

Hostile Takeovers and Timber Companies
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ABSTRACT

This paper examines the hostile takeover of timber companies. The central question asked is, What is a hostile takeover and how do they affect timber companies? The paper presents the specifics to the timber industry along with background information on takeovers and corporate governance. These findings are then applied to the timber industry in the Northern Forest region. There is also a discussion of state anti-takeover statutes and the presentation of the major takeovers of timber companies in the 1980's.

A hostile takeover is the transfer of management control from one group or individual to another initiated without the management's approval. The main concern surrounding the hostile takeover of a timber company is centered around the effect that a large amount of short-term debt will have upon the management of the timberlands. Repayment of the debt acquired in the financing of a takeover, through junk bonds or other means, requires a high cash flow; thus it encourages a focus on short-term earnings.

The main ways in which timber companies can increase their short-term earnings are to cut the costs of production, sell off assets, and increase the production of those goods for which there is a market. This situation is of concern from an environmental standpoint in that it may lead to the utilization of less environmentally sound harvesting methods; the sale of timberland for development; and the accelerated harvesting of resources for which there is a high demand, such as old-growth. While it is difficult to obtain a detailed picture of timber companies' harvesting practices, there are indications that the quality of harvesting practices has declined in response to takeovers and a focus on short-term earnings.

The harvesting of timber affects large areas and has a great impact on the natural community. Publicly held timber companies operate in an arena which demands that the value of the company to the shareholders be maximized. Thus the focus on short-term earnings, while augmented by takeovers, is a characteristic of the structure of the corporation. The takeover of the St. Regis Paper Co., the Pacific Lumber Co., Diamond International, Crown Zellerbach and the valuation of Boise-Cascade in 1990, are presented in the paper and illustrate this point.

The Northern Forest is an important biological and social resource encompassing 26 million acres in the

states of New York, New Hampshire, Vermont and Maine. The timber industry owns 9.7 million acres of land in the area. Part of what makes the region so unique is that it is one of the largest continuously forested areas in the United States and is over 80 percent privately owned.

Interviews with people who study and work with the timber industry in the Northern Forest region, indicated that in the maintenance of their timberlands, timber companies in the Northern Forest region and elsewhere, are primarily concerned with supplying their mills with fiber at as low a cost as possible. The values provided by timber companies' maintenance of timberland- goods, employment, income and maintenance of land as forest, need to be weighed against the negative consequences- the decrease in the health of the natural community. These costs and benefits and the prospect of increasing the public values must be evaluated in the context of the current economic structure of corporate activity. The significance of this task in relation to the preservation of important biological and social resources is presented by the case of the Northern Forest.

Increasing development pressures present a more immediate threat to the social and biological values of the Northern Forest. Over seventy million people live within an eight hour drive of the Northern Forest and the demand for recreational property threatens to erode the special characteristics of the region. The areas surrounding lakes and rivers, which are very important plant and animal habitats, are also the most susceptible to development. As shown by the takeover of Diamond International, the majority of land sold following the takeover of a timber company has remained in timber production. It is estimated that approximately one percent of the timber industries' land has development value. Thus large-scale changes in land use amongst the industry owned land is not very likely in the near future. The Northern Forest Lands Study found that small landowners more frequently make land available for development.

The paper also includes an examination of state anti-takeover laws. Takeovers are regulated at the state level. The majority of states have passed anti-takeover laws. The interaction of these laws with the actions that corporations take to protect themselves from a hostile takeover can significantly alter the takeover arena. With shareholder approval, corporations can include takeover defenses in the corporate charter. Corporate managements, however, can most successfully deter a takeover by increasing the share value by increasing earnings. Other measures to deter a hostile bid include stock buy-backs and shareholder incentives. These measures require the utilization of capital. Thus, attempted as well as successful takeovers can increase the focus on short-term earnings and strain the company's capital resources. State

anti-takeover laws are especially significant in that they provide protection from a takeover and do not involve the expenditure of capital.