

NOTICE SEEKING CLEARANCE UNDER SECTION 66 OF THE  
COMMERCE ACT 1986 FOR THE ACQUISITION BY MATARIKI  
FORESTS OF FORESTRY ASSETS IN SELWYN PLANTATION  
BOARD LIMITED

**21 June 2011**

**[PUBLIC VERSION]**



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## EXECUTIVE SUMMARY

1. This is an application by Matariki Forests (**Matariki**) (or an interconnected body corporate) to acquire the forestry assets (**Forest Estate**) of the Selwyn Plantation Board Limited (**SPBL**) in Canterbury.

## THE PARTIES

### Matariki Forests

2. Matariki Forests is the third largest forestry company in New Zealand with more than 128,000 hectares of plantations across New Zealand. Matariki is owned by Matariki Forestry Group and managed by Rayonier New Zealand (**Rayonier**), a subsidiary of Rayonier Inc. Rayonier provides a full range of forestry services from establishment and silviculture through to harvesting and marketing, and a full service export marketing team.

### SPBL

3. SPBL is a producer of forestry products from forest plantations located solely in Canterbury. SPBL is a Council Controlled Trading Organisation jointly owned by subsidiary companies of Selwyn District Council - Selwyn Investment Holdings Limited (which holds 60.68% of SPBL) and Christchurch City Council - Christchurch City Holdings Limited (which holds 39.32%).
4. The Forest Estate of SPBL is currently managed under Forest Stewardship Council (**FSC**) certification. The total stocked forest of 4,600 hectares comprises around 3,500 hectares freehold and around 1,100 hectares held pursuant to the terms of a deed of licence. The majority is planted in radiata pine (approximately 83%) with the remainder being mainly Douglas fir (approximately 15%).
5. The management of SPBL's Forest Estate has been outsourced to P F Olsen Ltd (**P F Olsen**) since 2008.

## RELEVANT MARKETS

6. The Commission found in its most recent decision in the forestry industry (**Decision 589** dated 5 October 2006, paras. 75-77) that the relevant markets were those for:
  - (a) the production and supply of **pulplogs** in various regions (Northland and Nelson/Marlborough in that case), for the periods 2006-2008, 2009-2013 and 2014-2018;
  - (b) the production and supply of **unpruned sawlogs** in various regions, for the periods 2006-2008, 2009-2013 and 2014-2018; and
  - (c) the production and supply of **pruned sawlogs** in various regions, for the periods 2006-2008, 2009-2013 and 2014-2018.
7. Matariki is content to adopt a similar approach in the present case. The exception is that pruned sawlogs are a very small component of Matariki's and SPBL's production in Canterbury. In particular, SPBL's production of pruned sawlogs is less than 1% of their business. As a result, Matariki does not consider that there will be any material aggregation in this market. Matariki therefore focuses on the

effect of the acquisition on the pulplog and unpruned sawlog markets in the current application.

8. In terms of the geographic scope of the market, the scope of Canterbury forestry markets has not previously been considered by the Commission. Adopting the Commission's SSNIP test approach from previous decisions involving the forestry industry, Matariki considers that both pulplogs and unpruned sawlogs for the Canterbury region can be sourced from the West Coast of the South Island in the event of a SSNIP. As a result it considers there are good grounds for the Commission to adopt a combined Canterbury / West Coast regional geographic market in the present case. That said, we also provide information for a narrower Canterbury-only geographic market in case the Commission wishes to adopt a narrower geographic market.
9. Accordingly, Matariki submits that the relevant markets in the present application will be:
  - 9.1 the Canterbury / West Coast regional market for the production and supply of **pulplogs** for each of the time periods 2012 – 2015, 2016 – 2019 and 2020 – 2023; and
  - 9.2 the Canterbury / West Coast regional market for the production and supply of **unpruned sawlogs** for each of the time periods 2012 – 2015, 2016 – 2019 and 2020 – 2023.

#### COUNTERFACTUAL

10. In the event that the proposed acquisition does not take place, Matariki believes that the SPBL Forest Estate will be sold to a third party. This is on the basis of Matariki's understanding that the decision has been made by Selwyn District Council and Christchurch City Council to sell all their assets from SPBL and liquidate the company. Matariki understands that the next bidder in line to purchase SPBL's Forest Estate was a buyer based out of Asia. There is a strong possibility that, if this other buyer had been successful, the great majority of the logs sourced from the SPBL estate would have been exported out of New Zealand.
11. The likely effect of a purchaser of the SPBL Forest Estate exporting its logs outside New Zealand would be to reduce available supply for domestic volumes in both unpruned sawlog and pulplog grades in the Canterbury / West Coast region. This compares with Matariki which only exports around [redacted] of its logs from Canterbury, and expects to continue to adopt this approach post-acquisition.

#### NO SUBSTANTIAL LESSENING OF COMPETITION IN AFFECTED MARKETS

12. Matariki considers that following its proposed acquisition of SPBL it will continue to remain constrained in the pulplog and unpruned sawlog markets both by existing and potential competition. The reasons for this are expanded upon below.
13. **Application of the Safe Harbours:** As is evident in the market share tables in **Appendix Five**, for combined **Canterbury / West Coast regional markets** the proposed acquisition will be within the Commission's safe harbours for both pulplogs and unpruned sawlogs for all time periods except for pulplogs for the 2012-2015 period. The concentration ratio of the three largest companies in

these markets post-acquisition (Matariki/SPBL, Blakely Pacific and Crown Forestry) is in all cases below 70%. The acquisition is not involving a large increased aggregation of market share, with SPBL's market share ranging from [redacted] for pulplogs and unpruned sawlogs over all time periods. SPBL is not one of the leading three companies in these markets by market share, and the acquisition will see Matariki continue to face competition from the second and third main competitors in the markets (Blakely Pacific and Crown Forestry).

14. Even in relation to the one market where the acquisition will be outside the safe harbours (the market for the supply of pulplogs in the Canterbury / West Coast region for the 2012-2015 period), the concentration ratio here is 66.8%. The safe harbour is therefore 40%, and Matariki/SPBL is only just outside this at [redacted]. The merged entity will continue to face strong competition from the second and third players in the market (Blakely Pacific and Crown Forestry).
15. If the Commission wishes to examine narrower **Canterbury-only regional markets**, then the position under the safe harbours remains similar. Again, the concentration ratio of the three largest companies post-acquisition (Matariki/SPBL, Blakely Pacific and PF Olsen) remains in all cases under 70% for each of pulplogs and unpruned sawlogs. The amount of additional aggregation from the acquisition is not high (ranging from [redacted] market share for SPBL across all time periods). The acquisition will be within or around the safe harbours for all time periods, apart from 2012-2015 for each of pulplogs and unpruned saw logs.
16. Even for the 2012-2015 time periods, the concentration ratio for pulplogs is 68.2% and for unpruned sawlogs is 66.8%. The safe harbour is 40%. Matariki/SPBL are not greatly outside this level at [redacted] combined market share for pulplogs and [redacted] combined market share for unpruned sawlogs.
17. **Matariki's Reducing Market Share:** An important point to note from the market share tables is that, whether the market is Canterbury / West Coast or Canterbury only, Matariki/SPBL are within the Commission's safe harbours for both pulplogs and unpruned sawlogs for the 2016-2019 and 2020-2023 time periods. This is the result of Matariki's own declining production over the next few years, and the age-class structure of the small woodlot owners' combined estates.
18. In Canterbury, Matariki's domestic harvest volume is forecast to decline and has been declining since 2006. Domestic sales in 2006 were [redacted]. This fell to [redacted] in 2010 (approximately a [redacted] reduction). The reason for this is Matariki's reducing age-class structure, meaning less mature forest becoming ready for harvest compounded by a reducing productive area as a result of:
  - (a) the hand back by Matariki of the Eyrewell and Balmoral Forests in Canterbury to Ngai Tahu as these forests are harvested. Originally this was to take place with a hand back date of 2020, but this hand back date has now been brought forward to the annual harvest date (according to the lease conditions);
  - (b) under the current lease agreement between Ngai Tahu and Matariki, Ngai Tahu is able to call back up to an additional 5% of stocked area;
  - (c) Ngai Tahu is also requesting area from Matariki for hand back which is additional to the two previous methods. Matariki is not legally obliged to hand this requested area back but is complying with this request in

practice. This current year the additional hand back is approximately 220 ha (it was 3000 ha in 2010); and

- (d) the hand back of leasehold block as it is harvested in the Journey's End block of Ashley Forest. This is to be handed back by 2019.
19. In relation to the age-class structure of the small woodlot owners' combined estates, there were large areas planted (>2,500ha/year) for approximately six years in the Canterbury region that are scheduled for harvest beginning as early as 2016. There is evidence that this increased supply could be harvested prior to forecast, as log price / demand is very strong and there is a strong harvesting push currently. The round wood market in Canterbury may also have an influence on the forecast harvest volumes, and when the increased supply could be harvested. There is strong demand for round wood in both the horticulture and agriculture sectors. As the demand for these increases, woodlots will be harvested at a younger age to meet the demand.
20. **Bringing Forward the Harvest of Logs by Competitors:** In terms of the ability for competitors to expand in the markets, woodlot owners that are not constrained with any particular rotation length are free to harvest at any particular age. Private forest owners have an assumed harvest age of 30 in the woodflow forecasts. In a strong market there is the potential to harvest these stands earlier, therefore increasing the total supply in the region earlier than indicated in the woodflow forecasts. In the case of the Canterbury / West Coast region, the current age class structure shows that there is a significant volume of logs due for harvest over the medium term (5 to 10 years). This increased supply will influence the supply demand balance. This volume can be "brought forward" and harvested earlier, especially if the prices of logs continue to rise.
21. **Export Diversion:** Existing competitors can also expand their position in the market through export diversion. Logs currently destined for export could readily be diverted to the local Canterbury market to compete with the combined entity post-acquisition if it were to raise its prices substantially, and/or if the export price weakened. This was recognised by the Commission in **Decision No. 426** in relation to the Central North Island geographic market.<sup>1</sup> Generally, exporters fix freight 4-10 weeks in advance, so if freight and sales are not confirmed the "component" logs that have equivalent quality traits are able to be diverted.
22. **Potential Competition:** Matariki believes there are a number of new entrants from adjoining regions that could enter the Canterbury / West Coast markets for both unpruned sawlogs and pulplogs in a short period of time given the appropriate incentives for entry (ie almost immediately given the appropriate price incentive). The flexibility afforded by the transportation of logs by truck would allow supply to be diverted to other regions in the short term. Rail is also an option for new entrants to use to gain access to the Canterbury market from neighbouring regions.

## EFFICIENCIES

23. Matariki believes there will be a number of efficiencies that the proposed acquisition of the SPBL Forest Estate can bring. These include:

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<sup>1</sup> Decision No. 426, paras. 132-138.

- (a) continuity of supply of logs to customers – domestic customers will have the ability to set longer term contracts to guarantee log volume. This will flow through the entire supply chain (in particular to forestry contractors);
- (b) continuity of contractors (including quality, long term, skilled contractors);
- (c) more accurate forecasting - being able to set longer term contracts has the ability to reduce cost through accurate forecasting etc. These reductions in costs generally flow through to the customer in lower unit rates for longer contracts.

**24.** Such efficiencies could not be realised without the acquisition, due to Matariki's reducing age-class structure meaning less mature forest becoming ready for harvest, and the productive area reduction that Matariki is experiencing from handing back land to Ngai Tahu. Such a loss in productive area for Matariki would create the opposite of the efficiencies mentioned above if the acquisition does not proceed.

**25.** For the above reasons, Matariki therefore submits that the proposed acquisition will not have the effect of substantially lessening competition in any markets in New Zealand.



## PART 1: TRANSACTION DETAILS

1. Provide the name of the acquirer (person giving notice), and the name and position of the individual responsible for the notice. Please include the:
  - registered office address, postal address and physical address of the acquirer;
  - telephone and fax numbers and website of the acquirer; and
  - email address, telephone number and position of the contact person

### The Acquirer

1.1 The acquirer is Matariki Forests (**Applicant** or **Matariki**), or an interconnected body corporate. Matariki is wholly owned by Matariki Forestry Group, which is in turn owned by Matariki Forests Australia Pty Limited, Waimarie Forests Pty Limited and Rayonier Canterbury LLC.

1.2 This notice is given by Rayonier New Zealand Limited (**Rayonier**) as Manager for Matariki Forests. Rayonier's contact details are as follows:

Rayonier New Zealand Limited  
Level 5, 32 – 34 Mahuhu Crescent  
Newmarket  
Auckland 1010  
Telephone: + 64 9 302 2988  
Fax: +64 9 377 0249  
www.matarikiforests.co.nz

Attention: Paul Nicholls, Managing Director  
Email: paul.nicholls@rayonier.com

1.3 All correspondence and notices in respect of this application should be directed in the first instance to:

Simpson Grierson  
Lumley Centre  
88 Shortland Street  
Private Bag 92518  
Auckland  
Telephone: (09) 977 5125 / (09) 977 5056  
Facsimile: (09) 977 5046 / (09) 977 5067

Attention: James Craig / Alana Tinkler  
Email: james.craig@simpsongrierson.com  
alana.tinkler@simpsongrierson.com

- 2. Provide the name of the other merger parties, and the name/position of the relevant individual within the relevant merger parties. For each merger party, please include the:**
- **registered office address, postal address and physical address;**
  - **telephone and fax number and website; and**
  - **email address, telephone number and position of the contact person.**

- 2.1** The vendor is Selwyn Plantation Board Limited (**SPBL**). Their contact details are as follows:

A. W. Russell (CEO)  
Horndon St  
Darfield 7571  
New Zealand

PO Box 48  
Darfield 7541

Phone 03 318 8311  
Mobile 027 441 7054  
Fax 03 318 8812  
Email Austen@spbl.co.nz

- 3. With respect to the merger parties, list the relevant companies and the person or persons controlling these directly or indirectly. Please use organisational charts or diagrams to show the structure of the ownership and control of the acquirer and participant(s) to the acquisition.**

- 3.1** Please see the **attached** organisational chart for Matariki at **Appendix One** for details of its ownership structure.
- 3.2** Matariki is owned by Matariki Forestry Group, a New Zealand unlimited liability company. Matariki Forestry Group is in turn owned by Matariki Forests Australia Pty Ltd (39% share), Waimarie Forests Pty Ltd (35% share) and Rayonier Canterbury LLC (26% share).
- 3.3** For the ownership details of SPBL, please see the **attached** organisational chart at **Appendix Two**.
- 3.4** Further information about Matariki and SPBL is included in the response to Question 8 below.
- 3.5** The Applicant is not aware of either party, or any interconnected body corporate of either party, holding any beneficial interest in other relevant market participants beyond those set out in the application. The Applicant is not aware of other links between either participant or any interconnected body corporate of either participant and any other relevant market participants.

**4. Provide details on what is to be acquired.**

- 4.1** The business acquisition for which clearance is sought is the acquisition by Matariki (or an interconnected body corporate) of the Canterbury forestry assets (**Forest Estate**) of SPBL.
- 4.2** SPBL's Forest Estate is located in two main areas in Canterbury, being the Canterbury foothills of the Southern Alps and the coastal forests. A map is attached as **Appendix Seven** showing forest ownership in Canterbury, including the Forest Estate owned by SPBL.
- 4.3** The Forest Estate of SPBL in Canterbury is currently managed under Forest Stewardship Council (**FSC**) certification, and consists of approximately 6,217 hectares of land (including 4,856 hectares freehold). The total stocked forest of 4,657 hectares comprises around 3,526 hectares freehold and around 1,132 hectares held pursuant to the terms of a deed of licence. The majority is planted in radiata pine (approximately 83%) with the remainder being mainly Douglas fir (approximately 15%).
- 4.4** SPBL's forests located in the foothills of the Southern Alps include:
- (a) Lowmount Forest and surrounds (including High Peak, Gorse Hill, Newtons and Lowmount Extension);
  - (b) Dalethorpe and Wyndale Forests; and
  - (c) Coalgate Forest and surrounds (including Boyles, Centennial, Homebush, Kellaways, Mortens, Prestidges and Watsons).
- 4.5** The coastal forests (located on the urban fringe of Christchurch) are licensed by SPBL from Christchurch City Council on a 30 year contract, expiring in 2020 with rights of renewal.
- 4.6** The majority of the Forest Estate of SPBL was planted prior to 1990 and will be mature in the short to medium term. The median age of the Forest Estate is approximately 21.1 years, versus the national average of 15.6 years.

**5. Fully explain the commercial rationale for the proposed merger. Specify whether this is part of an international merger.**

- 5.1** In summary, Matariki's forest estate in the Canterbury region is declining. The purchase of SPBL's Forest Estate will allow Matariki to maintain economies of scale from harvesting through tree planting to management. This is expanded on below.
- 5.2** In Canterbury, Matariki's domestic harvest volume is forecast to decline and has been declining since 2006. Domestic sales in 2006 were [redacted]. This fell to [redacted] in 2010 (approximately a [redacted] reduction). The reason for this is Matariki's reducing age-class structure meaning less mature forest becoming ready for harvest compounded by a reducing productive area as a result of:
- (a) the hand back by Matariki of the Eyrewell and Balmoral Forests in Canterbury to Ngai Tahu as these forests are harvested. Originally this

was to take place with a hand back date of 2020, but this hand back date has now been brought forward to the annual harvest date (according to the lease conditions);

- (b) under the current lease agreement between Ngai Tahu and Matariki, Ngai Tahu is able to call back up to an additional 5% of stocked area;
- (c) Ngai Tahu is also requesting area from Matariki for hand back which is additional to the two previous methods. Matariki is not legally obliged to hand this requested area back but is complying with this request in practice. This current year the additional hand back is approximately 220 ha (it was 3000 ha in 2010); and
- (d) the hand back of the leasehold block as it is harvested in the Journey's End block of Ashley Forest. This is to be handed back by 2019.

**5.3** At the same time as Matariki's age-class structure and productive area is declining, the domestic processing capacity in Canterbury has increased, and there is strong potential for this processing capacity to increase in the near future. This is highlighted by Mitchell Brothers Sawmillers and Stoneyhurst Timbers (both are current customers of Matariki), with both sawmillers having an increase of approximately 25% and 50% in processing capacity respectively in recent years. In terms of other processors based in Canterbury, SRS is not currently cutting to their maximum capacity and therefore there is scope for increased demand from them. McAlpines are also considering increasing capacity in their Canterbury sawmill.

**5.4** In the absence of the current proposed acquisition, the significant decline in Matariki's harvest volumes would result in an inability for Matariki to supply these existing/potential customers and maintain a market presence in the Canterbury region. The graph below highlights how the SPBL harvest volumes fit into the reduced Matariki wood flow, and would allow Matariki to maintain an even wood flow to the market. The SPBL age-class structure is complementary to that of Matariki.

[redacted]

- 5.5 In addition to the above points, the proposed acquisition will create efficiencies for Matariki from harvesting even volumes year on year. These include continuity of supply to customers, and continuity of contractors (in particular, securing quality, long term, skilled contractors).

**6. Provide copies of the final or the most recent versions of any documents bringing about the proposed merger (e.g. contracts, sale and purchase agreements, or offer documents if it is a public bid).**

- 6.1 Please find **attached** at **Appendix Three** copies of the following documents:

(a) [redacted]; and

(b) [redacted].

**7. If any other jurisdiction's competition agency has been (or will be) notified of the proposed merger, please list each competition agency notified (or to be notified) and the date of the notification.**

- 7.1 Matariki is just acquiring the forestry assets of SPBL in Canterbury. It does not consider that the acquisition will have any impact on markets outside New Zealand. As a result, it will not be notifying other jurisdiction's competition agencies of the acquisition.

**7.1 Please indicate whether you would be willing to provide the Commission with a waiver allowing it to exchange confidential information with competition agencies in other jurisdictions in respect of the proposed merger.**

This is not applicable for the reasons stated above.

## PART 2: THE INDUSTRY

8. Describe the relevant goods or services supplied by the merger parties (it is sufficient to refer in general terms to activities in which there will be no aggregation).

### Background Information on Matariki:

- 8.1 Matariki Forests is a New Zealand unlimited liability company wholly owned by Matariki Forestry Group (**Matariki Group**). Matariki Group is in turn owned by Matariki Forests Australia Pty Ltd (39%), Waimarie Forests Pty Ltd (35%) and Rayonier Canterbury LLC (26%).
- 8.2 Matariki is the third largest forestry company in New Zealand with more than 128,000 hectares of plantations across New Zealand. Matariki is managed by Rayonier New Zealand (**Rayonier**), a subsidiary of Rayonier Inc. Rayonier provides a full range of forestry services from establishment and silviculture through to harvesting and marketing and a full service export marketing team.<sup>2</sup> As noted above, Rayonier is also a shareholder in Matariki.
- 8.3 Approximately 70% of all the timber Matariki grows and harvests in New Zealand is sold domestically. The balance is exported as logs to over 75 customers located around the world.
- 8.4 A map showing the general locations of the forests owned by Matariki around New Zealand, as well as the ports Matariki exports from and the location of its offices, is set out below.

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<sup>2</sup> Matariki Forests Information Brochure (undated, available at [www.matarikiforests.co.nz](http://www.matarikiforests.co.nz)).



- 8.5 In Canterbury, Matariki owns Eyrewell, Ashley, Okuku, Mt Thomas, Omihi, Oxford, Balmoral and Hanmer Forests, predominantly under forestry rights with Ngai Tahu. These forests are managed by Rayonier. A map setting out the locations and ownership of the various forests in Canterbury, including those owned by Matariki, is attached as **Appendix Seven**.
- 8.6 Matariki primarily produces pulplogs and unpruned sawlogs in Canterbury. Pruned sawlogs are a very small component of Matariki's production in Canterbury, being less than 2% of its total production in 2010 and declining.
- 8.7 For further information about Matariki, we refer the Commission to Matariki's website at [www.matarikiforests.co.nz](http://www.matarikiforests.co.nz).

#### Background Information on SPBL

- 8.8 Selwyn Plantation Board was established in 1910 under the Reserves and Other Land Disposals Act 1910, to manage shelter on the Canterbury Plains and the need for a local supply of wood for the Christchurch market. These matters were originally managed by local Councils.
- 8.9 The Selwyn Plantation Board was later incorporated as a body corporate under the Selwyn Plantation Board Act 1953. SPBL is now a Council Controlled Trading Organisation jointly owned by subsidiary companies of Selwyn District Council - Selwyn Investment Holdings Limited (which holds 60.68% of SPBL) and



Christchurch City Council - Christchurch City Holdings Limited (which holds 39.32%).

- 8.10** The Forest Estate of SPBL in Canterbury is currently managed under Forest Stewardship Council (**FSC**) certification, and consists of approximately 6,217 hectares of land (including 4,856 hectares freehold). The total stocked forest of 4,657 hectares comprises around 3,526 hectares freehold and around 1,132 hectares leasehold. The majority is planted in radiata pine (approximately 83%) with the remainder being mainly Douglas fir (approximately 15%). As mentioned earlier, a map showing the location of SPBL's Forest Estate in Canterbury is attached as **Appendix Seven**.
- 8.11** Like Matariki, SPBL primarily produces pulplogs and unpruned sawlogs. SPBL's production of pruned sawlogs is less than 1% of its business.
- 8.12** A third of the Forest Estate was planted between 21 and 25 years ago and will be ready to harvest within the coming years.
- 8.13** The management of SPBL's Forest Estate has been outsourced to P F Olsen Ltd (**P F Olsen**) since 2008.
- 8.14** For further information we refer the Commission to the 2010 annual reports of Christchurch City Holdings Ltd and Selwyn Investment Holdings Ltd, which are included in **Appendix Four**.

**9. Describe the industry or industries affected by the proposed acquisition. Where relevant, describe how sales are made, the supply chain(s) of any product(s) or service(s) involved, and the manufacturing process. If relevant, provide a glossary of terms and acronyms.**

### **New Zealand Forestry Industry**

- 9.1** New Zealand's net stocked forest area covered an estimated 1.74 million hectares as at April 2010. The total standing timber volume (growing stock) is estimated to be 467 million m<sup>3</sup> with an average area-weighted age of 15.9 years.
- 9.2** Current plantation forests in New Zealand are dominated by radiata pine (which accounts for 90% by area planted nationally). The other species of note is Douglas fir (6% nationally), with the remainder a mix of eucalyptus and other hardwoods.<sup>3</sup> Within Canterbury, there is a greater proportion of Douglas fir given the more suitable growing conditions in the foothills.
- 9.3** 70% of New Zealand's forest area is in the North Island, which is in turn divided into six forestry regions – Northland, Auckland, Central North Island, East Coast, Hawke's Bay, and the Southern North Island. The South Island's forestry regions are Nelson/Marlborough, West Coast, Canterbury and Otago/Southland.<sup>4</sup> Compared with other forestry regions in New Zealand, Canterbury and the West Coast are relatively small regions with just over 109,000 ha and 34,000 ha of total forest respectively.<sup>5</sup>
- 9.4** We refer the Commission to the map attached at **Appendix Eight**, which depicts the location of plantation forests in New Zealand and their respective sizes.

<sup>3</sup> New Zealand Forest Industry Facts & Figures 2010/2011, "Plantation Forest Area by Species", p 4.

<sup>4</sup> New Zealand Forest Industry Facts & Figures 2010/2011, "Where the Plantation Forests Are", p 7.

<sup>5</sup> New Zealand Forest Industry Facts & Figures 2010/2011, "Where the Plantation Forests Are", p 7.

## Log Production

- 9.5 As noted by the Commission in its recent Decisions concerning the forestry industry,<sup>6</sup> the quality of logs from plantation grown trees is influenced by several factors, including generic selection, silviculture practice, site selection, rotation age and basic density. In New Zealand, the Northland and Auckland regions produce high-density wood, the Central North Island produces medium density wood and regions further south produce lower density wood.<sup>7</sup>
- 9.6 If trees are pruned, the core of the wood containing defects can be restricted to a relatively small cylinder in the butt log (the first log produced from the tree). Thinning will promote rapid growth of clearwood outside the knotty core. In this situation, clear timber or veneer is produced instead of grades containing knots. Pruning is normally conducted in years five to ten of the tree's growth: however, this is also dependent on the forest location.<sup>8</sup>
- 9.7 The outer wood of a radiata pine tree is referred to as mature wood. It is mainly sapwood, has a higher density, fewer knots and narrower growth rings. It is used as high quality structural timber, as clear lengths for furniture and decorative boards. The core wood or juvenile wood is mainly heartwood, which is of lower density and less stable than the outerwood. It is used in industrial packaging, as low strength structural timber and in reconstituted products such as MDF and particle board.<sup>9</sup>

## Log Supply

- 9.8 As stated by the Commission in **Decision No. 589**,<sup>10</sup> the log supply industry nationally is characterised by several different strategic groups of competitors. Those which are still relevant are as follows:
- (a) vertically integrated companies which are involved in forest ownership and log production, log trading, and downstream wood processing facilities. These businesses are generally net purchasers of logs. This group includes Juken New Zealand in Northland, East Coast and Wairarapa, and Pan Pac Forest Products in Hawke's Bay;
  - (b) the next strategic group is characterised by forest ownership or management, with no downstream processing activities. This group is a mixture of smaller privately owned or publicly listed companies and foreign owned Timber Investment Management Organisations (**TIMOs**). The main function of these organisations is the overall strategic management of forest ownership and log production. TIMOs in this group include Matariki, Hancock Natural Resources Group, Kaingaroa Timberlands, GMO Renewable Resources and Global Forest Partners LP;
  - (c) the final group consists of fragmented smaller scale forests in private ownership. Owners include farmers with woodlots and other private

<sup>6</sup> Decision No. 589, paras. 40-46; Decision No. 588, paras. 25-52, Decision No. 426, paras. 19-36, Decision No. 468, paras. 37-55.

<sup>7</sup> [www.insights.co.nz/products\\_processes\\_tc.asp](http://www.insights.co.nz/products_processes_tc.asp)

<sup>8</sup> Decision No. 589, para. 42.

<sup>9</sup> New Zealand Pine Manufacturers Association, *New Zealand Pine User Guide* (Neilson Scott Limited, 1996), p 10.

<sup>10</sup> Paras. 47-50. However, the first such group identified by the Commission in this Decision no longer exists. This was the group comprising large, vertically integrated companies which are involved in forest ownership and log production, log trading, and downstream wood processing facilities.

individuals with small blocks of plantation forests, as well as forestry estates owned by bodies such as government and Maori land trusts. Harvest managers are frequently involved in the operational management of these woodlots. SPBL falls into this group. Harvest / woodlot managers include PF Olsen and Forest Management Limited.

## **Log Processing**

### *Pulplog Processors*

**9.9** Woodchips are primarily produced from the chipping of pulplogs and used in the manufacture of MDF, particle-board, and pulp and paper. Woodchips are also produced as a residue from the saw milling and log processing process.<sup>11</sup>

**9.10** Processors of pulplogs in the Canterbury region include:

- (a) Daiken – this is a joint venture between two Japanese companies Daiken Corporation and Itochu Corporation. Daiken is one of Japan's leading building materials manufacturers. They are supplied with pulp logs from within the Canterbury region and, when price permits, from outside the Canterbury supply region. Woodchips are also procured as residue from sawmills;
- (b) Fire Wood – the following firewood customers take the lower grade pulp logs and also binwood of random length of pine species and all the Douglas fir pulp logs/ binwood that Matariki produces:
  - (i) Pneutra Limited;
  - (ii) Murray Crossland.

### *Unpruned Sawlog Processors*

**9.11** Unpruned sawlog processors include:

- (a) SRS New Zealand – this company is located in Rolleston near Christchurch. Its facilities include kiln drying, machining, re-sawing and assembly lines for pallets, bin and cable drums. It is capable of producing in excess of 100m<sup>3</sup> of sawn timber per hour;
- (b) Canterbury Roundwood – this company processes unpruned sawlogs for the supply of posts and poles for the horticultural and agricultural sectors;
- (c) Sawmills based in Canterbury which process unpruned and some pruned sawlogs sourced from within and outside the Canterbury supply region for the domestic market, and supply directly into the Canterbury market include:
  - (i) McAlpines Timber – structural framing, industrial and merchant grade products. They also process posts and poles for domestic supply;

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<sup>11</sup> Decision No. 468, para. 55.

- (ii) Sutherland & Company – structural framing and industrial grade products;
- (iii) McVicar Timber Group – structural framing, industrial and merchant grade products;
- (iv) Prime Pine Kaikoura – structural framing, industrial and merchant grade products;
- (v) Mitchell Brothers – structural framing, industrial and merchant grade products. They also process posts and poles for domestic supply; and
- (vi) Stoneyhurst Timbers Limited – structural framing, industrial and merchant grade products.

*Pruned Sawlog Processors*

- 9.12** While pruned sawlogs are not relevant for the purposes of this application, for the sake of completeness, pruned sawlog processors which process pruned logs for a range of appearance grade products include Sutherland & Company in Kaiapoi and IPL based in Greymouth.

**10. Describe the current industry trends and developments including the role of imports and exports, emerging technologies, and/or changes in supply and demand dynamics.**

- 10.1** In its 2006 application for clearance to acquire shares and assets owned by Carter Holt Harvey (**CHH**) (cleared by the Commission in **Decision No. 588**), the applicant advised that the current industry trends at that time involved:

- (a) large vertically integrated forest owners such as CHH divesting their interests in forest operations or disaggregating their business units to separate forest operations from processing businesses. This trend was increasing the availability of "free" volumes of wood (such increases not being offset by the increase in domestic processing capacity); and
- (b) international investors and institutional funds increasingly acquiring large forest holdings. TIMOs had emerged as the major players in the ownership and distribution of forest assets. Other major plantation owners comprised a range of trust and investment management organisations and some wood processors, including Rayonier New Zealand. A large number of farm foresters, Maori corporations and investment groups also comprised a significant proportion of plantation forest ownership.<sup>12</sup>

- 10.2** These industry trends have by and large occurred since 2006. As noted above, the large vertically integrated forest owners have disappeared from the market as a group. The main industry trends at present can be seen in the demand for export of logs from New Zealand and the development of carbon trading. These are expanded upon below.

<sup>12</sup> Notice Seeking Clearance dated 9 August 2006 by Hancock Natural Resource Group Inc, paras. 11.13-11.14.

## Exports

- 10.3** Historically New Zealand exported around a third of its raw log harvest. In **Decision No. 589** the Commission considered that high value pruned sawlogs were likely to become devalued during transit. In addition, there was not a significant demand for valuable sawlogs overseas. Rather, at least in 2006, the largest demand for unpruned sawlogs was from Asia.<sup>13</sup>
- 10.4** However, recently there has been a noticeable shift towards exporting. New Zealand exports of raw logs in 2008/2009 and 2010/2011 were 36% and 43% respectively from the total market. Processed log exports have climbed steadily over a longer period. Between 1990 and 2009 exports have increased from 25% to approximately 36% of domestic processed log output.
- 10.5** The shift toward exports can be attributed to a response to recent strength in log export prices driven by underlying strong demand and supply shortages. Strong demand has primarily been driven by strong growth in the Asia Pacific region, and in particular China.
- 10.6** As an example, in the past, returns from the S30 unpruned sawlog grade sold on the domestic market have been significantly higher than those from the China A grade sold into export markets. However, since November 2010 this has not been the case, and the export A grade has received a premium price. The increase in the export A grade price has resulted in an increase in domestic log prices beginning in March 2011. Strong demand for logs offshore has the flow-on effect of increasing domestic log prices, especially for those particular grades that are supplied into both the domestic and export markets. This is demonstrated in the graph below (the blue line being the S30 unpruned sawlog grade sold on the domestic market, and the yellow line being the China A grade sold into export markets).

[redacted]

- 10.7** The increased export price for logs is being determined by events off-shore and not by domestic suppliers of logs.

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<sup>13</sup> Decision No. 589, paras. 302-303.

## Carbon Trading

- 10.8** Forestry was the first sector to enter the Emissions Trading Scheme (**ETS**). The ETS defines forestry as either post-1989 forest land or pre-1990 forest land. SPBL forest land is estimated to include 1,023 hectares of post 1989 forest land and 4,155 hectares of pre-1990 forest land.
- 10.9** Post 1989 forest owners can voluntarily enter into the ETS, and are entitled to carbon credits for carbon sequestered since 1 January 2008. SPBL has not entered the ETS in respect of post-1989 forest land. However, it owns approximately 1000 hectares of freehold land that is likely to be eligible for post-1989 forest, which means a new owner may join the ETS and execute a variety of carbon strategies should it wish to do so.
- 10.10** Under the ETS, substantial liabilities may arise in future if a purchaser wishes to remove the trees currently located on pre-1990 forestry land. As compensation for this land use constraint, the ETS entitles owners to a free allocation of "NZUs" (New Zealand Units, equivalent to one tonne of carbon dioxide).

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|---|
| <b>11. Please highlight any relevant mergers that have occurred in this industry over the past three years.</b> |
|---|

- 11.1** Matariki is not aware of any relevant mergers within this time period. The most recent merger considered by the Commerce Commission was the acquisition of shares and assets relating to forestry estates owned by Carter Holt Harvey Limited, by CRBF Limited. This was cleared by the Commission in **Decision No. 589** dated 5 October 2006.

## PART 3: MARKET DEFINITION

### HORIZONTAL AGGREGATION

- 12. For each area of aggregation of market shares, please define the relevant market(s) for the:**
- **product(s) or service(s);**
  - **functional level;**
  - **geographic area; and**
  - **customer dimension and timeframe (if relevant).**

#### Product Level

- 12.1** In **Decision No.s 426** and **468**, the Commission found that there were a number of different product markets potentially affected by the acquisition. These were:
- (a) pulplogs;
  - (b) unpruned sawlogs;
  - (c) pruned sawlogs;
  - (d) woodchips; and
  - (e) sawn timber.
- 12.2** Pruned sawlogs are used to produce appearance grade timber. As discussed above, pruned sawlogs are a minimal component of Matariki's and SPBL's production of logs in Canterbury. As a result, the acquisition will not raise material aggregation issues for pruned sawlogs and we do not deal with them further in this application.
- 12.3** In relation to woodchips and sawn timber, neither Matariki nor SPBL are processors of logs. As a result, they do not produce woodchips or sawn timber. Therefore these products are not relevant to the application.
- 12.4** This leaves pulplogs and unpruned sawlogs as the relevant products for present purposes. Their characteristics are as follows:
- (a) *Pulplogs*: pulplogs tend to be younger, smaller, and less dense than other types of logs, and are therefore not suitable for the production of sawn timber;
  - (b) *Unpruned Sawlogs*: the Commission has held that unpruned sawlogs are not close substitutes for pruned sawlogs. The presence of knots in unpruned sawlogs renders them unsuitable for the appearance-based

products that are usually manufactured from pruned sawlogs.<sup>14</sup> Instead, these types of logs are used to produce timber for construction and industrial uses.

- 12.5** Within these broad classes of logs, there are additional grades of logs. However, the Commission has held that it is not necessary to further segregate these product markets.<sup>15</sup> Matariki agrees with this.

### Functional Level

- 12.6** There are a number of functional levels that relate to the forestry sector, including the production and supply of various grades of raw logs, the processing of those logs (eg into timber or pulp and paper) and the distribution of the processed product (eg through building supply chains). The functional market analysis has been uncontroversial in previous Decisions of the Commission.<sup>16</sup>
- 12.7** The proposed acquisition involves aggregation at the production and supply level. Matariki therefore considers that the relevant functional level of the market in the present case will be that for production and supply.

### Geographic Area

- 12.8** The Commission has not previously had to examine the geographic scope of forestry markets involving the Canterbury region.
- 12.9** In its previous Decisions, the Commission has defined the following geographic markets for pulplogs and unpruned sawlogs as follows:
- (a) in its most recent forestry decision (**Decision No. 589**), the Commission found that the relevant geographic markets for pulplogs and unpruned sawlogs were for Northland and Nelson/Marlborough (as regional markets);
  - (b) in **Decision No. 468** the Commission determined that the relevant geographic market for pulplogs and unpruned sawlogs respectively was the Central North Island (para. 99);
  - (c) in **Decision No. 426**, the Commission also considered that the relevant geographic market for pulplogs and unpruned sawlogs was the Central North Island (para. 91); and
  - (d) in **Decision No. 342**, the Commission considered whether the geographic market should be Nelson/Marlborough/Westland or restricted to Nelson/Marlborough. While acknowledging that there was some trade in logs between Nelson/Marlborough and Westland in both directions, it considered that the cost of transport was still relatively high in relation to the value of the logs, particularly for pulplogs and unpruned sawlogs. Accordingly, the Commission determined that the geographic market was restricted to Nelson/Marlborough (para. 56).
- 12.10** In assessing the relevant geographic market for the supply of each log type, in **Decision No. 589** the Commission:

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<sup>14</sup> Decision No. 588, para. 72.

<sup>15</sup> Decision No. 588, para. 74.

<sup>16</sup> See Decision No. 468, paras. 100-101; Decision No. 588, paras. 77-78; and Decision No. 589, paras. 80-81.



"... considered the inland transport cost of shifting logs relative to the median value of each log type. A SSNIP of 10% applied to a pruned sawlog price of \$130/m<sup>3</sup> results in a price increase of \$13/m<sup>3</sup>. Similarly, for unpruned sawlogs, a SSNIP would result in an increase of approximately \$7/m<sup>3</sup>, while for pulplogs the price increase would be approximately \$4/m<sup>3</sup>.

Faced with an increase in log prices of the above magnitude, the ability of a customer purchasing logs to switch to an alternative source of supply from another region will depend on the additional transport costs of shipping in logs from further away." (paras. 86-87)

**12.11** Applying this approach of the Commission to the geographic scope of the market in the present case, Matariki considers that the relevant geographic scope of the market is that for **Canterbury and the West Coast of the South Island combined**. This is on the basis that:

- (a) the immediate area in which aggregation would occur as a result of the proposed acquisition lies predominantly within a 122km radius from Christchurch. We have adopted a satellite town of Christchurch (Rolleston) as the focal point for this assessment as it is the location of SRS New Zealand's Rolleston sawmill. This is one of the major local sawmills and a major purchaser of logs in the Canterbury region. Matariki supplies a significant volume of its logs in Canterbury from its forest in Hanmer to the Rolleston sawmill, and the distance from Hanmer to Rolleston is around 122km;
- (b) the pulplog price in Canterbury based on Agrifax figures (Agrifax being an independent market commentator) is currently around \$45/t, while that for unpruned sawlogs is \$100/t;
- (c) applying a SSNIP of 10% to these prices results in a price increase of \$4.50/t for pulplogs, and \$10/t for unpruned sawlogs. The relevant calculations for this are attached in **Appendix Nine**;
- (d) Matariki has then obtained cartage rates from Agrifax as at May 2011. These are also set out in **Appendix Nine**;
- (e) based on these figures, in the event that a SSNIP of 10% was applied in respect of logs produced in the immediate area of aggregation, processors could respond by sourcing logs from more distant suppliers as long as the additional transport costs are less than the price increase. Based on a cost of \$0.17 t/km for sourcing **pulplogs**, purchasers faced with a SSNIP could source pulplogs from an additional 26km, over and above the current 122km aggregation radius (ie 148km). Based on a cost of \$0.15 t/km for sourcing **unpruned sawlogs**, purchasers could source unpruned sawlogs from an additional 67km (ie 189km).
- (f) a map showing how far this additional distance covers in the South Island is attached in **Appendix Nine**. This shows that both pulplogs and unpruned sawlogs can be sourced from the West Coast production forests in the event of a 10% SSNIP applying;
- (g) on this basis Matariki considers that a combined Canterbury / West Coast regional market applies.

**12.12** The ability for Canterbury customers to source logs from West Coast suppliers is supported in practice. For instance:

- (a) unpruned sawlogs are frequently transported from the West Coast to Canterbury, and from Canterbury to Kaikoura, Nelson and Blenheim. This is driven by the regional/inter-regional/export supply and demand matrix;
- (b) unpruned sawlogs from the West Coast which are destined for export markets are transported on rail or by truck from various West Coast forests to the seaport at Lyttleton. This is done under the management of both PF Olsen and Forest Management Limited. These logs are not exported from West Coast ports. As a result, there is already a transfer of such logs from the West Coast in any event;
- (c) Matariki itself sends unpruned sawlogs from its Eyrewell forest to Primepine at Kaikoura which is a distance of 201km;
- (d) Matariki understands that pulp logs from the West Coast will either be transported to Canterbury (Daiken, 240km) or to Nelson (288km);
- (e) Matariki currently transports a significant volume of pulp logs from the Hanmer Forest to Daiken in Rangiora, at a distance of approximately 115km;
- (f) Matariki understands that recently PF Olsen has sent logs from the West Coast region to Canterbury and created a back load of logs to Greymouth;
- (g) Wenita's domestic customers for its forests in Otago are located from Christchurch in the North to Invercargill in the South<sup>17</sup>; and
- (h) in MAF's *'West Coast Forest Industry and Wood Availability Forecast'* it is stated that *"there are significant volumes of sawlogs both 'exported' from the West Coast to Canterbury and Nelson and 'imported' from those regions."*<sup>18</sup>

**12.13** While on the above basis Matariki maintains that the geographic market is that for Canterbury / West Coast combined, it also provides information in the application below for Canterbury-only in case the Commission would like to consider a narrower geographic market as well.

### Temporal Dimension

**12.14** The Commission has acknowledged in previous decisions that the market share of participants in the forestry industry can change over time given that trees are a depletable resource.

**12.15** The Commission has previously considered the temporal aspect of forestry markets in the following decisions:

- (a) in **Decision No. 589** the Commission looked at the relevant markets in the current year and over the following 12 years, broken down into one three year block and two five year blocks (2006-2008, 2009-2013 and 2014-2018);<sup>19</sup>

<sup>17</sup> [www.wenita.co.nz/log-products.html](http://www.wenita.co.nz/log-products.html); 13 June 2010.

<sup>18</sup> *'West Coast Forest Industry and Wood Availability Forecast (MAF, 2008) p 2.*

<sup>19</sup> Decision No. 589, paras. 114-119.

- (b) in **Decision No. 588** the Commission considered the markets over the current year (2006) and the following 15 years, broken into three five-year blocks (2006-2010, 2011-2015 and 2016-2020);<sup>20</sup> and
- (c) in **Decision No. 468** the Commission considered the markets over the next year (2003) and the following 12 years, again broken down into one three year block and two five year blocks (2003-2005, 2006-2010 and 2011-2015).<sup>21</sup>

**12.16** In the present case, Matariki submits that the relevant timeframes are for the 12 year period of:

- (a) 2012-2015;
- (b) 2016-2019; and
- (c) 2020-2023 respectively.

**12.17** We have used 2012, rather than 2011, as the starting point for this 12 year period. This is on the basis that, if the acquisition proceeds, Matariki will not acquire ownership of the SPBL Forest Estate until very late in 2011. This means that an insignificant volume of logs will be harvested by Matariki from the SPBL Forest Estate in 2011.

**12.18** Matariki has adopted three four year temporal periods, rather than one three year block and two five year blocks, on the basis that this is more consistent with the market share data that Matariki has been able to obtain.

### **Conclusion on Market Definition**

**12.19** For the reasons above, the primary market definitions that Matariki adopts for the purposes of this application are:

- (a) the combined Canterbury / West Coast regional market for the production and supply of **pulplogs** for each of the time periods 2012-2015, 2016-2019 and 2020-2023; and
- (b) the combined Canterbury / West Coast regional market for the production and supply of **unpruned sawlogs** for each of the periods 2012-2015, 2016-2019 and 2020-2023.

**12.20** In the next sections of this application we consider the effect of the acquisition on competition in these markets. As noted earlier, we also provide information just for Canterbury regional markets in case the Commission wishes to examine the application from a narrower geographic approach.

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<sup>20</sup> Decision No. 588, paras. 104-108. The timeframes adopted in this Decision differ from those adopted in Decisions 589 and 468 because the applicant in Decision No. 588 adjusted the timeframe to show a forward looking analysis for the next 15 years, in recognition that each firm's production will vary with the age of its forest. See Hancock Natural Resources Group Inc Notice Seeking Clearance, dated 9 August 2006, para. 11.11.

<sup>21</sup> Decision No. 468, paras. 102-104.

**13. Where relevant, please explain how products or services are differentiated within the market(s).**

**13.1** As noted above, logs are differentiated into three types, being pulplogs, pruned sawlogs and unpruned sawlogs.

**13.2** In **Decision No 468** the Commission found that there was some differentiation in terms of quality for all these products. The amount of available clearwood affects the price payable for pruned and unpruned sawlogs and density is an important factor for sawlogs and pulplogs used for some purposes and woodchips. Sawn timber is differentiated according to the purpose for which it is intended (eg framing, furniture or packaging). The Commission considered that although the three types of logs above were differentiated to some extent, the products were not so differentiated as to affect the market definition.<sup>22</sup> Matariki agrees with this approach.

**14. Provide details of any creation or strengthening of vertical integration that would result from the proposed merger. Please use organisational charts or diagrams to illustrate the structure of the ownership and/or control of the participants and the vertical relationships in question.**

**14.1** No vertical integration issues arise in respect of the proposed acquisition. The issues are purely horizontal.

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<sup>22</sup> Decision No. 468, paras. 78–79.

## PART 4: COUNTERFACTUAL

**15. In the event that the proposed merger does not take place, describe what is likely to happen to the business operations of the merger parties and the market/industry.**

- 15.1** In the event that the proposed acquisition does not take place, Matariki believes that the SPBL Forest Estate will be sold to a third party. This is on the basis that the decision has been made by Selwyn District Council and Christchurch City Council to sell all their assets from SPBL and liquidate the company. For instance, the 2010 annual report of Selwyn Investment Holdings Limited states "*Selwyn Plantation Board Limited is in the process of selling all its assets and is actively negotiating the sale and settlement of several properties and its forest asset*" (p63), and "*The priority is to complete the sale of the remaining assets of the business at the earliest opportunity, and over time return funds to shareholders*" (p15). SPBL will be able to confirm to the Commission that the forests and accompanying land will definitely be sold.
- 15.2** Matariki understands that the next bidder in line to purchase SPBL's Forest Estate was a buyer based out of Asia. There is a strong possibility that, if this other buyer had been successful, the great majority of the logs sourced from the SPBL estate would have been exported out of New Zealand.
- 15.3** An example of this is the recent purchase of the Mangakahia Forest in Northland. This was sold in 2010 by Global Forest Partners to Sino Forest, which is based primarily in China. Matariki understands that Sino Forest is looking to export the majority of the volume of logs from Mangakahia Forest to China. Further information is contained in a New Zealand Herald article dated 12 January 2011.<sup>23</sup>
- 15.4** The likely effect of a purchaser of the SPBL Forest Estate exporting its logs outside New Zealand would be to reduce available supply for the remaining domestic volumes in both unpruned sawlog and pulplog grades in the Canterbury / West Coast region. There have been precedents set by large vertically integrated companies purchasing forests in New Zealand and exporting both unpruned sawlogs and pulp grades, especially when demand is so strong in Asia.
- 15.5** In contrast with this counterfactual, as expanded upon in the application, Matariki does not export a significant amount of pulp logs out of Canterbury, as its supply is predominantly fed into the Daiken mill near Rangiora. As a result, the counterfactual would be to the detriment of this particular mill, as well as to other mills such as SRS in Rolleston which Matariki supplies to as well.

<sup>23</sup> [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=10699238](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10699238).

## PART 5: COMPETITION ANALYSIS

### EXISTING COMPETITORS

**16. Identify all of the relevant competitors in the market(s), including near competitors and importers in the market(s), and describe how they all compete in the market(s).**

**16.1** The relevant competitors in the production and supply of pulp logs and unpruned saw logs are set out in the market share tables in **Appendix Five**.

**16.2** Leaving aside SPBL, key competitors in the Canterbury / West Coast region include the following (in no particular order):

- (a) **Blakely Pacific Ltd:** owns and manages forest land in the Canterbury region. Its forest products are then sold domestically in New Zealand and in log markets throughout Asia and the Middle East. Log sales are primarily "woods to mill" deliveries, but harvesting and marketing services are also provided;
- (b) **Crown Forestry:** administers the Crown's interest in forestry leases on Maori land, residual Crown forest and other forestry assets. It is the seventh largest forest owner in New Zealand based on net stocked area with the following assets:
  - (i) forty forests geographically spread throughout New Zealand's North Island and the West Coast of the South Island. The total planted area of these forests as at February 2011 is 57,719 hectares, with harvesting activity producing a projected annual cut of 1.39 million cubic metres in 2010/11 and 1.42 million cubic metres in 2010/11. The level of harvest will remain around the 1 million cubic metres per annum mark until about 2015/16 when it will steadily decline as the mature Maori lease forests are harvested and surrendered. Of the forests, 16 are planted on land leased from Maori (all in the North Island); 12 forests are covered by two forestry rights on Ngai Tahu land (on the West Coast of the South Island); and 12 forests are planted on Crown-owned land (all except two are in the North Island);
  - (ii) thirteen afforestation leases where Crown-owned land has been leased to other parties for forestry purposes;
  - (iii) a portfolio of Forestry Encouragement Loans established by the NZ Forest Service under the Forestry Encouragement Loan Regulations (1967). These loans were made to local authorities (now mostly regional councils) and are repayable on harvesting;
- (c) **Forest Management Limited:** specialises in forest consultancy, establishment, tending, harvesting and marketing in Canterbury, the West Coast and Otago. Services offered include forest investment management and analysis, log harvesting project management, forest

and log sales and purchase, log exports, domestic log supply, silviculture; and forest valuation;

- (d) **PF Olsen:** provides independent professional forestry services to TIMOs, farmers, investors, Maori groups and government agencies, including harvesting services, forest tending and maintenance operation services, FSC certification and professional advice on forest value;
- (e) **Environment Canterbury (ECAN):** owns and manages approximately 2700 hectares of predominantly *Pinus radiata* forest. The forest is maintained for protection purposes where it forms a barrier between the active channels of several major rivers and stop banks. The majority of the forest is concentrated in the Waimakariri River with smaller areas associated with the Ashley, Rakaia, Ashburton, Opihi and Orari Rivers. While the forest's prime purpose is protection, it is also managed for production.

**16.3** Information on how these companies compete with Matariki and SPBL in Canterbury is contained in the response to Question 9 above, and Question 18 below.

**17. Outline the estimated market shares in terms of sales, and, where relevant, volume and productive capacity, of the merger parties and competitors identified above. Please include:**

**17.1 the estimated total value of the domestic market; and**

**17.2 the source of the data provided.**

**17.1** Matariki's estimates of shares in the markets identified are set out in the tables in **Appendix Five**.

**17.2** In estimating the total value of the relevant markets, the Canterbury volumes are derived from the Ministry of Agriculture & Forestry (**MAF**) Canterbury Forest Industry and Wood Availability Forecasts (February 2008), the National Exotic Forest Description (April 2010), and Matariki's general market knowledge of conditions in the Canterbury wood supply region which, as defined by MAF, includes all districts from Waimate to Hurunui. The West Coast volumes are derived from the MAF - West Coast Forest Industry and Wood Availability Forecast (June 2008) and also from market knowledge about the West Coast Supply region (comprising the Buller, Grey and Westland districts as defined by MAF).

**17.3** Matariki's volumes are derived from its projected harvest schedule. The SPBL volumes are derived from the yield tables created by Matariki in its SPBL acquisition woodflow model.

**17.4** In terms of the estimated market shares for other market participants, the estimated shares for Blakely Pacific and Crown Forestry are based on MAF's National Exotic Forest Description of April 2010<sup>24</sup>, and MAF's Canterbury Forest Industry and Wood Availability Forecasts.<sup>25</sup> The market share figures for ECAN,

<sup>24</sup> Located at "<http://www.maf.govt.nz/news-resources/statistics-forecasting/statistical-publications/national-exotic-forest-description-2010-release>".

<sup>25</sup> "Canterbury Forest Industry and Wood Availability Forecasts" (MAF, 2007).

PF Olsen and Forest Management Limited represent Matariki's best estimate, although Matariki does not have actual figures available for these companies.

- 18. To what extent do you consider that the merged entity would be constrained in its actions by the conduct of existing competitors in the markets affected? Where relevant please include a full discussion and examples of:**
- 18.1 the ease with which customers may switch between suppliers, and, if so, how readily;**
- 18.2 any local or overseas firms that are not currently producing the product, or providing the service in the market, but could enter the market quickly (using essentially their existing productive capacity) in a response to an attempt by suppliers to raise prices or reduce output or quality (near competitors and importers); and**
- 18.3 the extent to which existing competitors, near competitors and importers could expand in the market, and any difficulties that they might face in doing so.**

- 18.1** Matariki considers that post its acquisition of SPBL it will continue to remain constrained in the pulplog and unpruned sawlog markets. We expand on this below, dealing with four main issues being:
- (a) the application of the safe harbours guidelines;
  - (b) Matariki's reducing market share going forward;
  - (c) the ability for competitors to bring forward the harvest of logs; and
  - (d) the ability for competitors to divert logs currently destined for export into the Canterbury / West Coast market.

#### **Application of the Safe Harbours**

- 18.2** As is evident in the market share tables in **Appendix Five**, for combined **Canterbury / West Coast regional markets** the proposed acquisition will be within the Commission's safe harbours for both pulplogs and unpruned sawlogs for all time periods, except for pulplogs for the 2012-2015 period. The concentration ratio of the three largest companies in these markets post-acquisition (Matariki/SPBL, Blakely Pacific and Crown Forestry) is in all cases below 70%. The acquisition is not involving a large increased aggregation of market share, with SPBL's market share ranging from **[redacted]** for pulplogs and unpruned sawlogs over all time periods. SPBL is not one of the leading three companies in these markets by market share, and the acquisition will see Matariki still facing strong competition from the second and third largest competitors in the markets (Blakely Pacific and Crown Forestry).



- 18.3 Even in relation to the one market where the acquisition will be outside the safe harbours (the market for the supply of pulplogs in the Canterbury / West Coast region for the 2012-2015 period), the concentration ratio here is 66.8%. The safe harbour is therefore 40%, and Matariki/SPBL is only just outside this at [redacted]. The merged entity will continue to face strong competition from the second and third players in the market (Blakely Pacific and Crown Forestry).
- 18.4 If the Commission wishes to examine narrower **Canterbury-only regional markets**, then the position under the safe harbours remains similar. Again, the concentration ratio of the three largest companies post-acquisition (Matariki/SPBL, Blakely Pacific and PF Olsen) remains in all cases under 70% for each of pulplogs and unpruned sawlogs. The amount of additional aggregation from the acquisition is not high (ranging from [redacted] market share for SPBL across all time periods). The acquisition will be within or around the safe harbours for all time periods, apart from 2012-2015 for each of pulplogs and unpruned saw logs.
- 18.5 Even for the 2012-2015 time period, the concentration ratio for pulplogs is 68.2% and for unpruned sawlogs is 66.8%. Because the concentration ratio is less than the 70% threshold, the safe harbour is 40%. Matariki/SPBL are not greatly outside this level at [redacted] combined market share for pulplogs and [redacted] combined market share for unpruned sawlogs.

#### **Matariki's Reducing Market Share**

- 18.6 An important point to note from the market share tables is that, whether the market is Canterbury / West Coast or Canterbury only, Matariki/SPBL are within the Commission's safe harbours for both pulplogs and unpruned sawlogs for the 2016-2019 and 2020-2023 time periods.
- 18.7 This is the result of Matariki's own declining production over the next few years, and the age-class structure of the small woodlot owners' combined estates.
- 18.8 In relation to the first issue, as noted above in the response to Question 5, in Canterbury Matariki's domestic harvest volume is forecast to decline and has been declining since 2006. Domestic sales in 2006 were [redacted]. This fell to [redacted] in 2010 (approximately a [redacted] reduction). The reason for this is Matariki's reducing age-class structure, meaning less mature forest becoming ready for harvest, compounded by a reducing productive area as a result of:
- (a) the hand back by Matariki of the Eyrewell and Balmoral Forests in Canterbury to Ngai Tahu as these forests are harvested. Originally this was to take place with a hand back date of 2020, but this hand back date has now been brought forward to the annual harvest date (according to the lease conditions);
  - (b) under the current lease agreement between Ngai Tahu and Matariki, Ngai Tahu is able to call back up to an additional 5% of stocked area;
  - (c) Ngai Tahu is also requesting area from Matariki for hand back which is additional to the two previous methods. Matariki is not legally obliged to hand this requested area back but is complying with this request in practice. This current year the additional hand back is approximately 220 ha (it was 3000 ha in 2010); and

- (d) the hand back of leasehold block as it is harvested in the Journey's End block of Ashley Forest. This is to be handed back by 2019.

- 18.9** In relation to the latter issue (the age-class structure of the small woodlot owners' combined estates), there were large areas planted (>2,500ha/year) for approximately six years in the Canterbury region that are currently scheduled for harvest beginning as early as 2016. There is evidence that this increased supply could be harvested prior to forecast, as log price / demand is very strong and there is a strong harvesting push currently. The round wood market in Canterbury may also have an influence on the forecast harvest volumes, and when the increased supply could be harvested. There is strong demand for round wood in both the horticulture and agriculture sectors. As the demand for these increases, woodlots will be harvested at a younger age to meet the demand.
- 18.10** The combination of these factors means that Matariki's market position is decreasing rather than increasing. This is clearly evident in the market share tables.

### **Bringing Forward the Harvest of Logs by Competitors**

- 18.11** In terms of the ability for competitors to expand in the markets, a connected issue with the latter point above about the age-class structure of the small woodlot owners' combined estates is that woodlot owners that are not constrained with any particular rotation length are free to harvest at any particular age. MAF has assumed a harvest age of 30 for private forest owners in its woodflow availability forecasts. However, in a strong market there is the potential for private forest owners to harvest these stands up to five years earlier, therefore increasing the total supply in the region earlier than indicated in the woodflow availability forecasts.
- 18.12** In the case of the Canterbury / West Coast region, the current age class structure shows that there is a significant volume of logs due for harvest over the medium term (5 to 10 years). This increased supply will influence the supply demand balance. This volume can be "brought forward" and harvested earlier, especially if the prices of logs continue to rise.

### **Export Diversion**

- 18.13** Existing competitors can also expand their position in the market through export diversion. Logs currently destined for export could readily be diverted to the local Canterbury market to compete with the combined entity post-acquisition if it were to raise its prices substantially, and if the export price weakened. This was recognised by the Commission in **Decision No. 426** in relation to the Central North Island geographic market.<sup>26</sup>
- 18.14** Generally, exporters fix freight 4-10 weeks in advance, so if freight and sales are not confirmed the "component" logs that have equivalent quality traits are able to be diverted.
- 18.15** In Matariki's case, around [redacted] of its pulplogs and sawlogs harvested are exported. These could be brought back into the Canterbury / West Coast market.

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<sup>26</sup> Decision No. 426, paras. 132-138.

This is highlighted by SRS New Zealand taking export K-grade and KM-grade unpruned sawlogs as a domestic grade.

- 18.16** Matariki believes that it is representative of other producers in the Canterbury / West Coast market in terms of the ability to divert wood to both export and domestic markets. Price will be the determining factor.

## POTENTIAL COMPETITION

### CONDITIONS OF ENTRY

- 19. Please explain the requirements for new entry and/or importers in the relevant market(s), including:**
- **a breakdown of the estimated costs; anticipated timeframes;**
  - **regulatory requirements;**
  - **frontier requirements (e.g. tariffs, import licensing, quarantine requirements); and**
  - **business requirements involved.**
- 20. Include a full discussion on:**
- 20.1 any factors that could impede entry; and**
- 20.2 what might prompt new entry post-merger.**

- 20.1** The most likely form of new entry into the market for the supply of pulplogs and unpruned sawlogs in the Canterbury / West Coast region is supply from producers in neighbouring regions, and increased supply from existing competitors in these markets (either through bringing the harvest forward or export diversion as noted above).
- 20.2** The policy behind the emissions trading scheme may prompt new establishment forest plantings and there has been some evidence of this. However this is a long term proposition for the entry of logs into the market. New entry in the relevant time periods covered by the present application (ie up until 2023) will not take place through the planting of new forests on the basis that it takes around 25-30 years to achieve harvest on current regimes. This makes the supply of logs a long term commitment and not something that can be produced over a short time period.
- 20.3** As a result, the more likely possibility for new entry (apart from bringing the harvest forward or export diversion) is the transportation of logs by truck or rail from other regions into the Canterbury / West Coast region. The main cost for such new entry is the cost of cartage of bringing logs into the Canterbury / West Coast region. These cartage costs are variable, based on distance. The unit rates reduce as the kilometre rate increases. The costs of cartage as taken from Agrifax figures are set out in the table in **Appendix Nine**.

- 20.4** To enter the markets only requires moving logs from further afield by truck or rail. Accordingly the timeframes for new entry will be short given the appropriate price incentives.
- 20.5** The regulatory, frontier and business requirements involved are limited. In particular there are no tariffs, import licenses and quarantine requirements to move logs within New Zealand.
- 20.6** Some sawmillers have asked about Forest Stewardship Council (FSC) certification and are positive about Matariki applying for this certification (which Matariki is currently doing). FSC certification requires forests to be managed in a particular way, focusing on social environmental elements involved in growing plantation forests. What drives this is the demand for FSC certified products which requires a FSC certified supply chain starting at the forests where the trees are grown. However currently FSC certification is very much a "nice to have" rather than a "must have". As a result, Matariki does not regard it as a barrier to entry at present.

#### **LIKELIHOOD, EXTENT AND TIMELINESS OF ENTRY (THE LET TEST)**

**21. Please name any likely businesses (including overseas businesses) you are aware of that do not currently supply the market but which you consider could supply each of the relevant market(s). Discuss the likelihood of such entry.**

- 21.1** There are a number of businesses that do not currently supply the market but which Matariki considers could likely do so given the appropriate incentives. These include:
- (a) volume from Otago / Southland – suppliers based there include Ernslaw One, Wenita, City Forests, and Blakely Pacific;
  - (b) volume from Nelson – suppliers based there include Nelson Forests, GMO Renewable Resources, Hancock Forest Management, Tasman/Nelson and Marlborough Councils; and
  - (c) sawn timber from North Island suppliers – this is already taking place with Red Stag Timber. They have a distribution centre located in Canterbury, which is supplied with sawn timber from the Waipa Mill located in Rotorua. Red Stag are well poised to supply a greater (more significant) volume of sawn timber, particularly for the earthquake rebuild in the region. We refer the Commission to the web newsletter published by Red Stag in October 2008 for details of their distribution centre in Christchurch and how packets of timber can be sent from the Waipa Mill at [http://www.redstagtimber.com/myfiles/Red Stag Newsletter to Customers October 2008.pdf](http://www.redstagtimber.com/myfiles/Red%20Stag%20Newsletter%20to%20Customers%20October%202008.pdf).
- 21.2** Expanding on the relevance of Red Stag, Red Stag does not compete directly in the market for the supply of unpruned sawlogs. However, Red Stag is in direct competition with the local sawmillers which Matariki supplies in the Canterbury area, due to the output of unpruned sawlogs from the sawmills competing directly with the sawn timber product supplied by Red Stag. The Canterbury sawmillers are not able to increase prices significantly without encouraging other suppliers

similar to Red Stag (eg Northpine) into their market. In turn, taking into account the fact that around [redacted] of its supply is to domestic sawmillers in Canterbury, Matariki is unable to increase significantly its prices for unpruned sawlogs to its domestic customers without pricing them out of the market as they are the mainstay of Matariki's customer base in Canterbury.

- 21.3 In terms of the likelihood of such entry, Matariki believes that (a) and (b) above are very likely. (c) is currently happening, but the chances of this substantially increasing are very likely (hence its inclusion in this section of the application).

**22. To what extent do you consider that potential entry would be sufficient to constrain the merged entity in the markets affected?**

- 22.1 Matariki believes that potential entry (as well as the existing competition previously identified) is sufficient to constrain the merged entity post-acquisition in the relevant markets.

- 22.2 As noted above, there is ability for existing market participants and/or new entrants to increase their market presence. Existing market participants can decide to bring forward harvesting of pulp logs and/or unpruned sawlogs. For example, 2-5 years ago SPBL undertook a period of early land clearing to enable it to convert the land to dairy, which flooded the market with pulplogs and reduced the price producers could obtain.

- 22.3 As regards new entrants, as noted above, the main barrier to entry is created by freight costs. However, Canterbury is well served with highway standard and secondary roading systems. The extensive alluvial plains provide easy transport routes and low-cost road maintenance.<sup>27</sup> Furthermore, Christchurch is located near the centre of the east coast main trunk rail line. The West Coast line has long been used for transporting timber into Canterbury. The rail link to Canterbury is strategically important because there are no major export ports on the West Coast.<sup>28</sup>

**23. How long would you expect it to take for entry to occur, and for market supply to increase, in respect of each of the potential entrants named in question 21 above? Provide reasons for your estimates.**

- 23.1 Matariki believes that supply from the new entrants identified in the response to Question 21 above could increase in both unpruned sawlogs and pulp logs across all potential market entrants in a short period of time given the appropriate incentives for entry (ie almost immediately given the appropriate price incentive). Red Stag Timber is already supplying downstream markets with wood sourced from the Central North Island, and this is impacting on the market for unpruned sawlogs as noted above.

- 23.2 The flexibility afforded by the transportation of logs by truck would allow supply to be diverted to other regions in the short term. Rail is also an option for new entrants to use to gain access to the Canterbury market from neighbouring regions.

<sup>27</sup> "Canterbury Forest Industry and Wood Availability Forecasts" (MAF, 2007) p 33.

<sup>28</sup> "Canterbury Forest Industry and Wood Availability Forecasts" (MAF, 2007) p 33.

## COUNTERVAILING POWER OF BUYERS

**24.** To what extent do you consider that the merged entity would be constrained in its actions by the conduct of buyers in the markets affected? Where relevant, please include:

**24.1** a full discussion on the ability of buyers to self supply or import, and the alternative sources of supply available to buyers; and

**24.2** evidence of buyers seeking alternative supply and/or switching suppliers.

**24.1** The Commission recognised in **Decision No. 589** that smaller sawmills use a suite of suppliers in order to strengthen their bargaining power when negotiating prices with suppliers.<sup>29</sup> Prices are negotiated along with various other terms and conditions, and if a customer is dissatisfied with the price offered, they may reduce the volume transacted or the frequency with which they accept logs.

**24.2** This remains the case. However, due to high export prices, the current position is that demand for pulplogs and unpruned sawlogs in the Canterbury region is outstripping supply (even after contracted supply to customers is taken into account). That said, the position would be worse if the counterfactual applied (ie that SPBL's Forest Estate was exported post-acquisition). The demand / supply position could also well be different in later time periods.

**24.3** In terms of relevant buyers in the markets, Matariki's major customers are as follows:

- (a) Daiken New Zealand Limited;
- (b) McAlpines Timber Limited;
- (c) McVicar Timber Group;
- (d) Mitchell Brothers Sawmillers;
- (e) SRS New Zealand Limited;
- (f) Pneutra Limited;
- (g) Stoneyhurst Timbers Limited;
- (h) Sutherland and Company Limited.

**24.4** Smaller but still significant customers of Matariki are as follows:

- (a) Canterbury Roundwood Limited;

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<sup>29</sup> Decision No. 589, para. 242.

- (b) Murray Crosland;
- (c) Prime Pine Kaikoura Limited;
- (d) Selwyn Sawmills Limited.

**25. If you consider that there is a constraint from buyers, identify the top five buyers by sales and/or volume (including overseas companies/importers) in the relevant market(s). Where there are significant differences in the size of the buyers please provide details for five medium and five small buyers.**

**25.1** Please refer to the response to Question 24.

## COORDINATED MARKET POWER

### 26. Identify and discuss the various characteristics of the market that, post-merger, you consider would either facilitate or impede coordination.

26.1 Matariki believes that the following market conditions exist which render coordination unlikely:

- (a) competitors such as Blakely Pacific, Crown Forestry and PF Olsen, as well as small woodlots, will be incentivised to continue harvesting to take advantage of higher log prices and compete against the combined entity;
- (b) the large number of fringe competitors limits the scope for coordinated behaviour; and
- (c) the combined entity and its competitors will be incentivised to continue harvesting and competing to dispose of their pulplogs because of the inability to hold back harvest for an ongoing period of time.

26.2 The factors identified by the Commission which are conducive to collusion, and whether Matariki considers they are present in the relevant categories identified, are set out in the following table:

| Factors conducive to collusion               | Pulplogs and unpruned sawlogs  |
|--|--|
| <b>High seller concentration</b>             | No. As can be seen from the market share tables, the concentration ratio of the three largest market participants is below 70% in each time period.  |
| <b>Undifferentiated product</b>              | Logs can be differentiated between pulplogs, unpruned sawlogs etc, and within these categories of logs there are different levels of quality.  |
| <b>Static production technology</b>          | Improvements in tree quality and better forest management practices are leading to increased levels of forest productivity.  |
| <b>Speed of new entry</b>                    | The planting of a new forest would be slow, but there can be quick new entry through bringing forward harvests, export diversion, or imports of logs from outside the region given the appropriate price incentives. |
| <b>Lack of Fringe competitors</b>            | No, as set out above, there are a number of fringe competitors.  |
| <b>Acquisition of a maverick business</b>    | No. SPBL is not a maverick business in the markets.  |
| <b>History of anti-competitive behaviour</b> | No.  |



|                                       |   |
|---------------------------------------|---|
| <b>No countervailing buying power</b> | There can be countervailing buyer power depending on the availability of logs, although at present demand is outstripping supply. |
|---------------------------------------|---|

## EFFICIENCIES

|             |  |
|-------------|--|
| <b>27.</b>  | <b>If applicable, provide a description of any efficiencies that you believe the acquisition could bring. Would such efficiencies enhance rivalry, or offset the impact of a lessening of competition? Please include a full discussion on:</b>                                  |
| <b>27.1</b> | <b>how the merger would facilitate the realisation of efficiency improvements. Specify the steps the combined entity anticipates it would take, and the timeframe needed, to achieve the efficiencies. Where relevant, include a discussion of the risks and costs involved;</b> |
| <b>27.2</b> | <b>the magnitude of the efficiencies, whether the impact would be on fixed, variable or other costs, and generally how the cost structure of the merged entity would change;</b>   |
| <b>27.3</b> | <b>whether such efficiencies could be realised without the merger, or over a longer timeframe; and</b>   |
| <b>27.4</b> | <b>whether, and the extent to which, such efficiencies would be passed on to the customers of the merged entity.</b>   |

- 27.1** As stated in the response to Question 5, Matariki believes there will be a number of efficiencies that the proposed acquisition of the SPBL Forest Estate can bring. These include:
- (a) continuity of supply of logs to customers – domestic customers will have the ability to set longer term contracts to guarantee log volume. This will flow through the entire supply chain (in particular to forestry contractors);
  - (b) continuity of contractors (including quality, long term, skilled contractors);
  - (c) more accurate forecasting - being able to set longer term contracts has the ability to reduce cost through accurate forecasting etc. These reductions in costs generally flow through to the customer in lower unit rates for longer contracts.

**27.2** Such efficiencies could not be realised without the acquisition, due to Matariki's reducing age-class structure meaning less mature forest becoming ready for harvest, and the productive area reduction that Matariki is experiencing from handing back land to Ngai Tahu. Such a loss in productive area for Matariki would create the opposite of the efficiencies mentioned above if the acquisition does not proceed.

#### **OTHER FACTORS**

**28. Where relevant, provide a description of any other features of the market(s) that should be taken into account in considering the effect of the proposed merger.**

Not Applicable.

## PART 6: FURTHER INFORMATION AND SUPPORTING DOCUMENTATION

29. Provide the contact details of relevant competitors, buyers and suppliers and any other relevant market participants in the form of the example table shown below.

|                    | Name of Company              | Contact Details   | Relevant Contact Person   |
|--------------------|------------------------------|---|---|
|                    | Both legal and trading names | Postal and physical address, telephone and fax, website   | Name, position and contact details including telephone, fax, email  |
| <b>Competitors</b> | Blakely Pacific Limited      | Level 1<br>112 Wrights Road<br>Addington<br>Christchurch 8024<br>New Zealand<br><br>PO Box 13980<br>Christchurch<br><br>Ph: +64 3 338 6741<br>Fax: +64 3 339 1689<br><a href="http://www.portblakely.com/blakely-pacific">www.portblakely.com/blakely-pacific</a> | Phil Taylor<br>Managing Director<br><br>03 365 2846<br>027 4876 890 |
|                    | Crown Forestry               | Level 11<br>Pastoral House<br>25 The Terrace<br>PO Box 2526<br>Wellington 6140<br><br>Ph: 0800 00 83 33<br>Fax: + 64 4 894 0720<br><a href="http://www.maf.govt.nz">www.maf.govt.nz</a>   | Charis Scheel<br>General Manager<br><br>04 894 0393                 |
|                    | P F Olsen Limited            | 24/150 Cavendish Road<br>Christchurch 8051<br>New Zealand<br><br>Ph: +64 3 961 6560<br><a href="http://www.pfolsen.com/nz_index.php">www.pfolsen.com/nz_index.php</a>   | Scott Downs<br>Regional Manager<br><br>021 481 875                  |
|                    | Forest Management Limited    | 52B Mandeville St<br>Riccarton<br>Christchurch 8011<br>New Zealand  | Evan McClure<br>Director<br><br>0274 330 038                        |

|                  |                              |  |   |
|------------------|------------------------------|--|---|
|                  |                              | PO Box 3718<br>Christchurch Mail Centre<br>Christchurch 8140<br><br>Ph: + 64 3 377 1726<br>Fax: + 64 3 377 1273<br>www.forestmanagement.co.nz                              |   |
|                  | Trans Tasman Forestry        |  | Haydn Bishop<br>Director<br>027 729 5647  |
|                  | Laurie Forestry Ltd          |  | Alan Laurie<br>Director<br>0274 321 420   |
|                  | ECAN                         | 58 Kilmore St<br>PO Box 345<br>Christchurch  | Bill Bayfield<br>CEO<br>03 365 3828   |
| <b>Customers</b> | McVicar Timber Group Limited | 550 Johns Road<br>Harewood<br>Christchurch 8051<br>New Zealand<br><br>PO Box 5028<br>Christchurch<br><br>Ph: + 64 3 359 8144<br>Fax: + 64 3 359 7946<br>www.mcvicar.co.nz  | John McVicar<br>Director<br>03 359 8144   |
|                  | Daiken New Zealand Limited   | Upper Sefton Road<br>Ashley<br>Rangiora 7472<br>New Zealand<br><br>Private Bag 1001<br>Rangiora 7440<br><br>Ph: +64 3 313 6819<br>Fax: +64 3 313 6830<br>www.daiken-nz.com | Brett Douglas<br>General Manager, Business Operations:<br>027 3623128   |
|                  | McAlpines Timber Limited     | No 1 Southbrook Road<br>Southbrook<br>Rangiora 7400<br>New Zealand<br><br>Ph: + 64 3 313 8339<br>Fax: +64 3 313 7767   | General Manager:<br>John Duncan<br><a href="mailto:john.d@mcalpines.co.nz">john.d@mcalpines.co.nz</a><br>03 313 8339<br>021 326 197 |

|  |  |  |   |
|--|--|--|---|
|  |  | www.mcalpines.co.nz  |   |
|  | Mitchell Bros Sawmillers<br>(Darfield) Limited | Mitchell Bros Darfield Limited<br>Main West Coast Road<br>Canterbury<br>New Zealand<br><br>PO Box 22<br>Darfield<br>Canterbury<br><br>Ph: + 64 3 318 8414<br>Fax: +64 3 318 8831<br>www.mitchellbros.co.nz | Tony Mitchell<br>Director<br>03 318 8414      |
|  | SRS New Zealand Limited                        | 820 Jones Road<br>Rolleston<br>Christchurch 7677<br>New Zealand<br><br>PO Box 16350<br>Hornby 8441<br><br>Ph:+64 3 347 4537<br>Fax: +64 3 347 4597<br>www.srs.co.nz  | Bryan McCorkindale<br>Director<br>03 349 9688 |
|  | Pneutra Limited                                | 443 Johns Road<br>Harewood<br>Christchurch 8051<br>New Zealand<br><br>Ph: +64 3 359 9323   | John Harris<br>Director<br>0274 925 710       |
|  | Stoneyhurst Timbers<br>Limited                 | 13 – 17 Dickeys Road<br>Belfast<br>Christchurch 8051<br>New Zealand<br><br>Ph: +64 3 323 8879<br>Fax: +64 3 323 7341   | John Hawkins<br>Director                      |
|  | Sutherland and Company<br>Limited              | 197 Ohoka Road<br>Kaiapoi 7630<br>Waimakariri<br>Canterbury<br>New Zealand<br><br>Ph: +64 3 327 8829<br>Fax: +64 3 327 8895  | Murray Sutherland<br>Director<br>03 327 8843  |

|                              |   |  |  |
|------------------------------|---|--|--|
|                              | Canterbury Roundwood<br>(2006) Limited    | 44 East Belt<br>Rangiora 7400<br>New Zealand<br><br>Ph: +64 3 313 3103   | Willie Woodhouse<br>Director<br>027 347 2959   |
|                              | Prime Pine Kaikoura<br>Limited            | 222 Beach Road<br>Kaikoura 7300<br>New Zealand<br><br>Ph: +64 3 319 5447<br>Fax: +64 3 319 6244  | Sam Baker<br>0274 411 315  |
|                              | Selwyn Sawmills Limited                   | Te Pirita Road<br>RD 2<br>Darfield 7572<br>Canterbury<br><br>Ph: +64 3 318 0812<br>Fax: +64 3 318 0816   | Mike Halliday<br>Director  |
| <b>Government Ministries</b> | Ministry of Agriculture and Forestry      | Pastoral House<br>25 The Terrace<br>PO Box 2526<br>Wellington 6140<br><br>Ph: 0800 00 83 33<br>Fax: + 64 4 894 0720<br>www.maf.govt.nz   | N/A  |
| <b>Industry Associations</b> | New Zealand Forest Owners Association Inc | 85 The Terrace<br>PO Box 1208<br>Wellington<br><br>Ph: +64 4 473 4769<br>Fax: +64 4 499 8893<br>www.nzfoa.org.nz   | Email enquiries may be made to:<br>nzfoa@nzfoa.org.nz  |
|                              | Wood Processors Association               | Level 4<br>85 The Terrace<br>Wellington<br><br>PO Box 10937<br>Wellington, 6143<br><br>Phone: +64 4 473 9220<br>Fax: +64 4 473 9330<br>Email: <a href="mailto:office@wpa.org.nz">office@wpa.org.nz</a> | Email enquiries may be made to:<br>Email: <a href="mailto:jon@wpa.org.nz">jon@wpa.org.nz</a> |

**30. Please provide a copy of the most recent annual report for each of the merger parties. If an annual report is not available, please provide a copy of the audited financial statements of the merger parties (profit and loss account, showing total turnover and profit before tax, and balance sheet). If the merger only relates to a segment of the business of the merger parties, please also provide a copy of any management accounts for the relevant business segment.**

**30.1** Please find **attached** in **Appendix Four** copies of:

- (a) the 2010 Annual Report for Matariki; and
- (b) the 2010 Annual Reports for Selwyn Investment Holdings Ltd and Christchurch City Holdings Ltd.

## PART 7: CONFIDENTIALITY

**31. If you wish to request confidentiality for specific information contained in or attached to the notice, please state why you consider the information to be confidential and state the reasons for your request in terms of the criteria set out in the Official Information Act 1982.**

**31.1** Confidentiality is sought in respect of the information in this application that is contained in bold square brackets and green shading. Confidentiality is sought for the purposes of section 9(2)(b) of the Official Information Act on the grounds that:

- (a) the information is commercially sensitive and contains valuable information which is confidential to the merger parties; and
- (b) disclosure of it is likely to give an unfair advantage to competitors of the merger parties and/or unreasonably prejudice the commercial position of the merger parties.

**31.2** Matariki requests that it be notified of any request made to the Commission under the Official Information Act for release of its own confidential information, and that the Commission seeks its views as to whether the information remains confidential and commercially sensitive at the time responses to those requests are being considered.

**31.3** The above points apply equally in respect of any additional information provided to the Commission that is expressed to be confidential.

**32. Provide a separate schedule of all confidential information claimed in the application. The Commission requires applicants to provide a separate schedule listing all the confidential information so the Commission can process confidentiality requests quickly.**

**32.1** Please refer to the **attached** schedule in **Appendix Six** of all confidential information (which is the same as the information in this application contained in square brackets and green shading).

**33. Provide two copies of the application. One copy must be a confidential version and the other a public version.**

**33.1** In the confidential version of the application any information for which confidentiality is sought must be highlighted in bold and contained in [square brackets].

**33.2** In the public version the confidential information should be removed from within the square brackets, with the brackets remaining, thus [ ].



- 33.1** A confidential version and a public version have been provided.
- 33.2** In the confidential version of the application, confidential information is highlighted in bold, contained in square brackets and shaded in green.

**THIS NOTICE** is given by **RAYONIER NEW ZEALAND LIMITED (The Company)**.

The Company hereby confirms that:

- all information specified by the Commission has been supplied;
- if information has not been supplied, reasons have been included as to why the information has not been supplied;
- all information known to the applicant(s) which is relevant to the consideration of this application/notice has been supplied; and
- all information supplied is correct as at the date of this application/notice.

The Company undertakes to advise the Commission immediately of any material change in circumstances relating to the application/notice.

Dated this 21st day of June 2011

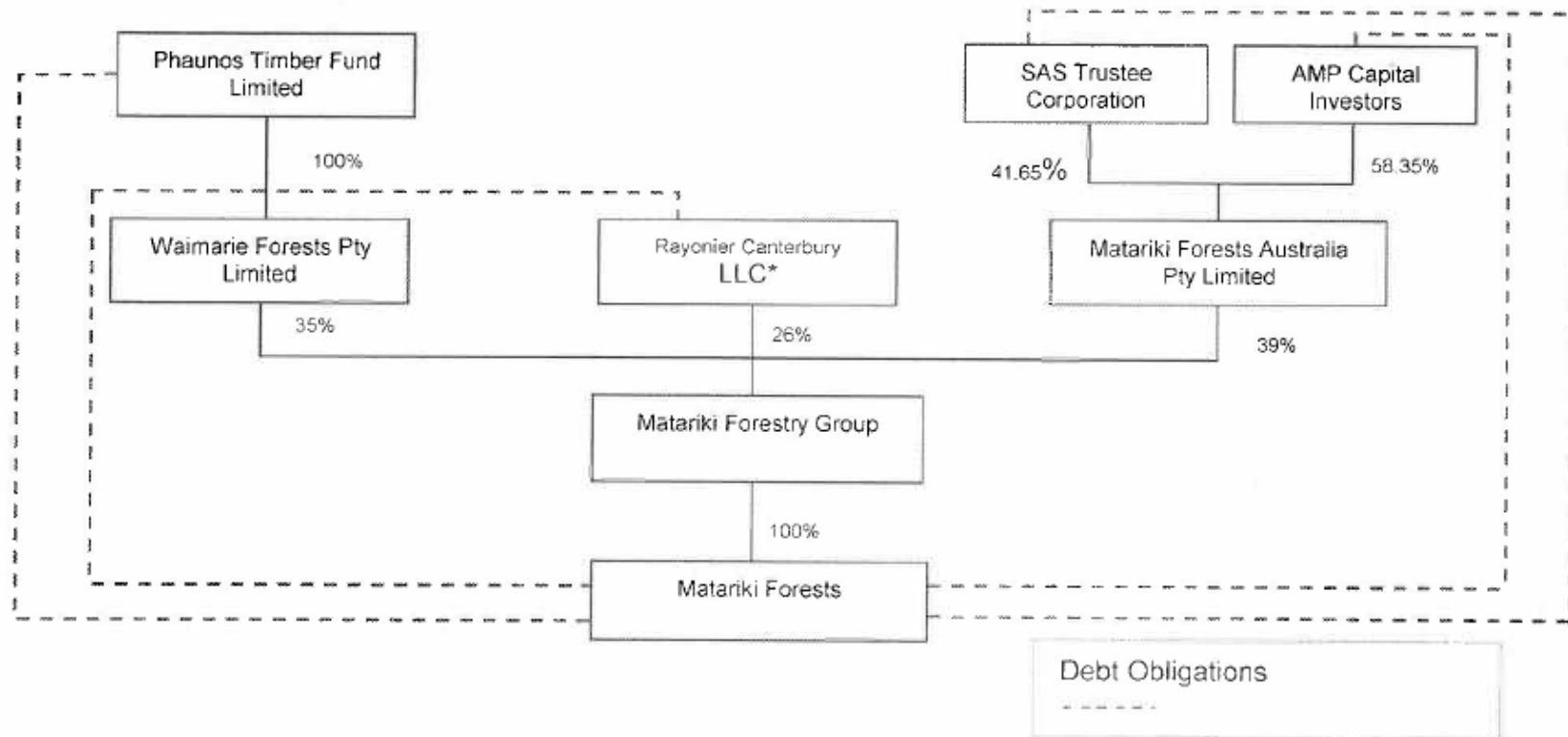
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Paul Nicholls  
Managing Director  
Rayonier New Zealand Limited

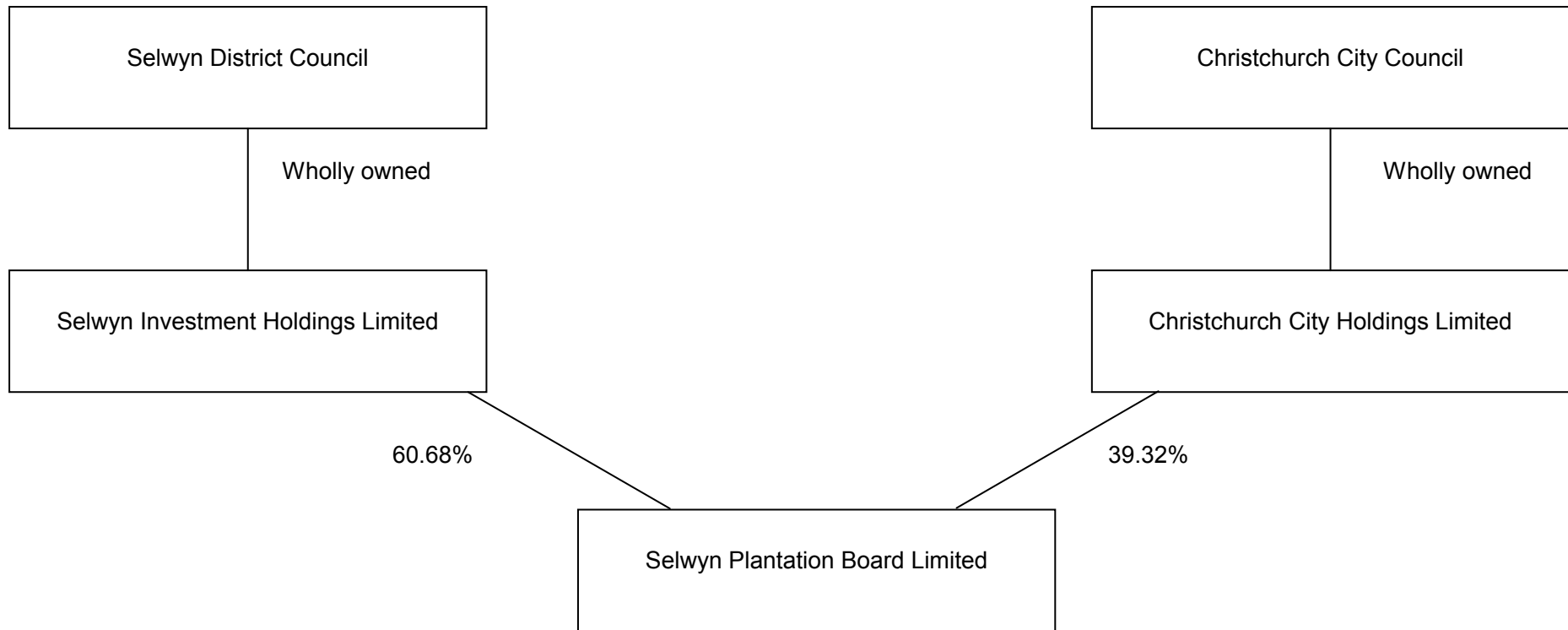
I am an officer of Rayonier New Zealand Limited and am duly authorised to make this application/notice.

## Appendix One

### Matariki Organisational Chart



**Appendix Two**  
**SPBL Organisational Chart**



## Appendix Three

### Documents Bringing about the Proposed Merger

**[Confidential]**

(a) [redacted]; and

(b) [redacted].

## **Appendix Four**

### **Annual Reports & Key Corporate Documents**

- (a) 2010 annual report for Matariki;
- (b) 2010 annual report for Selwyn Investment Holdings Ltd; and
- (c) 2010 annual report for Christchurch City Holdings Ltd.

## Appendix Five -

[redacted]

[redacted]

[redacted]



[redacted]

## **Appendix Six**

### **Schedule of Confidential Information**

Confidential information is contained in square brackets and is highlighted in bold with green shading.

The following paragraphs contain confidential information:

#### **Executive Summary**

- 11
- 13
- 14
- 15
- 16
- 18

#### **Main Body**

- 5.2
- 5.4
- 6.1(a) and (b)
- 10.6
- 18.2
- 18.3
- 18.4
- 18.5
- 18.8
- 18.15
- 21.2

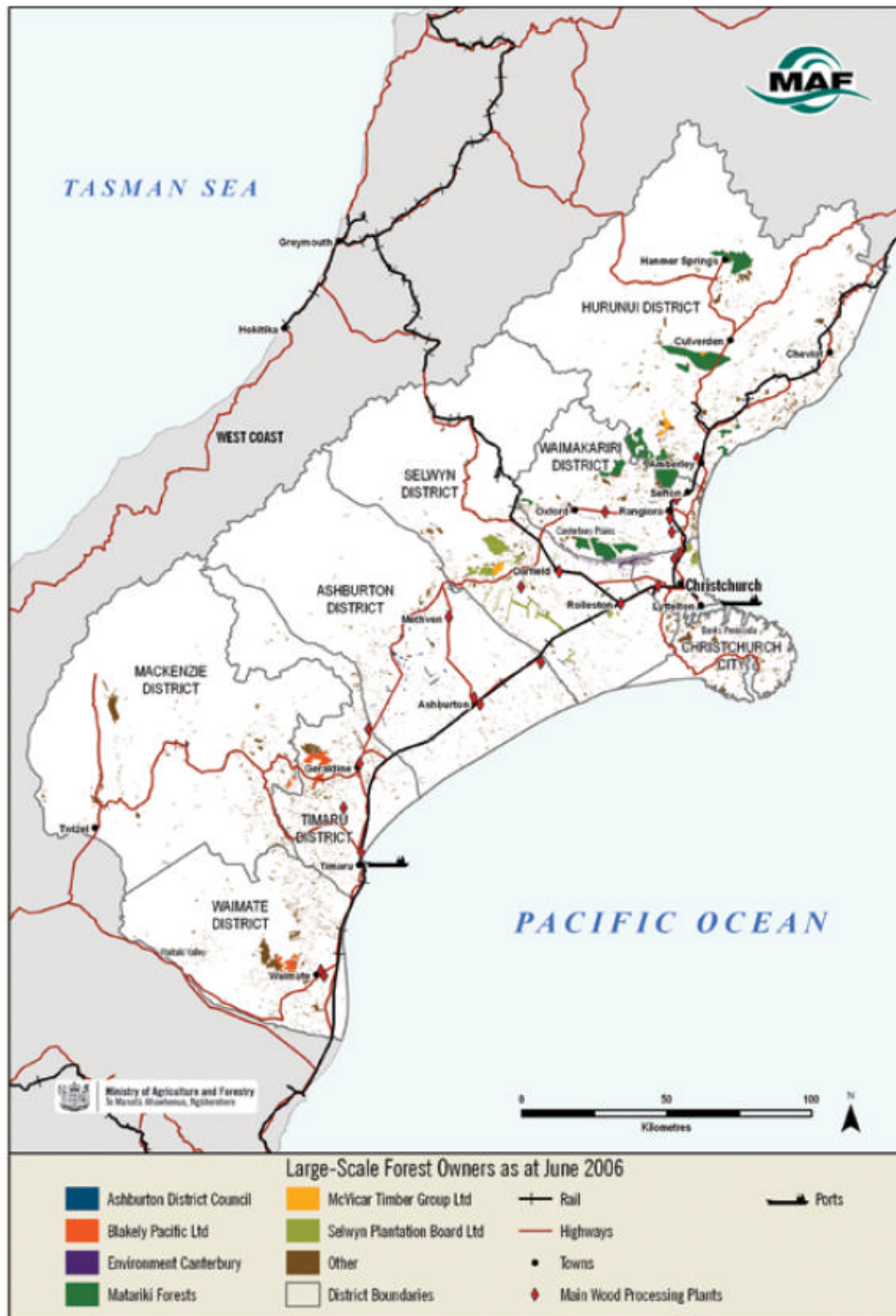
#### **Appendices**

- Appendix 3
- Appendix 5

# Appendix Seven

## Map of the Canterbury Forest Industry

Source: "Canterbury Forest Industry and Wood Availability Forecasts" (Ministry of Agriculture and Forestry, 2007) p 4

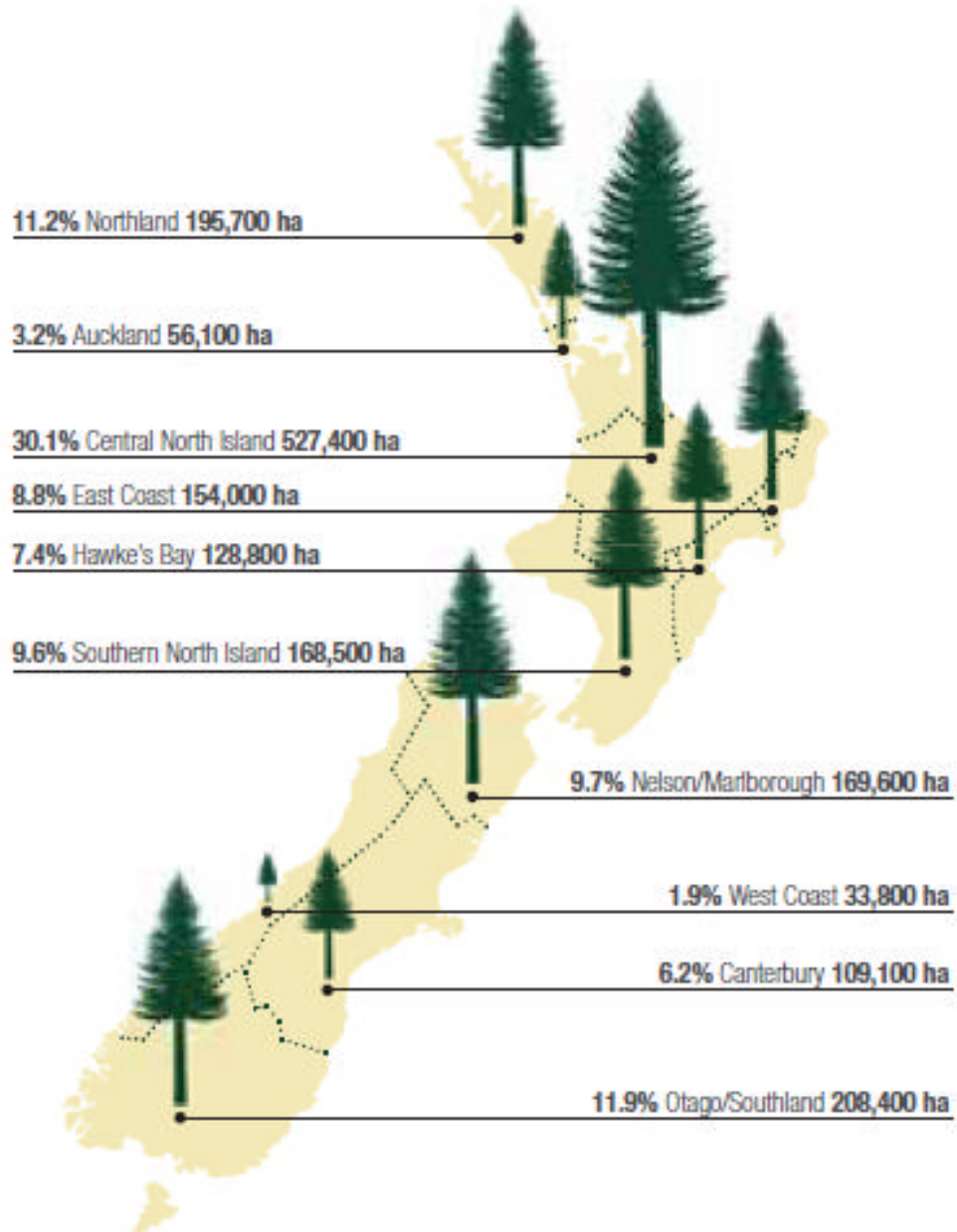


Source  
Ministry of Agriculture and Forestry, Wellington.

## Appendix Eight

### Location of New Zealand Plantation Forests

Source: "New Zealand Forest Industry Facts & Figures 2010/2011" (New Zealand Forest Owners Association Inc) p 7



**Total 1,751,000 hectares**

Source: NEFD 2009



# SSNIP Test - Canterbury

