs Milne**, will continue to have day to day responsibility for management of the farm operation.

Twin Rivers is "is committing itself to a minimum of $400,000 input for farm development and a total development programme that potentially could reach $1,350,000 over a six to eight year period". While this is expressed as a commitment, there is nothing to indicate that the OIC has made it a condition of approval which it can monitor and require to be carried out under its legislation. The station is claimed to be "marginally economic" at current stock levels.

> "While small development programmes have been undertaken by the last three farm owners over the last 80 years, inadequate follow-up fertiliser, weed control and pasture management due to a lack of funding, have resulted in the land reverting to a state not much better than its original condition".

It is not stated whether the land can sustain any more intensive use than "its original condition". However,

> "Glenhope is known as a property with potential but requiring a

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> significant and sustained development programme in order to achieve the potential that exists on the property. Mr Randles intends to provide the necessary capital to realise that potential.
>
> "The proposal represents a significant injection of development capital into a farming unit with relatively low profitability compared to other high country properties due to its lower than average stock rate. It is stated that the access to such development capital will enable a sustained pastoral development programme to be undertaken thus increasing the stock carrying capacity of the property".

Tourist use is also planned. Wilson is owner of **New Zealand Hunting and Fishing Ltd** which "has the largest professional guiding operation in the South Island". He will carry "overall responsibility" for the station. His hunting and fishing business

> "has increased by 30% per annum in the last three years and Mr Wilson has run into operational difficulties because of the difficulty in gaining access to suitable properties to accommodate his clients' requirements. The purchase by Twin Rivers Ltd of Glenhope Station will provide New Zealand Hunting and Fishing Ltd with access to much sought after recreational facilities for its clients".

No mention is made of the implications of this for access by others wishing to hunt and fish from the station.

The popular St James Walkway ends along the Boyle River, and according to the Hurunui District Council, "the [Boyle] river flats are private land, part of the Glenhope Station and should not be crossed" (http://www.hurunui.govt.nz/stjames/WHAT.HTM).

Randles, owner of a 91 hectare, 150 head cattle farm in Washington State, USA, "is a keen hunter and fisherman" and "also proposes to develop an outdoor recreational tourist venture targeting middle income U.S.A. citizens who have an interest in hunting and fishing safaris".

Tasman Agriculture Ltd buys 920 ha in three Otago and Southland farms

Tasman Agriculture Ltd has approval to acquire three farms in Otago and Southland for conversion to dairy farming. They are:

- **352 hectares** at **Benny Road, Wharetoa, Clydevale District, South Otago**, for **$1,400,000** (estimated carrying capacity 960 cows);
- **375 hectares at Te Anau Milford Sound Road, Castlerock, Lumsden, northern Southland**, for **$1,350,000** (estimated 870 cows); and
- **193 hectares** at **Boundary Road, Dipton, Southland**, for **$998,625** (estimated 550 cows).

It appears that there is one more such purchase to come: according to the company's Chairman's Address (announced to the New Zealand Stock Exchange on 30/10/98), four properties were purchased around that time.

Tasman is **58.25%** owned by **Brierley Investments Ltd (Malaysia/Singapore/USA)**, and **7.41%** by **SoGen Funds Inc**, New York, **USA** (according to substantial shareholding notices 16/2/98 and 30/9/98 respectively). It is one of the largest agribusiness firms in Aotearoa. According to the OIC, it has **69 dairy units in the South Island**, comprising approximately **14,635 hectares**. It also has **13 units** in **Circular Head, North West Tasmania**, and an **87.5%** shareholding in **The Van Diemen's Land Company** which operates a further **ten** dairy farms in **north-west Tasmania**. The OIC says:

> "TasAg's business is essentially the acquisition of suitable sheep and beef properties for conversion to dairy and the successful operation of such dairy units once fully converted. The Commission is advised that since 1988 TasAg has successfully converted 58 properties... All TasAg properties in New Zealand are farmed by sharemilkers, who operate the farms and who have a proven track record in the dairy industry... TasAg operates its farms under 50/50 sharemilking arrangements with the sharemilkers providing the livestock, plant and machinery to operate the business while TasAg provides the land, buildings and support services. Revenue from the milk is shared equally between the partners, while revenue from cull cows and calf sales accrues to the sharemilker".

In the Southland cases above, Tasman states it will supply **South Island Dairy Co-operative Ltd**; in Otago, **Kiwi South Island Dairies Ltd**. Tasman's Chairman, in the address quoted above, says "TasAg's share in South Island Dairy Co-operative Ltd is approximately 10% as measured by milk volume".

Nikken Foods (Japan) buys 162 ha. in

Amberley, Canterbury for organic farming

Nikken Foods Company Ltd of **Japan**, which is **67.63%** owned by **Dr Hirotomo Ochi**, has approval to acquire **162 hectares** of land at **360 Glasnevin Road, Amberley, Canterbury** for **$1,400,000**.

Nikken "intends to convert the existing farming operation on the property to an operation producing organic products including both organic sheep, cattle, vegetables and grain. Nikken Foods, as a manufacturer of natural seasoning, requires a large volume of vegetables for production". It will also produce "other health products" for export to Japan. It will export the produce to Japan, and will also purchase other organic produce from other New Zealand farms.

Development on the property will take two to three years, involving establishing a "wholly organic farm", which will take some time in order to rid the property of residues; and then building a factory to undertake the "initial processing" of the produce. Once the factory is established the company will "do a costings exercise to determine whether the final stages of processing can be done in New Zealand ... or should be done in Japan".

Inghams of Australia buys land near Taupo for poultry farming

Inghams Enterprises (NZ) Pty Ltd, which is a subsidiary of **Inghams Enterprises Pty Ltd** of **Australia**, has approval to acquire **234 hectares** at **387 Pokuru Road, Whakamaru, near Taupo, Waikato** for **$1,400,000** for **poultry farming**.

The OIC reports that

> "the principal activities of Inghams are poultry farming, poultry processing and feed milling. The Company has been carrying on its principal activities in New Zealand since 1990, when they acquired the assets of **Harvey Farms Consolidated Ltd (in statutory management)**... Inghams currently own approximately **184 hectares** of land throughout New Zealand on which it undertakes its existing business operations. Inghams intend to utilise the property as an extension of their existing New Zealand poultry operations".

In March 1990 we reported Inghams' takeover of Harvey Farms, Mount Grain Driers Ltd and J. M. Thomas Ltd. These were being sold off by Equiticorp as part of its liquidation. According to the OIC, the Inghams Group was at that time "the largest producers of meat and layer chickens, turkeys and ducks in Australia, with excess of 50% of the market. Inghams is not currently in the business of poultry production, processing, marketing and distribution in New Zealand and sees this acquisition of assets as an opportunity to expand its core business". In December 1995 Inghams received approval to acquire 59 hectares of land to extend their processing plant at Waitoa, Waikato, for $2,300,000. In July 1997, Inghams was given approval to acquire 67 hectares of land at Leslies Road, Putaruru, Hamilton, Waikato, for $580,000, to extend their existing poultry operations.

3,796 ha. land, forest rights from Flat Rock Forest Estate sold to UK companies

The receivership of **Flat Rock Forest Estate** has led to **3,796 hectares** of forest rights and land (**558 hectares** of rights and **3,238 hectares** of freehold land) being tendered and sold to three **UK companies** by the receivers. The receivers, **John Cregton** and **Jane Muir**, were appointed by the mortgagee, **Countrywide Banking Corporation** of the **UK.** The three were clients of "forestry advisers" **FIM (NZ) Ltd**, through which the tenders were made.

Ellis Campbell (NZ) Ltd owned by **Michael Campbell** and members of his family are buying

- forest rights over **46 hectares** of the **Wilanda Downs Forest, Wairaki, Southland** and
- the **140 hectare Rocky River Forest, Nelson**, which is freehold land for **$712,620** from **Clearwood Holdings Ltd (in Receivership)** and **Waimea Holdings Ltd (in Receivership)**.

In May 1995, we reported that Ellis Campbell (New Zealand) Ltd, ultimately owned by Ellis Campbell Group of the United Kingdom, was buying a further 98 hectares of land in Marlborough for $150,000. It proposed "to develop the property, which is currently reverting scrub land into a commercial forestry operation". Ellis Campbell bought 240 hectares of land in Marlborough in March 1990 and a further 807 hectares in December 1991. Some was existing forest; the rest was scrub land "reverting to weeds", which would also be converted to forest. However, the OIC reports now that it previously owned only 656 hectares of "forest holdings" in the Marlborough area, and so must have disposed of some since 1995.

Utaraya Finance Ltd is buying

- **26 hectares** of forest rights in the 101 hectare **Otaika Forest, Northland**;
- **20 hectares** of forest rights in the 27 hectare **Lawrence Forest, South Taranaki**;
- **2,576 hectares** of freehold land including the following:
    - **180 hectares** known as **Frances Creek** in **Upper Hutt, Wellington**;
    - the **158 hectare Kai Iwi Forest** in **South Taranaki**; and
    - the **2,153 hectare Medlicott Forest** in **South Taranaki**

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- the **85 hectare Flat Rock Forest** in **Hawkes Bay**

for **$2,512,300** from **Clearwood Holdings Ltd (in Receivership)** and **Kenilworth Forests Ltd (in Receivership)**.

The ownership of Utaraya was initially suppressed, but in February 1995, we reported that Utaraya Finance Inc, owned by two family trusts named Tirox and Rotix in Liechtenstein but ultimately owned in the United Kingdom, was buying 460 hectares of land in Northland for $880,000, and 325 hectares of land near Rotorua for $1,600,000 on which it proposed to establish a commercial forestry operation. We put this ownership to the OIC who in December 1998 acknowledged that this was still correct.

Utaraya owns forest holdings in Aotearoa of 774 hectares, valued at $3.1 million.

Highland Timber Plc, a publicly listed company, is buying

- **172 hectares** of forestry cutting rights in the 266 hectare **Rangitumau Forest, Wairarapa**;
- **86 hectares** of forestry cutting rights in the 602 hectare **Shannon Forest, Manawatu**;
- **208 hectares** of forestry cutting rights in the 611 hectare **Aokautere Forest, Manawatu**;
- the **143 hectare Lake Alice Forest**, **Manawatu**; and
- the **378 hectare Matauri Mara Forest**, **Manawatu**

for **$4,175,080** from **Lake Alice Forest Ltd (in Receivership)**, **Rangitumau Forest Ltd (in Receivership)**, and **Waimea Holdings Ltd (in Receivership)**.

In December 1997, we reported that Highland Timber Plc of the UK gained approval to acquire two blocks of land for forestry:

- 212 hectares (gross) and 175 hectares (net) (what gross and net means in the context is unexplained) in Russell Road, Wanganui, from M.G. and M.M. Reid, for $1,850,000 plus GST;
- 452 hectares at Te Haroto on State Highway 5 (Napier-Taupo Highway), Napier, Hawkes Bay, from Fletcher Challenge Forests Ltd for $2,000,000.

Other land for forestry

- **Southland Plantation Forest Company of New Zealand Ltd**, of **Japan**, has approval to acquire **652 hectares** of land in **Happy Valley Road No. 1 RD, Tuatapere, Southland** for **$510,000**, 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 has over 10,000 hectares of land in Southland, the last purchase being in August 1998. The forestry operation will be managed by **South Wood Export Ltd** of Japan, using entirely contract labour other than five forest managers.

Waihi Gold buys out Coeur Gold and Viking from joint venture, buys more land

Land is being bought in relation to the **Martha Hill** gold mine at **Waihi, Coromandel**. The last was bought in August 1998, and was one of a series, but one of these purchases is different.

Waihi Gold Company Nominees Ltd of **Australia** has approval to acquire **1.42 hectares** of land at **Junction Road and Grey Street, Waihi** from **Coeur Gold New Zealand Ltd** and **Viking New Zealand Ltd** for **$45,000**.

Waihi Gold Company Nominees Limited is owned **67.06%** by **Normandy Mining Limited**, and **32.94%** by **AUAG Resources Limited**, both of **Australia**. Coeur Gold New Zealand is a subsidiary of **Coeur d'Alene Corporation** of the **USA** and abandoned the nearby Golden Cross Mine in the vicinity because of instability in its tailings dam, attracting heated criticism.

The land is "a 2,095/10,000 share" of a **seven hectare** block. It "is owned as part of a joint venture between Waihi Gold, Coeur Gold Ltd and Viking Mining Company Ltd. Currently Waihi Gold own a **79%** interest in the freehold estate, Coeur Gold own **17%** and Viking Mining holds **4%**. The acquisition of the remaining freehold estate by Waihi Gold results from the termination of the joint venture".

Waihi Gold is also buying more land for the **Martha Hill** gold mine at Waihi. It has approval to acquire **0.2694 hectares** at **34 Grey Street, Waihi** for **$135,000** from **E.S. Rae**. As always ,

> "Waihi Gold holds rural and urban land in around Waihi as trustee for the participants in the Waihi Gold Mining Joint Venture... The property is being acquired to assist in providing a buffer zone between the Martha Hill mine and existing residential areas and to enable the extension of the existing mining operation ... The proposed extension of the mine will extend the life of the mine for approximately seven years and this will result in continued employment for the 135 people employed in the operation".

However, this time the OIC refers to the Waihi God Mining Joint Venture. It is not clear whether the companies, having heard that God is dead, believe they have found his burial place, or whether they are looking for a new God. We look forward to God being quoted on the futures market.

Other rural land sales

- **Jacobus Jacobs** of **South Africa**, has approval to acquire **18 hectares** of land at **Stokes Road, Karapiro, Cambridge, Waikato** for **$330,000** for floriculture.
- **Alfred and Carola Bierlein** of **Germany** have approval to acquire **50%** of **Ngapae Farm Ltd** for **$300,000**. The company owns **99 hectares** of land at **Kimbolton Road**, 18 km north of **Feilding, Wellington** which is used by the **Andrew Scott Equestrian Centre Ltd** as a horsebreeding and training facility. It has sold horses to Germany through the purchasers. Andrew and Louise Scott are the sellers of the shareholding in the company.
- **Case Farm Ltd**, owned **99.1%** by **Clifford Barron Swenson** and **0.9%** by **Molly Darragh Swenson** of the **USA**, has approval to acquire a **73 hectare** farm at **142 Steffens Road, West Eyreton, Oxford, Canterbury** for **$575,000**. It will be run by a New Zealand couple who lease back another, 190 hectare, property already owned by the Swensons. They use it for intensive mixed cropping.

We can find no record of a previous OIC decision as described. However, Clifford Woodrow Swenson and/or Molly Darragh Swenson of the USA received approval to acquire the 2,181 hectare Cromdale property at Lees Valley, North Canterbury for "approximately $800,000" in May 1990; and two other Swensons from the U.S.A. (who use the same law firm as the present case) have also bought land in Canterbury. They are Rebecca and Case Swenson, who with Tamara Current (also of the USA) received approval to acquire: a 113 hectare farm at Wolffs Road, Horrelville (which is a few kilometres west of West Eyreton) and the lease of a further adjacent 50 hectares for $385,000 in April 1989; the 50 hectare leased property (on the corner of South Eyre and Wolffs Roads) for $115,000 in April 1992; and a further 204 hectare farm at Summerhill, Rangiora for $469,687 in July 1992.

October 1998 decisions

TransAlta buys Southpower's energy supply business

TransAlta New Zealand Ltd, which is **67%** owned by **TransAlta Corporation** of Canada, has approval to acquire the **energy supply business** of **Southpower Ltd**. Southpower is owned by Canterbury local councils, including 88% by the Christchurch City Council, through its company, Christchurch City Holdings Ltd. The price has been suppressed.

The sale was one of the first divestments by power companies of their electricity retailing operations, forced on them by the Electricity Reform Act 1998. The Act banned any company from owning an electricity supply network (lines) operation as well as either an electricity retailing or generation operation. Most power companies chose, like Southpower, to retain their network, regarded as much easier territory, presumably because of its natural monopoly position. However, TransAlta, which owns **Capital Power**, and **EnergyDirect**, selling electricity in Wellington and the Hutt, instead opted to amass as many retail supply customers as possible.

In purchasing Southpower's lines business, TransAlta also purchased the "Southpower" name, presumably to profit from the confusion and loyalty of the original Southpower's customers. The local government owned lines company is now called "Orion". Interestingly, the wording of the OIC's approval allowed TransAlta to also take over Southpower's gas retail business (owned through Enerco New Zealand), though TransAlta publicly denied any such intention and it has since been sold to Contact Energy (*Press*, 24/10/98, "TransAlta denies gas bid", p.24). In fact TransAlta paid $2.6 million for Southpower's relatively minor Port-a-Gas assets (statement by TransAlta to the New Zealand Stock Exchange 30/11/98).

The sale is expected to lead to redundancies amongst Southpower staff, although those who retain their jobs will retain their conditions of employment for the time being. As with First Electric (see below), the new operation could be run from a call centre anywhere in Aotearoa – or Australia. According to the *Press* (24/10/98, "S'power lay-offs expected", p.2), "TransAlta has a history of large lay-offs with other New Zealand power companies it has bought into". In June 1995 Capital Power laid off 41 of its 184 staff when TransAlta bought a 49% share (now 100%). In late 1996 it merged Capital Power and EnergyDirect, resulting in almost 200 redundancies.

Though the OIC does not reveal the price paid by TransAlta, reportedly because TransAlta was simultaneously bidding for other companies and did not want to reveal its hand, TransAlta revealed it a month after the OIC's approval was given (and before the decisions were released by the OIC). It paid an astonishing $171 million, for an operation valued in 1997 by independent consultants at about $13 million. That was $770 for each of the 160,000 customers, and left Southpower (now Orion) and its owners bathing in cash (*Press*, 18/8/98, "Trading arm under offer", p.7; 28/11/98, "Power sale brings $70m", p.1; *Dow Jones Newswires*, 23/12/98, "Electricity Sector Ends Year of Crisis, Reform, Takeover", by Tracy Withers, http://www.nbr.co.nz).

For more information on the effect of the Act and on this sale, see the article elsewhere in this issue.

Holderbank buys remaining shareholding in Milburn New Zealand

Zealhoff Holdings Ltd, a subsidiary of **Holderbank Financiere Glaris Ltd**, of **Switzerland**, has approval to acquire the **27%** of **Milburn New Zealand Ltd** it does not already own, for a price "to be advised". Holderbank is **54.62%** owned by the **Schmidheiny Family** of

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Switzerland.

According to the OIC:

> "Since its establishment in 1912, Holderbank has expanded to become the world's leading supplier of cement, concrete, admixtures and aggregates, with operations in 56 countries on five continents, and interests in over 40 companies around the world".

Milburn "is predominantly engaged in the production and marketing of cement, concrete and other related products within New Zealand". It exports in a limited way from Aotearoa, mainly industrial lime and cement to the Pacific region, and Holderbank claims its full takeover will enable the development of export opportunities.

The buyout was a matter of considerable dispute amongst minority shareholders. The offer was made in August 1998 at 190 cents a share (costing Holderbank $70.4 million if it succeeded) – at that time 16% above the current share price and 27% above the average of the last two months. Nevertheless, it had the smell of an opportunist move in the depressed share market and low New Zealand dollar due to the economic downturn. Sharebroker J. B. Were and Son, AMP Asset Management (5.5%), and National Mutual (3.1%) all criticised the offer. J. B. Were pointed out that the low New Zealand dollar relative to the Swiss franc (18% lower than at the beginning of the year, and 29% lower than June 1997) meant the cost to Holderbank was 45% less than the shares' 30/6/97 market value. They, National Mutual, and AMP put the shares' worth at between 215 and 230 cents. Independent directors commissioned a report from merchant banker, Grant Samuels, which valued the shares at between 194 cents and 215 cents and suggested the mid-point (204.5 cents). Eventually, in November, Milburn upped their offer to 210 cents, by which time AMP and National Mutual had increased their expectations even further (up to 240 cents), though acceptances of the offer were nearing 90%. AMP and National Mutual's bluff was called. Between them they probably had enough (along with smaller shareholders) to prevent sales reaching the magic 90% shareholding level Milburn required to compulsorily acquire the remaining shares (it's called sanctity of private property). Fearing they might lose out on what was now an attractive (if not optimal) price, and be left isolated as minority shareholders with the shares difficult to sell, the two institutions hedged their bets. They sold some shares to cash in on the offer – enough that the 90% level would be reached – but also retained some shares (7.7%) to be compulsorily acquired. That gave them the right to challenge the valuation, and require a new valuation that must be accepted by both parties. This they did at the end of December 1998. It was announced in February 1999 and at 250 cents made Holderbank's offer look somewhat miserly. The new valuation is paid only to the shareholders who are subject to compulsory acquisition, but the challengers pay the costs of the valuation if it comes out the same or lower. Holderbank had got its company. (Ref: *Press*, 22/8/98, "Swiss owner buys rest of Milburn", p.21; 11/9/98, "Questions on Milburn", p.29; 14/9/98, "Criticism mounts at Milburn bid", p.30; 15/9/98, "Milburn shareholders advised to hold tight", p.29; 24/9/98, "Milburn directors repeat stand", p.29; 2/10/98, "Stand-off in takeover bid for Milburn", p.16; 3/10/98, "Milburn share sale adds mystery to bid", p.23; 23/10/98, "Stand-off on Milburn", p.32; 27/11/98, "Crunch time on Milburn, p.26; 28/11/98, "Holderbank takes Milburn", p.21; 23/12/98, "Offer for Milburn shares 'reasonable'", p.31; 31/12/98, "AMP objects to Milburn offer", p.32; 31/12/98, "AMP objects to Milburn offer", p.32; "Price set for Milburn", 23/2/99, p.28.)

The full takeover also is symbolic not only for the overseas ownership of companies formerly on the share market,

The gatecrashers spot the party food

but also for the increased centralisation of ownership of large companies. It was the last large (top 40 index) listed company based in the South Island (*Press*, 22/8/98, "Swiss owner buys rest of Milburn", p.21).

Milburn is one of only two cement producers in Aotearoa, with a cement works at Cape Foulwind, Westport. The other is Golden Bay Cement, owned by Fletcher Challenge. Golden Bay makes its cement at Portland near Whangarei, claiming a 52% share of the domestic market in 1997 (according to Fletcher Challenge's Security and Exchange Commission filing for the year ended 30/6/97, p.123). In September 1997, a newcomer's attempt to import cement from China through the Port of Napier was challenged by Golden Bay in the High Court on the grounds that its packaging misled customers into thinking it was a local product. It sought an injunction against the TONS Group of Hastings importing the product, but the judge only insisted they stamp "Made in China" on the packaging. The group had at that stage reportedly imported only 8,000 tonnes of the cement, which the big two tested. Milburn claimed it met local standards but was below the quality of their product (*New Zealand Herald*, 24/9/97, "Golden Bay stymies newcomer"; *New Zealand Herald*, 8/10/97, "Labelling hitch for cement").

Milburn owns surprisingly large areas of land: **3,576 hectares** freehold, **158 hectares** leasehold, and mining licences and easements over a further **258 hectares**.

It also owns 72% of McDonald's Lime and has a shareholding in Fiji's concrete and cement industry through Fiji Industries and Basic Industries. Its biggest overseas investment is in China, where it has a 50% interest in Yangtze Cement Holdings Pte Ltd, which in turn owns 50% of the Golden Cat cement works at Suzhou, 100km inland from Shanghai. It has management control of the Suzhou works, which is one of the top five producers in China, but has made losses since it was acquired in 1995 (*Datex New Zealand Investment Year Book 1998*, p.71).

Milburn owns two coastal freighters to carry its cement, the *Milburn Carrier 2* and the *Westport*. It makes heavy use of the port of Westport, one of its two wharves being devoted to cement. A Milburn subsidiary, Buller Port Services Ltd, manages the port for the local authorities that own it (*Press*, 31/12/98, "Big barge bound for Lyttelton", p.32).

Other subsidiaries include Wellington ready mixed concrete manufacturer Speirs Concrete Ltd; Quikcrete Ltd; Owhiro Bay Quarries Ltd; and Ries Coalmines Ltd (through McDonald's Lime); and Allied Milburn Ltd (50% owned by Milburn) owns 50% of Amberley Sand (1966) Ltd which has a lease over 12 hectares of land at Amberley for mining sand, gravel, and shingle. Milbum has absorbed subsidiaries Fraser Shingle Ltd, Guardian Environmental Ltd, Ready Mixed Concrete Ltd, Scott Quarries Ltd, Taylors Lime Company Ltd, Western Coal Mining Ltd, and Specialised Paving Ltd. It has a number of quarries including ones at Bombay, Manukau, and East Tamaki (depleted) in the Auckland area, and Dunback, South Canterbury.

In March 1991, the OIC appeared to approve Milburn avoiding tax. Milburn borrowed $40 million from Westpac Banking Corporation. It did this by setting up a Unit Trust (called Milburn Unit Trust) to buy preference shares in a Westpac subsidiary. The OIC in approving the transaction said: "The Unit Trust is created for technical company law and taxation reasons". The Unit Trust used subsidiaries Taylors Lime Company and Alstone Holdings (NZ) Ltd as nominal shareholders.

AMP buys retail operations of Citibank

AMP Ltd, 89% owned in **Australia**, has approval to acquire "certain assets and liabilities of former retail operations" of **Citibank NA New Zealand Branch**, owned by **Citibank NA** of the **USA.** The price has been suppressed.

Citibank (or Citicorp), the major Rockerfeller-descended bank, recently merged with the huge Travelers financial services group to become Citigroup – and promptly sacked 10,400 or 6% of its 160,000 international workforce (*Press*, 17/12/98, "Citigroup to axe 6% of workforce; cost $1.7b", p.37).

Linfox Group of Australia buys old Wiri Ford plant for warehouse

Drof 2 Pty Ltd, part of the **Linfox Group** owned by **Lindsy and Paula Fox** of **Australia**, has approval to acquire the former **Ford** vehicle assembly plant at **Plunket Ave, Wiri, Auckland**, for a **suppressed amount**. ("Drof" is "Ford" spelt backwards.) The plant covers **ten hectares** and is being sold by the **Ford Motor Company of New Zealand Ltd**, owned by the **Ford Motor Company** of the **U.S.A.**, following the closure of all motor vehicle assembly plants in Aotearoa. Linfox "is

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involved in the business of supply chain management. This is the management of products through the various supply chain links for local and overseas manufacturers as well as local retail chains. The Linfox Group is experienced in the development, upgrading and management of warehouses and the conversion of former motor vehicle plants to warehouse use".

Retrospective approval to Brocker for designated Beachhaven TVNZ land

Brocker Investments (NZ) Ltd, a subsidiary of **Brocker Investments Ltd** of **Canada**, has approval to acquire **two hectares** of land at **17-19 Kahika Road, Beachhaven, Auckland** from **Television New Zealand Ltd** for **$3,400,000**. The approval is required because the land adjoins the foreshore and part of it is designated as a **proposed reserve** and **coastal conservation area** under the North Shore City Council Proposed District Plan. The land was acquired on 30/6/98 to be the head office and provide warehouse space for Brocker NZ and **Sealcorp Computer Products Ltd**, a Brocker subsidiary. The OIC has dutifully given its consent retrospectively.

Retrospective approval to Westpac to buy more mortgages

Retrospective approval is given to **Westpac Banking Corporation Ltd** of **Australia** or its subsidiary, **Home Mortgage Company Ltd**, to acquire mortgages and other securities from the state-owned **Housing Corporation of New Zealand**, and from the **Mortgage Corporation of New Zealand Ltd** (or the **Mortgage Corporation of New Zealand No. 2 Ltd**). The price in both cases has been suppressed.

Stryker Corporation buys Howmedica from Pfizer

The **Stryker Corporation** of the **USA** has approval to acquire the business and assets of the **Howmedica** business of **Pfizer Laboratories Ltd**, a subsidiary of **Pfizer Inc** of the **USA** for **$10,260,169**.

> "Stryker and its subsidiaries develop, manufacture and market speciality surgical and medical products, including orthopaedic implants, powered surgical instruments, endoscopic systems and patient care and handling equipment for the global market."

According to CNN Financial Network, the deal was announced several months before the OIC gave its approval: on 14/8/98, CNN reported that

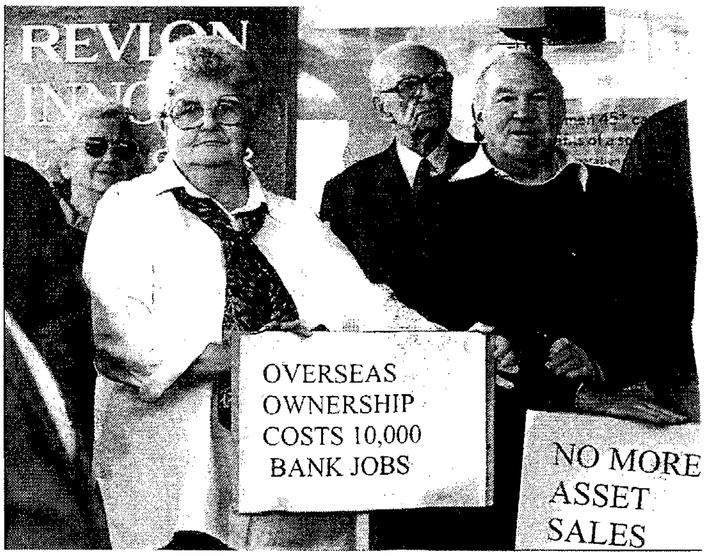
> "Medical equipment manufacturer Stryker Corporation said Friday it will acquire Pfizer Inc's Howmedica unit for US$1.9 billion.
>
> Like Stryker, Howmedica manufactures orthopaedic instruments. Stryker already has revenue of about US$980 million. By acquiring Howmedica, with sales of more than US$800 million, the company would become one of the largest medical products companies in the rapidly consolidating industry.
>
> The number of players in the market is shrinking due largely to cost cutting efforts at hospitals and efforts by big pharmaceutical firms to spin-off non core assets and focus on the more lucrative drug portion of their business. With the purchase, Stryker would corner roughly 15% of the US$10 billion global orthopaedic market, and more than 20% of the reconstructive-device market.
>
> Stryker makes reconstructive products for hips, knees and shoulders, and also sells spinal implants, powered surgical instruments, specialty hospital beds and other products. About 65% of its sales are in the US, with 25% in Asia and 10% in Europe.
>
> Howmedica is the third-largest producer of reconstructive devices, and garners more than 30% of its sales from Europe. Less than 50% of its sales are in the US" (http://cnnfn.com/hotstories/deals/9808/14/stryker/).

Quayside (Singapore) sells Viaduct Basin to Symphony, forced to buy units

Quayside Properties Ltd, a subsidiary of **Heng Holdings SEA. (Pte) Ltd** of **Singapore**, has approval to acquire "various stratum estate units" in a commercial property at **300 Queen Street Auckland**, and **24 stratum units** in the **Heritage Hotel, Christchurch**, from **Symphony Group Ltd** for a suppressed amount.

The purchase is under duress due to the financial crisis in South East Asia.

In March 1997, Heng Holdings received OIC consent to buy **two and a quarter hectares** of Viaduct Basin land in the Central Business District of Auckland from Turners and Growers Ltd for "approximately $17 million". It



includes the Old Market Buildings, the New Market Building, and the Jaybell car park. It was stated that "it is proposed to undertake a multi purpose development on the land, which will include tourism, leisure and entertainment, commercial and residential facets". In 1994, Guinness Peat Group of the UK, controlled by Ron Brierley, bought the Turner family's 25% shareholding in Turners and Growers, and later raised its holding to 28%. GPG's main interest in Turners was the five hectares of land it owned in Viaduct Basin, which are next to the proposed America's Cup headquarters, and were expected to rocket in value for the cup challenge. Turners, under GPG's control, sold the five hectares for $24.1 million, compared to a value of about $30 million for the whole company implied by GPG's purchase price. (See our commentary on the March 1997 decision).

Heng either paid too much or bit off more than it could chew. It said at that time that it planned a $350 million development using overseas loans (mainly from Singapore) including a 300-room five-star hotel, leisure and entertainment centre, housing and shops. To raise the loan, in September 1997, the OIC gave **Mancon Berhad of Malaysia** approval to take 51% of Quercus Investments Ltd, owned by Heng Holdings, which has a perpetual lease over the Viaduct Basin land. The purchase was in fact a loan: the consideration for the acquisition was $51 plus shareholder loans of "approximately $6.6 million". The OIC reported that

> "Heng Holdings approached Mancon and presented the concepts of the project. Mancon expressed an immediate willingness to invest in the project and as a consequence a mutual agreement was reached by both parties. ... It is stated Heng Holdings has been actively trying to secure the necessary resources, both financial and non financial, in order to complete a project of such magnitude and significance to New Zealand".

Now however,

> "the group of companies in Singapore has been affected by the financial and economic crisis in Asia and this has impacted on the proposed development of the Viaduct Harbour Basin property, to the extent that Heng Holdings has no real alternative but to endeavour to exit its investment at the Viaduct Harbour Basin on the best possible terms.
>
> ... negotiations with Symphony Group were long and difficult and ended up with a deal being concluded for the total purchase price of **$21 million** for the three sites, but with the condition that Quayside properties is required to take certain Symphony Group's properties as part of the purchase..."

which says as much about difficulties Symphony has in selling its units as Heng's financial state.

Heng Holdings is a subsidiary of **Tong Nam Contractors Pte Ltd** which is **90%** owned by **Heng Hiang Boon and Heng Boon Heng** and **10%** by **Mrs Tan Leng Cheng**, all of **Singapore**.

Control of Noahs Hotel and AMP Centre, Christchurch, sold for $1

Etsumei Sun, a resident of **Japan**, has approval to acquire **88%** of **Emmons Developments New Zealand Ltd** for **$1**. The company owns **Noahs Hotel, the AMP Centre**, and an adjoining parking building in **Cathedral Square, Christchurch**. Four of the current six shareholders are selling up due to "pressure being brought to bear on the outgoing shareholders to realise their assets by banks in Japan and is a direct result of the 'Asian Meltdown'". The new shareholding will give complete control to the Sun family. The four selling are **Tetsuzo Ota**, **Joji Otomo**, and **Shiro Otomo**, all residents of **Japan**, and **Chung Li Sun**, a resident of **Singapore**, and the father of Etsumei Sun. It is not stated who owns the remaining 12%, other than the implication that it belongs to the Sun family, who wish to "concentrate on considering opportunities for growing their investment interests in New Zealand".

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Walter Peak Station, Queenstown, sold to USA

Sale of the well known **Walter Peak Station** on **Lake Wakatipu, Queenstown, Otago**, by **JL and GR Hargest** of **Aotearoa**, has been approved for a suppressed amount. The station, in **Mt Nicholas Beach Bay Road**, has **375 hectares** of freehold land, and **25,758 hectares** of land under a perpetually renewable Crown Lease (known as a "Special Lease"). The land is currently used for sheep farming, and the new owners intend to develop the agricultural activities, but also investigate developing the tourism potential of the huge station.

The purchasers are **Ian Koblick** and **Tonya Koblick** of the **USA**, **Morris Kahn** of **Monaco**, **Benjamin Kahn** of the **USA**, and **David Kahn** of **Israel**. Oddly, the percentage each of them holds in the station has been suppressed, along with the price.

According to the *Southland Times* (14/11/98, "American couple among new Walter Peak owners", by Sue Fea), the vendors, John and Jill Hargest, farmed Walter Peak for 20 years. The new owners "would continue to run the property as a high country sheep station, managed by John and Sharon Templeton, previously of Mararoa Station, near Te Anau. Neighbouring land occupied by Walter Peak Tours Ltd is not included in the sale deal".

All the new owners have interests in underwater tourism. Ian G. and Tonya A. Koblick are, respectively, President and Chairman of the Board of Directors, and Director and Secretary, of Marine Resources Development Foundation. Most other Directors have a strong US Navy or Air Force background, and include former astronaut, Scott Carpenter.

> "Marine Resources Development Foundation (MRDF) began in 1970 in the United States Virgin Islands, created by its current President, Ian G. Koblick . During the subsequent years, MRDF worked with the Governor of the U.S. Virgin Islands and the Governor of Puerto Rico, helping these islands establish ocean policies, set up marine training programs, operate undersea labs, improve fisheries techniques, test new diving equipment, initiate environmental management strategies, and develop marine archaeological and commercial diving techniques.
>
> In 1976, MRDF moved its headquarters to Fort Lauderdale, Florida and began working with the U.S. Department of Commerce on the creation of a national ocean program. From 1981 through 1982, MRDF operated the Golden Venture, a 147-foot research vessel equipped with submarines, cranes, and diving equipment designed for ocean exploration. This vessel was used to recover artefacts from the sunken Spanish galleon, Nuestra Senora de Atocha, one of the most significant shipwreck finds in American waters.
>
> In 1985, MRDF relocated within Florida to a coastal site in Key Largo. This education and research centre started hosting students in the MarineLab Undersea Laboratory, a small underwater habitat, in 1985. The MarineLab Environmental Education Program began that same year, hosting around 1000 students.
>
> Currently, MRDF operates two environmental centres, the one in Key Largo and the Tugaloo Environmental Education Centre in South Carolina; operates the Scott Carpenter Man In The Sea Program at the Key Largo centre; and provides marine consultation services to nations around the globe" (http://www.mrdf.org/history.htm).

The Kahns are the owners of the Israel-based Coral World International, which is jointly owned by Ampal (see below) and the Kahn Group. Morris Kahn was the founder of the Kahn Group, and current president of Coral World is his son, Benjamin Kahn, who is also President of the Maui Ocean Centre, Maui, Hawaii. Coral World owns the Underwater Observatory Marine Park in Eilat, Israel, as well as two in Australia (Underwater World Perth, and

Oceanworld Manly, NSW). It has developed similar parks at St. Thomas in the US Virgin Islands, in the Bahamas, and in Jakarta, Indonesia. (See http://www.hotspots.hawaii.com/mauirpt.html, http://www.coralworld.com/consulting, and http://www.coralworld.com/eilat/oceanarium).

The company describes itself as follows:

> "Coral World International Ltd (CWI), a corporation registered in the Isle of Guernsey, was formed in 1988 as the parent company of its operating subsidiaries. Coral World International is owned by the Ampal – American Israel Corporation, and by the Morris Kahn Group. Each party currently owns a 50% share of the company. Founded in 1942, Ampal is a New York-based public corporation listed on the American Stock Exchange. Holdings include investments in hotels, real estate, finance, energy distribution, basic industry, high technology and communication. The Morris Kahn Group is active in diversified business worldwide, including Aurec Ltd., a major holding company, jointly owned with the Southwestern Bell Corporation. Aurec maintains subsidiary companies in the fields of software, advertising, and cable television. Each of CWI's subsidiaries is a chartered or incorporated company in the country in which it operates" (http://www.coralworld.com/profile).

Regarding the parks they develop:

> "Coral World International and the Coral World Marine Parks were conceived in the mid-1970s as the brainchild of entrepreneur Morris Kahn and world renowned reef biologist David Fridman. Their vision was based on the concept of a revolutionary kind of aquarium, an underwater observatory where visitors can enjoy close-up encounters with coral reefs and other aquatic forms of life in the Red Sea, without getting wet...
>
> "There are two types of Coral World Marine Parks. The first can be built only at coral reef sites where the water is pure and clear. The second can be built at practically any seafront location. Each type presents its own distinctive and extraordinary undersea experience. Eilat, St. Thomas and Nassau are home to the first type of Coral World. At these sites, visitors cross a bridge over the reef to enter the underwater observatory. At their leisure, they can observe fish and other reef dwellers from this location in the depths of the sea. This undersea experience, previously available only to divers and scientists, has a profound and lasting impact on all visitors. The underwater observatory is complemented by a marine park on land which maintains a unique, open water circulation system, enabling live corals to be displayed together with many exotic fish and invertebrates. The second type of Coral World is found in the marine parks at Perth and Manly in Australia. The heart of this attraction is an acrylic tunnel, in which visitors stand on a conveyor belt and are taken on a journey under the sea. Here they view, as divers would, the excitement of underwater sea life. Unlike the other Coral Worlds, which can only be built at coral reef sites, the new acrylic tunnel Coral World can be built at practically any seafront location".

More of Closeburn Station, Queenstown, sold for residential subdivision

A further block of **Closeburn Station** on the **Glenorchy-Queenstown Road, Queenstown** is being sold for residential subdivision. The land adjoins both Lake Wakatipu and conservation land. The purchasers in this case are **David Salman** and **Walter Jared Frost** of **Indonesia**. Salman, through his **70%** holding in **JF Investments Ltd** is also a seller (**D Broomfield** of Aotearoa owns the other 30% of J. F. Investments). They are buying a **two hectare** block for **$134,588**, plus **$6,000 per year** "for expenditure of a capital nature" on the farming operation on the remaining station. The OIC says that

> "Without the injection of the capital from the sale of the residential lots and the annual levy the ongoing farming operation of Closeburn Station would continue to decline to the extent that Closeburn Station would become a non-economic farming unit".

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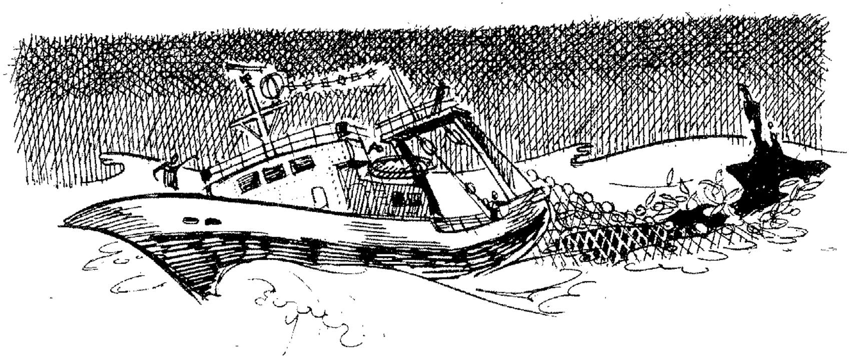

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Salman appears to be giving himself a better deal than other block buyers. The last such sale recorded by the OIC was in July 1998 when three approvals were given for the sale of blocks of this land. Each block was under half a hectare, and the sale price of each was $500,000 plus an annual levy of $3,000. The purchasers were from Singapore and Malaysia. Each also acquired "an undivided 1/27th share in 926 hectares of land being the area of Closeburn Station not set aside for residential development".

In April 1998, RMI Resources Ltd, of which Salman is the principal shareholder, received approval to acquire up to 70% of JF Investments (New Zealand) Ltd which owned the 935 hectare Closeburn Station. The OIC said:

> "The proposal provides for the introduction of venture capital required to establish a 21-27 lot residential subdivision development on part of the property known as 'Closeburn Station', Queenstown. 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. The proposal will result in the protection and development of the conservation features contained in and adjoining the property and provide guaranteed public access to those features".

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.

Broomfield is the developer behind the Quail Rise subdivision at Frankton near the Lower Shotover Bridge. It is divided into 31 sections from 1,200 sq. m. to around 6,000 sq. m., priced at around $89,000 each. A number are selling to Asian investors seeking to place their money in a safe haven (*National Business Review*, 20/11/98, "Southern sections sell like hot cakes", by Chris Hutching, p.73).

Other rural land sales

- **Georges Michel Ltd**, owned by **Georges Maxime Michel** of **France**, has approval to acquire a further **three hectares** of land adjacent to **six hectares** it already owns. The land is in **Vintage Lane, RD 2, Blenheim, Marlborough**, and is being purchased for **$250,000**. "The two properties had been operated in common with the rest of the **Merlen Wines Ltd** vineyard before the company went into receivership". He intends to "revitalise the neglected vineyard". In December 1997 we reported that Georges Michel Ltd gained approval to acquire a six hectare vineyard in Rapaura Rd, Blenheim, owned by Merlens Winery Ltd (in receivership and liquidation) for $620,000. At that time Michel was reported to be a citizen of France but a resident of the Island of Reunion.
- **Lay & Wheeler Group Ltd** of the **UK** has approval to acquire a half share of **Clayvin Estate Vineyards Ltd** which own **16 hectares** of land at **Wrekin Road**, near the upper reaches of the **Brancott Valley, Marlborough**. The price is **$1,750,000**. Lay & Wheeler, established in 1854, is based in Colchester, UK. The purchase is vertical integration into the UK company: the OIC says the company "is regarded as one of the UK's pre-eminent wine importers" with "strong connections" with the importation of wine from other wine companies in Aotearoa. It is owned by **John Richard Wheeler (39%)**, **Johnny Wheeler (26%)**, **Mary Wheeler (19%)** and **Elizabeth Lee (16%)**, all of the UK.
- James Alexander and Sharon Lee Vyborny of the USA have approval to acquire a ten hectare vineyard in Hawkesbury Road, Renwick, Marlborough from Tresmere Holdings Ltd of Aotearoa for $1,042,500. The grapes will be sold to wineries in California as well as to local wineries.

November 1998 decisions

TransAlta buys retail electricity supply business from Power New Zealand

TransAlta New Zealand Ltd, 67% owned by **TransAlta Corporation** of **Canada**, has approval to acquire the **retail electricity supply business** of **Power New Zealand Ltd** for a suppressed amount. Power New Zealand is **80%** owned by **Utilicorp United Inc** of the **USA**, **10.7%** by **Waitemata Electricity Region Territorial Local Authorities** and **9.3%** by "the New Zealand public".

The purchase gave TransAlta 227,000 new electricity customers, giving it a total of 530,000 or about one third of the market (*Press*, 14/11/98, "TransAlta NZ powers ahead", p.23). Though the OIC suppressed the price when it released its decision, on 31 December 1998, TransAlta had made a statement to the New Zealand Stock Exchange announcing the price a month previously (30/11/98), and news media had known at least two days before that. The price was $140.4 million for the Auckland purchase compared to $171 million for Southpower. So TransAlta paid considerably less per customer to Power New Zealand – $470 – than the $770 it paid to Southpower's local authority owners. Small surprise that it wanted Southpower's price suppressed until it had completed this purchase.

At about the same time, TransAlta announced that it had offered $52.5 million to Power New Zealand for its interest in the Rotokawa steam field and electricity generation station (*New Zealand Herald*, 30/11/98, "$52.5 offered for Rotokawa station", p.D2).

Power New Zealand's sale of its retail customers was forced by the Electricity Reform Act 1998, which forces companies to choose between owning an electricity supply network (lines) operation and owning an electricity retailing or generation operation. Power New Zealand (like most local electricity companies) chose to retain its monopoly lines network; unusually, TransAlta chose to retain its retailing operation. Since this approval, both have aggressively sought to expand their holdings.

For more detail on TransAlta, Utilicorp, and a background to the effects of the Electricity Reform Act, which have led to a rush of privatisation, increased overseas ownership of the industry, and highly speculative prices being paid, see the article elsewhere in this issue.

Sovereign sold to ASB Life

ASB Life Assurance Ltd, a subsidiary of **ASB Bank**, has approval to acquire life insurance and funds management company, **Sovereign Ltd** for **$238,400,030**. ASB is **75%** owned by the **Commonwealth Bank of Australia (CBA)** and **25%** by the **ASB Bank Community Trust**. Sovereign had been owned **53.97%** by portfolio shareholders from the **USA, UK, Australia, Germany, Italy**, and other countries. The acquisition is intended to "facilitate the ASB group's development in the life insurance market segment". It includes **0.9 hectares** at **Weiti Road, Orewa, Auckland**.

The takeover was via a cash offer of 225 cents per share and announced in early October, a month before OIC approval was given. Sovereign listed only in April 1998, offering shares at the same price – 225 cents – and traded between 142 cents and 244 cents. By the time of the takeover they were at 232 cents, having risen 36 cents on the basis of the rumour of a takeover. Sovereign's non-executive directors accepted ASB's offer price after a valuation by Auckland merchant bank, Grant Samuel, valued the shares at between 210 and 230 cents. Part of the background to the acceptance was the increasing number of mergers within the Australasian finance industry, making it difficult for a small operator like Sovereign to survive. (*Press*, 9/10/98, "ASB bids for Sovereign", p.27; 29/10/98, "Sovereign directors favour bid", p.29; 4/1/99, "Axe falls on Sovereign", p.28.)

Kapiti sharebroker, Chris Lee, criticised the takeover in his fortnightly column in the business pages of the *Press*. Describing ASB as a "niche Auckland bank without the size to be a significant player in its market", he said its primary activities were mortgages and as a savings bank. It needed to buy more market share if it was to get into funds management. However, Sovereign's strength was as a reinsurer and a funds management intermediary with only a small income from life insurance. Its main income was through financial planners who recommend Sovereign managed funds to their clients. But Sovereign then passes the money on to other fund managers: its activities were "packaging and administration" of the funds. Lee described this role as "inefficient, highlighting the demerit of double 'intermediation costs', without any hope of double the market returns". He suggested ASB would be trying the same game of "intermediation", and would be a likely buyer of the Public Trust if it is privatised – and then itself a likely target of a larger institution.

However the ASB challenged this, saying it was the fastest growing bank in Aotearoa (other than by acquisition) with high customer loyalty and customer service ratings. Its marketing director, Barbara Chapman, asserted that Sovereign was not mostly involved in managed funds as Lee claimed, but "is a market leader in the life, disability and term insurance business". She said "customers see their banking, insurance and funds management requirements as one". Lee responded that though perhaps "a" market leader, Sovereign was far from being "the" market leader in size, and challenged her assertion that financial markets were becoming one. Chapman, defending ASB's small size, had said that "it spurns the notion that 'big is best/big is necessary'"; Lee retorted: "Is the ASB's interest in Countrywide, where it was beaten to

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the punch by the National Bank, consistent with [this explanation]?" (*Press*, 2/11/98, "ASB bid barely causes ripples", p.26; 16/11/98, "ASB puts its case on Sovereign bid", p.19).

In March 1996, Sovereign Assurance Company Ltd, which was then owned "approximately 37.5% by various overseas individuals", received OIC approval to buy FAI Holdings New Zealand Ltd, a subsidiary of FAI Insurances Ltd of Australia. FAI owned Metropolitan Life, and Sovereign and FAI/Metropolitan were ranked 10th and 11th among life insurance companies (by annual premiums in force) at the end of 1994 (*Independent*, 8/3/96, "Life Insurance Top 20", p.26). Combined, they were reported to be among the top three based on volume of "new individual regular premium business" but about 6th in the 1994 ranking. Metropolitan also owned 38% of listed property investor Newmarket Property Trust and controlled its 29% owned rest home operator Metropolitan Lifecare – which had been in trouble with the Securities Commission which found shortcomings in a prospectus issued by it in 1994. It referred to "the inexperience of directors, their delay in warning investors of the likely prospectus shortfall, and the inadequacy of the company's management and management information systems. Company advisers were also criticised" (*Press*, "Sovereign to buy Met Life", 16/3/96, p.27; 27/4/96, "MetLife will look into commission's findings", p.28; 29/4/96, "Master trusts yet to take hold in New Zealand", p.34).

In May 1996, Sovereign Financial Services Ltd, a subsidiary of Sovereign Assurance Holdings Ltd, by then "approximately 47.2% owned by offshore investors", received OIC approval to buy up to 100% of S.H. Lock (NZ) Ltd, a subsidiary of S.H. Lock Consolidated Ltd of the UK.

Azimuth Consultants bought out by Intelligroup of the USA

Intelligroup Inc of the **USA** has approval to acquire the **Azimuth Group**. Locally owned and independent, Azimuth was one of the country's best respected information technology management consulting groups. The acquisition, for **$29,756,370**, includes **Azimuth Holdings Ltd**, **Azimuth Consulting Ltd**, **Azimuth Corporation Ltd**, and **Braithwaite Richmond Ltd**. The vendors are **David Anthony Stott** and **Alexander Wilson**, each with **50%**. The OIC reports that

> "... the Azimuth Group provides business planning and management consulting services and information delivery services to a wide ranging client list of multi-national, national and regional organisations in both the private and state sectors. Intelligroup states it wishes to expand its Australasian and Asian operations. ... the proposed acquisition will provide Intelligroup with a strong New Zealand base with additional offshore operations in Australasia and Asia. ... the acquisition will also complement the existing operations of Intelligroup in Australasia and Asia and will provide a significant broadening of the locations from which Intelligroup will be able to offer its services".

Reuters reports that Azimuth has a staff of about 100 (most of them highly experienced and qualified), while Intelligroup employs over 1,300 people around the world (*Press*, 1/12/98, "NZ consultancy sold", p.26).

Land for forestry

- **Jan Van Rees**, a **Dutch** national who resides 11 months of the year in **Indonesia**, has approval to acquire **20 hectares** on the corner of **State Highway 2** and **Te Wera Road**, approximately 5km west of **Matawai** and 76km from **Gisborne**. He is buying it from **Longbow Forestry Ltd** of **Aotearoa** for **$116,387**. It is part of larger (330 hectare) property called **The Te Kapu Tree Farm** which Longbow has divided into 32 lots for sale. Van Rees is buying lots 12 and 13. **PF Olsen and Co. Ltd** is supervising the development of the block and managing the forestry operation on a day-to-day basis. In August 1998, a resident of the USA received approval to acquire eight hectares in the same scheme, for $44,700.
- **Southland Plantation Forest Company of New Zealand Ltd**, ultimately **51%** owned by **New Oji Paper Company Ltd, 39%** by **Itochu Ltd**, and **10%** by **Fuji Xerox Co. Ltd**, all of **Japan**, has approval to buy **107 hectares** of land at **Wilks Road, Southland** for **$179,011** for forestry. As usual with its purchases, all forestry activities will be conducted under contract by **South Wood Export Ltd** of Japan.

Refusal reversed: sale of Maruia land to Canadian approved

In June 1998, **Leroy Downs Ltd**, owned by **Joseph Asch**, a citizen of **Canada**, had an application to acquire land for deer farming in **Canterbury** refused. It was "not considered to be in the national interest". Most other details were suppressed.

Without further explanation, that refusal has now apparently been reversed. Leroy Downs Ltd has approval to acquire **82 hectares** of land at **West Bank Road, Maruia, Canterbury**, which adjoins conservation land, from **PR Quedley** for **$365,000**. It will be used for deer farming with another block of land at Maruia already owned by Asch. That land is **133 hectares** and its purchase was approved by the OIC in February 1995, for **$485,000**, via the holding company Lichfield Nominees No. 37 Ltd.

As in the 1995 decision, the land will be managed by **Mr and Mrs Brown** who live in the Maruia Valley. The newpiece of land will be leased to the Browns, enabling them, says the OIC, to double their farm turnover and make one economic deer farming unit. Mr Brown had previously had to undertake contract work off the property to supplement his income. "The opportunity would not have otherwise been available to the Browns ... without the help and financial support of Mr Asch".

Put another way, the farmers can no longer afford to own their own farm.

Retrospective approval for land sale for gold mining at Earnscleugh, Otago

Retrospective approval has been given for the **Earnscleugh Joint Venture** to acquire **three hectares** of land at **Earnscleugh, Central Otago** for metal ore mining at a price of **$369,500**. The joint venture consists of **Perilya Mines NL** of **Australia (82.35%)** and **March Mining (Central) Ltd** of **Aotearoa (17.65%)**. The OIC says that

> "In **1996**, Perilya (through its subsidiary **Mintago Investments Ltd**) and March entered into a joint venture agreement (being the **Earnscleugh Project**) to establish a substantial gold mining operation in central Otago. The property was acquired as part of the initial acquisition. However, due to an oversight by legal counsel acting on behalf of the applicant, formal consent was not sought for this parcel of land at that time".

In the original approvals, 408 hectares were acquired in 18 blocks of land. The amount paid in most cases still remains suppressed by the OIC.

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In April 1998, the OIC gave approval for the 2,574 hectare Earnscleugh Station in Central Otago to be sold to the Earnscleugh Joint Venture for $1.5 million. It was stated that the mine will require only a 50 hectare area of the station, forming part of the Earnscleugh Flats. The joint venture was negotiating to sell the balance of the land. See our commentary on that approval for further details of the mining project.

Other rural land sales

- **DB Group** subsidiary, **Corbans Wines Ltd**, owned **23.36%** each by **Heineken NV** of the **Netherlands** and **Fraser and Neave Ltd** of **Singapore**, and **11.68%** by the **Singapore** public, has approval to acquire a **Hawkes Bay** pipfruit orchard to convert into a commercial vineyard. It is **11 hectares** at **State Highway 50, Ngatarawa, Hastings**, and half share in another **0.5 hectares** nearby, all for **$273,000**.
- Two residents of **Germany**, **Messrs Karl Heinz Johner** and **Kai Schubert**, have approval to acquire **41 hectares** of land at **Dakens Road, East Taratahi, Masterton, Wairarapa**, for **$780,250**. "The proposal represents the conversion of farmland to that of viticulture".
- Two Australian citizens who are residents of **Singapore** have approval to acquire a block of **Closeburn Station** on the **Glenorchy-Queenstown Road, Queenstown, Otago**. The station is owned by **JF Investments Ltd**, which is **70%** owned by **David Salman** of **Indonesia** and **30%** by **D Broomfield** of **Aotearoa**. They are subdividing nine hectares of the station as "lifestyle properties", each of which will have a share of the remaining 926 hectares which will still be farmed (see our commentary on the July 1998 decisions for details). This sale is of **0.3547 hectares** plus a **share** of the **926 hectares**, for **$500,000**. The land adjoins Lake Wakatipu and conservation land.
- Two residents of **South Africa, William and Wendy Roberts**, who are immigrating to Aotearoa, have approval to acquire **six hectares** at **72 Lake Hayes-Arrowtown Road, Queenstown, Otago** for **$3,350,000** from **Raysun Holdings Ltd**, "as a lifestyle property which will be utilised as their family residence". They "are looking at making a significant investment in the viticulture industry in and around the Queenstown area".

Released on appeal

The following were released on appeal by CAFCA to the OIC or the Ombudsman after decisions (or parts of them) were suppressed. Most of the suppressed information concerns prices paid for investments or takeovers. To save space, only decisions that have not been reported before in *Watchdog* are reported here. Readers are welcome to enquire about other information reported as suppressed.

October 1997

Manukau Cinemas sells Auckland cinemas to Village Force for lease back

In a decision that was initially almost completely suppressed, and released only in August 1998,

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Manukau Cinemas Pty Ltd, which is a joint venture between **Force Cinemas Ltd** and **Village Roadshow Ltd** is selling its **Village 8 Multiplex Cinemas** in **Auckland** for **$36,100,000** in order to lease them back. They are being purchased by unit trust **Village Entertainment Property Trust**, and **Village Force Cinemas Ltd**. The Village Entertainment Trust is to be listed on the Australian Stock Exchange. Its trustee is **National Mutual Trustees Ltd** of **Australia** and its manager is **Village Roadshow Property Management Ltd** of **Australia**. Village Force is **50%** owned by **Village Roadshow Ltd** of **Australia**, and **50%** by **Force Corporation Ltd** of Aotearoa.

The cinemas involved are:

- **Village 8 Highland Park, 20 Dunrobin Place, Highland Park, Pakuranga, Auckland;**
- **Village 8 New Lynn, 1-3 Crown Lynn Place, New Lynn, Waitakere City, Auckland;**
- **Village 8 Manukau, 3 Lakewood Court, Manukau, Auckland;** and
- **Village 8 on Broadway, 59-77 Broadway, Newmarket, Auckland.**

November 1997

BellSouth buys TACS-B from Telstra

In a decision originally almost completely suppressed and released only on appeal in April 1998, **BellSouth New Zealand Ltd** gained approval to acquire the "radiospectrum management rights relating to the **TACS-B radiocommunications spectrum** held by **Telstra New Zealand**" for **$14,000,000**. TACS-B is one of the relatively small number of cellphone channels available and would allow BellSouth to compete more strongly with Telecom using its own cellphone network.

BellSouth New Zealand was at the time owned **65%** by **BellSouth Corporation Inc** of **Atlanta, USA**, and **35%** by **Singapore Technologies Pte Ltd** of **Singapore**. **Telstra New Zealand Ltd** is owned by **Telstra Corporation Ltd** of **Australia**.

Trans Tasman floats 65% of its CBD properties in NZ Growth Property Trust

In a decision originally almost completely suppressed and released only on appeal in April 1998, "persons who may be **'overseas persons'**" have approval to acquire **up to 65%** of **New Zealand Growth Property Trust** for "approximately **$290,000,000**". It is a public float, being sold by **Trinidad Holdings Ltd**, a subsidiary of **Trans Tasman Properties Ltd**. "TTP state it has separated its capital CBD office portfolio from its other investments and placed the CBD with the trust. It is proposed that 65% of the units of the trust will be offered to the public by way of a public float". Trinidad Holdings is presumably the temporary vehicle for this. Given that this was largely a public process, and widely reported, it is not clear how the suppression of the entire decision was justified.

Trans Tasman will own the remaining 35%. In fact the float was delayed because of market conditions. *Datex New Zealand Investment Yearbook 1998*, p.132) puts the value of the properties sold to the Trust at $650 million.

Trans Tasman is **46.37%** owned by **SEABIL (NZ) Holdings Ltd**. The "ultimate owner" of SEABIL is **SEA Holdings Ltd**, listed on the **Hong Kong** stock exchange but registered in **Bermuda**. In 1995, SEABIL (NZ) Holdings was owned 70% by SEA Holdings Ltd and 30% by Brierley Investments Ltd (see our commentary on the OIC's February 1995 decisions). Other substantial shareholders then were Grantham Mayo Van Otterloo and Company (GMO) of Boston, U.S.A. (22%), and Franklin Resources Ltd (5.6%) also of the USA.

March 1998

Royal & Sun Alliance insurance takes over Norwich

In two decisions almost completely suppressed until released on appeal in July 1998, the **Royal & Sun Alliance** group of the **UK** has approval to acquire **Norwich Union Life Insurance (NZ) Ltd** and **Norwich Union Investment Management (NZ) Ltd** from **Norwich Union Plc** of the **UK**. In both cases, the price was stated in the July release only as "in excess of $10,000,000" ($10,000,000 is the statutory minimum at which the OIC's approval is required). However, in a further release in November 1998, the value of the two transactions was given as **$153,621,466**. The news media had already reported in March (e.g. *Press*, 10/3/98, "SunAlliance grows", p.36) that the price was **$153.4 million**. The OIC states: "Royal & Sun Alliance state the proposed acquisition will provide the amalgamation of the insurance businesses of Norwich to that of its existing business in New Zealand". According to the *Press*, the merged company in Aotearoa will be the fifth biggest life insurer and have more than $1.5 billion under management.

Both the Norwich companies are owned through **Norwich Union Financial Services (NZ) Ltd**. The purchase is through **Royal & Sun Alliance Life and Disability (NZ) Ltd**, a subsidiary of **RSA Overseas Holdings BV**, of the **Netherlands** which is a subsidiary **of Royal & Sun Alliance Insurance Group Plc** of the UK.

General Electric of the USA takes over Giltrap's vehicle leasing business

In a decision originally almost completely suppressed but partially released in November 1998, **General Electric Capital Corporation**, a subsidiary of the **General Electric Corporation** of the **USA**, gained approval to acquire the **motor vehicle leasing activities** of **Corporate Leases Ltd**, a subsidiary of **Giltrap Holdings Ltd** of Auckland. The price is still suppressed.

"GEC through its various 'fleet services' subsidiaries operates motor vehicles fleet management and leasing businesses in the U.S., Europe, Canada, Mexico, Japan and Australia".

CPI Graphics of Australia takes over Scipa Graphics NZ of Switzerland

In a decision not originally released, and released on appeal in July 1998, **CPI Graphics NZ Ltd**, a subsidiary of **Consolidated Paper Industries (Holdings) Ltd** of **Australia**, received approval to acquire competitor **Scipa Graphics New Zealand Ltd**, a subsidiary of **Scipa Holdings SA** of **Switzerland** for **$10,643,330**.

"CPI and Scipa NZ currently undertake business activities which are complementary to each other. CPI state the proposed acquisition will enable the company to expand its existing presence in New Zealand and will provide greater efficiencies and added market competition within the printing industry of New Zealand".

April 1998

Tourism Holdings Ltd buys Mount Cook Group

In a decision initially almost completely suppressed and released only on appeal in August 1998, **Tourism Holdings Ltd** has approval to acquire the coach, travel, light aviation and alpine guides divisions of **The Mount Cook Group**, a subsidiary of **Air New Zealand Ltd**, for **$22,500,000.** Tourism Holdings is largely New Zealand owned and controlled but "has estimated slightly in excess of 25% of the shares are being held by various overseas persons", and is therefore legally an overseas company (for example, AMP owned 13.3% at the beginning of 1998 according to *Datex's New Zealand Investment Yearbook 1998,* p.130).

The property being acquired is
- "the business assets and undertakings" of
- **Mount Cook Landline Division** (i.e. coaches);
- **Mount Cook travel and travel wholesaling** operations (offshore and within Aotearoa);
- **Mount Cook General Aviation Division** (scenic flightseeing at Mount Cook) including the Mount Cook Group's 70% interest in **Tourism Flightseeing Partnership** (scenic flightseeing at Queenstown and Milford Sound); and
- **Up to 56%** of **Alpine Guides Mount Cook Ltd**.

About 165 Mount Cook staff lost their jobs in the sale, and 55 transferred to the new owner (*Press*, 20/5/98, "Mt Cook Group sale leaves 165 staff without jobs", p.3).

Tourism Holdings was formerly The Helicopter Line, and has investments in transport and tourism in Aotearoa, Australia, Fiji and North America. Its operations include campervans, rental cars, tour coaches, rafting, jetboats, heliskiing, Red Boats and guided walks along the Milford track, hotels, and tourist facilities such as Treble Cone skifield, Kelly Tarlton's Underwater World, Arctic Encounter, and the Waitomo Caves. The company has not fared well in recent years (*Datex*, op cit.). It is chaired by Murray Valentine, a Dunedin chartered accountant, who is also associated with Apple Fields Ltd, Cardinal Group, Kiwi Income Property Trust, Mr Chips Holdings Limited, Milburn New Zealand Limited, Alpine Deer Group Limited, and Whale Watch Kaikoura Limited.

Degussa of Germany buys Du Pont's hydrogen peroxide plant in Morrinsville

In a decision initially almost completely suppressed and released only on appeal in August 1998, **Degussa Aktiengesellschaft**, of **Frankfurt, Germany**, gained approval to acquire **Du Pont Peroxide Holdings Ltd**, a subsidiary of **EI Du Pont de Nemours & Company** of the **USA.** Du Pont Peroxide presumably owns the hydrogen peroxide plant Du Pont established in Morrinsville (*Press*, 31/7/91, "Call for paper mill investment"): it owns **nine hectares of land in Walton Road, Morrinsville**. The price is still suppressed. The OIC states:

> "Degussa AG is an international chemicals company with significant activities in precious metals and pharmaceuticals... the proposal reflects Degussa's long-term strategy to establish itself as a global leader in peroxygen chemicals".

May 1998

Steiner Corporation of the USA buys Endeavour Group

In a decision originally almost completely suppressed but released on appeal in October 1998, **Alsco Linen Service Pty Ltd**, the New South Wales incorporated subsidiary of **Steiner Corporation** of the **USA**, has approval to acquire **Young Nick Investments Ltd**, a holding company for the **Endeavour Group**. The Steiner Corporation is a private company **80%** owned by the **George A Steiner Trust**, whose beneficiaries are the descendants of George A Steiner (see a related July 1998 decision by the OIC). The price has been suppressed, but according to NZPA (*Press*, 19/5/98, "Plowman reward in Endeavour", p.18), the Steiner Group offered around $200 million for Endeavour.

Young Nick Investments is owned in trust for the family of Neal Hutton **Plowman**. The company owns 100% of **Endeavour Services Corporation Ltd** which runs New Zealand Towel Services (the largest towel supply

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business in Aotearoa), Deane Apparel and Endeavour Properties, among other operations. Plowman appears to be getting out of many of his businesses: in February 1998, Hoyts of Australia bought out his cinema operation, Endeavour Multiplex Ltd (see our commentary for that month). However, according to the *National Business Review* (17/7/98, "The Rich List 98", p.43), he has a significant investment in Tranz Rail. *NBR* included Plowman in their "rich list", putting his worth at $100 million. He was number ten amongst their "top 10 individuals".

June 1998

Rexel of France buys Ideal Electrical Suppliers

In a decision originally almost completely suppressed but partially released on appeal in October 1998, **Rexel SA** of **France** has approval to acquire **Ideal Electrical Suppliers Ltd** for a price that is still suppressed. Rexel is **71.65%** owned by **Pinault-Printemps-Redoute SA**, a French publicly listed company. "Rexel state the proposal is a continuation of its existing world-wide network acquisition of Ideal". Ideal is also present in Queensland, Australia.

According to Rexel's Web site, it also acquired REC Australia and New Zealand from The General Electric Company Plc this year. It claims itself "the largest electrical supplies distributor in the world with operations in 20 countries" and reports that 64.1% of its consolidated turnover was outside France in the six months to 30/6/98 (http://www.rexel.com/enpages/news/comms/98-07-22.html).

Heinz-Wattie buys Praise and ETA brands from Griffins

In a decision originally almost completely suppressed but partially released on appeal in October 1998, **Heinz-Wattie Ltd**, a subsidiary of **HJ Heinz Company** of the **USA**, has approval to acquire "the **salad dressings business** and **the spreads business**" of **Griffins Foods Ltd** for a suppressed price. The purchase includes the production plant and equipment of the **"Praise"** trademark and brand, and a licence of the **"ETA"** trademark and brand. Griffins is a subsidiary of the **Danone** conglomerate of **France**.

Griffins considers that "the salad dressings, peanut butter and variety sauce segments of its business lie outside Griffin's core biscuits and snack food business" and so wishes to sell them. Heinz-Wattie sees synergies in spreads and salad dressings.

The acquisition was investigated by the Commerce Commission and approved (see decision 327, at http://www.comcom.govt.nz/adjudication/s6667.cfm). According to the Commission's report, the sale also includes "a contract for the sole distribution of 'HP' and 'Lea & Perrins' sauces in New Zealand". Danone manufactures these sauces. Before the acquisition, Heinz-Wattie already had

> "salad dressing manufacturing facilities at Hastings and Auckland, and also imports salad dressings from Australia. The company supplies a range of bottled, fresh and bulk salad dressings including mayonnaise, coleslaw dressing, salad dressing, salad cream, tartare sauce, potato salad dressing, French dressing, Italian dressing, French vinaigrette and Italian balsamic dressing. The salad dressing brands owned and used by the company include 'Heinz', 'Watties', 'Kraft', 'Weight Watchers' and 'The Good Taste Company'."

The ETA and Praise brands include mayonnaise, coleslaw dressing, salad dressing, potato salad dressing, French dressing, ranch dressing, thousand island dressing, seafood dressing and tartare sauce.

July 1998

Allied Foods expands its Otahuhu bakery

In a decision originally almost completely suppressed and released on appeal in November 1998, **Allied Foods Co Ltd** has approval to acquire a further **0.4 hectares** of leasehold land from the **Crown** for **$510,000**. It already owns approximately four hectares of land at 638 Great South Road, **Otahuhu**, **Auckland** on which it rebuilt its **Kingsland**, Auckland, **Stormont Bakery**, which was destroyed by fire in May 1997, at which time it employed 135 full time staff. The land adjoins the foreshore by the Tamaki River flowing into the Hauraki Gulf, so approval is required for this addition, at **644 Great South Road**. It will "enable Allied to expand its operations at **Tip Top Bread Auckland**" and also provide it with better access to Great South Road.

The Prime Minister opened the new factory on 6/8/98. Allied's press release gushes: "Capable of making one million loaves of bread a week, the new bakery is being hailed as one of the best in the world and the most modern in Asia Pacific. Using equipment from Holland, England and Australasia, it makes Tip Top, North's, Ploughmans and Burgen bread for the top half of the North Island... The cost of the land, buildings, expansion and plant is estimated at around $30 million." The bakery is fully computerised and was modelled on one in England. It employs 145 staff. "Allied Foods is New Zealand's second biggest bread producer and flour miller. It supplies virtually every supermarket, grocery and dairy in the country with daily bread." (http://www.newsroom.co.nz/stories/GE9808/S00028.htm, 7/8/98, "Risen From The Ashes – Tip Top Opens New Bakery", press release).

Allied and Goodman Fielder were estimated in 1997 to have up to 85% of New Zealand flour milling sales and were the top two bread bakers in Aotearoa (*Press*, 8/3/97, "Defiance Food sold to Goodman's", by Alan Williams, p.25).

Allied Foods is a subsidiary of **George Weston Foods Ltd**, a public company listed in **Australia**, but ultimately owned by Food Investments Ltd of the UK (78.77% at 26/9/97: see http://www.capitaline.com/cs0903.htm). Food Investments is part of Associated British Foods Plc, "one of the largest food conglomerates in the UK". It was founded by Willard Garfield Weston, and from 1967 chaired by Garry Weston. Subsidiaries include Ryvita and Twinings (see http://www.btwebworld.com/alliedfoods/company.htm).

George Weston has a major slice of the Australian market, and has been fined heavily for illegally trying to use its position to fix prices. The Australian Competition and Consumer Commission announced on 30/5/97 that:

> "A penalty of $1.25 million was imposed today on George Weston Foods Limited for fixing the price of bread and attempted resale price maintenance.
>
> The Australian Competition and Consumer Commission had filed Federal Court proceedings alleging that the company, trading as Tip Top Bakeries, had ceased supplying retailers because the retailers were discounting bread.
>
> The incidents occurred in Ferntree Gully and Albury in November 1995. The company also admitted to unsuccessfully attempting to have an Albury retailer cease discounting in May 1995. It also admitted having reached an agreement with Safeway to increase the price at which the Tip Top retail store in Preston would sell bread to the public".

Payema takes larger stake in Norton New Zealand

In a decision originally almost completely suppressed and released on appeal in November 1998, **Payema Holdings Ltd**, a subsidiary of **Compagnie Saint-Gobain of France**, has approval to acquire 100% of **Artec Holdings Ltd** from **Very Successful Company Ltd (50%)** and **Rhex Holdings Ltd (50%)**, both of Aotearoa. The price is still "to be advised". Payema already had **70% of Norton New Zealand Ltd** and Artec had "a beneficial interest in" the remaining 30%. Norton manufactures coated abrasives and abrasive belts, and distributes abrasives and safety products. The rationale of the takeover is for the **Norton Group** to acquire 100% of Norton New Zealand. A similar transaction is taking place in Australia.

In June 1995 Norton (then said to be of the USA) was given OIC approval to take over the abrasives manufacturer Artec Abrasives New Zealand Ltd. It set up Norton New Zealand (Operations) Ltd, 70% owned by Norton New Zealand and 30% by Artec Holdings Ltd, to take over the assets of Norton New Zealand and Artec Abrasives New Zealand for $11,328,000.

Saint-Gobain was founded in 1665 as the Compagnie de Saint-Gobain, by order of King Louis XIV, with the object of producing mirrors for Versailles Palace. It is now present in more than 40 countries, has 108,000 employees, and its 580 subsidiaries' activities cover: flat glass, insulation, reinforcement fibres, containers, pipes, building materials, industrial ceramics, abrasives, and distribution of building materials. Its sales in 1997 were 107.1 billion French francs. It acquired Norton in 1990 (see: http://www.nortonkeramik.de/saint-go.htm and http://www.saint-gobain.com/frmo.htm).

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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. A gigabit (Gb) is a billion bits (pieces of information). To give some indication of the 40Gb per second capacity, that is about 700,000 times as fast as the fastest modems in household use, 4,000 times as fast as most commercial internal ("local area") networks, and 40 times as fast as the fastest commercial local area networks.

THE INTERNATIONAL CITIZENS' SUMMIT AGAINST THE MAI

Paris, October 1998 - Liz Griffiths

I was fortunate to be able to attend this meeting, en route returning from the UK to NZ. Over 300 attendees represented 29 countries and many organisations - and were solid in their opposition to the Organisation for Economic Cooperation and Development (OECD) promulgated Multilateral Agreement on Investment (MAI) - the investment version of "free" trade.

Just prior to the summit and before the formal OECD talks began, the French Prime Minister, Lionel Jospin, withdrew French support from any ratification of the MAI in its proposed form. This was in no small way seen as a victory for the global stand against such draconian and anti-democratic measures. The Internet strikes again.

However the successful demise of the failure of the OECD version of MAI cannot be regarded lightly - as the push to liberalise global investment and enable movement of capital and other resources around the world unhindered, forever seeking and preying on quick profit, for international banks speculators and transnationals continues unabated.

The current version of speculation against national currencies and creating runs on national reserves, then coming in with the "rescue" package in the form of direct or International Monetary Fund (IMF) bank "loans", accompanied by even harsher conditional criteria, has already occurred - in countries such as South Korea. In many ways this is even more perverse than the original MAI format as these new versions of the "structural adjustment programmes" (SAPs) invade every aspect of national sovereignity and erode public resources at a fundamental level - for example the requirement of South Korean banks to forcibly sell up to a set percentage to foreign ownership.

The Citizens' Summit in Paris had four workshops looking at issues concerning (i) The Globalised Economy, (ii) Monocultures of the Mind, (iii) Bio-Imperialism and (iv) The Hi-jacking of Democracy. Demonstrations were also held at the International Chamber of Commerce headquarters, as well as at the OECD headquarters. For me personally it was a tremendous opportunity to meet those people whose articles I have read and to be able to share ideas and views. Without doubt the need for continuing vigilance was the main theme as the World Trade Organisation (WTO) could be the most likely alternative forum for the establishment of a set of international investment guidelines - and the WTO is a body as secluded and anti-democratic as the OECD.

SOUTHERN SEAFARERS SUNK

- Murray Horton

The ideologically driven policy of deregulating coastal shipping, and throwing the trans-Tasman run open to non-Australasian shippers has, predictably, decimated the New Zealand shipping industry. Now, in 1999, this policy has claimed one of its most significant victims - the South Island office of the Seafarers' Union (based in Lyttelton). The union itself continues to exist, still headed by its legendary president, Dave Morgan, whose face, black hat and general demeanour have been meat and drink to any lazy cartoonists wanting to reinforce anti-union stereotypes. It remains to be seen just how well the entire South Island's seafarers can be serviced from the union's national office in Wellington. The closure of the Lyttelton office has also put the South Island secretary, Terry Stuart, out of a job, after holding the post for more than a quarter of a century.

CAFCA can't let this sad event go unmarked. I personally have a political relationship with the Lyttelton seafarers (or seamen, as they were called in those pre-PC days) going back 30 years. When I first attended anti-Vietnam War rallies, as a Stage 1 student, in 1969, Dave Morgan was the union's Lyttelton secretary and a regular speaker. I was transfixed by this redheaded (inevitably known as "Bluey") fellow with the chainsaw Aussie accent and a voice like a busted concrete mixer. I joined the Progressive Youth Movement (my road to ruin) and my first PYM meetings were at Dave's Linwood flat. He and the seamen became fixtures at all PYM activities, political and social. He was a useful bugger to have on your side - once, at the A&P Show, a group of us were stopped from entering the sideshow tent of the "Electric Lady from Hong Kong" (she was as much from Hong Kong as I am). Dave sprang to our defence. The taken aback bouncer said:"I'm not talking to you, but to the louts". Dave's immortal reply: "I'm one of the louts!"

The apotheosis of this came later in 1969, when a group of bikies (this was at the very dawn of gangs, it's quaint looking back) led by "Filthy Phil" tried hard to disrupt a riverbank anti-war rally. Bad move - after Morgan gave them a peremptory warning, they were summarily flattened by the seamen. Filthy Phil was carried away unconscious. Bikies never bothered us again. Tony Webster's photo of the comatose Filthy hangs in pride of place in the national office. Mind you, it didn't help being on the same side at times. A PYM party at the Ilam Students Association building got wildly out of hand (amongst other things, we were held responsible for "performing an indecent act on a wall"). I was punched to the ground and kicked in the face - Morgan saved me from worse. Work hard, play hard was the seamens' motto, but it sure put a dent in worker-student solidarity for a time.

Aside from the odd hiccup (or punchup), the seamen were a mainstay of the anti-war movement. Ports regularly closed so that members could join the huge mobilisations in the cities; striking ships were festooned with anti-war placards and banners. They came on the first wave of anti-bases demos, in the early 70s - seamen played their part in the epic battle on top of Mt John. In the middle of all this, they were deregistered as a union, by a National government in cahoots with Federation of Labour boss, Tom Skinner - it was our turn to join their marches. They were the classic militant, class conscious union.

Morgan left Lyttelton (his last day being marked by a

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(Southern Seafarers Sunk: Continued From Page 75)
national strike to support yet another mobilisation). Terry Stuart became the South Island secretary, seamen became seafarers, and CAFCA was one of the groups that emerged out of the PYM. From the start, the South Island office was a generous supporter of ours, donating hundreds of dollars over the years. Not just money either - twice, this decade, I've travelled from Lyttelton to Wellington and back on a cargo ship, free of charge, courtesy of the union. They were memorable trips - huge seas; dining with the captain; and being accused by a crew member of being "a fucking academic planted on the ship by the union to spy on us but I'm not scared of the fucking union" (all I wanted was breakfast). The same generosity was extended to Tony Webster when he needed to get his exhibition of PYM photos to Wellington in 1991 - seafarers have long memories when it comes to friendships.

CAFCA and the union shared campaigns. In the 80s, we opposed the export of West Coast coal; their angle was that they wanted jobs for NZ seafarers. A handful of CAFCA members travelled to Lyttelton to picket a coal carrier; a small army of seafarers poured out of the British pub, and suddenly we had a crowd big enough to warrant a photo in the paper. Terry invited me to join him in his inspection of the ship - the captain, lounging in his cabin in his underwear and enjoying a Sunday whiskey, was highly startled when we joined the party. We supported the union when it fought deregulation of coastal shipping, joining pickets in ports. When TranzRail tried to smash the union on the Cook Strait ferries in the mid 90s, CAFCA joined midwinter dawn pickets at the railway station. We supported the union this decade when its assets were seized (including the Lyttelton office) in yet another attempt to smash it. The Seafarers has always been a fighting union, holding pickets and waging campaigns for literally years at a time. Its members and officials (including Terry) have been arrested en masse in the course of these battles. The Seafarers were instrumental in a bloc of unions turning their backs on the gutless national leadership of the Council of Trade Unions (CTU) and forming the Trade Union Federation. Dave Morgan served as TUF President for a while, and I was privileged to be invited to address its national conference, under his chairmanship, earlier this decade. They are the last vestige of the proud past of this country's trade unions, one that has earned the undying enmity of governments and bosses for all the right reasons.

So, while we are deeply saddened by the closure of the South Island office and the loss of Terry Stuart, all is not lost. The union still exists, and is still led by Dave Morgan. It is still a fighting union, but it's becoming a tougher fight. The Seafarers have played an exemplary role in the progressive movement of this country for decades - now they need all the help they can get.

WOODIES CHOPPED

On the subject of supportive unions, we should also record the demise of the Rotorua-based Wood Industries Union. They were our single biggest customer for each issue of *Watchdog*. As of 1999, they have merged into the National Distribution Union (NDU - with whom we are also on friendly terms). These constant inter-union mergers are part of a process of consolidation necessary to preserve unions big enough and financially viable enough to survive the frigid atmosphere engendered by the 1991 Employment Contracts Act and the most anti-union government in the First World.

Both the former Wood Industries Union and the NDU are either members of or associated with the Trade Union Federation. We see that as being the only light in the darkness of the NZ trade union scene. CAFCA has an active working relationship with TUF in a number of campaigns. The union movement is vital to the future prospects of the progressive movement here, and indeed to the future of the country itself.

BUT IT'S NOT ALL BAD NEWS

PSA's David Thorp Has Resigned

Back in February 1998 CAFCA wrote to David Thorp, General Secretary of the Public Service Association (PSA), demanding that he resign for sacking Pat Martin as editor of the *PSA Journal*. Pat's crime was to want to run a story critical of the Multilateral Agreement on Investment (MAI - see #87 for details), which didn't follow the craven line on globalisation and the MAI followed by the CTU. Well, it took a few months and we're not sure if CAFCA can claim the credit (actually, a particularly controversial PSA election was the last straw) but Thorp did resign. The PSA national leadership is still following the CTU line of "partnership" with employers and support for globalisation. But, to use the cricket phrase, we'll take them in singles. Ken Douglas, take the hint.