

CORPORATE STRATEGY

New Hampshire paper company about to fall

When the James River Company of Richmond, Va. signed a principle of agreement to buy the Brown Paper Company of Berlin, N.H. in the fall of this year, one element of the purchase agreement stood out as extremely odd: James River is not putting up the full amount of cash it promised for the purchase. Instead, part of the \$130 million in cash, of the \$216 million agreement expected to be completed early next year, will come from James River's sale of part

of Brown Paper Company's timberland, which James River will acquire *only after the purchase is completed.*

In other words, James River will finance an undisclosed part of its purchase of Brown Paper Company through the sale of assets it does not yet own.

This is far from normal operating practice. Yet, the scandal-tainted proviso only points to a more serious problem. It appears that most of the forest land that James River acquires may never again be used for the paper industry. Instead, this timberland may be downgraded to provide a low-energy conservation program.

How to buy a company without paying much

The James River Company was started in 1969 as a one-mill company by two former officers of the Ethyl Corporation, a company that specializes in the production of tetraethyl lead for gasoline.

Over the next ten years, James River made the purchase of eight additional paper mills. Each of the acquisitions followed a pattern, as James River set its sights on specialty, as opposed to commodity, paper.

James River, by its process of acquisitions, of which Brown Paper Company, if completed, would be the tenth, is now the largest specialty paper company in the United States. This gives the company strategic control over one of the most important sectors of the U.S. paper market. If this control were to be put in service of the Canadian paper interests, which dominate a good part of the supply of the U.S. raw and pro-

BRITAIN

Tory budgeting: all is cut except NATO

With the publication of the innocuous-sounding "White Paper on Public Expenditure, 1980-81," the British Tory government took one step further in making Britain a model for the policies of economic contraction being imposed on the United States.

There is nothing vague about the British measures, neither about the harshness of the cuts—which will fall mainly on such sectors as education, public housing, health and transportation—nor about the time period involved. Announcing that the pro-

posals "took a realistic account of the poor prospects for growth in the domestic and world economy," Chief Treasury Secretary John Biffen declared: "We are set on a course which is going to last for four or five years." After that initially painful period, he said, the much-vaunted "economic resurgence" will occur.

The curious fact is that the Tories, whose promises to "revitalize" the British economy during their term of office are well-known, have deliberately chosen to cut back every sector of the civilian economy necessary to guarantee the conditions for growth. Declaring that high public spending was the main cause of Britain's economic problems, the

Thatcher government announced that its intention was to "stabilize" spending at current levels "for the time being" in order to bring borrowing and the money supply "under firm control." This will mean, in real terms, a reduction of \$7.3 billion in the proposed expenditure which the previous Labor government had planned for fiscal 1981. The only increases in spending under the Tories will be for defense—up 3 percent to \$16.7 billion—law enforcement, and social security pensions.

The detailed plans presented by the Chief Treasury Officer to Parliament this week indicate that expenditure on education, housing, roads and transport, and lending to the nationalized industries will decline next year. Hardest hit will be education, which is crucial in maintaining a skilled, literate, and scientifically trained workforce. Specifically, the number of teachers will drop to 505,000 next year from 526,000 last year, and savings of \$500 million are

cessed paper market, the U.S. could face induced paper shortages.

This appears to be one purpose motivating the purchase of Brown Paper Company by James River and its major stockholder, the giant Citicorp (Citibank).

In this case, the Brown Paper Company is being sold by its current owners, Gulf and Western Company, to the Citicorp-run James River on terms verging on swindle as an asset swap to facilitate James River's control over the U.S. specialty paper market. Behind that aim lies a larger plan for a "North American Common Market."

North American Common Market

A North American Common Market, a plan to link up the economies of Canada, the U.S. and Mexico, would effectively place the North American economy under the sway

of British financial interests.

The most vocal supporter of the North American Common Market idea in the United States is Felix Rohatyn, the Lazard Freres investment banker, who is also active in the plan for an Energy Corporation of the Northeast (Encono). Both plans are integrally linked—emphasizing a stripping down of high-technology investment in favor of labor-intensive production and backward energy sources, such as wood-burning.

This is where the James River purchase comes in. According to a paper analyst for the Smith Barney brokerage house, the average selling price of New Hampshire timberland is only \$200 per acre. This would be the sale price for Brown Company's 600,000 acres. But, the Smith, Barney analyst added, the two most likely purchasers of this timberland, with mills in the area, are Boise Cascade and Georgia Pacific paper companies, neither of which is interested.

So whom can James River sell the timberland to in order to raise the cash to complete its purchase of Brown Paper Company? The only likely source would be to someone willing to pay for this land at \$200 per acre or greater prices. This would be people proposing to use the timberland for purposes other than paper mill processing, specifically land for sale for firewood.

Many of the 1,250 workers at the Berlin, N.H. Brown Company mills are afraid that if the timberland goes for woodburning, instead of paper production, they will soon be out of jobs.

This proposed take-over must be approved by a vote of Brown Paper Company's stockholders early next year, but this would seem to be a mere formality in light of Gulf and Western's 80 percent ownership of the company.

—Richard Freeman

expected on school meals and transportation. Building programs for school and college improvements and "underfive" education will be cut in half. The government further intends to "step up the rate at which surplus school places are taken out of use." Provision for scientific education will also be reduced "slightly" from the 1979-80 period.

In other areas:

- Public expenditure on housing is to fall 5.6 percent and 75,000 publicly subsidized units are to be sold to the private sector. Such action will undoubtedly increase real estate speculation and price most existing housing out of the reach of the average working citizen.
- Local governments are mandated to spend 2.5 percent less this year than last.
- Lending to Britain's nationalized industries had been reduced from \$3.4 billion to \$1.8 billion. It is expected that large chunks of the public sector industries, such as Brit-

ish Airways, British Aerospace, and the National Freight Corporation, will be sold to private industry in order to reduce their cash drain on the government's budget even further. The "sale of the century" got underway this week when the government announced that 80 million shares to British Petroleum Corporation stock were put up for public sale. In addition to keeping their pledge to maintain NATO commitments, the Tories will also purchase Trident missiles from the United States in order to maintain Britain's "independent" nuclear deterrent at a cost of \$8.2 billion. Overall, money saved on public spending will be used to bolster military outlays.

The Tory philosophy, since they came to office in May, has been to turn around the sagging British economy—which now has a growth level of less than 1 percent and inflation levels running near 17 percent—by injecting a dose of "free enterprise" into the economy. This means

that businesses formerly subsidized by the government will not be entitled to further aid unless they become profitable. The state-owned British Leyland auto company has already announced plans to shut 13 plants and lay off 25,000 workers to conform with government requirements.

Treasury Secretary Biffen drew gasps from Parliament when he said matter-of-factly that under the government's broad economic assumptions, and with recession looming both in Britain and the United States, unemployment would rise next year by 300,000 to 1.65 million in 1980-81—22 percent!

Admitting that the British manufacturing industry was sliding into its worst recession for five years, the director of Britain's employers' federation, John Methven, said that there was nothing wrong with present government policies: "I believe we have to have a cold douche before we get things right in this country."

—Marla Minnicio