MANUFACTURING — Chemicals & products

1995

JANUARY - MAY

Government to weigh up the use of unleaded petrol

Star 3/1/95 (183)

■ BY DEREK TOMMEY

Pik Botha's speedy reaction to the report that unleaded petrol is to go on sale this year should go some way to allaying industry and consumer concern that they are about to become milk cows for the refining and distributing industry without any prior public discussion or parliamentary debate.

Botha, the Minister of Mineral and Energy Affairs, showing his political antennae are still sensitive, said last week the proposal to introduce unleaded petrol was taken by the previous government, but that nothing would happen until the matter has been reviewed by the present government.

Concern among industrialists stems from the fact that they see no need whatever for the introduction of unleaded petrol and regard the proposal as something that will add further to their costs and make thm less competitive.

They point out that countries with unleaded petrol are those which have serious pollution problems and consequently insist on cars using auto catalysts to reduce the emission of noxious gas from motor vehicles

However, auto catalysts are "poisoned" by ordinary leaded petrol and therefore have to use the more expensive and less efficient unleaded petrol.

But South Africa has few cars by world standards, has little or no vehicle pollution problem, so auto catalysts and unleaded petrol are unnecessary.

Los Angeles, where pollution has become a major problem, had more cars than the whole of South Africa, said Paul Kruger, chief executive of Sasol, when asked recently whether SA needed unleaded petrol.

The proposal to put unleaded petrol in the filling stations apparently comes from the refining and distribution industry.

Most filling stations offer petrol with two octane ratings But it appears that these days petrol with a lower rating is not selling

Then someone had the idea of replacing the lower octane petrol with unleaded petrol — even though there is apparently not a car on the road in South Africa needing this exotic fuel.

Presumably the industry hopes that once unleaded petrol becomes available, the government might be persuaded to make auto catalysts compulsory on new cars.

The basis of manufacturing industry's concern is the cost increases that could arise from the use of unleaded petrol.

It is proposed that buyers of leaded petrol should subsidise users of unleaded petrol by about 5c a litre

This would boost the fuel bill by about 2 percent. In addition, the introduction of catalytic converters would add several thousand rands to the cost of a new car.

These costs could make SA industry less competitive and increase inflation

'Petrol bias': Fund hits back

183

CT 4/1/95

Own Correspondent

DURBAN. — The Central Energy Fund (CEF) has dismissed claims the new monthly fuel pricing formula favours "petrol motorists" at the expense of commuters using diesel-powered public transport.

This follows criticisms by a Cape Town bus company that diesel prices have risen since the introduction of the monthly fuel price adjustments last October, but the petrol price had gone down.

Golden Arrow Bus Services general manager Mr H Grebe said: "Since the fuel price is dependent on the international price of crude oil, the company finds it difficult to understand why the diesel price is not adjusted downward. It smacks of discrimination against the agricultural sector and certain road-based sectors and appears to be an effort to curry favour with private motorists at the expense of those who use public transport."

However, the Central Energy Fund said yesterday the claims were "very far from the truth".

Although the crude oil price was a major component of diesel and petrol prices, retail prices in South Africa were based on international product prices rather than crude prices.

Fuel tax

CEF deputy general manager Mr Sarel Cilliers said international petrol prices had decreased by eight US cents per litre between September and December last year, while the diesel price had risen by three US cents per litre in the same period.

This was mainly because of higher demand for diesel during the European winter.

Mr Cilliers said the diesel price was not regulated by law in SA, and that the fuel tax on diesel is lower than on petrol. The current fuel tax on diesel is 53,4c per litre and 60,9c per litre for petrol.

● The CEF has announced the petrol price will drop by 2c/ℓ from today and the recommended diesel price will increase by 2c/ℓ.

Eastern Cape medicine shortages now 'critical'

PORT ELIZABETH — Critical medicine shortages have plunged the Eastern Cape's health system into chaos.

Cape Provincial Administration hospital and health services director Dr Pat Naidoo said medicines were "disappearing" in the Eastern Cape, most notably in the former homelands. (183)

He said some district surgeons were under investigation for fraud. This has been confirmed by Eastern Cape Attorney-General Les Roberts

It is alleged the surgeons have been submitting inflated claims for services and medicines rendered, totalling millions of rands BD 5/1/95

Roberts said he believed there was substance to the allegations of fraud.

Naidoo has blamed medicine shortfalls in the region on a power struggle between the CPA's Cape Town head office and the CPA in the Eastern Cape

He said the Western Cape CPA last year took control of the Eastern Cape's main medicine supply store in Port Elizabeth, without notifying or consulting anyone

Naidoo said Western Cape health authorities either did not know about or had chosen to ignore the health crisis in the Eastern Cape.

He said pleas to the Western Cape CPA had been in vain He had been told the medicine supply stores in the Eastern Cape were assets of the Western Cape CPA

Naidoo said he was angry that many Eastern Cape hospitals were being forced to buy expensive drugs as a result of shortages of cheaper medicines

The hospitals' patients were then left with astronomical bills, he said — Sapa

Chemical makers 'set for growth' as prices rise

(183)

BEATRIX PAYNE

LOCAL chemicals manufacturers are 'set' for significant growth this year in line with overseas counterparts as international chemicals prices continue to rise, says London-based brokers, Baring Securities

In a recent report the group forecast "superior" performances from AECI and Sentrachem in the light of increased export opportunities.

International chemical feedstock prices had surged over the year on the back of global economic growth and low converter stock levels As a result US contract prices for propylene rose 40% during the year while plastic polymer prices increased an average 38%.

Business prospects in the Far East had improved considerably, the report said, and international price and volume increases had triggered strong income growth for US-based companies

BD 5/1/95

US chemicals groups Du Pont and Eastman had shown third quarter year-on-year increases in net income of 86% and 98% respectively, the report said

Chemical exports from SA increased 40% in 1994 and would benefit from lower US import tariffs Sentrachem and Sasol reported rising exports of 34% and 39% respectively last year

Sentrachem was likely to show earnings growth of 30% for financial 1995 on increased demand, rising prices and greater local consumption of speciality chemicals as a result of the reconstruction and development programme. The group posted a 38% rise in earnings to R120m for the year to August as turnover increased 7% to R2,8bn

The report also forecast strong earnings growth for AECI over the next two years as it was well positioned to benefit from a rise in cyclical demand.

The Amic subsidiary was likely to post a 39% rise in earnings to 185c a share for the year to December, a Johannesburg-based analyst said yesterday. He said all the group's business units were looking healthy.

And the share price would outperform the rest of the market this year despite having languished during December after heating up as UK Merchant Bank SG Warburg bought ICI's stake in the group, he said

Export opportunities spur Sasol investment

(183) BD 6/1/95

MICK COLLINS

SASOL was considering investing a further R600m in its alpha olefins production facility at Secunda, industry sources said yesterday

The group recently spent R300m on the plant for the production of high-quality 1-pentene and 1-hexene The additional capex would go towards a phase two and phase three development to increase production

Most of the production was destined for export, which analysts said placed Sasol in the enviable position of having nearly 80% of its chemical products priced in international currencies. The weakening exchange rate boded well for the company's bottom line, they said. The main target areas for chemical exports were South America, the US, Europe and Pacific Rim countries.

The upgrading of the Secunda facility complemented the recent R820m renovation of Sasol One which saw the plant converted for the production of industrial gas, wax, creyslic acid and ammonia.

One analyst said the petrochemicals industry worldwide was entering a new upswing after four years of depressed market conditions.

The Sasol One conversion to a chemical production facility, and the formation of the AECI/Sasol Polifin joint venture, had placed Sasol Chemicals in a strong position to take advantage of this up cycle.

With a R1,1bn capex spend last year and a further R2,4bn committed to projects in progress, Sasol still had a healthy cash balance for further developments, sources said

A Sasol spokesman said further capital-intensive projects earmarked for 1995 would come before the board in March He said new projects and a couple of pilot plant projects would be tabled for consideration but it would "be premature to announce details at this stage".

The group said it had set aside R2bn for capex in June last year.

The company had spent nearly R7bn in the past five years on its synfuels and synchemical undertakings, adding value to an annual 40-million tons of low-grade coal which could not be exported.

Construction of the R430m plant at Secunda to produce acrylonitrile from ammonia and propylene to supply feedstock for the Sasol Fibres plant in Durban was well under way

The second phase of the R40m continuous on-line catalyst addition at Sasol Synthetic Fuels was scheduled for completion in mid-1995 The spokesman said a R1m beta-carotene pilot plant near Upington was performing to specifications. If economic criteria were met, the facility would manufacture beta-carotene mainly for export

Local firms show interest in Mossgas

Star 10/1/95 (183)

BY BRENDAN TEMPLETON

Local chemical companies have been holding long-term discussions with the Government with a view to eventually buying out the R12 billion Mossgas project

Sentrachem press officer Marsja Hall-Green yesterday admitted the company was part of a negotiating group holding discussions with the Government "with a view to possibly buying Mossgas"

Senior sources in the Mineral and Energy Affairs Ministry said local companies had been showing interest in a project which had long been labelled a white elephant

Interest in Mossgas was rekindled last month when Mineral and Energy Affairs Minister Pik Botha announced that Taiwan was interested in pumping $8 billion (about R28 million) into Mossgas and other downstream petrochemical projects

When approached for comment yesterday, Hall-Green was emphatic that no definite offer had been made

She insisted the talks were not a new development connected to the Taiwanese proposal Sentrachem and its negotiating partners might form a consortium if agreement was reached to take over Mossgas, she added

AECI has also been named as a potential buyer of the oil-from-gas project

AECI press officer Robbie Vermont denied the source's claim "There is no truth in any rumour that we are making an offer or are getting involved at this stage Obviously, we have an interest in the future of Mossgas and are interested in being informed about its future"

He could not say if AECI had held recent talks with the Government about the project

Botha said last month an informal task force would complete an initial evaluation of the Taiwanese proposal by mid-January

Green light from Sasol

STAR 10/1/95

(183)

BUSINESS STAFF

Sasol has given the go-ahead to its latest capital expenditure project, a R37 million plant at the Sasolburg site of Sasol Chemical Industries, it said in a statement yesterday.

The new 15 000-ton-a-year methyl isobutyl ketone (MIBK) plant, which should be completed by January 1996, will export 80 percent of its output to North and South America, the Far East and Europe.

The remainder will be aimed at the local market.

MIBK is a solvent with a number of applications

It is used, for example, in plants and dyes, herbicides and anti-oxidant)s.

Sasol exports about 80 000 tons of acetone a year, which makes it vulnerable to worldwide fluctuations in the prices of acetone

The MIBK venture will diversify its portfolio of solvents and enable it to increase the average net returns on exports of acetone.

SYNFUEL (183) FM 13/1/95

Sasol dominates

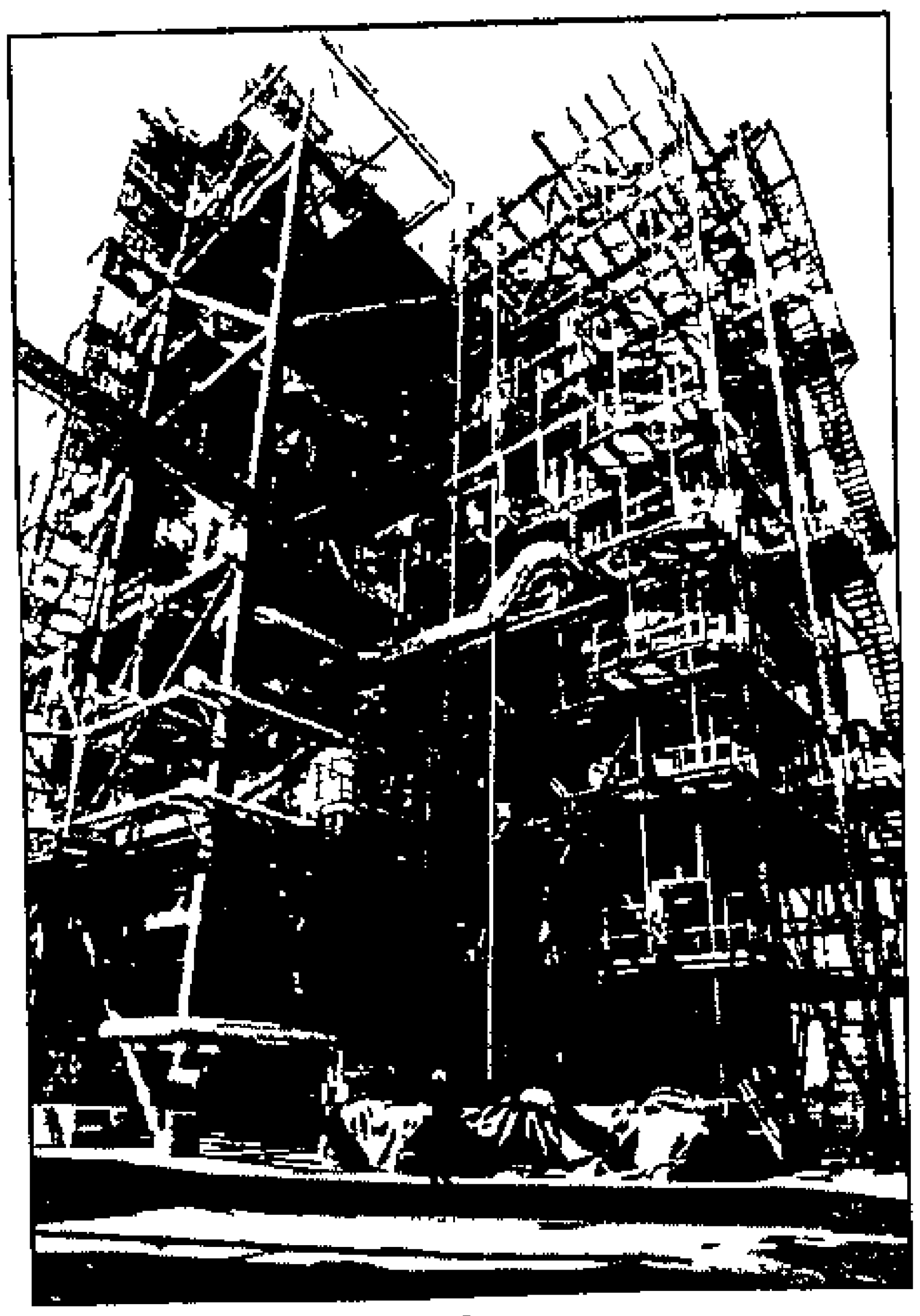
Two recent technical achievements will enable Sasol to offer its advanced technology in the international market It will also be able to maintain its output of synthetic fuel for the local market at lower cost while diverting more feedstock to the manufacture of valuable petrochemicals

Sasol commissioned the fabrication in South Korea of the world's first commercial-scale version of its advanced synthol reactor for making synthetic petrol and diesel — the fruit of years of R&D

The Sasol Advanced Synthol (SAS) reactor has arrived at Richards Bay and will be transported this week to Secunda in the Eastern Transvaal where it will form part of Sasol's vast synfuel installation

The plant is due to be commissioned in June. This is the first of six or seven SAS reactors They will eventually replace 16 obsolete synthol reactors.

The simplified operation and greater scale of the new reactor will achieve lower capital and running costs than the original type. Sasol executive director Andre du Toit says the essential difference is that the SAS reactor employs a fixed fluidised bed in which the iron-based catalyst comes into contact with the synthesis gas (hydrogen plus carbon monoxide) to convert it to a mixture of substances from which petrol and various other products are refined.



Sasol *the economic new SAS reactor*

The familiar "gooseneck" synthol reactors are a more complex design, resulting in higher energy and maintenance costs The catalyst in the new reactor can be replaced without a shutdown The reactor was fabricated by Hyundai Heavy Industries Babcock Construction Contractors will assist with on-site fabrication and the transportation from Richards Bay will be handled by Rotran

The four-piece reactor is being transported in three sections on low-bed trailers, each almost 70 m long and up to 9 m wide

In a second development, explains Du Toit, Sasol has commercialised its new slurry-bed reactor for the low-temperature synthetic fuel process which produces mainly diesel and waxes rather than petrol A commercial scale version of this reactor has been in operation at Sasolburg since June 1993.

It is a great improvement on the old tubular low-temperature reactors which produced Sasol's waxes and some diesel

While the present low price of crude oil makes the construction of a greenfields, coal-based synthetic fuel plant unattractive, other prospects have been opened up by the new reactors The SAS reactor might be able to produce petrol profitably from cheap natural gas in the Middle East even today

The slurry bed reactor has the ability to produce diesel of excellent combustion characteristics (high cetane) but also free of sulphur and so-called aromatics (a component of petrol and diesel produced from crude oil by conventional refining)

Aromatics have become unacceptable in diesel because they are a health hazard Du Toit says US venture capital companies are interested in the technology to produce diesel fuel which would meet the high environmental standards proposed for California and likely to become applicable in other states where climate and high vehicle numbers make pollution a major health hazard ■

SA companies win Sasol contracts

(183) CT 17/1/95

JOHANNESBURG — Two key fabrication contracts in Sasol's multi-million rand upgrade of the original 12 oxygen trains at Sasol Two and Sasol Three at Secunda have been awarded to local companies

The contracts, worth about R30m, form part of a R340m upgrade of the oxygen trains, involving installation of purification units and replacing and refurbishing of cold boxes

Steinmuller have been awarded the contract for the manufacture of 24 absorber vessels, while CBI has been awarded the contract for the manufacture of 12 air/water towers. — Sapa

Medicine shortages cause chaos

(183)

PORT ELIZABETH — Critical medicine shortages have plunged the Eastern Cape's health system into chaos, it was reported yesterday

Local CPA Hospital and Health Services director Dr Pat Naidoo said medicines were "disappearing" in the Eastern Cape, notably in the former homelands.

He said some district surgeons were under investigation for fraud This was confirmed by Eastern Cape attorney-general Mr Les Roberts

Dr Naidoo blamed medicine shortfalls on a power struggle between the CPA's Cape Town head office and the CPA in the Eastern Cape

He said the Western Cape CPA last year took control of the Eastern Cape's main medicine supply store in Port Elizabeth without notifying anyone

R30-m Sasol contracts awarded

SA? 18/1/95

(183)

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The contracts, worth about R30 million, form part of a total R340 million upgrade of the oxygen trains, involving installation of purification units and replacing and refurbishing of cold boxes.

Managing contractor Sastech, Sasol's engineering and project management services division at Secunda, and A'Air Liquide of France, owners of the technology and Sasol's partner in the upgrade, have awarded Steinmuller the contract for the manufacture of 24 absorber vessels, while CBI has been awarded the contract for the manufacture of 12 air/water towers.

This is the first time South African contractors have been associated with L'Air Liquide

Iscor has been contracted to supply all the steel plate required for these contracts, totalling 2600 tons of standard and specialised steel.— Sapa.

UNLEADED FUEL (183)

Paying the piper

FM 20/[illegible]/95

Can motorists and business afford the additional costs of unleaded fuel?

Oil companies have spent R270m preparing for its introduction, motor industry spokesmen says it is essential to keep SA abreast of global technology, catalytic converter manufacturers will benefit from an expanded market; government seems to favour the switch.

These factors will be on the mind of Mineral & Energy Affairs Minister Pik Botha when he receives the report of the Co-ordinating Committee for the Introduction of Unleaded Fuel in a few weeks before submissions go to the Cabinet

Neither Department of Mineral & Energy Affairs director of transport energy, Theunis Burger, nor spokesmen for the oil and motor industries are prepared to respond "at this stage" to allegations that the costs could put the introduction of unleaded fuel in jeopardy

The field belongs mainly to critics "Pollution levels do not justify unleaded fuel at this stage Furthermore, cost implications are not acceptable to consumers who already spend a large proportion of their incomes on transport," says Consumer Council spokesman Paul Roos.

He feels motorists should have the right to choose between leaded and unleaded fuel — preferably at the same price. "Loss of engine power and increased fuel consumption caused by unleaded fuel may just sway public opinion," he says

Director of UCT Energy Research Institute Richard Dutkiewicz says a study at Cape Town's Foreshore traffic circle shows lead levels of "between 50% and 66% of the World Health Organisation's acceptable limits" He adds that the amount of lead now in the atmosphere caused by traffic is not a health hazard

Dutkiewicz says unleaded fuel (with its lower octane levels) causes reduced engine efficiencies but the costs of producing the fuel go up "quite dramatically"

Should catalytic converters be introduced by law, installing new fuel injection technologies (and doing away with carburettors) and the so-called Lambda Sensor could be "very expensive Scrapping the carburettor could cost an average of R2 500 per vehicle"

An AA spokesman says his organisation is concerned about pollution and supports the introduction of unleaded petrol "Government should ensure that both leaded and unleaded petrol are available so that users of leaded petrol are not prejudiced by an additional financial burden"

The AA is more concerned about the manner in which unleaded petrol is introduced and possible tax implications for users of leaded petrol

The spokesman says it is understood "that a 5% (9c/*l*) price differential has been recommended to government, which will mean that unleaded fuel will sell for 166c/*l* on the Reef at current prices Given the fact that unleaded petrol is about 3c/*l* more expensive to produce, this means there is a gap of about 12c/*l*, for which someone will have to pay"

Overseas there is a tendency for governments to impose an additional tax on leaded petrol after unleaded fuel is introduced. "The motorist will be asked to cross-subsidise the use of unleaded fuel in SA The AA wants to avoid consumers bearing this burden on their own"

The solution, the AA believes, might be for oil companies and government to share the burden Oil companies claim they need a 20% unleaded share of petrol sales in the first year to make its introduction economically worthwhile "Oil companies should accept a lower margin on sales, while government should forfeit a portion of its 60c/*l* fuel tax to soften the blow to motorists," the AA says

It adds that a 1991 President's Council report on unleaded fuel found that, with increased fuel consumption, "the estimated cost of unleaded petrol would be 9% higher than that of leaded petrol because of the addition of expensive aromatics to achieve higher octane levels" Sasol Oil technical manager Jan Botha says the production costs of unleaded fuel would be "about 1,5c/*l*-3c/*l* more than for leaded fuel"

Petroleum Industry Association spokesman Colin McClelland says about 80% of global demand is for unleaded fuel, and with new engine technologies directed towards unleaded petrol, "the crude oil-based liquid fuels industry is responding to

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consumer needs by gearing up for the introduction of unleaded fuel."

He adds that unleaded fuel will lead to "a small decrease in fuel efficiency but by moving to lower octane, substantial and increasing savings in overall fuel consumption are expected from the new technology engines developed to run on unleaded fuel. In the longer term fuel sales will be lower due to greater engine efficiency. Joint studies by government, the oil industry and the motor industry have concluded that the introduction of unleaded fuel is in the long-term economic interest of the country."

Costa Pierides, assistant director of the National Association of Automobile Manufacturers of SA, maintains the net effect of unleaded petrol in terms of fuel consumption will be negligible in the first year. More important, by the turn of the century a net saving of about 15% is expected as motorists reap the full benefits of more fuel-efficient unleaded petrol engines." ■

Nazer sees virtue in silence on oil price

(183)

Star 25/11/95

If the world's biggest oil exporter Saudi Arabia has a feel for where the market is heading its petroleum chief is not saying

"In the oil business the best thing oil ministers can do is not speak at all," Saudi Petroleum and Mineral Resources Minister Hashim Nazer said yesterday

"If they do, they can cause a great deal of havoc in the market," he told a reception during a visit hosted by Mineral and Energy Affairs Minister Pik Botha.

He spoke against the background of remarks by Algerian energy minister Amar Makhloufi on Thursday that prices were "absolutely too low".

Makhloufi added he did not think any member of the 13-nation Organisation of Petroleum Exporting Countries (OPEC) considered prices were adequate

Prices have been affected by increased non-OPEC output including projected record levels by North Sea oil producers along with unseasonally warm weather in the northern hemisphere

In an interview with Reuters earlier Nazer declined to discuss prices or the market

Nazer, who arrived on Thursday and whose official programme ends on Thursday, portrayed his trip as exploratory, as did Botha

Botha said "We are feeling our way tentatively, and seeing in what ways we can cooperate."

Nazer said Saudi Arabia, which backed the UN oil embargo against South Africa in the apartheid era, had "come to understand the situation in South Africa and listen to the plans and objectives of the government, future development and how they intend to handle such issues".

Asked about reports that Saudi Arabia may be interested

Pik Botha . . . exploring ways to co-operate.

in a stake in the Mossgas offshore project — widely considered a white elephant in South Africa after incurring substantial spending as a way of fighting sanctions — and facilities used for strategic oil stockpiles, Nazer said

"We haven't discussed anything in detail "

Nazer has so far met President Mandela, Botha and officials from the central energy fund which administers oil stocks.

Nazer said talks had touched upon "ventures which interest them (the South African side) including these (Mossgas and storage facilities) and issues which interest us — mainly the creation of downstream joint ventures as far as the oil sector is concerned".

He pointed to interest in joint ventures in either South Africa or Saudi Arabia.

"Saudi Arabia has two large industrial cities and it has a comparative advantage as far as energy is concerned in terms of cost and feedstocks It would invite whatever technology is available in South Africa to be joined in joint ventures with Saudi business "

He noted more than 80 top Saudi businessmen had arrived in South Africa on Sunday for a one-week visit

South African Foreign Trade Organisation (SAFTO) officials outlined prospects for two-way trade.

They said Saudi Arabia was rich in hydrocarbons, oil and gas and South Africa needed to import raw materials and feedstocks for its petro-chemical industry.

Export potential included medical products and skills, engineering and construction expertise, food, textiles, iron and steel and other metals, furniture and precious jewellery

"The list is endless," said SAFTO's Gulf manager Gyff Fitchat.

Nazer is also due to meet private sector oil companies. Those operating in South Africa include majors such as Shell, BP, Total and oil-from-coal producer Sasol and the former Mobil group which disinvested under sanctions and now operates as Engen — Reuter

Chemists 'going out of business'

183

ARGUS 25/1/95

The Argus Correspondent

JOHANNESBURG. — Pharmacists are up in arms over what they see as "unsavoury" medical aid practices that are "putting pharmacies out of business"

In a spot survey, pharmacists in Johannesburg said they were going to the wall

Those still liquid claimed to be running at a net profit of between one and five percent

A predominant feeling was that 20 percent of pharmacies would go out of business within the next year.

Executive director of the Association of Community Pharmacists David Pleaner said "There are some very unsavoury things going on in this business that are effectively putting pharmacies out of business

"The problem stems from the fact that medical schemes are doing everything in their power to maintain members, and to do this their members have to get medication from specific sources," he said.

Pharmacists said medical aid schemes were offering members 30 percent discounts if they used their drug sources

While pharmacists are required by law to mark up the initial buying price by a maximum 33,4 percent, dispensing doctors and private hospitals have a mark up of 143 percent

Pharmacists claimed this set up unfair competition between them.

Medical schemes said the recent spate of pharmaceutical bankruptcies was not linked to medical aid plans

Higher chemical prices have mixed effect in SA

(183) BD 25/1/95

MUNGO SOGGOT

THE surge in global petrochemical prices is having a varied effect on SA chemical companies, which are enjoying flourishing export sales but having some trouble passing on prices of imported chemicals used for added value products.

An analyst said that of the three major SA chemical companies — AECI, Sentrachem and Sasol — Sentrachem probably had the highest import profile.

Sasol, however, could only benefit from high international prices as its chemical operations were confined to exports.

But concern about higher import prices had generally been overshadowed by the strong uptick in local demand which began in mid-1994, the analyst said.

Sentrachem executive director Ralph Oxenham said Sentrachem had in part benefited from the surge in global chemical prices which began in earnest last September. It was on track to improve its export sales to about 20% of total sales.

But in some chemical sectors, particularly those which involved converting imported raw materials, Sentrachem sometimes had difficulty passing on higher prices to local customers.

Oxenham said the company had to pass on higher prices paid for imported orthoxylene and styrene.

He said caustic soda prices had jumped nearly tenfold, while ethylene prices had increased more than 60%. However, it was likely the global chemical price increases would tail off in March.

Sasol said it had benefited directly from the jump in international prices, particularly for exports of solvents and phenolics.

"Sasol's recently commissioned new plants place it in an excellent position to take advantage of the upswing," a spokesman said.

She said that except for small volumes of process chemicals, Sasol did not import raw materials.

According to the London Financial Times, orthoxylene prices have risen almost 200% over the past year on the European spot market, while ethylene, propylene and styrene prices have doubled.

Medicine supply probe

(183)

GRETA STEYN

THE Competition Board had last week gazetted an investigation into allegations of anti-competitive practices in the supply and distribution of medicines, board chairman Pierre Brookes said yesterday.

He said the board had decided to launch the investigation after numerous representations from people involved in the pharmaceutical industry, and had decided it deserved urgency because of the need to deliver affordable medical services.

The investigation would focus on the relationship between pharmaceutical wholesalers and franchise pharmacies at the retail level. "There appears to be evidence of unhealthy links between wholesalers and retailers," he said

Also under investigation would be the relationship between wholesalers and medical scheme clearing houses The clearing houses used to operate independently, but SA Druggists had taken over one of the clearing houses and an arm's length relationship no longer existed.

A third aspect of the investigation would be the appointment by medical schemes of pharmacies to provide preferred products.

As a result, people in smaller towns were sometimes restricted to only one pharmacy

"Competition should take place on merit," he said. Representations had been received at all levels of the pharmaceutical supply and distribution chain.

BD 26/1/95

Brooks said he expected an investigation into anti-competitive practices in the liquor industry to be gazetted tomorrow.

Recommendations made by the Competition Board have to be ratified by the Trade and Industry Minister

The announcement last year that the cement cartel would be disbanded was widely seen as the beginning of a new era of harsher enforcement of competition policy.

Public hearings on possible changes to the Competition Act are expected to be held in Parliament.

Engen to take a stake in Congolese oil field

(183) STAR 27/1/95

Engen is set to acquire a stake in a Congolese oil field which is expected to produce about 100 000 barrels per day

Engen said yesterday its four percent stake in the N'Kossa and Haute Mer permits, which contain the N'Kossa oil field located offshore Congo, had to be approved by the Congolese authorities.

"This opportunity has great potential for South Africa as, not only does it give the country greater access to crude oil — around 4 000 barrels a day — but it also opens up opportunities for South African exports to Central and West Africa," Engen chief executive Rob Angel said

Exports

In 1994, Engen's exports of refined petroleum products earned South Africa $130 million in foreign exchange

Angel said the N'Kossa interest was being bought from Elf Congo, a subsidiary of the French international integrated oil and gas company, Elf Aquitaine

"Elf has a strong presence in the Congo where it operates in excess of 65 percent of the country's total oil production of around 180 000 barrels per day

"This output will be dramatically increased when N'Kossa, one of Elf's largest projects, comes on stream fully in 1996

"It is expected that N Kossa will produce over 100 000 barrels per day when peak output is reached in 1998 Production is forecast to last for some 25 years"

Elsewhere in sub-Saharan Africa, Engen already participates in the Kudu gas discovery offshore Namibia, in Block 1 in Angola and in the onshore Migoumbi licence in Gabon

Angel said it was an important component of Engen's long-term strategy to acquire upstream businesses so that the group ultimately became self-sustaining, with equity crude production approximately 50 percent of refining throughput

"The cheapest price for oil is when it is still in the ground As a major, regional South African-based player, we need access to that resource if we are to remain internationally competitive

Advantage

"Our thrust into the upstream is focusing on Africa, particularly sub-Saharan Africa where we believe we have a competitive advantage"

The N Kossa oil field is 51 percent-owned by Elf Congo

Chevron has a 30 percent interest and Hydro-Congo holds a 15 percent interest

Engen is holding talks with the International Finance Corporation (IFC), an arm of the World Bank, on a possible role in financing of the project

The field's total development costs amount to $1,6 billion

The Reserve Bank has approved Engen's participation in the project — Sapa

Strike for fair wages

(183) Sowetan 31/1/95

POLICE had to be rushed to the AECI plant at Umbogintwini near Durban yesterday as hundreds of contract workers staged a wildcat strike, bringing traffic to a standstill The workers are demanding that their employer pays them fair overtime rates

The strikers blocked entrances to the plant and normal operations came to a standstill because the strikers refused to allow general staff workers to enter

The Internal Stability Division and the Dog Unit were deployed at the plant After about two hours police and traffic authorities set up two road blocks to try to limit the number of people at the factory gates.

The strikers are mainly employed building AECI's new R300 million Lisene Project They were hired by Group Five Projects through labour brokers

By 7am, more than a kilometre of the road outside the plant had been occupied by taxis and private vehicles used by the strikers Traffic authorities were concerned that the blockade could affect traffic flow at the nearby N2 road.

The situation became tense because general staff demanded to be allowed to report to work, but the strikers were adamant the blockade would continue until the main contractor at the plant, Mr John Humphries of Group Five, arranged for his labour brokers to pay workers normal industrial council overtime rates

Humphries said the overtime had been built into the rates already being paid. "I can't pay them anything more I have financial constraints," he said He had been trying to avoid the strike by negotiating with workers but he had been unsuccessful — *Sowetan Correspondent.*

Reintroduce fuel levy, says Maharaj

(183) ~~(390)~~

OWN CORRESPONDENT

Durban — Transport Minister Mac Maharaj has proposed that a dedicated fuel levy be reintroduced to provide for the management, maintenance and improvement of the national road network.

Addressing delegates at a transportation summit in Durban, Maharaj said the fuel levy was in line with similar actions taken other countries.

He also said toll roads would probably be a feature of South Africa's primary road network in the future. These toll roads could be set up on primary roads with a high traffic volume

"This incidentally opens the doors for the build, operate and transfer concept involving the private sector, and which is extensively used overseas, to be brought into play," he said

There were up to 100 000 km of secondary and tertiary roads, including many tens of thousands of kilometres of roads in rural and urban townships, which urgently need repair

"This will be the major, if not primary, duty — as we approach the 21st century — of road engineers in the provinces and metropolitan areas. These roads will have to be funded from general taxation," he said.

Star 31/1/95

Falling petrol price keeping inflation low

(183) BD 31/1/95

MICK COLLINS

FALLING petrol prices have been one of the major factors in keeping inflation in single digits since October, economists said yesterday.

Including the 2c/l drop in the petrol price from tomorrow, fuel has come down 5,5% (10c/l) from October's 183c/l to tomorrow's 173c/l.

Transnet economist Mike Schussler said the total effect on the consumer price index (CPI) would be 1,1%

But Schussler warned that although further decreases of about 2c/l could be expected over the next two months, thereafter prices could begin to climb again.

"Oil prices have stabilised at about the $17 a barrel level but could rise to $17,50 over the next few months. At the moment we are at the low end of the cycle with most of the winter buying in the northern hemisphere covered in the futures market."

Added to this was the fact that the rand was not expected to hold its present levels against the dollar which would have a knock-on effect on local fuel prices.

But a reprieve could be in sight if Iraq came back into the market with the lifting of UN sanctions against that country.

"There are pent up supplies just waiting to flood the market which will be good for SA especially if the country comes back in at full production levels," Schussler said.

Another analyst said confidence in the new transparent system was being built up following years of "crisis" price setting by government.

"This demonstrates that inflation can be fought on all levels without government intervention. The present economic recovery must not be killed off before it is firmly entrenched. Even with another interest rate hike waiting in the wings the petrol component of the CPI, though small, shows that the effect of sound pricing principles can help contain inflation."

Fuel levy mooted to pay for roads

183

CT 31/1/95

Special Correspondent

THE Minister of Transport, Mr Mac Maharaj, has proposed the re-introduction of a dedicated fuel levy to provide for the management, maintenance and improvement of the national road network

Addressing delegates at a transportation summit in Durban, Mr Maharaj said the fuel levy was in line with similar action taken in the United States and other countries

He also said toll roads, set up on primary roads with a traffic volume, would probably be a feature of South Africa's primary road network in the future

"This opens the doors for the build, operate and transfer (BOT) concept involving the private sector, which is extensively used overseas, to be brought into play," he said.

Mr Maharaj said there were up to 100 000 kilometres of secondary and tertiary roads, including many tens of thousands of kilometres of roads in rural and urban townships, which urgently needed repair.

"This will be the major, if not primary duty, of road engineers in the provinces and metropolitan areas as we approach the 21st century. These roads will have to be funded from general taxation," he said

AECI workers to march

183

Sowetan 1/2/95

STRIKING AECI, Umbogintwini, contract workers said yesterday they would march to the Durban offices of a labour broker who they claimed had hired scab labourers in their place

The strikers, who decided to engage in further forms of mass action, have been told they would lose their jobs if they did not accept an offer of R5 an hour extra for overtime, and did not return to work. — *Sowetan Correspondent*

Polifin to expand plant

MUNGO SOGGOT

CHEMICAL company Polifin, the Sasol/AECI joint venture, said yesterday it would spend about R50m expanding its polypropylene plant at Secunda (183)

A spokesman said the plant's output would be increased from 140 000 to 220 000 tons a year to cater for stronger demand.

A later-generation catalyst, which would produce a better quality product, would be installed

An analyst said there had been a surge in worldwide demand for polymers used by the plastics industry, particularly in China.

Sasol has a 60% stake in Polifin and AECI has 40%

Polifin MD Pieter Cox said recently Polifin could be listed by mid-year

Less than 10% of Polifin's R2,8bn turnover came from exports. BD 1/2/95

The company hoped to increase its domestic market at the expense of exports, but would in the longer term try improving its export markets.

Petrol cost down by 2c a litre

(183)

CT 2/12/95

Special Correspondent

PETROL came down 2c a litre yesterday, making it 10c a litre cheaper than in October, and the drop is helping to keep inflation to single figures.

Petrol has about a 3% weighting in the basket of consumer costs calculated in the consumer price index (CPI). That means, says Econometrix economist Mr Tony Twine, that the drop has knocked about 0,15% off the CPI — which was 9,9% last month.

Owing to a different refining process and demand worldwide, the diesel price — now down 1c to R1,66 a litre — is 2c above its October level.

While the CPI effect is negligible, diesel price changes are also not providing any impetus to producer costs. Fuel comprises only a small part of the distribution cost of most goods, probably not more than 1c out of 5c in a product with a R1 wholesale price, says Grocery Manufacturers' Association executive director Mr Jeremy Hele.

AECI protesters dispersed by police

(183) CT 2/2/95

DURBAN. – Police fired teargas to disperse striking workers blocking entrances to the AECI chemical plant at Umbogintwini near Durban yesterday.

AECI spokesman Mr Mike Blizzard said more than 100 former employees of a company contracted to AECI had barricaded the entrance for the second time in two days, demonstrating against dismissals.

Police had fired teargas and towed away vehicles barricading the road. Four people were arrested

"As far as I know police are still in the area and normality has returned," Mr Blizzard said.

But there were reports last night that the demonstration was continuing

Strikers and management will meet tomorrow in an attempt to resolve the dispute. – Sapa

Warning of probe into SA fuel 'dumping'

MUNGO SOGGOT

SA FUEL companies' diesel and petrol exports could attract an anti-dumping probe by the World Trade Organisation because their export prices are lower than their SA prices, oil industry analysts warn.

A probe would highlight the inadequacy of SA's highly regulated domestic fuel pricing system, where petrol and diesel exports could be classified as "dumped", despite being sold at international spot and open tender prices, an analyst said. The petrol exports — mainly to Mauritius, the Seychelles and Zimbabwe — were sometimes up to 10c/l cheaper than the SA pump price. (183) BD 2/2/95

Transnet economist Mike Schüssler said there was a danger that a rival exporter, such as Iran, the United Arab Emirates or Oman, would complain to the WTO about SA's "ex-refinery gate" export prices being lower than domestic ones.

SA Petroleum Industry Association director Colin McClelland said: "SA crude refining companies will continue to export at international market prices whenever such activity is profitable This activity utilises spare refining capacity in an optimal way and generates foreign exchange. Association members receive no subsidy ... and fully comply with GATT requirements." But an industry source said the exports were subsidised in the sense that they exported fuel bought from Mossgas and Sasol, which enjoyed tariff protection.

SA's fuel pricing system, known as the in-bond landed cost (IBLC) system, bases the price of SA's crude oil — which comes mainly from Iran — as if it is imported from a basket of Far East oil prices. The IBLC system also adds on the shipping insurance costs for petrol, which is more expensive to insure than the less flammable crude oil which SA imports.

Econometrix economist Tony Twine said the issue highlighted another reason

□ To Page 2

Fuel (183) BD 2/2/95

□ From Page 1

why the IBLC method of constructing fuel prices was undesirable. "A weakness has been exposed that wouldn't have come to light while SA's fuel exports were secret There is hope that greater international participation will force a more internationally compatible pricing system."

The Economist Intelligence Unit says GATT defines dumping as occurring when a product is "introduced into the commerce of another country at less than its normal value" It defines "normal value" as not less than the comparable price for the product in the exporting country

Twine said that in the sense that the export sales were of surplus product sold at export prices, they did not contravene the spirit of GATT or the WTO

The liquid fuels task group, which includes representatives of business, labour and government, is expected to recommend some dismantling of the regulated system set up in the sanctions era

An Engen spokesman said Engen exported diesel and petrol only when it was profitable and would do so regardless of local prices "In no way does this contravene GATT. Export prices are generally cheaper than their local equivalents due to the cost of freight to export markets"

Dedicated fuel levy welcomed

BD 2/2/95

(183)

AMANDA VERMEULEN

TRANSPORT Minister Mac Maharaj's call this week for a dedicated fuel levy to be reintroduced has been welcomed by business and interest groups if it is implemented in a way fair to motorists, taxpayers and business.

Maharaj said inflation, the 1973 oil crisis and the end to the national road fund in 1988 had resulted in a significant decline in funds allocated to intercity roads to a level half of that 20 years ago.

A dedicated fuel levy would be used by central government to upgrade and maintain national roads, while other roads would be the responsibility of provincial and local structures.

SA Chamber of Business (Sacob) director of economic policy Ben van Rensburg said it was essential to have a dedicated fund for road upgrades and maintenance.

Currently, the road fund was one element of the consolidated fuel levy, which meant the levy was part of central government's revenues, and was not a dedicated fund to be used solely for improving the national roads.

Sacob recommended that government estimate what percentage of the fuel levy the road fund represented. This could be taken out of the consolidated levy and be established as a dedicated fund.

Government would also have to estimate what the funding requirements for upgrading would be and adjust the road levy accordingly.

While Van Rensburg said this did not necessarily mean consumers would have to pay more for petrol, he acknowledged that it was possible the road levy would have to be adjusted upwards, causing an increase in petrol costs.

He emphasised that the proposed levy would have to be fair to motorists and to taxpayers, as well as to those commercial and industrial sectors that relied on road transport.

"This method of funding upgrades and maintenance will minimise the impact on the economy."

An Automobile Association spokesman said it welcomed a dedicated road fund, adding that it had opposed the 1988 withdrawal of the dedicated levy.

"Roads are the lifeblood of the economy and if they deteriorate, it would have a serious effect on the economy as well as becoming a road safety problem."

Bureau of Economic Research economist Pieter Laubscher said the proposed levy was sound in principle but it had to be implemented in a fair and reasonable way to avoid spiralling inflation.

He said one positive effect would be job creation possibilities and the stimulation of the heavy engineering and construction sectors.

AECI workers' strike

Sowetan Correspondent

A WILDCAT strike by 300 contract workers at the AECI complex in Umbogintwini south of Durban has come to an end after sub-contractor, Group Five Projects, gave in to the workers' demands. (183) (122)

The company will pay the workers Industrial Council overtime rates as they had demanded, but on condition they refrain from any industrial action in the future Sowetan 3/12/95

The strike had been on since Monday The workers' representative, Mr Keith Joseph, said the employees would hold a meeting to formally accept the offer He said the workers had agreed not to embark on any action concerning the Industrial Council.

GFP management said the offer was made so that work on AECI's Lysine Project, on which the men have been employed, could be completed

Joseph said attempts were being made to negotiate the release of six strikers arrested on Wednesday at a blockade staged at the complex.

AECI inquiry is completed

BD 8/2/95

(311)

RENEE GRAWITZKY

THE statutory commission of inquiry established in terms of the Occupational Health and Safety Act to investigate the explosion which killed eight people at AECI Modderfontein in September 1994 was completed yesterday. (183)

The report, once compiled, will be presented to the attorney-general.

The Chemical Workers' Industrial Union said it was considering appealing against a decision made by the inquiry chairman not to allow the Labour Department's explosives director, Dr Retief Kok, to give evidence at the inquiry.

The union's health and safety representative, Shirley Miller said Kok's evidence was crucial to ascertaining the cause of the explosion and had a direct bearing on the case.

Not pouring oil on troubled water

ARG 4/2/95 (183)

CAPE company focus

BRUCE CAMERON
Business Editor

ENGEN, the country's only petrol exploration, refining and marketing company which is listed on the JSE, is to some the friend of the motorist, to others a cynical exploiter seeking market share

To the Ministry of Mineral and Energy Affairs — it is the latter To its competitors, at best, Engen irritates.

The cause — Engen has been out front in the fight to deregulate the fuel industry, while most of its competitors have followed a more ambiguous approach saying that, as in the rest of the world, they are prepared to operate in any environment.

By leading the fight from the petrol company side it offended the government, particularly when at one stage Engen advised dealers to delay upping prices at the tanks

Obviously angered by Engen's approach, the Ministry took the unusual step of accusing the company of bad management when its profits fell back by 13,3 percent for last year

Engen had placed much of the blame for poor performance on the "piecemeal tampering" with the regulatory system of the synthetic fuel levy, the in-bond landed cost formula and the service differential as well as the authority's failure to grant the marketing margin that was "due to the oil industry"

It estimated a profit sacrifice for a full year would be R140 million for Engen alone

But the company knows that whatever happens, it not only has to restructure itself but also run a tighter ship if it wants to improve profits

The company, which was in the Gencor stable, was originally listed in 1968 as Trek Beleggings

It changed its name to Engen in 1990 after taking over Mobil's local interests Engen became fully independent when Gencor unbundled in 1993

Although in the small league internationally compared with multi-national companies like Shell, BP and Caltex, Engen is the major marketer in southern Africa holding about 25 percent of market share.

Engen is on the expansion trail, mainly to make it a more balanced company

Chief operating officer Errol Martin says that the major petroleum companies shield themselves from many ups and downs by being involved in the broad spectrum of the petro-chemical industry

For example when prices of crude oil go up the profits at the pumps are squeezed and vice-versa.

At the moment 95 percent of Engen profits are generated by the refining and marketing division

But Engen wants to have 60 percent of profits generated by refining and marketing, 30 percent by upstream exploration and production of crude; and ten percent from chemicals

Put another way it wants to be able to produce 50 percent of its crude requirements by 2005

The company has launched an initiative, Project Discovery, to ensure that it is suitably positioned and structured to compete in what is a rapidly changing environment.

The initiative is geared to reposition the Engen's corporate culture to fit in with the changes in the local environment and to improve the profitability base of the company

The outcome will be a more balanced structure, which will also have an impact in reducing staff levels.

Termed upstream production, exploration and production of crude cost Engen R30 million last year with more money going into building upstream sources than it receives in income.

It has already acquired resources in Africa, the Gulf and North Sea in moving towards the gradual switch-over

Engen now has an eight percent stake in the Alba North Sea oil field after buying out Gencor's share during the unbundling of its parent company last year

To pay for it, Engen sold off part of its holding in the undeveloped Britannia gas field that underlies the Alba field.

Mr Martin said it was felt best to have a greater share of a producing field rather than in potential production, which would continue to drain capital resources over the next five years

Engen has announced an agreement with Elf Congo for a four percent stake in the N'Kossa oil fields off the Congo coast.

Other stakeholders are Elf Congo with 51 percent, Chevron Overseas (Congo) 30 percent and Hydro Congo with 15 percent.

Engen also has a 10 percent holding in the comparatively small Bukah field in the Gulf of Oman, four percent in a very large Gabonese offshore field which is being developed and has a "large base; a number of leases off the Angolan coast, one of which "looks very good", and a 25 percent share in the Kudu gas fields off the West Coast of South Africa

Mr Martin said discussions were under way with Eskom about the development of the gas field to generate electicity

He said the recently-completed upgrade of the Engen refinery will make a significant contribution to increased earnings in the next 12 months.

☐ **NEW DEAL:** It's time to deregulate, says Engen's Errol Martin

Mr Martin points out that Engen is a South African company and is dependent for its success on the well-being of the local economy and environment while local affiliates of the international oil companies account for about only two to five percent of the turnover of their parent companies

So a year or two of difficult conditions "will only make for some grinding of teeth"

For Engen it was the spur to become more efficient.

But Mr Martin said for the company to achieve this "it is important we be able to compete fully, using the full range of marketing tools, including pricing"

It is primarily for this reason that Engen wanted to see the deregulation of the industry

Stop mail-order medicine, say pharmacists

(183) ARG 9/2/95

LIBBY PEACOCK
Health Reporter

A CALL to shut down mail-order pharmacies has come from the local branch of the Pharmaceutical Society of South Africa which claims these "pharmacies" are a threat to community-based chemists, and are "splitting the patient profile in half"

The Cape Western Province branch will appeal to the SA Pharmacy Council to legislate against mail-order operations.

But Pharmacy Council registrar, Chris van Niekerk, said yesterday his council had formulated regulations and presented them to Health Minister Nkosazana Zuma, and was monitoring the activities of the mail-order pharmacies.

Gus Ferguson, director of the Cape Western Province branch of the Pharmaceutical Society, said his branch had met on Monday night to discuss the impact of mail-order medicine on community pharmacies.

He said some medical aid societies had arranged for patients to get their "chronic" medication from these pharmacies.

One of the motions accepted at the meeting was that the Pharmacy Council should be approached and asked to regulate, or legislate against, the mail-order pharmacies.

If the council wouldn't agree to do so, a vote of no-confidence would be recorded.

Mr Ferguson said while community pharmacies dealt with acute medication, mail-order pharmacies could send off medicine for chronic conditions.

It was estimated that up to 50 percent of medicine could be defined as "chronic".

This not only posed a financial threat to community-based pharmacies, but also reduced pharmacists' professional intervention and service.

The society always recommended that clients used a single pharmacy, where pharmacists could keep track of the medication they were on

The mail-order pharmacies were "splitting patient profiles in half".

Mr Ferguson said while the Pharmacy Council was "not encouraging it", it had removed the ethical rule against it

What annoyed the "profession at large" was that these pharmacies seemed to be mushrooming.

"If our estimate is correct that chronic medicine is 50 percent of all medicine, community-based pharmacies are threatened. If they disappear, it will be a loss to the community," he said.

Mr Van Niekerk responded that regulations had been formulated to control medicines sent by post.

These medicines had to be accompanied by specific information about the products

The council preferred direct contact between patients and pharmacists, but also believed that patients had the right to choose from where they wanted to get their "chronic" medicine.

Mr Van Niekerk said the council had received a number of complaints from people who had received medicines which had been wrongly addressed, or broken, and was "monitoring" the situation.

Drug firms' health plan

CT 10/2/95

JOHANNESBURG — Some of SA's biggest drug manufacturers have launched an initiative to help tackle the country's health crisis, an industry source said yesterday.

The source said major players in the pharmaceutical industry met with Health Minister Dr Nkosazana Zuma on Wednesday (783)

An announcement on the scheme, the SA Health Care Initiative, is likely next week — Sapa-Reuter

Residents' fury at expansion of chemical plant

ARG 11/2/95 (183)

WILLEM STEENKAMP
Weekend Argus Reporter

■ Following hard on the heels of expansion plans at the Caltex refinery at Milnerton to produce jet fuel, the chemical company Kynoch has confirmed plans to process 2 000 tons of lime a month at their plant.

RESIDENTS of Table View are up in arms over plans by the chemical company Kynoch to expand its existing plant to process 2 000 tons of lime in the area.

These expansion plans follow hard on the heels of plans by Caltex to spend millions of rands at the refinery adjacent to Kynoch to increase the production of jet fuel

Residents in Bothasig, Table View, Richwood and Milnerton have for years objected to the level of pollution in their area, citing the high prevalence of lung and other breathing problems as an example of the effect the level of pollution caused by the two huge production plants was having on residents

Mike Channing, chairman of the Table View Community Association said "They have ridden roughshod over us for years and this is just one more indication that big business does not give a hoot about the man in the street and his problems

"We are shell-shocked to say the least We do not know what to do or where to turn next Waste-Tech is planning to expand its waste-handling plant at Vissershok, Transnet wants to develop sections of the sensitive Rietvlei Estuary, Caltex is expanding to produce large quantities of jet fuel and now Kynoch want to process about 2 000 tons of lime per month in the area

"And they all say that the increase of production at their different plants will not lead to an increase in pollution levels Please!

"We say they must first cut down on the existing levels of pollution to show their good faith before expanding their operations, but the chances of this happening are remote

"The only reason that they are now negotiating with us is because they are legally required to negotiate with communities on environmentally sensitive issues, but that is as far as it goes Their attitude is that they are in fact doing us a favour

"These companies also maintain that their pollution levels are in line with government specifications and requirements But people are developing lung and other bronchial problems in the area We feel this is the real issue," said Mr Channing.

A chemistry expert at the University of Stellenbosch said people who worked for extended periods in lime-producing mines many years back, developed lung problems

But, because very little was known about the process of lime production at Kynoch, the expert was not prepared to speculate on the effect of pollution

Clive Thorpe, general manager of Kynoch, said the expansion of the plant only represented a four percent increase of the total operation

He confirmed that the expansion meant that about 2 000 tons of lime per month would be processed at the plant

He said an independent environmental impact evaluation of the lime production project was being done at the University of Cape Town and that the findings would be forwarded to the Milnerton municipality for its comment and decision

Mr Thorpe maintained that the proposed expansion would not lead to an increase in pollution and said the company was busy with a project to decrease pollution from the plant to such an extent that very little pollution would be visible.

He said the processing of lime would not cause any health hazard and that pollution caused by the process in the area would be negligible

Kynoch is part of the AECI group of companies which was recently in the news because of a spillage of dangerous chemicals in Gauteng The fire brigade had to be called in to prevent chemicals landing in stormwater trenches.

Probe on Thor worker

(SP5F) CT 15/2/95

MARITZBURG — A pathologist from Cape Town will perform a post-mortem on the body of former Thor Chemicals worker Mr Engelbert Ncgobo on Friday (183)

Mr Ncgobo, who had been in a coma since 1992, died on Saturday night.

He handled substances containing mercury at Thor Chemicals' Cato Ridge plant and was suspected to be suffering from mercury poisoning

The Thor Chemicals culpable homicide trial here was adjourned yesterday to allow the prosecution to call an overseas expert — Sapa

Star 15/2/95

Unionists march on head office

More than 1 000 members of the South African Commercial, Catering and Allied Workers' Union marched to Bidvest and Bidcorp Group's head office in Johannesburg yesterday to demand the immediate reinstatement of 600 workers dismissed two years ago. In a memorandum handed to group executive director Colin Kratzman, Saccawu threatened consumer boycotts, pickets and sit-ins if the company failed to address the demand within seven days. Kratzman said the company would not be able to respond within seven days as the head office was not responsible for day-to-day operations within the group. — Sapa.

(183)

Engen focuses on reconstruction

BD 16/2/95

EDWARD WEST

CAPE TOWN — Engen had spent R46,22m on education, housing, job creation, health care and social and cultural services over the past five years, social investment manager Joe Latagomo said yesterday.

"Business buzzwords of the day, reconstruction and development, have been familiar in-house terms at Engen Court for some time," he said.

(183)

About R23,5m was spent on education support programmes for disadvantaged communities. Beneficiaries included 17 national organisations, educational institutions and communities as well as Engen employees and their families.

The bulk of this investment went into pre-school training, with an example being the Nosizwe project in rural KwaZulu/Natal which assisted 20 villages to set up pre-schools and the growth of the Home Care Mother model, which provides pre-school training and jobs for mothers.

A further R3,6m was spent on skills training, which included a R1m multipurpose training centre at the Engen refinery designed to train the unemployed. Various goods and services functions had been subcontracted to small and medium-sized businesses.

Similar projects were expected to come on stream in Gauteng and the Eastern Cape this year.

A R5,5m investment in entrepreneurial development programmes had been channelled through small and medium-sized enterprises and was targeted at disadvantaged communities and women

Workers at Shell on strike

(183) CT 16/2/95

JOHANNESBURG — Chemical Workers' Industrial Union (CWIU) members employed by Shell have embarked on a legal strike after a dispute over employer contributions to the union's provident fund

The union said yesterday 218 members were striking at factories nationwide

CWIU national co-ordinator Mr Macvicar Dyasopu alleged Shell was acting contrary to President Nelson Mandela's calls for stability in the workplace

He also accused multinationals investing in South Africa of undermining the right to collective bargaining, embodied in the recently released Labour Relations bill

Mr Dyasopu said the workers were protesting against Shell's proposed 13,5% contribution to retirement contributions The union is demanding 15%

Shell spokesman Mr Humphrey Khoza said the company had requested an urgent meeting with the union to resolve the deadlock

"We strongly believe the 13,5% contribution is equal to if not better than the highest in the industry " — Sapa

(183)

SD 7/12/95

Employees' strike vote

WORKERS at AECI's Aniken plant at Umbogintwini in KwaZulu/Natal have voted to join a strike by about 300 other workers from the group, demanding an across-the-board 12% pay rise. The strike began at Kynoch Fertilisers & Chemicals on Monday

NEWS IN BRIEF

(183)

Shell workers strike

CHEMICAL Workers' Industrial Union members employed by Shell SA have begun a legal strike following a dispute over employer contributions to the union's provident fund. BD 16/2/95

The union said yesterday 218 members were taking part in the strike at factories countrywide.

Union national co-ordinator Macvicar Dyasopu said the workers were protesting against Shell's proposed 13,5% contribution towards retirement contributions. The union is demanding a 15% contribution from Shell.

Interest wanes in oil storage facilities

(183) BD 16/2/95

MUNGO SOGGOT

SA's efforts to lease its oil storage facilities to a Middle East oil producer — a move which would speed up the sell-off of strategic stockpiles — would probably be delayed, a Central Energy Fund expert said yesterday.

Kobus van Zyl, GM of fund subsidiary SFF, which owns and runs the storage facilities in Saldanha Bay, said strong demand for Middle East crude oil would postpone the need for storage facilities.

The facilities were built during the sanctions era. The fund is also the holding company for Mossgas and Soekor.

Van Zyl said SFF was talking to several Middle Eastern producers about leasing the 15-million barrels worth of storage room. But many of these producers, particularly Iran, had low stocks and were not that interested in leasing the facilities at present.

Mineral and Energy Affairs Minister Pik Botha said last year that leasing the facilities would enable SA to cut its stockpile and raise foreign exchange.

Van Zyl said the strategic reserves kept at Saldanha were currently at six months. Most of the reserves sold recently had gone to Sasol and Natref.

CT 17/2/95

Shell strike may spread

Special Correspondent

(183)

DURBAN — The Industrial Chemical Workers Union has threatened to intensify the industrial action by Shell drivers with a go-slow at depots other than the Island View depot

By yesterday several garages around Durban had run short of petrol The strike in its fourth day today is due to a dispute over transfer of a pension fund

Threat to disrupt petrol deliveries

(183)(182)

By *Sapa* and *Sowetan* Correspondent

NO SUCCESS Shell urgently trying to arrange a meeting with union:

STRIKING Chemical Workers Industrial Union members yesterday threatened to disrupt delivery of petrol to Shell and Engen outlets countrywide

CWIU national coordinator Macvicar Dyasopu warned the three-day-old strike affecting Shell South Africa subsidiary companies in KwaZulu-Natal and the Eastern Cape would spread to all provinces if Shell refused to negotiate with union officials

He said the strike, involving Shell drivers, was to resolve a dispute over company payments to the union's provident fund

"The ball is in their court," Dyasopu said "They have not made any indication for a meeting with us "

Sowetan 17/2/95

"We are now talking to our members in the Gauteng and Free State regions," he said, accusing Shell of not trying to solve the dispute

The union was also considering action against Engen, which was reportedly assisting Shell to make up for delivery shortfalls in KwaZulu-Natal Shell spokeswoman Koosum Kalyan said the company was "urgently trying to arrange a meeting with the union, without success"

She said in the event of a national strike, deliveries would continue on a "scaled-down" basis

A large group of toyi-toying workers was reportedly marching on Shell House in Durban yesterday

By yesterday several BP and Shell garages had already run out of supplies and petrol attendants remained at garages only to turn customers away

The strike has also affected supplies to BP stations in Durban and Maritzburg, which receive petrol from the Shell Island View depot

A union spokesman in Durban, Mr Tobias Mseleku, said the union was disappointed by Shell management's failure to respond to the strike and as a result the union was in the process of identifying other depots across the country, including KwaZulu-Natal where workers were still operating as normal, to join the strike

Engen spokesman said they had received several orders for petrol from beleaguered BP and Shell garage owners and had supplied them as far as possible

Strikers block petrol depot

(183)

RENEE GRAWITZKY

STRIKING workers blockaded Shell depot entrances in Durban yesterday, preventing trucks from leaving.

The blockade was still in place late yesterday afternoon.

Fears of petrol shortages had caused a run on petrol stations in Durban, which resulted in a number of petrol stations running dry.

Shell spokesman Koosum Kalyan said contingency plans were in place if the strike spread countrywide.

She said deliveries were continuing and dealers were operating on a limited scale.

BD 17/2/95

About 200 members of Chemical Workers' Industrial Union have been on strike since Monday in Durban and the Eastern Cape in support of three demands linked to negotiations over the company's agreement to participate in the Chemical Industries National Provident Fund.

The union rejected the company's proposed contribution of 13,5% which Shell claims is the highest company contribution, demanded the surplus from the company's pension fund which, according to the rules of the fund, belong to the pension fund and said non-union members should be eligible to join the fund.

The union was not available for comment yesterday.

Chemical firm's fine 'too lenient'

THE Chemical Workers' Industrial Union yesterday called the R13 500 fine imposed on Kwazulu Natal-based Thor Chemicals on Friday "too lenient" and "a mockery of justice". (231)(183) ST 19/2/95

The company's management was found guilty of negligence after three workers suffered from mercury poisoning. Two workers, Pete[r] [Ca]lc and Englebrecht Ngcobo, died and Albert Dlamini was hospitalised.

Don't give up on a good thing

183

CP 19/2/95

By NOMVULA KHALO

WHILE it has become common for black business to be associated with failure, a leading black cosmetic company – Black Like Me – is celebrating ten years of existence.

"Ten good years of excitement, learning and surviving all the up and downs we went through," said the managing director of the company, Herman Mashaba.

Mashaba said the ingredients of his success are hard work, team work among his staff members and the fact that he taught himself never to give up

He said that the proof is in the pudding and that is how he beats his competitors

"After using our products one does not look any further, but uses them always," he claimed

Mashaba, who ventured into business in 1985 selling from door to door, said that if he was a politician he would make more enemies than friends.

Soekor probes R26m plan for SA oil field

(183)

JOHANNESBURG — Oil exploration company Soekor is looking to develop South Africa's first oil field, costing an estimated R26m, published reports said yesterday

Feasibility studies were underway and the final appraisal, likely to be completed by the end of March, would require Cabinet approval

Production from the field, about 10km from Stilbaai off the southern Cape coast, was expected to commence about seven months after approval

The oil field is west of the established gas and condensate field which supplies Mossgas

The reports said Soekor had issued a letter of intent to Oceaneering International, a company which provides engineering services and hardware to customers who operate in marine, space and other harsh environments, to develop the oil field — Sapa

CT 21/2/95

Long wait for signs of Engen's recovery

(183) CT 23/2/95

From CHARLOTTE MATHEWS

JOHANNESBURG. — Even the latest speculation about Engen taking a stake in Texaco Nigeria has failed to lift the share price, which has been on a slide since the beginning of January.

The shares are now trading around R28 from R38 at the beginning of January and R42 last August.

This week Engen released a statement in reaction to the rumours about a deal in Nigeria. It said, as part of its drive to establish itself as Africa's own locally-based and indigenous oil company, it was constantly engaged in discussions with a number of potential partners across the spectrum of its business activities.

"Owing to the confidentiality of a number of these negotiations, however, it is our policy neither to deny or confirm any speculation regarding possible deals in progress."

Recently Engen signed a R100m deal to help develop the N'Kossa oilfield off the Congo coast. It also holds stakes in the Alba oilfield in the North Sea and in the Bukha oilfield in Oman.

According to Mathison and Hollidge analyst Graeme Wald, the benefits of Engen's investments into exploration and operations in Africa are only expected to contribute materially from 1996.

He said the recent slump in Engen's share price was due not only to the short-term negative impact of these acquisitions, but also to two other factors.

Firstly, Engen's refining margin has decreased from about R5 a barrel to about R4 a barrel as an oversupply of oil on international markets continues.

In Engen's case this has been combined with teething problems at the upgrade and expansion of the Phase 2 refinery, which only reached full operating capacity in the last week

An Engen spokesperson said there had been the normal teething problems but the expansion had come on stream in early December as scheduled and on Tuesday the plant exceeded the 100 000 barrels mark.

183

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Star 23/2/95

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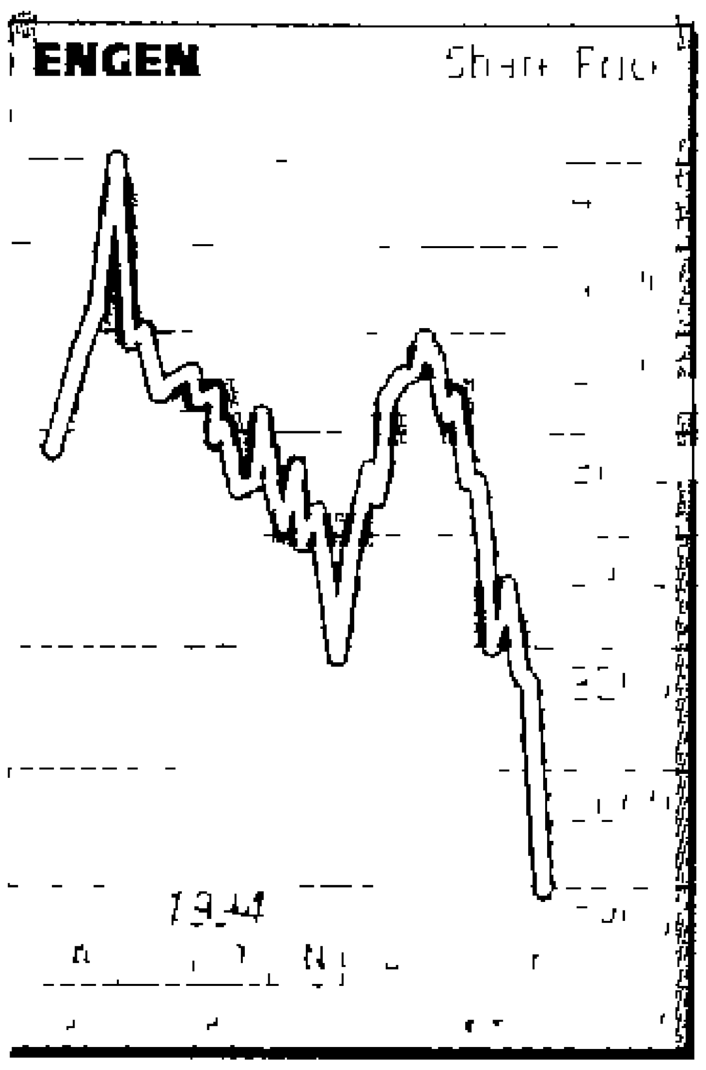

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New trolley venture

CT 24/2/95

JOHANNESBURG — Chemicals group Sentrachem has taken a one-third stake in Supercart SA, a new venture to manufacture plastic shopping trolleys for the R70m-a-year shopping trolley market (183)

Supercart SA director Martin Deale told a press conference yesterday that the initial response from consumers and retailers to the 3 000 trolleys initially imported from Canada on a two-year trial had been extremely positive.

The all-plastic trolleys, although about R350 each against R250 each for wire trolleys, are expected to last around seven years against five years for wire trolleys.

Over the two-year trial period they had been found to reduce the level of theft by between 44% and 85%

Most of the theft of wire trolleys is to use them for braai grids or scrap metal.

Supercart estimates that it will be able to secure at least 20% to 25% of the shopping trolley market in its first year of operation

New system ups Sasol production

183

JOHANNESBURG — Technological innovation at Sasol Two and Sasol Three, involving more frequent replenishment of catalyst used in the synthol process, looks set to improve the productive capacity of the group's reactors.

In a press statement released yesterday, Sasol's engineering and project management services division (Sastech) said "newly-commissioned on-line catalyst addition systems would result in significant savings.

CT 24/2/95

The projects were being carried out at a cost of about R40m

"The biggest benefit comes from maintaining high catalyst activity at normal catalyst consumption levels, resulting in increased production levels and lower unit costs," said Sastech senior project engineer David Boardman — Sapa

Shell, union agree on fund

BD 24/2/95 RENEE GRAWITZKY (183)

AN AGREEMENT on a number of issues relating to the Chemical Industries' National Provident Fund was reached between Shell and the Chemical Workers' Industrial Union yesterday.

It was expected that the majority of striking workers would return to work by Monday.

Earlier this week, contingency plans for the delivery of petrol had been disrupted as workers continued to blockade the depots

Following discussions, the union went back to its members and requested them not to behave in an undisciplined manner. The blockades ended on Wednesday.

The agreement provided for a company contribution of 14% to the fund and for the issue of eligibility of the fund to be referred to IMSSA within the next two months for mediation or arbitration. Other issues included in the agreement were that the actuarial reserve value of those employees who joined the provident fund would be transferred from the pension fund, the present actuarial reserve value would be increased by 10% and a joint committee would finalise the drafting of the provident fund agreement within two months.

CHEMICALS INDUSTRY 183

Exports climb

FM 24/2/95

SA's chemicals giants are frantically chasing export markets to take advantage of a dramatic global upturn in chemical feedstock prices

Sasol, AECI, Sentrachem, Hoechst (SA) and their joint offspring such as Safripol (Sentrachem/Hoechst) and Polifin (Sasol/AECI) are all entering foreign markets.

Analysts say three factors have led to the unexpected upturn in monomer, polymer and PVC prices surging demand as Western economies follow the US into an economic upturn, China hitting the market as a major buyer, and the burnout of two major chemical plants last year—one in the US and one in Europe And all this happened in a market where capacities had been cut around the world following years of depressed demand

Smith

Hoechst (SA) CE Reinhard Traub says world prices of the main polymers (so-called mass plastics, made from a petrochemical feedstock base) have, on average, doubled over the past year from about US$500 a ton to about $1 000

Sasol executive director Andre du Toit predicts the global market will remain strong until at least the middle of 1996 Other commentators talk of prices remaining strong until 1997, with levelling off taking place by 1998

Du Toit expects Sasol's chemicals division to increase its contribution to group profits in the coming year

"Following Sasol Chemical Industries' R3,2bn turnover (25,6% of the R12,4bn group total in 1994) and R435m operating profit (17,3% of total), I expect the profit percentage to jump to about 30% of the total in the current financial year"

A number of new Sasol projects now coming on stream should add to its highly positive future cash flows. These include the R430m acrylonitrile plant at Secunda, which will export about 50% of its output initially; the R300m Sasol Alpha Olefins plant at Secunda, which is targeting 90% of its annual 100 000 t output for export, the new R37m MIBK plant at Sasolburg, which aims to export more than two-thirds of its solvent from 1996 onwards; and Sasol's plans to continue with its R400m fuel alcohol export contract with Brazil

Meanwhile, Sasol's 60% share in Polifin should help bring an even broader smile to shareholders' faces.

Polifin CE Pieter Cox says the launch of the new R2,8bn a year chemical feedstocks group seems to be timed well to fit in with the upturn If all goes to plan, Polifin intends seeking a listing by mid-year.

"The rapid and significant global price escalation has been underpinned by feedstock consumers building up stock in expectation of price increases This led to shortages putting further upward pressures on prices," says Cox

Polifin's R535m ethylene-based PVC project at Sasolburg entails increasing PVC production capacity to 160 000 t a year to meet local demand The group is also looking at a R50m, export-focused polypropylene operation to increase production by 80 000 t a year to 220 000 t Coupled with this would be a R100m upgrade of propylene production capacity

Sentrachem CE John Job says as countries like China drive demand, the commodity cycle is on a firm upward spiral Based on previous sectoral cycles, this could even continue for three to four years, the time it takes to bring new plant on stream Sentrachem plans to announce new capex plans by March

Hoechst's Traub says: "With the chemical cycle worldwide suddenly coming to life, our exports have risen dramatically to about 10% of total R1,7bn group turnover"

AECI's new MD, Mike Smith, says his group's export focus is underlined by the fact that its new R300m lysine plant at Umbogintwini in Natal will export about 75% of its annual 11 000 t amino acid production ■

Thor judgment condemned

(183) WM 24/2-2/3/95

Two workers have died but the Thor chemical company escaped with a fine at the court case this week.

By **Weekly Mail Reporter**

ENVIRONMENTAL and labour organisations this week sharply condemned a court ruling that let United Kingdom-based Thor Chemicals off the hook with a mere R13 500 fine in the culpable homicide trial following the mercury poisoning of three of its workers, two of whom have died.

Englebrecht Ngcobo was the second Thor worker to die last week after being in a coma for more than three years.

Chris Albertyn, a spokesman for the Environmental Justice Networking Forum (EJNF) said the "fundamental mystery" was "why, when the state had expert evidence on hand to prove their case of culpable homicide, they agreed to drop the charges" against Thor managing directors Steven van der Vyer, Gavin Daniels and Bill Smith.

Albertyn said Dr Laslo Magos, an international expert on mercury poisoning, was waiting to give the crucial evidence that would have established that workers Peter Cele, Albert Dlamini and Ngcobo had suffered from chronic mercury poisoning, indicating that leakages at Thor's Cato Ridge mercury treatment plant had been continuous.

But Magos was never called after the Thor managers changed their plea to admit negligence, arguing that the poisoning resulted from one or two acute exposures to the toxic substance. Thor was found guilty of negligent injury, and the company was fined R13 500 in the ruling by Pietermaritzburg magistrate Fred Heuer.

Chemical Workers Industrial Union (CWIU) general secretary Muzi Buthelezi lashed out at the ruling, saying that the magistrate had even failed to impose the maximum fines of R20 000 on each of the accused, as permitted under the Machinery and Occupational Safety Act. "It appears that workers' lives are still not counted for much in the new South Africa."

The judgement has heightened calls by the EJNF and CWIU for broad terms of reference in a judicial commission of inquiry due to be set up soon to investigate what Thor should do with some 1 500 tons of toxic waste now stockpiled at its Natal Midlands premises.

The two groups had pushed for the inquiry into Thor's activities claiming Thor was illegally importing toxic wastes. But Albertyn said this week that neither group had been allowed access to the proposed terms of reference for the commission and feared that the commission would operate within a limited mandate.

The EJNF and CWIU want the commission to investigate the origins of Thor's dangerous stockpiles, as well as the responsibility of the relevant authorities who allowed Thor to carry out its operations in violation of South African and international laws.

They also want the right of full access to information produced by the commission.

But Albertyn says this can only be guaranteed if the commission's terms of reference stipulate such a right and De Villiers has shown reluctance to even allow the groups access to the proposed terms of reference.

De Villiers office also failed to respond to a *Weekly Mail & Guardian* request for comment on the issue.

The EJNF enlisted the help of Water Affairs and Forestry Minister Kader Asmal on the issue, but said he also had failed to provide them with the access they say is their right as "interested and concerned parties".

A spokesperson for Asmal said he had "done everything possible to assist in seeking clarification of issues and establishing the role of international assessors", but that it was not Asmal's "ministerial line function to deal with questions about the commission or Thor Chemicals".

HADD

Sentrachem joins trolley venture

(183) S[illegible] 24/2/95

■ BY CHARLOTTE MATHEWS

Chemicals group Sentrachem has taken a one-third stake in Supercart SA, a new venture to manufacture plastic shopping trolleys for the R70-million-a-year shopping trolley market.

Supercart SA director Martin Deale told a press conference yesterday that the initial response from consumers and retailers to the 3 000 trolleys initially imported from Canada on a two-year trial had been extremely positive.

The all-plastic trolleys, although about R350 each against R250 each for wire trolleys, are expected to last around seven years against five years for wire trolleys.

Over the two-year trial period they had been found to reduce the level of theft by between 44 and 85 percent. Most of the theft of wire trolleys is to use them for braai grids or scrap metal.

Supercart estimates that it will be able to secure at least 20 to 25 percent of the shopping trolley market in its first year of operation although Deale would not specify the what initial orders had been received.

Production will start at the beginning of March at the Babelegi factory of Megahitec, a Sentrachem company.

Soekor ready to develop oilfield

(183) ARG 25/2/95

SOEKOR, the state-owned exploration company, says it will begin developing South Africa's first oilfield off the Cape south coast if a feasibility study confirmed its viability.

Soekor chief executive Joggie Heuser told Reuters the detailed cost and feasibility study for the E-BT offshore field should be completed by March and initial development cost estimates were around R26 million.

Mr Heuser said an indication of estimated initial production was 20 000 barrels a day of high-quality, low sulphur, light oil.

The actual production rate and the volume of oil produced would be known only at the end of the study.

"It must be remembered that this is a marginal field. However, with the benefit of modern technology it is possible to produce oil from a marginal field on an economic basis," he said

South Africa's Engen holds a 20 percent stake in the oilfield, off Stilbaai on the southern Cape coast

Oceaneering Production Systems (OPS), a US-based company, was selected to develop and produce the oilfield after a bidding and evaluation process.

Should the project go ahead, the oil would be sold on the open market.

Saudis slip in to SA

SAUDI Arabia, one of the world's richest countries and largest oil producers, has set its sights on becoming a major player in the South African oil industry

And its plans call for the involvement of small black business at an early stage.

Saudi Arabia's entry into the local market with its own brand of lubricating oils could be the first step in a significant financial and business involvement in South Africa, according to Johannesburg oil dealer John Theo.

(183)

Theo, CEO of Petromin Oils Marketing SA, the newly founded subsidiary of Saudi giant Petromin Oils, said: "We are spearheading Saudi Arabia's penetration into the South African petroleum market, starting with lube oils, then crude and base oils"

Saudi Arabia's first post-sanctions assault on the automotive and industrial lubricating oil market in South Africa follows a visit here by a high-level Saudi petrol industry mission headed by the Minister of Petroleum and Mineral Resources, Hisham Nazer

CP 26/2/95

New storm in pipeline for Sasol

(183) ST (BT) 26/2/95

By KEVIN DAVIE

THE oil majors — which uplift and market most of Sasol's fuel — have told the petrochemical giant that they "reserve their rights" as they regard Sasol to be in "material anticipatory breach" of their multi-billion rand upliftment agreements.

The dispute centres on a R133-million deal between Sasol and state-owned pipeline operator Petronet to supply methane gas from Secunda to Richards Bay.

Sasol replies that it finds the claim "quite surprising and incorrect".

The SA Petroleum Industry Association's Colin McClelland says "the members are most unhappy about the way in which this deal was concluded between Sasol and Petronet without any consultation with them, the major users of the Petronet petroleum pipeline system".

Industry sources say that Sasol gas supplies to Richards Bay could lead to reduced fuel demand for product supplied from the Shell, BP and Engen refineries in Durban

They say the agreements force them to uplift Sasol's fuel, although Sasol is able to engage in predatory behaviour in the retail market:

"We uplift at an agreed price and agreed volume, which allows Sasol to run its plants flat out," says one industry executive, adding that Sasol can hardly expect to sell all its product in terms of these agreements and then compete in the retail market.

Sasol's Amelia Soares says the conversion of the unutilised Petronet pipeline from a liquid to a gas pipeline was in the normal pursuance of Sasol's pipeline gas business in the heating fuels market.

"It will provide industries in Natal with an environmentally friendly alternative energy source"

Ms Soares says it was not intended to frustrate any existing agreements with Sapia members Consultation was not necessary, as the pipeline agreement falls outside Sasol's contracts with the oil companies

"Petronet assured Sasol that the conversion of this unused asset would in no way affect the liquid fuel requirements of the inland fuel market"

Further tensions in the fuel industry are building around a likely 5c/l petrol price increase on Wednesday. Central Energy Fund figures showed last Thursday that motorists were underpaying by 4,8c/l in spite of a stronger rand this month.

The floods in Europe, which damaged fuel infrastructure, are thought to have led to a sudden increase in Singapore product prices, on which prices in SA are based A final decision on Wednesday's price rise will be made tomorrow

The upliftment agreements have been identified by the Competition Board as part of a set of collusive practices which dominate the industry. The board wants SA's tightly regulated and highly subsidised fuel sector to be freed up

The Competition Board's findings, released early last year, were put on hold pending deliberations by the liquid fuels task force of the National Economic Forum

The task force was unable to agree on a new structure for SA's fuel industry; the Cabinet is expected to deliberate soon on its future

Energy Minister Pik Botha says "Energy Affairs has made comprehensive proposals and as soon as the one reply outstanding from the other relevant departments is received, a report will be drawn up for me to put to my colleagues.

"This report will not be able to be published until it has been submitted to Cabinet in terms of the relevant Cabinet instruction"

Government indicated last year that its restructuring proposals would be completed by year-end Mr Botha says this was "a provisional target".

He adds that transitional phases are never easy. "Where I have been able to act, I have acted."

Mr Botha says the work of the liquid fuels task force will now fall under Nedlac, the succesor to the National Economic Forum, which was launched last week

(183)

LATEST

Petrol price to rise by 5c/ℓ on March 1

JOHANNESBURG. — The price of petrol will increase by 5c/ℓ at the beginning of March, the Central Energy Fund said today.

It is the highest rise since February last year, when the price was pumped up by 9c/ℓ.

The increase follows a sharp rise in world fuel prices and international freight rates.

Although the diesel price would not increase, paraffin would cost 1c/ℓ more. — Sapa.

ARG 27/2/95

New pharmaceutical body

(86)(183) KATHRYN STRACHAN

PHARMACEUTICAL manufacturers have formed an initiative to co-ordinate their contributions to developing a new health care system and to ensure a multidisciplinary approach in the process. BD 27/2/95

Adcock Ingram CEO Don Bodley said the group had been set up to co-operate with the Health Ministry in finding solutions to health problems, and to enable the pharmaceutical sector to play a more meaningful role.

The group, called the SA Health Care Initiative, was formed by Glaxo, Roche, Adcock Ingram, Logos, SA Druggists and pharmacy benefit management company TPS Mutual Trust.

Bodley said the initiative had set up task groups to address various issues. The first was looking at ways of using private sector resources to extend health services. The initiative believed this should be done by extending medical aid coverage. By making this coverage compulsory to all who were employed or self-employed, it would relieve much of the burden on the state.

Recommendations would be made to government on how to prevent the widespread theft of medicines through government depots — based on the extensive experience of the pharmacy sector.

NEWS Che ncraft workers allege firm applied 'selective retrenchment'

Union accuses company boss of racism

(183) Sowetan 27/2/95

By Dan Fuphe

THE Chemical Workers' Industrial Union has accused the managing director of Chemcraft in Rynfield, near Benoni, of racism and unio. -bashing

This follows failed attempts between the union and company MD Mr Gilroy McAlpine to resolve a row th-- led to a strike by the company's workers

The employees yesterday said they had embarked on the three-week-old strike after what they described as "sele ive retrenchment and the use of white scabs" by management.

Spokesman for the workers, Mr Moses Malapane said management entered negotiations for retrenchmer .. started in November last year "in bad faith"

He said the proposed relo ation of some workers by the compan, one of its subsidiaries was a ploy by management "to break the morale of m. ..ers"

Local CWIU organiser M ..abuti Mlangeni confirmed the grievances of the members, claiming that Chemcraft had morally failed to support its decision to lay off the workers, "except to say that the retrenchments are due to financial constraints"

Talks deadlocked

Mlangeni said talks to resolve the dispute deadlocked even after they were referred to the Industrial Court

McAlpine, however, refuted all allegations by the workers and the union, saying that his company was not prepared to be dictated to by anyone, especially the CWIU.

McAlpine said extensive consultations had taken place between the company and the union pending the closure of the Supawood and Fibreglass divisions within the group.

He said Chemcraft regretted the closure of the two divisions in November last year

A woman kisses the hand of Bishop Samuel Ruiz after mass in San Cristobal de las Casas in Mexico's southern state of Chiapas. The controversial bishop called for peace during his first mass since a riot had in front of the cathedral last week between supporters of the bishop and those who characterise him as rebel sympathiser.

PIC AP

Petrol price hike 'caused by external factors'

PRETORIA. — The petrol price rise of 5 cents a litre starting tomorrow is due to external factors such as the world price of crude oil and the rand/dollar exchange rate, the Motor Industries Federation said in a statement yesterday

It said the rise was "a great pity" in view of the price-reducing effects of a new pricing system introduced in October last year.

"This price mechanism is, however, still very appropriate, as it removes political influences from price determination and ensures that the matter is dealt with purely on economic factors "

The MIF pointed out the new petrol price, R1,78 a litre, would be below the price reigning when the new pricing system was introduced: R1,83 a litre — Sapa

CT 28/2/95 (183)

Fuel cost set to go up by 5c

(183) sowetan 28/3/95

THE price of petrol will increase by 5c a litre at the beginning of March, the Central Energy Fund said yesterday

It said the increase in the petrol price was largely due to the sharp rising trend in world fuel prices and a rise in international freight rates

Diesel and illuminating paraffin global prices remained stable in the same period. Although the diesel price would not increase, the price of paraffin would rise by one cent

The CEF said the average unit under-recovery for the January 26 to February 25 period for petrol amounted to 5,1c a litre, for diesel 0,23c a litre and illuminating paraffin 0,25c a litre.

The petrol price increase of 5c a litre on March 1 is the highest price rise since February last year when the price was pumped up by 9c a litre. — *Sapa*

Sasol posts 25% earnings boost

(183) CT 1/3/95

JOHANNESBURG. — Sasol yesterday announced a 25,3% increase in attributable earnings for the six months ended December 25 1994

The group said attributable earnings rose to R854,1m from R681,5m for the corresponding period in 1993

Turnover increased by 26,8% to R5,916bn (R4,665bn) while operating profit rose by 19,8% to R1,327bn (R1,108bn)

Improved results stemmed from higher production volumes of synfuels, greater sales volumes of chemicals, favourable global chemical prices and the weakening of the South African rand, the statement said

Earnings per share increased 24,4% to 149,6 cents (120,3 cents). An interim dividend of 46,5 cents was declared (42,0 cents) — an increase of 10,7%

Sasol Synthetic fuels increased production by eight percent, which, together with a weakening in the effective average exchange rate, contributed to the company's higher operating profit However, a change in the fuel price formula and a decrease in the crude oil reference price for tariff protection purposes reduced SSF's contribution to group operating profit.

Strengthening international chemical product prices lifted operating profit at Sasol Chemical Industries by 84,7% — from 18% to 28% of total operating profit — Sapa

New environment-friendly fuel developed

(183) CT 1/3/95

COPENHAGEN. — A revolutionary new environment-friendly fuel for diesel engines has been prepared from natural gas, a Danish firm announced yesterday after presenting its product at an auto engineers' meeting in Detroit, Michigan.

The colourless gas dimethylether (DME) can drive diesel engines with a "considerable" reduction of harmful emissions and improvement in engine performance, the Haldor-Topso A/S company said.

The "revolutionary and clean" product was developed in collaboration with US oil company Amoco and the AVL Institute for Engine Research in Graz, Austria — Sapa-AFP ort

Sentrachem plans R200m plant expansion

(183)

CT 1/3/95

From CHARLOTTE MATHEWS

JOHANNESBURG — Sentrachem and Hoechst are investing R200m to expand existing manufacture of polypropylene at their Safripol plant in Sasolburg to 90 000 tons a year from the present 60 000 tons

Polypropylene is used to make a range of products such as battery cases, car bumpers, furniture and woven materials such as carpets.

Sentrachem MD John Job said there had been a significant increase in volume offtake for polypropylene in the last few months in the local market

The increased demand reflects the general economic upswing and more specifically growth in stockpiles As world prices have risen, there has been anticipation that tomorrow's price will be higher than today's

The new investment will see the closure of the existing polypropylene plant at Sasolburg and erection of a new plant from scratch

Safripol pioneered local polypropylene manufacture in 1972 and the first plant was expanded and modernised, but it has now come to the end of its useful life, Job said

The new plant will use the same number of staff as the old plant but the technical shift has been towards greater efficiency

Although the new plant will have an initial capacity of 90000 tons, this can be expanded later

About half of the equipment for the new plant will be imported from Europe and the remainder sourced locally

Sasol cashes in on higher production

(183)

BD 1/3/95

MUNGO SOGGOT

SASOL bagged earnings 25,3% ahead at R681,5m for the six months to December after cashing in on higher synfuel production volumes, increased chemical sales volumes and favourable global chemical prices.

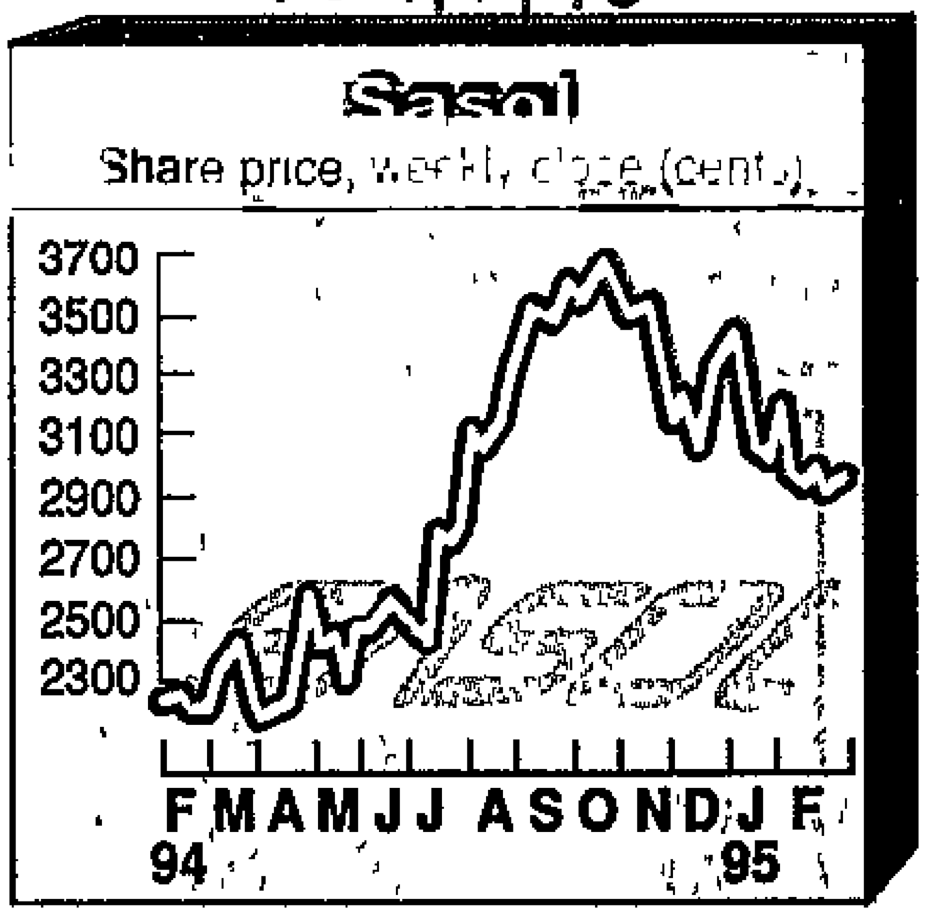
Earnings a share rose to 149,6c (120c) and a dividend of 46,5c a share, up 10,7%, was declared.

The directors said synfuel production volumes had risen 8% due to "exceptionally stable plant operations" Analysts said this was a very impressive increase.

Turnover rose 26,8% to R5,92bn. The directors said operating profit — which rose to R1,33bn (R1,11bn) — had been boosted by a weaker rand, with the average exchange rate moving from R3,28 to the dollar to R3,50.

An abnormal item of R59,4m reflected half the costs expected after the writing off of obsolete plant and equipment in the current financial year.

Sasol's synthetic fuel and chemical operations had posted "particularly good" results But the directors said the group's synfuel operations had contributed less to operating profit — accounting for 43% compared with a previous 45% — after a reduction in the crude oil reference price used to calculate its tariff protection. The reference price had fallen to $21 a barrel



□ To Page 2

Sasol

(183) BD 1/3/95

□ From Page 1

from $23

Sasol's chemical operations' contributions to operating profit had soared to 28% (18%), making it the second largest contributor to the group's profit, after reaping the benefits of new added value products and higher international chemical prices.

The directors said the results of Polifin — the joint venture between AECI and Sasol which could be listed around mid-year — had been "highly satisfactory"

If the current level of selling prices was sustained and the exchange rate continued to help exports, earnings in the second half were likely to be higher than in the first, they said.

BUSINESS

R200-m Safripol expansion

(183) Star 1/3/95

■ BY CHARLOTTE MATHEWS

Sentrachem and Hoechst are investing R200 million to expand existing manufacture of polypropylene at their Safripol plant in Sasolburg to 90 000 tons a year from the present 60 000 tons

Polypropylene is used to make a range of products such as battery cases, car bumpers, furniture and woven materials such as carpets

Sentrachem MD John Job said there had been a significant increase in volume offtake for polypropylene in the last few months in the local market

Demand

The increased demand reflects the general economic upswing and more specifically growth in stockpiles. As world prices have risen, there has been anticipation that tomorrow's price will be higher than today's

The new investment will see the closure of the existing polypropylene plant at Sasolburg and erection of a new plant from scratch.

Safripol pioneered local polypropylene manufacture in 1972 and the first plant was expanded and modernised, but it has now come to the end of its useful life, Job said

The new plant will use the same number of staff as the old plant but the technical shift has been towards greater efficiency

Although the new plant will have an initial capacity of 90 000 tons, this can be expanded later

Expansion ... Sentrachem MD John Job (left) with Hoechst SA MD Reinhard Traub at yesterday's press briefing.

About half of the equipment for the new plant will be imported from Europe and the remainder sourced locally

At present Safripol exports no polypropylene but about one-third of the production of the new plant will be destined for regional export markets.

With the upturn in the economy and demand for chemicals Sentrachem has other expansion plans in mind

However, the latest venture and any ventures in the future do not necessarily mean a rights issue will be held. If the present economic upturn continues the enhanced cash flows will generate alternative methods of financing

Bottom-line profit shows 25% improvement

Higher prices lift Sasol's earnings

Star 1/3/95 (183)

BY CHARLOTTE MATHEWS

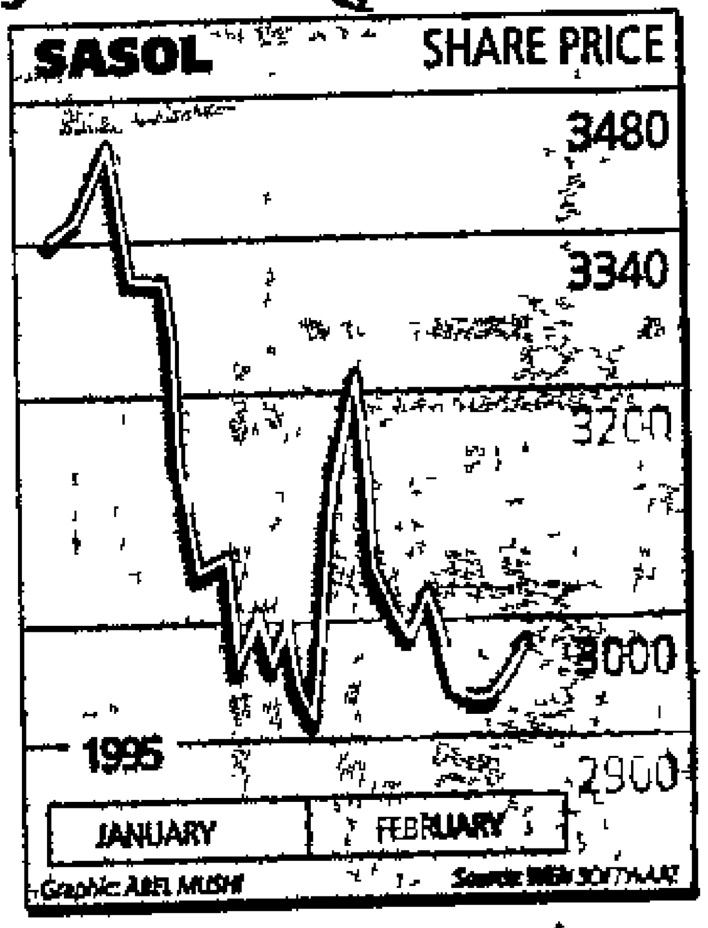
Higher production volumes of synfuels, growth in chemicals sales, favourable global chemical prices and the weakening of the rand resulted in a 25 percent increase in bottom-line profits from Sasol in the six months to December 25, compared with the previous year.

Turnover, excluding VAT, excise and levies, grew by 27 percent to R5,9 billion, on which operating profit was up 20 percent to R1,3 billion, showing operating margins squeezed to 22 percent from 24 percent.

An abnormal charge of R59,4 millon was taken, which represents half of the full year's write-off of obsolete plant and equipment.

Net interest of R56,8 million was received, against R49,8 million paid in 1993, reflecting cash funds on the balance sheet sharply up to R2,2 billion from R1,2 billion previously and interest-bearing debt down to R537,1 million from R620,2 million. The bottom line also benefited from a lower effective tax rate of 33 percent from 34 percent.

Attributable earnings were R854,1 million (R681,5 million), which became earnings of 149,6c (120,3c) a share on an increased number of shares in issue as a result of the previous year's capitalisation award.



A cash dividend of 46,5c (42,0c) a share has been declared, with the alternative of capitalisation shares.

Capital expenditure for the first part of the year was R594,5 million and authorised capital expenditure is R2,1 billion.

The current net asset value of the shares has risen to R14,65 (R12,02), which compares with yesterday's closing price of R29,25 — a 25c gain on the day.

Sasol Chemical Industries improved its contribution to group operating profit to 28 percent or R373 million from 18 percent or R202 million in 1993, making it the second-largest contributor to group profit.

Group directors say this was achieved on a strategy of introducing added value products, as well as higher sales volumes and a strengthening of international chemical product prices.

Sasol Synthetic Fuels achieved higher production volumes on exceptionally stable plant operations and it also gained from the weakening of the average exchange rate to R3,50/dollar from R3,28. Cost increases were kept below the inflation rate.

However, the division's percentage contribution to group operating profit declined slightly owing to the decrease in the crude oil reference price for tariff protection purposes and the change in the calculation for the fuel price.

Sasol Mining reported lower operating profit, despite higher coal sales volumes because the higher coal price was not sufficient to cover increased production costs.

Sasol Oil's operating profit was largely unchanged and its contribution to the group [illegible] down to 16 percent from [illegible] percent.

Sasol's directors forecast that earnings in the second half of the financial year will be higher than the first half if the current level of selling prices and the rand/dollar exchange rate are maintained.

Hoechst project to use local cash

(183) BD 2/3/95

MUNGO SOGGOT

HOECHST SA's R100m contribution to a new plastics factory at its Safripol joint venture with Sentrachem would not affect the financial rand market as it would be financed from local resources, Hoechst SA MD Reinhard Traub said yesterday.

He said Hoechst SA was a 100% subsidiary of German chemical group Hoechst AG which meant the German parent company was the ultimate backer of the expansion.

The venture was one of the most significant investments in SA by a foreign-based company.

Sentrachem and Hoechst SA announced on Tuesday they would start work immediately on the R200m addition to its Safripol polypropylene joint venture, set up in 1969, in which both companies had a 50% stake. It would be commissioned next year.

Traub said Hoechst SA, which had five manufacturing plants in SA, was planning a R12m modernisation of its Natal-based polyester fibre spinning operation. "For Hoechst SA, this investment is part of the company's long-term strategic objective to broaden its manufacturing base and enhance its commitment to SA."

Sentrachem director Glen Carter said. "Polypropylene has been a core activity for us and Safripol has been one of our most successful divisions. We believe this investment will yield excellent returns for both partners."

Production at Sasol to rise

(183)

MUNGO SOGGOT

INCREASED production at Sasol's Secunda synfuels plant, which helped the petrochemicals group lift interim earnings 25%, would be improved further, the group said yesterday.

Sasol lifted its earnings 25,3% to R682,5m for the six months to December. The share closed yesterday 220c higher at R31,50 on news of the results. BD 2/3/95

Spokesman Amelia Soares said the installation of a new reactor, which is due to be commissioned in June, would "boost production efficiency considerably".

McPhail glows

(183)

BY CHARLOTTE MATHEWS

Solid fuel distributor MacPhail reported a modest 9% improvement in attributable profit to R7,5 million in the year to December 1994 compared with 1993 after difficult trading conditions and a higher tax rate.

Turnover grew by 51% to R397,8 million, reflecting higher railage costs as well as increased volumes, but margins were down to 2,8% from 3,7% previously.

The bottom line was eroded by a tax rate up to nearly 29% from 28%, and a R60 000 loss from an associated company. On earnings of 51,1c (48,1c) a share, a total dividend for the year of 15c (19c) was declared.

The final dividend was diluted by the recent rights issue.

Star 2/3/95

An extraordinary profit of R10 million was made on the successful listing of MacPhail Namibia Holdings on the Windhoek Stock Exchange. MacPhail now holds 40 percent of its Namibian arm.

"Given MacPhail Namibia's good growth prospects, we believe that the dilution of our original investment will be more than offset by the quality of the future earnings from that source," chief executive Paul McNaughton said.

The group expects further growth will come from offshore markets and the development of value-added services

(183)

PLASTICS FM 3/3/95

The big squeeze

In the wake of a sharp hike in global markets, local plastics converters are lobbying fiercely for adequate feedstocks and what they term reasonable prices

The doubling of some commodity polymer feedstock prices (*Business* February 24) has had a knock-on effect coupled with a dramatic drop in available supplies from local plastics manufacturers

And converters claim the AECI-Sasol joint venture Polifin — the dominant local supplier of polymer plastics feedstock — has instituted a rationing system which appears to "punish" some converters Prior to the boom, these converters imported cheaper feedstock, now they are forced to stand behind the more regular processors in the queue

Germiston-based Plastall Gundle MD Colin Pallas says his company has been restricted to a 60% supply level of its requirements "Global feedstock prices have increased from US$600/t to about $1 000/t Polifin has increased its prices in October, December and again in February," says Pallas

But Polifin CE Pieter Cox lays part of the blame at the door of the converters, who, he claims, climbed into the market once they got a whiff of the global trend

Many customers, he says, helped nudge prices skywards by building up inventories in a demand-driven market "They bought all excess available stock"

And, he adds, even after the latest increases, polymer prices are, in real terms, at about 50% of the levels of the last boom cycle in 1988.

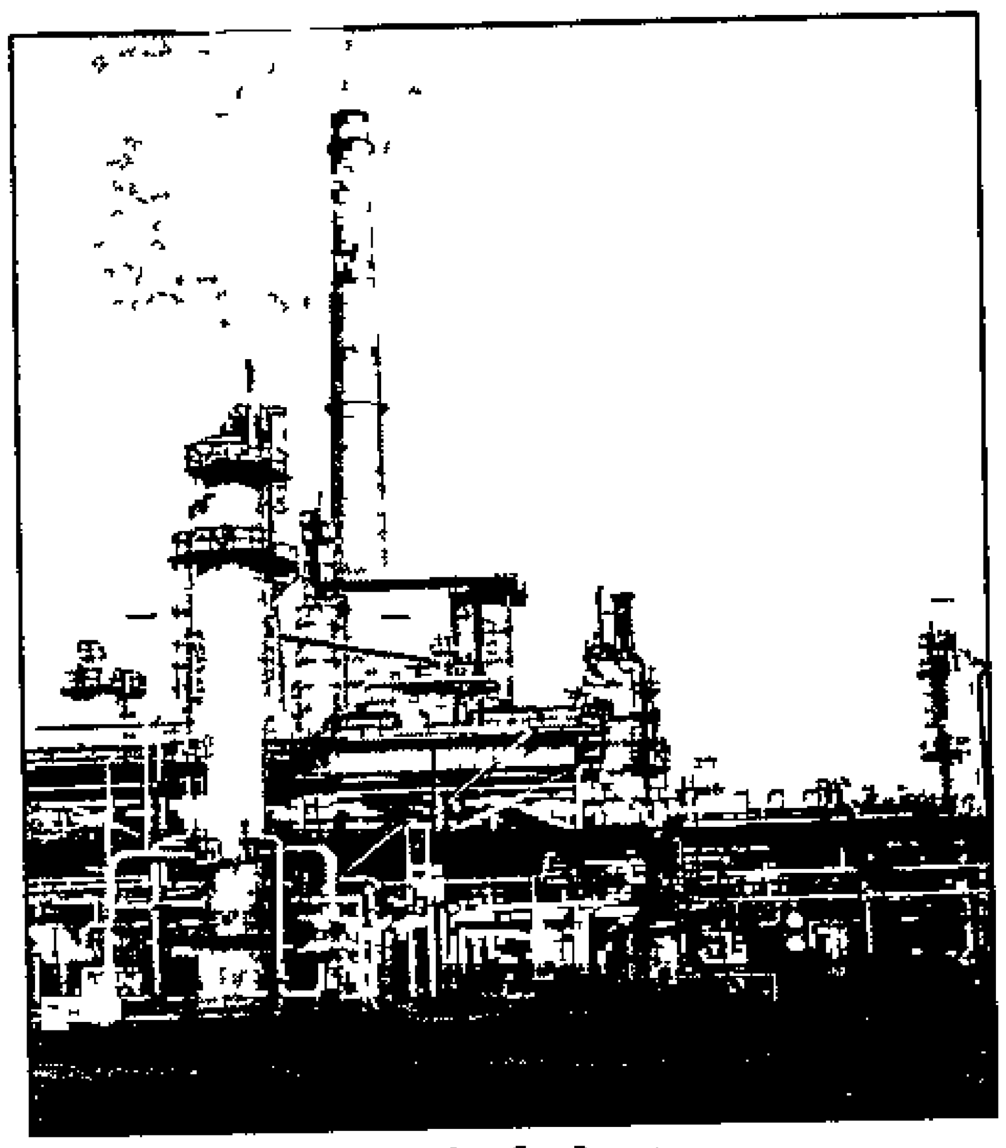
With a current 10%-20% shortfall in feedstock supplies, Cox says the group is now looking at increasing output from current levels of 165 000 t/year to over 200 000 t/year, by using a more efficient production system A final decision on the issue should be taken this year "so that we can adequately serve the local market"

Durban-based L R Plastics works director Byron le Roux says his company is also only getting about 60% of its polyethylene requirements from Polifin.

"I believe they can supply everybody and that an artificial shortage has been created to force up prices"

But other plastics manufacturers are also caught in the short supply/rising price syndrome. Nampak Polyfoil CE Clive McDonald says his group gets its high density polyethylene from Safripol Along with stock shortages, prices have gone up "about 70%" over the past year. "We believe there is enough stock around but the price rises are linked to the global commodity price explosion."

East Rand Plastics director Johan Vorster says import prices of certain feedstock jumped from about R2 800/t last September to about R4 750/t, within about two months Importers, such as his company, were told by Polifin that stocks were rationed due to the sudden growth in local demand But smaller buyers, which had been faithfully buying from Polifin, even during times when imports were cheaper, still get their full allocations. "Big converters and extruders like ourselves now feel we are being unfairly penalised"



Sasol chemical plant *ray of hope*

But Sasol executive director Andre du Toit holds out a ray of hope for the industry He says his company's 500 000 t/year feedstock supply for the production of ethylene can meet local demand for monomer feedstock, now running at about 340 000 t/year, until at least 2000. "All that is needed for Polifin to increase its polyethylene production, is for them to build a bigger ethylene feedstock pipeline from Secunda to Polifin's Sasolburg plant We are now looking into the matter." ■

SASOL (183) FM 3/3/95

Chemical profit explodes

Sasol's share could well become the flavour of the month after the strong growth reported by the diversifying group earlier this week. Along with most commodity cycles related to Sasol's activities appearing to be firmly on an upward trend, interim results — which showed bottom-line growth of 25% — came at the end of a squeaky-clean income statement.

Most notable this time is the absence of any transfer from the tax equalisation reserve which smoothed results by adding R50m to earnings in financial 1994. Apparently the directors chose not to use this facility after the sound performance of most divisions over the first half.

The solid balance sheet provided a further boost. Borrowings have been reduced

from R2,17bn to R1 81bn, covered by an 84% increase in cash funds to R2,24bn. The net effect was to convert the previous period's R44m interest payment to interest income of R67m, again showing the cash generating ability of the group.

At operating level synthetic fuel production remains dominant, its contribution growing from R500m to R573m. But as a proportion of total operating profit, synfuel's contribution has declined from 45% to 43%, a trend Sasol would probably like to see continuing.

Production volumes were 8% higher and profitability aided by the weakening rand which declined from R3 28/US$1 to R3 50 on average. This was offset by the decrease in the crude reference price relating to Sasol's tariff protection, from $23 a barrel to $21,1, as well as the changed formula for the calculation of the fuel price. Tariff protection probably remained similar to that of 1994, just over R1bn for the full year.

The highlight was undoubtedly the strong performance by Sasol Chemical Industries, which has received most of the R6,6bn capital spending by the group over the past five years. Its contribution to operating profit grew nearly 85% to R373m, making the division the second largest contributor to profit.

Sasol GM Pat Davies says capex of R595m over the first half was used to support existing businesses and grow the chemical operations, as will the remaining amount of about R800m for the full year.

New joint venture listing Polifin produced good results but the strong growth of the division was mainly due to greater sales

SHIFTING UP

Six months to	Dec 25 1993	Jun 25 1994	Dec 25 1994
Turnover (Rbn)	4,67	5,18	5,92
Operating income (Rbn)	1,11	1,41	1,33
Attributable (Rm)	681,5	816,0	854,0
Earnings (c)	120,3	143,9	149,6
Dividends (c)	42,0	48,0	46,5

volumes and firmer world chemical prices.

Oil refining had a lacklustre first half, with higher crude throughput offset by lower international refining margins and cost increases. Sasol Oil's contribution to operating profit declined marginally from R221m to R213m.

The only area of possible concern is Sasol Mining, whose operating profit slipped 12 8% to R163m. Coal sales volumes were higher but the 4% increase in the selling price was ne[illegible]d by rising production costs.

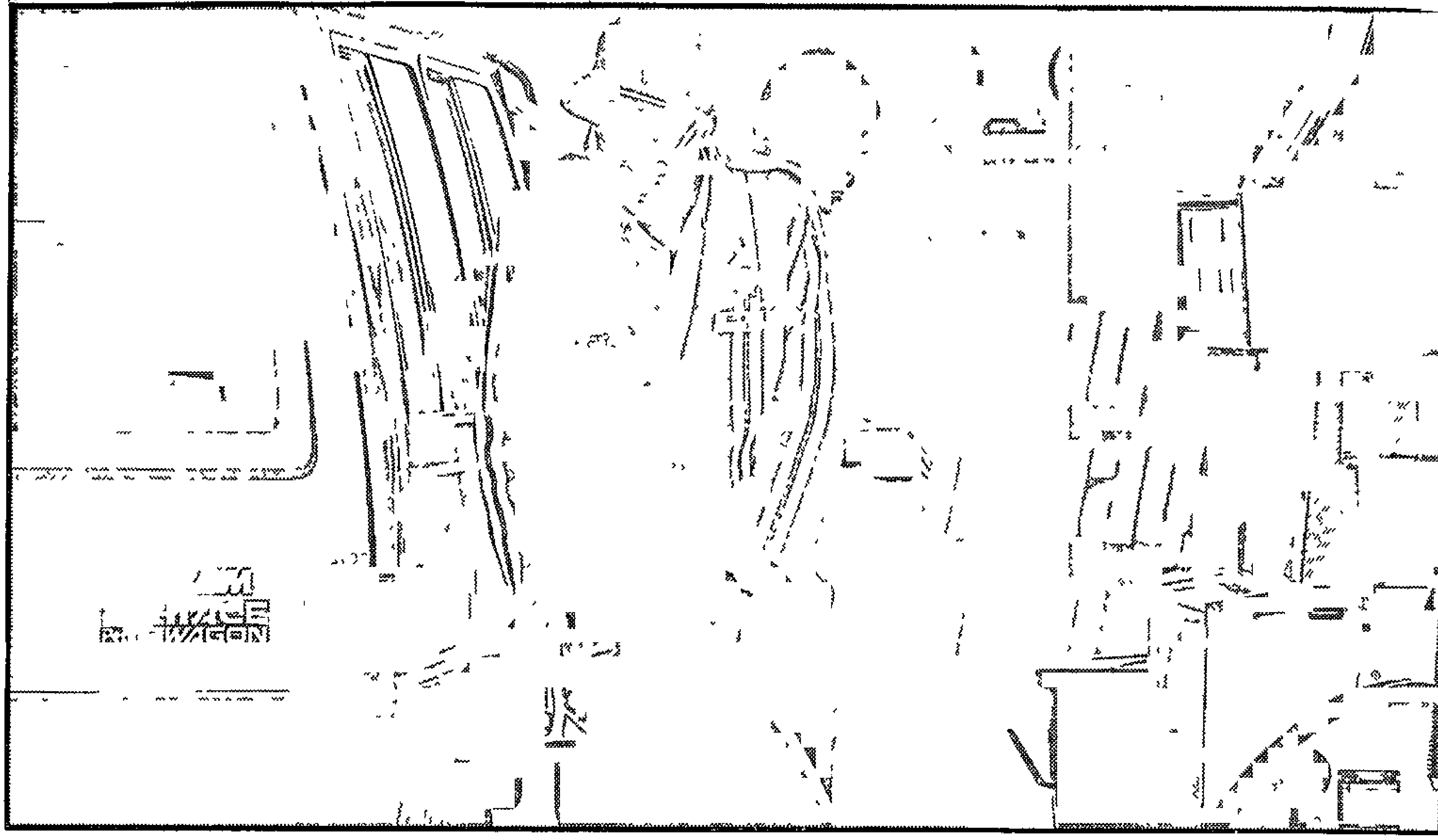
Davies says a drive is in place to reduce production costs by focusing on manpower productivity and improvements in technology. The division still seems to hold considerable potential though much of that will probably not be realised until Sasol is able to start exporting coal from Richards

Bay — due early in 1997.

Interim results came with a bullish forecast from management, which predicts that should current selling prices and the rand/dollar exchange rate be maintained, full-year earnings will be higher than in the first half.

With earnings now starting to come through strongly from Sasol's heavy capex programme, coupled with the rand hedge exposure of the share, a p e ratio of 11 looks low. The share is bound to be rerated and will probably offer value up to about R40 over the short term. The growing contribution from chemicals adds additional long-term value.

Shaun Harris



PUMPING METAL ... leaded fuel, essential for only about 10% of cars already on the road, will be available for 15 years

Unleaded petrol ready for sale

(183) ST 5/3/95 (BT)

By DON ROBERTSON

THE government is expected to give the go-ahead for the introduction of unleaded petrol in the next two weeks, but no indication has yet been given as to how it will be priced

The Department of Mineral and Energy Affairs is currently assessing the decision taken by the previous government to introduce unleaded petrol in limited quantities in July and nationally by October

Oil companies, petrol stations and motor manufacturers are ready for the big turn-on

In the normal course of refinery expansion, oil companies have installed additional facilities to produce unleaded petrol, but to make it economically feasible they need to capture about 20% of total fuel sales in the first year.

To achieve this, it has been recommended that unleaded petrol be sold at a discount, as has been done elsewhere in the world

This will be achieved either by the government accepting a smaller excise tax on the unleaded petrol or by using a politically unacceptable method of increasing the price of leaded petrol Unleaded petrol, with additional additives to maintain octane ratings, costs about 3c/*l* more to produce

The SA Petroleum Industry Association, representing most oil companies, believes there should be a significant price discount, while Sasol, not a Sapia member, suggests there should be some price difference, but only for a limited period

The Unleaded Petrol Co-ordinating Committee, consisting of Mineral and Energy Affairs, vehicle manufacturers, oil companies, the Automobile Association and the SA Bureau of Standards, says, however, that about 90% of cars sold in the last 15 years will be able to use unleaded petrol Of these, about 65% will be able to switch over without any adjustments to the vehicle, while 15% will need to retard the ignition by perhaps two to three degrees at a cost of between R50 and R100

A further 10% of cars, made before 1980, may have problems with valve settings, but this may be overcome by filling the car with leaded fuel once in every four fillings

Only 10% of cars now on the roads will be incompatible with unleaded petrol, but leaded petrol will be available for about 15 years

Tests on motorcycles will be conducted soon to establish which may run on unleaded petrol

Harmful exhaust emissions in South Africa are well within world health standards and as a result, it will not be necessary to fit catalytic converters for between three to four years, although most cars sold in 1996 will have the fitting Exhaust catalysts reduce harmful carbon monoxide, nitrogen oxides and unburned hydrocarbons

Rather, South Africa plans to introduce unleaded petrol to enable the motor industry, which contributes 18% to the GDP, to keep in touch with advances in engine technology

Sasol and Engen plan new fuel giant

ST(BT) 5/3/95 (183)

By KEVIN DAVIE

FUEL giants Sasol and Engen are involved in talks which could see the merger of their crude refining and retailing interests.

It is proposed the merged company will house Engen's refining and retailing operations as well as Sasol's crude refining and marketing arm, Sasol Oil, but not Sasol Synthetic Fuels

A source, who confirms that talks are under way, says more work has to be done, but "Sasol is not acquiring Engen"

The merged company is likely to include Sasol's 85 000 barrel a day Natref refinery at Sasolburg and Engen's 104 000 bpd Genref refinery in Durban.

It would give Sasol entry into the retail market via Engen's service station network, which has the largest share of the retail market.

The deal will improve Engen's competitive position, giving it access to Natref's production and forming an alliance which will dominate fuel production and distribution on the Witwatersrand

A Sasol-Engen merger will almost certainly be resisted by multinationals Shell, BP and Caltex as the merged company will dominate the industry

A merger will also challenge the new government's preference for a deconcentration of economic power.

The Competition Board's Pierre Brooks says he has had no approaches from Sasol and Engen concerning a deal.

The merger will suit Sasol and Engen shareholders, who face the prospect of a damaging price war once the fuel market is deregulated.

McGregor's Who Owns Whom data for February shows the shareholding of the two companies is dominated by the same four institutional shareholders

The four are CMB Nominees (Sanlam), which holds 24% of Engen and 11,4% of Sasol, Standard Bank Nominees Transvaal (identity not disclosed), which has 16,13% of Engen and 12,6% of Sasol, 81 Main Street Nominees (Nedcor), which holds 13,11% of Engen and 6,7% of Sasol, and SA Mutual with 9% of Engen and 4,9% of Sasol

A JSE analyst says a deal has been on the cards as Engen has been "burning" and Sasol's cash position improving strongly.

Figures released in parliament this week by Energy Minister Pik Botha show that Sasol received tariff payments of 19c/l on petrol sales in the year to June 30 last year, a total of R1-billion.

The analyst says the merged company could be similarly structured to Polifin, the Sasol-AECI joint venture.

He estimates that Sasol's cash holdings will top R3-billion by June, saying that this could be used to purchase a large portion of Engen, currently capitalised on the JSE at R4,43-billion.

Engen traded at a record low of R27 earlier this month after warning that its first-half earnings had been knocked by poor refining and wholesale margins as well as refinery start-up problems after upgrading

It traded at R27,75 on Friday compared with R42 in August and R53,25 two years ago.

Engen has criticised the payment of subsidies to Sasol "even though Sasol's synthetic fuel plant would have been profitable without the subsidy of some R1-billion".

Sasol's Alfonso Niemand says Sasol Oil regards the establishment of its own retail network as a prerequisite for the phased deregulation of the petroleum industry

"There are ongoing discussions with all the oil companies in this regard."

Unleaded fuel spells minor changes for SA drivers

(183) Star 6/3/95

WHAT does the advent of lead-free petrol mean to the South African motorist? Many of the answers were provided at a forum on the subject in Durban last week organised by the SA Petroleum Industry Association and the National Association of Automobile Manufacturers. Vincent Gilbey reports

The expected decision to introduce lead-free petrol in South Africa later this year will have short-term disadvantages but major long-term benefits

The advantages are that engines designed to run on unleaded fuel are more efficient and last longer

Disadvantages include the higher cost of lead-free petrol, the cost of the distribution and the cost of modifying cars to run on lead-free petrol

About 90% of cars on South African roads will be able to use unleaded petrol Of these 65% will be able to use the new fuel without any major adjustments and a further 10% with minor adjustments, mainly to the ignition systems, at a cost of between R50 and R100

In older pre-1980 cars, there may be a problem with valve seat recession, but in most cases this can be overcome by filling the car with leaded fuel once out of every four fillings

Leaded petrol will still be available for about 15 years after introduction of unleaded for use in such machines as outboard motors and lawnmowers Diesel vehicles will not be affected in any way

Only 10% of cars will be incompatible with unleaded petrol and it is inadvisable for very high performance and modified vehicles to be run on unleaded if they were designed for leaded

Fuel additives are not recommended in today's sophisticated engines as they could disturb the fuel balance

About 80% of all new cars manufactured in the world today are based on unleaded engine technology, resulting in South African motor companies having to convert unleaded engine technology to leaded engine technology for local manufacture.

This has the effect of increasing the cost of manufacture, while being unable to use the latest technology to increase the efficiency of engines

For this reason exports are restricted as well Economies of scale are important if the car manufacturers are to remain competitive and offer cars to their customers at an affordable price The availability of unleaded fuel will result in savings in production costs

As a signatory to the General Agreement on Trade and Tariffs, it is essential that South Africa comes into line with other world markets by introducing unleaded petrol to compete internationally

Production of lead-free fuel is more expensive, but initially it is planned to make lead-free petrol available at a subsidised price below that of leaded petrol to encourage its use

If lead-free petrol is not introduced now, the overall cost in a few years time will be far higher

When lead-free petrol is introduced, fuel octane ratings will be revised and only two grades of petrol will be sold inland and at the coast 95 unleaded and 97 leaded at the coast and 91 unleaded and 93 leaded inland

The current low standard-grade distribution system will be used for lead-free

Lead-free petrol is being introduced for technological reasons to allow South Africa to lock into world technology and is not being introduced for environmental reasons — but it will pave the way towards a cleaner environment

At this stage three-way catalytic converters, as used overseas in Europe, the US and Canada, will not be mandatory and hopefully by the time South Africa decides that a system is required to further reduce exhaust emissions, less expensive technology will be available

Some manufacturers, though, can be expected to supply their cars with "cats" while those who want can have a converter fitted at an estimated cost of between R2 000 and R3 000

It is not expected that there will be any major change in fuel efficiency of existing cars but the new generation of vehicle engines are known to be more fuel-efficient However, where cars have to be de-tuned to run on unleaded petrol, a 2% decrease in fuel efficiency may occur

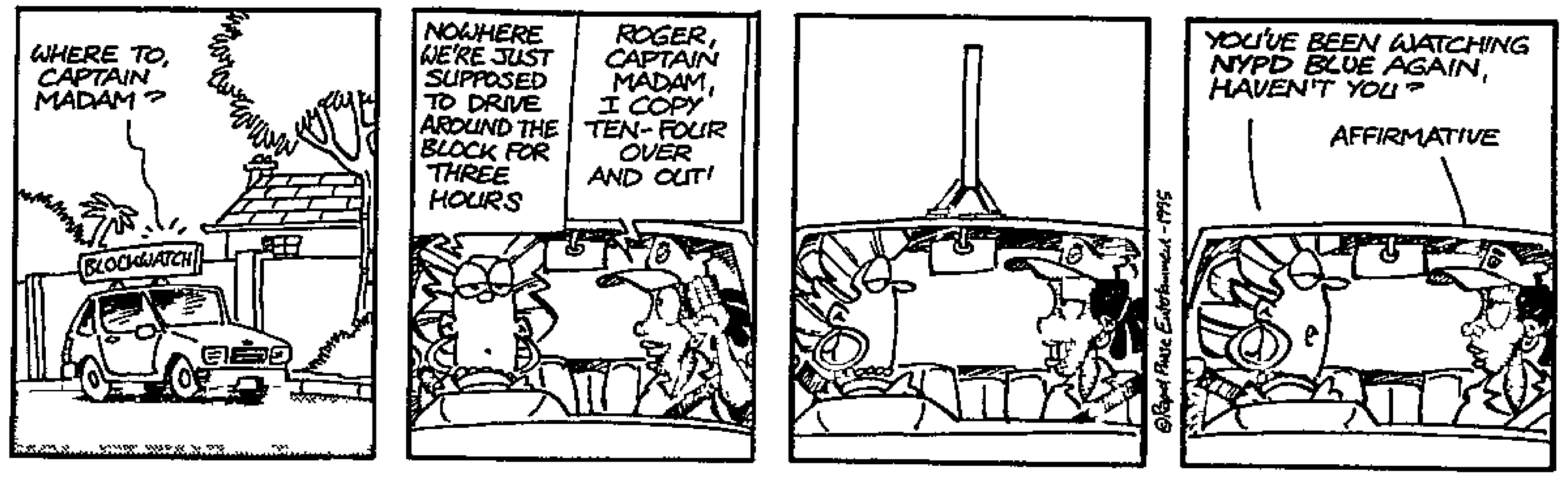
Engines built to unleaded specifications have a longer life than leaded engines and require lower maintenance For example spark plugs need only to be replaced at greater intervals and exhaust systems will last longer

In 1991 a co-ordinating committee was established to develop a programme to look into the practicalities of introducing unleaded fuel The committee included representatives of both fuel and motor industries and other interested parties The plan was for unleaded petrol to be available from October

All the implications of the possible introduction of unleaded petrol are being assessed and the Government is expected to take a decision soon

Should the Government decide to go ahead, however, both the oil and motor industries have already geared themselves up for the introduction of unleaded petrol They believe the move is all but a *fait accompli*

MADAM & EVE By S Francis, H Dugmore & Rico



Future fuel: Motor industry gets ready for lead-free petrol

ARG 6/3/95 (183)

SHORT-TERM disadvantages which will lead to long-term advantages — that is how South Africans will be introduced to lead-free petrol. Motoring Correspondent VINCE GILBEY attended a forum held by the South African Petroleum Industry Association and the National Association of Automobile Manufacturers.

THE decision to introduce lead-free petrol in South Africa later this year will have short-term disadvantages but major long-term benefits

The advantages are mainly that technologically advanced engines — which can only run on lead-free fuel, and are more fuel-efficient and long-lasting — will now be able to be used in South Africa

Disadvantages include the higher cost of lead-free petrol, lower octane rating, the cost of the distribution network, and the cost of modifying some cars to run on lead-free petrol

Some 90 percent of cars currently on South African roads will be able to use unleaded petrol Of these, 65 percent will be able to use the new fuel without any major adjustments, a further 10 percent with minor adjustments — mainly to the ignition systems at a cost of between R50 and R100

In older pre-1980 cars, there may be a problem with valve-seat recession, but in most cases this can be overcome by filling the car with leaded fuel once out of every four fillings

Leaded petrol will still be available for about 15 years after the introduction of unleaded for use in outboard motors, lawnmowers and the like

Only 10 percent of cars will be incompatible with unleaded petrol — it is unwise to run high-performance and modified vehicles on unleaded if they were designed for leaded.

About 80 percent of all new cars manufactured in the world today are based on unleaded engine technology South African motor companies find themselves having to convert unleaded engine technology to leaded engine technology for local manufacture

This has the effect of increasing the cost of manufacturing, while they are unable to utilise the latest technology to increase the efficiency of the engines they are building into cars

Unleaded petrol engine technology will allow motor companies to aggressively enter the export market and take their place in the world motor markets

As a signatory to the international General Agreement on Tariffs and Trade (Gatt), it is essential that South Africa comes into line with other world markets

Production of lead-free fuel is more expensive than leaded fuel but initially it is planned to make lead-free petrol available at a subsidised price — below that of leaded petrol — to encourage its use A market penetration of at least 20 percent is essential in the first year to optimise the distribution system

If lead-free petrol is not introduced now, the overall cost in a few years time to the country will be far higher

When lead-free petrol is introduced, fuel octane ratings will be revised and only two grades of petrol will be sold inland and at the coast — 95 unleaded and 97 leaded at the coast and 91 unleaded and 93 leaded inland

The current low standard grade distribution system will be used for lead-free

Lead-free petrol is being introduced for technological reasons to allow South Africa to lock into world technology and is not being introduced for environmental reasons — but it will pave the way towards a cleaner environment

Engines built for unleaded technology have a longer life and require lower maintenance For example, spark plugs can be replaced at greater intervals and exhaust systems will last longer.

was persuaded not to by a psychiatrist and policeman. Police and traffic officials, bottom telling him to jump. The man, who agreed to seek psychiatric help, was later led away by a m

Minister wants laws to govern waste control

MICHAEL MOON

IT WAS high time many proposals and guidelines on controlling waste in SA were turned into law, Water Affairs Minister Kader Asmal said yesterday.

Principles such as the "polluter pays" and "cradle to grave" control of waste should be included in such legislation, Asmal said in a speech read on his behalf at a Sandton workshop on waste management.

There should also be incentives — "perhaps in the form of tax benefits" — to entice manufacturers and other generators of hazardous wastes to reduce wastes and work towards "greener" forms of manufacture and clean technology.

"Ideally, waste minimisation and recycling in all their forms should become part of this country's everyday life. If this is not done, we will have failed in our duty and our citizens will have to live with the appalling consequences," said Asmal.

In future there had to be proper zoning of waste disposal sites. Areas suited to the establishment of waste transfer stations and disposal sites should be earmarked and specially zoned well in advance of the planning of new residential areas.

Public participation in waste management decisions was compulsory, he said.

It was obvious that SA's waste management needed attention. It was almost nonexistent in many communities, and apart from health hazards and negative effects on the environment, the situation was demoralising and corrosive of a community's self-esteem, said Asmal.

Duard Barnard of legal firm Duard Barnard & Associates told the workshop it was necessary for the plethora of environmental laws to be rationalised, codified, simplified or streamlined.

However, he warned against undue haste and did not support "supply side" rationalisation in which lawyers formulated laws which they thought people might need. A wiser approach would be to apply existing measures, with problems that become apparent forming the basis for rationalisation of the legislation, said Barnard.

BD 7/3/95

It was inevitable that an important part of waste control would be command and control measures, but Barnard suggested shifting the burden of proof from the state to companies to prove that they did not contravene regulations or cause environmental damage.

He believed the development of economic instruments, to link economically advantageous options to environmentally beneficial options, should be left in the hands of industry.

Mercury probe into water at Thor plant

INGRID SALGADO

WATER Affairs and Forestry Minister Kader Asmal yesterday ordered an investigation into high mercury levels in a spring at Thor Chemicals' plant in Cato Ridge near Durban.

After a visit to the site yesterday, Asmal instructed officials to conduct a "prosecution test" to determine mercury levels in the spring, the department's KwaZulu/Natal director Joe Hansmann said. Details would be forwarded to the attorney-general for a decision on whether to prosecute.

BD 7/3/95

The water runs into the Mngeweni River, a tributary of the Emgeni River.

Hansmann said a test conducted by the department last Friday showed mercury levels to be 40 parts per billion of water. Levels above 10 per billion were considered unsafe for human consumption because mercury was bio-accumulative in the body.

(183)

Sapa reports that outgoing Thor Chemicals MD Steven van der Vyfer criticised Asmal's decision to launch the investigation. He said Thor had never denied the elevated levels of mercury in the spring and was surprised the issue was being raised again seven years after the contamination had been discovered.

Pharmacies prepare for price war

(183)

BY CLAIRE BISSEKER
STAFF REPORTER

PHARMACISTS are preparing for a medicine price war to put dispensing doctors out of business.

The Pharmaceutical Society of SA (PSSA) is investigating a new pricing scheme which will eliminate the profit incentive in the sale of medicines at retail level, the Cape Times heard this week

Instead of a current 50% retail mark-up on medicine, it is envisaged that pharmacists will charge their cost price plus a professional handling fee, expected to be below R10 per prescription

The result will be a substantial reduction in the price of medicine and will effectively put dispensing doctors out of business, said PSSA executive director Mr Ivan Kotze.

"Unless dispensing doctors sell at cost, they will be by-passed by medical aid schemes who will only allow members to buy medicines where they are cheapest — from pharmacies."

Without a profit-linked mark-up, pharmacists will have no incentive to sell relatively more expensive medicines in larger volumes than necessary

In response, a spokesman for Dr Christo Botha, chairman of the National General Practitioners Group, released a statement saying doctors' prices were often much cheaper than some retail outlets because they were prepared to dispense medicine in the most cost-effective way possible by passing any savings on to their patients

But pharmacists claim that dispensing doctors were able to undercut the pharmaceutical industry only because of substantial discounts from wholesalers

A city pharmacist told the Cape Times yesterday he was quoted half the wholesale price for a pack of contraceptive pills last week when he phoned a wholesaler pretending to be a dispensing doctor

Mr Kotze said this arrangement had given rise to the "widespread" illegal practice of some doctors selling medicines to pharmacists by offering prices below what pharmacists could get from wholesalers

The PSSA hopes their scheme will enjoy the co-operation of all pharmacists, but are prepared to enforce it through legislation if it is approved by the PSSA executive committee in April

Mr Kotze claimed pharmacies were being "wrung dry" as they were forced to grant medical aid schemes discounts of up to 30% per prescription, or face losing all the scheme's members Some medical aid schemes did not pass these discounts on to members

As the new pricing system would eliminate retail price mark-ups, he was expecting resistance from medical aid schemes who relied on the 50% mark-ups to claim their hefty discounts, Mr Kotze said.

Representative Association of Medical Schemes (Rams) executive director Mr Reg Magennis said the medical schemes industry would resist any move which reduced their savings, but added that objections would be short-lived if their overall costs decreased through cheaper medicines He said medical schemes would welcome any move which reduced the incentive among dispensing doctors and pharmacists to over-prescribe and charge too much.

CT 7/3/95

Oil rig venture to boost Durban employment

CT(BR) 7/3/95 (183) (385)

By Jon Beverley

Business Report Staff

A venture that will create several thousand jobs in Durban got under way at a special ceremony when the first steel plate of a R388 million contract to construct the platform for the oil rig Cabinda Two was cut

The contract, awarded to the Intershore joint venture last year, could be followed by others, as the company has tendered for more construction work of this nature.

Among the contracts it is seeking is to build a 9 000-ton 10-storey-high structure for the oil rig Cabinda Three

The current platform is being constructed for Chevron, which operates the Cabinda oil field in Angola.

A company spokesman announced that the company would spend US$2,5 billion to develop a new oil region there

This was more than it spent in the 40 years it operated the Cabinda field

John Cheesebrough, who heads Intershore, said the successful completion of the present contract would put the project on a "career path" that would see a continued flow of work to Durban harbour

He said that after four years workers who had been involved in construction work on the rig used for the Mossgas project in the Durban yard had built up a level of productivity equal to that of workers involved in similar work at Newcastle, England

He described the work opportunities that marked the establishment of an oil field equipment construction company in Durban as "absolutely exciting".

This was endorsed by George Bartlett, who was involved with Mossgas while a cabinet minister

He said the project "had to be made to work, and come in under budget" If this was done, more and more jobs would come to Durban

Intershore is a joint venture established by Amec (a British oil rig manufacturer), Dorbyl, and Murray and Roberts

Drug costs 'inflated'

(183)

CT 7/3/95

BY CLAIRE BISSEKER

THE new pricing system envisaged by the Pharmaceutical Society of SA (PSSA) will effectively do away with the so-called Blue Book — a monthly price list which traces the distribution chain from the manufacturer alotting a 21% mark-up to the wholesaler and 50% to the pharmacist.

PSSA executive director Mr Ivan Kotze believes the book is "the root evil behind the high cost of medicines in South Africa" as it keeps the price of medicines artificially high.

National Association of Pharmaceutical Wholesalers executive director Mr Trevor Phillips said wholesalers were also investigating a new pricing system which would eliminate the 21% mark-up and hidden discounts to reflect an actual profit of less than 10% per sale.

South Africa has a two-tier pricing structure where the state, which purchases about 80% of all medicines sold in the country, demands at least a 20% discount on the nett wholesale price.

Pharmaceutical Manufacturing Association of SA executive director Mr John Toerien said the "huge discrepancy" between state-tender and retail prices revealed that the private sector was subsidising the state.

Improved investments boost earnings at AECI

BD 8/3/95

(183)

MUNGO SOGGOT

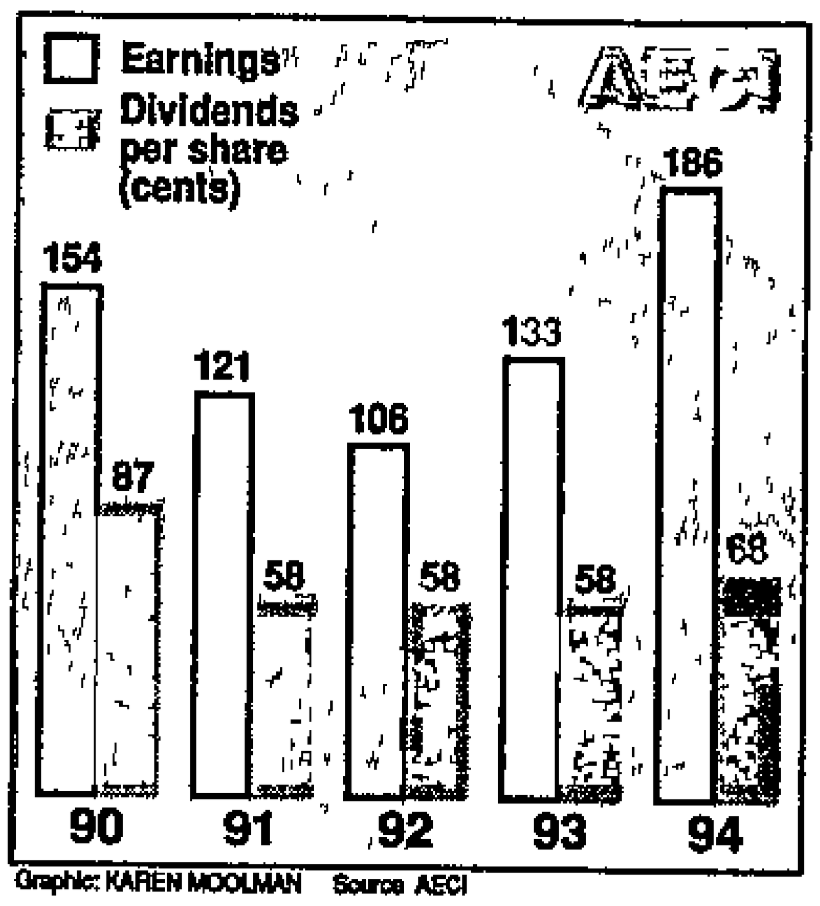
AECI, Anglo American Industrial Corporation's chemical business, lifted earnings 40% to 186c a share for the year to December as an improved contribution from investments offset reduced operating profit.

The group said a direct comparison with 1993's results was inappropriate as last year's results reflected the deal with Sasol which spawned Polifin and the sale of 51% of AECI's explosive business, AEL, to UK chemical giant ICI

Turnover slipped to R5,55bn (R5,97bn), but exports turnover improved to R844m (R649m). Net trading profit was R430m (R467m).

But net profit, which rose to R305m (R222m), was boosted by improved investment income of R101m stemming from last year's investment in 50% of Afex Holdings

MD Mike Smith said margins in most sectors remained under pressure so improved profit stemmed mainly from higher volumes and cost containment



Graphic: KAREN MOOLMAN Source AECI

Difficult domestic market conditions were exacerbated by stiffer competition for the fertiliser and explosives companies from both local and foreign companies. But sales of speciality chemicals, paints and Polifin's performance — the joint venture with Sasol in which AECI has a 40% stake — had been impressive. Local and foreign demand had improved A dividend of 68c (58c) was declared.

The performance of struggling Soda Ash Botswana (SAB) was picking up as the local market expanded. SAB's losses had been charged to a R305m provision.

Smith said Polifin, which would probably be listed in the third quarter, had "bedded down well" and AECI was happy with its first year's performance. It had not been a good year for the explosives business which had been hit by the mining industry's poor first-half performance and by the explosion and subsequent strike at Modderfontein.

Smith was sanguine about the effects of looming lower import tariffs. The tariff range would slip to between 0% and 15% from about 10% to 20%. The abolition of the general export incentive scheme (GEIS) in terms of GATT would affect performance, but this loss would be offset by the advantages of SA's new international respectability.

Earnings up 40% in spite of a turbulent year

AECI defeats the odds

(183) Star 8/3/95

Hands on . . . Mike Smith, MD of AECI on the factory floor at one of the chemical giant's plants in Cape Town.

■ BY JOHN SPIRA
BUSINESS EDITOR

After a 36 percent earnings gain at the interim stage, it is perhaps not surprising that chemical giant AECI has produced a steep 40 percent improvement for the full 12 months of its 1994 financial year.

The advance from 133c to 186c a share will nevertheless take the market by pleasant surprise, bearing in mind that the interim report contained the caveat that the positive outlook depended on "normal climatic conditions" prevailing and the absence of disruptions by widespread industrial action.

In the event, industrial action was far from absent from South Africa's during the latter part of 1994, while the rainfall pattern was markedly below average.

Given such circumstances, the result is a good deal better than the market expected.According to managing director Michael Smith, the outlook is fair for the year ahead.

The final quarter of last year was particularly encouraging, reflecting the upturn in the economy and AECI's expanding thrust into export markets.

The 1994 figures are not strictly comparable with those of 1993, since at the beginning of last year the deals with ICI and Sasol came into effect.

AECI sold 51 percent of its explosive business to ICI, acquired 50 percent of Afex and merged its chlor-alkali, plastics and associated downstream projects with Sasol's ethylene, propylene and polypropylene operations into a new company, Polifin.

The result was a decline in turnover (from R6 billion to R5,5 billion) and in net trading profits (from R467 million to R430 million), but a sharp gain in attributable profit (from R206 million to R287 million) as a result of R101 million of investment income.

The dividend for the full 12 months is 68c (58c) to yield 2,5 percent at the ruling share price.

Smith said that demand increased for most of the group's products in both domestic and export markets (of sales of R5,5 billion, R844 million came from exports versus R649 million in 1993).

Sales achieved by the speciality chemicals, paints and Polifin businesses were especially buoyant.

Investment income includes R72 million of equity accounted earnings from Afex. AECI's share of losses in Soda Ash Botswana (R305 million in 1994) has been charged to a provision account and not included in investment income.

Smith said that domestic demand for soda ash had been rising. A firming in the price of some 10 percent was needed for Soda Ash Botswana to break even.

Gearing rose from 39 to 43 percent, largely as a result of increased capital expenditure (from R305 million to R491 million).

Smith expects "a further significant increase in earnings in 1995" for the group "in the absence of widespread industrial action or intensified drought."

DP lauds new price moves by chemists

(183)

BY BARRY STREEK
POLITICAL STAFF

CT 8/3/95

THE move by pharmacists to introduce a new pricing system to cut the cost of medicine was to be welcomed, the Democratic Party said yesterday.

The announcement in this regard by the Pharmaceutical Society and similar initiatives by wholesalers were important steps, the DP said in a statement issued by its health spokesperson, Mr Mike Ellis.

"Medicine costs have spiralled in recent years and the DP has always called for an investigation of the whole distribution chain of medicine from the manufacturer to the patient

"These announcements now indicate a pro-active role on the part of two important components of the distribution chain and is most encouraging," Mr Ellis said in the statement.

He said the role of dispensing doctors needed urgent attention

Medicine plan slated

CT 8/3/95 (183)

BY CLAIRE BISSEKER

A NEW medicine pricing scheme being investigated by the Pharmaceutical Society of South Africa (PSSA), which would reduce retail medicine prices to cost, came under fire yesterday from city pharmacists who claimed it would bankrupt the industry

Instead of the current 50% retail mark-up on medicine, it is envisaged that pharmacists will charge their cost price plus a professional handling fee, expected to be below R10 per prescription

The result will be a substantial reduction in the price of medicine and will effectively stop doctors dispensing medicines, says PSSA executive director Mr Ivan Kotze

However, pharmacists told the Cape Times yesterday that unless they sold 50 prescriptions a day the scheme would force pharmacies to close down

A city pharmacist, who preferred not to be named, said it would be impossible to pay his rent and staff on a R10 mark-up

A Milnerton pharmacist said smaller pharmacies would not be economically viable under the new scheme

In general, pharmacies would be annihilated unless they recovered the business taken from them by dispensing doctors, which was estimated at more than 50% of the trade, he said

He said pharmacists were "being squeezed from both sides"

On the one hand was the dispensing doctor who obtained medicines at far lower wholesale prices, and on the other were the supermarkets which sold similar ranges of household items

'Unaffordable'

A city pharmacist said the envisaged system was "ridiculous" as it would inflate the cost of cheap items but make more expensive items "unaffordable"

For example 12 Disprin, which have a retail cost price of R1,70, would sell for R11,70 under the new system, giving the pharmacist a profit of 588%

But relatively expensive medicines like Diamicron diabetic tablets which have a cost price of R803,45, would sell for R903,45 instead of R1205 — a profit to the pharmacist of only 1,2%

The PSSA said one of the advantages of the scheme was that it removed profit-linked mark-up and so pharmacists would have no incentive to sell relatively more expensive medicines in larger volumes than necessary

The high cost of medicines in South Africa is also attributed to the cross-subsidisation of the state medical bill by the private sector

South Africa has a two-tier pricing structure where the state, which purchases about 80% of all medicines sold in the country, demands at least a 20% discount on the net wholesale price

In reality, the state can achieve discounts of more than 300%

Pharmaceutical Manufacturing Association of SA executive director Mr John Toerien said the discrepancy between state and retail prices revealed that the private sector was subsidising the state

However, he said mark-ups of over 300% "may be exceptions"

He said manufacturers could offer the state markedly lower prices because the state bought huge volumes which required less costly bulk packaging and paid cash after 30 days

HOW THE NEW PRICING SYSTEM COULD REDUCE MEDICINE PRICES IN PHARMACIES:

THE ENVISAGED SYSTEM

PRODUCT	PHARMACY'S COST PRICE	+ R10 PROFESSIONAL FEE	= NEW PRICE	% REDUCTION	CURRENT AVERAGE SA RETAIL PRICE
Adalat 10mg x 100	R147,95	R10	R157,95	-36%	R246,58
Zantac 150mg x 60	R283,27	R10	R293,27	-31%	R424,90
Becloforte 80 dose	R97,86	R10	R107,86	-26,5%	R146,78
Ventolin 2mg x 100	R34,67	R10	R44,67	-14,1%	R52,01
Diamicron 80mg x 500	R803,45	R10	R903,45	-25%	R1 205,17

COMPARISON BETWEEN STATE - TENDER V WHOLESALE PRICES

PRODUCT	MANUFACTURE'S SELLING PRICE TO STATE	% INCREASE	MANUFACTURER'S SELLING
Zantac 150mg x 60	R53,58	336 %	R233,70
Becloforte 80 dose	R30,55	164%	R80,73
Ventolin 2mg x 100	R6,42	345%	R28,60
Prozac 20mg x 28	R84,36	66%	R140,00

Graphic Matthys Moss Cape Times

Outlook is fair for chemical giant

(183) CT(BR)8/3/95

The advance from 133c to 186c a share will take the market by a pleasant surprise

BY JOHN SPIRA
GAUTENG BUSINESS EDITOR

After a 36 percent earnings gain at the interim stage, it is perhaps not surprising that chemical giant AECI has produced a steep 40 percent improvement for the full 12 months of its 1994 financial year

The advance from 133c to 186c a share will nevertheless take the market by pleasant surprise, bearing in mind that the interim report contained the caveat that the positive outlook depended on "normal climatic conditions" prevailing and the absence of disruptions by widespread industrial action

The final quarter figures reflected the upturn in the economy

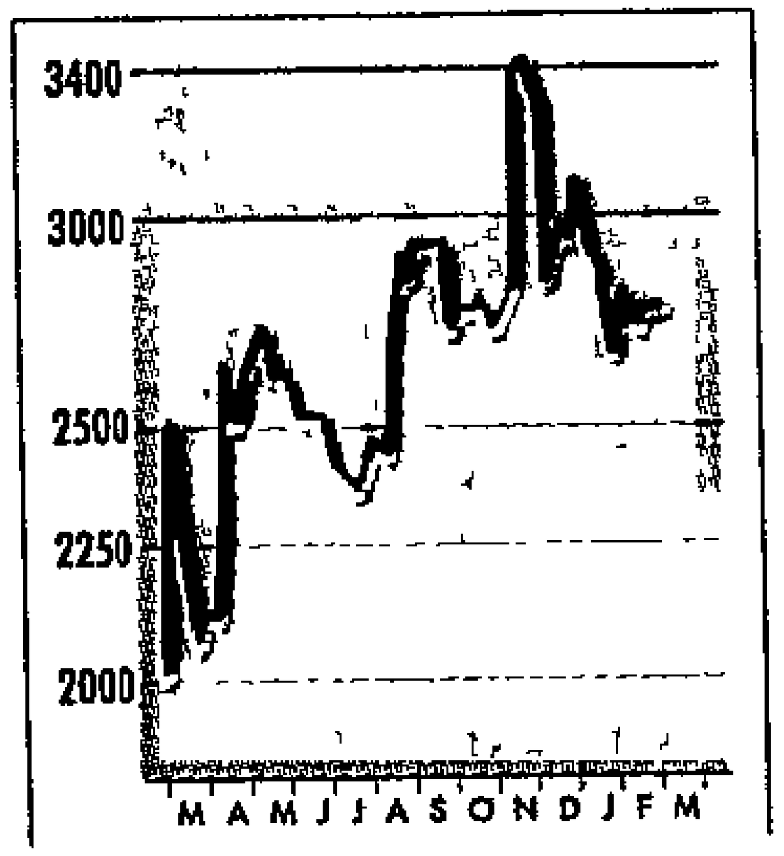
In the event, industrial action was far from absent from South Africa's during the latter part of 1994, while the rainfall pattern was markedly below average

Given such circumstances, the result is a good deal better than the market expected According to managing director Michael Smith, the outlook is fair for the year ahead The final quarter of last year was particularly encouraging, reflecting the upturn in the economy and AECI's expanding thrust into export markets

The 1994 figures are not strictly comparable with those of 1993, since at the beginning of last year the deals with ICI and Sasol came into effect.

AECI sold 51 percent of its explosive business to ICI, acquired 50 percent of Afex and merged its chlor-alkali, plastics and associated downstream projects with Sasol's ethylene, propylene and polypropylene operations into a new company, Polifin.

AECI Share price



The result was a decline in turnover (from R6 billion to R5,5 billion) and in net trading profits (from R467 million to R430 million), but a sharp gain in attributable profit (from R206 million to R287 million) as a result of R101 million of investment income.

The dividend for the full 12 months is 68c (58c) to yield 2,5 percent at the ruling share price. Smith said that demand increased for most of the group's products in both domestic and export markets (of sales of R5,5 billion, R844 million came from exports versus R649 million in 1993)

Sales achieved by the speciality chemicals, paints and Polifin businesses were especially buoyant

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Smith said that domestic demand for soda ash had been rising A firming in the price of some 10 percent was needed for Soda Ash Botswana to break even

Gearing rose from 39 to 43 percent, largely as a result of increased capital expenditure (from R305 million to R491 million)

Smith expects "a further significant increase in earnings in 1995" for the group "in the absence of widespread industrial action or intensified drought".

HANDS ON *Mike Smith, MD of AECI, on the factory floor at one c the company's plants in Cape Town*

Black business looks to break into oil industry

(1837) Star 9/3/95

■ BUSINESS STAFF

Cape Town — Sasol had been approached by at least two black business groups to establish a black-owned oil company, Sasol chief executive officer Paul Kruger said yesterday.

He was unable to provide further details as the persons representing black interests had asked for the information to remain confidential, he told the national assembly select committees on mineral and energy affairs and trade and industry.

A joint statement would be made once parties were ready.

Synthesised fuel

Asked about media reports suggesting a possible merger between Sasol and Engen, Kruger replied: "I have also read those reports."

He said Sasol was negotiating with all the oil companies – including Engen – about ways to market its oil products and its own service station network.

Sasol believed about 13 percent of its synthesised fuel should be marketed directly.

Referring to tariff protection on Sasol fuel, he said the current tariff level cost South African motorists an extra six cents a litre.

Sasol had received tariff payments on petrol sales amounting to R1 billion a year.

Tariff protection was a globally accepted mechanism to promote investment in local manufacturing, Kruger added.

Bottom up

He said the National Economic Development and Labour Council had appointed an independent auditing firm to investigate tariff protection.

"I am confident that that they will come up with the right answer for Sasol and the country."

Kruger said he realised tariffs might be lowered and that it would have a bottom up effect.

If tariffs were reduced in line with Gatt recommendations, he had no doubt that Sasol would survive, with a little more hard work, innovation and efficiency.

Deregulation of the fuel industry, if in the national interest, should be phased and managed.

Any changes should be based on consultation, Kruger added.

Black business seeks oil deal with Sasol

(183)

ADRIAN HADLAND

CAPE TOWN — Sasol had been approached by black business representatives about establishing an oil business to further black economic empowerment, Sasol MD Paul Kruger said yesterday.

He told Parliament's portfolio committees on trade and industry and mineral and energy affairs that two groupings representing black business interests were involved in the discussions

BD 9/3/95

"They have got some interesting ideas," he said. "When the other partners are ready there will be a press announcement." The groups had requested the matter be treated in confidence at this stage

Sasol GM Pat Davies confirmed a "significant black empowerment exercise" linked to the oil business was being examined. "A couple of possibilities" were being considered, he said

Kruger said he expected Sasol's tariff protection to be reduced as a result of a study conducted by the National Economic, Development and Labour Council (Nedlac) and Board on Tariffs and Trade If the reduction was kept in line with GATT principles and was phased down by between 30% and 40% over five years, Sasol would be able to deal with the scenario. The current tariff level of 6c/l generated just less than R1bn a year for Sasol

With creativity, Sasol could offset the lower tariff protection

The objectives of the Nedlac study were to investigate the profitability of Sasol's synthetic fuels, the company's contribution to the economy and the level and administrative mechanism of tariff protection

The study, which was being carried out by an independent auditing firm, would also seek to confirm transfer prices were market prices while ensuring there was no cross-subsidisation between divisions.

Kruger said some tariff protection was "fully justifiable" as it represented a glo-

☐ To Page 2

Sasol

BD 9/3/95 (183)

☐ From Page 1

bally accepted mechanism to promote investment in local manufacturing and contributed to rendering a reasonable return on investment in manufacturing industries that made a significant contribution to the economy. Sasol's capital expenditure for the past five years totalled R6,6bn, while R1,6bn and R1,9bn would be spent in 1994/95 and 1995/96. New projects included a methanol-MTBE plant for unleaded fuel, as well as plants for the production of betacarotene, acrylonitrile, sodium cyanide and alkyl amines.

MUNGO SOGGOT reports Sasol communications manager Alfonso Niemand said the Nedlac study would consider how Sasol's tariff protection mechanism could be changed to make it clear that Sasol did not receive a state subsidy. Currently the extra fuel levy for Sasol paid by consumers was collected by the state's Central Energy Fund and then passed on to Sasol. "The proposed new mechanism will have to refute any perception of a state subsidy. Sasol is tired of unjustified criticism that it receives a subsidy."

AECI clocks bumper earnings

(183) WM 10-16/3/95

Reg Rumney

CHEMICALS giant AECI's 40 percent increase in earnings per share to 186 cents for the year ended December is no mean achievement.

As managing director Mike Smith points out, with the first half of 1994 disrupted by public holidays, and the second half made problematic by a long automotive strike, a 40 percent increase in earnings isn't bad.

The dividend is up 10 cents at 68 cents. Bottom-line profit for the year rose to R287-million from R206-million a year ago.

The results, the company warns, are not strictly comparable. AECI sold 51 percent of its explosives business to ICI, and bought 50 percent of Afex, while merging its chlor-alkali and some of its plastics business into Polifin.

With the exception of explosives and fertiliser most of the businesses in the AECI group started to see a real uptick from the end of the third quarter. Strong sales in PVC piping, destined for housing, and polyethylene, which is used for packaging, as well as urethanes for use in domestic appliances were strong. But across the board, business is good.

Volumes at Soda Ash Botswana, which has been a thorn in AECI's side because of fierce competition from United States and Central Africa, are better, and market share has improved, but prices are not yet where AECI would like them. AECI put another R44-million into Soda Ash Botswana, out of an extra R48-million investment spending last year.

The lysine plant, part of AECI's grand plan to diversify out of commodity chemicals, will come on stream around the middle of this year.

Capital expenditure of almost R481-million, R355-million of which was on expansion projects, raised gearing from 39 percent to 43 percent.

There were no major strikes during the year, despite retrenchments. Smith says the retrenchments are not over, as AECI continues to benchmark itself against other international suppliers, though he is not talking about thousands of jobs being lost.

For the year ahead, AECI is reasonably confident. The economic signs are good, says Smith. World chemical prices have moved up, and if the reconstruction and development programme gets going, the company should benefit, probably towards the end of the year.

Govt likely to increase fuel levy, say analysts

BD 10/3/95 (183)

MUNGO SOGGOT

NEXT week's Budget was likely to include a fuel levy hike as government strove to get maximum mileage from indirect taxes, economists forecast yesterday.

Transnet economist Mike Schüssler said an increase was "quite possible", especially considering Transport Minister Mac Maharaj's recent comments that there should be a levy increase.

A new dedicated road fund would need about R2bn a year, which would translate into a 15c/l hike if it was funded solely from the fuel levy.

This was clearly unlikely and an increase of about 5c/l this year was a likely first step.

There could be a second hike of 5c towards the end of the financial year. The current levy was 65c, which was low by international standards.

Independent tax consultant Willem Cronje said there should be a fuel levy hike exclusively for the road fund. The principle of individual taxes for Ministers' "pet schemes" was a bad idea, but roads were different, as delays in repairing them resulted in deterioration.

Sacob economist Keith Lockwood said a fuel levy increase was possible and that such an increase would be more politically saleable if it was going to be channelled into a dedicated road fund.

Although Sacob had repeatedly called for a dedicated road fund — so that road users paid for maintenance — it would not necessarily welcome an increase in the fuel levy because this would effectively raise the overall tax burden.

Schüssler said the introduction of unleaded petrol would probably lift the petrol price 1c-2c initially.

EDWARD WEST reports that a Cabinet decision within the next two weeks on the introduction of unleaded fuel from July could result in higher tax levies on leaded fuel and a 5c-6c discount on the unleaded fuel price, industry sources said.

The sources said the Cabinet faced a tough task in deciding whether the introduction of unleaded fuel should be funded by increasing tax levies on leaded fuel, which could increase the leaded petrol price by a few cents, or whether government should instead fund the introduction through lower tax revenues.

It cost refiners 3c/l more to produce unleaded petrol than leaded petrol. In addition, for oil refiners to achieve economic throughputs of unleaded fuel, there would have to be an incentive to use it by making it cheaper than leaded fuel. A discount to leaded fuel of 5c-6c/l had been mooted.

FRIDAY
MARCH 10, 1995 ★

Doctors can help cut costs

(183) (183)

Staff Reporter

CT 10/3/95

THE average doctor in South Africa does not know the price of medication he or she prescribes on a daily basis — something which would have to change if the high cost of medicines was to be brought under control.

This is the view of Mr Stephan Lukas, chief executive officer of Cape Primary Care, the business arm of the Cape Independent Practitioners' Association (Cipa) which represents about 1 000 doctors in the Western Cape.

Mr Lukas said Cipa was working towards a computer system which would enable doctors to call up the comparative manufacturing prices of different brands of medicines on their private desktop computers.

This system would essentially by-pass wholesalers' mark-ups by providing the end-user with a single exit price for medicine, he explained

The second step was to supply doctors with guidelines on the "rational" utilisation of drugs, in other words, on the most cost-effective product for a particular medical condition

In a submission to the Department of Health's technical committee yesterday, Cipa argued that the combined approach of a single exit price for all medicine and an aggressive policy of rational drug utilisation would result in greater savings than other recent pricing suggestions

A scheme mooted by the Pharmaceutical Society of South Africa (PSSA), which would remove the profit motive in the sale of medicines by dispensing doctors and pharmacists, would not achieve more than a 10% saving on total medical aid payouts, Cipa claimed.

Mr Lukas said the role of the state tender system in maintaining artificially high private sector drug prices also had to be recognised.

Although the state would always be able to negotiate cheaper drug prices by buying in volume, Cipa and other general practitioner organisations and service suppliers should be able to share in these discounts, he said.

At the moment the scale was tipped to favour the state to such an extent that the private sector was cross-subsidising the state's medicine prices.

BUSINESS

AECI develops a world-beater

(83) Star 14/3/95

■ BY DEREK TOMMEY

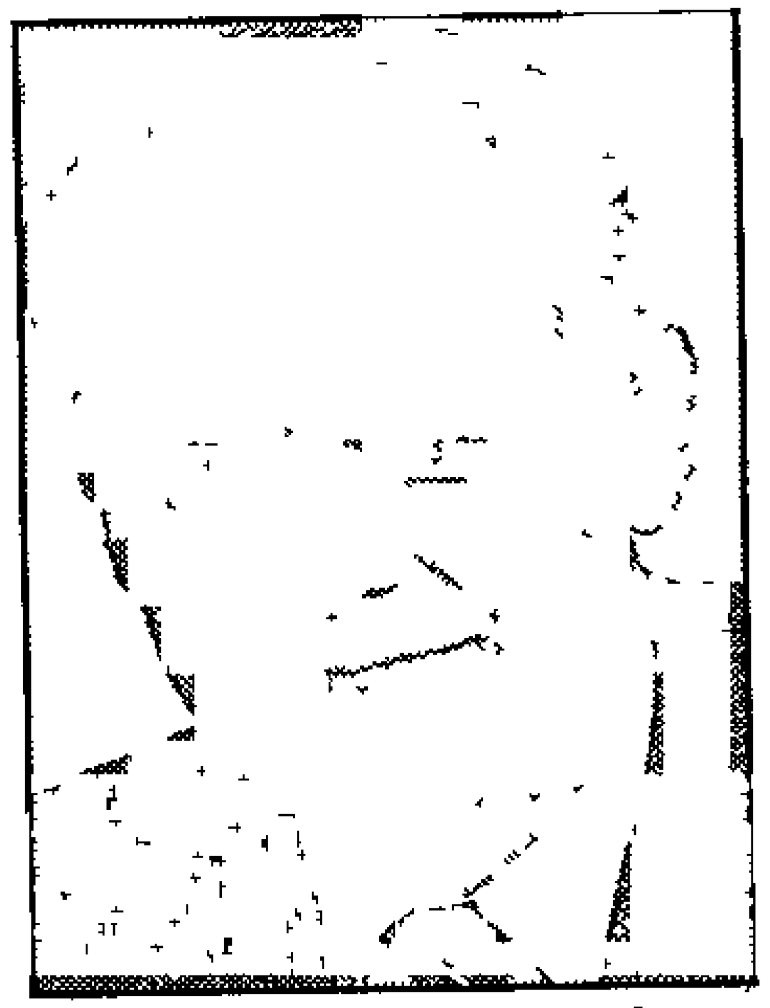
The successful development of a new, important and completely home-grown biotechnological process is helping South Africa's chemical giant, AECI, ensure a profitable future in the next century

The process employs highly efficient bacteria in a fermentation technology to make the amino acid lysine, an animal food supplement, for which there is a rapidly expanding world-wide demand.

Even during the world recession, consumption of lysine grew by 10 percent a year. With the recovery in world ecomonic growth, demand has returnn to a much higher level.

The project has attracted world-wide attention as it is internationally competitive

Now that it is widely known that the company is serios about entering the lysine market, AECI has had lots of visits from potential allies offering technology and other forms of alliances, says chairman Mike Sander



Mike Sander ... we developed the process from scratch.

"We have decided to build an expanding biotechnology platform and willook at all those opportunities.'

AECI's moved into the biochemical area about eight years ago. "Our logic was not to make lysine but to get into the modern chemical business," says Sander

"This is because the stuff we were doing, in fact what everyone else was doing, was old hat

"The good thing about the new technological field is that nobody else is more advanced that we are so we have an equal chance of developing a strong position world-wide.

The production of lysine was selected for the first project as it is in the early part of its life-product cycle with an attractive competitive local raw material base.

"We could not buy the process for making lysine so we had to invent it," says Sander

"We grew the bacteria - that was an important thrust for us. We modified it and we developed the process."

The result is that AECI is getting extremely high lysine yields from the sugar feedstock. The yield in natural surroundings is around 7 percent

The next step was to build a plant to produce the lysine, and this is now under construction at a cost of R300 million at Umbogintwini on the Natal South Coast It should come on stream in June

"Right from the start it was planned to expand the plant's capacity But as it is completely new technology we will first run it for a year However, as soon as we are comfortable with the technology we will double up at least," he says

Joint venture

The current plant is a joint venture between AECI, with a 60 percent stake, and the Industrial Development Corporation which holds the remaining 40 percent

The plant will produce 11 000 tons of lysine a year of which about 70 percent will be exported.

The world market for lysine is in excess of 240 000 tons a year, of which more than 90 percent is supplied by four major producers — two in the Japan, one in the United States and one in South Korea.

Both the Japanese producers have plants in the major markets of Europe and the US.

Lysine's growing importance is the result of the increasing demand for white meat. Lysine is essential in animal nutrition.

When added to pig and chicken food, it ensures these animals use it more efficiently.

It also reduces the amount of nitrogenous waste excreted by these animals which is causing water pollution in areas where pig and chicken farming is concentrated.

The lysine project is establishing a biotechnolgical base at AECI and should give the company a leading regional position to expand in other biotechnological businesses.

Castrol restructures its divisions

(183)

CASTROL has restructured its sales, technical and marketing operations into five strategic business units in response to the changes in the SA economic climate.

The new units are consumer, mining, metalworking, commercial and industrial, and speciality products. Castrol MD Martin Dando said the restructuring was a reaction to changes in consumer needs.

"Customers are demanding a greater range of services, improved levels of client response and product support, and integrated business partnerships in place of the basic buyer and seller relationship."

Each unit, he said, would also be able to react to business changes nationally and internationally such as the deregulation of the fuel industry and the lowering of trade tariffs.

BD 14/3/95

"Customers will be assisted by experienced people who are dedicated to quality service and have knowledge of specific markets."

The unit teams would also be able to react with greater speed and flexibility to changing needs, and offer strategic marketing direction in the fields of research, service, technology and delivery.

Part of the new marketing approach was the introduction of a toll-free telephone line for each unit.

"The new units will enable Castrol to improve the marketing of its lubricants and other core products into the next century."

AECI in chemical breakthrough

(183) CT 14/3/95

By Derek Tommey

Mining Editor

The successful development of a new, completely home-grown biotechnological process is helping chemical giant AECI, ensure a profitable future in the next century

The process employs highly efficient bacteria in a fermentation technology to make the amino acid lysine, an animal food supplement, for which there is a rapidly expanding worldwide demand

Even during the world recession, consumption of lysine grew 10 percent a year. With the recovery in world economic growth, demand has returned to a much higher level.

The project has attracted worldwide attention as it is internationally competitive

Now that it is widely known that the company is serious about entering the lysine market, AECI has been visited by many potential allies offering technology and other forms of alliance, said chairman Mike Sander

"We have decided to build an expanding biotechnology platform and will look at all those opportunities," he said

AECI moved into the biochemical area about eight years ago. "Our logic was not to make lysine but to get into the modern chemical business," Sander said

"The good thing about this new technological field is that nobody else is more advanced than we are, so we have an equal chance of developing a strong position worldwide

"We could not buy the process for making lysine so we had to invent it," he said.

"We grew the bacteria — that was an important thrust for us We modified it and we developed the process"

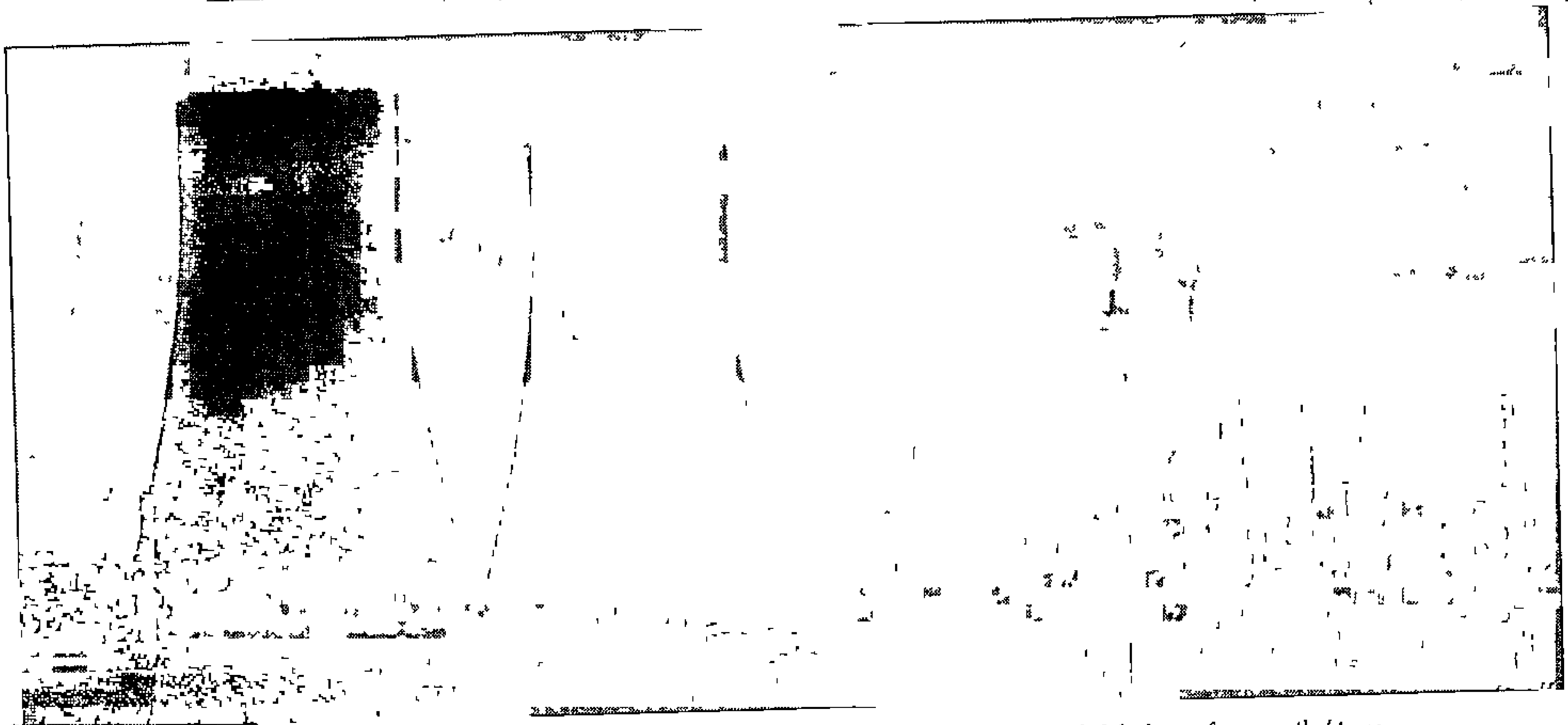
The result is that AECI is getting extremely high lysine yields from sugar feedstock The yield is around seven percent

The next step was to build a plant to produce the lysine, and this is now under construction at a cost of R300 million at Umbogintwini on the Natal South Coast It should come on stream in June

The current plant is a joint venture between AECI, with a 60 percent stake, and the Industrial Development Corporation which holds the remaining 40 percent

The plant will produce 11 000 tons of lysine a year of which about 70 percent will be exported.

Lysine's growing importance is the result of the increasing demand for white meat Lysine is essential in animal nutrition



STEAMING AHEAD *A Sasol oil refinery Refineries around the country will start producing unleaded fuel in a few months' time*

Unleaded petrol 'on sale by October'

CT (BR) 15/3/95 (183)

By Derek Tommey

Mining Editor

Motoring in South Africa will soon take a great leap forward into the modern age

Pending a final government decision, unleaded petrol will be available from the country's oil refineries from the beginning of July

It should be on sale at all petrol stations by October 1, a Sasol spokesman, Alfonso Niemand, said last night.

Unleaded petrol would be dispensed from 87 octane pumps in the interior, and from 93 octane pumps at the coast

Local car assemblers will be pleased by the move It will open the way for the sale here of the latest and most advanced cars produced by the world's automobile industry Because these vehicles have been designed to run on unleaded petrol, they have, until now, been unsuited to the local market.

Niemand said the industry was waiting for the government to announce the selling price of unleaded petrol, which costs more to manufacture than leaded petrol

A parliamentary subcommittee was working on the issue

Two pricing possibilities exist: imposing a levy on leaded petrol and using the proceeds to subsidise sales of unleaded petrol, or placing a once-off levy on new cars

A 1c-a-litre levy on leaded petrol would, owing to the much smaller sales of unleaded petrol, enable its price to be reduced by about 4c — making it 5c a litre cheaper than the leaded variety

Niemand said that all cars made after 1985 could probably run on unleaded petrol, although they may need a slight retune The adverse effects of unleaded petrol could be overcome by using leaded petrol in one tankful in four

Owners of cars which run on leaded petrol need have no fears about not being able to get their favourite brand Leaded petrol is expected to remain on sale for another 10 years, Niemand said gent increase in the UN monitoring of arms supplies to both sides in 20-year conflict. — Sapa-Reuter

probing a possible gambling racket in Malaysia

from an Asian gambling syndicate to

took the soccer world by surprise.

fans and rocked by assault charges

● See pages 9 and 28

US blacks seize new cudgel

The Argus Foreign Service

WASHINGTON — Black American civil rights leaders who led the US sanctions campaign against South Africa are now, for the first time, turning their energies to a black African government with a campaign to restore democracy in Nigeria. The campaign will begin with newspaper advertisments condemning the Nigerian military government.

Mbeki in Belgium signs three-year aid deal that brings R55-m for RDP projects

ARG 15/3/95

The Argus Foreign Service

BRUSSELS — Deputy President Thabo Mbeki will sign an ambitious new accord with Belgium today, which will bring South Africa new aid worth R55 million.

The three-year programme will be launched at a signing ceremony in Brussels between Mr Mbeki and Erik Derycke, the Belgian Secretary of State for Co-operation and Development.

Mr Mbeki is in Belgium, at the invitation of King Albert II.

The deputy president was unable to see the Belgian monarch during a trip he made to Brussels last month, and is returning this week to pay a courtesy call on the king.

Mr Mbeki's schedule also includes meeting Belgian businessmen and lunch with Prime Minister Jean-Luc Dehaene.

Talks with the head of the Flemish regional government are also scheduled.

Belgian officials say the three-year bilateral accord with South Africa aims to support the reconstruction and development programme.

The money will go to health, education and training programmes — and will also help boost the reform of South Africa's administration.

Mr Mbeki may raise with his Belgian hosts South Africa's concern about new EU visa restrictions, which are being discussed by the 15 European Union governments.

The current proposal would put South Africans on the list of those who will require visas to visit the EU.

A seven-nation common visa accord is due to come into force later this month between some European Union countries.

Mr Mbeki may also be lobbied by South African diplomats in the embassy to Belgium.

The previous ambassador Marinus Te Water Naude returned home in April last year — and has not yet been replaced.

It has been speculated that the South African foreign ministry may be planning to merge the embassy to Belgium with South Africa's mission to the EU, which is headed by ambassador Neil Pieter van Heerden.

BUDGET

UNMARRIED

INCOME TAX PAYABLE, 1995 AND 1996 UNMARRIED PERSONS
RSA AND VENDA

TAXABLE INCOME	UNDER 65			OVER 65		
	1996	1995	DIFFERENCE	1996	1995	DIFFERENCE
R	R	R	R	R	R	R
12 000	0	270	-270	0	0	0
13 000	0	480	-480	0	0	0
14 000	0	690	-690	0	0	0
15 000	75	900	-825	0	0	0
16 000	275	1 140	-865	0	0	0
17 000	475	1 380	905	0	0	0
18 000	675	1 620	-945	0	0	0
19 000	875	1 860	985	0	0	0
20 000	1 075	2 100	-1 025	0	0	0
21 000	1 285	2 380	1 095	0	0	0
22 000	1 495	2 660	1 165	0	160	160
23 000	1 705	2 940	-1 235	0	440	-440
24 000	1 915	3 220	1 305	0	720	-720
26 000	2 335	3 780	1 445	0	1 280	-1 280
28 000	2 755	4 340	1 585	255	1 840	-1 585
30 000	3 175	4 900	1 725	675	2 400	-1 725
32 000	3 795	5 620	1 825	1 295	3 120	-1 825
34 000	4 415	6 340	-1 925	1 915	3 840	1 925
36 000	5 035	7 060	2 025	2 535	4 560	2 025
38 000	5 655	7 780	-2 125	3 155	5 280	2 125
40 000	6 275	8 500	2 225	3 775	6 000	-2 225
45 000	8 375	10 550	-2 175	5 875	8 050	-2 175
50 000	10 475	12 600	-2 125	7 975	10 100	-2 125
55 000	12 709	14 867	2 158	10 209	12 367	2 158
60 000	14 942	17 173	-2 231	12 442	14 673	-2 231
65 000	17 176	19 490	2 314	14 676	16 990	-2 314
70 000	19 409	21 806	-2 397	16 909	19 306	-2 397
75 000	21 693	24 123	-2 430	19 193	21 623	-2 430
85 000	26 310	28 756	2 446	23 810	26 256	-2 446
95 000	30 977	33 389	2 412	28 477	30 889	-2 412
110 000	37 977	40 338	2 361	35 477	37 838	2 361
130 000	47 311	49 604	-2 293	44 811	47 104	-2 293
150 000	56 645	58 870	2 225	54 145	56 370	-2 225
175 000	68 313	70 453	-2 140	65 813	67 953	2 140
200 000	79 980	82 035	2 055	77 480	79 635	2 055

attach.

Sale of oil stocks could boost RDP by R600-million

ARG 15/3/95 (183)

ALIDE DASNOIS
Deputy Business Editor

SPENDING on the Reconstruction and Development Programme this year will be partly financed by the sale of oil reserves.

A total of R600 million from the sale of oil will be allocated to the RDP Fund.

By the end of the year, the government of national unity will have allocated R7,5 billion to the RDP.

Last year's R2,5 billion, of which R1,9 billion has already been spent, has been doubled this year.

Half of this year's spending will go to new projects, including

- ● R30 million for the Masakhane campaign to get people to pay rents bonds and for municipal services
- ● R400 million for primary health care
- ● R250 million for community water programmes
- ● R1 4 billion for housing and infrastructure
- ● R100 million for transport
- ● R185 million for urban renewal

In addition, R100 million will be channelled from the RDP Fund through the provinces.

A further R2,5 billion will swell the coffers of the different government departments for use on programmes which were started last year.

Boosted by RDP money, spending on social services now accounts for 57 percent of the budget, compared to 53 percent last year.

Spending on health is up, boosted by higher expenditure on primary health services, especially in the rural areas.

Spending on housing and urban upgrading will double from 1,3 percent of the budget in 1994-95 to 3 4 percent this year.

This higher social spending will mostly be financed from reductions in expenditure on defence, general administration, transport and communication agriculture, forestry and fishing, which saw its vote cut by percent, partly because of the scrapping of some control boards.

The budget for the Department of Home Affairs has also been slashed from R1 2 billion to R378 million.

MARRIED WOMEN

TAXABLE INCOME	UNDER 65			OVER 65		
	1996	1995	DIFFERENCE	1996	1995	DIFFERENCE
R	R	R	R	R	R	R
6 000	0	140	-140	0	0	0
8 000	0	520	-520	0	0	0
10 000	0	900	-900	0	0	0
12 000	0	1 320	-1 320	0	0	0
14 000	0	1 740	-1 740	0	0	0
16 000	275	2 190	-1 915	0	0	0
18 000	675	2 670	-1 995	0	170	-170
20 000	1 075	3 150	-2 075	0	650	-650
25 000	2 125	4 550	-2 425	0	2 050	-2 050
30 000	3 175	5 950	-2 775	675	3 450	-2 775
35 000	4 725	7 750	-3 025	2 225	5 250	-3 025
40 000	6 275	9 550	-3 275	3 775	7 050	-3 275
45 000	8 375	11 450	-3 075	5 875	8 950	-3 075
50 000	10 475	13 350	-2 875	7 975	10 850	-2 875
55 000	12 709	15 350	-2 642	10 209	12 850	-2 642
60 000	14 942	17 350	-2 408	12 442	14 850	-2 408
65 000	17 176	19 350	-2 175	14 676	16 850	-2 175
75 000	21 693	23 350	-1 658	19 193	20 850	-1 658
85 000	26 310	27 350	-1 041	23 810	24 850	-1 041
95 000	30 977	31 350	-374	28 477	28 850	-374
115 000	40 311	39 350	961	37 811	36 850	961
135 000	49 645	47 350	2 295	47 145	44 850	2 295
155 000	58 979	55 350	3 629	56 479	52 850	3 629
175 000	68 313	63 350	4 963	65 813	60 850	4 963
200 000	79 980	74 183	5 798	77 480	71 683	5 798

attach to previous article

Another hike for new fuel?

(183)

POLITICAL STAFF

THE 2-cents-a-litre hike in the fuel levy announced yesterday could be increased again later this year with the expected introduction of unleaded petrol. CT 16/3/95

Finance Minister Mr Chris Liebenberg said no final decision had been made on how the fuel levy might be affected by the introduction of unleaded petrol, but "when we get to unleaded we will have to look at the whole issue afresh."

The 2c/litre increase should yield an additional income of about R300 million for a full year and R255m for the remainder of the 1995/96 financial year.

Oil reserves sale to aid RDP

(1832) Star 16/3/95

■ OWN CORRESPONDENT

Spending on the Reconstruction and Development Programme this year will be financed partly by the sale of oil.

About R600-million from the sale of reserves will go to the RDP Fund, which will receive R7,5-billion this year

About R1,9-billion of last year's R2,5-billion allocation has been spent.

AEC shuts plant at Pelindaba

(183)

BY ROY COKAYNE CT(BR)17/3/95

PRETORIA BU NESS EDITOR

The decommissioning of the uranium enrichment plant at Pelindaba which starts at the end of this month, will take place over four years at a budgeted cost of R20-million a year.

This was confirmed by the Atomic Energy Corporation's senior manager for conversion and enrichment production, Johann Paulsen

AEC chief executive officer Waldo Stumpf said the closure of the plant was purely a business decision and added that the plant had served its purpose

It had been built for strategic reasons to supply Koeberg nuclear power station and was never intended to be commercially viable

But with the normalisation of South Africa's international relations, Stumpf said Eskom would soon be able to obtain enriched uranium on the world market at substantially lower prices

The closure was approved by the Cabinet at the end of January. About 500 jobs will be lost and more than R25 million will be paid in severance packages Employment at the AEC has fallen from 8 166 in 1986 to 2 700

CHEMICAL INDUSTRY — 1 (183)

Chinese cracker

FM 17/3/95

The Republic of China this week peeled away some of the wrapping on its multi-billion-dollar proposal for SA's petrochemical industry

Disclosing that it had briefed London-based consultancy Chem Systems and retained it at a US$300 000 fee, Taiwan said preliminary investigations would be discussed in Johannesburg at month-end Chem Systems partner Terry le Roux says the full report should be complete in July

Chem Systems — which employs 80 top global consultants in the crude oil, refining, petrochemical and plastics industries — says major Taiwanese and SA industries are also participating in the study by providing their own investment scenarios

Taiwan's ambassador to SA I-cheng Loh says up to 3 000 ha of coastal industrial land will be needed in Saldanha Bay, Cape Town, Mossel Bay, East London, Port Elizabeth, Durban or Richards Bay for an integrated chemical complex if Chem Systems' findings are positive

"We strongly support the initiative, not only because we are impressed by SA's political reforms but also as it could involve lucrative investments for all parties, with export products targeted at the SA, African, South American and even European markets," says I-cheng Loh

I-cheng Loh

Included in the eventual joint initiative could be

- A 100 000 BPD crude oil-based chemical refinery,
- A gas and condensate feedstock chemical plant, probably using an expanded and transformed Mossgas synfuel plant,
- A cracker with a 300 000 t/year ethylene feedstock output capability,
- An aromatics plant producing specialised chemicals not currently produced in SA,
- Downstream monomer and polymer plastic feedstocks plants as well as synthetic fibre production facilities,
- Textile manufacturers and "dozens" of plastics converting plants

Central Energy Fund technical deputy GM Howard Roberts says the Taiwanese-SA initiative involves a joint working group which consists of two legs, one in SA and the other in Taiwan "Both are made up of various government bodies (in SA the fund, Industrial Development Corp and Department of Trade & Industry are involved), advisory boards in the two countries consisting of high-level State and private sector representatives, and Chem Systems, which was appointed to investigate the subject of petrochemicals in SA"

Roberts, who leads the SA working group, says the focus of Chem Systems' investigation is possible investments in three sectors olefins and plastics, aromatics and textiles, and natural gas-driven chemicals

"The feedstock base could be crude oil, natural gas or coal Chem Systems has the task to offer the best options It is looking at upstream, midstream and downstream industry sectors and would involve as broad a spectrum as possible of local chemical companies"

SA Petroleum Industry Association (Sapia) director Colin McClelland says that though Sapia (which represents SA's crude oil refining industry) "supports any sound commercial investments in SA," it suggests existing refineries supply the feedstock needed rather than a new refinery be built

And though "there must be no subsidies," if SA wants to become a world-class player, tax rates must be in line with "countries with which we compete for investment dollars"

Battling furniture plant faces closure

(183) ARGT 18/3/95

COLIN DOUGLAS
Business Staff

CLOSURE looms for South Africa's oldest office furniture manufacturer, loss-making Brown & Neethling in Epping, as parent company Afcol prepares to centralise production in Johannesburg.

The blow to Brown & Neethling would be especially bitter, because it has made a concerted effort to restore itself to profitability and has seen its turnover more than double over the past 18 months

The jobs of 150 employees — including 135 production staff — are at stake at a time when the Western Cape is pulling out all stops to tackle the high unemployment rate.

Staff at the 57-year old company were nervously awaiting a final decision this week after holding company Kallenbach-Hendler, in turn a subsidiary of Afcol, announced it was investigating the factory's closure

"Discussions are presently taking place with the relevant unions, and no stone is being left unturned to minimise the impact of the closure on staff," said Kallenbach-Hendler managing director Bill Helyar

"Jobs will be offered in Johannesburg to certain key staff, and every effort is being made to accommodate other staff in Afcol group production facilities located throughout the Western Cape."

But Mr Helyar conceded that retrenchments were likely.

"But Brown & Neethling has been making a loss for the past three years," he said, "and one of the reasons is that the market has moved away from mass-volume to more customised demand

"In order to make that kind of furniture we have to invest in expensive computer-assisted machinery, which is feasible only in a centralised production facility.

In an interview only last month, Brown & Neethling Managing Director Kevin Page paid tribute to the work ethic of a workforce that has passed on skills from generation to generation and counts no less than 11 fathers and sons amongst its numbers

But this week he spoke hot and cold, first arguing in a written statement that the proposed Johannesburg move made sound business sense, then saying he was still engaged in negotiations over the firm's fate.

"By centralising the manufacturing in Johannesburg, Brown & Neethling will have at its disposal one of the finest production facilities in the country, if not in the southern hemisphere," he said in the statement.

"The Kallenbach-Hendler group is making a substantial investment in state-of-the-art machinery as well as the latest steel, timber and polyurethane technology

"All this, we believe, will enable Brown & Neethling to manufacture better products for our clients"

But interviewed yesterday, Mr Page said the proposed closure was "still talk", and was not the only option for Kallenbach-Hendler, whose four factories were all operating at 50 to 60 percent of capacity

The group was seeing if it could raise any offers to buy the Epping factory before making a final decision.

In last month's interview, Mr Page said sales were buoyant, especially of the company's classy Airstream range, and interest from international buyers was picking up sharply.

Since he had been appointed MD 18 months previously, he had refined Brown & Neethling's marketing strategy focussing on core product lines.

This had helped to raise turnover by 229 percent during this period

"There was a lot of passion for the work among the staff," he said at the time, "all one needed to do was market that successfully"

Mr Helyar said Brown & Neethling would retain a marketing presence, albeit reduced, in the Western Cape.

□ **DREAM TEAM:** Exactocraft MD Alexander Buck, second from right, with employees on the factory floor. The company has introduced "smart" new manufacturing processes, giving workers enhanced responsibility and participation, and has boosted productivity and turnover. Picture BRENTON GEACH Weekend Argus

(183) ARG 18/3/95

Moulding a quiet miracle

COLIN DOUGLAS
Business Staff

WHILE pundits have been calling for change in the way South Africa does business, a quiet miracle has been unfolding in a Paarden Eiland manufacturing operation

Exactocraft, a 47-year-old family business supplying precision plastics to industry, was seeing its profits come under increasing pressure in 1990 in the face of sluggish productivity and mounting international competition

Said human resources manager Ingrid Buck "It was the typical South African scenario — we were too protected and inward looking, and we were all of a sudden faced with a changing political scene"

So the company's management team began a company-wide change programme dubbed "Exacto 2000 moulding the future".

A central feature of the programme was participation by the firm's employees

This involved a much greater degree of information sharing and regular exercises in joint problem-solving

In line with this Exactocraft's management structure has been flattened and employees throughout the company have been organised into work teams

The aim was to change the company from one that was product-driven to one that is customer-driven, Mrs Buck notes

"A team is given responsibility, within a set period, for a product's whole lifespan, from the beginning of production to the delivery date

"We said to the teams 'You don't work for the supervisor — you work for the customer'

Profit sharing has also been introduced, with a monthly bonus paid to every employee on the basis of the profits generated by the entire operation

The heart of the new initiative was the development of a vision for the firm "to become a successful international techno-plastics company focusing on core product lines"

This involved going all out for exports and developing a small number of "world champion" products, said marketing manager Cedric Parker

"Previously we tended to have too many products, but spent a lot of resources on one product — a vertical blind system — that is the finest of its kind in the world"

This product, displayed by Exactocraft at a major German trade fair, helped the company to double its export customers last year

Exports now constitute 10 percent of total sales, a figure the company intends to expand to 25 percent in the near future

Turnover has climbed by more than 20 percent in the past year as productivity has soared and streamlined manufacturing has kicked in

One product, which previously took six weeks to complete and was manufactured by several different departments, now takes a work team one day to complete

Factory floor worker Debra Julie, leader of one the work teams, said the firm's new approach was "a challenge every day — we really enjoy it"

"I've worked here for 15 years and I can tell you we've changed a hell of a lot

"We're working smarter, not harder"

Exactocraft's transformation has been driven internally, not by management consultants, but every member of the executive team has attended courses on world-class manufacturing at the University of Cape Town's Graduate School of Business

Hansen of the SA Police Services Narcotics Bureau
...e found in a house in Zondi, Soweto, early on
...ntly intended for use at clinics in Soweto, where
... last week because of a shortage of medicines.
PIC: PAT SEBOKO

Stolen drugs seized in Zondi

(183) sowetan 22/3/95

By Glenn McKenzie

THE THEFT OF MEDICINE intended for patients at Soweto clinics took a new turn earlier this week when police raided a house in Zondi and seized large quantities of drugs

On Monday *Sowetan* reported that hundreds of patients had to be sent home without being given treatment because of the shortage of drugs at Tshiawelo Clinic Nurses at the clinic had expressed fears that children with streptococcal infected throats were in danger of contracting more serious diseases

Monday morning's raid, which followed a tip-off from *Sowetan*, netted 17 boxes of medicine, syringes and other medical supplies

No one has been arrested and police expect to make early arrests as investigations are continuing

Sowetan received a tip-off from Baragwanath Hospital on Sunday from a man who said stolen drugs were being smuggled to the Zondi house The newspaper immediately referred the tip-off to the police, who carried out the raid at 5 30am the following morning

Medicine seized included boxes of needles marked for the Zola and Tshiawelo clinics and antibiotic tablets that had been pre-packed at Baragwanath Hospital

Nurses at Tshiawelo Clinic said the clinic had been faced with a "severe medicine shortage" since last November Last Wednesday the clinic allegedly almost completely ran out of drugs

In separate interviews with *Sowetan* last Thursday, Tshiawelo Clinic pharmacist Mr Sipho Mahonga and chief medical officer Dr Siad Mia said the clinic had not received any shipments of drugs from Baragwanath Hospital or Koos Beukes Clinic the day before.

Later, both Mahonga and Mia changed their statements, saying the clinic had received two shipments Mahonga confirmed that a combined total of 106 boxes and 28 bags of drugs had arrived.

On Monday Soweto Community Clinics superintendent Dr Soomagi Natha said last week's medicine shipments had arrived at Tshiawelo He said it was not known if anything had disappeared after that

"I'm not yet satisfied that everything is accounted for and I'm looking into it," said Natha

Baragwanath Hospital principal pharmacist Ms Zuleika Khemtula said her department had experienced "problems in the past" relating to shipments to Tshiawelo Clinic She would not elaborate.

Khemtula said computers and better storage space were desperately needed at Baragwanath Hospital to bring the pharmacy into "the modern age" In addition, pharmacists and other staff were overworked and needed assistance to handle large medicine orders to Baragwanath and Soweto's clinics

"Each of our pharmacists are doing the work of two to three pharmacists Mistakes are possible; we are only human," said Khemtula

Gauteng health officials have said they intend spending R60 million in upgrading security and computer systems at hospitals in the province.

The chairman of Gauteng's strategic management team for health, Dr Ralph Mgijima, said last week he did not know how soon the new measures would be introduced "It is definitely one of our priorities," he said

Engen pins hopes on West African oil

WM(BM) 24-30/3/95 (183)

Jacques Magliolo

ENGEN has intensified its thrust for exploration and production of oil in West Africa in an attempt to stem declining profits and to rectify a free-falling share price.

The chemical and oil giant's 1994 financial year saw a 13,6 percent drop in earnings per share and its share price has fallen from a 1993 high of 5 300 cents to a low of 3 000 cents in 1994 The share is now trading at 2 890 cents

To make matters worse, market forces predict a poor interim set of financial results — expected for release in the first week of April Stockbroker Irish & Menell Rosenberg's technical analyst, Tony Henfrey, says. "Engen has moved sideways relative to the JSE overall index for the past year and is now showing signs of further downward movement Essentially, despite recent falls, the share is still expensive and could drop to its next support level of 2 000 cents "However, the share will only become cheap when it falls to 1 500 cents," says Henfrey

Abbas Gani, general manager of corporate services, says. "The oil and chemical sector has undergone a dramatic change in the last two years and we have had to react to these changes.

"An internal project is underway to ensure that proper structures are in place to quickly react to the changing business environment," he says.

Members of Engen's top management have been developing new strategies behind closed doors, "which are about focus, finding profit opportunities and improving internal efficiencies," says Gani Called Project Discovery, management are optimistic that, as a result of the changes introduced by Discovery, profit could improve by some R300-million

In fact, the only way in which Engen will see this happen is to reduce cost structures Low world oil prices and refining margins, together with a regulated South African oil industry and problems in the commissioning of Phase II of its new Durban refining plant, mean that the company has little choice in how it can improve financial results

One alternative to improving efficiencies (which Gani says may not necessarily include large scale retrenchments) is to see contribution to turnover and profit margins improve from upstream (exploration and production) divisions In this vein, Engen acquired a four percent stake in the N'Kossa and Haute Mer oil exploration fields off the coast of the Belgian Congo

The company bought the interest from Elf Congo, a subsidiary of the French international oil and gas company Elf Aquitaine, which operates more than 65 percent of the Congo's total oil production of 180 000 barrels a day

■ To PAGE B2

Engen pins hopes on West Africa oil

WM(BM) 24-30/3/95 (183)

■ From PAGE B1

In January chief executive Rob Angel said. "The acquisition of this interest in the Congo is an important stepping stone for Engen into sub-Saharan Africa The group already participates in the Kudu gas discovery offshore Namibia, in block 1 Angola and in the onshore Migoubi licence in Gabon."

Gani adds: "When N'Kossa operates at full production, it will yield 100 000 barrels a day This will help Engen's objective of increasing upstream contribution to bottom-line profits to 25 percent " At present this oil field is being developed and is expected to come on stream during 1996.

Where else has Engen targeted? Says Gani. "We are optimistic that we will have further opportunity to participate in other ventures in Africa."

Engen admits that it sees these upstream businesses as a means to improving bottom line profits "If you have large upstream businesses and crude prices improve, then crude production profitability has to increase In turn, this goes to offset a decline in profits from local marketing operations," says Gani

However, analysts don't believe world oil prices will reach Engen's expectations in the near future While prices wallow at between $16 and $17 a barrel, they fall short of the forecast $18 to $19 a barrel. In addition, refining margins were expected to reach between $4 and $5 a barrel, but are now still about $3 a barrel.

This does not bode well for Engen's forthcoming interim results Expert predictions range from a 15 percent to 20 percent decline in profits.

There is, however, a possibility that Engen will o[illegible]er shares in lieu of cash The risk of issuing more shares to improve reserves is that additional shares in an oversold market often cause new downward momentum

Rob Angel: Looking north

Healthy earnings for SA Druggists

183

CT(BR) 24/3/95

By Charlotte Mathews

Investment Editor

SA Druggists grew attributable earnings by 22 percent to R44 million in the six months to February this year compared with the same period last year after a particularly good performance from its pharmaceutical and chemical trading divisions

The company, in which Malbak holds a majority stake, yesterday reported turnover of R1,3 billion from R1 billion previously and operating income up 14 percent to R71 million.

Excluding development costs of R9 million incurred in the healthcare and international divisions, operating income was 29 percent higher.

Development expenditure together with the lower margins earned on distribution pulled down group operating margins to 5,7 percent from 6,0 percent previously, below the group's stated target of 8 percent

Chief executive officer Peter Beningfield said 8 percent could be difficult to achieve, depending on developments in the distribution business and the group would be reviewing this in the near future

Net interest paid grew to R6 million from R2 million, showing gearing up to 5,4 percent from 4,5 percent, but still well below Beningfield's preferred maximum of about 25 percent.

The tax rate rose to 43 percent from 40 percent because development costs incurred in Europe and Malawi were not allowable for tax purposes. Earnings a share grew to 72c from 60c on a slightly higher number of shares as a result of the capitalisation issue at the end of last year

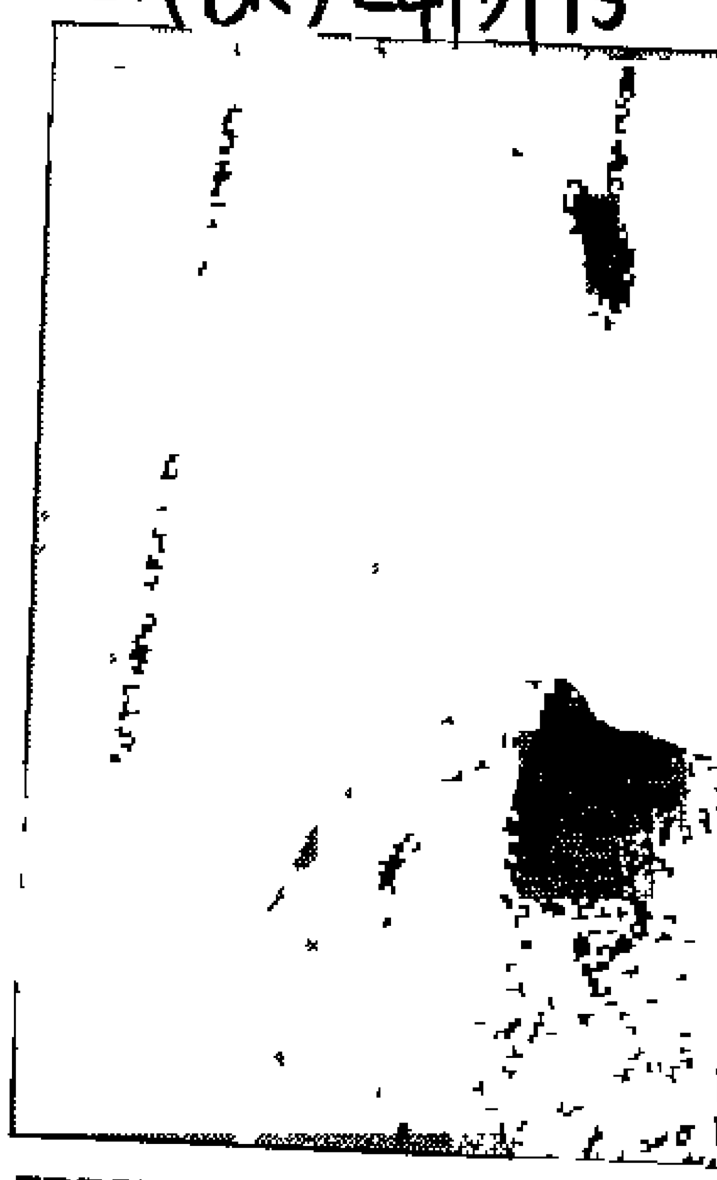
Capitalisation shares are again being offered to shareholders, or a cash dividend of 26,0c a share, only 2 percent above the last interim dividend

Beningfield said the group was trying to achieve dividend cover of between 3 and 4 times In addition, there was a very high acceptance of capitalisation shares in the last offer, indicating shareholders were eager to get more of the shares. Tradeability of SA Druggists shares is fairly restricted, with only about 25 000 shares changing hands each week, and large volumes very difficult to obtain

Beningfield said the R9 million of business development expenditure represented the costs of infrastructure and training in Trinity, the UK-based company which will spearhead exports into the UK and Europe, and in the Malawi factory, whose production will be targeted mainly at the aid market in Africa

This expenditure will continue to affect earnings for the next year or two However, he expected that Trinity could break even by the end of the next financial year.

The group's target is to make exports about a quarter of pharmaceutical volumes At present it is about 10 percent



FRESH FIELDS *SA Druggists' Peter Beningfield is actively seeking foreign alliances*

Asked about the spare borrowing capacity, Beningfield said acquisitions were difficult because the group was already well represented in the various healthcare sectors

The group is actively looking at alliances with overseas companies but such alliances need to be carefully selected

The market growth experienced by SA Druggists in the first half of the year is expected to continue in the second half.

State tender volumes alone are 45 percent higher

The directors maintained their forecast of 20 percent growth in earnings for the full year

HEALTH — 1

Staking a claim to drug sales

(183) FM 24/3/95

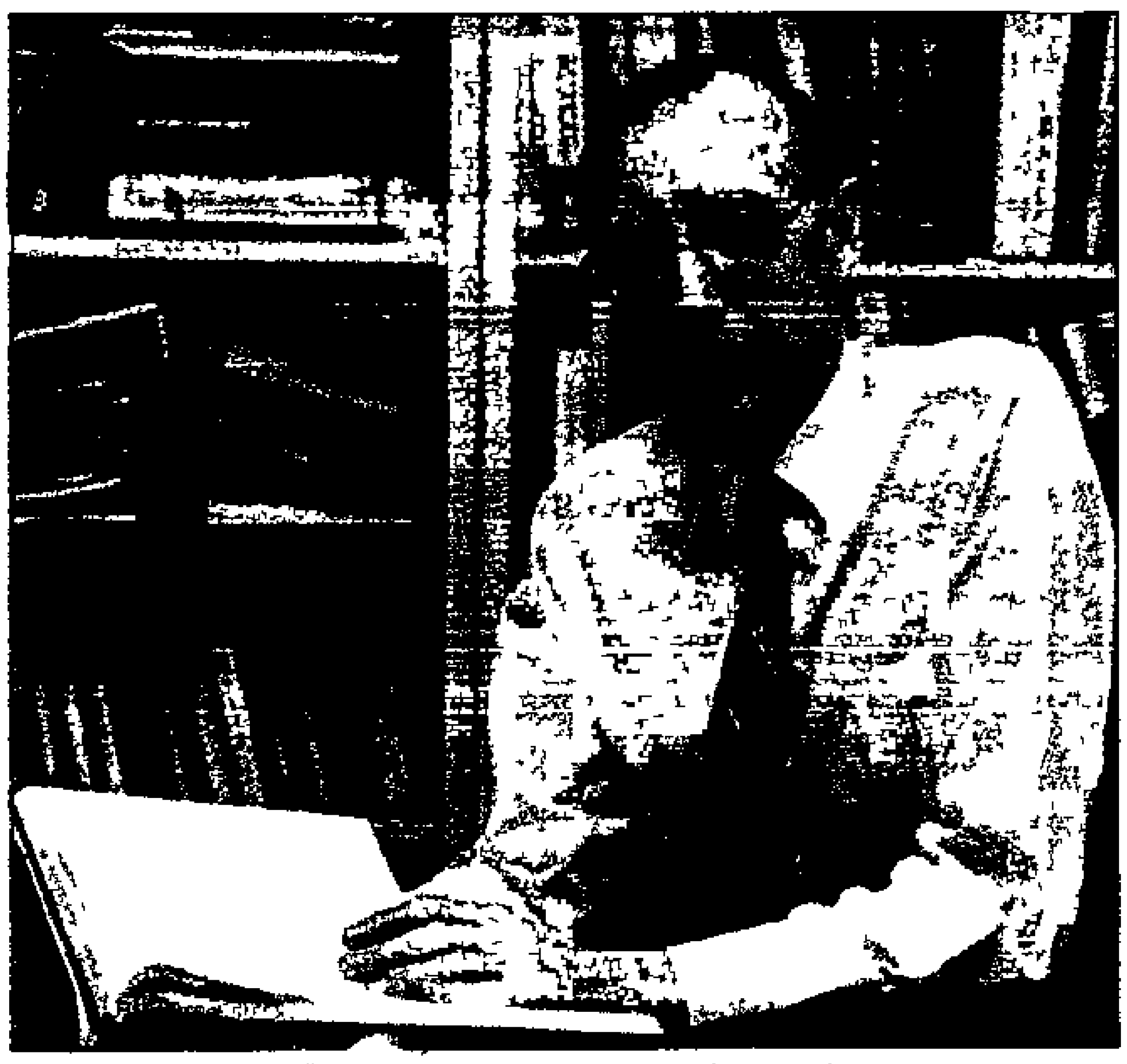
In what is seen as an attempt to retain pharmacists' stranglehold on drug sales, SA's powerful Pharmacy Council has introduced a discussion document which proposes that retail pharmacists charge a professional fee and radically change the pharmaceutical pricing system

In a nutshell, the proposal would replace the traditional 50% mark-up on drugs which retail pharmacists can charge with a professional fee that could be based on a R150 hourly rate. Added to this, the pharmacist would charge a fixed distribution fee which would probably not exceed 16% of a manufacturer's unit selling price

But council resistrar Chris van Niekerk says the discussion document has led to the appointment of a task group to establish pricing mechanisms and to address the ownership of pharmacies issue. He says the document advocates a system which will allow and not inhibit price competition and create greater transparency in the medicines supply market He adds the proposed system must be acceptable to medical schemes and allow pharmacists to receive adequate remuneration for services rendered

Says Wits economics professor Duncan Reekie· "The proposal appears to be yet another attempt at collusive behaviour sanctioned by a professional cartel, allegedly working in the public interest but effectively bolstering an obsolete profession"

Certainly, for the multi-item and expensive prescription, the proposed fixed fee could mean a saving to the consumer The cheaper or single item prescription could, however, end up costing far more But nothing is certain The proposal states that a pharmacist may calculate his professional fee according to the nature of the service rendered, time and expertise spent delivering the service, the time of day the service is rendered and whether the medicine is readily available



Re[illegible] *professional cartel*

Says Reekie· "What the pharmacist charges should reflect a price negotiated between him and the customer Professional fees serve merely to guarantee income for providers, removing incentives for cost containment"

But there are some obvious cost cuts envisaged in the proposal The wholesaler, who is now able to add 21,21% to the manufacturer's price, would, under the proposed model, be able to add no more than a set 5% to a manufacturer's price It is not clear whether this is tenable or sustainable, though

Van Niekerk says drug prices in SA are generally perceived as being "too high" because discounts available in the distribution channel — estimated to be as much as 40% — are not obvious nor necessarily passed on to consumers. He says "Medical schemes do not necessarily offset discounts received on medicines against expenditure. Instead, discounts are used to offset scheme administration costs" The need for greater transparency in pricing apparently inspired a similar and recent proposal — net pricing (*Business* October 7) — supported by some drug manufacturers, wholesalers and pharmacists That is being investigated by the Competition Board The board says justification exists for a statutory restriction on profit earnings by all dispensers This implies that income from dispensing should be in the form of a professional fee rather than in the form of profit on medicine.

But commentators say the council's present proposal hinges on a plan that would force drug manufacturers to charge a volume related but uniform price only to "legitimate purchasers" — effectively barring manufacturers from giving the large volume unrelated discounts to dispensing doctors that, the council claims, unfairly raises costs for pharmacists.

More alarming is the council plan to use its statutory power over all registered pharmacists to force manufacturers to comply with its proposed distribution system (a manufacturing pharmacist must, by law, apply for the registration of medicines)

Says hospital group Presmed joint MD Rob Speedie. "This is dangerous because, if the council alone can regulate mark-ups, it could increase these at any time without the public knowing" ■

HEALTH — 2

Crippling budget

FM 24/3/95

National health services are bound to suffer this year as health expenditure effectively drops from 10,4% to only 9,6% of State expenditure.

Says Alex van den Heever of the Wits Centre for Health Policy Studies "While this year's R15,4bn budget appears to represent an aggregate 10% increase on last year's expenditure of R14,1bn, included is an amount of R1,245bn representing RDP carry-through costs for new and specific projects — R680m for free health care, R65m for clinic building and R500m for the primary nutrition programme This means that existing services will in practice have to make do with around R1bn less than is needed to keep services constant — based on an inflation rate of 6,7%" This effectively means that no allocation has been made for population growth or the extension of services

A disturbing feature is that while the provinces will be allocated 96% of the budget, no provincial plans are detailed

Unrealistically, allocations to the provinces will be prioritised to wipe out provincial resource disparities within five years starting with a loading of 30% of the calculated adjustment in the first year — a move that experts say could force the closure of an academic complex in the well resourced province of Gauteng and another in the Western Cape

It's a formula that appears to be based on a UK model which set about reducing average disparities of around 30% to 10% over 12 years

An additional R400m has been included in the 1995-1996 RDP vote for transfer to the health department of Gauteng, Western Cape and Free State to facilitate the substantial transformation required at tertiary and academic hospitals to cope with the move towards strengthening primary health care and shifting the emphasis away from specialised curative hospital-based care."

Apparently KwaZulu-Natal won't be benefiting from this allocation ■

SAD posts 22 percent growth

Star 24/3/95 (183)

■ BY CHARLOTTE MATHEWS

SA Druggists (SAD) grew attributable earnings by 22 percent to R44 million in the six months to February 1995, compared with the same period in 1994, after a particularly good performance by its pharmaceutical and chemical trading divisions.

The company, in which Malbak holds a majority stake, yesterday reported turnover of R1,3 billion from R1 billion previously and operating income up 14 percent to R71 million.

Excluding development costs of R9 million incurred on the healthcare and international division, operating income was 29 percent higher.

Development expenditure together with the lower margins earned on distribution pulled down group operating margins to 5,7 percent from 6 percent previously, below the group's previously stated target of 8 percent.

Chief executive officer Peter Beningfield said 8 percent could be difficult to achieve, depending on developments in the distribution business.

Net interest paid grew to R6 million from R2 million, showing gearing up to 5,4 percent from 4,5 percent, but still well below Beningfield's preferred maximum of about 25 percent.

The tax rate rose to 43 percent from 40 percent because development costs incurred in Europe and Malawi are not allowable for tax purposes.

Earnings a share grew to 72c from 60c on a slightly higher number of shares as a result of the capitalisation issue at the end of last year.

Capitalisation shares are again being offered to shareholders, or a cash dividend of 26c a share, only 2 percent above the last interim dividend.

Beningfield said the group was trying to achieve dividend cover of 3 to 4 times.

"In addition, there was a very high acceptance of capitalisation shares in the last offer, indicating that shareholders were eager to get more of the shares.

Tradeability for SA Druggists shares is fairly restricted, with only about 25,000 shares changing hands each week, and large volumes very difficult to obtain.

Chemicals bullish in SA

MUNGO SOGGOT

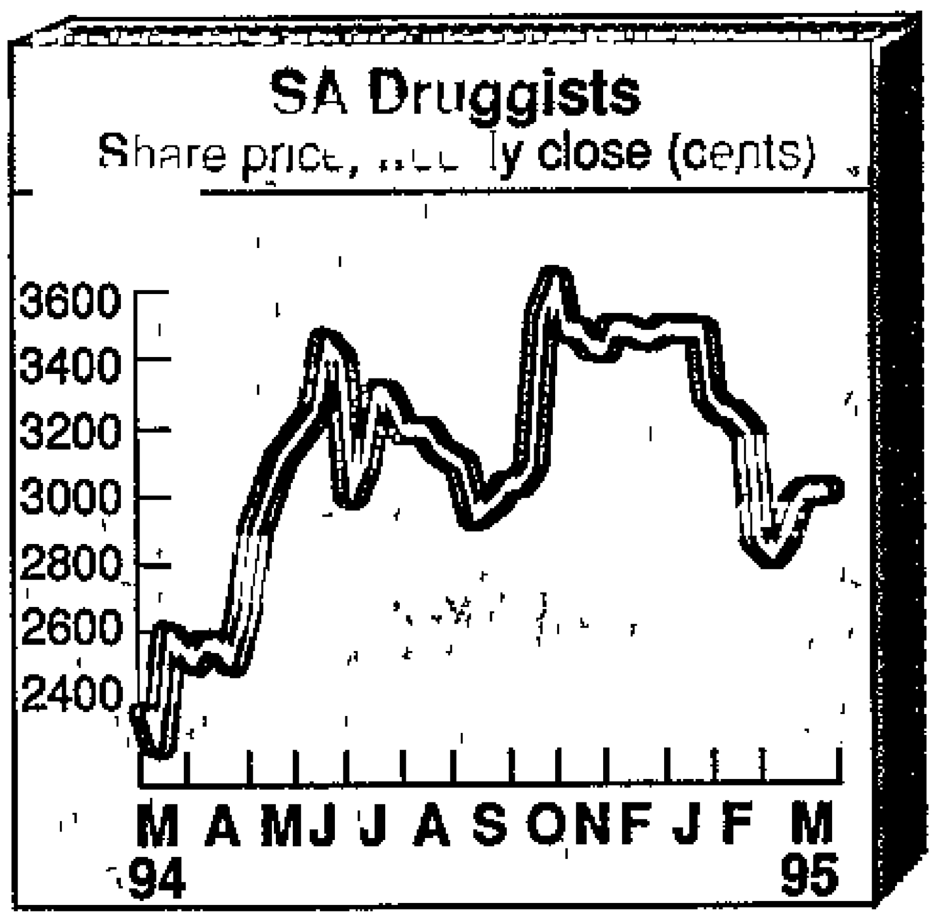
THERE were excellent growth prospects for chemical distribution in SA because of the reduction of trade barriers and the globalisation of the chemical industry, Chemical Services chairman Mike Sander said in the company's annual report. (183)

Sander said he was confident the company would "advance further" this year and was aiming at earnings of 580c a share — from 1994's 26% improvement to 506c a share. BD 24/3/95

Despite a more positive economic environment, Chemserve had had trouble passing on the higher raw material and operating costs. This had cut its operating margin to 9,5% from 9,7% in 1993.

However, "excellent" cash flow, particularly in the second half, cut its borrowing ratio to 26%. "This leaves us well positioned for organic growth and further acquisitions."

Two of the acquisitions made in 1993 — Holpro Fine Chemicals and Saarchem-Holpro Analytic — had continued to struggle.



SA Druggists' earnings up 20%

BD 24/3/95 (183)

MARCIA KLEIN

HEALTHY performances by its major pharmaceutical and chemical trading interests saw Malbak-controlled SA Druggists lift earnings 20% to 72c (60c) a share in the six months to February

CE Peter Beningfield said the 21,5% turnover rise to R1,25bn (R1,03bn) reflected market share gains in the pharmaceutical and chemical trading divisions and significantly higher volumes in the distribution division

Operating income was 14,5% up at R71m (R62m). Beningfield said the group's main operations showed 29% growth at the operating level, but the margin was affected by business development expenditure of R9m in the health care/international division and by slim margins in the distribution division The distribution market remained price competitive "with discounting at unrealistic levels".

Although the interest bill increased threefold to R6m, gearing was just 5,4% Pre-tax income was 8,3% higher at R65m (R60m), and the tax rate was increased to 43,1% (40%) After outside shareholders' interest, attributable earnings rose 22,2% to R44m (R36m)

SA Druggists declared a marginally higher interim dividend of 26c (25,5c) a share and has offered shareholders capitalisation shares

Beningfield said the pharmaceutical and

To Page 2

SA Druggists (183) BD 24/3/95

☐ From Page 1

chemical trading divisions showed earnings growth above expectations. Lennon had to increase production to meet demand, particularly from the state.

Trinity Pharmaceuticals in the UK, established to spearhead exports into the UK and Europe, was successfully launched, and initial indications were "positive and better than targets".

The new pharmaceuticals factory in Malawi had received the necessary registration approval to begin full-scale manufacturing, and both Trinity and Malawi were expected to contribute to earnings in financial 1996.

Beningfield said the expected market growth in the first six months had materialised, and this was expected to continue in the second half.

While development expenditure, which would be funded by borrowings and be cash-generated, would have a short-term effect on earnings growth, he expected the group to attain its forecast of 20% earnings growth for the full year.

Union objects to case

(183) [illegible] ARG 25/3/95

Weekend Argus Labour Reporter

THE Chemical Workers Industrial Union says it views Capegas' insistence on prosecuting 62 workers for their part in a "bloody wage strike" last July as a "direct attack on the union"

Scab workers were allegedly intimidated and beaten up by the strikers, while a security guard hired by the company to shepherd their trucks killed one striker when he allegedly opened fire after a truck had been stopped at a roadblock set up by workers

Union branch secretary Colin Rani said R20 000 had been spent on legal costs for members who faced jail sentences of up to 10 years.

Oil industry baulks at Sasol inquiry

(183)

ST(BT) 26/3/95

By KEVIN DAVIE

AN urgent meeting has been called this week between Sasol and the crude refining industry to discuss the industry's participation in an inquiry into Sasol's R1-billion-a-year tariff payments.

The meeting follows a breakdown in talks after Sapia, an association representing Shell, BP, Engen, Caltex and Total, demanded a profit comparison between the crude and synthetic fuel industries to form part of the inquiry

The terms of reference state· "The auditing firm would be required to determine an appropriate system for measuring the profitability of Sasol Synfuels. This would be used to establish whether the level of profitability of Sasol Synfuels, with and without protection, is excessive."

The point of dispute is that Sasol wants to be compared with other SA manufacturing industries The oil refiners want Sasol's profits to be compared with their own. This led the crude industry to threaten to pull out of the inquiry.

Sasol's Alfonso Niemand says the terms of reference for the inquiry have been agreed by organised business, labour and government. "As in the past, in line with their general approach, some members of the oil industry will probably endeavour to discredit this study (inquiry) to protect their own interests."

A document — understood to have been drawn up by the crude refining industry and leaked anonymously to Business Times — estimates Sasol's total tariff payments since 1980 at R9-billion (in 1994 money)

The document, headed "Sasol Tariff Protection/ Subsidy", says

☐ Sasol's subsidies amounted to R1,97-billion during 1994;

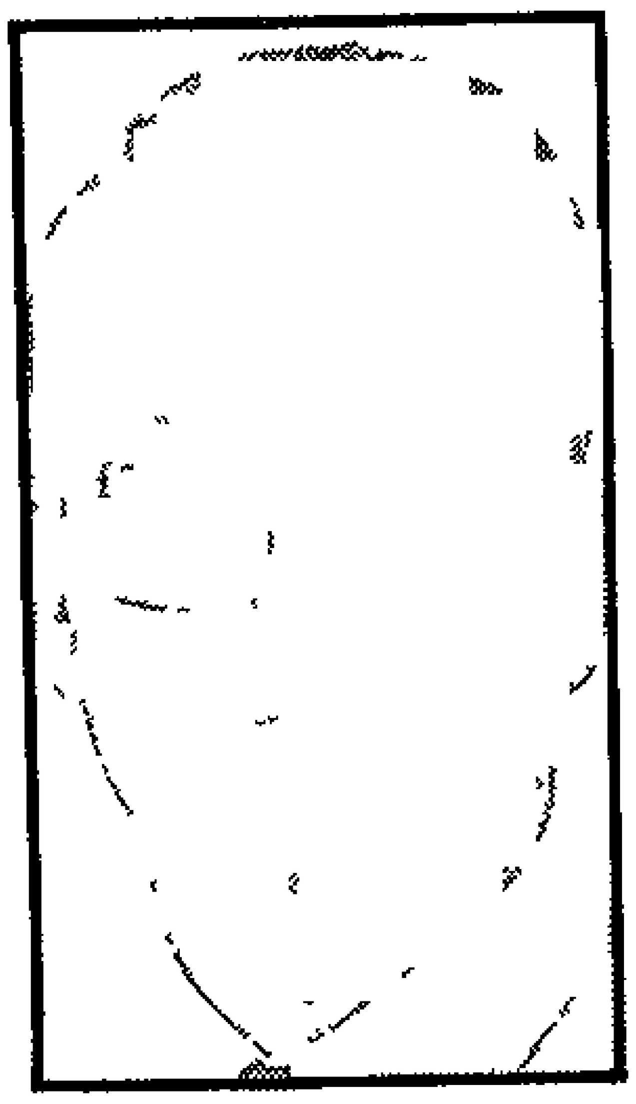
☐ It receives five separate annual subsidies at the expense of the taxpayer, motorist and oil industry;

☐ Sasol's results for the past three years show its return on capital exceeds 10% without the R1-billion annual tariff subsidy (introduced originally to give Sasol a 10% return on assets),

☐ The state invested R34,8-billion (1994 money) in Sasol, but got only R31,8-billion back,

☐ Sasol repaid foreign loans underwritten by the Industrial Development Corporation during the 1980s in rands — when the rand collapsed the IDC had to find an additional R4-billion to repay the debt (ignoring interest),

☐ Sasol's Blue Pump operations give Sasol an estimated 75% return on assets while the rest of the industry's ROA is only 11,65%



ALFONSO NIEMAND

Mr Niemand says a copy of this document was given to Sasol in September "by a member of the oil industry which certainly did not agree with its content and intention We do not believe this document represents an oil industry approach, but rather a distorted attempt by some members to discredit Sasol"

He says the author tried so hard to get his personal views across and to defend his own company's position that his calculations and facts became distorted

Mr Niemand says a proper discounted cash flow, tabled at the liquid fuels task force, indicated government received a 12% return on investment, excluding continuing company tax and employee taxes. "We are not aware of a more successful and profitable venture by government"

He says the allegation about the IDC is "unfounded and without substance The healthy return which the IDC continues to receive through its shareholding in Sasol is ignored"

Arthur Andersen's John Donnelly confirms that the accounting firm will conduct the inquiry, which has a June deadline

Sasol dismisses 'merger' talk

LLEWELLYN JONES

SASOL and Engen yesterday played down weekend reports that they planned to merge their petroleum interests to give Sasol access to retail outlets and boost Engen's flagging fortunes

Sasol GM Pat Davies said it was well known that the company regarded the establishment of its own retail network as a prerequisite to deregulation of the petroleum industry, but denied there were any specific plans with Engen

(183)

"We have been talking to all the major fuel companies but there is as yet no question of a merger or takeover with any specific company," he said

BD 6/3/95

The Sunday Times reported that a merger would give Sasol entry into the retail market via Engen's service station network It would improve Engen's competitive position, giving it access to Sasol's 85 000 barrels a day Natref refinery at Sasolburg A deal would also suit Sasol and Engen shareholders, who faced the prospect of a damaging price war once the fuel industry was deregulated

Industry sources said a Sasol-Engen merger would almost certainly be resisted by multinationals Shell, BP and Caltex because of the dominant position it would take in the industry It would also challenge government's preference for the deconcentration of economic power and would almost certainly face stiff opposition from the Competition Board

Petrol price up six cents on April 5

~~2011~~ (183)

JOHANNESBURG. — The price of petrol will rise by six cents a litre on April 5, says the Central Energy Fund

The latest increase follows the 5c rise this month, pushing the price to its highest level since the introduction of the revised pricing mechanism in October 1993

The CEF said the April increase was necessary because of the continued rising trend in international petrol prices ARG 29/3/95

The one cent increase in the fuel tax, announced in the Budget, results in a one cent increase in both petrol and diesel prices

At the coast, petrol will rise to 1,74 cents a litre from 1,68 cents and diesel to 1,57 cents from 1,56 cents. — Sapa.

Petrol price to increase by six cents a litre

(183)

CT 29/3/95

JOHANNESBURG: The price of petrol will rise by six cents a litre on April 5, the Central Energy Fund said yesterday.

The latest increase follows the five cents per litre increase announced in March, pushing the fuel price to its highest level since the introduction of the revised pricing mechanism in October.

The fund said the new increase was necessary because of the continued rise in international petrol prices, the deterioration of the rand against the US dollar and a higher fuel tax.

The one cent per litre hike in the fuel tax, announced in the Budget, will result in diesel costing a cent more per litre.

Petrol at the coast will cost R1,74 per litre, up from R1,68, and diesel R1,57, up from R1,56. In Gauteng, petrol will cost R1,84 (R1,78) and diesel R1,67 (R1,66). — Sapa

WEDNESDAY
MARCH 29, 1995 ★

Sasol to build recycling plant

(183) (68)

JOHANNESBURG: Sasol is to build an R80-million reverse osmosis desalination plant to conserve natural resources and eliminate effluent discharges, the company announced yesterday

The plant will recover and recycle water from saline effluent dams at Secunda in the Eastern Transvaal for its synthetic fuels plant

The desalination plant is to be commissioned in October and will process 5 500 cubic metres of effluent a day. CT 29/3/95

It was developed jointly by manufacturers Membratek, the Water Research Council and Stellenbosch University — Sapa

Generic medicines plan

Political Correspondent

ARG 29/3/95

THE government is considering allowing pharmacists to substitute generic medicines for those specified on doctors' prescriptions.

Minister of Health Nkosazana Zuma told the senate the proposal was being discussed with "role players in the health sector". (183)

Petrol price shock in the offing

OWN CORRESPONDENT

Durban — Another 5c or 6c a litre on the price of petrol next month is no April fool joke — it's a certainty.

One cent of that will go into the Government's pocket as part of the first half of the phased-in 2c increase in the fuel levy announced in the Budget.

The remainder will go to recover the average daily shortfall of the pump price on the all-in delivery price as calculated using the formula agreed by all parties to the National Economic Forum liquid fuels task group.

The "basket" of refined fuel prices used to calculate the landed cost has been rising since the beginning of the year.

)(183)

Sentrachem nearly doubles earnings

CT (BR) 29/3/95 (183)

Higher turnover, lower tax and reduced finance charges after rights issue help group to attributable earnings of R90m

THE RIGHT CHEMISTRY *Sentrachem MD John Job*
PHOTO ANDREAS TEICHMANN

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Chemicals group Sentrachem, in which Sankorp is the major shareholder, came close to doubling attributable earnings to R90 million in the six months to February from R46 million in the same period last year

The performance was attributed to NCP (industrial chemicals) and Safripol (plastics)

Turnover was 27 percent higher at R1,8 billion, on which operating margins of 8,7 percent (8,8 percent) resulted in operating income of R153 million (R124 million) Growth in turnover arose from higher volumes as well as upward pressure on costs and selling prices in the world's chemical cycle

Sentrachem MD John Job said the narrower margins were not a trend, but reflected the general condition of having to adjust cost inputs and price outputs

After the injection of capital from last year's R294 million rights issue, net financing charges fell to R28 million from R36 million

The capital injection also held benefits for the tax charge, because most of the proceeds were invested in preference shares on which tax-free dividends are earned, according to financial director Norman Kennelly The tax rate of 21,6 percent also reflected benefits from the General Export Incentive Scheme, which will be taxable in the second half, and the investment allowances

The bottom line was boosted by a halving of minorities' share of profits because Sentrachem has bought out the remaining 50 percent of the herbicide and pesticide company Sanachem

On a greater number of shares in issue, earnings a share were 36 percent better at 52,9c Capitalisation shares, or a cash dividend of 12c (8c) a share, are being offered

Job said the group had increased its interim dividend sharply because it intended to reduce the disparity between the interim and final dividends The 50 percent increase in the interim dividend might not reflect dividend prospects for the full year

Swiss lift secrecy clause: Switzerland has agreed to

Naidoo vows faster

Oil deal: Engen at odds with Tanzania

(183)

CT(BR) 29/3/95

By Joe Khamisi

ARGUS FOREIGN SERVICE

Nairobi — South African oil company Engen has run into contractual problems with Tanzania, only three months after entering into an attractive supply agreement with the country's Petroleum Development Corporation (TPDC)

The East African Standard in Nairobi, Kenya, quoted Tanzanian officials as warning that there would be a fuel crisis if Engen failed to deliver 27 000 tons of fuel expected next month. Officials in the Tanzanian capital, Dar es Salaam, said the consignment was expected between April 12 and 17

But Engen's general manager in Kenya, John Slee, said this week the delivery was not in the agreement signed between the two parties in January The contract bound Engen to supply 180 000 tons of fuel to Tanzania in eight batches.

"The first shipment was in February, followed by another one in March The TPDC wanted another consignment in April, and we told them it was too soon," he said

TPDC's managing director, Yona Killagane, said Engen's failure to deliver confirmed fears that South Africa did not have the capacity to meet southern African demands for petroleum.

Enough fuel

But Slee said Engen had enough fuel to meet Tanzania's needs, "and even if there is a problem we can get supplies elsewhere" He said Engen would abide by the terms in the contract

Engen's chief operating officer, Errol Martin, confirmed Slee's statements, saying the company had met its contractual obligations to deliver two shipments of fuel per quarter.

He said an extra shipment would result in Engen having to provide 130 000 tons of the 180 000 tons of the contract within six months

"We tried to contact the Tanzanians, because we could easily have sourced the cargo from elsewhere in our supply system, but they failed to come back to us and instead went out to open tender for the additional requirement It was a matter of a communication breakdown."

THE RIGHT CHEMISTRY *Sentrachem MD John Job*

PHOTO ANDREAS TEICHMANN

Naidoo vows faster delivery on RDP

CT(BR) 29/3/95

By Derek Tommey

MINING EDITOR

The minister at the helm of the reconstruction and development programme, Jay Naidoo, says delivery of the RDP's objectives should speed up by mid-year

Naidoo told an oil and minerals conference in Johannesburg yesterday that delivery would be most active in the housing sector.

"We are gearing up the private sector, we are making agreements with the financial sector, we are making arrangements with the construction industry for a warranty scheme, so a lot of things have to be in place

"One of the things we have learnt is that you have to do it properly, even if it means doing it slowly You are not going to solve problems just by throwing money at them"

Naidoo likened the RDP to a border that stood between South Africa achieving success or failure — but he was confident the programme would succeed

He said the the RDP was not a national plan — it was aimed at ensuring that the government harnessed all the available resources for delivery

He said one of the problems holding up the implementation of the programme was that South Africa did not have legitimate local structures

But this would be solved after the local government elections, scheduled for November

Another problem was the need for effective management. One of the most important resources that the private sector could bring into delivery was management expertise on a technical level

He said the government was holding discussions with major companies about about their role in the RDP

Naidoo said that a reconstruction and development fund had been set up by cutting government spending across the board The fund amounted to R2,5 billion last year, it was R5 billion this year, and would increase to R12,5 billion in the fifth year

In five years' time the entire budget would reflect RDP priorities "We see the RDP not as an add-on programme, but essentially as a central and core function of the government to deliver on the needs of our people"

Attributable earnings almost double

Global factors push Sentrachem higher

Star 29/3/95 (183)

■ BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Chemicals group Sentrachem, in which Sankorp is the major shareholder, came close to doubling attributable earnings to R90 million in the six months to February from R46 million in the same period in 1994 on good performances from its industrial chemicals and plastics operations

Turnover was 27 percent higher at R1,8 billion, on which operating margins of 8,7 percent (8,8 percent) resulted in operating income of R153 million (R124 million). Growth in turnover arose from higher volumes as well as upward pressure on costs and selling prices as a result of the world chemical cycle.

Sentrachem managing director Dr John Job said the narrower margins were not a trend, but reflected the general condition of having to adjust cost inputs and price outputs.

After the injection of capital from last year's R294 million rights issue, net financing charges fell to R28 million from R36 million.

The capital injection also held benefits for the tax charge, because most of the proceeds were invested in preference shares on which tax-free dividends are earned, according to financial director Norman Kennelly. The tax rate of 21,6 percent also reflected Geis benefits, which will be taxable in the second half, as well as investment allowances.

The bottom line was boosted by a halving of minorities' share of profits because Sentrachem has bought out the remaining 50 percent of herbicide and pesticide company Sanachem.

On a greater number of shares in issue, earnings a share were 36 percent better at 52,9c Capitalisation shares, or a cash dividend of 12c (8c) a share, are being offered

Job said the group has increased its interim dividend sharply because it intends to reduce the disparity between the interim and final dividends. The 50 percent increase in the interim dividend may not reflect dividend prospects for the full year.

The major contributors to the group's improved profits were industrial chemicals producer NCP and plastics manufacturer Safripol.

NCP restructured and refocused in 1994 and achieved sharp increases in sales volumes, firmer prices and controlled costs

Sentrachem announced earlier in March that Safripol, which is now running at full capacity, would build a new polypropylene plant at Sasolburg at a cost of R200 million.

This cost accounts for the bulk of group capital commitments of R286 million on the balance sheet. The remainder is ongoing capital expenditure

Sanachem suffered from a strike at the Berlin plant and from lower than expected local and export demand. Rubber and carbide division Karbochem achieved its budgets although it had difficulty in passing on cost increases

Job said the group's future investment prospects were very exciting.

For the rest of the year improved domestic demand and strong growth in international chemical prices are expected to continue. The directors said earnings a share growth for the full year is likely to be substantially better than the inflation rate.

Tanzania, Engen hit delivery snag

(163) Star 29/3/98

BY JOE KHAMISI
FOREIGN NEWS SERVICE

Nairobi — South African oil company Engen is reported to have run into contractual problems with Tanzania, only three months after entering into a supply agreement with that country's Petroleum Development Corp (TPDC).

A report in the East African Standard newspaper here quoted Tanzanian officials warning of a fuel crisis if Engen failed to deliver 27 000 tons of fuel expected next month. Officials in Dar es Salaam said the consignment was expected between April 12 and 17. But Engen Kenya general manager John Slee said the delivery in question was not in the agreement signed in January.

He said the agreement called for the supply of 180 000 tons of fuel to Tanzania broken down into eight cargos.

The first shipment was in February followed by another in March "But the TPDC wanted another consignment in April. We told them it was too quick; that it was not in the agreement."

TPDC managing director Yona Killagane said the failure confirmed fears by Tanzania government officials that SA did not have the capacity to meet southern African demands for petroleum as claimed in certain quarters of the petroleum industry.

Slee maintains Engen has enough fuel to meet Tanzania's needs

Contacted in Cape Town, Errol Martin, Engen's chief operating officer, said Engen had met all its contractual obligations to deliver two shipments. Engen attempted to make contact with regard to the request for a third shipment as it could have sourced the cargo from somewhere else "but they failed to come back to us" and instead went out to open tender.

Sentrachem almost doubles earnings

BD 29/3/95 (183)

MARCIA KLEIN

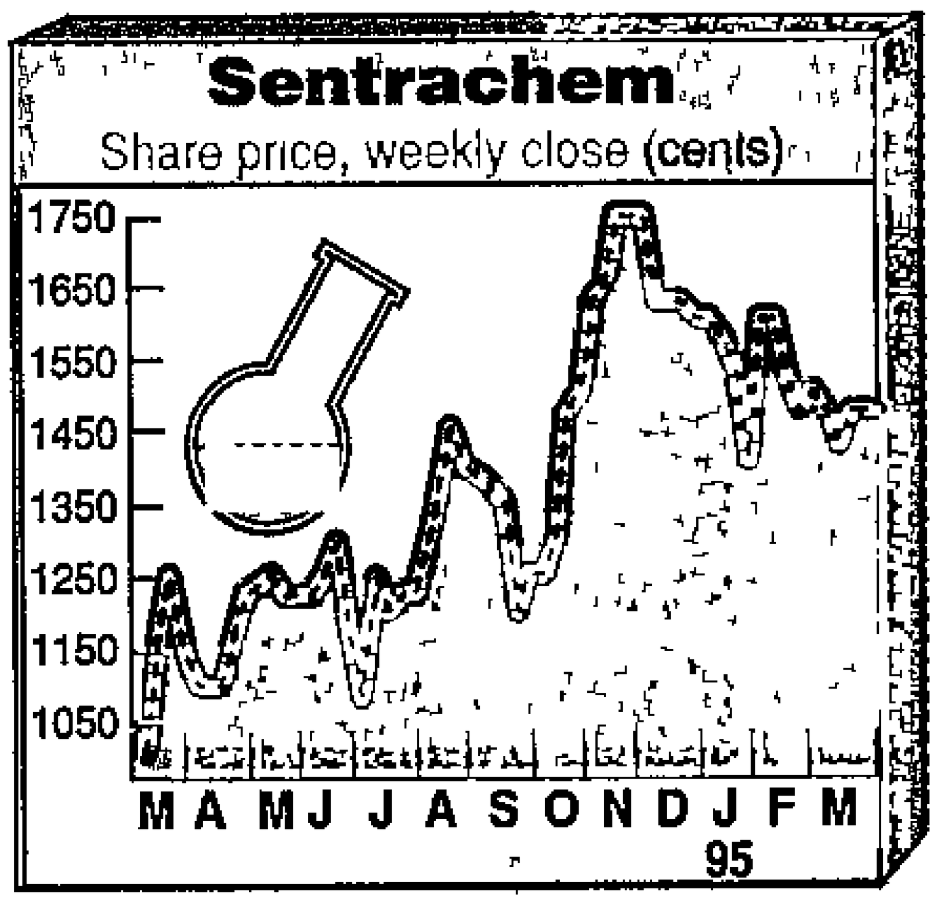
STRONG world demand for chemicals has enabled chemicals group Sentrachem to report a 96% surge in earnings to R90m (R46m) in the six months to February

MD John Job said Sentrachem was enjoying improved economic conditions, but had also earned the better results The growth included significant contributions from industrial chemicals producer NCP and plastics manufacturer Safripol

However, a 46% increase in the number of Sentrachem shares in issue — following the group's R294m rights issue and the issue of shares for the acquisition of the remaining 50% of herbicide and pesticide manufacturer Sanachem — had resulted in a relatively subdued 36% growth in earnings to 52,9c (39c) a share.

Job said higher volumes and prices saw the group report turnover growth greater than inflation for the first time in many years. The 27% rise in turnover to R1,76bn (R1,39bn) included a 46% increase in export turnover By year-end, export turnover was expected to reach about 18% (15%) of group turnover.

Operating income was 23% higher at R153m (R124m) with a slight narrowing of margins. Lower financing costs enabled the group to increase pre-tax income 42% to R125m (R88m).



The huge rise in attributable earnings was achieved after a lower tax rate and a drop in outside shareholders' interest, with Sanachem now wholly owned.

Sentrachem has offered shareholders a capitalisation award or a cash dividend of 12c a share — 50% up on the previous interim dividend

Financial director Norman Kennelly

☐ To Page 2

Sentrachem

(183) BD 29/3/95

☐ From Page 1

said the interim dividend traditionally had been too low, so the group had used this opportunity to reduce the disparity between the two dividends The interim payment was not an indication of dividend growth for the full year.

The period had been characterised by a sharp increase in input costs and the prices received for its products, evident in a sharp rise in current assets and current liabilities, he said.

Job said the worldwide chemical cycle had started to pick up significantly in June, with the supply and demand pattern tightening up. Sentrachem was in the "full thrust" of the cycle, which was likely to last another three years

NCP, which was restructured and refocused in the previous year, had performed particularly well, with volume increases, firmer prices and contained costs

Safripol's plants were running at full capacity to supply growing demand, and its sales and pre-tax profit were ahead of budget. The R200m polypropylene project, which was announced in February, would be commissioned in September next year.

Sanachem's results declined after a strike at its Berlin plant and lower than expected local and export demand, but it would fare better in the second half.

Rubber and carbide division Karbochem felt the effects of the removal of import control, but these were offset to some extent by improved rubber prices

Job forecast "strong real earnings growth" in the second half following improved domestic demand and strong growth in international chemical prices.

Sasol waiting to show the world new process

(183) 29/3/95 BD

OIL-from-coal and petrochemicals producer Sasol says it is seeking opportunities to apply a proven process that converts large, low-cost natural gas to higher-value fuels.

"The increased demand in Europe and the US for high-quality, low-sulphur and low-aromatic diesel fuels creates an opportunity for the implementation of the Sasol process on remote gas fields," Sasol MD Paul Kruger said at an oil and minerals conference in Johannesburg.

The slurry phase distillate process converted natural gas into high-quality diesel, kerosene and naphtha. Despite an increase in global natural gas reserves, particularly in areas remote from conventional gas markets, options to develop and exploit these were limited.

Piping gas to markets was possible but was often limited to short distances.

Production of liquified natural gas was frequently considered, but markets for this were limited and the investment involved required that contracts were fixed prior to development of a project. The slurry-phase distillate process allowed a smaller scale, lower investment alternative to large pipeline or liquified natural gas projects, with the products easily marketable through conventional channels.

According to a Sasol paper presented at the conference, the process allowed economic returns to be reached with lower capital investment.

The process could be built in modules, each with a maximum capacity of 10 000 barrels a day.

Each would have a natural gas consumption of 90-million standard cubic feet a day. Preliminary calculations showed the capital investment required for such a module could be $300m to $350m, depending on site and infrastructure. — Reuter.

AECI expects yet another good year

(183) BD 29/3/95

MARCIA KLEIN

CHEMICAL group AECI, which notched up a 40% rise in earnings to 186c a share in the year to December, expects a further significant increase in earnings in financial 1995, chairman Mike Sander said in the annual review

He said the focus on driving each of the group's divisions and interests "to an internationally competitive and sustainable position" remained a priority.

An important strategy was diversification into new fields of business

The group's lysine project, due to commence production at mid-year, would open the way for other investments based on similar technology, Sander said..

Caucus threatens to leave task force

ERICA JANKOWITZ

THE business caucus of the liquid fuel industry task force yesterday gave notice of its intention to suspend its participation until government tabled proposals on deregulation which would allow for meaningful negotiation.

(183)

Sources said this could be interpreted as trying to "force government's hand" as parties had been unable to settle the deregulation debate without being informed of government parameters.

BD 30/3/95

National Economic, Development and Labour Council spokesman Debra Marsden said there was a feeling that activities would continue and parties would await a government discussion paper on energy policy.

Marsden said government and labour conveners would take the business caucus proposal back to their constituencies for comment. Late yesterday, government sources were unaware of the threatened withdrawal and so could not comment.

BUSINESS Pik calls for Sub-Saharan cooperation in oil and minerals

Standing together

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■ **FUTURE PLAN** Body to make policy, develop resources, meet needs:

30/3/95 Sowetan

By Isaac Moled

SUB-SAHARAN countries must create a body that will determine the establishment of an effectively functioning energy infrastructure, Minister of Minerals and Energy Mr Pik Botha said this week

Addressing a Sub-Saharan Oil and Minerals conference in Johannesburg, Botha said Sub-Saharan countries need to establish working regional and sub-continental structures covering the whole Sub-Sahara The body should determine policy, develop resources, identify and match needs and supply and provide for rural electrification

"They should not be mere shadows of state energy ministries, dependent on them for planning and unable to decide on or spend more than a pittance without state consent," Botha said

The second leg of the energy development strategy, according to Botha, involved creating and empowering strong utilities

"Governments will come and go. But the utilities must remain," Botha said, adding that the quality of leadership of these utilities was vital, as they would be required to ensure the practical implementation of energy policy and planning

Pik Botha

(183) FM 31/3/95

CHEMICAL SERVICES

Timely expansion

SA's political transition has offered Chemical Services (Chemserve) increasing opportunities in chemical distribution. Four of its 16 operating companies were involved in this at year-end, with a fifth substantial acquisition this year enhancing focus here

The programme gathered momentum in 1992 when Chemserve and most of the rest of the chemical industry were in the doldrums The group cut its inventory, slashed debt and went on an acquisition spree.

Timing appears to have been spot on. As acquisitions were bedded down, local and world chemical demand picked up

MD Lex van Vught emphasises that distribution businesses are not being acquired at the expense of the other two divisions, formulated and process chemicals. Improving relations with the rest of

Activities: *Makes and distributes speciality and raw chemicals*
Control: *AECI 66%*
Chairman: *M Sander MD L C van Vught.*
Capital structure: *6,5m ords Market capitalisation R433m*
Share market: *Price R67 Yields 2,6% on dividend, 7,6% on earnings, p e ratio, 13,2, cover, 2,9 12-month high, R67, low, R54 Trading volume last quarter, 14 000 shares*

Year to December 31	'91	'92	'93	'94
ST debt (Rm)	29,7	20,0	46,8	36,0
LT debt (Rm)	15,8	6,7	24,4	26,7
Debt:equity ratio	0,41	0,10	0,41	0,26
Shareholders' interest	0,42	0,51	0,38	0,38
Int & leasing cover	6,0	9,7	10,4	9,4
Return on cap (%)	25,0	19,4	17,0	18,0
Turnover (Rm)	478	438	602	742
Pre-int profit (Rm)	59,8	45,5	58,1	70,3
Pre-int margin (%)	12,5	10,4	9,7	9,5
Earnings (c)	430	267	402	506
Dividends (c)	140	140	155	176
Tangible NAV (c)	1 609	1 867	2 025	2 327

the world has allowed the group to concentrate on areas in which Chemserve was previously under-invested.

Some effects of the changing focus come through in the 1994 annual report, which again contains a high level of disclosure. The acquisitions boosted turnover, accounting for 10% of the 23% increase, but the results are not always flattering.

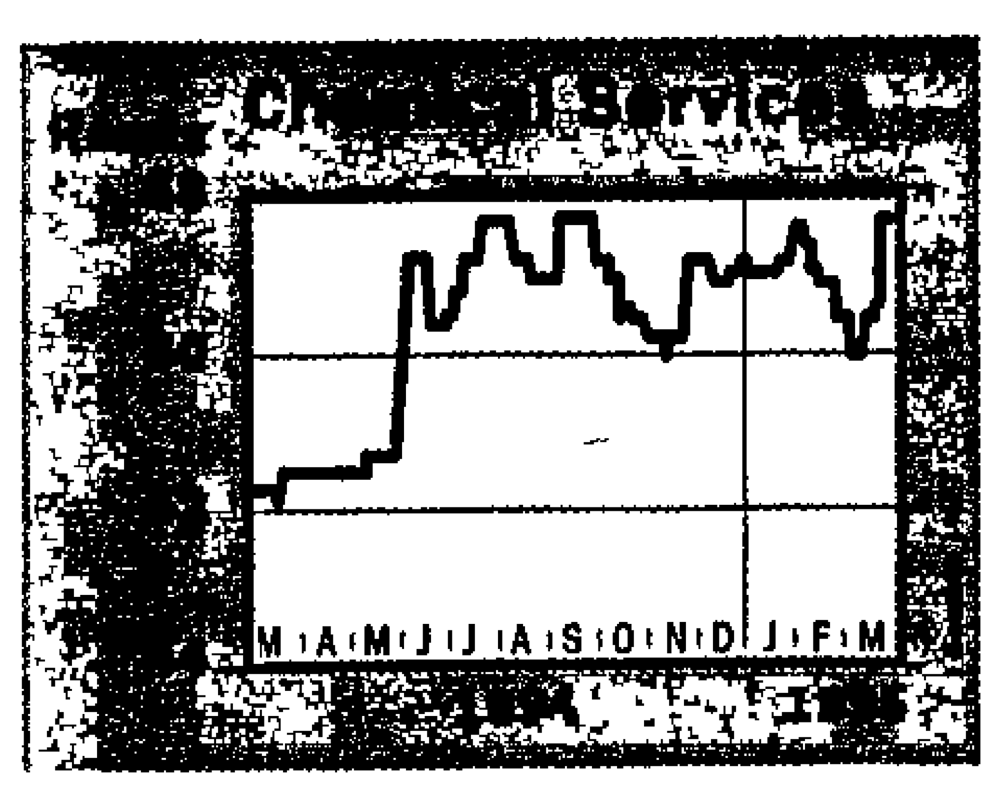
That is mainly because two acquisitions, Holpro (renamed Chemserve Fine Chemicals) and Saarchem, under-performed for most of financial 1994.

Saarchem lost money due to "poor systems and practices." Management has largely been replaced Holpro, which showed a loss for the earlier part of the year, has been restructured and merged to form a new entity. Van Vught says both firms are now comfortably in the black.

Chemserve's Van Vught

Chemserve also gained two new businesses through acquisitions. The first, Mandoval Vermiculite, which makes speciality chemicals for horticulture and filtration applications, has been slotted into the process chemicals division.

The second, made after year-end, will bolster Chemserve's distribution activities.



The group acquired D B Silicones, Dow Corning's southern African distributor. Chemserve will now distribute the Belgium-based group's silicone products, which chairman Mike Sander says will contribute to and benefit from the RDP.

The price has not been disclosed but is believed to be about R22m, making it one of Chemserve's bigger acquisitions.

Why the emphasis on distribution? Sander says that as a result of globalisation of the industry and the reduction of protective trade barriers, "we believe chemical distribution has excellent growth prospects in southern Africa." He is encouraged by political and economic developments at home and the revival of the industry worldwide, saying that with the buoyant conditions which emerged in most of Chemserve's markets during the last quarter of 1994, he is confident of growth.

Van Vught is targeting 14% higher EPS of 580c this year and a 7% higher dividend payout of 190c. Considering Chemserve's performance last year, when, despite problem acquisitions and market resistance to price increases, EPS grew by 26% and the dividend by 14%, the forecast appears conservative.

Sales growth is on track, with exports — at R42m, 6% of turnover compared with 4,8% the previous year — making a better contribution. Cash generation is robust, helping to reduce total borrowings by nearly R10m to R62,7m

Not all the stated objectives are being met Directors want to increase dividend cover to 3,5 times and the 22% return on net assets is below the targeted 30%. With demand for chemicals firm and under-performers apparently ironed out, Chemserve should reach its performance ratios.

Over the past year, share price appreciation has kept pace with growth in EPS Though the price has again reached its high for the year, there still seems to be scope for growth.

Limited tradeability of the share poses a problem, though. As a percentage of the total number of shares in issue, the amount traded has dwindled from about 8% in 1991 to below 3%. That dampens what otherwise looks like an attractive buy *Shaun Harris*

Wage policy high on union's agenda

(183) RENEE GRAWITZKY

THE formulation of a wage policy and a programme of action in support of centralised bargaining in the chemical industry are to be the main areas of discussion at the Chemical Workers' Industrial Union's third national collective bargaining conference starting today

General secretary Muzi Buthelezi said the union would demand that government, as it had done in the public sector, legislate centralised bargaining arrangements in the Labour Relations Act for all industries, as was agreed by Cosatu's central executive committee last Friday.

He said that the union was "on the verge of an agreement being reached with the five petroleum companies on the establishment of a centralised bargaining forum".

This would be the first centralised bargaining forum in the chemical industry, Buthelezi said. (255)

One of the obstacles to agreement was the employers' rejection of negotiating wages at central level.

But he did not believe this would ultimately be a problem in the establishment of the forum. BD 31/3/95

However, the union would formulate a programme of action to put pressure on employers over the centralised bargaining demand, he said.

In the formulation of its wage policy, which would consider linking wages to skills development, there would be input from NUM general secretary Kgalema Motlanthe.

SENTRACHEM

Becoming a different animal

(183) FM 31/3/95

Investors were expecting strong results from Sentrachem They helped push the share price to a high of R18 late last year Despite drifting down recently to R14,75, in line with the softer market, the share has gained about 50% over the past year

Still, the 36% increase in EPS, diluted from a 96% jump in attributable earnings following Sentrachem's R289m rights issue last April, was at the top end of market expectations

The surprise in the results is that little help came from Sanachem, usually a strong, export-based performer and in which Sentrachem acquired the outstanding 50% last September Five months' inclusion of 100% of Sanachem was expected to boost interim results, but ironically the herbicide and pesticide company was hit by a strike at its Berlin plant and experienced lower-than-expected demand

"We were expecting the full inclusion of Sanachem to have a substantial impact on these results," says financial director Norman Kennelly "In the end its impact was not material, at least not more than when we owned 50% of the company"

An improved performance is expected in the second half, which should strengthen full-year results MD John Job says most of Sanachem's overseas sales, which will probably top 70% of the company's turnover, are expected to go through in the second half

Overall, exports are making a growing contribution at group level They comprise about 16% of total sales in latest results, up from 15% at year-end

Job expects exports to account for up to 19% of turnover for the full year

Apart from strong growth, the most important indication that Sentrachem is feeling confident about its own future is the decision by Safripol, jointly owned with Hoechst, to build a R200m greenfields polypropylene plant

Job says the decision to go ahead with the investment was made after Sentrachem negotiated an acceptable monomer supply contract with Polifin, Sasol's joint venture with AECI He expects the plant to be operational by the end of next year and says that funding will probably be largely internal

Sentrachem's Job *confident enough for greenfields investments*

Should debt be needed, Sentrachem has ample capacity now that it has sorted out its balance sheet Gearing has declined to 19% from the previous period's 42% That is reflected in interest charges which have dropped about 22% to R28m

Cash generation is buoyant, up 26% to R218m compared with the previous period, though the increase in working capital requirement has more than doubled to R96m Job says the increase has been necessary to fund the higher level of business activity

TAKING OFF

Six months to	Feb 28 1994	Aug 31 1994	Feb 28 1995
Turnover (Rbn)	1,39	1,41	1,76
Operating income (Rm)	124	124	153
Attributable (Rm)	46	74	90
Earnings (c)	39	52	53
Dividends (c)	8	20	12

Some former problem areas appear to have been sorted out, notably those companies — a legacy of Sentrachem's import replacement past — which depended on tariff protection to a large degree

NCP, after some radical surgery including closing its Germiston plant and 500 retrenchments, performed well Job says volumes increased, margins were maintained and fixed costs kept under control

Rubber and carbide producer Karbochem is probably the most affected by reduced import protection, though Job says that the business is trading at budgeted levels despite the difficulty in passing on cost increases

Mega Plastics has recovered significantly since the end of the year, after the auto industry strike

Group margins took a slight knock, though Job does not believe it will be a continuing trend

"We are on a steep curve with cost inputs and selling prices changing dramatically It's difficult to harmonise these over a six-month period," he says

With firming domestic demand for Sentrachem's products and strong growth in international chemical prices, full-year earnings growth should be good An improved performance by Sanachem could be the kicker which keeps EPS growth roughly at the 36% level

Looking further ahead, some analysts expect Sentrachem to maintain EPS growth above 30% for the next few years

That makes it more than a cyclical investment — despite being the most highly rated of the big chemical group shares, it probably offers considerable value at present levels *Shaun Harris*

NSA INVESTMENTS

New flight plan

NSA, the recently listed clone of former investment trust New Bernica, is to buy a 20% stake for R37,4m in Commercial Airways (Comair), arguably the most successful of the independent domestic airlines

NSA has teamed up in a consortium with Genbel for the acquisition, NSA holds an 80% stake in the venture An option to buy another 10% in Comair is effective in June next year The *FM* understands the deal was effected at a p e of 8,0 This implies Comair's value is about R190m and its after-tax earnings are about R23m a year The next 10% tranche is apparently to be bought on a p e multiple of 10

This suggests that Comair may be listed on the JSE, perhaps in the next year or so, if for no reason other than that NSA will probably be uncomfortable in the long term if it is saddled with investments which don't offer reasonable exit avenues

Interestingly, Comair has been listed before — in 1967, Comair Holdings was listed as part of the frenetic listings boom which accompanied the industrial bull market of those years The company has never been delisted — it was bought by the Pickard group and re-named Picardi Holdings (Pichold) However, in 1976, a management buyout took the aviation division

(183)

SASOL FM 31/3/95

Reaction to change

When Sasol was established in the Fifties, it acquired rights to two embodiments of the Fischer-Tropsch reaction for hydrocarbon synthesis One, the US Kellogg process, was developed into the Sasol process for making petrol

The other was a low-temperature conversion process known as Arge — which produces waxes and diesel rather than petrol It has been used (in the form of a tubular fixed bed reactor) at Sasolburg mainly to produce waxes

Sasol MD Paul Kruger told this week's sub-Saharan Oil & Minerals Conference in Johannesburg that the company's R&D department has invented a much-improved system for the low temperature conversion, using a slurry-bed reactor.

Sasol is offering the process as a cost-effective means of making commercial use of remote but cheap sources of natural gas To transport natural gas by pipeline is feasible only where distances are short

If a slurry-bed plant is erected on the gasfield, all this is simplified The first stage would be conversion of the methane to synthesis gas The synthesis gas becomes the feedstock for a slurry-bed reactor.

Kruger says the reactor can be built in modules, each with a maximum capacity of 10 000 BPD or 425 000 tons a year Each module could cost around US$300-$350m

Now comes the payback Sasol says at a gas price of 50 US cents per million Btu, the feedstock cost is less than $5 a barrel of product Other fixed and variable costs will result in a production cost of $10 a barrel

Because of their high quality, the products can be sold at a price above that of conventional fuels Depending on market conditions, a premium of 20%-30% over conventional distillate fuel prices seems possible In other words, if the gas comes cheap enough, Sasol claims to have achieved a process which is competitive with products refined from crude oil at present prices ■

Shaun Harris

(183) FM 31/3/95

SA DRUGGISTS

Intoxicating finances

The 1995 interims for SA Druggists (SAD) make heady reading Turnover in the six months to February 1995 grew 21,5% to R1,25bn on the year-ago interim, thanks to "excellent" performances by the Pharmaceutical and Chemical & Medical divisions in particular

Operating income rose 14,5% to R71m Results for the six months to August 1994 reflect the seasonal fluctuation in earnings (first half 40%, second half 60%) and are not directly comparable However, these hinted at good growth for the full year

Low margins in the new Healthcare and International divisions, and heavy discounting on the distribution side, depressed the group operating margin from 6% (February 1994) to 5,7% (February 1995) Nonetheless, SAD remains on course for a budgeted earnings increase of 20% over the full year Attributable earnings for the 1995 first half grew 22,2% to R44m (1994 R36m) and EPS rose a fifth to 72c

Shareholders have the option of taking their 26c dividend in the form of capitalisation shares The previous cap issue was 99% subscribed and released nearly R16m for SAD's capital investment programme CE Peter Beningfield notes that cap issues improve the asset base and add to liquidity Trade in the share has increased in the past six months, which is favourable

Capital spending totalled R9m in the half year and the group is committed to spend another R148m expanding and modernising its operations. It spent R22m on the pharmaceutical and fine chemicals factory in Cape Town to increase capacity and flexibility, also bringing it into compliance with current US Food and Drug Administration standards The division has recently started to sell to Japan.

SAD has about 22% of the local drug distribution market, worth about R1bn, and is the only distributor to run an automated distribution system In warehouses in Johannesburg and Cape Town, fast-moving products (about 65% of the total range) are electronically picked and automatically packed The system has halved the picking time and materially reduced stock theft

Theft from State-run hospitals and clinics is serious — because stolen drugs are resold on the grey market, in direct competition with the original suppliers Beningfield says the drug syndicates are sophisticated and strict inventory control systems are needed to detect and counter theft

Exports and international operations form a growing part of SAD's business Expansion into the UK and European markets through subsidiary Trinity is ahead of target and Beningfield expects the company to break even in June-July 1995 The Lennon name is gaining ground, partly through the recommendations of SA doctors now practising in the UK

The factory in Malawi will supply Unicef pharmaceutical aid programmes in Central Africa as well as some of the SA market

As yet, the future for drug companies in SA is opaque, but Beningfield sees "universal, affordable, basic health care" as one clear government policy and says SAD is well positioned to compete "A large portion of our business is the supply of low-cost and generic drugs We are also a supplier to the State"

Beningfield emphasises that the group has to be internationally competitive without the support of State incentives in order to survive Competition is intensifying in the domestic market — with the entry of multinationals — and is keeping margins under pressure

From the line the Minister of Health has taken so far, the move to generics is likely to be accelerated, along with a push for lower prices Currently on a p e of 17,8, marginally above the sector average, the share has slipped from a 12-month high of R36,50 to R30,50 With better tradeability and good prospects, there is plenty to recommend it

Margaret-Anne Halse

GOOD MEDICINE

Six months to	Feb 22 1994	Aug 31 1994	Feb 28 1995
[illegible]	[illegible]	1 119	1 253
[illegible]	[illegible]	88	71
[illegible]	36	60	44
Earning[illegible]	[illegible]	99,4	72,0
[illegible]	25,5	30,5	[illegible]

Union says no talking now until its demand is met

RENEE GRAWITZKY

THE Chemical Workers' Industrial Union (CWIU) resolved yesterday to suspend all plant- and company-level wage negotiations until employers agreed to demands for centralised bargaining. (183)

The 45 000-member union took this decision at its three-day national bargaining conference which ended at the weekend

The union said employers in the petroleum, consumer goods, glass, heavy chemicals and rubber sectors faced co-ordinated mass action culminating in a national strike if they failed to agree to centralised bargaining.

The union decided also to press for a 20% across the board increase and a R1 600 minimum wage.

Union wage policy would also encompass equal pay for work of equal value, career paths for all, training, recognition of prior learning, fair promotional systems, removal of all wage discrimination, a single grading system, the narrowing of wage gaps, a 10% differential between grades, the reduction of the number of grades, and full disclosure of information and worker participation in decision making.

CWIU president Abraham Agulhas said the time had come to "stop employers taking decisions on their own over investment, restructuring, training and new technology".

Cosatu president John Gomomo urged workers to discuss the draft Labour Bill and said although the National Economic Development and Labour Council (Nedlac) was of Cosatu's own making, it was not a "holy cow". BD 3/4/95

Cosatu would continue to assess its participation in Nedlac and "would pull out" if it did not remain accountable to membership, result in redistribution of wealth, increase worker power and deepen democracy, he said.

Labour Minister Tito Mboweni faced a barrage of questions on dealing with the duty to bargain and workplace forums.

Adcock results affected by Astra

(183)

BEATRIX PAYNE

PHARMACEUTICAL group Adcock Ingram saw turnover increase 12,3% during the first three months of its financial year but earnings for the six months to end-March could slip, CE Don Bodley said

The transfer of pharmaceutical products to the joint venture with Astra — established early last year — would continue to distort performance comparisons

"But from the second half the effect of the Astra joint venture will be out of the equation and we expect to see earnings better or at least the same as last year."

He said the quarterly figures were an overall review and were not statutory The group posted a 15% rise in earnings to 82c a share for the year to September

The increase in sales during the first quarter followed the merger between the self-medication and the consumer products divisions

BD 4/4/95

"The merger has provided benefits of critical mass, synergy and long-term cost savings. New products in the pipeline and the acquisition of trade marks for leading brands in Zimbabwe add further value to the growth potential of the division."

The wholesale division increased market share and performed ahead of expectations The wholesale market generally had changed as a result of the difficulties being experienced by Premier Group's United Pharmaceutical Distributors.

The division had refocused and was extending its consumer base beyond the traditional community pharmacy to the private hospital and dispensing doctor market, Bodley said

The Adco range of generic medicines housed in the pharmaceutical division reported 51% growth in sales over the three-month period Ethical products had met budget expectations but comparisons would be distorted by the transfer of products to the Astra joint venture

Pharmatex Pharmaceuticals — known previously as Syntex — had become a fully-fledged division of Roche Products after Roche acquired Syntex about six months ago

Bodley said the group had distributed, packaged and invoiced Pharmatex products and the operation had had no impact on the balance sheet

Population increases likely to favour Omnia

(183)

BD 7/4/95

SELLO MOTLHABAKWE

FEEDING the rapidly increasing population in developing and underdeveloped countries would have to spring mainly from improved use of land already under cultivation, fertiliser and chemical group Omnia chairman Johan Pretorius said in his annual review.

He said by 2020 there would be about 10-billion mouths to feed in the world Scarcity of land for agricultural production would result in the increased use of fertilisers and seeds to achieve higher crop yields as two-thirds of food requirements would have to come from the improved use of land already under cultivation.

This should result in a buoyant international fertiliser industry, and there were strong prospects for an international fertiliser market which would generate greater exports, higher prices and better margins.

The company's mining interests were promising and the expansion of open-cast mining in sub-Saharan Africa was opening up opportunities which the company was investigating, Pretorius said.

Locally, the strong recovery in the international coal market was a significant factor in the good performance of the group's subsidiary in that industry.

The group appreciated the good work of the government of national unity in creating a climate for positive economic growth, but there was concern that this was being obstructed by the incidence of violent crime and the disturbingly high level of industrial action. Lack of appropriate reconstruction and development delivery mechanisms was another area of concern, he said

Omnia was assisting with the training of agriculture students and was examining the possibility of using the expertise and resources of its farming operations to upgrade the skills of black farmers

It was essential that SA have an equitable system which provided adequate funding without discouraging local and foreign investment

Some of the Katz Commission on tax proposals required further consideration, but the commission represented a significant step towards the establishment of an equitable system.

Omnia was confident about its future Its businesses held strong positions in their markets. Its technologies and resources were advanced as well as cost effective.

The group was well placed to take advantage of any future opportunities, Pretorius said.

Govt proposals on fuel industry 'drafted soon'

(183)

MUNGO SOGGOT

GOVERNMENT was expected to draft proposals on the fuel industry's future in the next two months — a move which should revive the liquid fuels task group talks on the industry's deregulation, sources said yesterday

A government source said the departments involved in the fuel industry — including Finance, Trade and Industry, Mineral and Energy Affairs, and Transport — should present joint plans to the Cabinet's economic committee "in the next two months at the outside" If Cabinet approved them they would be discussed by the task group, which includes representatives from labour, government and business. Business and labour have presented their proposals.

BD 4/4/95

"Everyone in government wants free-market dynamics in the fuel industry to the extent that it is possible. But there are also social considerations, such as possible job losses," the source said

Members of the group's business caucus — strongly in favour of deregulation — said clarity on government's stance on the future level of state regulation would remove the only obstacle to the talks One said the difficulty government had had formulating its proposals showed how tricky the issues facing the industry were.

The business caucus last week indicated there was no point in participating in the group's full meetings until government had put its plans on the table. But business caucus members said representatives would still attend subcommittee meetings. One said the move was an attempt to prod government into action

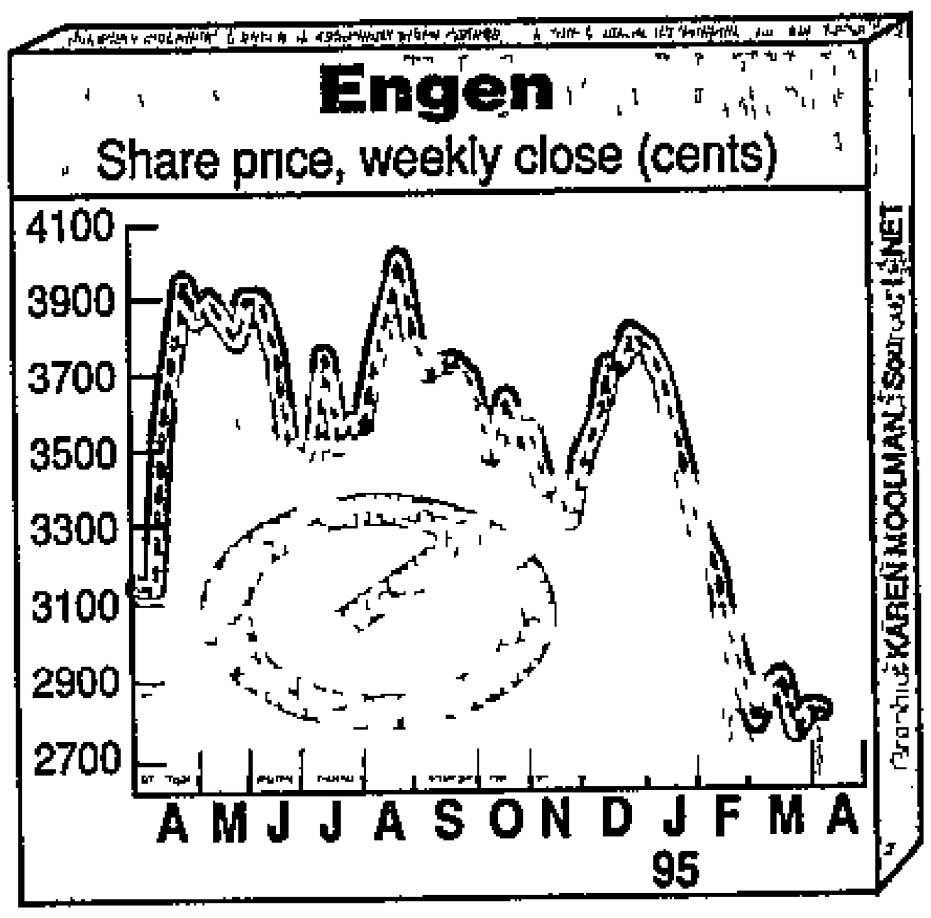
The tripartite task group was set up in September 1993 after a hefty fuel price increase alarmed consumer groups It started looking at the possible deregulation of the highly regulated industry

Meanwhile, Minerals and Energy Affairs Minister Pik Botha said he believed the group should be part of the National Economic Development and Labour Council

Engen's interim earnings slashed

(183) BD 5/4/95

MUNGO SOGGOT



POOR refining margins, static wholesale margins and operating hitches slashed Engen's earnings 49,6% to 57c a share for the six months to February

Chairman Rob Angel said there had been start-up problems at Engen's Durban refinery, which closed for six weeks' maintenance last year. These problems — not connected to upgrading the plant — had been sorted out, but the 21% drop in throughput had cut export sales 58%.

Angel expected a significant improvement in operating performance in the second half However, weak international refining margins and a narrow gap between heavy and light crude oil prices, which were unlikely to improve significantly, could affect the company again. The narrow gap between crude prices had made it difficult for Engen to make the most of its upgraded refinery.

Turnover was up 6% at R4,3bn. Operating income, after a R20m net inventory loss — caused by a stronger rand — and exceptional items dropped 25% to R171m

Historically low international refining margins had cut Engen's refining margin about $1,80 a barrel, shaving about R80m off operating income The weak margins stemmed mainly from overcapacity, especially in the Singapore market. This affected SA's refining margins through the import parity pricing formula.

An industry analyst said it appeared that Engen's refining margin had dropped 30% to 40% in rand terms compared with the same period the previous year.

Angel said adjustments to the import parity pricing system last year and government's failure to grant "long overdue" wholesale margin increases had sliced R70m off operating profit Financing costs rose to R68m (R17m), mainly to fund remaining capex on the refinery upgrade. Net income shrank 49% to R90m. The dividend was cut to 30c a share (55c)

Angel said net income in the second half was unlikely to be higher because of re-

☐ To Page 2

Engen

(183) BD 5/4/95

☐ From Page 1

trenchment and restructuring costs. A restructuring initiative intended to make Engen more competitive would bring about "significant changes" in the next six months. These could be announced in July

Part of the restructuring would include closing down stations which were not viable and switching Trek stations to the Engen livery. This would cost about R20m.

Earnings a share before exceptional items and inventory effects were clipped 53,5% to 66c a share, while earnings after tax sank 49,6% to 57c a share. Gearing rose to 31% (16,8%)

Engen had discussed a possible alliance with Sasol, but the talks had yielded nothing concrete. The fruits of Engen's upstream strategy had started to pay off, bagging a R9m net maiden income contribution from its North Sea and Oman fields.

Shocking drop in Engen profits

(183) Star 5/4/95

BY DEREK TOMMEY
MINING EDITOR

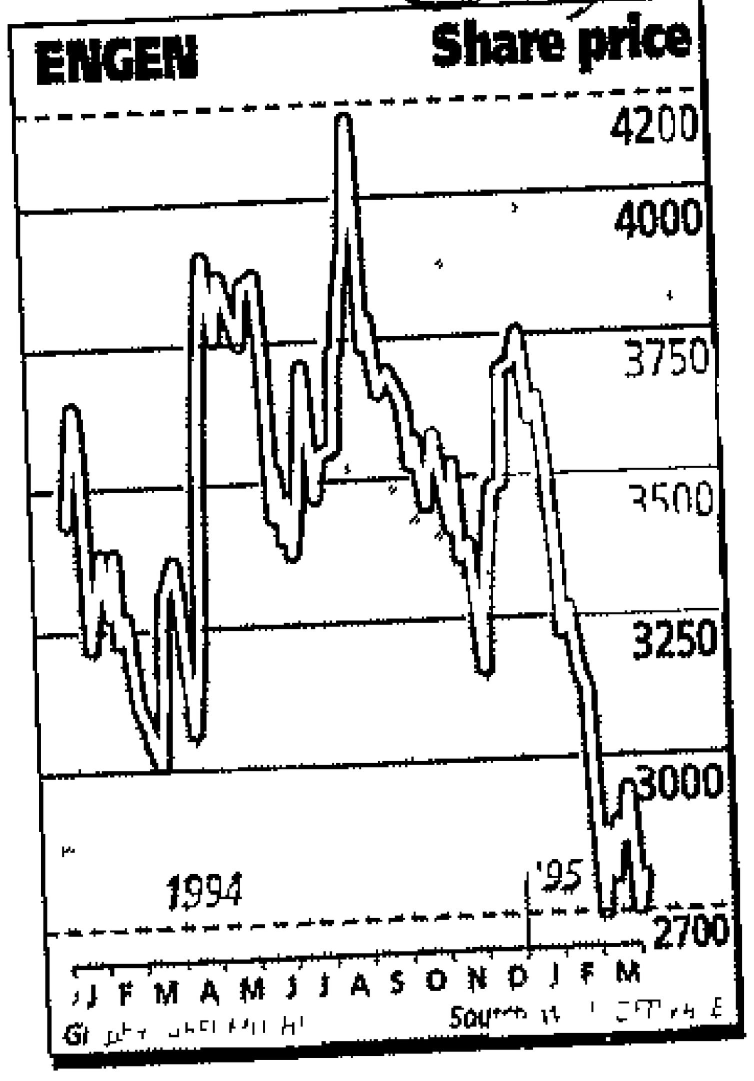
The 33% drop in the share price of Engen since last August and the 26% slide since December to the present R28 will have alerted its shareholders that the energy giant's profits were under pressure.

But few will have been prepared for the shock 49,6% drop in Engen's profits from 113c to 57c a share the six months ended February, or for the resultant 45,5% cut in the dividend to 30c a share from 55c a year ago.

Engen's chief executive Rob Angel opened a press briefing yesterday saying: "The fat cat oil industry is no more. We and the refineries around the world are experiencing a major squeeze as a result of a sharp drop in refining margins to an eight-year low."

Many oil marketing and refining companies overseas have reported a drop in earnings in 1994 of between 20% and 60%, he said.

A $1 drop in the refining margin knocked about R100-million a year off Engen's operating profits, said Angel.



The reduced margins are the result of the huge expansion of refining capacity by Far East refiners to overcome the shortage that existed a few years ago.

It means that the refining and marketing business all over the world is undergoing its biggest transformation for many years, said Angel.

Engen was also hit by a narrowing of the price differential between light and heavy crudes. Its R800-million refinery extensions in Durban were designed to enable Engen to use the cheaper heavy crude. Now the price benefit of this has almost disappeared.

Earnings were also hit by the planned closure of the refinery for periodic maintenance and the commissioning of the Phase 2 upgrade.

Angel said the economy performed better and the demand for petroleum products grew substantially. However, the growth in Engen's sales did not keep pace with the overall market growth.

One reason was that late last year Engen started closing uneconomical sites. In addition there was a tailing off in the performance of the Trek service stations, leading to a decision to rebrand them to the Engen livery

On the commercial side the market has become much more competitive with increased discounting right across the business. While industry' sales grew by 5,9% Engen's sales rose 1,9%

Tight margins knock Engen

(183) ARGUS 5/4/95

ALIDE DASNOIS
Deputy Business Editor

ACTION — or lack of it — by the authorities cost Engen R70 million in operating profit in the six months to February, chief executive Rob Angel says

Engen announced a drop of 49 percent in shareholders' profits to R90 million for the half year, in spite of a 5,9 percent increase in turnover

The tampering with the regulatory system and the authorities' failure to grant "long overdue" marketing margin increases are cited by the group as one reason for a one third drop in operating profit to R187 million

Poor international refining margins also eroded profits Margins reached their lowest level in eight years, cutting operating income by R80 million

Refinery throughput was reduced by the closure of the refinery for upgrading and by operational problems after start-up

These problems have now been resolved, Engen says

The refinery will be in full production for the rest of the year and increased throughput should restore export volumes Inland sales should benefit from further growth in the economy

But Mr Angel warns that profit is unlikely to improve in the second half, with refining margins are still well below historic norms

Profit for the year will also be affected by retrenchments and other exceptional costs associated with Engen's restructuring, which will show benefits from 1996.

The dividend has been cut from 55c to 30c, covered 1,9 times

■ Motor parts and accessories group **Midas** increased shareholders' profits 35 percent to R12,9 million in the year to February

However, an extraordinary item of R6,55 million resulting from a change in accounting policy for goodwill reduced the increase to four percent

Operating income was up 52 percent for the year

■ **Holland Insurance** has bought a 70 percent stake in Broadacres from Trans Hex for R7,5 million and intends to transform it into an investment company, with shares in well managed industrial and commercial businesses

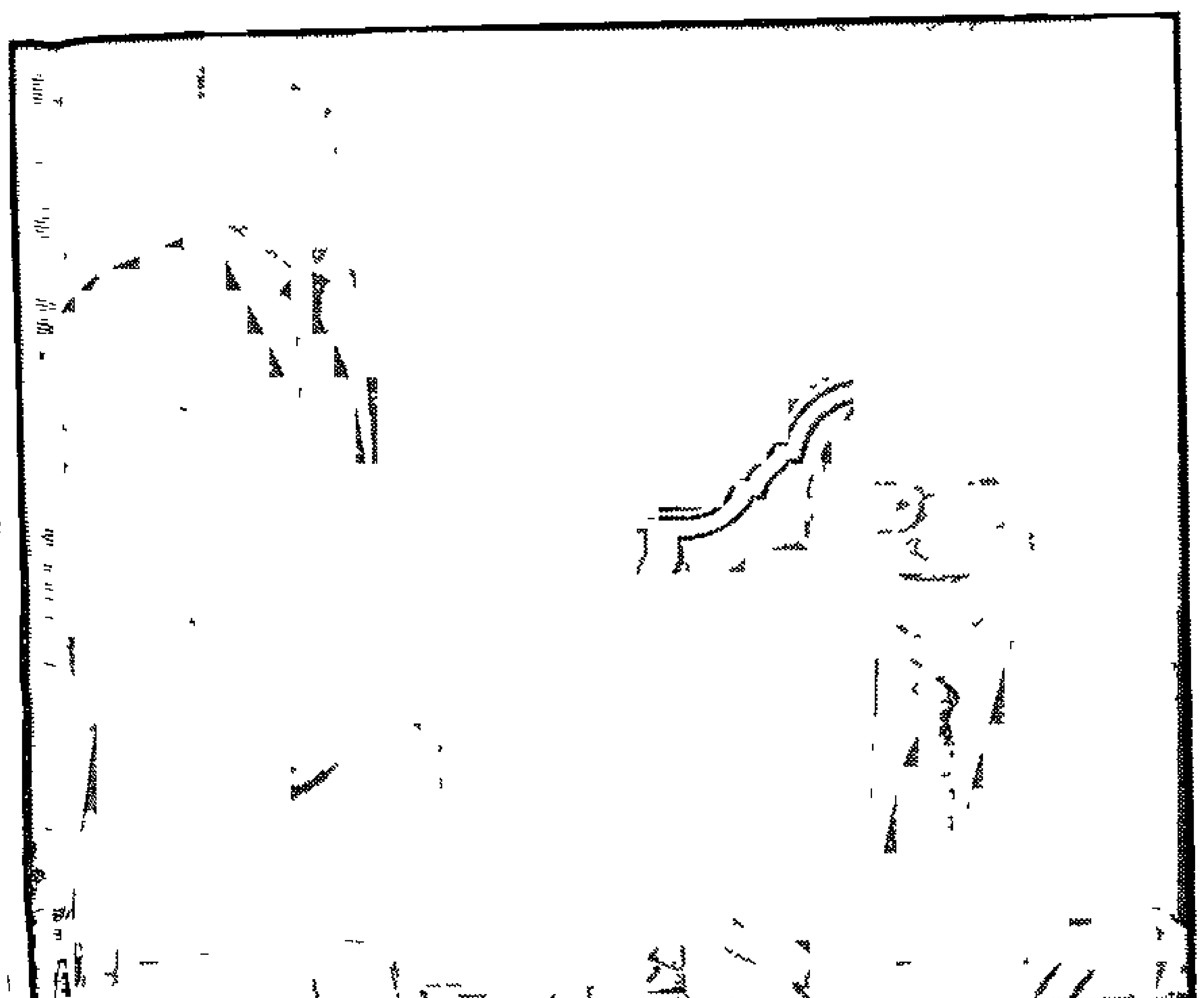
■ South Korean electronics giant **Samsung** has bought a majority stake in electronics company Etron and intends to invest R150 million in South Africa over the next two years

Samsung Electronics SA marketing director Doug Laurie says new ranges of televisions, video recorders and audio products will be available to South African consumers from this month

■ **FNB's** wholly owned UK subsidiary Henry Ansbacher Holdings has bought Westpac Banking Corporation of Australia's offshore banking and trust operations in Jersey and the Bahamas

The operations have total assets of about R1 billion, FNB says

■ Pretoria-based loan stock company **Premium Properties**, which intends applying for JSE listing next month, has declared a second interim dividend of 5,01c a linked unit for the four months to February 28



SIGNING POWER: Western Cape MEC Finance Kobus Meiring, right, recently signed the first cheque for the provincial administration's banking account with First National Bank With him on the occasion was FNB's regional general manager Stan Powell

AECI plans R470m capex

(183)

CT(BR) 5/4/95

By Charlotte Mathews
Investment Editor

AECI plans to spend about R470 million on capital projects in the 1995 financial year, the bulk of which will be proportionate spending on projects that have already begun or been announced, such as Polifin's R636-million PVC expansion project, SA Nylon Spinners' R120 million heavy industrial yarn technology and the R300 million lysine plant

According to its latest annual report, AECI is investigating the feasibility of a large-scale penicillin plant at Umbogintwini, to be developed jointly with SmithKline Beecham

The feasibility study, which is being partly funded by the Trade Development Agency of the United States, is nearing completion. Group communications manager Mike Blizzard said a decision on whether to proceed would be taken this year.

In 1994 AECI's net expenditure on fixed assets was R481 million, of which R355 million was spent on expansion projects, including R76 million on technology for heavy industrial yarns at SA Nylon Spinners and R79 million on the lysine project

Engen profit plummets nearly 50%

CT (BR) 5/4/95 (183)

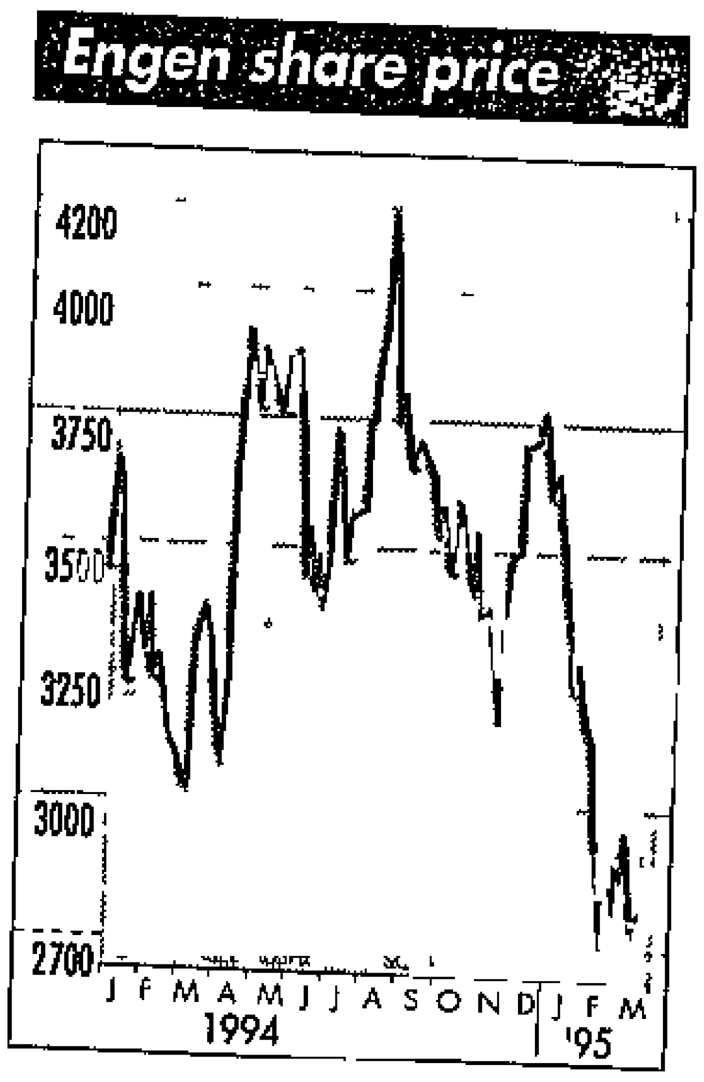
'The fatcat oil industry is no more,' says Engen chief executive Rob Angel as squeezed margins force dividend down to 30c

By Derek Tommey

The 33 percent drop in the share price of Engen since last August and the 26 percent slide since December to its present R28 level would have alerted its shareholders that the energy giant's profits were under pressure

But few would have been prepared for the shock 49,6 percent drop in Engen's profits from 113c to 57c a share in the six months ended February, reported today, or for the 45,5 percent cut in the dividend to 30c a share from 55c a year ago.

Engen's chief executive, Rob Angel, yesterday said: "The fatcat oil industry is no more. We and refineries around the world are feeling a major squeeze as refining margins have now dropped to an eight-year low"



Many oil marketing and refining companies overseas had reported a drop in their 1994 earnings of between 20 percent and 60 percent, Angel said A $1 drop in the refining margin knocked about R100 million a year off Engen's operating profits.

The reduced margins were the result of the huge expansion of refining capacity by refiners in the Far East

Engen had also been hit by a narrowing of the price differential between light and heavy crudes Its R800 million refinery extensions in Durban were designed to enable it to use the cheaper, heavy crude Now the price benefit of this had almost disappeared.

Angel said the tampering with the regulatory systems had also depressed Engen's profits The industry's marketing margin had not been increased since 1992, and this meant that Engen's operating income in the six months ended February was about R70 million less than they should have been.

Earnings were also hit by the planned closure of the Durban refinery for periodic maintenance and the Phase II upgrade

In addition, operational problems, including three major power failures that were unrelated to the start-up, had also affected Engen's earnings

Angel said the economy had performed better and the demand for petroleum products had grown substantially

However, the growth in Engen's sales did not keep pace with the overall market growth

One reason was that Engen started closing uneconomical sites late last year In addition, there was a tailing off in the performance of the Trek service stations, leading to the decision to rebrand all the Trek service stations in the Engen livery

On the commercial side, the market had become much more competitive with increased discounting right across the business, and this had affected Engen's growth While industry sales grew by 5,9 percent, Engen's sales had risen by only 1,9 percent

The company expects an increase in operational earnings in the six months ending August, but costs associated with restructuring meant that net income in the second half of the year was unlikely to be higher than in the first.

Angel said Engen's overseas investments were starting to bear fruit. It had received a maiden net income contribution of R9 million from the Alba and Bukha fields in the North Sea ay, April 6 1995

Engen share falls after report shock

(183)

MUNGO SOGGOT

ENGEN's share price took a pounding on the JSE yesterday, tumbling 13,4% or 375c to close at R24,25 after the company released interim results sharply below market expectations.

Analysts said they had expected a drop of about 35% in earnings, against the 50% reported on Tuesday.

Engen CEO Rob Angel's comments that second half income was unlikely to be better had also fuelled the share's fall and could depress it further, one analyst said.

The share fell as low as R23,50 during the day — its lowest level in five years.

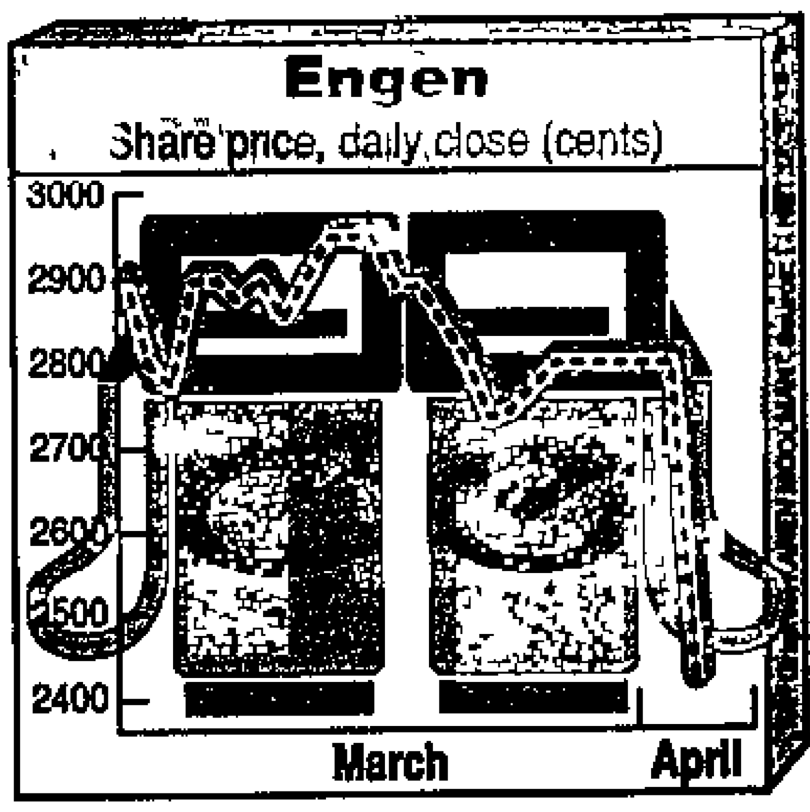
Engen reported a 53% drop in earnings a share before exceptional items to 66c a share Angel said although there could be a better operating performance in the second half, net income was unlikely to be higher because of restructuring and retrenchment costs from its restructuring initiative, Project Discovery

One analyst said it appeared that full-year earnings were unlikely to top 140c a share, compared with the previous year's 259c.

"Engen's fall is indicative of the fortunes of all the SA crude refining companies. They are all facing the same story." Engen's SA competitors, which are not listed, would be hit by the same problems, he said.

International refining margins were at an eight-year low.

Engen's refining margin had been cut by about $1,80 a barrel, which had taken about R80m off operating profit, Angel said.



Each $1 drop sliced about R100m off operating profit a year.

"Engen is doing as much as it can, but there are these other external factors which are affecting it," an analyst said. He said the poor results should put pressure on government to increase the fuel companies' wholesale margins, which had been unchanged since July 1992.

"The oil industry is burning because these margins have not been increased. They are all getting very uptight," he said.

Angel said government's failure to grant these "long overdue" increases and adjustments to the import parity pricing formula last year had chopped about R70m off Engen's operating profit.

Another analyst said the negligible progress on industry deregulation talks would also cast a shadow over local fuel companies' future.

The talks in the liquid fuels task group had so far yielded nothing — particularly since government had not yet presented its proposals on the industry's future.

Cape oilfield's viability being assessed, says Pik

ARG 6/4/95 (183)

Political Staff

INVESTIGATIONS into the viability of exploiting the E-BT oilfield off Still Bay on the Cape south coast are continuing, says Mineral and Energy Affairs Minister Pik Botha.

Exploratory drilling had led to the discovery of oil which, at current estimates, was worth R1 billion, Mr Botha said during question time in the national assembly yesterday

Responding to a question from Marcel Golding (ANC), Mr Botha said in the case of the E-BT field, he would not "be party to the kind of mistakes we made with Mossgas"

The technical and commercial viability of the project was being appraised by Soekor and Engen, and Oceaneering Production Systems of Houston, Texas had been engaged to assist with the evaluation of the design, capital and operational costs required

"Issues such as financial guarantees become relevant only once this evaluation has been completed and commercial viability confirmed"

● Mr Botha was welcomed with loud applause as he prepared to answer MPs' questions during his first appearance in parliament this session

"I'm glad my response is accepted even before it's delivered," he quipped, saying while Mr Golding had been sitting "in this concert", the national assembly, he (Mr Botha) had been travelling extensively trying his best to ensure the lowest oil prices for South Africa

In a broadside at the ANC, he said he had just visited Mexico and Peru where he had witnessed disasters flowing from the nationalisation of state assets and where governments were returning to free enterprise.

Tioxide to spend R50m on expansion

(183)

LT (BR) 6/4/95

By John Sherrocks
KwaZulu Natal Business Editor

The chemical producer Tioxide Southern Africa is expanding operations at a cost of R50 million.

The company, based in Umbogintwini just south of Durban, anticipates increased demand for its products as a result of increased economic growth.

In the first phase, the output of titanium dioxide by-products should be increased by 20 percent to 44 000 tons by the middle of next year, at a cost of R20 million.

The company's newly appointed managing director, David Callow, said yesterday that demand for white pigment, used in paint, paper, printing ink and man-made fibres, was directly linked to the state of the economy. Tioxide was the sole producer of white pigment in South Africa.

Jump

"It is a lifestyle-related product," he said. "As the population gets wealthier, demand for products in which white pigment is used increases. Although the public does not know it, without this pigment they could not paint their houses, they would not have plastic bags to carry groceries in, nor would there be advertising billboards.

"If home building takes off and the expected economic growth materialises, we will see a big jump in demand. The South African market is already satisfactory, but it can get better.

"The group recognises that there are huge opportunities for this particular operation. Firstly, there are opportunities presented by the RDP, and secondly, export opportunities resulting from improved international relations."

Callow said Tioxide exported 25 percent of production, mainly to sub-Saharan Africa.

The company was "keenly aware" of foreign competition, which was already a factor despite a 15 percent import tariff.

"There is no talk of the tariff being reduced in the immediate future, and I believe it would be a mistake even in the longer term," he said. "Once our asset intensification programme is complete, the Umbogintwini operation will be globally competitive."

Tioxide Southern Africa is 60 percent owned by Tioxide London, which is a wholly owned subsidiary of the company ICI, based in the United Kingdom.

Engen's share price comes tumbling down

(183)
wm(BM) 7-12/4/95

Engen's poor results have stunned market analysts **Jacques Magliolo** reports on what happened to the company once lauded as a trend breaker

ENGEN and its share price went up north to fetch a pail of oil Engen's profitability fell down and its share price came tumbling after And, down, down, down it will go . . following a disastrous interim result, which saw net income nearly halve in the last six months to end-February

Dividends fell by a phenomenal 45,5 percent to 30 cents a share, despite a reduction in dividend cover to 1,9 times (2,1 times for the same period in 1994) While turnover climbed by a marginal six percent, operating profit margins fell to 4,4 percent from seven percent in 1994, which was clearly displayed in a 33,7 percent drop in operating income

When cover is reduced, it usually means that the company has dipped into its reserves to pay shareholders a rate higher than that achieved in earnings, in the hope of minimising negative investor perceptions

"Paying a dividend is not a good thing under such conditions," says Arthur Thompson, head of research at stockbrokers EW Balderson

The results have stunned market experts What happened to the company which was, a mere two years ago, called a "trend breaker" by analysts because it continued to show profitability despite falling GDP levels, prohibitively high interest rates, a crippling inflation rate and unprecedented violence in South Africa?

In those years analysts were predicting a share price of more than 6 000 cents by the end of this year. Instead, the share has dropped like a stone from 5 300 cents in 1993 to 2 800 cents prior to results being released Its share was trading at 2 300 cents when the *Weekly Mail & Guardian* went to press

While poor results can often be attributed to economic stagnation, or sanctions, maybe even strike action, under revived economic growth and consumer confidence companies like Engen have little excuse for such utterly disastrous results

Even squeezed refining margins, a narrowing of price differentials, a flat international crude oil price and piecemeal deregulation of the oil industry by the government should have been countered by a strong balance sheet. Reserves should have been strengthened during the last four years when the company was labelled as a trend breaker In addition, gearing levels should have been reduced and liquidity improved The company now has R1,05-billion worth of debt on its balance sheet, translating into a gearing level of 31 percent

Thompson provides an explanation "Mobil was only interested in dividend payments from its South African company and it was only after Gencor bought the assets from Mobil that reserves were built up and capital expenditure was undertaken to improve the company." Obviously, these were not enough before Gencor's unbundling of Engen last year

Engen's management were hard pressed to explain the extent of company losses. Engen chief executive Rob Angel says. "Refining margins are at an eight-year low and operational problems, which saw the refining plant close down for six weeks, cost the company R800-million." Engen experienced a 10 percent decline in overall exports and a 21 percent fall in local sales

> "Two years ago analysts were predicting a share price of more than 6 000 cents by the end of this year. Instead, the share has dropped like a stone from 5 300 cents in 1993 to 2 800 cents"

"In the second half of our financial year we should see operational problems corrected and Engen achieve its potential," says Angel Even within the constraints of a poor business environment, Engen fell short of achieving potential sales of gas, diesel and other products which includes jet fuels

Angel adds "Details of Project Discovery will be announced in July, which will outline our plans for an improved business and a cost reduction focus " After completion of its four years of major capital expenditure, Engen expects to see improved cash flows and benefits, and improved results from restructuring

Yet analysts are sceptical. Instead of containing costs, Engen has announced that it intends to incur about R20-million to convert Trek stations to the Engen brand The company will also run the risk of labour problems by closing down a number of "unprofitable" sites and undertaking other cost cutting, such as retrenchments

For stockbrokers, Engen poses a problem. While the company is still a fundamentally sound investment, other shares within the chemical, oils and plastics sector of the Johannesbug Stock Exchange provide better growth opportunities for 1995

Chemical giant AECI's December 1994 annual results displayed an earnings per share growth of 40 percent, despite incurring restructuring and other capital expenditure costs Last year AECI doubled funds allocated for expansion projects (R355-million) and also implemented a joint venture project with ICI and Sasol.

In addition, the company has commissioned a new AECI Aroma and Fine Chemicals plant at Richards Bay. This company's share climbed from a low of 2 050 cents last year to end the year on 2 925 cents and is now in a trading band of 2 725 cents to 2 925 cents

Chemical Services is another chemical company which saw a growth in earnings and dividend last year Earnings per share climbed by eight percent and dividends by 10 percent and dividend cover remained high on a 2,9 times cover Based on an improved bottom line growth and strong fundamentals, Chemserve's share has climbed from a 1994 high of 6 700 cents to its present level of 7100 cents

"Sasol saw its earnings climb by 25-odd percent," says Thompson, indicating that "government subsidies obviously helped." That is perhaps why Engen is talking to Sasol. What the discussions are about is anybody's guess, but it does seem likely — following poor results — that Engen would drive for some sort of deal

After all, Angel summed up his own feelings about the company when he said "As you can see, gone are the days of fat cat companies "

AECI plant is on track

(183) BD 7/4/95

NICOLA JENVEY

DURBAN — AECI's R300m Umbogintwini lysine plant should see the company obtain 15% of the world's 260 000 ton-a-year lysine market within the next three years, GM bioproducts Ross Norton said yesterday.

The plant, the first of its kind in Africa, would start partial production in May. It was the first in a series of AECI biotechnological plants and the culmination of six years in-house development and two years construction. A second phase development was planned for 1998.

Norton said 80% of the plant's 10 000 ton production would be exported, with future expansions exporting 100% and increasing overall capacity threefold.

"The plant was designed incrementally and future expansion will be built as large as possible given space constraints. This is brand-new technology and initial capacity was determined by the minimum scale of production required for SA to enter the international lysine market," development manager Johan van Walsem said.

The siting of the plant on the KwaZulu/Natal south coast ensured AECI was close to its raw material, sugar, and to the ports for export.

"Careful consideration was given to the environmental impact and both lysine and its by-products, biomass used as a feed product and ammonia sulphate used as a liquid fertiliser, are inherently non-toxic."

The company was currently developing markets for the by-products.

Lysine production is the fermentation-based production of an essential amino acid used in chicken and pig feed and was initially developed in Japan 20 years ago.

AECI's investment is the first commercial scale plant of its kind in Africa. There are lysine plants in Japan, Korea, Indonesia, Europe and the US, with the US dominating the international market.

Sasol probe nears end

BD 7/4/95 **MUNGO SOGGOT** (183)

THE investigation into Sasol's tariff protection would be wrapped up by May 19, accounting firm Arthur Andersen said yesterday.

It said in a statement the liquid fuels task force's project committee — which included representatives from labour, government, Sasol, the oil companies and the business sector — had appointed it to help run the investigation, which would decide whether Sasol needed tariff protection and if so how much. It would examine the profitability of Sasol's synfuel operations and the contribution it made to the SA economy.

A Sasol spokesman said the findings of the investigation would be handed to the Board on Tariffs and Trade, which would make final recommendations to Cabinet. Sasol's tariff protection in the last financial year had amounted to just more than R1bn.

Arthur Andersen partner John Donnelly said the investigation would also see whether there was any evidence of cross-subsidisation between Sasol's synfuel production and its other operations.

(183)

Sasol task force appeals for input

CT(BR) 7/4/98

By Ross Herbert

Staff Writer

A task force appointed to review state subsidies for Sasol's synthetic fuel operations wants interested parties to comment as soon as possible

The project committee of the Liquid Fuels Task Force has appointed accounting firm Arthur Andersen (AA) to conduct the investigation, and submit recommendations by May 19 AA wants public comment submitted by April 19.

"We are keen that as many people as possible let their views be known," John Lisle, AA's manager in charge of the project, said yesterday He conceded that two to three weeks for doing so was "not ideal".

AA partner John Donnelly said the aim was to establish whether the industry needed to be protected, and if so, by what means The team would investigate whether the production of synthetic fuel was being cross-subsidised by other Sasol operations.

ENGEN

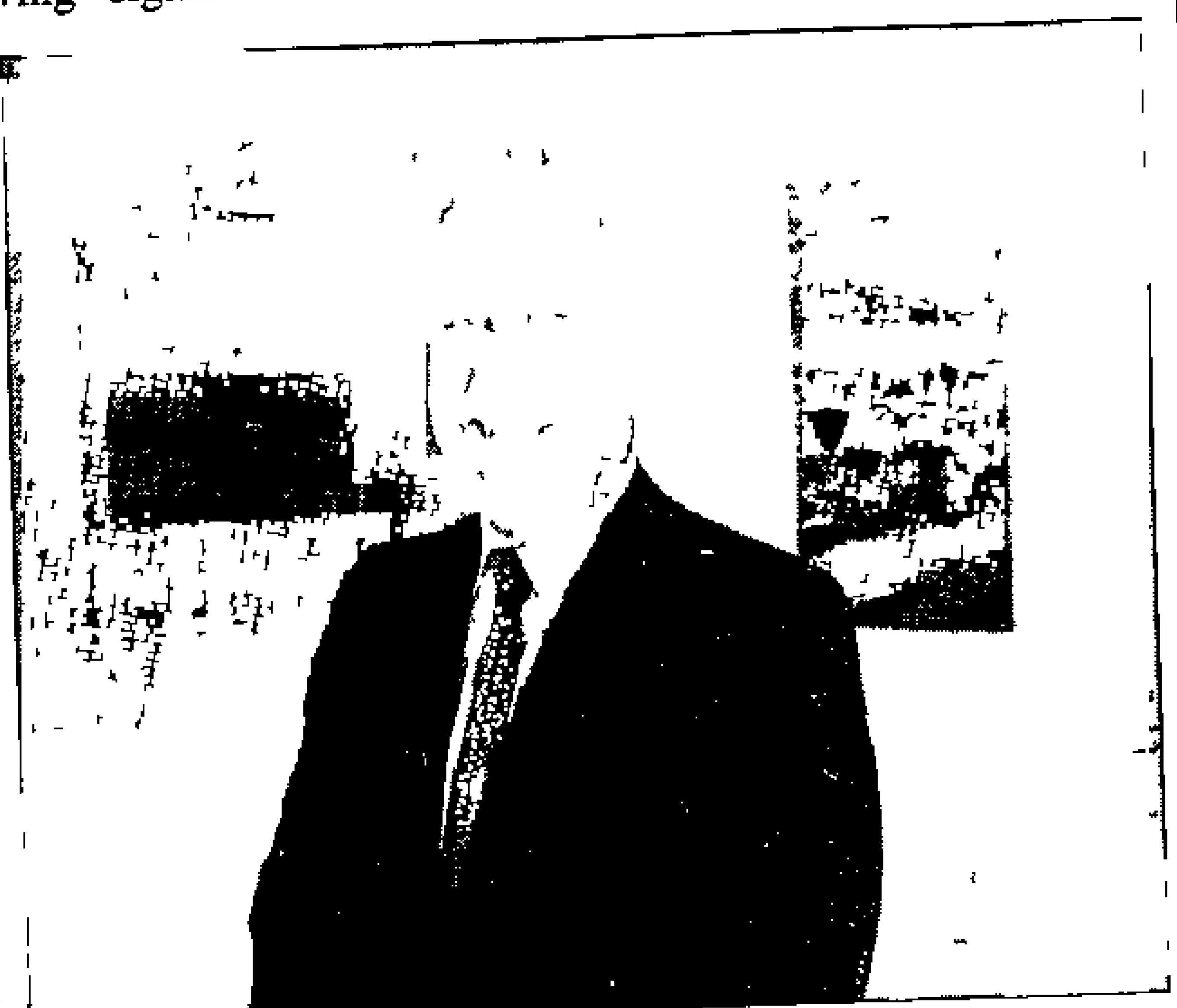
No glamour stock now (183)

FM 7/4/95

Engen, SA's largest petrol retailer, anticipated rough times ahead at the end of its financial year in August CE Rob Angel says he saw the writing on the wall Still, the near halving of interim earnings and EPS, coupled with the doubling of balance sheet debt from a year ago to just over R1bn, will be a shock to many investors

The share price, at R28, is near a low not seen since late in 1990 There's not much prospect of the price improving significantly until next year Some comfort can be drawn from Engen's early reaction to changing conditions of rigorous restructuring and cost containment, as well as the end of its nearly R3bn capital spending programme of the past four years But shareholders could be in for a long ride before the oil group returns to its former glamour stock days

For now, oil production and retailing is no longer a fat-cat industry, Angel says, largely because of the "big squeeze on international refining margins" and the narrowing of the price differential between heavy and light crude oils.



Engen's Angel *no regrets about the expansion timing*

Engen's results are little different from those being reported by most major international oil companies Refining margins are at an eight-year low Engen's was down about US$1,80/barrel compared with the previous period Each $1 decline knocks about R100m off operating profit a year

The Dubai-Brent crude price differential has been drifting down since 1991, limiting the benefits of Engen's recently commissioned R800m phase two refinery upgrade The price of crude oil is at a 20-year low, worsened for Engen by a firmer rand

Angel says international oil majors reported earnings down between 20%-60% for 1994 from marketing and refining activities This is Engen's core business

Domestically, Engen could not take full advantage of the growing economy. Local sales grew by 3,2% to 19,1m barrels. But a six-week shutdown at the Durban refinery to complete the upgrade, followed by operational problems after start-up, squeezed crude throughput and finished product yields, leaving less product available for export Exports dropped by 58% to 1,8m barrels, resulting in an 8,3% decline in total sales to 20,9m barrels

Some operational problems at the refinery now seem under control These were partly internal, as Engen integrated new and existing facilities, and partly a result of frequent power failures, which Angel says have a significant effect on refining

Neither did retail marketing activities achieve potential, their performance affected by the closure of some sites and an unsatisfactory performance from Trek petrol stations

On the positive side, capex (R256m over the first half) should now tail off, improving cash flow Upgrading the refinery and new systems are behind the higher borrowings, which have lifted gearing to 31%

Financial director Peter Cook says gearing is not excessive but he would like to see it lower It seems, however, it could rise further during the year as Engen continues its restructuring and repositioning This will include unquantified retrenchment costs

That seems to be the main dampener on what should be improved results over the second half Angel thinks the worst may be over Volumes are up, for example, by 6% last month compared with March 1994 and with major capital spending out of the way Engen can concentrate on efficiencies from its expanded refinery But earnings growth will be retarded by retrenchment costs

Angel says the extent of these could be defined towards the middle of the year Some big issues, though, are hard to read

MISFIRING

Six months to	Feb 28 1994	Aug 31 1994	Feb 28 1995
Turnover (Rbn)	4,03	4,42	4,27
Operating income (Rm)	228	319	171
Attributable (Rm)	176	240	90
Earnings (c)	113	154	57
Dividends (c)	55	99	30

"It's hard to see refining margins and the crude differential getting lower The outlook is encouraging but uncertain"

With more buoyant market conditions and an improved refining performance expected, coupled with restructuring benefits, financial 1996 will probably see the start of a recovery

But the timing of Engen's expansion programme has to be questioned Angel admits the "cynical" view could be that it was badly timed, with increased refining capacity and efficiency coming on stream as world conditions hit record lows

"But I have no regrets about the timing of the investment We had to spend the money on upgrading at some stage The longer we delayed, the more expensive it would have been At least we can now take full advantage of the upturn in the industry when it comes," he says

That is really Engen's key weakness It has little control over its revenue, dependent as it is on what have turned out to be fickle world refining margins and the controlled local marketing margin, which, though juicy by world standards, has not been increased since 1992

With little prospect of a sustainable improvement in earnings until at least the next financial year, the share is looking speculative And, at R28, it's expensive for a speculative buy

Shaun Harris

Govt task force to probe Sasol

(183) Star 8/4/95

SASOL's profitability, its tariff protection and the contribution it makes to the South African economy is to be fully investigated by a government task force

The project committee of the Liquid Fuels Task Force has appointed independent accounting firm Arthur Andersen to spearhead the investigation, the firm said in a statement yesterday.

"The project committee is fully representative of the different interests involved.

"Organised labour, Government, Sasol, the oil companies and the business sector all contribute members," Arthur Andersen partner John Donnelly said.

The firm has been briefed to obtain submissions from all interested parties. Some 90 have already been identified and invited to take part

Any not yet approached should contact Donnelly before April 19

The investigation will be completed by May 19 Its main objective is to establish whether Sasol's tariff protection should remain and, if so, what level of protection should be given

"We will also be investigating whether there is any evidence of cross-subsidation between synfuel production and Sasol's other operations" — Sapa.

Plascon's small clients get the brush-off

(183) ARG 8/4/95

COLIN DOUGLAS
Business Staff

TO improve your bottom line, get rid of some of your customers

Unlikely as it may sound, this is the new strategy of paint giant Plascon's industrial division, which accounts for almost half the company's total turnover.

Divisional manager Paul Kretzel, previously Plascon's Western Cape managing director, explains that costs have been driven up — without corresponding growth in turnover — by Plascon's obligations to a myriad of small buyers.

"We were handicapped because in many South African industries we tried to serve too many markets where the volumes were so low that, even if we'd had a 100 percent market share, we still could never have been totally successful.

"Many of the businesses we served were so small that serving them efficiently was, in fact, a drain on our resources"

After being appointed to his new position in last September, Mr Kretzel acted fast to shake up the business He terminated unpopular lines to focus energies on the company's successful lines and tightened control and monitoring of stockholdings

He now intends to cut Plascon loose from its shoal of small customers by getting distributors to provide for their needs, he said. Plascon's own customer-service energies would, instead, be devoted to its large industrial clients, which was essential in a highly competitive market

"If there is one constant factor in the industrial coatings market," Mr Kretzel said, "it is that the competition is, and will remain, stiff"

"We can only grow by being competitive and by giving good service, not by price increases"

Mr Kretzel said his division's new approach was already yielding results, and he expected continued improvement thanks to the recovery of the economy

"From what we are seeing at present, I think a real growth of five to seven percent across the board in many industrial companies in South Africa is quite possible This would work greatly in our favour

"We already have highly suitable products and technologists capable of developing further solutions All we have to do now is bring these to the attention of the customer"

Chemical workers' union threatens mass action

(183)

MXOLISI MGXASHE
Weekend Argus Reporter

THE Chemical Workers' Industrial Union (CWIU) in the Western Cape has threatened mass action as a last resort to pursuade the government to withdraw criminal charges against more than 60 unionists who took part in a strike for increased wages at Capegas last July. ARG 8/4/95

The charges arise from disturbances when strikers were arrested for allegedly carrying sticks, sjamboks and iron bars and assaulting other workers

One worker, Aubrey Kilane, was shot dead by a security guard

The incident sparked off solidarity demonstrations by almost 1 000 Chemical Workers' Industrial Union workers and African National Congress members in the Western Cape, who called for the prosecution of the guard and the closure of his security company.

Colin Rawu, CWIU regional secretary, said that by charging the 62 former Capegas employees — the case has been postponed to May 3 and 4 — with intimidation the State was deliberately removing politics from the case.

Mr Rawu claimed the prosecution wanted to demonstrate the harshness workers could expect if they continued to demand their rights

"Admittedly," he said, "there was some violence during the strike and it was provoked by the use of scab labour by the company The use of scab labour must naturally anger workers when using the only legal recourse open to them — strikes," Mr Rawu said

He said the new Labour Relations Bill was mute on the use of scab labour and it was one of the main issues his union was raising against the Bill

"What has angered us more is the fact that the private security guard employed by Capegas who shot and killed Comrade Kilane gets off scot-free No charges have been laid against him and the workers who had a legitimate cause are, instead, the ones who are being treated as criminals "

His union intended staging a mass demonstration when its members appeared in court next month, Mr Rawu said The trial, expected to last four to five days, is likely to cost the State more than R50 000

Sentrachem in talks on Mega Plastics merger

(183) CT(BR) 10/4/95

FROM SAPA

Sentrachem announced at the weekend that it intended to restructure its plastics conversion interests and focus on its chemical businesses

Sentrachem has started negotiations to merge the divisions of Mega Plastics with companies operating in similar areas of the plastics industry, the company said in a statement

The five divisions of Mega Plastics make materials-handling crates, packaging products and plastic parts for the automotive industry, and turn over about R400 million annually

Sentrachem managing director John Job said the company had reviewed its strategy and would now focus increasingly on its core business of manufacturing chemicals This contrasted with Mega Plastics' business, which was aimed primarily at secondary industrial applications

Job said the intended merger would be expected to result in more efficient operations and expanded market shares

Sentrachem wanted to retain a significant influence and investment once the merger was completed, he said

He gave no details of who the company had approached as potential partners

"Sentrachem believes that even though Mega Plastics has performed well in the past decade, the deal will benefit Sentrachem and generate improved returns"

10% of medicines (183) are 'useless fakes'

CT 10/4/95

EUNICE RIDER
STAFF REPORTER

ABOUT 10% of medicines on sale worldwide are fakes and have no medicinal value — including those sold in South Africa, says Professor Peter Folb, chairman of the Medicines Control Council

Prof Folb, who is also head of UCT's Department of Pharmacology, said yesterday these products were so well copied even the manufacturers of the real drugs did not know the difference

He said it was estimated by the World Health Organisation (WHO) and the international pharmaceutical industry that between five percent and 15% of drugs on the world market were fakes.

It was "virtually impossible to tell the difference" without analysing the contents, as the fake drugs were coloured, pressed and packaged in the same way as the originals, he said

Prof Folb said the drugs copied included antibiotics, analgesics and anti-depressants

Even generic medicines, which are copies of existing drugs and use the same ingredients but are differently named and presented, were copied by counterfeiters

The WHO did not name the drugs that were found to have been copied or the countries from which the fake drugs originated.

Stringent

"We suspect they come from developing countries They are passed between countries, making it difficult to track the source

"There have been claims about them being made in laboratories in European and eastern European countries, as well as in the Americas and Asia," said Prof Folb.

He said South Africa was better protected than other countries as drug controls were fairly stringent

10% of medicines are 'useless fakes' (183)

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Fake medicines 'can be catastrophic'

(183)

CT 11/4/95

EUNICE RIDER
STAFF REPORTER

COUNTERFEIT drugs with no medicinal value were very damaging to the makers of the real drugs whose brand names and logos they bore and could have "catastrophic" effects on patients

Responding to an "alarming" statement by Medicines Control Council chairman Professor Peter Folb that between 5% to 15% of medicines on sale worldwide, including South Africa, were useless fakes, Mr John Toenen, executive director of the Pharmaceutical Manufacturers' Association, said the sources of many unregistered medicines imported to SA were "indeed questionable"

He said the illegal importation of counterfeit products was "a major problem" and the impact of such medicines on patients could be "catastrophic"

He said the Pharmaceutical Manufacturers' Association was strongly in favour of greater surveillance at ports of entry, and felt the inspectorate of the Medicines Control Council should also be strengthened.

He said unless this was done the entire pharmaceutical industry would be severely undermined

Director of public affairs at Roche Pharmaceuticals, Mr Kelvyn Henry, agreed counterfeit drugs were "alarmingly bad news" for local pharmaceutical companies.

"We are participating in a financial reward system being offered by a Johannesburg loss control firm to get information on counterfeit and stolen drugs", he said

(183)

CENTRAL ENERGY FUND

Minding the store

FM 14/4/95

One of the few legacies of apartheid that may still be put to good use is SA's capability of storing vast amounts of oil

Though prospects are still some way off for an agreement in which Iran would store millions of barrels of oil in SA's giant underground reservoirs, the Central Energy Fund (CEF) hopes to land a contract soon

CEF GM Kobus van Zyl says progress was made in further negotiations when Iranian officials were in SA recently for an energy conference But for now the Iranians are under no pressure to sign up as the country doesn't have surplus oil stocks on hand, says Van Zyl

It is understood the State-run National Iranian Oil Co is interested in using two tanks with a combined capacity of 15m barrels

They are part of a purpose-built facility at Saldanha Bay to store some of SA's strategic reserves during the apartheid years when supplies of oil came under pressure because of sanctions

With sanctions gone, the stockpile was reduced from a year of domestic consumption to seven months It is in the process of being reduced to four months — and could go lower still Normal international standards are 91 days

The money earned from the sale of the surplus since 1990 has already come to a sizeable R3bn, which was put into the general revenue account Further sales could raise up to R500m more

It is understood the agreement could go beyond a simple deal to store crude oil

Instead, the reservoirs could be used as part of a joint venture trading agreement that would sell oil to markets in East Africa and Latin America — both much closer to SA that they are to Iran

But a number of potential customers for the storage reservoirs have been deterred by rents and other fees.

It is understood these include rent of US 7c/barrel a month; wharfage unloading fees of 1,78% of the freight-on-board value of the cargo, and port costs of $60 000 for each supertanker visit Van Zyl disputes this and says no figures have been put on the table yet

Iranian oil sales to SA stand at 300 000 BPD, out of an import requirement of 420 000 barrels. Tehran restored trade relations with SA last year after the abolition of sanctions ■

Year delay on unleaded fuel?

(183) SPAN 15/4/95

CHARLOTTE MATHEWS

THE date for the introduction of unleaded petrol in South Africa, originally intended to be July 1 at certain service stations and October 1 throughout the country, could be delayed by up to a year by Government reservations about pricing, sources said this week.

A spokesman from the office of the Director-General of Mineral Affairs said he could not elaborate on a potential date for the introduction of unleaded fuel, but denied a rumour that the date had been delayed by about a year.

However, another source in the oil industry said a potential date of July 1996 had been mooted, subject to agreement being reached on the price

Although the SA Petroleum Industry Association declined to comment, industry sources said the debate on the price centred on the industry's request for a differential between the price of leaded and unleaded fuel.

It appeared as if the Government initially had no problem with the suggestion of a price differential, but it was possible the Government was waiting for the outcome of the current study into oil industry regulations before making a decision, the sources said

Bowler Metcalf builds new factories

CT(BR) 6/4/95 (183) 14

By Maggie Rowley

Cape-based plastic packaging manufacturer Bowler Metcalf is building new factories in Johannesburg and Cape Town as part of a R16,5 million expansion project to meet increased demand

The company has been a consistent performer in the JSE Top 100 companies, reporting consistent growth since its listing in the Paper and Packaging sector of the JSE in 1987

Director Brian Doyle said the new factories, for which Investec is providing R10 million loan finance, would provide a total floor area of more than 20 000 sq m

The new Cape Town factory is on a consolidated site of seven erven in Ottery With an initial floor area of 10 000 sq m, the double-volume factory could eventually expand internally to provide 14 500 sq m of production and warehousing space

In Gauteng, the company's two factories are to be merged in a new building being constructed on an

Free State varsity way out front in pharmacology

(183) Star 17/4/95

THROUGH the years of South Africa's isolation, one research unit in the medical faculty at the University of the Orange Free State maintained vital international links. Now, the Pharmacology Contract Research Centre is perfectly positioned to provide quality assistance as the country moves towards major drugs policy reform. Health Writer DAVID ROBBINS reports

'We're making a quantum leap across the street," says Professor Otto Müller, standing on the road bridge between the east and west campuses of the University of the Orange Free State in Bloemfontein

On the eastern side, Muller's Department of Pharmacology and the associated research centres have been housed in increasingly cramped space on the upper floors (and roof) of the main medical faculty building

On the western side, R16-million-worth of new structures will soon become permanent home to one of the largest university-linked contract research centres in the world

"We are now positioned to do more work than ever before," says Muller "Our contract centres make money (R16-million turnover projected for this year), doing research for pharmaceutical companies from around the world But there can be no doubt that we are also an important national asset"

To understand this importance, it is necessary to understand something of the research involved in bringing new drugs on to the market Once the arduous laboratory work has been done, extensive testing is undertaken, first on animals and then on human volunteers It is in this final stage that Muller's department has excelled

Bio-availability (which deals with the pace at which various medicines are absorbed into the body), drug and food interactions, dose-ranging, safety, efficacy, tolerance studies, and biometrics (biological statistics) — all these are areas in which valuable experience and data have been collected in Bloemfontein over the past 25 years

How did it all begin? "I was teaching and doing some research in animal pharmacology in Pretoria when the Bloemfontein opportunity presented itself," says Muller

"And I realised it offered tremendous scope. It was a venture of faith in two directions in teaching and research, and also one which offered considerable commercial potential"

Muller, now 56, arrived in Bloemfontein in 1971 and with a staff of two set up the medical faculty's fledgling Department of Pharmacology, the first in South Africa to tackle clinical pharmacology (working directly with patients on the effects of various drugs)

By 1973, Müller was involved in active trials with several multinational companies

This early work resulted in a 10-year contract with German pharmaceutical giant, Hoechst, which enabled the Bloemfontein department to acquire state-of-the-art equipment and more personnel

By 1985, the Hoechst contract had been renewed for a further decade, but capacity within the research unit had been fully utilised without satisfying the growing international demand for the expertise being developed in Bloemfontein

The result was the establishment of a second contract research centre called the FARMOVS Institute (derived from the Afrikaans spelling of pharmacology and the initials of the Orange Free State)

"The establishment of FARMOVS, and our renewed contract with Hoechst, really put us on the international map," Müller recalls "Even through the years of South Africa's academic and economic isolation, we were able to keep in touch, interacting with the wider world of pharmacology, going to conferences, and keeping pace with international standards in drugs testing and manufacture"

Now Müller and the department and research centres he has helped to create stand poised for this quantum leap

The facilities are obviously better For the first time in years, there'll be sufficient space for the 100 people now employed In addition, 72 beds in four wards will be available for single and multiple-dose studies, while a day-care centre for ambulatory studies can cope with 40 patients at a time

It's the culmination of Muller's career "But I have several more dreams to fulfil before I retire," he says "The one is that FARMOVS becomes a public company with a stock exchange listing The other is that the entire medical faculty becomes a contract research centre

"I believe this is possible without sacrificing academic standards."

The concept of making money while at the same time maintaining the teaching, service and research functions could come as good news to health authorities grappling with the cost implications of maintaining South Africa's expensive academic hospital complexes

"Although generics are here to stay," says Muller, "and although it's becoming more difficult — and expensive — to invent new medicines, pharmaceutical companies will be doing so for a long time to come"

BD 18/4/95 (183)

Share price rise fuels Lion Match speculation

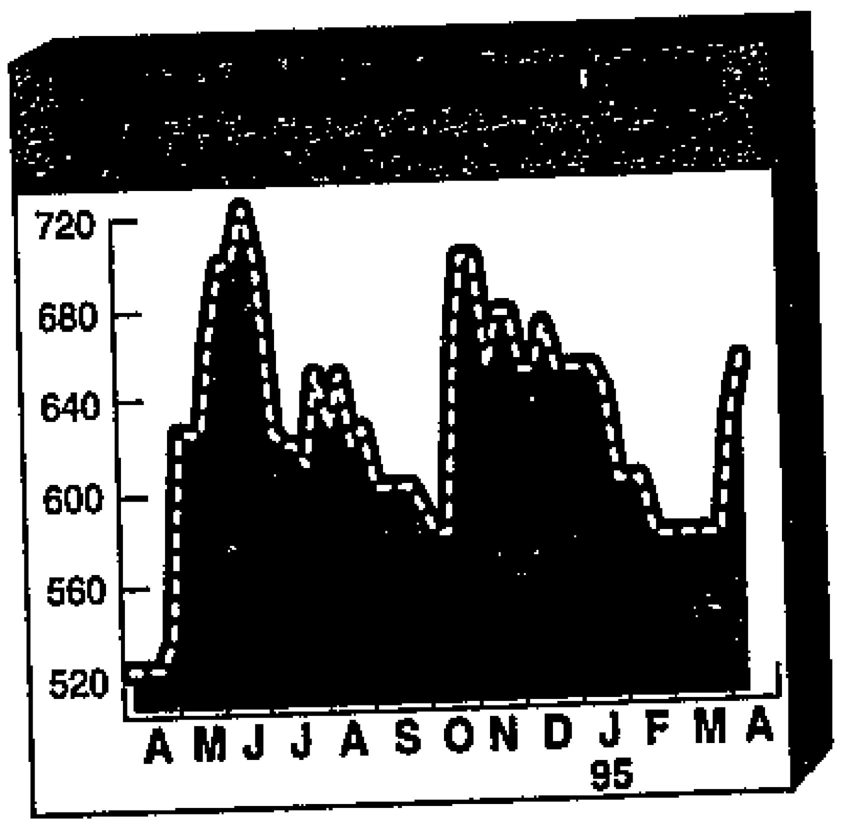
MARCIA KLEIN

A RISE of 13% in Lion Match's share price over the last week to 650c has added fuel to continued speculation that the SA Breweries (SAB) subsidiary could be delisted or be making a significant acquisition.

Analysts said it was not clear what had sparked interest in the share. The market was expecting sharply higher earnings for the year to March off a high base of financial 1994, when earnings rose 32% to 44,77c a share.

In the year to March 1994, Lion sold off its packaging division Interpak to Consol for R203,5m cash and disposed of its 50% interest in Amalgamated Appliances to co-owner Tedelex. Following these transactions, which were announced within weeks of each other in November 1993, there has been some speculation about the company's future.

Some market sources believed the company would make a significant acquisition with the cash it had earned, while others said SAB would want to delist it.



The disposals left Lion with only its lights and Wilkinson Sword divisions. They also left it with a large cash balance, the interest of which gave a significant boost to 1994 results and looks set to do the same to the 1995 figures.

Interim earnings to September rose 68% to 25,98c a share, largely because of interest earned. Lion's cash pile stood close to R200m, and MD Ted Turner said at the time it was looking at making an acquisition in fast-moving consumer goods.

The share price was 700c in November when interim results were announced, but dropped sharply to 575c in February Analysts pointed out the recent rise in the share price was achieved in very thin trade.

One analyst said Lion Match and other minor companies in the SAB group make insignificant contributions to its earnings, but there was no indication SAB was looking at shedding its interest.

Beer, ABI, Edgars and Plate Glass made up most of the group's earnings, while companies like Lion, Amrel, Afcol, Da Gama, Conshu and the hotel interests collectively contributed less than 10% to 1994 earnings. Including the OK, which showed a loss in financial 1994, these interests made only a marginal contribution to group earnings

The analyst said that the only reason for SAB's investment in Lion Match was its packaging division, which printed labels for its beer products. Now there seemed to be no strategic reason for the investment.

"You may find a change of thinking in SAB from now, with more of a focus on beer," he said.

State stalls on unleaded petrol

CT(BR) 18/4/95 (183)

Oil industry chafes to be given the green light as discussions on a pricing policy for the eco-friendly fuel are delayed

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Delays in government discussions about a pricing policy for unleaded petrol mean that the fuel cannot be introduced before February 1996 — missing its deadline by four to six months

Total South Africa's corporate affairs manager, Clarence Keyter, confirmed at the weekend that the introduction of unleaded petrol had been postponed

"We and the oil industry are waiting for a decision from the government before we can advance plans to launch unleaded petrol

"But as things stand now it cannot be introduced before February next year

"Every month that a decision is delayed leads to a further delay in the introduction of unleaded petrol"

Other industry sources said they understood the introduction date had been delayed by a year

Keyter was answering questions about a recent statement by a government spokesman that a possible delay in the introduction of unleaded fuel, originally scheduled for July 1 at certain service stations and October 1 around the country, could arise from government reservations about pricing of the fuel

According to recent press reports, there are several pricing possibilities for unleaded fuel, which costs more to produce than leaded fuel and will initially sell in smaller volumes

The most discussed option appears to be placing a levy on leaded fuel, which would make it more expensive than unleaded fuel

However, the petrol price is a sensitive issue

In the past two months alone, the price in Gauteng has risen by 11c a litre which, estimates say, will raise the inflation rate by at least 0,5 percent

The petrol industry has already spent R250 million in anticipation of the introduction of unleaded fuel in South Africa, Keyter said.

Oil companies which introduce unleaded petrol must supply dedicated tanks at depots and service stations as well as dedicated tankers to transport the fuel

"It is a costly exercise and it cannot happen over a few days," he said

AFTER THE SHOW

WELL-EARNED REST *Anton Post, general manager of the Rand Show, puts his feet up after last week's hectic and successful international event outside Johannesburg*

PHOTO JOHN WOODROOF

Sentrachem joins Strand in R35m synthetics venture

CT(BR) 18/4/95 (183)

STAFF WRITER

Chemicals group Sentrachem has acquired a 50 percent share in Natal-based Strand Group's R35 million spunbond manufacturing venture, Spunchem Africa

The project, which will produce 3 000 tons of spunbond a year, is expected to come on stream during August

The plant is being shipped this month from Italy to Mount Edgecombe near Durban, where the purpose-built factory is nearing completion.

Spunbond is a non-woven polypropylene fabric, currently imported, for use in the manufacture of disposable nappies and medical products as well as in the upholstery, automotive, agricultural, bedding, carpet and mining industries

Strand director Richard McElligott explained the rationale for Sentrachem's inclusion in the project:

- The additional capital arising from the joint venture would speed up the introduction of a second line,
- Raw material supplies in the long term will be secured as Sentrachem, through Safripol, manufactures the polypropylene raw materials

Sentrachem executive director Glen Carter said the group had the expansion potential to become a significant user of polypropylene

"In the longer term, the investment should present us with a sizeable local supply opportunity as well as facilitating the export of a product with value added"

Ian Porteous, Spunchem Africa's managing director, welcomed Sentrachem's inclusion

"We have basically sold out the production of the first line and the formation of the joint venture will enable us to now order a second, 4 000-ton-a-year line to satisfy both local and export demand"

NEWS FOCUS

Fuels task group comes under fire

BD 19/4/95 (183)

MUNGO SOGGOT

THE liquid fuels task group is supposed to be handling the hot potato of fuel industry deregulation, but many see it as a talk shop which is just adding to uncertainty about the industry's future.

The group, which has representatives from labour, government and business, was set up in September 1993 after a large fuel price increase alarmed consumer groups Its focus soon shifted to the possible deregulation of the fuel industry It is not part of the National Economic Development and Labour Council (Nedlac), but Mineral and Energy Affairs Minister Pik Botha says he wants it to be

Two weeks ago the business caucus said it would suspend its participation at the group's full meetings until government put its proposals on the industry's future on the table Government's failure to do so has been described variously by the caucuses as indicative of a "complete lack of policy" and as a reflection of the enormous complexities of the industry

Now there are signs that some in the oil industry — which is part of the business caucus — are fed up and want out "It's waffling along, doing nothing," says one oil company source.

"The industry has let government know that it is dissatisfied with the situation, and that the task group is a waste of time. It is not keen to be seen frustrating the process. It just wants to know as soon as possible what environment it is going to have to work under"

However, many like the idea of staying in the group "The industry is conscious of its unpopularity and wants to show it is committed to the new SA"

Many in the industry feel that one of the reasons for a lack of momentum in tackling the issue is that as a largely National Party department, Mineral and Energy Affairs' hands are often tied. The other departments working with the industry are Trade and Industry and Transport and Finance.

After the business caucus suspended its participation in the group, a government source said a proposal would probably be drafted in the next two months "There is a sense of urgency"

One member of the task group who is more positive says "The new government faces lots of different strategic issues — it's a big turnaround from oil sanctions to total integration in world markets. This is perhaps why they have taken such a long time formulating their proposal."

However, some in the industry are sceptical that government can come up with a workable policy They argue that the huge industry is peppered with vested interests, which are treated differently by each department working with it Instead, the issue should be handled either by Cabinet or by one, preferably senior, department, they say.

Nearly all countries have some form of fuel industry regulation, but just about everything in the SA industry is regulated. The system was designed for the oil sanctions years, so a lot of it is now considered obsolete. "The existing system can be seen as having been a way of buying off oil companies from leaving when most would have gone," says one industry source.

There is a feeling that the current system was fine under a sympathetic National Party government which hiked wholesale margins to keep the oil companies happy But those margins have not been changed since July 1992, and along with historically low international refining margins, are squeezing local companies' profits.

"The SA oil industry is burning Those wholesale margins have to change," an analyst said after the release of Engen's interim results. Engen had some problems of its own which helped cut its net income by 49% to R90m, but CEO Rob Angel said government's failure to adjust the wholesale margins and make changes to the refineries' import parity pricing scheme had chopped about R70m off its operating profit

Those in favour of deregulation do not always argue it will mean cheaper petrol, but rather a more efficient environment for a very large industry.

The business caucus last year supported a phased deregulation of the industry, which some retailers objected to All that came out of their proposals was the adjustment to the way government changes fuel prices Prices now change on the first Wednesday of each month according to movements in international fuel prices, instead of at government's whim

Only business groups like Sacob and the AHI are unequivocally in favour of complete deregulation Critics see their stance as an ideological attachment to free market principles rather than a considered look at the potential effect of full deregulation One task group source says government's proposal is not going to advocate the "full, Sacob deregulation" line.

The oil companies appear to have a mixed approach, with the bigger ones more confident to push for full deregulation, which would mean massive changes to the way they operate. But all are anxious to know of changes soon, so that the transition can be as smooth as possible.

At the heart of the issue is Sasol, which says that if there is deregulation it wants to enter the retail market with its crude-based product. It is currently talking to fuel companies about buying some stations Under the current system, the synfuel producer, which gets "tariff protection", has a commercial contract with the oil companies to buy its product in exchange for it staying out of the retail market. If Sasol entered the retail market, the contract would have to be renegotiated

Government energy policies under fire

BD 19/4/95 (183)

TIM COHEN

CAPE TOWN — The SA Petroleum Industry Association told members of Parliament's mineral and energy affairs committee yesterday that the department's budget was "misleading" and complained bitterly about the lack of government policy on the industry's future.

Giving evidence before the committee in terms of parliamentary committees' new authority to investigate departmental budgets, the association bemoaned a general lack of transparency on critical issues

It questioned the equalisation fund levy on petrol, diesel and paraffin, pointing out that the levy amounted to R1,5bn a year — more than twice the department's stated budget of R716m.

It was mostly being used to subsidise synthetic fuel production.

"You need to consider whether this allocation of taxpayers' money, coming as it does from the total onslaught years, is in accord with the thinking of the reconstruction and development programme," association director Colin McCelland said.

Sapa reports that the association said Sasol's subsidy had to be compared with the subsidies for mines (R24m) and the Atomic Energy Corporation (R500m)

Chairman of the association's board of governors, John Drake, told the committee the levy and the uses to which it was put should be disclosed in the budget.

The association was in favour of phased deregulation, but was concerned that for protracted periods, government had given no indication of whether regulation of the industry would continue.

McCelland suggested that the committee consider carefully how the Central Energy Fund organisation should be structured to fit new national priorities

"Apart from the issue of synfuels, what are the planned investments and costs of fund operations?" he asked.

It was with grave concern that the association learned that the fund indulged in considerable derivative trading, McClelland said.

"We advised the Minister of our concerns last December, before the Barings Bank collapse, and he said that audits would take place.

"We would like to ask what the outcomes of these audits were."

He questioned government's latest position on Mossgas, asking whether further investment to extend the life of the gas fields had been decided on and whether more money would be spent on Soekor.

Notwithstanding the fact that there had been an understanding since 1991 that unleaded petrol would be introduced, government was finding it difficult to implement this, he said

● See Page 9

(183)

Oil industry slams state 'indecision'

By Bruce Cameron
Political Editor

CT(BR) 19/4/95

The R23 billion oil industry has expressed outrage over government indecision on key issues ranging from deregulation to future support for the synthetic fuel industry

At a meeting of the parliamentary mineral and energy affairs committee, the South African Petroleum Industry Association said major investments were being held up because of the department of mineral and energy affairs' lack of clear policy.

The association also blamed the recent poor results of Engen on government indecision and failure to meet commitments

At the meeting, the industry committed itself to the phased deregulation of the industry

John Drake, chairman of the association and head of Shell South Africa, said the industry was operating under the worst of both worlds, "We have neither deregulation nor the proper application of regulation"

He said the fact that the rules under which "so major an industry operates can be left uncertain for so long by the department is very damaging to this country in its battle to win investor dollars"

Sasol supportive of gradual deregulation

(183) BD 20/4/95

CAPE TOWN — Sasol supported phased deregulation of the fuel industry as long as jobs were not compromised and small businesses were encouraged, Sasol GM Pat Davies said yesterday

He told the National Assembly's Committee on Mineral and Energy Affairs that Sasol also welcomed a current study of tariff protection, but wished the crude oil industry would be subjected to the same openness

Sasol's contribution to the GDP was three times that of the local crude oil industry, added R1,5bn to the economy each year and saved the country more than R5bn in forex annually

It did not expect special treatment in terms of tariff protection, which should not cost the economy more than the affected industry's economic contribution.

Sasol was prepared to live with the removal of tariff protection for synthetic fuels as long as it was phased in over at least five years

"About 80% of local industry receives some form of tariff protection" Estimating overall industry tariff protection to average 27%, he added that Sasol should not be excluded

Earlier this week petroleum industry representatives argued before the committee that Sasol enjoyed an unfair advantage because the state subsidised the synthetic fuel sector.

Sasol's tariff protection, funded by the Equalisation Fund from a levy of less than 6c on each litre of petrol sold, had amounted to just over R1bn in the 1993/94 financial year.

"Business is about market share, those attacking us are motivated by commercial interests This may be in a vain hope Sasol disappears and their market share improves

"In the synthetic fuels industry we do not compete directly with the oil companies We have no intention of entering the retail market, we wholesale our fuels to oil companies

"We are not competing with them in their market place, but our crude refinery — which does not receive tariff protection — should be competing equally" Tariff protection had to be approached openly

"All we ask for is fair, reasonable treatment. Tariff protection and deregulation in the liquid fuels industry is crucial to our business".

Davies said Mossgas's conversion to methanol production seemed sensible and did not pose a competetive threat

However, further conversion to a petrochemical capacity had to be studied for its viability and Sasol would be happy to participate in such a process

He said Sasol was able to supply unleaded fuel, but believed this was not justifiable on environmental health grounds given the low concentration of vehicles in SA cities

To be environmentally effective lead-free petrol would have to be accompanied by catalytic converters in vehicle exhaust systems

But if unleaded petrol would boost competetiveness in the local auto assembly industry, Sasol would produce it — Sapa-Reuter.

Education levels 'in need of a boost'

BD 28/4/95

MDUDUZI KA HARVEY

SA UNIVERSITIES need to build up their research facilities to raise the standard of understanding of science and technology in schools and tertiary institutions, says Royal Society president Sir Michael Atiyah.

Atiyah led a delegation of UK academics and government officials on a 10-day fact finding mission to SA earlier this month

The delegation visited universities and held discussions with government agencies on science and technology to determine how the UK could help in promoting these subjects in SA

Universities visited were UCT, Stellenbosch, the University of Western Cape, University of Natal, Durban-Westville, Rhodes University, Wits, Fort Hare and the University of the North

The delegation found there was a need for intensive bridging courses in science and technology at universities

The Royal Society, an organisation which coordinates educational assistance from Britain to other countries, would try to bridge the gap in academic institutions while the British Council would look at these issues at schools

The Royal Society would also discuss joint funding with government departments to build up research facilities countrywide

Atiyah said the Royal Society would look into exchange programmes for academic staff at a research level Most did not have the proper qualifications and necessary training in science and technology The exchange programme would aid staff in student development

His organisation had secured funds from various agencies abroad and individual funders and the delegation's trip would bear fruit by the end of the year

Pharmacists seek go-ahead on generics

KATHRYN STRACHAN

THE Pharmacy Council has called on the Health Ministry to introduce legislation which will permit medicines to be substituted by generics — a move which will lead to a drop in the country's expenditure in this field.

Council registrar Chris van Niekerk said yesterday expenditure on medicines in the SA private sector, expressed as a percentage of total health care costs, was among the highest in the world.

Medicine costs took up more than 30% of total health costs in the private sector, he said, and by encouraging the use of generics — which on average cost half the price of branded medicine — health care costs could be significantly reduced.

While a pharmacist can at present substitute a generic for a prescribed medicine if requested to do so by the patient, the legislation is expected to regulate and strengthen the process.

The council proposed that the Pharmacy Act and the Medicines and Related Substances Control Act be amended to allow for substitution. BD 20/4/95

As well as giving the patient cheaper medicine, the proposal will also enable the pharmacist to lessen the investment cost in duplicating stock.

Language policy 'not accessible to public'

INGRID SALGADO

THE SABC should not view accuracy of reflection as holding up a mirror to SA's eleven official languages but needed to actively stimulate language development, Education Support Group director Michael Gardiner said yesterday. BD 20/4/95

In a submission before the Independent Broadcasting Authority (IBA), he said the SABC's current language policy was not accessible to the public since it addressed the interests of a minority.

He urged the SABC to synchronise programming, channel planning, dubbing, simulcast and subtitling.

To be accessible, the SABC had to grant the public options on language. News broadcasts, for example, should be available in all eleven languages at some time.

Listeners and viewers should not be confronted with significant differences in quality between productions in different languages. "Pitiful game shows in one language should not be adversely contrasted by slick, well-endowed quiz programmes in another."

Gardiner supported the SABC's participatory role in SA's language destiny, as outlined in its "Value and Vision" document. The SABC should deploy its resources to create opportunity for languages to reach into "unexplored realms", he said.

The SABC will present the document's third draft to the IBA today.

Earlier yesterday, the Afrikaanse Taal en Kultuurvereeniging recommended that broadcasters comply with a local content minimum of 25% during the first year of an effective quota. A minimum of 60% in the long-run would be "ideal".

The SABC needed to provide radio stations in all eleven official languages, while its television licences should be subject to it providing effective and equitable treatment of SA's cultural and language diversity, it said.

☐ The postmaster-general's office has seized the transmitter of a pirate radio station, Radio Triomf, after the IBA last week established that it was operating illegally in the Vereeniging area.

The IBA had referred the matter to the attorney-general's office for prosecution.

Meanwhile, the IBA has approved 16 new community radio licences in Gauteng, North west, the Free State and the Eastern Cape. All the stations will broadcast on the FM frequency

Sasol 'supports deregulation'

(183) (~~232~~) CT 20/4/95

SASOL supported phased deregulation of the fuel industry as long as jobs were not compromised and small businesses were encouraged, Sasol general manager Mr Pat Davies said yesterday.

He told Parliament's committee on mineral and energy affairs the company welcomed a study of tariff protection, but wished the crude oil industry was subjected to the same openness

Earlier this week petroleum industry representatives argued Sasol enjoyed an unfair advantage with state subsidies — Sapa

Petrol industry rages at government 'indecision'

(183) CT(BR) 20/4/95

Parliamentary committee hears a litany of dissatisfaction with the mineral and energy affairs department

BY BRUCE CAMERON
POLITICAL EDITOR

The petroleum industry fired a broadside at the department of mineral and energy affairs yesterday, provoking only a virtual silence

A parliamentary committee heard industry express its outrage over government indecision on critical issues ranging from deregulation to future support for the synthetic fuel industry

Roland Darroll, spokesperson for the ministry of mineral and energy affairs, said in reaction to the criticism that the "issues are complex, the accusations are grave and also grossly unfair

"Time is needed for a considered and calm response"

Sasol, which also came into the firing line of the South African Petroleum Industry Association because of the substantial subsidies it receives, told Reuters it was prepared to live with the removal of tariff protection for synthetic fuels as "long as it is phased in over five years"

Davies said Sasol would support the association's call for the deregulation of the industry if it was done in a phased and managed way

Sasol, which sells its petroleum products through the other industry members, said it would want its own service station network Davies confirmed negotiations were already underway to create a network

There were recent unconfirmed reports that Sasol was in negotiations with Engen and Total, which would allow the synfuel manufacturer to market its products

At the parliamentary meeting the association, which represents all the petroleum companies except Sasol, accused the department of mineral and energy affairs of widespread indecision This included

☐ Major investments into South Africa were being held up because of the lack of clear policy The department of mineral and energy affairs appeared to have abdicated to the Liquid Field Industry Task Force, which was itself unable to advance because of the absence of a departmental policy paper,

☐ A lack of transparency in the department's budget with R1,5 billion collected in fuel levies not reflected because of "their origins in the old secret structures of the past" Most of the money was going to subsidise synthetic fuel production,

☐ Dissatisfaction with the terms of reference of the study into tariff protection and subsidies given to Sasol The association, although welcoming the study, wants a full cost/benefit analysis as well as the competitive advantage or disadvantage the various participants in the industry will have,

☐ The non payment of more than R50 million government owed to the industry in terms of the agreement to market fuel on behalf of Sasol,

☐ The indecision on whether a further R600 million should be invested in Mossgas The committee heard no further taxpayer's money should go into the project,

☐ Uncertainty over audits which were ordered after the industry discovered last year that the Central Energy Fund and the Strategic Fuel Fund were indulging in "considerable derivative trading",

☐ The further delay from government on implementation of a four year old understanding on the introduction of lead-free fuel,

☐ Lack of detail on the funding of Soekor, and

☐ The lack of details on the costs, investments and operations of the Strategic Fuel Fund

Star 21/4/95 (183)

Pharmacists call for law to allow generics

■ CONSUMER REPORTER

The South African Pharmacy Council, in a bid to cut the soaring costs of medicine, has called on the Health Department to introduce legislation to permit generic substitutions

Generic substitution can be defined as the act of dispensing a different brand or unbranded medicine by a pharmacist as a substitute for the originally prescribed product

Chemically, the medicine is the same in the identical dosage form, but is manufactured by companies other than the originator of the drug, after the patent has expired

In a statement released on Wednesday by the Pharmacy Council, it was said that expenditure on medicines in the South African private sector — expressed as a percentage of total health care costs — is 31%, the highest in the world.

Studies have shown that the private sector wholesaler in some instances pays up to 58 times more for the same medication than the State does on tender.

The statement said generic medicines were registered and had proven quality, safety and efficacy.

Surveys had indicated that the annual price index for branded products was much higher, at 16,7%, than the annual price index of 12,3% for generic products

Comparative prices of original and generic brands differed from being as low as 18% to a whopping 91%

A basket of generic products is approaching a level of being only half the price of the original brand basket The average discount gap is about 46%

A spokesman for the Medicines Control Council stressed that generic medicines were thoroughly assessed and monitored, that they were of high quality and "strictly comparable with the innovated product".

The council proposed that generic substitution by pharmacists be permitted by amending different sections of the Pharmacy Act and the Medicines and Related Substances Act to ensure, among other things:

■ That medicines which are substituted must be registered with the Medicines Control Council

■ That the council compiles and updates a list of non-substitute substances which must be published and re-evaluated from time to time and which may not be substituted by the pharmacist

"Price pressures have resulted in pharmacists being called upon to be more price competitive, yet they have been denied the means by which they can provide more affordable medicine to the public," the spokesman said

"If this proposal is accepted it will help to give patients cheaper medication"

(183) FM 21/4/95

UNLEADED FUEL

Who pays the piper?

Should motorists using leaded fuel pay 5c-6c a litre more to help bring about the introduction of unleaded fuel?

The issue has become such a hot potato that it has led to a Cabinet decision to hand the whole matter back to the Department of Mineral & Energy Affairs probably delaying the introduction of unleaded fuel on October 1 The launch will now in all probability be delayed until early 1996

At issue is the price differential between unleaded and leaded fuel and the suggestion that the latter be loaded to subsidise the introduction costs of unleaded fuel

SA Petroleum Industry Association (Sapia) director Colin McClelland says oil companies, which have spent about R270m on switchover capital costs, originally asked for a 5% retail price differential to make unleaded fuel more acceptable but later agreed to 3,5%

"Now Cabinet has asked that the matter be investigated further We need a four-month period on the refining side while a further three months is needed to get distribution in place

"As the switchover cannot take place over Christmas the introduction could well be delayed until the first half of 1996"

McClelland says "about 70%-80%" of all fuel sold globally is unleaded Energy Affairs deputy-director general Gert Venter confirms that the Cabinet decision to refer the issue back to the committee on unleaded fuel was based on "specific financial considerations and financial implications. But price is not the whole issue We must also look at the strategy and a rational management process to be followed with introduction For example, should this be regulated from a specific date, as happened in the US, or should we do it the free-market way?"

Automobile Association spokesman Quinton van Eeden says the market should determine the acceptability of unleaded fuel "While we favour the introduction of unleaded fuel, we are very pleased with the Cabinet decision to refer the matter back

"Short-term economic implications of loading the price of leaded fuels should be carefully considered Artificial mechanisms like cross-subsidisation should not be allowed to distort market signals and certain oil companies which are vertically integrated might be prepared to introduce unleaded fuel at cost or to carry the cost themselves in order to gain market share of the fuel of the future"

An oil industry expert says the actual introduction cost of unleaded fuel is as low as about 3c a litre and that oil companies are asking for a 5c-6c price differential in order to retain their 15% return on investment. "SA's seven oil companies, which are making good profits, should carry the costs themselves and let the market decide, without any subsidisation of price intervention measures," he says

Sasol communications manager Alfonso Niemand says "For us it is a matter of wait and see what directive will come from Cabinet We are in a position to produce unleaded fuel when we get the green light" ■

The quarterly result has not severely dented 12-month returns to March, most of which remain well ahead of inflation

Best over this period are Norwich (a return of 32,6%) and Old Mutual Industrial (26,5%) *Margaret-Anne Halse*

COMBINED MOTOR HOLDINGS

Further to go

The recovery of SA's motor industry, especially sales of new vehicles, is well illustrated by the spectacular results reported by Durban-based Combined Motor Holdings (CMH) earlier this week Fuelling the 131% increase in EPS was a 61% rise in turnover, which with margins widening from 2,1% in the preceding period to 3,4%, saw operating profit grow by 130%

The interesting figure, though, is the 133% increase in net taxed income to R13m. This was achieved despite a 43% jump in the tax bill to R7,8m What's important is that net income reflects the effect of new car sales Chairman and MD Maldwyn Zimmerman says these made up 45% of year-ago net income of R5,6m but 65% in financial 1995

Real growth in sales was achieved across all divisions, though "We lived through a big strike in the motor industry and an election, so the financial year got off to a slow start First-half results were affected by the strike, the surge came in the second half, helped by the shortage of inventory

"This is the sort of increase the industry has been looking for Our results were favourably influenced by strong growth in sales and improved margins due to continuing tight control over our working capital," Zimmerman says

The first two months of the new financial year have remained favourable and look encouraging for the year ahead, he says "Given economic and political stability, we should again see real growth in earnings"

CMH was one of the first motor dealers to report improved results 18 months ago Apart from a 75% increase in dividend payment, the price has more than trebled over the past year to 470c

This year's results will come off a substantially higher base and are unlikely to show the sort of increases recorded in financial 1995 The motor sector is looking undervalued on an average p e ratio of 7,3 times A share like CMH could still have some way to go *Shaun Harris*

THE ARGUS SAGA

Stalemate has been reached in the litigation between Argus Newspapers and Caxton over the publication by *The Star* of local newspaper inserts — at least until the Rand Supreme Court hears an urgent application brought this week by Argus against Caxton

Earlier the Supreme Court overturned an Appellate decision in favour of Caxton, finding that circumstances between Argus and Caxton had changed materially since Tony O'Reilly's Independent Group acquired control of Argus Caxton immediately applied for and received permission to appeal against the decision.

Argus then launched an urgent application to publish the local inserts until the outcome of the appeal, which was postponed to April 25 Caxton director Edwin Jankelowitz says his group is still considering a damages claim against Argus relating to its earlier publication of the local newspapers *Shaun Harris*

SENTRACHEM (183) FM 21/4/95

Restructuring for profits

Sentrachem, in a continuing strategy to focus more closely on core chemicals business and improve returns from noncore businesses, is dispersing its Mega Plastics division and seeking alliances with specialists in the plastics industry

The group has also announced that it is taking a 50% interest in a R35m venture with Strand Group to produce a polypropylene-based fabric The project, which will produce about 3 000 t of spun bond a year, a synthetic fabric used for a variety of applications, could also draw raw materials from Sentrachem joint venture Safripol

Financial director Norman Kennelly says the basic thinking behind the Mega Plastics restructure is to keep an interest in the business but let others manage it

"Mega Plastics is profitable but has not offered the returns we should get from a noncore interest So we are looking for partners in three of its four main divisions who can manage them better than we can"

Kennelly won't disclose names but says Sentrachem is talking to players in the plastics industry "A merger may not necessarily bring cash in We would expect the other party to bring something to the table, we would offer the relevant part of Mega Plastics and form an alliance where our interest ideally drops below 50%"

This will allow Sentrachem to focus more on major interests, which Kennelly describes as "molecule building," from the commodity to fine chemicals side

Strand director Richard McElligott says with Sentrachem on board the venture, Spunchem Africa, will be able to order a second production line

"Demand and sales have proved strong The second line could raise production to 6 000 t/year," he says

The fabric, previously imported, is mainly used as the lining for babies' nappies but also has applications in feminine products, agriculture and the automotive and medical industries

Though supply of polypropylene will be at arm's length, McElligott says it will be comforting to have Safripol in the stable

Sentrachem, with joint venture partner Hoechst, is to build a R200m greenfields polypropylene plant

Sentrachem is also raising its profile among foreign investors Senior managers, including MD John Job and Kennelly, recently returned from a global road show Last year Sentrachem launched a level-one ADR programme in the US, sponsored by Bank of New York *Shaun Harris*

ENGEN (183) FM 21/4/95

Off the bottom

Within a week of releasing interim results which showed earnings halved from the corresponding period, Engen's share price had shed more than R4 or 11,6%

At least one analyst sent a sell signal into the market But is it time to start looking at Engen as a recovery stock? Some investors evidently think so This week the price had recovered to R25,50, well below the R28 when results were announced and far from the 12-month high of R42 set last August

Opinion among analysts is divided A few say the share would be worth considering only at R20 Engen CE Rob Angel has indicated there will not be much, if any, improvement over the second half as firmer volumes are offset by retrenchment and other costs, including the rebranding of Trek service stations to Engen livery Debt, at R1,05bn, is also a problem, with the likelihood of higher interest rates

Assuming Engen manages EPS of about 110c for the full year (57c at interim), a (conservative) forward p e ratio of about nine times values the share at roughly R20 There seems little doubt a recovery will follow, but with short-term prospects not looking good the price may weaken again

The wild card that could change the picture is a potential merger of some activities between Engen and Sasol Angel says discussions have taken place but have not yet developed to any agreed-on basis for an alliance A deal could change perceptions of the share overnight

Otherwise, much depends on international refining margins, perhaps the largest single factor behind Engen's poor performance These are at an eight-year low — a significant improvement in refining margins would allow Engen the full benefits of its recently upgraded Durban refinery and potential for increased capacity

The positive view among local analysts is that international margins have bottomed, along with Engen's share price

The current low has been influenced by a number of factors, including increased output from Kuwait as facilities are brought back after the damage caused in the Gulf vantage in the SA market because it produces about 90% of its own timber requirements. Through its international connection the local group benefits from access to US technology, particularly in board and coating development NAV has risen from 882c a share in 1992 to R10,87

At the current price of R12,50, the premium to NAV is thin and the p e of 8,8 is extremely attractive. The group appears to have sorted out its post-recession woes with speed and efficiency, which leads one to believe there is solid value added in this group. *Margaret-Anne Halse*

AECI (183) FM 21/4/95

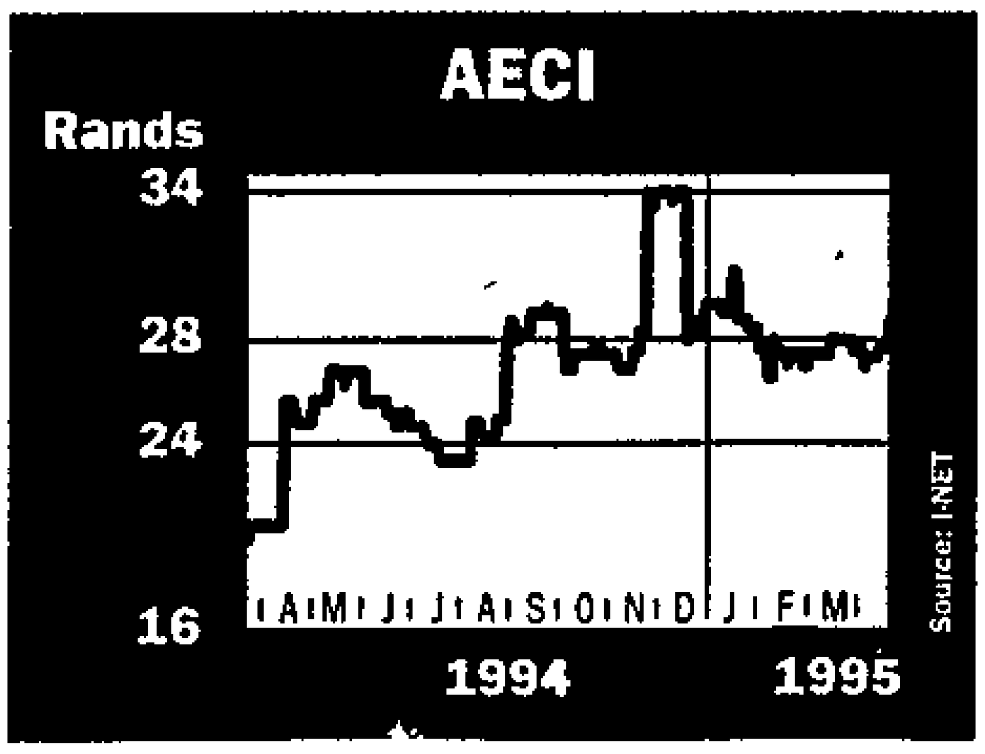
Finding more dynamism

Activities: *Makes and sells chemicals, explosives and plastics*
Control: *Amic*
Chairman: *M D Sander MD M P Smith*
Capital structure: *154,7m ords Market capitalisation R4,4bn*
Share market: *Price 2 850c Yields 2,4% on dividend, 6,5% on earnings, p e ratio, 15,3, cover, 2,7 12-month high, 3 500c, low, 2 100c Trading volume last quarter, 30m shares*

Year to December 31	'91	'92	'93	'94
ST debt (Rm)	477	455	307	803
LT debt (Rm)	470	350	738	478
Debt equity ratio	0,46	0,35	0,38	0,36
Shareholders' interest	0,50	0,50	0,50	0,51
Int & leasing cover	2,6	2,7	4,0	3,4
Return on cap (%)	10,3	10,6	10,4	7,6
Turnover (Rm)	5 280	5 545	5 968	5 494
Pre-int profit (Rm)	422	443	475	430
Pre-int margin (%)	7,6	7,8	7,8	6,9
Earnings (c)	121	106	153	186
Dividends (c)	58	58	58	68
Tangible NAV (c)	1 303	1 331	1 436	2 003

If AECI's annual report reveals anything, it is that shareholders need to look carefully at the way some numbers are presented It isn't that these are wrong but they have a distinctly selective flavour about them

A notable example is chairman Mike Sander's statement that "EPS increased by 40% to 186c a share" Yes, earnings did get to 186c but the comparison with 1993 is not accurate because Soda Ash Botswana was treated differently If like and like are compared, the increase is 23% — a noticeable difference



Shareholders need to exercise great care in analysing these financials because many adjustments are included. For example, abnormal items appear as zero in the income statement Note five, however, reveals a plethora of items the release of monies held in deferred tax, the one-off transitional levy, surpluses arising from chlor alkali-related businesses, computer processing and explosives, provisions for Soda Ash, explosives restructuring, environmental remediation and post-retirement medical benefits The numbers involved are big· R449m on both sides of the equation, nearly R900m in all.

Sander *expecting an increase in earnings this year*

Some years ago, AECI was in a state sufficient to evince genuine concern among analysts Since then, however, some important blocks have been put in place which may lead to renewed dynamism in this mature company's future.

Two factors stand out for 1995 The first is the imminent listing of Polyfin, the joint venture between AECI and Sasol Some analysts firmly believe the market has underestimated the impact this joint venture can have on AECI's bottom line "It puts AECI on a sound footing," says one observer, "and I expect the listing will be one of the more successful of 1995"

The second is the possibility that AECI may enter into a strategic alliance with a major international chemical company during the year This presents some problems, of course, not least because of AECI's long-standing and intimate relationship with the UK's ICI, formerly one of its parents and still an important partner in the explosives segment of its operations

Still, introducing another global partner has been under consideration for years — the 1993 annual report specifically refers to this desirability This may also address another difficulty if it can be pulled off AECI's debt ratio is now 0,36 This may not sound much but, above 0,30, warning bells usually begin to sound Net borrowings now stand at R1,4bn, a tidy sum

In a discussion earlier with Amic chairman and AECI director Leslie Boyd, he agreed the level of AECI's borrowings required attention, though he was careful not to give much indication of the direction in which the group's thinking is leaning But one possibility must be for AECI to relinquish its 50% stake in Afex, a private company which holds an important piece of AECI

Financial director Neal Axelson believes this is worth about R1bn and Amic could either spread the investment around the various companies (which one analyst says would be to revert to previous incestuous policies) or AECI could use it to lure on board an international player The effect would be twofold, giving AECI access to new technologies and substantially improving balance sheet ratios

Overall, I have no cause to reverse my earlier view (*Fox* March 10) that the counter offers good value Sander says he expects "a significant increase in earnings in 1995." That probably means 25% growth off an already higher base *David Gleason*

DATES TO REMEMBER

Last day to register for dividends:
Tuesday Apr 25: [illegible] 27c
Friday Apr [illegible] [illegible] 12c; Engen [illegible] Central 87c, SA [illegible]; Schaming [illegible]
Meetings:
Monday Apr [illegible] [illegible] (Ord & S) (Boksburg); [illegible] Dunlop (Ord & S) (Durban); [illegible] (Sandton)
Tuesday Apr 25: [illegible] Nutrust
Wednesday Apr 26: GF Coal; GF Props; SA Eagle; T&N Holdings (Durban)
All meetings [illegible] Johannesburg unless otherwise stated
S = Special meeting

RESULTS AND DIVIDENDS

[illegible]	Pre-tax profit Rm 1994	Pre-tax profit Rm 1995	[illegible]	Earned cents per share 1994	Earned cents per share 1995	Paid cents per share 1994	Paid cents per share 1995	[illegible]	Dividends: last day to register	Payable
[illegible]	—	—	[illegible]	—	—	#	3	[illegible]	[illegible]	[illegible]
[illegible]	☐	(2,0)	[illegible]	☐	(3)	—	#	[illegible]	[illegible]	[illegible]
[illegible] P	0,18	0,33	[illegible]	8	18	8	18	[illegible]	[illegible]	[illegible]
[illegible] P	§3,2	§3,6	[illegible]	180	196	146	178	[illegible]	[illegible]	[illegible]
[illegible]	☐	▲2,0	[illegible]	☐	▲78	—	▲80	[illegible]	[illegible]	[illegible]

D = Dividend. # = Dividend passed I = Interim ☐ = No comparison P = Preliminary † = Final § = Net attributable profit after tax. ▲ = 14 months.

Fuel merger talks rouse competitors

(183)

THE Competition Board is to ask Engen and Sasol to disclose whether they plan to form a new joint fuel company, writes **KEVIN DAVIE.**

Pierre Brooks, the board's chairman, says oil companies have asked the board to hold a formal investigation into the two companies' plans to merge their refinery and marketing interests.

Engen spokesman John Roberts says there is nothing to add to Engen's earlier confirmation that it was holdings talks with Sasol.

Sasol's Amelia Soares says talks with all oil companies are "exploratory and have not even progressed to the point where a cautionary announcement to shareholders would be appropriate"

An analyst says a merger of Sasol and Engen's refining and marketing interests holds huge attractions for the two companies but also brings with it many difficulties, including satisfying the Competition Board's requirements for fair trade

A proposed merger by Caltex Australia and Ampol, a listed independent, was recently blocked by Australia's competition authority but was later approved by that country's courts, the analyst says.

ST (BT) 23/4/95

Pik orders probe into 'paper oil'

(183) ST(BT)23/4/95

By KEVIN DAVIE

ENERGY Minister Pik Botha has ordered a special independent audit into the substantial "paper barrel" holdings of crude oil by the Central Energy Fund.

Documents made available by Mr Botha to Business Times show that 7,26-million barrels of the 57,3-million strategic oil reserve is held in "paper contracts"

The documents show that SA oil refineries refuse to purchase, at commercial prices, part of the oil stockpile stored at Cape Town The oil is sold ad hoc to African countries at a premium

The CEF's problem is that most of the stockpile (39,9-million barrels) is stored at Ogies near Witbank and 17,4-million barrels at the coastal sites of Saldanha Bay, Cape Town and Durban.

Rather than incur the cost (R16,37 a barrel) of transporting the Ogies crude to the coast, the CEF has built up substantial paper barrels to be reduced over time as 30 000 barrels a day of the Ogies crude is supplied to the Natref refinery at Sasolburg

The oil industry raised its concern with Mr Botha in December, Sapia's John Drake warning that "such practices would be the subject of disciplinary action in most commercial organisations because of the financial exposure generated"

Mr Botha replied that if the price of oil had risen, CEF's paper would have been worth more.

"Since the oil price has dropped instead, if the paper is now sold it will realise less than was paid for it. But there is no urgency to sell and the situation is being watched closely," Mr Botha said

A memorandum on the CEF's paper trading activities dated April 18 says the major benefit of covering wet barrel purchases by forward paper barrel purchases is that the cost of replacing oil in Saldanha is the same as the price at which the crude was orginally placed in the mines where it is stockpiled.

There are "numerous risk management instruments such as options which are used to optimise the paper position"

The memorandum says the CEF currently holds 7,26-million barrels of crude, 5,6-million to be replaced by wet barrels at Saldanha Bay. A further 1,7-million paper barrels are held to secure a target price of $16,70 a barrel (free on board in Dubai)

"If oil prices reach the target price the paper barrels are sold and in this way the target price is reached."

The CEF paid an average $16,67 (Brent) for its 7,26-million paper barrels. It says the average closing price on April 19 was $18,12 (Brent).

It says the risk involved for CEF is limited to the movement of the crude price below the price at which crude was sold to Natref.

"The closing oil price on April 19 was $9,93-million in profit relative to the price at which the oil was sold.

"The realised profit on paper barrels sold after achieving the target price recently amounted to $10,3-million."

Mr Botha says the special independent audit is investigating the quality and quantity of the strategic oil stock and the efficiency and quality of CEF's management.

"The objective is to dispel the many misconceptions, the implied accusations of inefficiency and the unfounded rumours to which CEF has been subject," a spokesman says.

Pik lashes out at oil industry greed

CT(BR) 24/4/95 (183)

Large companies want to put profits before jobs, the minister says in response to sharp criticism of his department

By Bruce Cameron
Political Editor

The minister of mineral and energy affairs, Pik Botha, has accused major players in the oil industry of putting profits before the broader interests of the industry, thereby threatening a major loss of jobs

He was responding to sharp criticisms levelled at his department by representatives of the South African Petroleum Industry Association (Sapia), at a hearing of the parliamentary committee on mineral and energy affairs on the department's budget last week.

Sapia representatives gave a litany of complaints, accusing the government of indecision on major issues ranging from deregulation to future support for the synthetic fuel industry, and dragging its heels on completing a policy document on the energy industry

Responding in an interview, Botha disclosed that a new policy framework to regulate the R40 billion petroleum industry would go before the Cabinet within weeks The proposal would then be submitted to the National Economic, Development and Labour Advisory Council (Nedlac)

Hitting back at his department's critics, Botha said

☐ Sapia represented the major multinationals but excluded the South African players Sasol and Mossgas, which produced almost 45 percent of fuel consumed domestically Therefore, Sapia did not speak on behalf of the industry This was one the problems faced by the government in discussions, as it was difficult to get uniform reaction from the industry,

☐ The Sapia members, which had made "billions" over the years, were only interested in profits and not in the potential loss of 60 000 jobs at pump stations as a result of deregulation, or the loss of 162 000

☐ Turn to next page

Pik lashes back at his oil industry critics (183)

☐ From front page

jobs at Sasol if tariffs were to be removed immediately,

☐ Sapia members had "unrealistic expectations" about the pace of change in an industry that had operated under much the same rules for 40 years Botha said major changes had been implemented during the past year, including a new, open pricing structure, new legislation enabling the auditor-general to check the books of the Strategic Fuel Fund and the Central Energy Fund, the provision of extensive information on the industry, and the appointment of an inter-departmental committee to draw up new policy proposals to govern it,

☐ Sapia members had shown a "singular lack of understanding for the problems of a country moving from one political system to another with new structures, such as Nedlac, which has just started functioning and must be consulted on changes of policy",

☐ Sapia members were receiving an indirect subsidy from motorists, because they were exporting refined fuel at a loss due to over-capacity at their refineries,

☐ While Sapia accused the government of secrecy, none of the multinationals opened their books to show what profits they made in South Africa and how much had been repatriated to their mother companies over the years Botha also rejected claims that his department's budget still did not disclose details of money raised through the fuel levy,

☐ Botha rejected demands from Sapia that the terms of reference of the current study into Sasol's tariff protection being conducted by independent accountants be changed He said Sapia members had agreed to the terms of reference through the Liquid Fuels Industry Task Force, but were now trying to secure changes which would swing the outcome of the investigation in their favour,

☐ He accused Sapia members of surreptitiously trying to integrate the industry vertically through the type of agreements they gave independent pump stations There was enough evidence to show that "the oil industry will pressurise people out of the industry if they don't play ball" Botha said motorway petrol stations were forcing the closure of private pump station operators, many of whom were now black, while the companies rapidly closed down stations that did not meet targets,

☐ Botha rejected demands from Sapia that profit margins should be adjusted in line with inflation. "One should have imagined that in a highly competitive and efficient system, the oil industry would be able to bring down overheads and require smaller margins to survive", and

☐ The date of implementation of lead-free fuel had been delayed because the government had ordered an investigation to ensure that owners of older vehicles would not be prejudiced The original decision to introduce lead-free petrol had been taken by the old government

Botha conceded that the framework of the pricing system had been adjusted, resulting in outstanding claims by Sapia members on the synfuel levy and the wholesale margin. This was being addressed (Sapia claims R50 million is owed to its members)

On the issue of tariff protection for Sasol, which kicks in when the price of oil drops below $22 a barrel, Botha said Sasol had been told, and had accepted, that the protection would be phased out

However, he was considering having an expert calculate what it would cost the country in foreign currency and in jobs lost if Sasol did not exist

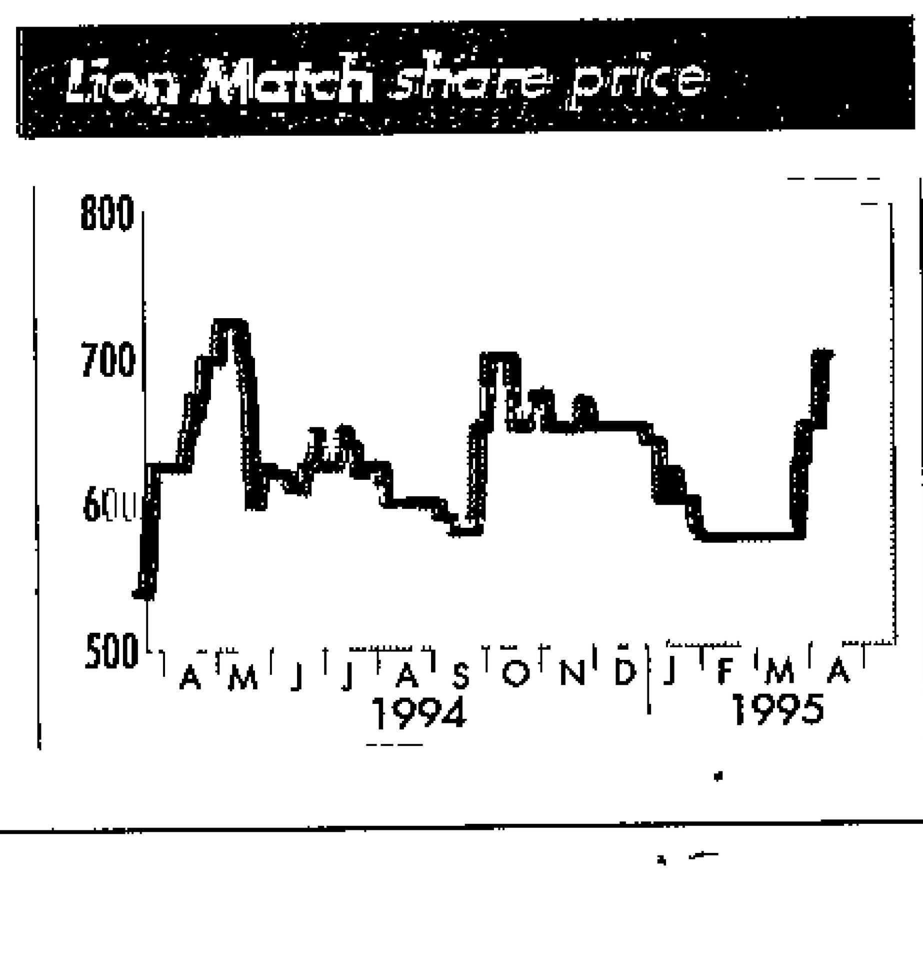
He said the government wanted to scale down its involvement in the industry, but there had to be some type of government presence.

CO

Lion's earnings up 28%

(183)

NO COMMENT
Terry Turner, MD of Lion Match, says historically there has always been a price rise prior to the release of results



JOHN SHERROCKS
KWAZULU NATAL BUSINESS EDITOR

CT (BR) 27/4/95

In the face of intense speculation that a delisting is on the cards, Durban-based Lion Match announced a 28 percent increase in earnings per share to 57,4c (44,7) for the year ended March 31

Analysts point to the SA Breweries subsidiary's cash float of over R200 million as reason for either a delisting or a significant acquisition

Commenting on the recent sharp climb in the share price, Lion managing director Terry Turner said that historically there was often a rise before the release of results He said it would be inappropriate to respond to speculation before the annual meeting He was not available for comment yesterday

In the year to March 1994, Lion sold off its packaging division, Interpak, to Consol for R203 million cash and shed its 50 percent interest in Amalgamated Appliances to co-owners Tedelex The latest results show comparable turnover up by 19 percent despite a seven-week strike at the Rosslyn factory.

Trading profit from continuing operations increased by R2,1 million to R27,2 million.

Net investment income of R14,4 million enabled the group to improve profit after taxation by 16 percent to R26,1 million and without the occurrence of equity losses, attributable earnings increased by 29 percent.

Oil firms want to see Pik

CT(BR) 27/4/95 (183)

By Bruce Cameron
Political Editor

Major oil companies are seeking an early meeting with Pik Botha, the mineral and energy affairs minister, to resolve differences over the future of the industry.

The SA Petroluem Industry Association, which represents all the major oil companies except Sasol and Mossgas, has been trading punches with Botha over the regulation of the industry, which Sapia says is operating in a virtual vacuum

The row between Sapia and Botha was sparked when Sapia's chairman, John Drake, strongly criticised the Botha's department at a Budget hearing of the parliamentary committee on mineral and energy affairs

Botha responded in an interview with Business Report, accusing the Sapia members of putting profits before the broader interests of the industry

In a statement, John Drake said the association regretted the tone and nature of Botha's comments in the interview.

Sapia defended its stance at the parliamentary hearing, saying that it had been encouraged to raise its concerns and interests on matters relating to the department's budget and policies

These concerns included "problems associated with the policy vacuum and the negative impact it could have on new investment".

"Minister Botha's comments as reported in Business Report are therefore considered by Sapia as both surprising and unjustified," responded Drake, adding that Sapia believed the situation called for objective and constructive dialogue to resolve the issue and to formulate policy

A meeting had been requested with Botha at his earliest convenience

Adcock-Ingram raises interim income 15%

(183)

By Charlotte Mathews

CT(BR) 28/4/95

Pharmaceuticals group Adcock-Ingram, which is 73,5 percent-owned by Tiger Oats, reported 15 percent growth in attributable income to R58,2 million in the six months to March compared with the same period in 1994, as higher interest income and a lower tax rate offset a squeeze on operating margins

Turnover rose by 12 percent to R564,1 million, partly owing to the inclusion of Zimbabwean subsidiary Datlabs and the 50 percent interest in Vesta Medicines. However, operating income was only 4 percent better at R84,2 million, showing operating margins at 15 percent from 16 percent

Sales growth up

According to the directors, this reflected high sales growth in the lower-margin wholesale business as well as the transfer of products to joint ventures with Astra and Pharmacia

Interest received surged by over R1 million to R6 million and income from investments more than doubled to R1,5 million (R653 000) The tax rate fell to 36,5 percent (41,3 percent)

Earnings lifted to 42,1c (36,8c) a share and an interim dividend of 11,1c (9,7c) a share was declared

The latest results show an annualised 30 percent (28 percent) return on equity and an annualised 29 percent (27,5 percent) return on net assets

Adcock Ingram group chief executive Don Bodley said the consumer healthcare division had produced excellent results and contributed a quarter of group earnings. Adcock Ingram Pharmaceuticals, which markets branded pharmaceutical products and generics, had benefited from increased investment in sales and marketing resources

He said the refocusing of the group had created greater synergy between its divisions, brought it closer to its customers and created new business opportunities.

"We expect to achieve growth in earnings for the full year ahead of last year's growth of 15 percent."

Mast's income takes a dive

By Charlotte Mathews

Difficulties in the second quarter produced a 94 percent drop in Mast Holdings' attributable income to R19 000 in the six months to January, compared with the same period in 1994

Mast Holdings specialises in training services and products, including videos, magazine subscriptions and books.

Turnover improved to reach R22,7 million from R20,8 million previously, but with operating margins down to 2,2 percent from 4,1 percent, operating income slipped to R503 000 from R854 000

A steep rise in financing charges to R500 000 from R336 000 further reduced income Earnings were down to 0,09c (1,45c) a share.

Mast chairman Stephen Dallamore said only one division, Mast Training Consultants, had performed ahead of target.

Mast Video Training and Mast Publications experienced a slump in sales while Mast Information Technologies experienced timing differences on some major contracts

Da Gama lifts dividend by 40%

By Charlotte Mathews

Textile group Da Gama lifted its dividend by 40 percent to 21c for the year to March 1995 compared with 15c in 1994, as a result of improved trading conditions, market share gains in some divisions and recovery from a six-week strike the previous financial year

A 15 percent improvement in turnover, combined with cost-containment programmes and higher interest earnings, was translated into a 51 percent surge in pre-tax income However, a steeper tax bill reduced growth in bottom-line earnings to 39 percent

The directors expect earnings will advance further in 1995/96 with an improvement in the economy and, if the present forward order position continues, provided there is no further increase in imported woven fabrics, to capture over 40 percent of the South African market.

Cash pile interest helps Lion Match

(183)

BD 28/4/95

MARCIA KLEIN

THE interest received on its large cash pile helped SA Breweries' matches and consumer goods subsidiary Lion Match increase its attributable earnings by 29% to R26,1m (R20,3m) in the year to March.

Despite strong market speculation that it would announce its delisting from the JSE or a major acquisition, no such announcement was made. Directors were not available for comment on Wednesday.

They said in the results statement that despite a seven-week strike at the Rosslyn factory, further successes in exports enabled Lion to increase turnover of continuing operations by 19% to R166,7m (R140,3m).

Trading profit grew 8,4% to R27,2m (R25,1m), but net investment income of R14,4m enabled it to increase taxed profit by 16% to R26,1m (R24,5m).

Cash flow from operations grew by R9,2m to R32,9m. This, together with liquid resources of R200,7m — which mainly reflect the R203,5m cash sale of its packaging division Interpak to Consol — meant that the group remained "in an extremely sound financial position".

Apart from the contribution of investment income, bottom line earnings also benefited from the fact that it did not have equity accounted losses — as it did in the previous year — relating to its former holding in Amalgamated Appliances.

Earnings were 28% higher at 57,49c (44,77c) a share, and a final dividend of 16c a share brought the full year dividend up by 30% to 24c (18,5c) a share.

Commenting on prospects for the year ahead, directors said Lion expected continuing success in the export market and further increases in private consumption expenditure.

(183)

FM 28/4/98

FOSKOR

Flogging phlogopite

Foskor MD Danie Vorster, a man who was intimately involved with the highly controversial Mossgas oil-from-gas project, says the feasibility study for his State-owned company's R3bn phlogopite project is on track and a final decision on the project should be taken by 1998

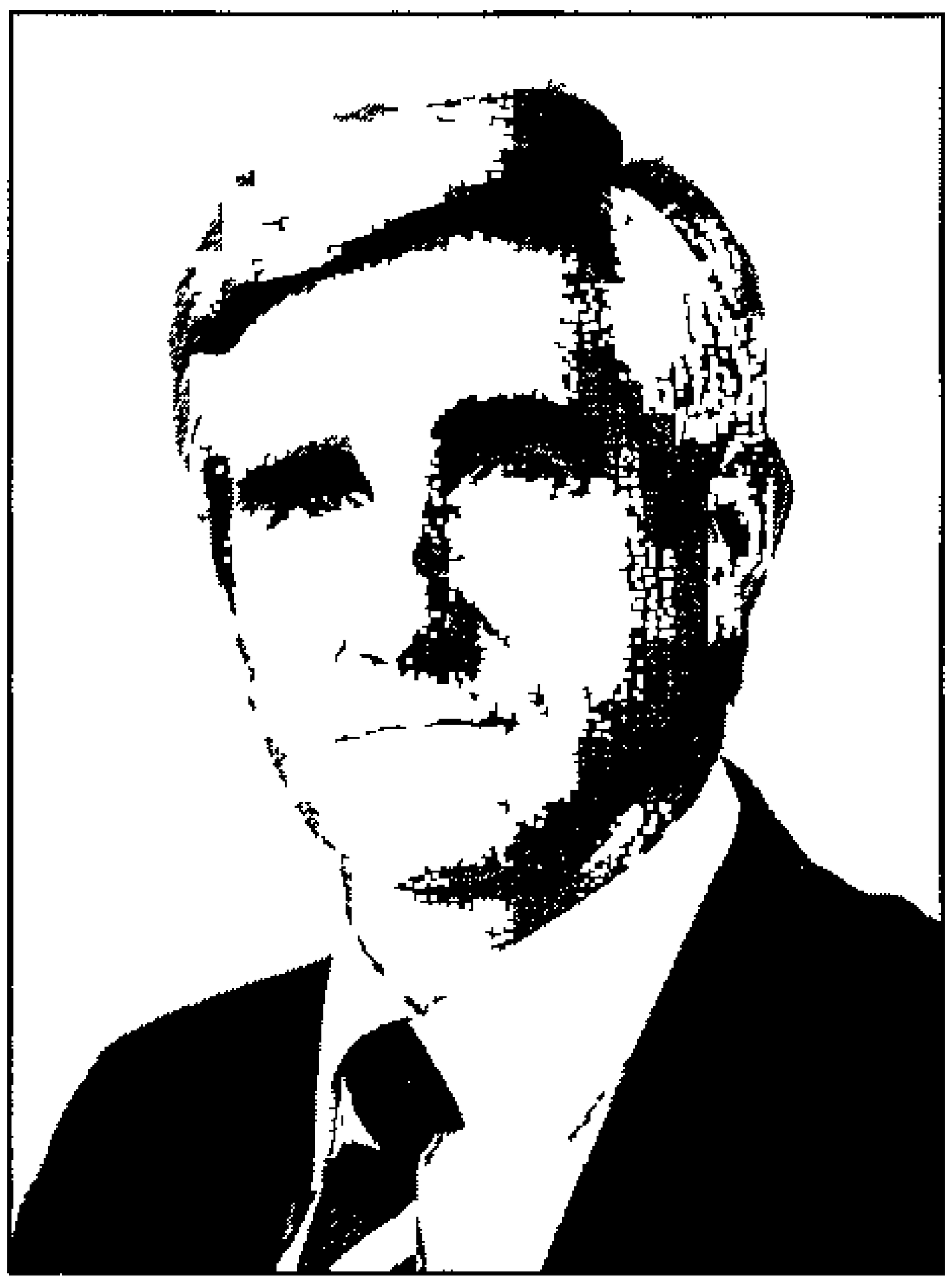
Phlogopite, a mineral containing alumina, magnesium and potassium, is at present a waste product at Foskor's opencast phosphate mine in Phalaborwa

The envisaged project would produce 350 000 t a year of alumina, 300 000 t of magnesia and 230 000 t of potassium sulphate after commissioning in the year 2000

Vorster, who claims the project will earn R1,2bn a year (in 1995 figures), says it will dwarf the present R430m-a-year phosphate operation

He adds that "possible privatisation of Foskor should await the implementation of this project, when suitable private-sector partners will be introduced to contribute to the financing and management of the enlarged company"

Private-sector shareholding in the phlogopite project alone will exceed 50%, he says



Vorster *new project not another Mossgas*

But could the phlogopite project become yet another Mossgas — launched by the Central Energy Fund and partly financed by the Industrial Development Corp, Foskor's 100% shareholder? No, says Vorster "Substantial private-sector shareholding will be involved in the establishment of a commercial project The decision to go ahead will, therefore, be based on normal private-sector investment criteria"

Rob Barber, MD of Alusaf, in which the IDC has a one-third shareholding, says his company's new 460 000 t/year Hillside smelter should be commissioned by mid-June and he expects full production a year later He adds that Alusaf's Bayside smelter has built an escape clause into contracts with its existing alumina suppliers which allows it, at a year's notice, to switch to Foskor for its 350 000 t/year alumina requirements "This is obviously subject to Foskor meeting, or bettering, our suppliers as far as price and quality are concerned"

Barber says virtually the full Hillside aluminium production for the next three to four years has already been contracted out — alumina suppliers will take 50% of product, in terms of barter contracts, while 20 000-30 000 t/year is being retained for spot sales

The current US$1 800/t London Metals Exchange aluminium world price means the project is in the black, says Barber But, says a JSE broker, LME prices have also been known to drop And, with alumina prices linked directly to LME aluminium prices, there is a risk attached to the phlogopite project, especially as it is based on special technologies which give an added risk to any such project

"There is no global shortage of bauxite, the normal unrefined alumina and aluminium raw material The phlogopite project not only has to apply complex new technologies, which might prove to have costly teething problems, but it also has to prove itself to be a cost-effective alternative to a freely available, quality raw material"

Should the internal rate of return be 5%-6%, he would have grave doubts about investing in the project But, should the return be around 20%-30%, investors could be on to a good thing, he adds

The next step is the erection of a demonstration plant to produce six tons a day of alumina for testing on a commercial scale by Alusaf To date, about R19m has been spent on the project, with the expected completion of the demonstration plant projected to cost a further R94m "Preliminary capital expenditure on the commercial project is expected to start during 1998 The project should be completed and in operation by 2000," says Vorster

The feasibility of the project is calculated on the basis of expected world market prices and "projections show that the scheme will be profitable without any State subsidies, tariff protection or tax concessions" Vorster says the projected 350 000 t/year of alumina product "will compare favourably with imported alumina in respect of price and quality" ■

FUEL INDUSTRY

Knives out for Sasol

FM 28/4/95 (183)

Synfuel producer Sasol has its back to the wall after what industry pundits this week described as the heaviest attack yet by SA's six crude-oil refiners Under the auspices of the SA Petroleum Industry Association (Sapia), the oil companies have accused Sasol of still benefiting hugely from a R1bn-a-year subsidy handout

Though the issue has been an industry sore point for years, the latest onslaught by the oil giants threatens to turn into one of the harshest conflicts since the introduction of synthetic fuel subsidies

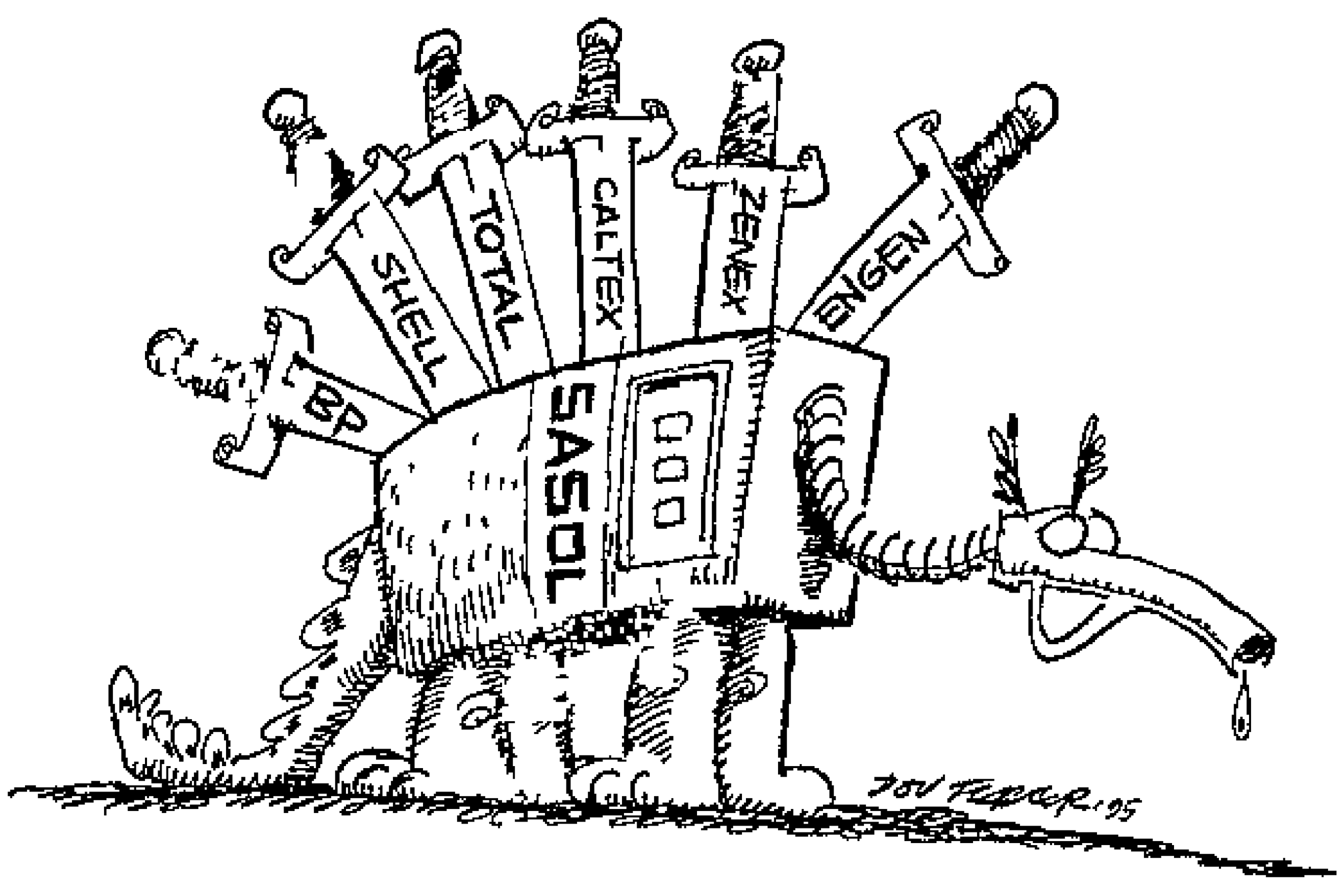
Behind the recent flurry of attacks lies a savage battle (and intensive lobbying) for high profits, market share and State support in the R37bn/year liquid fuels industry

Catalyst for the latest flare-up was the announcement of an in-depth probe by accountants Arthur Andersen Consultants into the protection received by Sasol

Sasol, which admits to receiving about R1bn/year in synfuel protection, says it is prepared to open its books and co-operate fully with all parties

But Sapia sees the Andersen probe as weighted in favour of Sasol and wants the terms of reference to be re-examined so that it will allow the whole question of cost benefits of synfuel protection to be evaluated

Sapia represents the six crude oil companies — Engen, BP, Shell, Caltex, Zenex and Total It is attacking both Sasol and the Department of Mineral & Energy Affairs for "the excessive protection given to synfuel producers and the fact the department has been prevaricating for more than a year without producing a cogent policy document"



This week, Mineral & Energy Affairs Minister Pik Botha joined the fray and accused Sapia of being more interested in profits than jobs, while representing only about 55% of the liquid fuels industry

So, what is behind all this?

Petroleum industry experts say there is agreement that deregulation and a more competitive industry is the way to go and that SA needs an industry that allows free fuel imports and free local market competition without State intervention

But, they add, deregulation could have far more complications (and pains) than superficially apparent

For one, Sasol owns the only inland refinery, close to the major markets — and it has repeatedly asked to be allowed free competition at retail level

This is conditional on the disappearance of several existing mechanisms retail price maintenance, the Blue Pump Agreement, the In-Bond Landed Cost regulated price, fixed retail and wholesale profit margins, and the synfuel levy

And, should Sasol and Engen (named by one commentator as SA's most vertically integrated oil company) decide to team up, the combined group "could give the coastal-based oil companies a run for their money" With SA's economy "boasting" the highest concentration of oil companies in the world, rationalisation would have to follow

In a response to the Sapia attack last week at the Parliamentary Committee on Mineral & Energy Affairs, Sasol MD Paul Kruger gave some other telling responses he says oil companies have, to date, received about R1,3bn from the Central Energy Fund in the form of synfuel levies And they still have to prove transparency as far as three important areas are concerned individual profitability, transfer pricing and the way they transmit profits to their overseas parents

Oil companies insist they profit far less, directly, than synfuel companies, which, according to Sapia director Colin McClelland, benefit from the 9,4c/l levy on every litre of petrol sold (as well as 8c/l on diesel and 7c/l on paraffin) "The total amount involved is R1,5bn per annum or more than twice the whole of the Mineral & Energy Affairs budget of R716m" And the R1,5bn a year, which is paid to the "equalisation fund" is not disclosed in the Department's budget

Meanwhile, the Liquid Fuels Industry Task Force, which had been investigating the deregulation of the fuel industry, has effectively ground to a halt, pending two issues the Andersen investigation into Sasol's protection and the long-awaited Mineral & Energy Affairs policy declaration

Andersen partner John Donelly says "90-odd requests" have been sent to various interested parties to submit comments on synfuel protection and the closing date for submissions was the end of last week "We have to render our final report by May 19," he says ■

HEALTH

Down on the pharm

The Pharmacy Council has launched a fresh attempt to win government approval for generic drugs substitution The council asked Health Minister Nkosazana Zuma to introduce legislation allowing pharmacists to substitute branded drugs with cheaper equivalents

In reality, however, many pharmacists already routinely dispense generics as most medical schemes cap the prices they are prepared to pay for certain drugs

This latest suggestion follows proposals to restructure mark-ups in the pharmaceutical distribution chain and introduce a professional fee for the retail pharmacist The council argues these measures will help cut a private sector drug bill that is ranked among the highest in the world at around 40% of the total private sector health bill

While the cost efficacy of the earlier proposals is dubious, generic medicines do have a cost-effective track record The State has used substitutes safely for more than 30 years, saving millions of rand annually It also benefits substantially from its tender system, which enables it to buy drugs for far less than the private sector

It is this cross-subsidisation, argues the council, that distorts private sector prices. "Studies have confirmed that the private sector wholesaler, in some instances, pays up to 58 times more for the same medication than the State does on tender"

These are claims unlikely to be welcomed by manufacturers of branded drugs Faced with a similar attempt by the council to legalise generic substitution in the late Eighties, drug manufacturers responded with huge volume-unrelated discounts and free samples to doctors These special discounts, claims the council, encouraged doctors to overprescribe to nurture profit margins It is a practice that was effectively outlawed by the Competition Board two years ago but is still being appealed against by the country's eight largest manufacturers

Drug manufacturers argue that the price

Synergies at work (183)

■ Timing of the Polifin project could've been better, it seems

FM 28/4/95

Like other major capital projects in the process of completion (Alusaf [illegible] Columbus), the R636m Polifin [illegible] restructuring project at Sasolburg seems to have been blessed with excellent timing

When it was announced in June 1993, PVC prices were depressed and faith in the future was all that underpinned the link between chemical giants Sasol and AECI

Now, 20 months later, the market has

Capital Pr

major Sasol projects being completed include the R430m Secunda plant and infrastructure to produce acrylonitrile from Sasol ammonia and propylene to supply the feedstock for the Sasol acrylic fibres plant at Durban, the R123m replacement of the 16 Synthol reactors at Secunda One, the R53m alkylamines project at Newcastle (a joint venture with Sentrachem), the second phase of the R40m continuous on-line catalyst addition facilities at Sasol Two; the R40m project at Sasol Two to increase the production of pure gas and the R37m MIBK plant at Sasolburg.

Nine major projects completed by Sastech over the past four years cost the company R2,7bn They were all completed on time and "within 1% of the approved budget;"

❑ AECI, meanwhile, expects to begin production at SA's first R300m lysine plant at its Umbogintwini complex in Natal by mid-1995 This 60·40 joint venture with the IDC will soon be commissioned and launches AECI firmly into the field of biotechnology It is the group's first major plant to be based on fermentation technology, utilising a feedstock base of 30 000 t/year of sugar supplied by the Tongaat-Hulett sugar refinery in Durban

AECI's lysine plant will produce 11 000 t/year of lysine, an amino acid used in pig and poultry feed to balance the composition. About 75% of its production will be exported. The plant will be of entry level world scale and was designed from the outset for cost-effective expansion to meet any growth in world demand

❑ Also in Natal, AECI's R20m aroma and fine chemicals plant is being commissioned at Richards Bay. ■

Adcock exceeds expectations (183)

ROBYN CHALMERS

NEWLY restructured pharmaceutical group Adcock Ingram exceeded expectations with a 14% rise in earnings to 42,1c (36,8c) a share for the six months to March.

Turnover increased 12% to R564,1m, which group CE Don Bodley said was achieved despite the transfer of a number of product lines to recently formed joint ventures with Astra and Pharmacia.

Operating income before interest rose 4% to R84,3m. Bodley said the operating margin was hampered by high turnover growth in the lower margin wholesale business and the effect of the transfer of business to the two joint ventures

However, higher interest income of R6m (R4,95m) and a lower effective tax rate enabled a 15% improvement in attributable earnings to R58,2m.

Directors declared an interim dividend of 11,1c (9,7c). BD 28/4/95

Bodley said that for the first time the group included the wholly owned Zimbabwean subsidiary Datlabs and the 50% interest in the branded generics company Vesta Medicines.

Adcock Ingram was restructured into five units — consumer health care, pharmaceutical, which incorporated branded products and generics, critical care, wholesale and international.

Bodley said the consumer health care division performed well, with good de-

□ To Page 2

Adcock

(183) BD 28/4/95

□ From Page 1

mand for products in the self-medication and consumer toiletry markets. Self-medication brands recently acquired in Zimbabwe further strengthened the division's presence in the African region.

In the pharmaceutical division the Adco generics range showed strong volume growth, while branded pharmaceutical products performed satisfactorily.

The critical care division retained its dominant position in the supply of products to the intravenous, blood and renal markets, despite increased competition.

The wholesale division increased market share following structural changes in the industry and turnover grew 22%, but margins remained under pressure.

The international division achieved a higher level of exports, particularly to countries in the African subcontinent.

Looking ahead, Bodley said a number of new products had recently been launched in the pharmaceutical division and several generic and consumer health care products were planned.

Some of the cost benefits following the group's restructuring would be realised in the second six months.

Bodley said the group expected to produce growth in earnings for the full year which would at least be in line with last year's growth of 15%.

R3bn for chemical projects

ET (BR) 2/5/95

(183)

Sasol, AECI, Polifin, Sentrachem and SA Nylon Spinners invest in new plant as the industry's commodity cycle turns upward

By Charlotte Mathews
Investment Editor

Local chemical companies are about to spend at least R3 billion on expansion, and this figure could be increased with the undertaking of further major projects

These plans are partly prompted by the upturn in the chemical commodity cycle, which analysts say began in mid-1994 and is evident in recent results from public companies, both locally and abroad

Among local companies, AECI recently reported a 40 percent jump in full-year profits Sentrachem improved earnings by 96 percent in the six months to February, and Sasol improved its bottom-line profit by 25 percent in the six months to December 25

Internationally, first-quarter figures released by chemicals giants such as BASF and Bayer of Germany, Akzo Nobel of the Netherlands and Union Carbide and Du Pont of the United States, show some of the largest percentage improvements since the chemicals cycle turned down at the end of the 1980s

According to a recent analysis by Reuters, companies mainly active in basic chemicals are benefiting most from recent hikes in raw materials prices, while those further down the pipeline are still struggling to pass these price hikes on to their customers

A local analyst, who asked not to be named, said last week the upturn in the chemicals sector was expected to last for two to three years

But what usually happened in the industry internationally was that as the cycle turned up, companies would make bigger profits and embark on expansion programmes, but because of the long lead times these projects frequently came on stream as the commodities cycle once again began turning downwards

Some of the major local projects were unrelated to the cycle, he said For example, AECI's decision to invest in a lysine plant was prompted by a gap in the market, while Sasol's investments were prompted by a strategy of relying less on synfuels, as its subsidies might be cut, and more on products with greater value added than petrol or diesel

Sasol will spend R1 billion to R1,5 billion in the 1994/95 financial year, including R37 million on the MIBK plant, R310 million on the acrylonitrile plant being moved from Austria to Secunda, and R53 million on the alkyl amines plant it is building with Karbochem at Newcastle

AECI is building a R300 million lysine plant Polifin, a joint venture between AECI and Sasol, is spending R636 million to expand the capacity of its PVC plant

Sentrachem recently announced a joint venture with Hoechst to build a R200 million polypropylene plant, and SA Nylon Spinners is investing R120 million in the manufacture of heavy industrial yarn.

(183)

Mobil to cut 4 700 jobs: Oil giant Mobil said yesterday it would eliminate 4 700 jobs from its worldwide workforce of 51 000 and take a $300 million restructuring charge against second-quarter earnings "We are in a fiercely competitive business environment," said Mobil chairman Lucio Noto

CT(BR)2/5/95

R21m for anti-pollution programme: SFF Association, the company which manages South Africa's strategic crude oil stocks on behalf of the government, has put aside R21 million for a social responsibility programme designed to combat oil spills in the Saldanha Bay area

(183) ~~(56)~~ CT (BR) 2/5/95

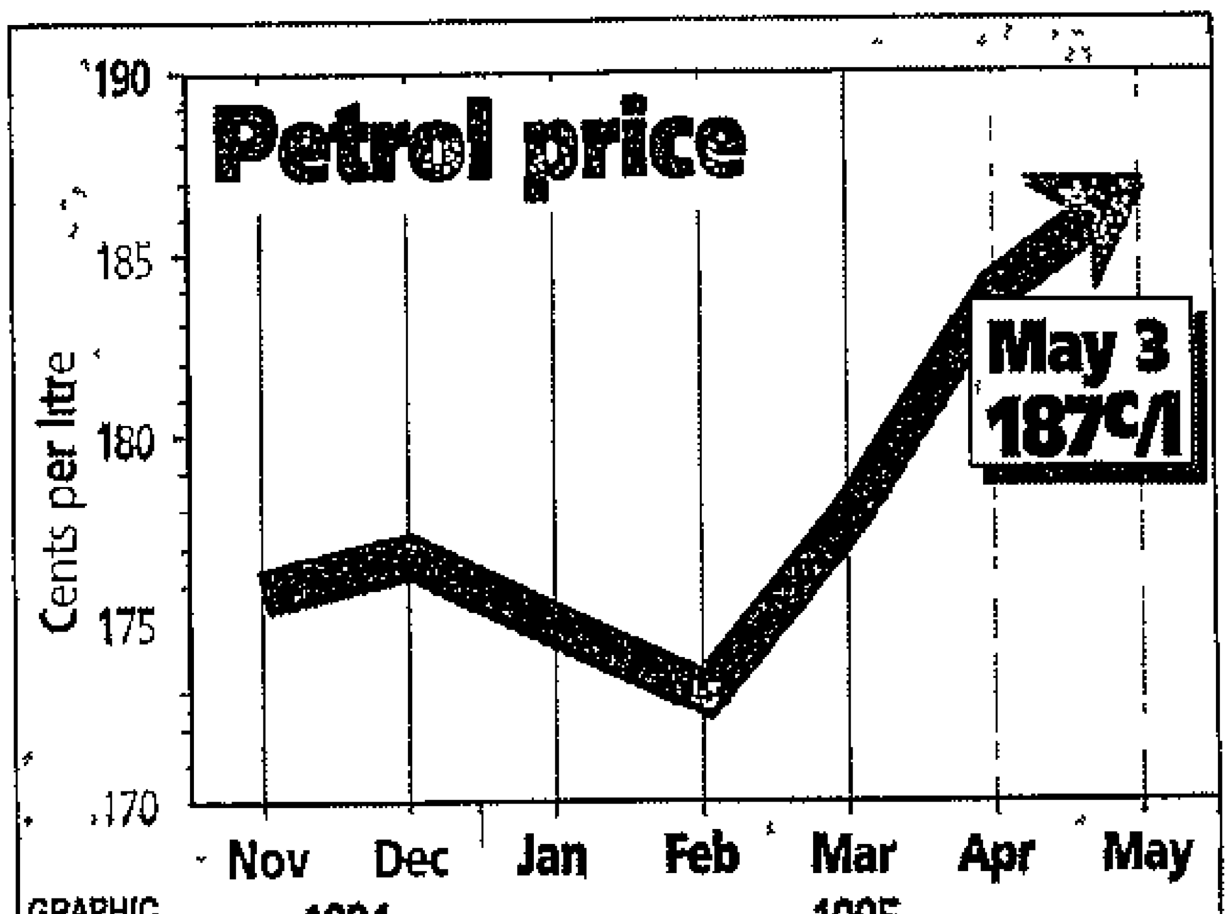
Price of petrol up 3c/l from today

(183)

BY NIKKI WHITFIELD
CONSUMER REPORTER

Filling up at a service station will be a painful experience for Gauteng motorists today when the price of fuel goes up by a further three cents a litre.

This is the third month in a row that the price has been increased, bringing the total increase since March to 14c/litre. Feeding 93-octane fuel into a car will now cost R1,87/litre — 10c more than coastal drivers are charged — putting petrol at its highest level since the introduction of the revised pricing mechanism in October 1993



GRAPHIC, LIZ WARDER

The Central Energy Fund, which took over the responsibility of setting fuel prices from the Government, said the latest hike had been triggered by a 1c/litre rise in the fuel tax and a 2c/litre upward adjustment as a result of previous under-recovery of the cost of imported fuel.

The latest hike ~~is~~ ~~un-~~ likely to have more than a 0,8% influence on the inflation rate, according to Keith Lockwood of the South African Chamber of Business.

Lockwood said the new structure made petrol more sensitive to world markets In the past, an increase in the petrol price saw many other products and services adjusting their costs

He said that with the new structure, this no longer happened. Therefore, the increase was not expected to have a significant impact on the consumer price index.

Star 3/5/95

Sasol firm in R295m German merger

183

CT (BR) 4/5/95

STAFF REPORTER

In a R295 million deal, Sasol Waxes, a division of Sasol Chemical Industries, has merged with the German group Schumann & Co

The venture, in which Sasol holds 66,67 percent of the equity and Schumann 33,33 percent, will be controlled by a new holding company, Schumann-Sasol, in Hamburg, Germany

Schumann-Sasol's turnover is expected to be in the region of R1,5 billion a year

Schumann is a world leader in the refining and marketing of crude oil derived paraffin waxes. Sasol Waxes produces Fischer-Tropsch waxes from coal and markets internationally. The respective products manufactured by the two companies are complementary

The merger will, says a Sasol spokesperson, "enable the parties to expand their product ranges and to optimise their production, marketing and application research activities to the benefit of customers and shareholders"

Good buys boost profit for Afrox

(183)

CT(BR) 4/5/95

Forecasts of increased business activity, locally and globally, place SA's leading gas supplier firmly on growth path

By Derek Tommey

Afrox, the country's leading supplier of industrial gases and a major player in the welding and healthcare industries, benefited strongly from improved trading conditions and new business acquisitions in the six months ended March

Earnings rose 19 percent from 198c to 235c a share, based on current cost accounting, and 18 percent from 222c to 262c on a historical cost basis

The interim dividend has been increased by 16 percent from 88c to 102c a share

Royden Vice, the company's chairman and managing director, said turnover rose 20 percent from R687 million to R825 million as a result of improved trading conditions and contributions from newly acquired businesses

The new businesses, acquired at a cost of R150 million, were three hospitals and Engen's liquefied petroleum gas cylinder business

The industrial gases business performed well with increased earnings reflecting the growth in the economy

The company signed a 15-year supply contract for oxygen, nitrogen and argon with Highveld Steel and Vanadium, Vice said

This contract, together with the Middelburg Columbus Steel supply scheme signed last year, would have a long-term benefit.

The merger of the company's liquefied petroleum gas cylinder business with those of Engen performed better than expected

He said the welding business had established a firm market footing in Europe, South America and several African countries

"Increased business activity is expected in the second half of the year and margins are expected to improve"

Vice said sound profits were being maintained in the healthcare business and occupancy levels of hospitals remained firm But tariff increases which were below increases in inflation and costs were a concern.

Afrox now owns 14 private hospitals, two day-clinics and other related health-care businesses It also has minority holdings in six other hospitals

Acquisitions

Vice said the acquisition of new businesses, together with improved efficiencies, contributed to growth in the division

With last year's acquisitions, which were unprecedented for Afrox, and a firmer economy, the company was ideally positioned to take advantage of the increase in business activity over the next few years, locally and globally

Trading profit rose 18 percent to R161,5 million, while pre-tax profit rose 10 percent to R131,0 million Taxed profit was 16 percent higher at R88,3 million (R69,3 million)

Cash generated from operations increased by 55 percent to R132 million, with the cash generated by the new businesses exceeding expectations.

However, cashflow was affected by an anticipated higher interest charge of R31 million (R18 million) as a result of the increased borrowings to fund the acquisitions

BD 4/5/95

(183)

African Oxygen proves it's more than just hot air

MARCIA KLEIN

A BETTER-than-expected performance by new acquisitions and an improved economy enabled gases, welding and health care company African Oxygen Ltd (Afrox) to lift attributable profit after additional appreciation by 19% to R70,8m (R59,4m) in the six months to March

Chairman and MD Royden Vice said the 20% rise in turnover to R825,5m was achieved through improved trading conditions and acquisitions made last year, which included Engen's Liquefied Petroleum Gas cylinder business and three hospitals.

The inclusion of the new businesses and improved internal efficiency saw trading profit rise by 18% to R158,9m

Cash generated from operations increased by 55% to R132m But cash flow was affected by a sharp hike in the interest bill to R31m from R18,1m due to increased borrowings to fund its R150m requirement for acquisitions.

Pre-tax profit was 10% up at R131m and a marginal rise in taxation enabled it to lift taxed profit by 16% to R80,3m from R69,3m previously

Afrox accounts for inflation by charging earnings with additional depreciation Inflation-adjusted earnings reflected a real increase of 19% to 235c a share The interim dividend was increased by 16% to 102c a share.

Vice said the gases business performed well During the period, it signed a major 15-year supply contract for oxygen, nitrogen and argon with Highveld Steel and Vanadium This, together with an existing supply scheme to Columbus Stainless Steel, would benefit the business in the long term

The Liquefied Petroleum Gas business had performed above expectations Welding benefited from a better economy and new export markets. It now had a firm footing in Europe, South America and several African countries

The health care business made sound profits, and occupancy levels of hospitals "remain firm" But there was concern that tariff increases were below both inflation and cost increases

Vice said Afrox was "ideally positioned to take advantage of the increase in business activity over the next few years" and improvement in earnings was expected

Engen the 'biggest polluter in Durban'

(183)

WM 5-11/5/95

Ann Eveleth

ENGEN'S oil refineries are the biggest air polluters in the Durban South Industrial Basin, a Durban Water and Waste representative Niel MacLeod said this week.

He told about 200 delegates at a workshop on pollution problems affecting residents of Austerville, Wentworth, Merebank, Isipingo, Lamontville and Umlazi, that Engen produces nearly 48 percent of sulphur dioxide emissions in the industrial basin.

The second largest polluter in the area was the combined South African Petroleum Refineries of Shell and British Petroleum at about 27 percent, MacLeod said, adding that emission levels were coming down and had rarely exceeded the old Department of National Health guidelines.

MacLeod was providing [illegible] authority perspective on pollution control problems to the workshop hosted in the Durban City Hall by Deputy Minister of Environmental Affairs and Tourism Bantu Holomisa after successful action by community groups brought the issue to the attention of President Nelson Mandela.

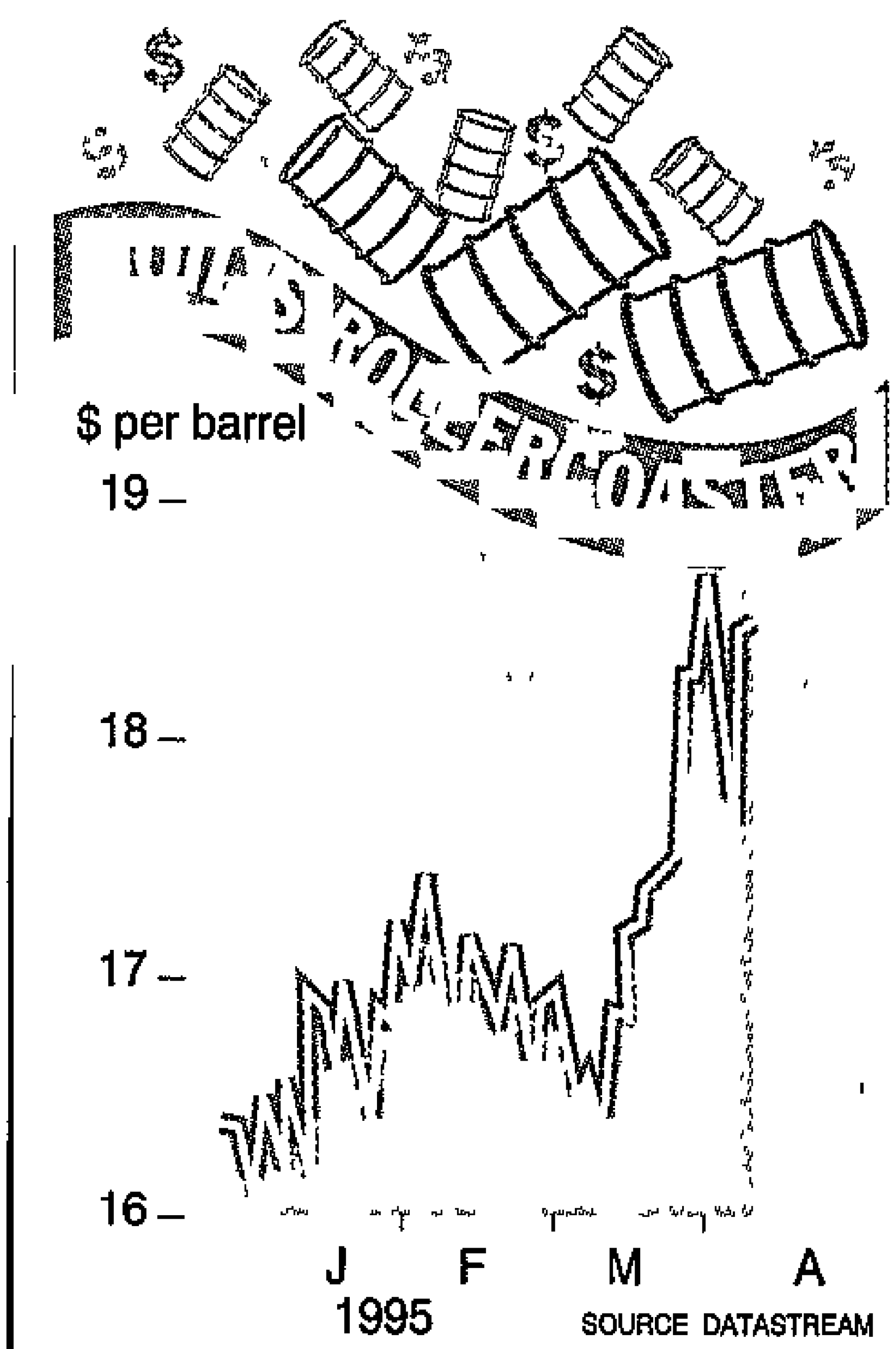
Members of the Merebank Residents Association and Wentworth Civic Association protested against pollution levels outside Engen last month as Mandela arrived to address the opening of a new refinery.

A paper presented to the conference by community-based organisations (CBOs) called the Durban South area "a sad case of unplanned urban development allowing polluting industrial development and apartheid high density residential development to occur side by side".

The CBOs added that "communities in this region may more aptly be [illegible] an is surrounded by a sea of polluting industries. The residential area finds itself on the doorstep of industry on every side. There are two giant oil refineries on either side, a massive paper mill, a chromium processing plant, an airport and a multitude of chemical industries. Many houses border on the factories directly and some families live only 20m from the oil refinery".

The CBOs said sulphur dioxide was the major pollution problem experienced in the area, leading to severe health problems, with a recent survey indicating children in the area were three times more likely to develop respiratory problems than those outside the area. A high lead content in the air also retarded the physical development and functioning of children.

In its paper, Engen said it had taken the lead in raising its stack levels to release emissions higher into the atmosphere, but added that the location of the refineries in valleys complicated the problem.



OIL (183) FM 5/5/95

Real rally?

Supply, demand and events in the Middle East are the three factors dominating the world's oil markets Following the US trade embargo on Iran, the benchmark Brent blend (for June) rose to a high of US$19,38 a barrel on Monday

A few weeks earlier Saddam Hussein's rejection of the UN's plan for limited Iraqi oil sales had a similar effect, pushing the price of the June contract to $18,45 These moves maintained a rally which started in mid-March

Analysts are speculating that, beyond the short-term fluctuations, the protracted period of price weakness that began in September 1993, may be at an end

Growing oil demand, they say, will underpin prices

The Paris-based International Energy Agency, whose members include the main industrialised countries, say global oil demand will rise by 1,1m barrels a day in the second quarter, compared with the same period last year

That would take total demand to 67,3m BPD.

However, world supply still outstrips demand, according to the IEA, and localised shortages can have an exaggerated effect on prices

The earlier run-up of world prices was due largely to heavy buying of crude oil by US refiners to meet the strong demand for petrol which usually occurs during the northern hemisphere spring and summer.

American Petroleum Institute figures show overall US demand remains strong.

Total petroleum imports, including crude oil and refined products, rose 1,7% in March, compared with the same month last year But crude oil imports in March were up more than 13% on the previous March

Demand elsewhere is patchy Buoyant economic growth in Asia continues to pull in oil imports, mainly from the Middle East

IEA figures show that oil demand grew by an average of 6,8% last year in the Asia region, outside China and Japan That compares with 1,4% forecast for the world as a whole this year

But there is little evidence of growth in Europe

The IEA recorded a 1,7% fall in oil demand in Europe's four largest oil consuming countries in February Sales of petrol, in particular, have been sluggish

Oil companies appear less optimistic than traders and analysts British Petroleum CE David Simon warned shareholders not to expect any "help from an escalating oil price"

But this reluctance to face better prospects may be due to fears that talks of higher prices will harm the cost-cutting cultures now in place in some of the largest companies

In the short term, supply constraints, such as the onset of the annual maintenance season for North Sea oil platforms, should underpin prices

So too will the continuing production restraint by Opec members.

Only a solution to the stalemate over Iraq, which could trigger a price collapse, is likely to change the bullish outlook for oil ■

ADCOCK INGRAM (183)

Worth a revisit

FM 5/5/95

The past two years have not been that happy for Adcock Ingram (AI) shares Partly because of its high, consistent EPS growth of earlier years and blue-chip status, pressure on earnings — and particularly turnover — looked all the worse

Also, with its past large exposure to high-margin ethical drugs, investors feared the worst when the new government began to vaguely cast its eyes at prescribed drug lists and some form of national health plan

With most of the sector, AI went out of vogue for a while Latest results indicate the share may be worth a revisit

Perhaps most important is the 12% gain in turnover, the best since financial 1992, helped by the first-time inclusion of Zimbabwean subsidiary Datlabs and the 50% of branded generics firm Vesta Medicines

That did not translate to operating profit level as margins were squeezed from growth in the lower margin wholesale division and the transfer of product lines to the Astra and Pharmacia joint ventures

Still, the higher volume of sales is an important trend which should increase over the second half, says financial director Daryl Kronson In fact, apart from traditionally being a second-half group, most indicators point to a stronger second half

CE Don Bodley expects full-year earnings growth at least in line with last year's 15%, we expect something closer to 20%.

The wholesale division's better performance (turnover up 22%) comes after earlier rationalisation, and at the expense of competitor United Pharmaceutical Distributors, the unhappy Premier subsidiary.

UPD, WPG's main listed subsidiary, dominated the wholesale business, with about 54% That has dipped to about 24%, to the benefit of AI and SA Druggists

Kronson expects the operating margin to firm in the second half, perhaps back to the nearly 17% at the previous year-end

Disappointing, though, is first-half cash generation, usually a strong point This more than halved to R47m Kronson says working capital was required to fund accelerating turnover, but more important is a strong turnaround in creditors

AI introduced a new electronic transfer system to pay suppliers One effect was an instant cash outflow at month-end Longer-term, this will offer benefits in the discounts AI is offered for instant payment But AI will adjust the system to spread payments over a slightly longer period

Kronson believes that by year-end AI will again have built up cash to more than R100m, barring acquisitions, from the interim R32m

Government health policy remains potentially threatening to the industry AI has lessened the possible impact by refocusing its portfolio and achieving a more balanced spread of earnings, particularly from consumer health care and generics

Of the three main groups in the sector, AI has the least demanding ratings Sound full-year prospects make the share look attractive, something apparently picked up by institutional managers, who are reported to be placing large orders

Shaun Harris

ON THE MEND

Six months to	Mar 31 1994	Sep 30 1994	Mar 31 1995
[illegible]	[illegible]	[illegible]	[illegible]
Operating income (Rm)	[illegible]	[illegible]	[illegible]
Attributable [illegible]	[illegible]	2,6	[illegible]
Earnings (c)	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Fuel report calls for deregulation

183

ST(BT) 7/5/95

PETROL stations will be able to set their own fuel prices below a maximum level if proposals by the Department of Trade and Industry are accepted.

By DON ROBERTSON

A "draft discussion" document in the possession of Business Times recommends a partial deregulation of the R40-billion oil industry. It is one of many proposals on the liquid fuels industry to be submitted to the Cabinet Committee for Economic Affairs.

If approved, it will be passed on to the liquid fuels industry task group at Nedlac, the forum representing labour, the government and business.

The Departments of Finance, Mineral and Energy Affairs and Transport have already submitted their recommendations to the director-general of Mineral and Energy Affairs, says deputy director Hein Baak

Mr Baak, however, was unable to comment on informed reports that the various departments have taken differing views on the deregulation of the fuel industry. If this is the case, consensus will be difficult to achieve

Significantly, the DTI recommends that if South Africa is to achieve its economic and political potential, fuel must be made available to the public at "internationally competitive prices" and that the future of the liquid fuels industry be closely linked to the petrochemical sector.

Among other recommendations by the DTI are proposals that Sasol be allowed to market its products through its own retail network, that subsidies paid to Sasol be reviewed at the end of the year, and that refiners be allowed to buy crude directly rather than through the Strategic Fuel Fund.

Also recommended are plans to commercialise Soekor, that crude oil stockpiles be sold to local refiners, cheaper fuel be sold to commuter transport companies, import and export controls be reviewed and unleaded petrol introduced as soon as possible

The discussion paper proposes that the current fixed price mechanism for petroleum products be replaced by a price-capping system, to be determined by a Petroleum Authority, "but which allows for discounting"

This plan would, however, depend on the liquid fuels industry task force coming up with a plan to counter any negative effects, such as jobs losses in an industry employing 65 000 people and the closure of some of the 4 900 small businesses.

In this respect, it suggests that franchising regulations need to be strengthened in favour of the franchisee

The plan could also involve support for diversification through retraining or direct financial assistance, says the DTI.

The document insists, however, that a new pricing system be based on the same principles as the current price — the in-bond landed cost and the wholesale and retail margins

The document also suggests that the Service Station Rationalisation Plan, or Ratplan, which restricts the number of garages, be phased out with the introduction of price capping, but that the ban on self-service be maintained

On Sasol's tariff protection, the document suggests that the current agreement and formula which provides the synfuel producer with about R1-billion a year be revised by the liquid fuels task force, but if changes are recommended, similar subsidies for Mossgas must be considered separately.

While agreeing with the recommendation that Sasol be permitted to market its own products, the company insists that any change in tariff protection for the synfuel industry be phased in over a minimum of five years, in line with World Trade Organisation agreements.

Not having seen the DTI recommendations, the SA Petroleum Industry Association was unable to comment for the industry

Hoechst SA to seek R1bn on the JSE

By SVEN LUNSCHE

CHEMICAL and pharmaceutical group Hoechst SA will become the first subsidiary of a German multinational be list on the Johannesburg Stock Exchange.

Hoechst SA — a subsidiary of Hoechst AG, one of the world's largest chemical corporation — will be the largest JSE listing so far this year, with an estimated market capitalisation of R1-billion. The listing is scheduled for July.

Reinhard Traub, managing director of the SA operation, says 25% of the group would be sold to local investors and financial institutions. The issue price has not yet been set

"The listing will help us to boost our capital base ahead of the future expansion of the group's operation," Mr Traub says.

He adds that the changed ownership structure will also allow the group to raise local borrowings, which is currently limited by Hoechst's status as a wholly owned foreign subsidiary.

In financial 1994 the group had total sales of R1,7-billion, which includes R200-million "indent sales" — sales on behalf of Hoechst AG.

Operating profits are not disclosed but Mr Traub said last year they rose strongly and have shown an annual compound growth of 25% over the past five years.

About 10% of sales are for the export market and, in view of the recent strengthening of the Deutschmark, Hoechst SA is also playing an increasingly important role in Hoechst's global network.

Mr Traub sees growth primarily on local chemical and pharmaceutical markets

Most of the world's chemical giants are represented in the highly competitive SA market, but Mr Traub says the diversified range of products makes Hoechst less susceptible to cyclical economic swings.

Apart from chemicals the group's core operations include polymers and derivatives and pharmaceuticals group Noristan.

A number of new projects are being evaluated, while a new R200-million Safripol polymer plant, a joint venture with Sentrachem, has already been commissioned

Over the past two years Hoechst has spent about R400-million upgrading its core activities.

The shares of Hoechst should trade at a price earnings ratio of between 10 and 15 in line with the current average among JSE chemical and pharmaceutical counters

Hoechst SA's announcement coincides with the acquistion by Hoechst AG of US drugs maker Marion Merrell Dow for \$7-billion in one of the largest acquisitions in the pharmaceutical industry.

The acquisition will establish Hoechst as the third-largest pharmaceutical company in the world

(183) ST(BT) 7/5/95

Hoechst heading for the JSE

(183) CT(BR) 8/5/95

FROM SAPA

The listing of pharmaceutical and chemical company Hoechst South Africa will confirm its parent company's commitment to the country, said managing director Reinhard Traub.

The company announced today that it is to seek a listing on the Johannesburg Stock Exchange

Traub anticipated that the market capitalisation would be in the vicinity of R1 billion, making it one of the bigger listings on the JSE in recent times.

Hoechst, the world's largest chemical concern, established three core activities in the country — chemicals, polymers and derivatives — and has a fifty-fifty interest with Sentrachem in Safripol

It owns Noristan laboratories and has a joint venture with Sandoz Products in Polyrem

Hoechst, with an annual turnover of R1,5 billion, earned an operating profit of more than R65 million last year, a 40 percent increase

It has maintained an annual compound growth rate of 25 percent on profits for the past five years and has, in recent years, committed R400 million to strengthening its core activities.

The parent company Hoechst AG will keep a 75 percent stake in the South African company.

Hoechst to push generic medicines

BD 8/5/95 BEATRIX PAYNE (183)

GERMAN-based chemical and pharmaceutical multinational Hoechst AG would list its local operation Hoechst SA on the JSE in July and planned to increase its exposure to generic medicines, Hoechst SA MD Reinhard Traub said at the weekend

"We are seeking a listing to rebuild our balance sheet and gain access to the local capital market We want to bring gearing to a situation where we are in a position to raise capital for future expansion."

The company intended to make strategic investments to increase the production of generic medicines and provide low-cost medicines on a far greater scale than before. "Generics are a small line at this stage but will certainly become a much more important segment of our business."

The group had a broad portfolio of operations including chemicals and plastics

He would not say how high the company's gearing was or how much the group intended to raise through its flotation as a listing price had not yet been finalised but would be announced in about two weeks.

Shares for the company — with a market capitalisation of about R1bn — would be made available through a private offer and a public placing. Parent company Hoechst AG would retain a 75% stake in the local subsidiary

Hoechst SA's turnover touched R1,5bn with additional indent sales of R200m for the year to December 1994, and operating profit was about R65m, he said

Chemical union changes tack

183

RENEE GRAWITZKY

CHEMICAL employers have received a set of common wage demands from the Chemical Workers' Industrial Union (CWIU) to be negotiated at a centralised industry forum.

This demand comes after a union congress decision to suspend plant-level wage negotiations in the chemical and related sectors and instead submit common demands for negotiation at central level, in support of its demand for centralised bargaining

The union has resolved to embark on national action which could culminate in a national strike if employers did not agree to centralised bargaining

Employers have been requested to take part in joint wage negotiations on May 16.

BD 9/5/95

The union is demanding a minimum wage of R1 600 a month and an across-the-board increase of 20%

US ban 'placing oil supply at risk'

(183) CT 10/5/95

ANTHONY JOHNSON
POLITICAL CORRESPONDENT

THE government has been forced to slow down the sale of strategic oil stocks because of a threat to supplies from Iran, which provides most of the country's oil

Energy Affairs Minister Mr Pik Botha told Parliament that President Bill Clinton's order banning US companies and their foreign subsidiaries from all trade with Iran could have an effect on the oil markets of US trading partners

Noting that South Africa's private sector buys the bulk of its oil from Iran, the minister said the US action had "introduced a new uncertainty into the international supply and demand of oil"

Mr Botha told Parliament that he would discuss the situation with stakeholders in the industry as a matter of urgency

He had asked the Central Energy Fund to slow down the sell-off of billions of rand in oil reserves — money being used to speed up delivery of the Reconstruction and Development Programme

Mr Botha told parliamentarians that some observers believed that the US government would support a secondary boycott barring non-US companies that trade with Iran from trading with the US

"The situation has become so politicised that commentators find it difficult to predict what the anti-Iranian climate may produce in Washington

"From the South African point of view the question is How secure is this country in its oil supplies if international oil companies or their subsidiaries provide a major part of those supplies?"

Mr Botha emphasised that South Africa had to guard against the vagaries of international politics on the nation's oil supplies, particularly the price the country has to pay for oil

"This reinforces the argument that the government or a parastatal national petroleum authority should exercise control over procurement so as to ensure security of supplies," he said

Pik hints at end to fuel regulations

CT(BR) 10/5/95 (183)

BY BRUCE CAMERON

POLITICAL EDITOR

Pik Botha, the minister of mineral and energy affairs, has hinted that the government could be ready to deregulate the fuel industry

Speaking at the debate on his budget in parliament, Botha said proposals on deregulation were still being formulated and had to be approved by Cabinet

Deregulation would see the lifting of minimum prices and Sasol losing its protected status by the end of the year Sasol would also be allowed to establish its own retail distribution network

Botha said that to maintain competition, there would have to be laws to prevent petrol companies owning retail outlets

At retail level deregulation would mean the scrapping of minimum retail price levels, the gradual phasing out of limitations on self-service and the dropping of the so-called ratplan, which has restricted market entry and ownership of petrol stations.

Botha said that if petrol companies were allowed to own retail outlets they would force out private owners of low-volume, low-profit smaller outlets This would severely affect many black entrepreneurs

He indicated that the government would move towards allowing some degree of self-service, but said traumatic disruptions to labour should be avoided

Pik cagey on SA's oil sales — puts on the brakes

ARG 10/5/95 (183)

Political Staff

MINERAL and Energy Affairs Minister Pik Botha has put the brakes on strategic oil sales as South Africa becomes embroiled in the dispute between the United States and oil supplier Iran

The move could have implications for the Reconstruction and Developmenht Programme, which is being funded in part by the sale of strategic oil reserves

Mr Botha concluded the debate in the National Assembly on his department's budget vote, saying he had instructed the Central Energy Fund to slow down sales, which stood at four months' supply

US President Bill Clinton, accusing Iran of building a nuclear arsenal, last week signed an executive order banning US companies and their subsidiaries from trading with Iran

Mr Botha said South Africa's private sector bought the bulk of the Republic's oil from Iran

South Africa's strategic oil reserves, built up in the apartheid era as a guard against United Nations oil sanctions on this country, were being sold off to help fund the RDP

In the 1995/'96 financial year, R600-million was to have been raised for RDP capital projects

Mr Botha said the US-Iran dispute had added new uncertainty into the international supply and demand of oil

"We do not know what can happen tomorrow if the subsidiaries of American companies are buying oil for South African refineries

"I understand many of these companies are not so much subsidiaries as independent entities and probably will not be affected by the executive order I hope this is the position"

Clinton's 'priorities' questioned

Iran ban forces SA to cut sales of oil reserves

BD 10/5/95 (183)

ADRIAN HADLAND

CAPE TOWN — The sale of SA's strategic oil reserves has been scaled down following this week's US ban on trade with Iran.

The proceeds from the sale of the reserves, estimated at R1,2bn in this year's Budget, had been earmarked for the reduction of state debt and the financing of reconstruction and development programme capital projects.

Mineral and Energy Affairs Minister Pik Botha told Parliament yesterday the ban, imposed by US President Bill Clinton on US companies and their subsidiaries, had introduced a new uncertainty to the international oil market.

A mooted secondary boycott preventing non-US companies with Iranian links from dealing with the US could have an effect on SA oil companies, said Botha.

SA's private sector buys the bulk of its oil from Iran.

Botha said he had asked the Central Energy Fund to "slow down" sales of strategic oil stocks "until such time as we have a clearer idea of the effect on the oil market". Industry stakeholders would be consulted at the earliest opportunity.

In his budget speech to the National Assembly, Botha said. "The latest development has suddenly presented us with a dilemma." While many of the companies buying oil for SA refineries were "not so much subsidiaries (of US companies) as independent entities", a secondary boycott on non-US companies with Iranian links would have more of an effect on SA.

He asked how secure SA's oil supply was when international oil companies or their subsidiaries provided a major percentage of it. "We will have to guard against the effects of the vagaries of international political currents on our oil supplies"

Current supply insecurity was further evidence of the need for a government or a parastatal national petroleum authority to take control of oil procurement, he said.

Botha called on Clinton to "please take the economic consequences for the poorer nations of the world into consideration when you take your decisions".

The ban resulted from the belief in the US that Iran was pursuing a nuclear arms production programme, Botha said. "I do not know whether Iran is in the process of producing a nuclear bomb. I do know that Iran has signed the nuclear non-proliferation treaty" The US is lobbying for the treaty to be extended indefinitely.

"If the treaty has inadequacies we should not support its extension. But if it is good enough as it stands, then the provisions of the treaty should be applied to ensure compliance."

The US should ask itself whether it had its priorities right, and whether other avenues had been pursued adequately, when thousands of people were dying of hunger in sub-Saharan Africa

Botha also called for the construction of more nuclear power stations in SA and the sale of Mossgas to the private sector. He rejected criticism levelled recently at his department by Parliament's Mineral and Energy Affairs portfolio committee.

NEWS

Curbed oil sales could affect RDP

(183)

BY PATRICK BULGER
POLITICAL CORRESPONDENT

Cape Town — Mineral and Energy Affairs Minister Pik Botha yesterday put the brakes on strategic oil sales by South Africa until the effects of the dispute between the US and oil supplier Iran became clear

The move could have implications for the Reconstruction and Development Programme which is being funded in part by the sale of strategic oil reserves

Botha concluded the debate in the National Assembly on his department's budget vote by saying he had instructed the Central Energy Fund to slow down sales, which currently stand at four months' supply

US President Bill Clinton, accusing Iran of building a nuclear arsenal, last week signed an executive order banning US companies and their subsidiaries from trading with Iran Botha said it was not clear how the US decision would affect trade with Iran and world oil supply

South Africa's private sector buys the bulk of the country's oil from Iran South Africa's strategic oil reserves were built up in the apartheid era as a guard against effective United Nations oil sanctions on this country

In the 1995/96 financial year, R600-million was to have been raised for RDP capital projects Botha said the US-Iran dispute had added new uncertainty into the international supply and demand of oil

"We do not know what can happen tomorrow if the subsidiaries of American companies are buying oil for South African refineries I understand that many of these companies are not so much subsidiaries as independent entities and will probably not be affected by the executive order I hope that this is the position," Botha said.

"But we are not sure whether that will remain the position The issue has become so politicised that commentators find it difficult to predict what the anti-Iran climate may produce "

He also hit back at the portfolio committee on mineral and energy affairs, which criticised his department for dressing up normal expenditure as RDP expenditure, saying his department contributed to the RDP

Star 10/5/95

Pressure on pharmaceutical firms

(183)

BD 11/5/95

BEATRIX PAYNE

PHARMACEUTICAL wholesalers could be squeezed out of business as more pharmaceutical manufacturers switched to sole distributors to cut costs and bypass the growing stolen medicines market, International Healthcare Distributors (IHD) executive chairman Holger Eckholdt said yesterday

He said sole distributors could reduce the cost of medicines to the end user as they cut out the "middle man" or wholesaler and increased direct communication between the manufacturer and the end user

Sole distributors could also reduce the sale of "grey market" drugs as manufacturers' products delivered by a non-sole distributor would be illegal copies or stolen goods.

"Twenty percent of medicines sold on the private market come from the grey market but by being a sole distributor we have eliminated roughly R90m worth of that illegal market," he said

Established in late 1993, IHD is the sole distributor for multinationals Sandoz, Boehringer-Ingelheim, Bayer, Roche and Ciba-Geigy, all of whom fund the distributor A number of other multinationals operating in SA were likely to become partners in IHD by the end of the year but Eckholdt would not give further details

The multinationals charged their end-users on a single exit price basis and unlike most wholesalers, IHD took no mark-up and only offered discounts related to the size of the batch delivered Costs were covered by charging a fee to the manufacturers according to percentage sales but this was set to change later this year as fees were charged on a utilisation basis, he said

IHD had cornered 12% of the distribution market and had achieved sales of R460m in the year to end 1994 Sales for this year were forecast at R600m

The first year of operations was hard as the company's systems were not able to cope with the volume of orders, Eckholdt said. Shortly after it was established, it was boycotted by a number of pharmacists angry that the multinationals involved had established a monopoly.

Currently the biggest complaint from pharmacists was that IHD only delivered once a day, "but by doing that we have broken the back of over-servicing".

Most wholesalers competed on the number of deliveries they could offer the pharmacist per day But multiple daily deliveries were very expensive and inefficient. In order to reduce costs for the whole industry it was vital that pharmacists and dispensing doctors developed proper batch control and reduced deliveries, he said

(183)

AFROX

FM 12/5/95

Mixed fortunes

Interim results reflect a welcome return to real earnings growth but, in other respects, the six months to March 31 was a period of mixed fortunes.

The main positive feature is the surge in attributable earnings, after additional depreciation, to 18,7% from 11% for the full 1994 financial year It's the best growth rate since 1991 and clearly indicates Afrox has come through the trough of recession

However, accepting that these results are off a high base and could have been affected by last year's expansion programme, the income statement may have analysts scratching their heads

FOX

Starting at the top, turnover growth of 20,2% is less than might have been expected after the spate of acquisitions Most of these started contributing only from the second half of 1994, yet the turnover growth rate is only one percentage point more than for the whole of financial 1994

Moving down to trading profit, an 18% increase is satisfactory relative to turnover, given CEO Royden Vice's comment regarding a changed turnover mix and the probability that there are still rationalisation benefits to come from last year's acquisitions But a 69% leap in financing costs — mostly associated with the extra borrowings to finance acquisitions — clips pre-tax profit growth to 10%

Thereafter, things start to get better The effective tax rate moderates from 44,3% to 41,1% and there is a marked improvement in the contribution from associates

The lower tax rate alone adds six percentage points to the pre-tax profit growth rate, while a R1,3m turnaround from a deficit of R875 000 on associates' retained earnings to a positive R398 000 is responsible for the remaining three percentage points in the bottom-line increase

It could cause some unhappiness that there's no improvement in the balance sheet since financial year-end In fact, R35,3m has been added to net borrowings (possibly reflecting nothing more than seasonal factors). This is proportionate to the increase in the permanent capital base, leaving the debt equity ratio unchanged at 0,49 whereas Vice's annual report statement that 1995 would be a year of consolidation could have raised hopes that it would also see a return to a more conservative financial structure

Afrox is by no means overgeared Interest cover, reflecting the additional debt, is still healthy at 5,3 times, but the point is that it is out of line with the group's own historical standards, as is a 0,49 debt ratio.

Vice says Afrox should be able to grow steadily thanks to the expanded operating base and improvement in business conditions A repeat of the interim increase would see full-year earnings of 465c-470c and a p e ratio of 24,5 at the current R11,50 share price This is well down on the 28,8 when the *FM* reviewed the 1994 annual report in December and could indicate that Afrox is becoming underpriced A word of warning, though, is that there seems to be strong resistance between the present price and R12, which could inhibit progress

Brian Thompson

Atlantis firm to retrench

MAGGIE ROWLEY

CT 15/6/95 (183)

A FLOOD of cheap imports, particularly from China is forcing Continental China, a wholly owned subsidiary of Federale Volksbeleggings, to retrench staff at its Atlantis plant

Chairman Mr Klaus Zirker confirmed yesterday that it had begun negotiations with the chemical workers' union over the retrenchment of 50 of the 280 hourly paid workers

If negotiations were unsuccessful, the company would have to close the plant "as a last resort".

Since the change in the General Agreement on Tariffs and Trade (GATT) regulations at the end of January, the market had been swamped with cheap imports, which were hampering the retail crockery division.

"The sad part is that the technical skills of the people employed in this division, which is very labour intensive, are exactly what South Africa needs, and this really amounts to a transfer of jobs from South Africa to mainland China."

Mr Zirker said the government had signed the new GATT arrangements without taking into account the high manufacturing input costs of the local manufacturers, including 50% more for energy requirements than competitors in Europe and a wage bill five times higher than in China.

(183)

'Doctors should not profit from medicines'

ARG 16/5/95

MEDICINES Control Council chairman and head of the University of Cape Town's pharmacology department, Professor Peter Folb, has called for the practice of doctors dispensing medicines and making a profit out of it to be banned

He was speaking at the launch in Cape Town of an updated version of the South African Medicines Formulary compiled by his department in conjunction with the Medical Association of South Africa

"The mark-up in the price of medicines by the time they reach the public is considerable

"The practice of dispensing doctors whereby some of them are trading in medicines and making profits should be disallowed

"The result is that many people cannot afford to pay for their medicines — especially the elderly, the poor and those with chronic illnesses," he said

Professor Kolb said the medical profession could help by supporting the use of essential, cost-effective medicines and straightforward treatment protocols wherever possible

A statement said the booklet was a guide to medicines and their generic equivalents, but also contained information ranging from guidelines to sportsmen on drug prescription to up-to-date information on drugs used for treating tuberculosis and malaria, drug prescription for children and the elderly and guidelines for treating hypertension in children — Sapa

Union demands central bargaining

Renee Grawitzky

(18) (183) BD 16/5/95

THOUSANDS of Chemical Workers' Industrial Union members marched to the Labour Department's offices in Johannesburg yesterday and presented a memorandum demanding the inclusion of a provision in the new Labour Relations Act for compulsory centralised bargaining.

The union's centralised bargaining campaign co-ordinator Martin Jansen said besides the march, workers in the Western Cape, KwaZulu/Natal and North and Eastern Transvaal had embarked on work stoppages in a bid to force employers in the chemical industry to participate in central negotiations on wages today.

He said if employers did not respond positively to this demand, the industry would face industrial action by June.

Jansen said the workers had informed him that petroleum industry employers would be attending the meeting today.

According to sources, petroleum industry employers agreed to attend the meeting to hear further motivation on the demand for a centralised bargaining forum

Employers emphasised that they would not attend the meeting if it was to negotiate wages.

Labour Minister Tito Mboweni is also to attend the meeting today where he will provide an overview on centralised bargaining to employers.

Pharmaceutical plant to close

(183) BD 17/5/95

Beatrix Payne

PHARMACEUTICAL multinational SmithKline Beecham (SB) is to close its Isando manufacturing plant as part of the rationalisation of its SA-based operations, SB director and vice-president (Southern Africa) Gunther Faber said yesterday.

He said the group intended to form a new company in SA which would combine its current consumer and pharmaceutical companies, in line with its worldwide integration process

"One objective of the integration, after the purchase of Sterling Health last year, is to provide effective and efficient manufacturing and distribution networks"

The Isando plant — which employed 370 permanent staff — would be "recommended for closure over the next 10 months" and staff would be allowed to apply for positions at the Cape Town plant A review of the group's facilities recommended that medicinal product manufacturing be consolidated at the existing facility in Cape Town where an additional 120 new posts were likely to be created, he said.

The Isando plant manufactured non-prescription medicines, toothpastes and nutritional drinks, but the group's worldwide disposal of its personal care range and a number of products marketed exclusively in SA had reduced factory output and made it uncompetitive, Faber said.

The pharmaceutical offices in Wynberg would be closed and office-based staff of the new integrated company would be housed at a site expected to be in Sandton.

"If SB is to be successful in the future, we must have a low-cost base, be innovative and flexible and have the ability to switch from prescription to over-the-counter medicines successfully and profitably." This would allow the group to become competitive in the future.

Negotiations with staff and their representatives on the closure process would begin shortly and all permanent production employees would be guaranteed employment until "at least" March next year.

The group was involved in the research, development, manufacture and marketing of pharmaceuticals, non-prescription medicines, health-related consumer products and clinical laboratory testing.

Tito intervenes in union talks

183 BD 18/5/95

Renee Grawitzky

LABOUR Minister Tito Mboweni on Tuesday urged delegates from chemical and related industries to enter meaningful negotiation with the Chemical Workers' Industrial Union in order to reach agreement on the demand for a centralised bargaining forum in the industry.

Mboweni said he had attended the meeting, called for by the union, to "lend support to negotiations leading to a more rationalised system of bargaining" in the industry.

He hoped the parties would engage in meaningful negotiations in order to reach agreement and so take forward government's objectives of economic growth, equity, and industrial peace and stability, he said.

"If the parties maintained an intransigent position, these goals would be unattainable."

Mboweni said he had attended the meeting despite some employers' calls for him not to

Employers claimed his attendance might lend credibility and support to the demand.

CWIU general secretary Musi Buthelezi said the establishment of a centralised bargaining structure was crucial for industries in crisis and to addressing restructuring.

The intention of the meeting was to obtain a broad principle agreement from employers on the question of centralised bargaining.

Once this agreement was obtained the parties could discuss the type of structure to be established, for example, whether sectoral forums should be established, he said.

Following a request from the union, employers discussed the proposal for a blanket agreement on centralised bargaining.

The employers divided themselves into about 10 subsectors.

The union's centralised bargaining campaign co-ordinator, Martin Jansen, said after the meeting that employers appeared to be more receptive to the idea of centralised bargaining.

Employers conveyed to the union that they were not prepared to bargain as a single chemical industry but were prepared to explore centralised bargaining in individual industries under the umbrella of the chemical industry.

Jansen said the employers' position would be considered by the union's executive tomorrow.

Chemical workers to declare dispute

(183) (83)

BD 19/5/95

Renee Grawitzky

THE Chemical Workers' Industrial Union (CWIU) resolved yesterday to declare a dispute and prepare for a national strike.

The decision was taken after an assessment by the union of progress made during a meeting with chemical employers on Tuesday.

CWIU general secretary Musi Buthelezi said Labour Minister Tito Mboweni had, in terms of reconstruction and development programme objectives, supported centralised bargaining to address socioeconomic issues.

The union wanted government to legislate centralised bargaining. If necessary the union would start action to "bring some sense to government by disrupting the economy" and to force employers on this issue.

Employers were presented with a demand to attend the meeting to negotiate on wages — and the union's demand for a centralised bargaining forum in the industry.

Buthelezi advised employers that once an in-principle agreement was reached on centralised bargaining, the parties could discuss the structure of the forum. This could include divisional forums falling under a broader national body

Buthelezi said employers were not prepared to give an upfront commitment to centralised bargaining, but instead proposed centralised bargaining within divisional forums.

Based on this response the union would declare a dispute and intended applying for a conciliation board hearing.

At the same time the union would attempt to continue talking to employers about an agreement on centralised bargaining.

The union, with Cosatu, would target employers who intended disciplining workers who began industrial action this week.

Buthelezi said talks had taken place with other affiliates also demanding central forums with their respective employers.

The union had approached the Nactu-aligned SA Chemical Workers' Union to discuss the campaign for centralised bargaining

However, the union was not available to confirm this.

Manufacturing hit hardest by strikes

CAPE TOWN — The number of strikes in SA increased from 790 in 1993 to 804 in the 12 months ending October 31, the Labour Department's annual report showed.

Workers lost R148,48m in wages through strikes. The greatest loss of man-days — 50,55% — occurred in the manufacturing sector, followed by mining (23,55%).

The country's economic hub, the Witwatersrand, had the highest incidence of strikes, accounting for 26,24%, followed by Pretoria with 10,3%.

BD 19/5/95

Port Elizabeth registered the lowest rate, of 3,23%.

(183) (83)

Most of the strikes were over wage disputes (27,11%), while demands for higher wages and other reasons came to 11,32%, and 25,5% of strikes were over conditions of employment.

A sign of improving shop-floor relations was that only 16,04% of strikes resulted from disciplinary action by employers.

The membership of registered trade unions also declined 14,5% from 2,89-million in 1993 to 2,47-million in October. The decline was ascribed to saturation in the growth potential of new trade unions and also to the decrease in job opportunities as a result of the recession.

Another reason cited was that an important part of the trade union leadership entered the political and administrative arena, resulting in a depletion of the executive ranks of unions.

Only 23,7% of the economically active population belonged to trade unions, the Labour Department said. — Sapa.

(183)

FM 19/5/95

Why drugs cost so much

Reinhard Traub, MD of Hoechst SA, discusses drug research which he says has become a molecular roulette game

Research into new and innovative drugs is almost like playing a high stakes molecular roulette game But it is no game for the faint hearted or those with small pockets You need access to huge resources, both financial and scientific, patience and, as with any game, a measure of good fortune

International statistics reveal that investment in research and development in the pharmaceutical industry amounts to as much as 15% of sales R&D in the chemicals and electronics industries, by contrast, absorbs 4% and 6% of sales respectively

The business risks associated with developing new drugs are enormous The first phase, screening or molecular research and discovery including toxicity and formulation, can take up to a decade For a single new compound that comes on to the market, the company usually starts with the screening of about 10 000 substances and the number reduces over the period of the development of the drug until only one molecule, on average, eventually survives all tests required for efficacy, safety, tolerability and stability Obviously, companies patent these molecules to protect their investment With that sort of time span and those wide parameters it is therefore not surprising that the drop-out rate for drugs in formulation is 99%

If the initial research phase is successful one has to then decide whether to proceed with developing the drug for the market That decision-making process itself can take at least a year The drug development thereafter can take anything from three to five years, and once again there is a costly drop out rate — between 50% and 70%

It is no wonder then that the average cost of a new drug from initiation to registration is about US$300m or more than R1bn Also, the patent life in most countries is 20 years Considering the roughly 12 years it requires to develop a new medicine, the company therefore has only eight years left to recover its investment So why, you may ask, do pharmaceutical companies persist in this endeavour? Because history has shown that, so far, in spite of having no guarantee that they will end up with a new substance, 99% of new discoveries have happened in private industry And because currently only about 35% of diseases can actually be treated by using medicine In other cases, medicine can only ameliorate the symptoms but not affect the disease itself

Thus multinational pharmaceutical companies cannot cease the fight against the advance of disease They must continue to invest in research for new curatives Being in the pharmaceutical business means living by the rule of the survival of the fastest Only those who bring new and innovative drugs to the market quickly, survive

Hoechst AG in Frankfurt, invests over R20m a day on research and has brought part of its huge research programme to this country and to Hoechst SA Our own medical doctors and specialists, with their world-renown expertise, are contributing to collecting scientific data that will eventually be used to register new drug products with health authorities worldwide

Hoechst operates two research centres, one for agriculture and veterinary research at its Research Farm at Malelane in the Eastern Transvaal and a medical research centre attached to the University of the Orange Free State

The company was established in SA over 35 years ago and employs 2 200 people It has three core businesses — chemicals, polymers and derivatives (it has a 50/50 joint venture with Sentrachem in Safripol) and health care Turnover for the year to December 1994 was over R1,5bn

As a company, we are committed to uniting the power of technology with human potential and balancing the two It is our resolve to invest our resources in making this a better planet for us all

(7833)

KARBOCHEM FM 19/5/95

Newcastle bounces back

The significance of Sentrachem's and Sasol's African Amines joint venture, which looks set to revitalise Karbochem's mothballed Newcastle synthetic rubber plant, lies as much in new business philosophies as it does the R50m investment

When Sentrachem subsidiary Karbochem

BUSINESS

opened its polyisoprene synthetic rubber plant in the early Eighties it was as a strategic import replacement industry cushioned by import tariff protection. Even so, the project turned sour, partly because of overspending on the initial capital project — up from an envisaged R120m (in 1980 terms) to about R440m. Coupled with that, rubber demand (because of factors such as improved tyre technology) and therefore prices never grew as projected The plant was closed in 1990

Sentrachem MD John Job says, ironically, that in the context of the thinking of the day the initial investment decision to proceed was not fundamentally flawed. "But anything preceded by the word strategic seemed to deny economic reality. There was a generation of South African industrialists who had grown up on the basis of finding import replacement opportunities, applying for duties which were usually granted and then building a plant behind the barriers. The Newcastle plant was built on the back of decades of import replacement strategy."

When his generation of management inherited the technological infrastructure, all the medicine had been taken. The cost was written off and the plant largely closed.

"Other factors — such as SA's international re-emergence and the Gatt tariff reduction process — had fundamentally changed Sentrachem's strategic thinking by the time we had to decide whether to close the site or somehow exploit the assets Over the past four or five years, we homed in on the overriding need for international competitiveness, with the realisation that without it we would disappear"

Job

The debate and thrust had therefore switched, under the new economic strategy, to the closure and rapid replacement of inefficient businesses

In that context, when casting around in 1992 for uses for the defunct Newcastle facility, Sentrachem established that it would be economically feasible to produce amines based on cost savings achieved through updating the plant rather than building from scratch — though capital costs are only a burden in the initial years of production and true competitiveness is assessed without those charges.

Sasol was simultaneously evaluating the possibility of manufacturing amines locally, based on production of some key raw materials and end-product use — hence the mutually beneficial formation of African Amines as a private joint venture company

Amines are an important chemical building block used by Sasol Mining to produce water gel explosives and by Sentrachem — and subsidiaries Sanachem, NCP and Orchem — for herbicides, flocculation agents and rubber processing chemicals Though Sasol produces some of the raw materials, amines were previously imported (to the tune of R44m a year and rising) because prohibitive process plant costs ruled out local production

"In assessing profitability," says Job, "we first established that we could export competitively given added transport and other costs That principle now applies to most of our capital expenditure projects — the bulk of production is destined for export

"That reflects the migration of group, if not industry, thinking from what prompted the initial development to the current world competitiveness objectives"

PETROCHEMICALS (183) FM 19/5/95

Twining with Taiwan

Republic of China press counsellor Charles Chen confirms that the joint Taiwan-SA study into the feasibility of a giant, multi-billion-dollar petrochemical complex "somewhere on the SA coast" is on track Possible sites include Mossel Bay and Richards Bay

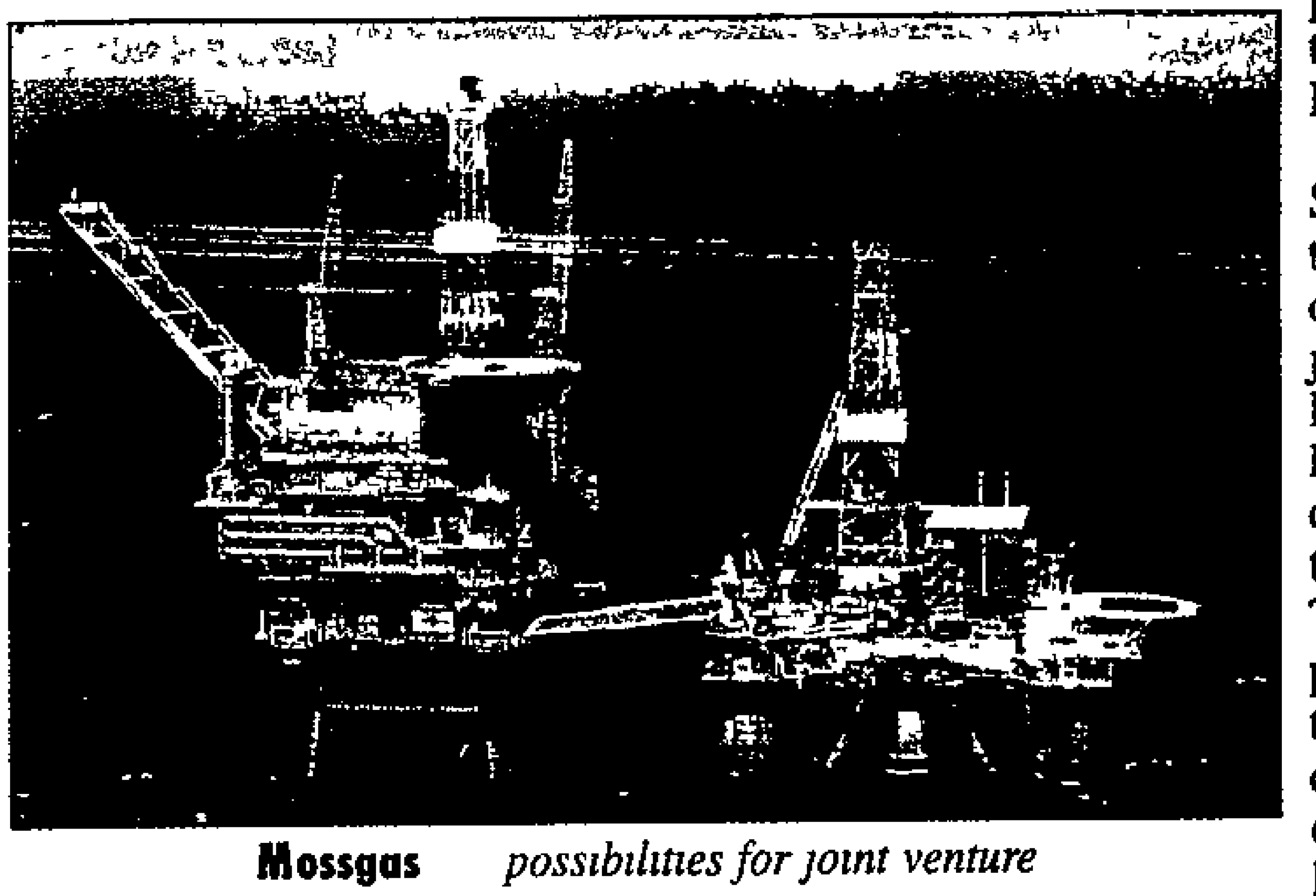
A final report, being prepared by London-based Chem Systems, an international consulting firm, is expected before end-July

"A second interim review will be held in London in June SA Ministers of Mineral & Energy Affairs and of Trade & Industry have been kept informed of the progress made The final reportback and workshop in Taipei in late June or early July will conclude the process, after which the two governments will decide on what course to take," says Chen

The planning of joint ventures by the petrochemical industries of both countries started five years ago By last November, a joint working committee had been established In January, Chem Systems was briefed to

- Investigate the basic investment environment and compare it with selected Asian-Pacific countries,
- Assess the potential for joint investment in the petrochemical industry and evaluate potential risks and returns,
- Assess areas of potential co-operation between SA and Taiwanese companies and evaluate the structure of the energy and petrochemical industries in both countries

"The Republic of China petrochemical industry's production of petrochemicals and intermediates is valued at US$31,5bn (over R110bn) Without any petroleum reserve, the country is dependent on imported crude oil and naphtha, yet it has developed a vertically integrated petrochemical industry, characterised by strong downstream factories, with world-class capacities in plastics and fibre-related products It is, however, facing environmental problems and shortages in labour and land," says Chen



Mossgas *possibilities for joint venture*

SA, with its abundant resources, could be a natural partner Local comparative advantages for possible joint ventures include a plentiful supply of land and labour, vast coal reserves, Sasol's oil-from-coal technologies, a well-established refinery and petrochemical infrastructure — and the Mossgas plant

Though Chem Systems is only at the preliminary stage of investigation, project manager Terry le Roux says "We believe there is a sound commercial basis for the initiative, given Taiwan's successful petrochemical industry supported by its downstream focus, export capability and leadership in polymers With SA's availability of land and labour, and easy access to European and US markets, opportunities for joint projects are likely to emerge" ■

Why drugs cost so much

(183)

FM 19/5/95

Reinhard Traub, MD of Hoechst SA, discusses drug research which he says has become a molecular roulette game

Research into new and innovative drugs is almost like playing a high stakes molecular roulette game. But it is no game for the faint hearted or those with small pockets. You need access to huge resources, both financial and scientific, patience and, as with any game, a measure of good fortune.

International statistics reveal that investment in research and development in the pharmaceutical industry amounts to as much as 15% of sales. R&D in the chemicals and electronics industries, by contrast, absorbs 4% and 6% of sales respectively.

The business risks associated with developing new drugs are enormous. The first phase, screening or molecular research and discovery including toxicity and formulation, can take up to a decade. For a single new compound that comes on to the market, the company usually starts with the screening of about 10 000 substances and the number reduces over the period of the development of the drug until only one molecule, on average, eventually survives all tests required for efficacy, safety, tolerability and stability. Obviously, companies patent these molecules to protect their investment. With that sort of time span and those wide parameters it is therefore not surprising that the drop-out rate for drugs in formulation is 99%.

If the initial research phase is successful one has to then decide whether to proceed with developing the drug for the market. That decision-making process itself can take at least a year. The drug development thereafter can take anything from three to five years, and once again there is a costly drop out rate — between 50% and 70%.

It is no wonder then that the average cost of a new drug from initiation to registration is about US$300m or more than R1bn. Also, the patent life in most countries is 20 years. Considering the roughly 12 years it requires to develop a new medicine, the company therefore has only eight years left to recover its investment. So why, you may ask, do pharmaceutical companies persist in this endeavour? Because history has shown that, so far, in spite of having no guarantee that they will end up with a new substance, 99% of new discoveries have happened in private industry. And because currently only about 35% of diseases can actually be treated by using medicine. In other cases, medicine can only ameliorate the symptoms but not affect the disease itself.

Thus multinational pharmaceutical companies cannot cease the fight against the advance of disease. They must continue to invest in research for new curatives. Being in the pharmaceutical business means living by the rule of the survival of the fastest. Only those who bring new and innovative drugs to the market quickly, survive.

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MEDICAL DRUG COSTS

Don't over-prescribe

Deregulation is essential if the many vested interests are to be kept at bay

(183) FM 19/5/95

Health Minister Nkosazana Zuma should turn to the drug industry as she searches for an affordable and accessible health system. Private-sector drug prices in SA are among the highest in the world, making up around 35% of the total health-care bill. It's also no accident that the pharmaceutical distribution chain is one of the world's most heavily regulated

The most far-reaching restriction is the prohibition contained in the Pharmacy Act that bars nonpharmacists from owning retail pharmacies, effectively giving professional pharmacists a virtual monopoly (apart from dispensing doctors) over retail drug sales to the public It's a difficult sanction to justify, since nonpharmacists are owners at every other level of the distribution chain.

It must be pointed out that advocates of ownership deregulation also agree that only a qualified pharmacist or doctor should be allowed to dispense prescription drugs, regardless of who owns a particular outlet

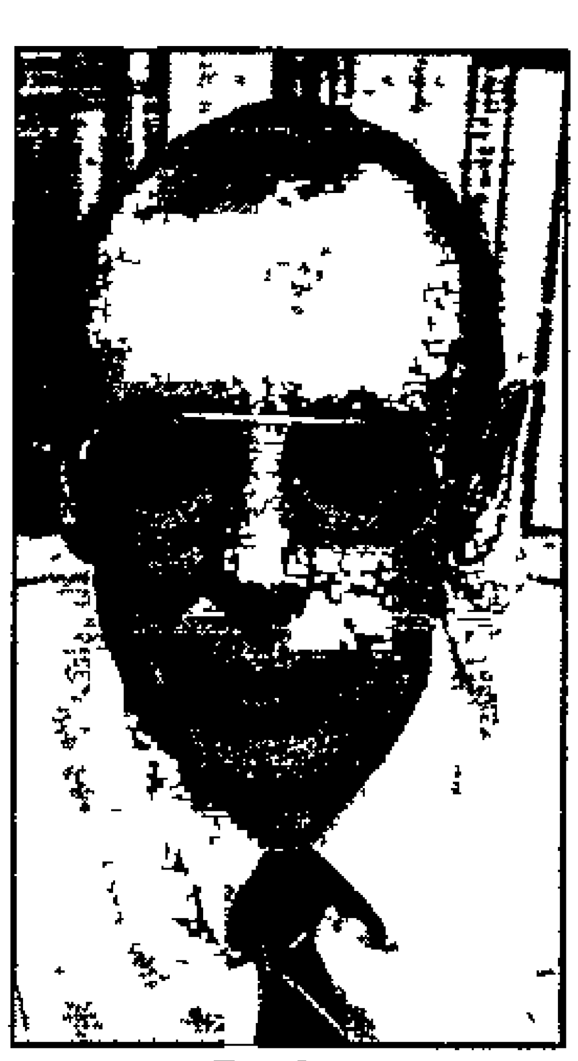
Certainly the cost implications of this restriction are enormous Medical aid schemes, private hospitals and big business — all precluded from selling drugs directly to the public — could, arguably, use their bulk buying power to secure large discounts from drug manufacturers They could, through operating economies of scale, also cut out many of the traditional markups on drugs at the wholesale and retail level, which amount to as much as 100%. Traditionally, 21% is added to the manufacturer's price by the wholesaler and another 50% (of the new total) by the retailer in addition to further charges. Similar reforms in the US and UK cut drug prices in these countries dramatically.

This thinking is also recognised in the Medical Schemes Amendment Act — effective since last January — that empowers schemes to own and run their own pharmacies in order to contain costs It's an ineffective power since the Pharmacy Act prohibition apparently overrules this concession

Health Minister Zuma .. *still searching for a fair solution*

There are sensitive ramifications Retail pharmacists (around 3 000) fear that their small operations would be put out of business in a deregulated environment by schemes and large department stores such as Pick 'n Pay and Clicks The Pharmacy Council, which is charged with looking after the public but consists mostly of pharmacists, has thus steadfastly opposed deregulating pharmacy ownership

But the council is prepared to allow limited nonpharmacist ownership under certain prescribed circumstances — for example, in rural or underserviced areas or places where no pharmacist-owned retail outlet operates.



Reekie

The trouble is that the council wants the sole right to approve all applications and monitor these ventures continually — claiming for itself an effective veto over entry to the sector by nonpharmacists

Ironically, of all the professions faced with deregulation, pharmacists have probably been the most enthusiastic about embracing change With the advent of advertising for the industry, some pharmacists routinely advertise and give discounts of up to 30% on prescription drugs, though other industry players claim that a lack of transparency in pricing often means they inflate the price before "discounting."

It's a claim that apparently led the Pharmacy Council earlier this year to propose a new pricing system for the entire industry that would replace mark-ups with a total estimated 26% handling fee — 5% at the wholesale level and 21% at the retail level

The sting, however, is that pharmacists would be able to add a professional fee for their services, which the council suggests would be calculated on a number of subjective criteria that would include the nature of the ailment treated, the time spent administering the treatment and the expertise expended in the treatment The council suggests a R150 hourly fee as a basis for this calculation Whether such a proposal could force down prices, however, is not clear Certainly for the large, multimedicine script, there could be savings But the single item cheaper prescription could well end up costing more

The proposal, now before government for consideration, also plans to use the council's professional hold over all pharmacists to force drug manufacturers to charge a single volume-related exit price to "legitimate buyers" It's a proposal that's geared towards ending the special discounts that manufacturers give to dispensing doctors to influence their prescription habits

This practice, claim pharmacists and wholesalers, allows doctors to resell drugs to the wholesaler at lower prices than they are able to secure from manufacturers in the formal distribution channel — ultimately pushing up the cost of drugs in the formal distribution channel (through wholesalers and retail pharmacists.)

Manufacturers are unlikely to accept such a proposal as they are challenging a Competition Board ruling that seeks to achieve a single volume-related exit price They claim, understandably, that they should be free to market their goods as they see fit.

Anything else that smacks of price controls, or limited drug lists also poses the danger of chasing these large investors out of the country. It must be noted that, several years ago, when the industry faced generic substitution or price controls, it opted for price controls — a choice that could well have been motivated by the fact that controls are difficult to monitor, claims Wits Economics Professor Duncan Reekie. In any case, prices during this controlled period remained unaltered — put differently, there were no savings.

To their credit, pharmacists have also been at the front of the race to extend primary health care by completing special training for contraceptive counselling, blood pressure and cholesterol monitoring and inoculation, services which many pharmacists now offer the community free of charge A number of enterprising pharmacists have also joined forces to start bulk mail order services that guarantee the public discounts of up to 40% on wholesale prices, effectively cutting back the total distribution markups to only 10% A growing number of medical aid schemes are also asking users chronic (long-term) medication to make use of these warehouse-like services that manage to cut costs by cutting frills

Of course, all of this shows that while deregulating pharmacy ownership may well see some of the numerous small pharmacies close, it doesn't follow that all the pharmacists will be out of work. Most would

Continued on page 34

Continued from page 30

probably find employment with manufacturers, wholesalers and the new retail outlets that schemes and big business would possibly come to dominate. And since the dispensing of prescription drugs would always require the services of a qualified pharmacist, they would be in a good position to negotiate good salaries that could well exceed their present profit margins. The Melamet Report into the financing of private-sector health care, completed last May, suggests that the retail pharmacists are not, in any case, profitable businesses.

States the report: "It is simply inconceivable that about 2 900 retail pharmacists should be able to hold more than 7m scheme members to ransom through their monopoly of drug sales." There is also nothing to stop pharmacists forming larger and more efficient partnerships, thereby holding on to their independence. The Medical Schemes Amendment Act specifically provides for the formation of multidisciplinary health practices (doctors, nurses, physiotherapists, pharmacists) to enable private practitioners to practise managed health care.

Given the doctor's limited pharmacological knowledge (doctors study drugs for only one year, as opposed to the four spent by the pharmacist), such partnerships could only benefit from the experience of the pharmacist, particularly as competition between providers increases the need to find the most cost-effective and appropriate treatment.

Regrettably, though, present professional rules enshrined by the SA Medical & Dental Council (the medical profession's regulator) still prohibit these multidisciplinary practices, a situation that the Competition Board says "leads to conduct that amounts to a restrictive practice that's not in the public interest."

Existing regulations also hinder pharmacists from exploring new options. While numerous studies in recent years have shown that pharmacists, often with little additional training, could treat around 70 common ailments now treated by doctors, government has yet to give them (and qualified nurses) access to higher scheduled medicines.

Pharmacists also argue that routinely being able to substitute branded drugs for cheaper generic equivalents (unless the doctor specifically wants a certain drug) would enable them to dispense the cheapest possible drug. It's a move that drug manufacturers have always opposed, questioning the safety and efficacy of these cheaper substitutes (State hospitals have used generics safely for the past 30 years, effecting savings estimated at billions of rand.)

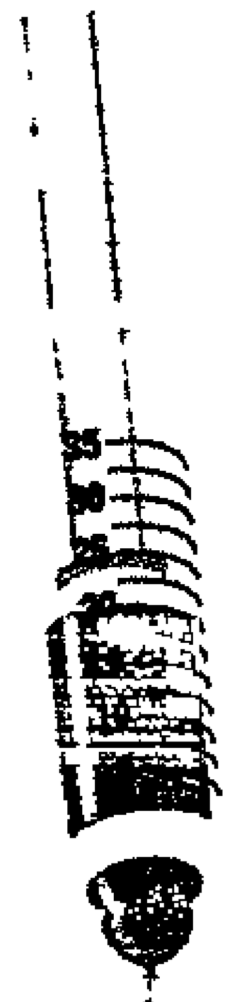
Many of the large international manufacturers have in recent years started their own generic divisions. In practice most simply use different packaging and prices for the same product — which shows what profit margins are at stake and just how seriously they take the international proliferation of generic medicines.

But the generic debate in SA is to some extent academic, since medical schemes are increasingly limiting the amount they will pay for certain drugs. This, in practice, means they will only guarantee payment for the price of the generic drug.

Drug manufacturers also continue to oppose the importation of cheaper but identical drugs from foreign markets, though the Medicines Control Council now permits these imports.

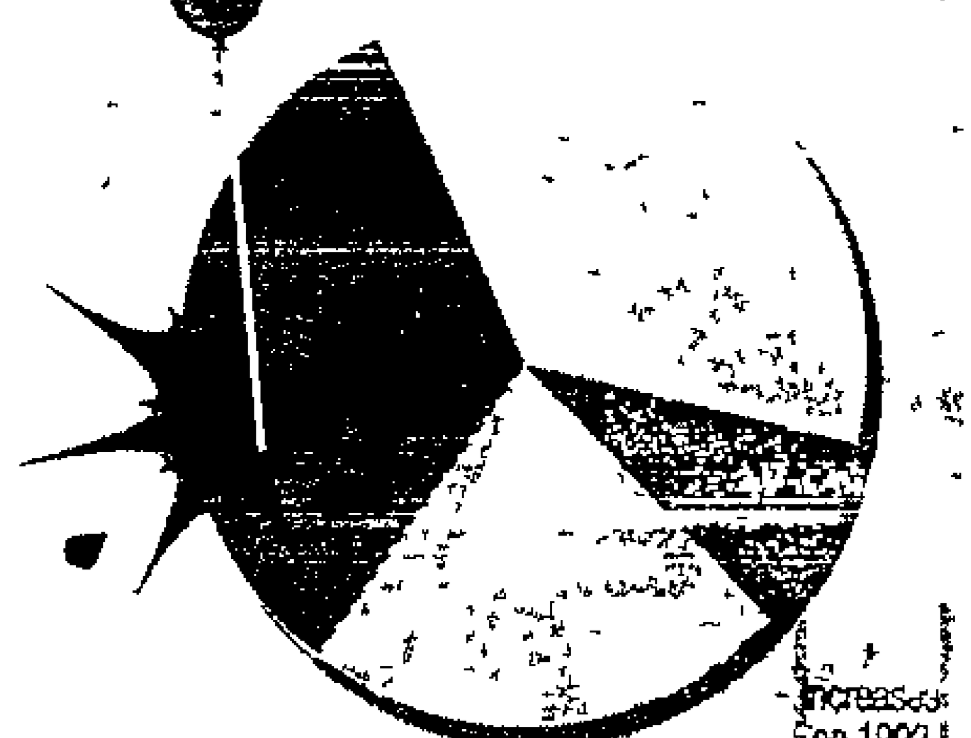
The argument is that this practice would encourage the use of counterfeit drugs. Manufacturers also claim that their factory sale or exit prices are all very similar around the world — notwithstanding currency fluctuations.

A recent development that is complicating the drug price debate is the increasing number of drug manufacturers who are buying controlling interests in agencies that process scripts on behalf of medical schemes.



TOTAL PAYMENT OF MEDICAL SCHEME BENEFITS

Latest figures (provisional)



	%	Increases on 1992 payouts
Prescribed medicines	32	31
General practitioners	11	15
Medical specialists	18	28
Dentists	9	17
Private hospitals	19	35
Provincial hospitals	4	8
Other benefits	7	24

SOURCE: REGISTRAR OF MEDICAL SCHEMES

The most recent aquisition is last week's purchase of a 75% stake in Medikredit (owned by the Pharmaceutical Society of SA) by Glaxo Wellcome and Eli Lilly. Mediscor was purchased by SA Druggists last year. Medikredit and Mediscor process and manage the drug bill for more than 60% of all medical scheme members. Put simply, these agents handle all the administrative work pertaining to the collection and payment of scripts that medical schemes or their administrators would otherwise do.

They also manage the benefits that are paid out to members by negotiating good discounts from retail pharmacies and capping the price that they are prepared to guarantee for a specific drug. In practice, this means they are in a powerful position to influence prescribing and dispensing habits, since the cash-strapped patient is unlikely to ask for a drug that will put him further out of pocket.

For the manufacturer, these acquisitions present a wonderful opportunity to push their products. But Glaxo MD Andrew Witty disagrees. "Our objective is to develop the best disease management protocol for each patient to ensure the best clinical and economic outcomes, ultimately providing an advisory service for managed health-care providers and funders." He says Glaxo products would be used only if they were the most cost-effective.

The Competition Board is investigating these acquisitions. Says the board's Wouter Meyer: "We are concerned that the scheme member will in effect have a limited or no choice of drugs foisted on to him. We are also concerned that these agencies are securing contracts with a limited number of retail pharmacists only, effectively excluding pharmacists who are willing to offer patients even greater discounts than the agency requires."

The board is concerned that for areas where one medical scheme dominates, for example the Eastern Cape or Bloemfontein, this could put nonparticipating pharmacists out of business.

Says Meyer: "These agents need to set clear and objective criteria for pharmacists who want to participate. We certainly don't want to replace one monopoly with another." Witty stresses that Medikredit will continue to welcome any pharmacist who meets its set criteria. "We will also use independent advisers to ensure that the service provided is in the patient's best interests."

Of course, drug manufacturers might well argue that they need this type of selling arrangement to cross-subsidise the State tender system, which makes them supply drugs to the State for as little as 10% of the price paid by the private sector.

Though the value of this cross-subsidy is vast, especially as only around 20% of people are private-sector buyers, a similar arrangement exists in the US, where the State is also the largest single purchaser of drugs and large business is [illegible] to muscle massive discounts from manufacturers.

Retail drug prices in that country are, however, often more than 50% cheaper than in SA.

Determining why drug prices are so high in SA is a complex matter. But what is clear is that deregulation is required urgently and extensively if vested interests are to be kept at bay. ■

REINHARD TRAUB

A new kind of chemistry

FM 19/5/95 (183)

The MD of Hoechst SA, Reinhard Traub (53), may exude cosmopolitan insouciance. But he is the first to admit, in only slightly German-accented English, that he is facing a host of first-time experiences with the upcoming JSE listing of the giant pharmaceutical and chemical company. "Even regular dealings with the media, not to say prospective investors, is new to us."

Hoechst's shares will be listed by way of a public offer and private placing in July. It's anticipated that the company — whose parent Hoechst AG, the world's largest player in chemicals, will retain a 75% stake

Traub .. *clear and positive motives for listing*

— will have a market capitalisation of about R1bn. This will make it one of the larger of recent listings.

Hoechst established its first plant in SA in 1957. It remained steadfast throughout the sanctions era. Over the past five years its compound annual growth rate in operating profit — R65m in 1994 — has been more than 25%. And it has recently committed R400m to strengthening its core activities.

"The motives for our listing are clear and positive," says elegantly dressed, lean, energetic-looking Traub. "Our businesses are flourishing and we want to offer local investors and our staff the opportunity of participating in this growth. Besides, we anticipate significant additional opportunities in chemicals — for which we will require capital." (Hoechst already as a 50-50 partnership with Sentrachem in Safripol.)

Nor is the idea of partners and minority shareholders alien to the worldwide Hoechst network, more than 40% of a pharmaceutical subsidiary in the US is listed, for one of many examples.

Traub likens his career to that of a diplomat's. And he is, indeed, well-travelled, having left his birthplace of Frankfurt, where he joined Hoechst in sales administration in 1969, and entered its foreign network in 1972. He spent a few years each in Pakistan, Hong Kong, where he entered second-line divisional managment, and Beirut. After "debushing at headquarters," as he puts it, at the operating core of the company, Traub joined London-based board of Hoechst subsidiary Berger Paints, which had outposts as far-flung as Barbados and Mozambique. He was posted to SA in 1989.

Traub points out that Hoechst is too complex a company for there to be a sole chief. "I am instead only one of a team of specialists who work efficiently together." He adds that business units have been created and that he believes in "freedom of operation provided we have agreed on targets and objectives for which the units and their managers are responsible and accountable."

Confirms Wolfgang Raffalsky, who heads the plastics and fibres division. "Reinhard believes in delegation and really lets you get on with the job. He is not shy of making decisions and he stands by them. What we appreciate is that he cares about the people as well as the business."

Traub has an English wife, Gillian, and an 18-year-old son completing A levels in England.

Snr's interests include tennis, scuba-diving, skiing in Switzerland and Austria, classical music and jazz. There is evidence, too, that art is an enthusiasm. The arresting collection of paintings lining the corridors of Hoechst's headquarters in Midrand was largely assembled by the MD. ■

Hoechst High Chem News

(183) FM 19/5/95

Hoechst South Africa recently announced its intention to list on the Johannesburg Stock Exchange in July this year. This will be the second largest listing of a Hoechst subsidiary in the world.

The motivation to list has been driven by the fact that Hoechst wants to strengthen its capital base for future expansion within South Africa and to provide South African investors with the opportunity of investing in the group and participating in its future growth. The move to be quoted on the JSE also reinforces the company's commitment to this country.

While Hoechst SA is recognised as a major player in the domestic market and exports to many countries in Africa and the Pacific Rim, it is somewhat constrained in its expansion ambitions because it cannot readily raise funds locally, being a foreign controlled company. By listing shares on the JSE, Hoechst SA will have local shareholders and access to local capital.

Reinhard Traub, Managing Director of Hoechst South Africa

Annual sales for the company for 1994 were around R1,5-billion. In addition, indent sales for the parent company, Hoechst AG, amounted to some R200-million, making total sales of approximately R1,7-billion.

Shareholders are likely to find the Hoechst listing appealing. Its operating profit for the 1994 financial year (to end-December) climbed more than 40% over the previous year and the compound annual growth rate in operating profit over the past five years has been above 25%.

But there is more to Hoechst than healthy figures. The company operates under an all-encompassing philosophy called Hoechst High Chem which, together with the history, the heart and the hopes of Hoechst South Africa, will be the theme of this column over the next few months.

Hoechst South Africa
P O Box 8692, Johannesburg 2000 HHC/4JG/01

MULTINATIONALS IN SOUTH AFRICA SURVEY

DRUG GIANTS MOVING INTO GENERIC MARKET

ST(BT)21/5/95 (183)

By CIARAN RYAN

THE South African pharmaceutical industry is almost entirely dependent on the research and product development of multinational producers

The debate about the country's future national health dispensation is being closely scrutinised by these multinationals, who have most to lose, being the largest suppliers of brand-name drugs — currently protected by patent laws for up to 20 years.

South African companies such as Premier Pharmaceuticals and Lennon, a subsidiary of Malbak-owned SA Druggists, manufacture generic substitutes Roughly 15% of all drugs sales in South Africa are generic

According to the Department of Health, drugs account for 10% of all medicine costs and nearly 40% of medical scheme costs, prompting Health Minister Dr Nkosazana Zuma to warn of drastic measures to cut medicine costs and of plans to publish "essential" drug lists.

This by implication would lead to greater use of generic drugs

The government is expected to publish its report on the future of the national health scheme later this month.

Proposals to remove or lower the patent protection period would hit the multinationals hardest, but many have already positioned themselves in the generic market by buying out generic manufacturers or by starting new operations in anticipation of a change in the law.

Smithkline Beecham has bought 100% of Xixia, Warner Lambert has expanded its range of locally manufactured generic drugs and Ciba has acquired generic manufacturer Rolab

The JSE Pharmaceuticals index underperformed the JSE Overall index by a factor of 12% over the last year as concerns mounted over the future of the national health care dispensation

Multinational pharmaceutical companies have made few new investments in South Africa in recent years, according to John Toerien, the executive director of the Pharmaceutical Association of South Africa

One reason is the uncertainty over the future of the health care industry

Some multinationals have reportedly threatened to pull out of South Africa if laws allowing greater use of generic substitutes are passed

It is estimated that multinational and local pharmaceutical manufacturers invest about R100-million a year in research

They argue that it takes years to recoup the massive investment required to develop, obtain regulatory approval for and then market a new drug.

Generic manufacturers, on the other hand, claim this investment is often recouped in a few years.

There is no doubt, however, that the industry's image has been tarnished by a perception that its primary motive is profit.

Some companies are brazen enough to report operating margins of about 30% while medicine costs continue to go through the roof

The cost of medicine is now a political issue and operating margins of 30% can expect to attract the opprobrium of consumer watchdogs

Pharmaceutical companies now have a broader constituency to consider than their shareholders

To counter burgeoning theft and rampant profiteering in the industry, four multinationals — which account for about 12% of the prescription medicines market — Ciba, Roche, Bayer and Boehringer Ingelheim — formed International Healthcare Distributors to control the distribution and pricing of their products.

This created problems of its own, however

Wholesalers lost their sole distribution rights and many refused to handle the multinationals' products.

One of the major events of the year in the pharmaceutical sector will be the JSE listing in July of Hoechst, a subsidiary of the German multinational.

With an expected market capitalisation of R1-billion, it will be the largest listing this year. Hoechst is to sell off 25% of its shareholding to local investors to raise capital for local expansion.

The South African subsidiary has annual sales of R1,7-billion a year, about 10% of which is exported.

The pharmaceutical industry exports little more than 5% of its output, although new markets are evolving in Africa.

There are no import duties on medicines, and the 10% import surcharge falls away in October The raw materials for locally manufactured drugs are generally imported by locally placed multinationals

Some multinationals with South African operations have reported considerable export success.

Janssen Pharmaceutica, a wholly owned subsidiary of Johnson and Johnson — one of the largest health-care companies in the world — has made "a considerable investment" in manufacturing plant, equipment and a distribution centre over the last decade.

This allowed it to enter the African market in 1994, according to South African marketing and sales director Kobus Venter

It is now supplying products to all Anglophone countries in Africa. Janssen focuses its research on cancer, AIDS and Alzheimer's disease

Logos, a company entirely dependent on its overseas parent company for research and development, uses South Africa as a manufacturing base for the area and for neighbouring states

LOHENDRA NAMASIVAYAM

Singer returns to established base

(184) ST(BT)21/5/95

By SVEN LUNSCHE

ONE of the latest multinationals to return to South Africa is the world's leading sewing machine manufacturer, Singer

The company, which is listed on Wall Street, has faced challenges common to multinationals operating in South Africa

Singer re-opened its local office in Durban in March this year The company disinvested in 1984 but its products were distributed locally

"Our return enables us to give a much better service to our customers and our dealership," says Lohendra Namasivayam, who headed Singer Sri Lanka some years back.

He expects a strong expansion of the dealership network from the current 40 to about 100 by year-end

By the end of the year the group also plans to introduce its line of appliances and television sets

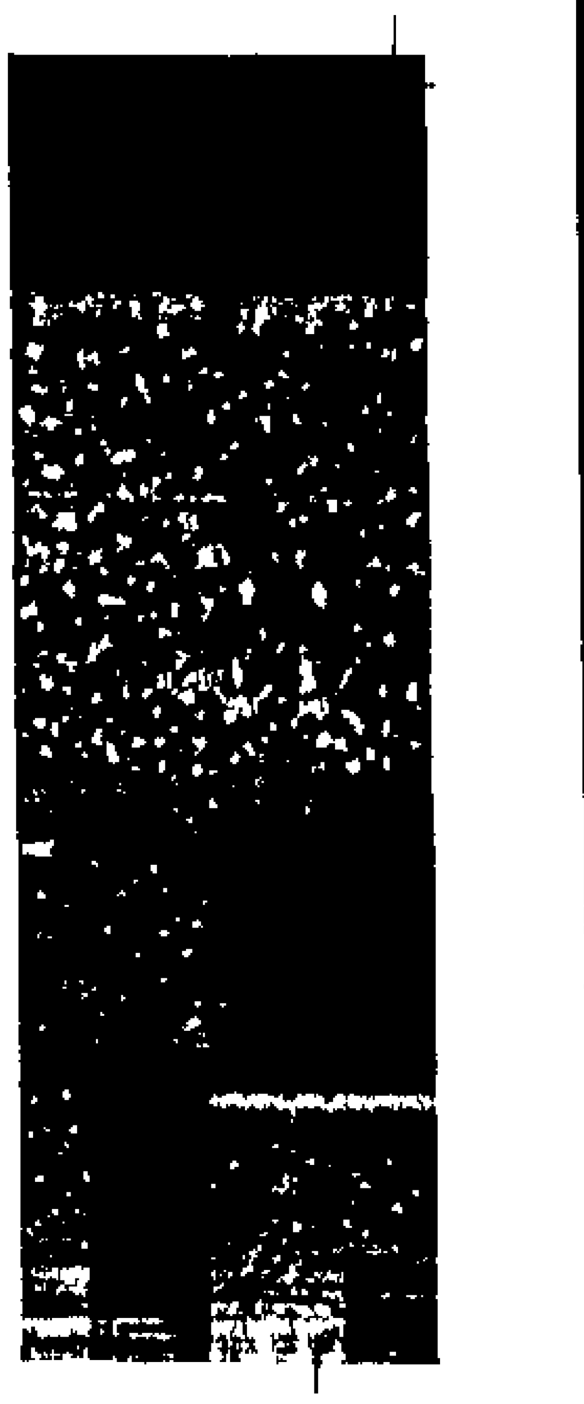
All this would not be possible without strong sales "We plan to double last year's sales and much of the growth is expected from the black consumer market," he says.

Traditionally, the black market was dominated by Singer's hand-sewing machines, but with 1 000 homes a day being electrified the emphasis is shifting to electric machines.

However, the growth in its high-tech domestic machines has not been as strong as hoped for, says Mr Namasivayam

Other problem areas include the infringement of its trademark and an influx of Chinese machines which are undercutting Singer products by about 20% to 30% in price

"The market is competitive but we believe that our quality will carry the day," Mr Namasivayam says



TV programme for farmers

Louise Cook BD 23/5/95

GOVERNMENT yesterday launched a new TV programme aimed at training farmers.

The Agriculture Department said it would produce Farmer's Indaba for screening on NNTV on Thursdays.

The programme, which would debut in June, would focus on a variety of farming issues, including marketing information to help farmers who were now operating in a more competitive environment.

Agriculture Deputy Minister Thoko Msane said the programme would be critical in government's attempts to create effective information systems.

The aim is not to teach only specific skills, but also to get feedback from farmers, she said.

The programme would put new issues forward. For example, viewers would be made aware of the importance of early drought warning systems, rather than focusing on drought assistance. Instead of concentrating on the cost of maize, free market and international trade opportunities in the industry would take preference.

The focus of Farmer's Indaba would be educational, but would not avoid actuality issues.

Chief producer Jan de Beer said the programme would be accessible to millions of small farmers after October if SABC proposals to the IBA were implemented.

Medicine trade bound by pact

(183) BD 23/5/95

Beatrix Payne

NATIONAL Association of Pharmaceutical Wholesalers' members had signed an agreement binding them to purchase medicines directly from manufacturers or authorised agents, association executive director Trevor Phillips said at the weekend.

The association represents about 80% of private sector medicines sales. "The only way to stamp out the grey market in the distribution area is to regulate the supply chain," he said. Members breaking the agreement face heavy penalties — including expulsion from the association.

Grey market medicines came from two sources, he said. First, through dispensing doctors selling cheap medicines to wholesalers after buying stock from manufacturers at a considerable discount.

The second source was medicines stolen from manufacturers or state warehouses "re-entering the market by devious means and being sold to the trade at temptingly low prices".

Transferring the functions and responsibilities of a pharmaceutical wholesaler to a sole distributorship controlled by a group of manufacturers was unlikely to cut end-user medicine prices, Phillips said.

"It will cost (the group) just as much to operate the warehouses, vehicle and staff and merely transfers responsibilities to a new organisation charged with a similar job description," he said.

It was misleading to claim that a sole distributorship would reduce medicine costs as it cut out the wholesaler or middleman, as similar operational costs were charged to the manufacturers sharing in the sole distributorship.

"Inevitably this would be reflected in the medicine prices," he said.

A single source for a range of medicines introduced a "stranglehold" on the end-user's access.

If sole distributorships continued to grow they would inhibit the end-user's freedom of supply choice and extend monopolistic practices that this development had introduced which were not in the interest of the community pharmacist or the patient, he said.

International Healthcare Distributors, the sole distributor for pharmaceutical manufacturers Sandoz, Bayer, Boehringer-Ingelheim, Roche and Ciba-Geigy, could not be reached for comment yesterday.

Petronet pipeline profit is probed

CAPE TOWN — An interdepartmental investigation has been launched into Petronet's use of profit from the fuel pipeline between Durban and Gauteng, Energy Affairs Minister Pik Botha said yesterday. (183)

He also said Sasol was receiving 10c/*l* on its fuel sales to cover pipeline costs — even though it did not use the pipe.

Botha told the National Assembly's energy affairs committee that although companies refining in Durban had to use the pipeline at a cost of 10c/*l*, he had heard that the actual cost of transporting the fuel to Gauteng was not more than 3c/*l*.

"If that's true we want to know what has happened to the 7c/*l*. We are dealing with the situation. That needs investigating," he said.

There were three departments involved in the investigation, Botha said. BD 24/8/95

He had also heard that Petronet was using the profit to subsidise its pension fund.

"I am not against that, but the motorist is entitled to know that," he said.

"The motorist is entitled to know he is subsidising the pension scheme of a department.... it must be clear what the money is going to," he said

He said Sasol manufactured its fuel near Gauteng, and that the region took virtually all of its petrol and diesel.

However, Sasol was receiving 10c/*l*, which was based on the cost of fuel transported from Durban to Gauteng.

Yet, Botha said, "not a drop" of that Sasol fuel was transported. — Sapa.

Pik pumps for unleaded petrol

(183)(@)(BR)(PET 25/5/95

BY CLAIRE GEBHARDT

ECONOMICS EDITOR

The government is determined to find ways of making it economically viable for oil companies to introduce unleaded petrol next year, says Pik Botha, the minister of mineral and energy affairs.

Botha said the need for South Africa to introduce unleaded petrol had been obvious for some time. Experts estimated the country would save about 2 percent of its fuel consumption in 1996 and 13 percent by 2005.

Botha told a National African Federated Transport Organisation (Nafto) conference at the weekend that this was because engines designed for unleaded petrol were more fuel efficient

Since the international motor industry was almost exclusively producing vehicles which used unleaded petrol, South Africa would only be able to export vehicles able to use unleaded petrol

"It is the only way in which South Africa can keep pace with the latest technology in the motor industry"

Botha said the use of unleaded petrol would also reduce sources of atmospheric lead — catalytic converters to reduce polluting exhaust fumes could only be used with unleaded petrol

South Africa would be able to benefit from the economies of scale which made engines using unleaded fuel less costly than those using leaded fuel

"At the same time, if the supply and distribution of unleaded fuel is to be economically viable, it must enjoy a market penetration of about 20 percent when it is first put on the market," Botha said

A problem was that unleaded petrol cost more to produce than leaded petrol.

The original idea was to tax leaded petrol more and unleaded petrol less, to make unleaded petrol 6c cheaper.

"But this was perceived as compelling leaded petrol users to subsidise unleaded petrol users"

The less well-off might put the cheaper unleaded fuel in their vehicles which would in some cases damage their engines.

Botha said the cabinet had agreed to the introduction of unleaded petrol but preferred a pricing arrangement which would not involve leaded petrol users subsidising unleaded petrol users

About 65 percent of vehicles in South Africa would be able to operate on unleaded petrol

Manga-Chem plant plans forge ahead

(183)

By Charlotte Mathews

Investment Editor

Manga-Chem Products has raised enough money, partly through its listing late last year, to complete the carbonate and chemical manganese dioxide sections of its commercial plant

According to figures for the year to February released today, the company has capitalised development costs of R771 465 in the past year At the end of February its total capital was R4,6 million, of which R4,4 million was invested in fixed assets

CT (BR) 25/5/95

Pilot

In the annual report, chairman Deon Seymore said the company has successfully concluded the first phase of its business plan, the commissioning of a pilot plant to process 66 tons of manganese ore a month to produce manganese sulphate for agriculture and food pre-mixes.

The second phase of its business plan is the construction of the commercial plant, which should be in full production by the middle of the current financial year, producing 600 tons of ore a month

Loan

Besides the funds raised through the JSE listing, Manga-Chem has also secured an IDC loan of R1,66 million and a regional industrial establishment incentive from the department of trade and industry.

The group's wholly owned subsidiary, Baltimore Manganese Mine, has concluded a prospecting and royalty agreement to investigate a manganese deposit in the Northern Transvaal, near Tolwe

If manganese is extracted from the deposit, the resulting manganese fines, which are a by-product, could be used at Manga-Chem's Graskop plant to enhance its efficiency and earnings

BUSINESS REPORT, THURSDAY MAY 25 1995

(183)

Petroleum body dismisses claims

CT(BR) 25/5/95

Colin McClelland, South African Petroleum Industry Association director, yesterday dismissed as "absurd and naive" allegations that the newly-formed association had "either overtly or covertly come to an arrangement" with the Department of Mineral and Energy Affairs to take over service stations, or that the association was a cartel

Experience in other countries had shown that the biggest threat to jobs and the small service stations was the hypermarkets which discounted fuel as a loss leader and squeezed service stations in their vicinity, leading to closures and loss of jobs. The association actively supported private enterprise and small businesses and had worked forcefully at assisting disadvantaged business people, he said.

Pik pushes for privatisation

Mossgas sale 'will incur R8bn loss'

(183)

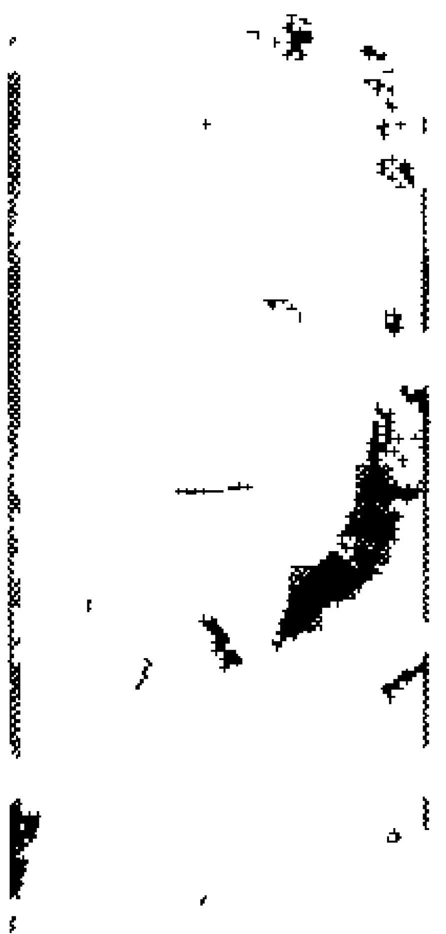
BD 25/5/95

Mungo Soggot

THE sale of one of apartheid's great white elephants, the synthetic fuel Mossgas plant at Mossel Bay, would raise at most R2,5bn, which would mean a write-off about R8bn in debt, sources said yesterday.

A Mossgas source said that if the plant, which had cost about R11bn, was "packaged correctly" government would get about R2,5bn.

Government either has to mothball Mossgas in early 1997, when its existing gas will run out, or extend its life to 2001 by giving it R700m to tap new gas fields. Mothballing will cost R1,3bn and Minerals and Energy Affairs Minister Pik Botha has said the solution is to privatise it



● BOTHA

A source said that if it was turned into a plant for methanol production it could fetch more than R2bn. There had been informal talks about this possibility with Taiwanese petrochemical industry representatives, who had been interested in using the plant as part of a broader petrochemical set-up.

A government source said this week the Cabinet would probably find it "politically difficult" to give Mossgas management the R700m it wanted to extend the fuel from gas operation's life to 2001.

A Mossgas source said tapping new gas fields would make the "asset" more marketable, but it was not a prerequisite If government wanted the synfuel operation to continue, work on the new fields would have to begin at the end of this year.

One analyst said these mothballing costs would clearly be much higher if the plant was shut down in 2001, which made it even more likely that government would not grant the R700m for the new gas fields and would instead sell it off as soon as possible.

Reuter reports Botha told the parliamentary mineral and energy affairs committee on Tuesday that he was ready to make a decision on the plant's future.

He said the only solution for Mossgas was to privatise it so as "to get government money out of it" and let companies with the assets and experience develop it into a petrochemical downstream industrial enterprise This would be better than "running risks with piecemeal investments in the meantime to keep a thing going that we know can't go".

Mineral and energy parliamentary select committee chairman Marcel Golding said further investigations into the proposed gas field extension would have to be made before a final decision was taken

Botha told the National African Federated Transport Organisation in Johannesburg on Friday that apart from the loss of the original investment, simply closing Mossgas would cost about R1,3bn. "We will lose money whatever we do"

Tioxide to expand after big clean-up

Nicola Jenvey (183)

BD 25/5/95

DURBAN — Chemical manufacturing company Tioxide SA will invest R25m in an expansion and environmental clean-up programme, MD David Callow said yesterday

Callow said a major expansion programme was required for the 33-year-old factory to significantly increase output levels.

The R17m venture would raise production levels 30%. It will spend R8m on improving quality and reducing waste discharges

Callow said "the increased production will demand more ore from Richards Bay and chemicals and acids from AECI. Our output will rise from 35 000 tons per annum to 45 000 tons".

Tioxide SA produces titanium dioxide for paint use, plastics and printing industries It is 60% owned by Tioxide London and 40% owned by AECI

CHROMECORP

Stagging bonanza — or a booboo?

Better than 1m shares changed hands within hours of the listing on Tuesday, earning instant profits of R3m-plus for stags An opening at 850c — compared with the offer for 4,5m shares at 500c — suggests that the financial advisers boobed in setting the price

Naturally, they deny this

Joint sponsoring broker Martin & Co's Brian Christie says the 26,5 times subscription (eager investors offered a total of nearly R600m) took everyone by surprise, but still doesn't think the share was incorrectly priced "You must remember," he says, "that only a few shares were offered to the public (only 2,5% of the equity)"

Chromecorp was founded by former Samancor GM John Vorster, who was backed by commodity trading group Marc Rich, based in the Swiss canton of Zug

Rich company Sudelektra holds 153m (84,5%) of the issued shares Of the balance, 23,5m (13%) are in SA institutional hands — the *FM* understands a private placing of these took place a short while ahead of the public offer

It is SA's third-largest, and probably lowest-cost chrome producer From 1990-1994 turnover grew by 24,5% compound a year, to R345m, and operating profit by 91,5% compound, to R62,1m Though this may seem the sort of record possible for a new company but not to be sustained, the prospectus forecasts a net profit up from R33,4m to R118,6m this year, to give EPS on the post-issue capital of 65,5c

Christie concedes that a historic p e of 25 sits awkwardly with the forward ratio of about 7,6 Other analysts estimate EPS of 75c for financial (and calendar) 1995 to put it on an unusually modest p e of 6,7 on the issue price That is low in relation to a commodity — ferrochrome — whose price cycle is growing

Chromecorp is well positioned to take advantage of new developments with four furnaces already in operation at Rustenburg, it may build another four — two alongside its existing operations and two at Iscor's Pretoria site, now converting to stainless steel production

A lot depends on who gets Iscor's contract for charge chrome other contenders are believed to be Hernic Chrome and JCI's CMI

Four new furnaces, capable of producing 320 000 t of charge chrome a year, could cost about R160m That may suggest the listing is merely a precursor to a rights issue to fund the new development

But an alternative, debated by a number of metals analysts, is that the listing has another intention — to fix a market-related price for Chromecorp

Christie adamantly denies that in any way implies a disposal by Sudelektra "There's absolutely no intention of that," he says

David Gleason

(183)

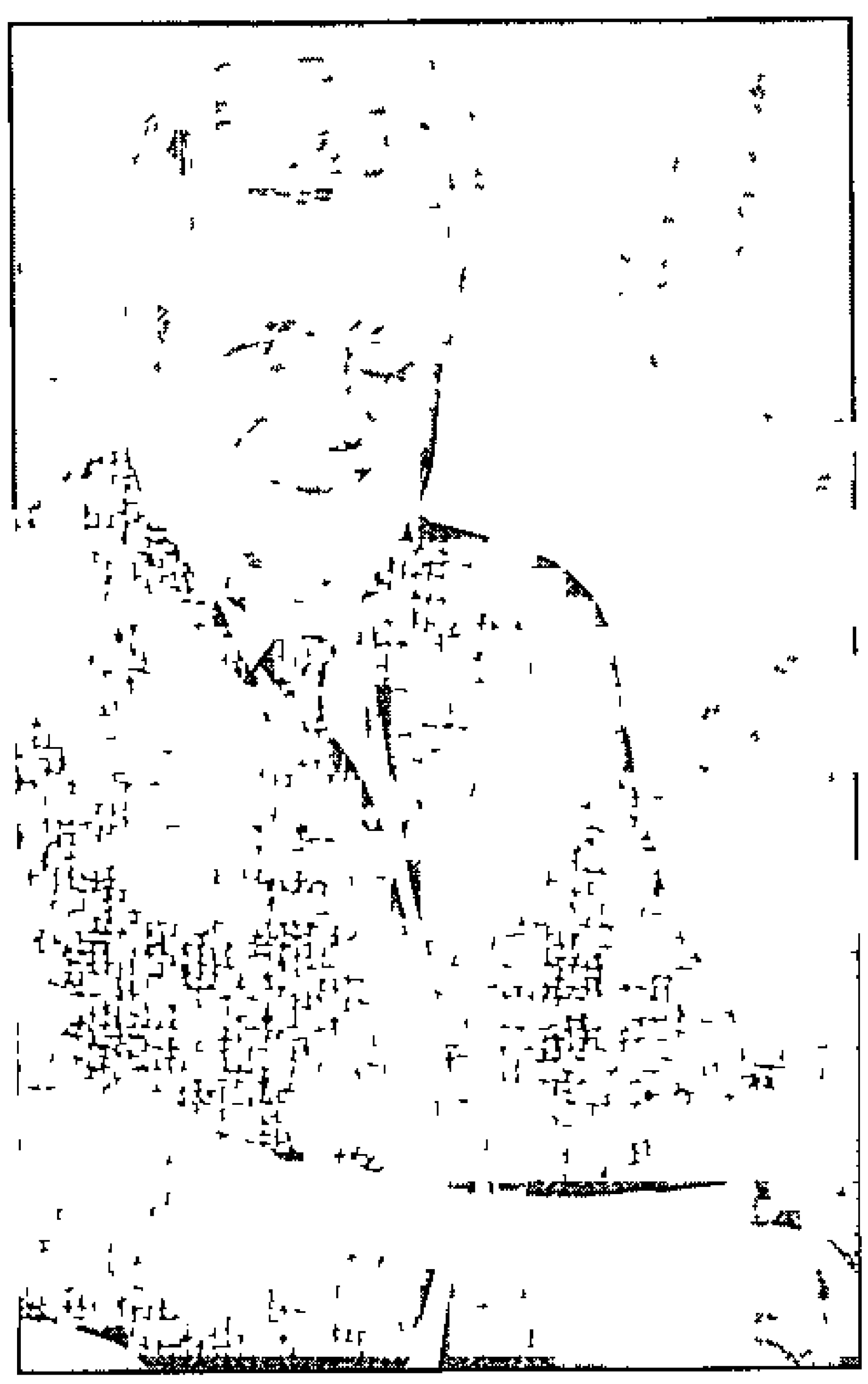
SENTRACHEM

FM 26/5/95

Girding up for exports

Sentrachem has committed R750m to new and expansion capital projects in the next three years as it positions itself to become internationally competitive and offset falling tariff protection under Gatt

The programme is large by Sentrachem's standards, amounting to about half of assets employed of R1,5bn at its September year-end More important is the thinking behind the programme, which shows Sentrachem raising its ability to export and move downstream into value-added chemicals



Job *adding value to the plain product*

This two-pronged strategy was identified during the downturn as a means of evolving away from Sentrachem's import replacement past and lessening its dependence on volatile commodity prices

Commodities remain important, however, particularly now with strong local and world demand for many products Still, the portfolio has diversified in recent years, providing a more stable stream of revenue

Job says about three-quarters of the projects are aimed at exports Exports were R464m last year, 15% of turnover This rose to 18% at the interim and should be about 20% for the full year The target is to bring exports up to 25% of sales, which he believes can be attained in three years

The capex, Job says, will boost exports by R600m a year and save R250m imports, strengthening the balance of payments by R800m-plus a year and making Sentrachem a net earner of foreign exchange

About a third of the R750m will be directed towards commodity products and the remainder into the value-added arena

The largest single project is the R200m polypropylene plant at Safripol, Sentrachem's joint venture with Hoechst Safripol will absorb R270m in total, expanding its high-density polyethylene granulation facility in addition to the new plant

This spending is in the commodity side of the business, but, with the cycle heading upward, Job says there is demand for the extra output and both projects can be regarded as low-risk The rejuvenated Karbochem amines plant at Newcastle (*Business* May 19) is budgeted at R53m and its mancozeb plant at Sasolburg R30m, but, with construction at both nearly complete, only R20m is included in the three-year programme

NCP, after drastic scaling down over the past year, will receive R220m to expand its chlor-alkali business by first expanding its chlorine plant and then installing a monochloracetic acid plant The bulk of the latter's products will be used by subsidiary Sanachem to make herbicides for export NCP's HTH plant and food products division will also be expanded

Sanachem — 70% of whose herbicides, insecticides and fungicides are exported — will spend R150m on a number of projects

Funding of the programme raises questions about the debt profile A R290m rights issue early last year cut gearing from 42% to 12%, eliminating Sentrachem's historical problem of overgearing

With the high interest rate pattern in SA and because many of the businesses are cyclical, Job has become a low-debt disciple "At the time of the rights issue, the aim was to reduce debt but also to provide funds for new projects Many of these were then on the radar screen Now they have been hardened up Our funding capacity and cash flows will allow us to fund the investment programme without exceeding our gearing ratio target of 30%," he says

Keeping debt down is important for the investment profile Lower gearing and strong results last year (earnings up 38%, diluted to a 20% increase in EPS by the

Diesel price to increase next week

BD 26/5/95 (183) (

Mungo Soggot

THE petrol price will not go up next Wednesday if international fuel and oil price trends continue, but diesel will go up 4c/l, according to the Central Energy Fund.

The petrol pump price, which since last September has changed automatically on the first Wednesday of every month instead of at government's whim, has increased for the past three months. In March the petrol price went up 5c/l, in April 6c/l and in May 3c/l.

One fuel industry analyst said it was surprising that the rand's decline during the month had not had a stronger effect.

SA's fuel price was based on international freight charges, international fuel price movements and changes in the rand-dollar exchange rate.

Brent crude was unlikely to rise above $21 a barrel over the next two years, so apart from the rand, the main effect on the pump price in SA would be fluctuations in international refined product prices.

Meanwhile, industry analysts expressed caution at Minerals and Energy Affairs Minister Pik Botha's announcement of an interdepartmental investigation into the pipeline which transports crude and fuel from the coast to Gauteng.

Botha said that whereas coastal crude refining companies had to use the pipeline at a cost of 10c/l, it cost only 3c/l to transport fuel. "What has happened to the 7c/l?" he asked the National Assembly's energy affairs committee. He also questioned the logic of synthetic fuel producer Sasol getting 10c/l on its fuel sales to cover the pipeline costs when it did not use the pipeline.

A Sasol spokesman, in a response, said Sasol's crude refining operation at Sasolburg incurred the full cost of transporting crude.

One analyst said the 10c/l price reflected what it would cost to transport fuel by road or rail. So it was all very well to cut the transport price to 3c/l while the pipeline was running under full capacity, but once fuel was actually transported by road or rail, fuel companies would have to pay the extra 7c/l.

Union to fight Mossgas sale

Renee Grawitzky (183)

COSATU's Witwatersrand region said at the weekend it would fight the proposed sale of Mossgas and expressed its opposition to privatisation.

This was in response to claims that if Mossgas, which had cost R11bn, was sold, government could receive R2,5bn at most.

The Chemical Workers' Industrial Union said the privatisation call by Mineral and Energy Affairs Minister Pik Botha was an attempt to rid his department of an embarrassment from the apartheid era. The consequences would be huge state losses and the creation of a private utility, sold at a giveaway price, which was perfectly positioned to exact rent from the government

The union said the plant could have a substantial role in the future of the petrochemical sector. In addition, Mossgas employed for more than 1 500 people in the region

BD 29/5/95

Petrol price (183) stays the same

JOHANNESBURG: There would be no monthly change in the price of all grades of petrol on June 7, the Central Energy Fund said yesterday CT 31/5/95

But the price of diesel would increase by 4c a litre and that of illuminating paraffin by 2c a litre.

MANUFACTURING _ CHEMICAL & PRODUCTS

1995

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AECI moves to liquidate SABot

(183) Star 1/6/95 (14)

BY JOHN SPIRA
BUSINESS EDITOR

Soda Ash Botswana is to be liquidated At stake is more than R1-billion and nearly 600 jobs

AECI, the major private shareholder in the project (the others are Debhold and Anglo American Corp), and Soda Ash Botswana yesterday announced that the board of the company had passed a resolution for its liquidation.

It is applying to the High Court in Botswana for the appointment of a liquidator

In a statement AECI said that following lengthy discussions between the shareholders and lenders of Soda Ash Botswana regarding the long term viability of the company, a decision had been taken to apply for the liquidation of SABot.

"This decision was taken with regret after all other options had been intensively pursued."

The government of Botswana has a 48% stake in SAB and, should the liquidators decide to close the operation, the impact on the economy of the country could be severe

Losses

Since it started operations in 1991, SABot has consitently incurred operating losses and has required substantial and ongoing financial assistance from shareholders by way of interest free loans and other financial support.

SABot's cash shortfall was P106-million (R143-million) in the financial year to December 31 and a further shortfall of P171-million (R231-million) had been budgeted for this year, AECI said.

AECI has on several past occasions noted that SAB's financial underperformance had been the result of a structural and cyclical decline in demand for soda ash since 1990, along with a cost structure that has escalated to unsustainable levels.

It now observes: "This combination of circumstances was beyond the reasonable expectation of shareholders in 1988, when the venture was approved."

AECI says the costs it will incur as a result of liquidation will not differ materially from the provision it has made for such an eventuality in its 1994 accounts. Accordingly, the SABot liquidation would not Have an impact on the current year's financial results.

SABot was initially financed via R320-million in equity and R600-million of debt

In addition, the Botswana government has ploughed substantial sums of money into it in the form of supporting infrastructure

(183)

Engen is welcomed in Nairobi

CT(BR) 1/6/95

By Joe Khamisi

ARGUS FOREIGN SERVICE

Nairobi — An announcement by South Africa's Engen company that it planned to join the Nairobi Stock Exchange (NSE) was expected to inject new blood into an inactive Foreign Investors' Board at the bourse, officials said

"This is indeed a welcome move and we look forward to welcoming Engen," J K Kihumba, the exchange's chief executive said

Errol Martin, Engen's chief operating officer, said Kenya was a country with potential for business growth Stock exchange membership would allow local people to buy shares in Engen, he said.

The company's subsidiary, Engen Kenya, has been doing business in the country for two years. It has a 3 000 ton bitumen plant and imports refined fuels

Engen recently won a $2,5 million contract for the rebuilding of Mombasa's Moi Airport

The foreign investors' board has been experiencing poor performance since foreigners were allowed to buy shares in the country five months ago

Analysts said this was partly b0ecause of existing limitations on foreign investments

Foreigners are only allowed to invest up to 20 percent aggregate of the issued share capital of local companies

They are also barred from investing in companies where foreigners already hold 51 percent of the total capitalisation.

Foreign investors who took speculative positions ahead of the anticipated foreign investment flows, lost miserably following a sudden plunge in share prices

The NSE 20-share index lost more than 25 percent in the first quarter of this year

Analysts said this could have further lowered the confidence of investors in the Kenyan market.

The business community is also frustrated by the slow pace of the privatisation programme.

Of the more than 200 money-losing parastatals targeted in the country's reform process two years ago, less than 40 have been sold off.

The situation was compounded by the uncertain downward movement of the Kenya shilling against major currencies.

Lion Match lights up with R10,9m capex programme

(183) BD 2/6/95

Nicola Jenvey

DURBAN — Industrial holdings company Lion Match will spend R10,9m on a capital expenditure programme directed mainly at the lights division, chairman Lawrence van der Watt said in the annual report yesterday.

He said the new investment would be funded from R32,9m retained from operations during 1994 as a result of reduced working capital requirements and additional investment income earned.

Continued export market success and further increases in private consumption expenditure should produce a satisfactory rise in earnings for the forthcoming year

During the last financial year improved penetration of export markets saw Lion Match's turnover grow 19%, allowing for the disposal of former subsidiary Interpak.

Despite a seven week strike at Rosslyn, trading profits increased to R27,2m. A R14,4m net investment income enabled the group to improve profit after taxation by 16% to R26,1m.

Van der Watt said net cash of R19,1m was generated after funding capital expenditure requirements. With liquid resources of R200,7m, the group remained "in an extremely sound financial position".

New MD Terry Turner said the growth in exports saw match sales rise 15%. The resulting lower unit production costs meant an increase in the local selling price was deferred.

"The improvement in price-competitiveness enabled the match division to maintain its local market share in the face of continued competition from imported matches and a local competitor," he said

Disposable lighter sales volumes increased 16% following the replacement of French brands with more competitive German products Turner said further positive growth in sales volumes and market share was expected.

ONLY MD NOT ESD

Petrol price may ease

CT(BE) 2/6/95 (183) 185

By Derek Tommey

A strong downward trend in the past few weeks in overseas oil prices suggests that a small reduction in the South African petrol price is possible at the end of the month

Since the end of April the price of oil in Dubai - which is a useful indicator to the landed cost of oil in South Africa - has dropped by more than $1 or 7 percent to $16,43 a barrel which is back to where it was in March

At that time the price of 93 octane petrol in Gauteng was 178c a litre, which was some 9c a litre less than its present price and this suggests that if current oil price remains unchanged the CEF which manages the petrol price could find room for a modest cut

The past few weeks has seen a levelling off - and even a slight decline- in commodity prices

Since the end of April, the price of lead has eased by about $12 to $601,50 a ton, and the price of zinc has eased from $1079 to $1020,50 a ton

Some precious metal prices have also eased The platinum price has dropped from around $440,50 a troy ounce to $431,50 an ounce. Silver is now trading at about 330p an ounce against 345p an ounce at the end of April

However, tin has firmed, rising by about 2 percent to $6055 a ton and nickel has risen 3,6 percent to $7515 a ton. But although copper has firmed marginally since the end of April, it is still well below its early April price

Analysts attribute the easier oil price to the slowdown in the United States economy

(183) FM 2/6/95

PREMPHARM

Looking healthier

Earlier acquisitions are starting to come through in the latest results from Premier Pharmaceutical (Prempharm) Chief financial officer Hymie Shapiro says part of the strong 27% increase in turnover can be attributed to the acquisition of Zurich and Salters in the previous year

Core pre-acquisition operations did well, while the new companies strengthened Prempharm's presence in generic medicines, an area where the Premier Group subsidiary is becoming increasingly important In its core pharmaceutical businesses, where overall turnover grew 46%, generics have become the second biggest contributor after over-the-counter products

Margins were under pressure, owing to the tighter margin generic business, but a lower effective tax rate (because of lower corporate tax and reduced STC from share cap awards) translated to bottom-line growth of 23%

The acquisitions, largely the generics companies, have taken some time to whip into shape, though CE Phil Nortier disagrees, saying they have met expectations. Zurich cost about R70m and Salters around R14m. Apart from goodwill of R13m written off in the previous financial year, the two also absorbed most of the R2,1m rationalisation costs shown as an extraordinary item in the latest accounts.

Shapiro expects improved performance this year. "Both have been restructured and are now being run our way I think there is a lot of scope for them," he says

The animal health division, generally an underperformer because of its susceptibility to drought conditions, has been merged with similar interests held by Sentrachem to form a joint venture This seems the sensible route for both groups

Shapiro feels confident about the year ahead, expecting growth in pharmaceutical and consumer products An encouraging trend is the long-awaited uptick in consumer spending

With its strong cash generation, Prempharm is cash flush Available funds are up to R72,6m (R45,7m), between R15m-R20m of which will be invested in upgrading production capacity this year Shapiro says Prempharm will remain on the lookout for suitable acquistions, locally and abroad

These results should halt the gradual decline in the share price, which has lost more than a fifth of its value, to R18,75, off a high of R24 nearly a year ago (though parent Premier has fared far worse, losing a third) At these levels, and with a product portfolio that seems well suited to SA's developing markets, the share probably offers the best value among the big pharmaceutical groups If it falls further, it could become a bargain

Shaun Harris

Band . *the harmonies sound rather better*

Diesel going up but petrol price on hold for now

(183) (~~244~~)

By NIKKI WHITFIELD

Star 3/6/95

Diesel is to cost 4c/litre more from Wednesday, forcing drivers of diesel-powered vehicles to pay R1,72/litre at filling stations.

That's the bad news. The good news is that the price of petrol, which rocketed by an alarming 14c in three months, is to remain unchanged this month.

The cost of illuminating paraffin is also to rise, going up by 2c to R1,03 a litre on Wednesday

The Central Energy Fund, which adjusts fuel prices each month, said the increase in the price of diesel was due to a sharp rise in the international price of the fuel

Prices of petrol and illuminating paraffin did not increase in Singapore and Bahrain, which make up the basket of prices used in the calculation, to the same extent as that experienced in other world markets, the fund said.

Prices are adjusted in such a manner that the over- or under-recovery during the previous month is corrected in the following month. Both recoveries are rounded up or down to the nearest full cent The rise in the price of illuminating paraffin is due to the previous month's underrecovery.

ST (BT) 4/6/95

Storm builds up over Sasol

(183)

AUDITORS Arthur Andersen completed a 140-page report on Sasol's tariff subsidy on Friday, with indications that a storm is likely to follow its tabling at Nedlac on Tuesday, reports **KEVIN DAVIE**.

The oil industry declined official comment pending the release of the final report, but a senior executive said the industry was "incensed" at the favourable treatment it gave Sasol.

"The industry will certainly review its capital expenditure plans," the executive said

Other sources indicate that the findings will make neither party happy, Sasol facing large cuts to its R1-billion a year subsidy

Oil quay impact study for Saldanha Bay

ARG 5/6/95 (183)

☐ *Award-winning team commissioned*

JOHN YELD
Environment Reporter

THE Strategic Fuel Fund has commissioned the first step of an environmental impact assessment of the proposed expansion of its oil quay at Saldanha Bay.

The Council for Scientific and Industrial Research's award-winning environmental impact assessment team has been commissioned to undertake a "scoping study", which is expected to take three or four months.

The remaining phases of a full environmental impact assessment — specialist studies and assessment phases — will take several more months

Details of the commission were hammered out at a meeting last week, soon after it was announced that South Africa's oil deal with Iran to store and trade 15 million barrels at Saldanha was being signed

Mineral and Energy Affairs minister Pik Botha's department announced that there was an environmental "escape clause" in the deal, which still had to be ratified by the Central Energy Fund's board

The Democratic Party has added its voice to concern about the proposal

"Bearing in mind that the Saldanha lagoon system is a closed system, and that any pollution here is likely to do permanent damage, the advisability of allowing increased bulk tanker activity to aggravate a risk — which is already unacceptably high — is questionable," said DP environment spokesman Errol Moorcroft.

"Expanding the harbour facilities holds further risks to this environmentally sensitive area, and environmental impact assessments are of the utmost importance"

Jonathan Crowther of the company which has been appointed to facilitate public participation in the oil study, said the scoping study was the first step in a full assessment of the fuel fund's proposed expansion of the oil loading and transfer facility at Saldanha.

"This scoping study will be in two phases

"The first will be a process review, in which interested and affected parties will be able to comment on the CSIR's proposed approach to the investigation, including the management of the decision-making process by the authorities.

"A scoping exercise, which forms the second part of the study, is being undertaken to ensure that issues, concerns and alternatives that may be associated with the proposed expansion are identified for investigation in the environmental impact assessment."

A document with background information, a description of the proposed impact assessment and a summary of the proposed alternatives would be distributed within the next few weeks for comment, he said.

● For further details contact Mr Crowther, ☎ 461 1118

COMPANIES

Sasol to help set up Chinese plant

Mungo Soggot (183) BD 5/6/95

SASOL announced at the weekend that it and Germany's Lurgi Energie would help China set up a plant which converted coal to gas.

Sasol and Lurgi are joint holders of the Sasol technology used at Secunda and Sasolburg to convert coal to fuel.

A Sasol spokesman said the terms of the deal had yet to be finalised, but Sasol would help on the project's design and technology.

The synfuel producer said it was angling for long-term partnerships as an equity partner in those kinds of projects and was not considering one-off technology licence agreements.

Its two subsidiaries, Sastech and Sasol Chemicals Pacific, were scanning the Chinese market for possible projects. Sasol had already set up links with China, where it sold its chemicals.

A Sasol team had recently helped Lurgi Australia review the design of its "coal gasification" plant.

A Sasol delegation had visited China in August last year and had toured two plants which used a similar technology to Sasol's, but did not use the same high level of technology.

Inner Mongolia and the Hunan Province in China had also expressed an interest in buying the technology.

A Sasol spokesman said the technology was also being used at a plant in North Dakota in the US, but there were plans to export it elsewhere.

The Chinese plant would be built in the coal mining town of Yima.

Oil companies dismayed at Sasol report

Mungo Soggot

(183) BD 6/6/95

OIL company heads had expressed dismay at the final findings of the independent investigation into synthetic fuel producer Sasol which had come out heavily in favour of its tariff protection, industry sources said yesterday.

Sources said the full meeting of the liquid fuels task group, which was supposed to have examined the investigation by accounting firm Arthur Andersen today, had been postponed because of complaints from the industry. Instead the task group's project committee, which has been monitoring the investigation, would meet today to consider complaints about the findings

An oil industry source said it appeared the investigation's final draft had not proposed an end to Sasol's tariff protection, in terms of which it receives the difference between the price of oil a barrel and $21 a barrel. (The price of Dated Brent oil a barrel is currently about $18,15.) Instead the report said Sasol's tariff protection should be reviewed in 1999.

Industry sources were baffled by the differences between the investigation's preliminary findings and the final draft.

A source said the initial findings had hit out at Sasol's subsidisation, but that the final report had adopted a more positive stance on what it called Sasol's "tariff protection"

An oil company source said "The oil industry is keen to have the difference between the two drafts explained. Oil companies were astonished at the final report"

It appeared the investigation had not reacted to the industry's arguments that it was inappropriate for Sasol to be subsidised when competitors were not, he said. The industry had argued that as Sasol was profitable it should not be subsidised and that if it was subsidised the synfuels division should be renationalised as a utility.

Sasol communications manager Alfonso Niemand said the oil companies had always been unhappy with the investigation's terms of reference. "It is not surprising that they are complaining because they are pursuing their own interests"

Sasol tariffs may be scrapped

(183)

CT (BR) 7/6/95

By Derek Tommey

All tariff protection on Sasol's synthetic fuels should be abolished by July 1999

That's according to a study by international auditors Arthur Andersen on behalf of the Liquid Fuels Industry Task Force (LFITF) which is a part of the National Economic Development and Labour Advisory Council (Nedlac)

Sasol estimates that the reduced tariffs will cost it at least R2,5 billion over the next four years, assuming constant crude oil prices

The study also called for a significant reduction in the protection accorded Sasol between now and 1999

Details of the study were released last night by Sasol, following what it claimed were "premature and ill-considered comments" by the oil companies, which created "incorrect perceptions"

Sasol said in a statement that it was disappointed with the extent of the proposed reductions and the short time frame proposed for their elimination It called on the government to make an early decision on the report as it was essential that investors in Sasol, and in South Africa for that matter, knew where they stood

Restructure

It said that at the proposed level of tariff protection, it would need to substantially restructure its synthetic fuel business

To enable it to decide on rationalisation measures and its capital expenditure programme and also to remove uncertainty in the minds of investors, a final decision should be made as soon as possible Sasol's tariff protection provides for payment to Sasol whenever the imported price of petrol falls below a certain figure

This figure has been reduced twice since October 1993 from $23 a barrel to $21,40 a barrel Arthur Andersen proposed that this price should be reduced further to $19 a barrel in January next year and further lowered during the next four years to $17 a barrel by July, 1999

It also proposed that the level of protection should be capped

Analysts said last night that Sasol's shareholders should not be too badly hit by the proposed reduction in protection At current oil prices, the loss amounted to about R600 million a year

But Sasol's average tax rate of 40 percent would limit the drop in attributable income to about R360 million, which was equal to about 24 percent of the R1,5 billion available for shareholders last year

Growth in other sectors of Sasol's business, together with the rationalisation of the synthetic fuel business, could further lighten this loss

Sasol defends tariff protection

Mungo Soggot (183) BD 7/6/95

SASOL yesterday hit back at oil industry comments on the independent investigation into the synthetic fuel producer's tariff protection, and outlined key elements of the report ahead of its official release

The National Economic, Development and Labour Council (Nedlac), which in March commissioned consultants Arthur Andersen for the investigation, confirmed that oil industry complaints about material differences between the first and last versions of the report had forced a postponement of yesterday's meeting of its liquid fuels task force, at which it was supposed to examine the report

Oil industry sources said on Monday they were dismayed at the investigation's final findings, which they said were too favourable to Sasol.

Sasol said the report had been accepted yesterday by the liquid fuels task group committee monitoring the investigation. It would be handed to the full task force before being made public, but because of the "premature and ill considered" oil industry comments Sasol felt it necessary to publish a statement for its shareholders.

"The Arthur Andersen report clearly shows that Sasol's synthetic fuels is a desirable industry which justifies continued tariff protection by virtue of its massive contribution to the SA economy" Sasol said.

It said the report had recommended that Sasol's tariff protection — which gives Sasol the difference between the price of crude oil a barrel and $21 40 — be cut to $17 a barrel by July 1999. Based on projections of oil prices being higher than that level by

Continued on Page 2

Sasol

(183) BD 7/6/95

Continued from Page 1

then, it would mean an effective end to tariff protection.

The report had also recommended that the tariff protection be capped. Sasol said it was disappointed by the extent and speed of the proposed reductions, which it said would force cost cuts and a reconsideration of capex programmes.

Sasol was pleased that the report had found no cross subsidisation between its synfuel division and other divisions such as its chemical business.

An oil company source said the report had not said the synthetic fuel industry was desirable but the gist was that "once the business is there you can't throw it away".

NEWS IN BRIEF

IEC may be dissolved

CABINET had in principle approved the dissolution of the Independent Electoral Commission, Home Affairs Minister Mangosuthu Buthelezi said in the National Assembly yesterday.

The commission would then be replaced by a transitional electoral administration.

R2,2m still unclaimed

MORE than R2,2m in benefits remained unclaimed for the 1993/94 financial year, according to the Compensation Commissioner for Occupational Diseases' annual report released yesterday.

The amount represented one-sum benefit payments to beneficiaries of which the cheques were either returned as stale or because the beneficiaries were no longer employed and their present addresses were unknown.

Cape bid 'ridiculous'

CAPE TOWN's bid for the 2004 Olympics was dismissed yesterday as "ridiculous" by Britain's most acclaimed sports journalist.

Daily Mail columnist Ian Woolridge said there had been much sincere comment on the racial unifying power of the Rugby World Cup, but the harsh facts showed that SA still had "a long way to go".

Woolridge said SA had coped "superbly" with the World Cup so far but the housing needs alone made the Olympics bid absurd.

Industry as a whole

BUSINESS Day yesterday reported that Edey Rogers economist Edward Osborn said most of the recent surge in manufacturing output came from expansion of Sasol's synthetic fuel business Osborn points out the Central Statistical Service category of synthetic fuel industry refers to the whole petroleum industry.

REPORTS, Business Day Reporter, Sapa, Own Correspondent.

'Unreal' Labour Bill deadline

(166)(182) BD 8/6/95

Renee Grawitzky

THE SA Chamber of Business (Sacob) — a member of Business SA (BSA) — said yesterday the "unrealistic" June 30 deadline for the completion of negotiations over the draft Labour Relations Bill should be reviewed.

This call is not in line with the general position presented by BSA to date which has regularly committed itself to the deadline.

Sacob's Gerrie Bezuidenhout said unless the climate surrounding the negotiations improved, in light of mass action and the possible escalation of strikes, business might have to review its participation in the National Economic Development and Labour Council (Nedlac).

Cosatu spokesman Neil Coleman said it was not constructive for employers to threaten to walk out of the Nedlac negotiations. "These are precisely the bad faith Inkatha negotiating tactics which business has been quick to condemn in the past."

He said if business withdrew, they would have sabotaged the negotiations and leave labour with no option but to "go the parliamentary route of getting a new Act passed without the participation of employers".

Labour Minister Tito Mboweni warned the international community it should not be alarmed by differences of opinion expressed by political, social and business sectors in SA as this was part of democratisation.

Addressing the 82nd International Labour Organisation conference in Geneva yesterday, Mboweni said: "Major challenges remain to be tackled in pursuit of reconstruction and development."

He said despite "what may look like a breakdown in negotiations", the process was still on track and indications were that all parties were determined to reach an agreement.

Meetings between labour and business on the Labour Relations Bill continued yesterday.

The National Council of Trade Unions (Nactu) central committee resolved yesterday that labour should direct its fight against business and government to ensure the urgent enactment of the Labour Relations Bill.

Nactu's assistant general secretary Mahlomola Skhosana said government should "stop paying lip service by claiming to support labour" and ensure that the bill in the form presented at Nedlac was enacted.

Skhosana said the government was "responsible for the draft bill in the first place".

If this demand was not met by government by June 18 "without valid reason", mass action would continue beyond June 19.

● Comment: Page 16

Crude oil companies slate Sasol report

Mungo Soggot (183) BD 8/6/95

CRUDE oil refining companies yesterday lashed out at the investigation into Sasol's tariff protection in their first official reaction to the controversial report by consultants Arthur Andersen.

The SA Petroleum Industry Association said it was reviewing its position, but warned "the report and its recommendations as they stand will be an entirely inappropriate basis on which to formulate future policy on a number of issues affecting the oil industry, including Sasol's subsidies".

Acrimony has delayed presentation of the report to the National Economic, Development and Labour Council's liquid fuels task force. However, sources said debate by the full task force would happen next week.

CSS boss 'to help monitor quality of life'

Greta Steyn (244) BD 8/6/95

MINISTER without Portfolio Jay Naidoo yesterday explained his decision to axe Central Statistical Service (CSS) head Treurnicht du Toit and replace him with sociologist Mark Orkin as necessary for proper monitoring of the reconstruction and development programme.

"The decisive factor had nothing to do with politics. It had everything to do with the role of an independent statistical service in guiding resource allocations and monitoring the impact of government spending on the quality of life of our people," he said.

A panel including himself, Deputy Finance Minister Alec Erwin and a representative from business, Bokkie Botha, had taken the decision [illegible] candidates are qualified [illegible] I decided Orkin has a better perspective," he said. He emphasised that Du Toit's technical and managerial capabilities were not in question.

He said the CSS had a vital role to play, and denied the move would lessen the CSS's independence. The plan was to strengthen the organisation's autonomy. Naidoo dismissed suggestions that he might have appointed Orkin to ensure CSS figures would serve political ends.

Statistics would drive the strategic planning underpinning the Budget.

Asked whether more radical moves were in the pipeline, he said government's economic policy capacity was being reviewed. The capacity was dispersed between the finance department, trade and industry, central economic advisory services and in the Development Bank of Southern Africa. "Rationalisation will have to take place."

● Comment: Page 16

AECI wins German marketing deal

(183) BD 8/6/95

FRANKFURT — German chemical giant BASF said yesterday it had agreed to a marketing co-operation with SA chemicals group AECI.

Ludwigshafen-based BASF said the co-operation called for it to market the output of a plant due for start-up this year by AECI's bio-products subsidiary.

The plant will have a capacity to produce 12 000 metric tons a year of L-Lysin amino acids, which BASF will market worldwide outside SA as of next January. BASF said L-Lysin was used as a component in the manufacture of animal feeds. The world market for L-Lysins amounted to about 250 000 tons a year and was expected to continue growing at an above-average rate, the company said.

BASF does not produce its own L-Lysin amino acids, although since 1991 it has been marketing the Luta-Lysin brand amino acids produced by US chemical group Archer-Daniels-Midland.

But that contract would expire at the end of 1995, BASF noted. A BASF spokesman couldn't elaborate on why the marketing agreement with Archer-Daniels was not extended.

The German company's fine chemicals operations have DM1,8bn a year of sales, 60% of which are derived from animal nutrition products. BASF had nearly DM44bn of sales last year.

AECI, meanwhile, had about R5,5bn of sales last year.

The SA group produces a range of products including chemicals, plastics, fibres, colours and fertilisers. — AP-DJ.

Chemical sector nearer agreement

(183)

Renee Grawitzky

BD 8/6/95

CHEMICAL sector employers and the Chemical Workers' Industrial Union (CWIU) appeared to be moving closer to an understanding on centralised bargaining following a meeting this week.

At the meeting the union presented a slightly revised position regarding centralised bargaining. It proposed section bargaining arrangements within an industry bargaining forum, similar to the one with the SA Clothing and Textile Workers' Union in the textile industry

CWIU campaign co-ordinator Martin Jansen said the majority of employers were supportive of centralised bargaining at a sector level. A working group would finalise sector demarcations by July 8

Despite progress made at the meeting, the union was still in dispute with employers and was in the process of applying for a conciliation board with the labour department.

Employers "indicated their willingness to positively consider bargaining at industry level on social benefits such as the provident fund, medical aid and industry minimum wages," he said.

Jansen said employers had until June 13 to sign a draft agreement which would be forwarded to them.

Failure to sign the agreement would force the union to reconsider its position on industrial action.

It would also have to decide whether to proceed with annual wage negotiations at plant and company level, he said.

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Northern Province unveils R9bn budget

Samantha Sharpe

(4919)

BD 8/6/95

NORTHERN Province finance MEC Edgar Mushwana unveiled a R9,43bn budget yesterday of which the largest slice — about 40% — would go to education.

The budget announcement, which was delayed for several months pending the outcome of a request for additional funding from government, included R8,38bn from central government and R1,06bn from own sources, Mushwana said.

A figure for Development Bank of Southern Africa loans had not yet been fixed because of the lack of finality on the province's borrowing powers. The large allocation to the education department was an indication of the province's commitment to providing education to all its citizens, Mushwana said.

"Although this is a positive signal, the effectiveness and efficiency of this expenditure needs to be closely monitored," he said

The regional finance ministry was in the process of implementing a strategy that would help restore fiscal discipline in the province.

"We are considering outside specialist auditors to establish a strong internal audit function in our administration. . which would improve the efficiency, effectiveness and economy of governance in this province."

Each department had been given its own paymaster-general account, linked to a specific bank account, to control.

"This means that irresponsible behaviour by a specific department will be picked up immediately and will have no effect on the funds available to the rest of government."

Mushwana said 57% of the budget, R5,35bn, was allocated to personnel expenditure, with the province hoping to transform the public service through performance improvement.

"One of the cornerstones of effective management is to allocate specific responsibilities to people, empower the people to execute these responsibilities and then to reward them according to their contribution and achievement of pre-set objectives," he said.

An expenditure breakdown showed that R1,44bn was budgeted for health services, with the province "committed to making health care accessible to all our people".

An amount of R1,38bn was set aside for social welfare, Mushwana said, while R84,7m was voted for economic affairs. Included in this figure was R53,5m for transfer to parastatals. Housing gets R66m.

Public transport was given R198,4m, with R30,7m of it going to bus subsidies.

The ministry set aside R498,7m for agriculture. Of this amount, R57,9m was for transfer to agricultural corporations, Mushwana said.

R H Scott (Dr)	BSc (Mathematics and Physics) BSc (Hons) (Physics) MSc (Physics) PhD (Physics)	Preparation of "South African Energy Discussion Document"	November 1994 until May 1995	R41 100
C Anderson	BSc (Electrical Engineering) Certificate of Competency (Works) MBL	Preparation of "South African Energy Discussion Document"	November 1994 until May 1995	R43 105
H Trollip (team leader) and 10 associates	MSc (Electrical Engineering)	Preparation of "South African Energy Discussion Document"	November 1994 until May 1995	R194 075
C W Louw (Dr)	BSc (Chemistry and Mathematics) MSc (Chemistry) PhD (Chemistry)	Policy formulation with regard to nuclear energy	313 hours in the period June 1994 to April 1995	R28 170 (50% of the tariff for professional engineers viz R90,00 per hour)
Minerals and Energy Policy Centre		Policy formulation with regard to nuclear energy	January 1995 until May 1995	R66 610

(2) Yes In Dr C W Louw's case subsistence and travelling costs were payable at the rates applicable in the Public Service An amount of R1 114,06 was paid out in this regard

(3) No

(4) (a), (b) and (c) Fall away

Petronet/Spoornet/Autonet: transportation tariffs of refined fuel

324 Mr J A JORDAAN asked the Minister for Public Enterprises

(1) (a) How do (i) Petronet, (ii) Spoornet and (iii) Autonet determine the tariffs on which the cost of the inland transportation of refined fuel is based and (b) which persons and/or committees in each of these enterprises make the decisions regarding these tariffs,

(2) whether any government departments are consulted in determining these tariffs, if not, why not, if so, which departments?

N660E

Hansard 9/6/95 (183)

The MINISTER FOR PUBLIC ENTERPRISES

The Managing Director of Transnet furnished the following reply to the hon member's question

(1) (a) Transnet is a commercialised enterprise of which the State is the shareholder with a Board of Directors as appointed by the shareholder Transnet operates in a competitive transport market that has an influence on the level of tariff increases The tariffs of Petronet, Spoornet and Autonet are determined as follows.

(i) Petronet's tariffs are based on the principle of reasonable return on assets, in line with comparable international pipeline companies

(ii) Spoornet's tariff structure is based on cost related to the transport activity Every transport transaction should thus make its rightful contribution to total costs to ensure that Spoornet can compete in a deregulated market over the long term and to earn a reasonable return on assets

In the case of refined fuel it is, however, not possible to base all tariffs on cost because in certain cases it would lead to unacceptably high tariff increases

(iii) Autonet transports refined fuel in a highly competitive road transportation market Tariffs are determined by Management through negotiations with clients, taking into account market forces and Autonet's cost structure, to ensure a reasonable return on investment, as determined in Transnet's business strategy

(b) Businesses of Transnet initiate tariff increases, which are submitted via the various Transnet Management Boards to the Board of Directors for approval

(2) Although Transnet's Board of Directors is responsible for the final aproval of tariff increases, refined fuel tariff increases are also discussed at forums such as NEDLAC and forwarded to the Office for Public Enterprises

Hoechst initiates empowerment

(183)CT(BR)9/6/95

By Roy Cokayne
PRETORIA BUSINESS EDITOR

Chemical company Hoechst SA's latest response to the challenge of contributing to the reconstruction and development programme has led to five former employees establishing a new company to operate its warehousing facility

The former employees established Phakamani Warehousing & Distribution Services following a decision by Hoechst SA to outsource the company's warehouse facility at Chamdor, Krugersdorp, to a private company

In line with the company's mission statement, management approached existing warehouse personnel with a proposal that they form a company to take over and operate the warehouse for their own account

The employees who accepted the retrenchment package from Hoechst hold 88 percent of the shares with the balance being held by Hoechst

Reinhard Traub, Hoechst SA's managing director, said the initiative formed part of Hoechst SA's Young Enterprise School

The focus of the school includes business development services, technical business development, upgrading teachers, Star schools, a commercial advancement training scheme, multi-skilling programmes, scholarships and bursaries

Traub said the warehouse initiative would result in some cost saving for the company, but said this was not significant He said the decision was aimed at empowerment and the identification of entrepreneurial talent

Traub said the warehouse facility would still be owned by Hoechst, with the new company paying rent Hoechst had no objection to it seeking other business

Struggle over turf in protected fuel environment

MUNGO SOGGOT (183) BD 9/6/95

THE war of words between Sasol and the oil companies over support for the synthetic fuel producer reached new heights this week. The scrap followed leaks of a report by consultants Arthur Andersen into Sasol's tariff protection. Behind the posturing lies the realisation that the environment has changed for ever, and that the gloves are now off.

The SA Petroleum Industry Association (SAPIA) has said that the controversial Arthur Andersen report into Sasol's tariff protection could "negatively influence trade and econonomic policies to the detriment of the taxpayer, the economy and future investment"

Although industry watchers say the oil companies would have attacked the report no matter what, unless it had recommended an immediate end to the synthetic fuel producer's tariff protection, such hard-hitting comments signal real anger

But analysts say the oil companies are not just worried that the report will frighten off investors. Econometrix economist Tony Twine says the oil companies and Sasol have come head to head because although they do not compete over distribution, they do compete on the manufacturing side.

Furthermore, the environment which kept both sides happy has now changed "When Sasol was set up in the 1970s, the apparent trade-off was that Sasol got a guaranteed market for its refined product and stayed out of the retail market in exchange for the conventional refineries reducing their throughput. The pressures of national interest and the presumably attractive financial balance between making and marketing fuel kept everyone content. This recent antagonism must mean the oil companies have realised they can make more money out of refining than out of selling fuel. Also, there is now no national interest tooth fairy"

The oil companies this week complained that there were material differences between the investigation's preliminary and final findings, which postponed the report's official presentation to the National Economic Development and Labour Council's (Nedlac's) liquid fuels task force on Tuesday

Oil industry sources said the first report was much more negative about Sasol's subsidisation than the final one, which used the euphemism "tariff protection" Sasol has in the past fought hard to convince critics that the money it gets from the equalisation fund — which houses the extra 9,4c/l motorists pay for both Sasol and Mossgas — is tariff protection and not subsidisation, so oil industry sources fear the switch in terminology signals very effective lobbying by Sasol before the final report was drafted last week.

The investigation was commissioned in March by Nedlac's fuels task force and its terms of reference were drawn up by a team from the task force, which included a representative from the crude oil industry On Tuesday, the oil industry representative was the only member of the team who did not sanction the report.

The main glimpse of the report so far has been given by Sasol, which published its salient points for its shareholders, it said, after unofficial criticism of the report by the oil industry Sasol said the report had found that its synthetic fuels business was "a desirable industry which justifies continued tariff protection by virtue of its massive contribution to the SA economy" It said Arthur Andersen had recommended that Sasol's tariff protection be cut from $21,40 to $17 by July 1999, which, Sasol says, would probably mean an automatic end to protection if oil prices go up the way they are expected to Sasol now gets the difference between Dubai crude, about $16, and $21,40 a barrel. Last year this "tariff protection" amounted to about R1bn.

It says: "The report clearly shows that Sasol Synthetic Fuels is making a massive contribution to the economy (R6,1bn a year by converting coal, savings in foreign exchange of R5,6bn a year and the direct and indirect employment of nearly 59 000 people)"

The report had put to rest talk of cross-subsidisation between its oil, synfuel and chemical business, Sasol said. It hoped the oil companies would expose themselves to similar scrutiny

Sasol said it was disappointed with the report's findings, but a spokesman said that "unlike the oil industry Sasol was willing to accept the report as a product of a reputable firm even though it may also be disappointed by the outcome"

Oil industry sources have questioned Sasol's account of the report, saying that its gist was more along the lines "once synfuels are there you can't throw them away" They have also dismissed Sasol's disappointment at the speed and extent of the tariff reduction cuts as posturing ahead of its official release. Sasol's and the oil companies' interpretations of the report will be exposed to scrutiny when it is presented to the liquid fuels task force some time next week.

The oil companies say there is no reason why Sasol, which is bigger than all of them put together, should get any subsidies at all when it is now profitable. The industry is said to be anxious that the final report has been swayed too much by Sasol's argument that it saves a lot of foreign exchange by reducing's SA's oil import bill, and that the report has not adequately justified the continuation of subsidies to a private profit making company. There is also concern that the report has not made clear whether Sasol would make profits for its shareholders without subsidy

"We are in a situation where a profitable local competitor receives a state subsidy approximately equal to the combined after tax profits of the rest of the oil industry"

In its official statement, SAPIA hints that the report could frighten off foreign investment. An oil company source says: "There is no reason why an investor should invest in something which supposedly is a competitive market, but a main competitor is benefitting from substantial subsidies."

An analyst says whipping away Sasol's protection with no notice would be unfair, but the suggestion of a four year phasing-out period is probably too generous.

Another analyst says the main problem with the oil industry's line is that the oil companies themselves are subsidised — to a much lesser extent — through the fiendishly complicated regulatory system which gives them swollen margins. "It is very difficult to take sides in this messy industry," said one analyst.

The liquid fuels task force's deregulation debate about how to untangle the web of rules fostered by the siege mentality of the apartheid era — the same mentality which gave SA the idea of making oil from coal — will take a big knock from this fight. The scrap will probably fuel the feeling in the industry that the task force is a waste of time. Commissioning the report has been one of the task-force's main achievements, apart from bringing in the present system of changing the petrol price on the first Wednesday of each month, instead of at goverment's whim as was previously the case.

Twine says the saga "reflects the problem of SA industry over the past 20 years — that how well you do does not depend on how competitive or how good you are, but rather on how well you can exploit the regulatory environment".

Threat to local garages

(183) sowe 9/6/95

Isaac Moledi looks at the plight of township garage owners and investigates their fears that filling stations may become as over-traded a sector as the taxi industry

MANY FILLING STATIONS in the townships could be put out of business unless current contractual relationships with the oil companies are overhauled

While every second new business structure in the townships these days is a filling station — which could be interpreted by some to signify a boom in this sector — garages in these areas are not necessarily flourishing

Township filling station owners feel threatened by the mushrooming of new garages in their areas, fearing that their already low profit margins could decline even further

Although a growing number of people are buying cars in the townships, black fuel dealers argue that the mushrooming of garages next to each other is not empowering local businesses, as oil companies claim, but destroying them The taxi industry is an example of what happens if a particular sector is overtraded

On average, a township filling station owner sells over 100 000 litres of petrol a day

Almost half the money he makes goes to the Government in the form of taxes Oil companies get a share over and above their service charges

At the end of the day, a filling station owner is left with 15 cents from of every litre of petrol sold Out of the 15 cents, dealers still have to pay service charges, premiums, electricity, rent and wages

Besides dwindling profits, there is the monster called deregulation that is sending shivers down the spines of township petrol dealers

If the Government approves deregulation they fear there will be nothing stopping giant stores, such as Pick 'n Pay and others, from invading their market and selling petrol at lower prices

Another issue is the franchise status of their businesses They would like to have operations, such as car dealerships and fast foods outlets to supplement their income

However, according to garage owners, car manufacturers see the setting up of such operations in the townships as "too risky"

Failure to pay

With the rise in petrol prices, some garage owners have either closed their operations or had their filling stations taken over by petrol companies for failing to pay their dues

Other filling station owners have had to operate for months without petrol, as they cannot cope with the costs

Mr Peter Matshivha, a Tembisa garage owner and member of National Black Fuel Retailers Association (formed a year ago to look into the problems of black garage owners), says the plight of township dealers should be considered against the background of South Africa's past laws and imbalances

FILLING UP ... garage owners seek a new relationship with oil companies.
PIC: MBUZENI ZULU

"Because of past laws, black dealers were only allowed to operate in black townships That put them in an disadvantaged position," he says

Today, adds Matshivha, black dealers find it difficult to run their businesses as financial institutions and oil companies are still reluctant to help them because of the "risk factor"

"You have a situation where many black dealers are forced to operate their service stations on huge overdrafts That is why we think these problems need Government intervention," adds Matshivha

He says Nabfra rejects the call to deregulate the petrol industry, and made a submission to the Government on the issue However, an Energy and Mineral Affairs Ministry spokesman confirmed that restructuring was still on track

Dube garage owner Mr Aaron Dlengezele says he is bitter that his garage is not making any substantial profit, as the oil companies are taking the lion's share of the profits

"Our white counterparts in the industry have an advantage because, apart from fuel, their contracts also include car dealership and food or snacks outlets," he says

"This opportunity is not extended to us, except for very few garages Because our areas are declared risky places, we pay very high insurance premiums and rent Electricity bills are also high "

According to Dlengezele, most dealers run their businesses "just to make a living", while they have to cope with mounting pressure from trade unions bargaining for higher wages

He adds that oil companies do not even consider what dealers have contributed to the businesses when they kick them out for failing to meet their contractual obligations

The companies just kick them out whether or not the filling station owner owns the land on which the business is located

Some of these problems were confirmed by Mr Hein van der Walt, organiser of the Confederation of Employers Association of Southern Africa, which was formed to protect small businesses against oil companies

He says black dealers face huge cash flow problems and high interest rates "Some dealers complain to us about their problems when they have to pay oil companies

"They also complain of the high interest rates banks are demanding But the problem is beyond our field of operation "

Total public relations manager Mr Andries van der Walt says petrol companies do not determine the petrol price, the Government does

He says the total amount a person pays for petrol includes the profit margins of both the dealers and oil companies, as well as the tax levy to the Government. These levies include the delivery cost, transport, third party insurance, the national road-building fund cost and VAT

Resolving problems

Van der Walt says although he is aware of some of the problems that face Total filling stations in the townships, his company has a platform where all dealers can resolve such problems

"We don't have discriminatory policies when it comes to the building of garages

"We treat all service stations the same," he stresses

South African Petroleum Industry Association director Mr Collin McCleland says there has not been any significant adjustment in the profit margins of both dealers and oil companies in the last two years

He says he is surprised black dealers are complaining about poor structures, because oil companies have been investing a lot of money in the industry over the past 10 years

Sasol's protection is slated

ET(BR) 9/6/95 (183)

By Derek Tommey

Private oil refinery operators are highly critical of the Arthur Andersen report apparently recommending continued protection for Sasol's synthetic fuel division

The report has not been released to the public, but Sasol has indicated that it recommends the protection it has received should be continued at a reduced level, dropping from the current $21,40 a barrel to $17 a barrel by July 1999

Sasol maintains that by that time the international oil price will be above the $17 a barrel mark and therefore the protection it will receive from that date will be effectively zero.

Sapia, which represents the major oil companies, says they are reserving their position to take appropriate action at an appropriate time

They maintain that the report and its recommendations are an entirely inappropriate basis for formulating future policy on a number of issues affecting the oil industry, including Sasol's subsidies

It is understood that in their submission to Arthur Andersen, the oil companies claimed that any subsidy to Sasol creates a distorted uncompetitive environment The subsidy not only affects the South African oil industry, but also the chemical industry and, in a general sense discourages foreign investment and foreign trade in South Africa as the wrong signal is given to investors.

Sasol claimed that as a result of the subsidy, its synthetic fuels division made a huge contribution to the South African economy, adding value to the amount of R6,1 billion, saving about R5,6 billion a year in foreign exchange directly and indirectly employing nearly 59 000 people which is many times greater than the cost of its protection.

A Sasol spokesman said that it was hoped that the other oil companies would also demonstrate their transparency by inviting Arthur Andersen to conduct a similar scrutiny of their businesses

An official of the National Economic Development and Labour Council said the report is to be submitted to its Liquid Fuels Industry Task Force for formal consideration, after which it would be released to the public.

Illovo looses dumping case

ET(BR) 9/6/95

By John Sherrocks

Kwazulu Natal Business Editor

South Africa's largest sugar producer, Illovo Sugar has lost a long-running battle against an anti-dumping duty being imposed on its furfuryl alcohol exports to the United States

The US-based International Trade Commission this week confirmed that furfuryl alcohol imported from South Africa and Taiwan had "caused material injury" to the domestic industry.

"That is, it upheld that we have been dumping," said Bernard Ravno, production director at Illovo Sugar

He said the Federal Regulator was only due to set the level of the import duty on June 21 which he believed would be 11,55 percent

Illovo, formerly CG Smith Sugar is a subsidiary of the CG Smith Group

Furfuryl is an agricultural by-product which is used in metal casting manufacture

South Africa is the second biggest supplier to the United States after China

Inconvenient

Illovo said the duty would have no effect on their exports to the United States

"If they had achieved the 68 percent they were aiming for it would have effectively closed down our exports at 11,5 percent it will be somewhat of an inconvenience," a spokesman said

In July last year, the International Trade Commission ruled that QC Chemicals of Indiana had made a "reasonable" case that it was being hurt from imports from South Africa, China and Thailand.

QC Chemicals brought the anti-dumping suit.

The complaint became the subject of an official inquiry by the commerce department in Washington.

Illovo contested that QC Chemicals was seeking protection because its own poor management made it uncompetitive

QC Chemicals maintained its situation would worsen because Illovo would now be in the position to take advantage of the American general system of preference which gave South African exporters of about 4 000 products duty-free access to America

Sasol report can't please everyone

ST(BT) 11/6/95 (183)

By KEVIN DAVIE

THE 140-page report by auditors Arthur Andersen on Sasol's subsidies has inflamed rather than dampened tensions in the R30-billion a year fuel industry

The oil industry has rejected the report, saying it flies in the face of the constitution, commitments to the World Trade Organisation and the government's competition policy

Sasol says it is disappointed with the report, which will cut its tariff payments from about R5-billion to about R2,5-billion over the next five years (at current oil prices).

But Sasol has asked that Arthur Andersen's recommendations be implemented as soon as possible.

The oil industry has criticised differences between the draft and final reports, produced a week apart It is unhappy that it did not see the final version before release as it differs markedly from the first

An analysis by the oil industry shows synthetic fuel subsidies last year reduced growth from a possible 2,7% of gross domestic product to 2,3%. The subsidies also raised inflation by 0,5% and depreciated the currency by 1,7 cents.

Sasol says the figures produced by the multinational oil companies are nonsense

"The investigation into Sasol's synfuels contribution to the economy, done as part of the Arthur Andersen study by reputable economists, will prove this conclusively The report shows that synfuel's contribution to the economy is six times greater than the cost of protection"

Stern Stewart, the US firm considered the worldwide leader in analysing economic value added (EVA), calculates Sasol destroyed R2,38-billion of capital last year

"Sasol has wasted the economy's and their own shareholder's capital on a highly significant scale Such waste should clearly not receive any further encouragment from the SA taxpayer," the oil industry says. Sasol says the EVA measure penalises capital-intensive industries, making it inappropriate for companies like Sasol

It says Finance Week ranked Sasol 25th of the top SA companies based on market value-added (MVA) used by Stern Stewart.

The oil industry notes Sasol's MVA ranking jumped from 200th in 1993 to 25th last year "Clearly the subsidies paid have added meaningfully to Sasol's cash flow and its ability to mount a truly impressive quantum of investment"

The oil industry says GDP is negatively affected by Sasol's subsidies as spending money being taken out of the hands of consumers and banked in Sasol's cash reserves, thus the amount of economic wealth generated via the purchase of goods and services in any particular year is lowered

"This is offset to the extent that the money is spent by Sasol and the Sasol dividends to shareholders However the marginal propensity of the fuel user to consume is likely to be far higher and to add more to GDP than a Sasol shareholder"

The industry says the subsidy results in lower GDP growth and foreign exchange saving being partially offset by higher import costs "Nowhere else in the world are there synfuel plants on this scale as they are not economically viable"

Sasol says it "has exposed itself to a transparent study by international experts. The oil companies have not Also indisputable is that Sasol is much more valuable to the economy than undertakings using expensive imported crude."

Maharaj wants fuel levy raised

CT 12/6/95

(183)

TRANSPORT MINISTER Mr Mac Maharaj has proposed the government introduce a "dedicated fuel levy" of another 3,5c a litre on fuel to raise nearly R1 billion to repair national roads

Mr Maharaj made his proposal in his introduction to the debate on the transport vote in the National Assembly on Friday The budgetary allocation for roads amounts to 4c a litre at the moment Altogether R940 million a year would be provided with the increase.

Nine per cent of national roads were in "good" condition, he said.

Political Correspondent, Sapa-Reuter

Fuel levy to mend roads proposed

(183)

Political Staff

TRANSPORT Minister Mac Maharaj has proposed a fuel levy of another 3,5c a litre to raise nearly R1 billion to repair national roads.

Mr Maharaj proposed this in his introduction to the debate on the transport vote in the National Assembly on Friday.

The present budgetary allocation ot roads amounted to the equivalent of 4c a litre

"If it were set at 7,5c a litre — only 3,5c a litre above the current allocation from the Budget — it would provide revenue of about R940 million a year," he said.

That would be sufficient over the next 10 years to provide and maintain the appropriate road network vital for South Africa'economic and social development, Mr Maharaj said.

Such a levy would provide a direct link between the road user and the country's roads, which had a replacement value of R130 billion.

ARGT 12/6/95

This year the government would spend R522 million on road upkeep, less in real terms than was spent in 1975.

Mr Maharaj warned of an "expensive disaster" unless spending trends were reversed.

Only nine percent of the national roads were in "good" condition, compared with 25 percent in 1991.

Mr Maharaj said road upkeep policy would encourage the use of labour.

R100 million from the reconstruction and development programme fund was being used to strengthen labour intensive projects that would employ an additional 1 500 people this year, Mr Maharaj said.

Oil platforms 'on schedule'

183

Nicola Jenvey

BD 12/6/95

DURBAN — Construction of the R388m Cabinda oil platforms, currently being built in Durban by the Intershore joint venture partnership, was proceeding satisfactorily and was on schedule for completion in April, projects director John Cheesebrough said at the weekend.

Intershore is an equal partnership joint venture between Amec Process & Energy International, Dorbyl and Murray and Roberts Engineering. The company pursues offshore oil projects on the African coast.

Work on the two oil platforms destined for the northern Angolan coast commenced in November. Cutting, rolling and welding began in February once the steel had been received.

To date Iscor had delivered 50% of the steel requirement and would be progressively supplying "a significant portion" of the remainder during the next month.

He said steel fabrication had got off to a slow start but this was not expected to hamper the project.

Civil works construction was nearing completion and work would begin soon on building a load-out quay.

Intershore is one of six pre-qualified contractors tendering for a Mobil offshore development in Nigeria.

Bigger fuel levy wanted for roads

183

MD 12/6/95

Adrian Hadland

CAPE TOWN — Transport Minister Mac Maharaj hinted at the weekend he would be pushing the Cabinet to increase fuel levies to expand and maintain SA's roads as well as to rehabilitate the ailing multilateral motor vehicle fund.

SA's roads had been systematically underfunded leading to a situation where only 9% could be described as being in "good condition", he told the National Assembly on Friday.

"In 1995 we were allocated only R522m for national roads — less, in real terms, than was spent in 1975."

A 10-year national road programme was being drawn up to ensure the expanded and well-maintained road network required to encourage and underpin economic and social development.

The current budgetary allocation to roads, with no direct link to user charges, represented the equivalent of 4c/*l* of fuel

An increase to 7,5c/*l* would provide about R940m a year in revenue, "sufficient" over a 10-year period to fund the improvement and expansion of SA's roads.

"I believe that the answer is a dedicated fuel levy," he said.

On the technically bankrupt multilateral motor vehicle fund, Maharaj said three options were available to stabilise the fund.

"We can increase its income by putting up the fuel levy, we can reduce its expenditure on claims or we can find a balance between the two."

All the options were being considered and a position would be put forward later this year in the form of a draft White Paper, he said.

The fund, a third party insurance scheme funded by a fuel levy of 9c/*l*, is expected to have a slightly positive cash flow in 1995/96 but is still actuarially bankrupt with liabilities in excess of R3bn.

Maharaj said the state's transport subsidy system, which allocated R770m to bus commuters and R1,3bn to rail commuters in 1995/96, required a substantial overhaul.

"Financial assistance to commuters must be allocated more scientifically within a context of greater competition."

Maharaj said the national taxi task team was currently working on strategies to ensure the long term sustainability of the taxi industry.

Other areas which needed attention included the high road accident toll, the improvement of the quality of vehicles and driving and the development of regional transport policies and co-ordination.

☐ Sapa reports the SA Roads Board Amendment Bill, which increases members of the board from eight to 12 and the interested group to be represented, was passed in the National Assembly.

The Bill abolishes the toll roads committee, whose work would be taken over by the board.

Business must be 'tougher on strikers'

CT(BR) 14/6/95

By Audrey D'Angelo

CAPE BUSINESS EDITOR

Cape Chamber of Commerce and Industry has advised member firms not to pay employees for hours they would be absent from work during the stayaway planned for June 19.

The chamber also advised firms to distribute written warnings if disciplinary action was taken.

Alan Lighton, the chamber's director, warned in the chamber's newsletter that the mass action could force South African companies to move production operations offshore which could result in job losses.

"It would seem that the trade unions are oblivious to the bigger picture facing South African business, which is increasingly being exposed to international competition," he said.

"The pressure is on as never before and unfavourable business conditions in this country will not only discourage overseas investors but will also encourage local business to increase automation, outsource and even to move production offshore — which can hardly be good news for sustaining and growing employment levels in our economy."

The chamber advised management to ensure that all employees were told of the areas where protest action could be conducted in the run-up to the stayaway, the conduct expected of employees and the fact that "any demonstrations should be conducted outside normal working hours, for example, during meal breaks

"Should demonstrations occur during normal working hours, or extend beyond the meal break or assume an intimidating or violent nature, then disciplinary action should be taken in accordance with existing disciplinary procedures."

Tax looph

By Bruce Cameron

POLITICAL EDI

The tax authorities are exami ing ways to shut down a su stantial increase in the exploi tion of trusts to avoid taxation

Trevor van Heerden, th commissioner for inland re enue, told the parliamentar finance committee yesterda that there had been a recer explosion in the number c trusts in anticipation of a poss ble reduction of the tax fre R1 million on deceased estate and a possible increase in th 15 percent tax rate.

But trusts were being furthe

Cabinet delaying unleaded fuel

CT(BR) 14/6/95 (183)

By Derek Tommey

Cabinet indecision about the pricing of unleaded fuel at the pump is delaying its introduction, oil industry sources said.

The Cabinet's problem is if it follows the pricing policy adopted in most other countries for unleaded petrol, it could be seen to favour the rich white over the poorer black community.

Unleaded petrol was to be introduced this month. But its launch date has been put back until next February The longer the government takes to decide on a price for unleaded petrol, the longer it will be before it becomes available at filling stations.

In most countries where unleaded petrol is on sale, the tax structure has been manipulated so that it sells at a lower price

This is usually done by increasing the tax on leaded petrol and reducing it on unleaded petrol. This is to encourage consumers to switch from using leaded to unleaded petrol

But if the government were to do it here, it would open itself to the accusation that it was subsidising the better-off white at the expense of the less affluent black.

This is because it is assumed the major users of unleaded petrol will be the owners of new vehicles designed for unleaded petrol Owners of new vehicles are largely presumed to be white Owners of taxis and older vehicles, which comprise a large proportion of the motoring population, are mostly black. They would use normal, and more expensive, petrol

A complicating factor is that the oil industry says it needs a bigger margin than the 3c a litre proposed when introducing unleaded petrol was first discussed.

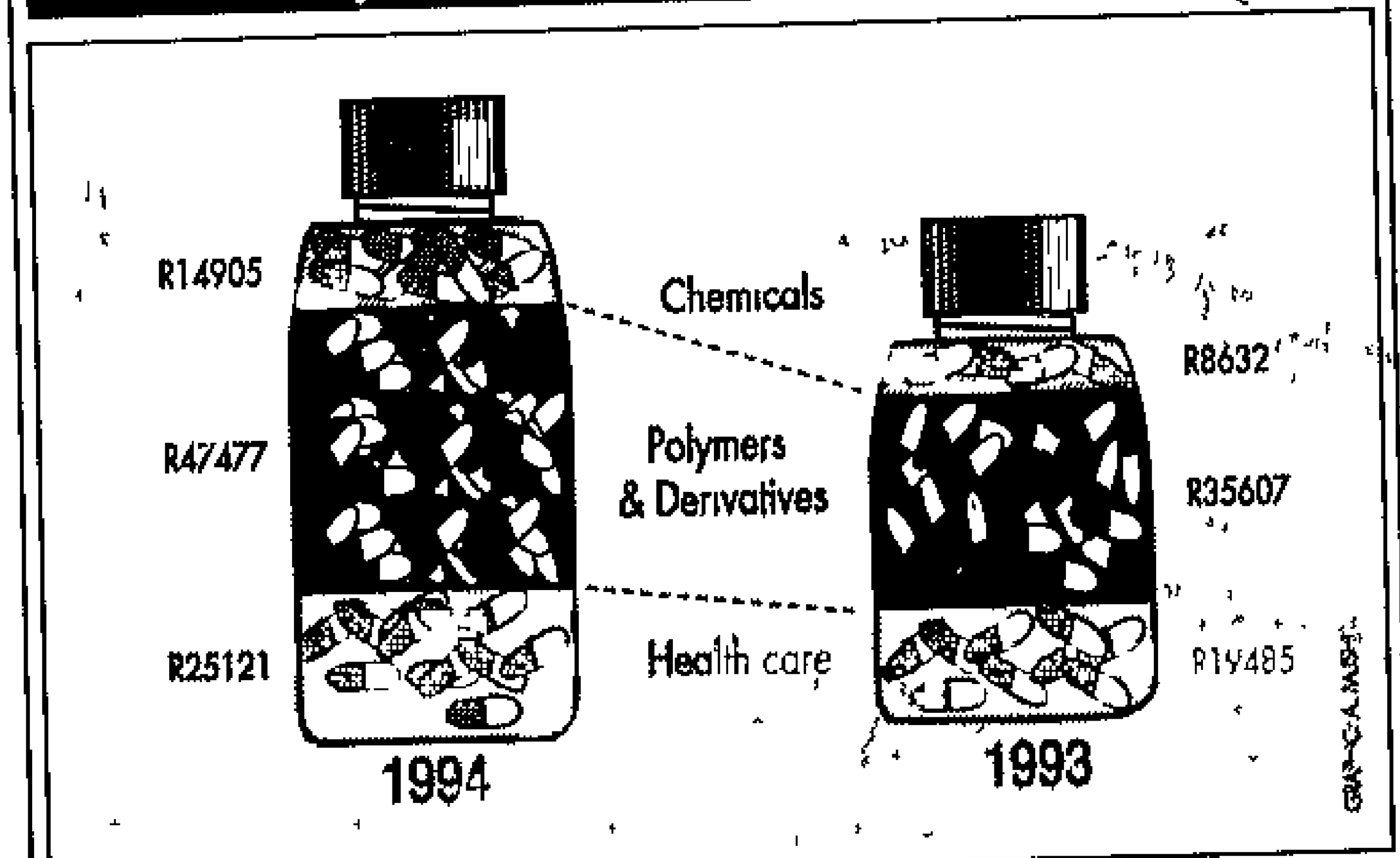
The industry now says it needs a differential of around 8c if the required 20 percent market share for unleaded petrol is to be achieved within a reasonable time and justify the expense of introducing the fuel.

Part of the Cabinet's difficulty arises from South Africa introducing unleaded petrol for reasons other than the normal one — the curbing of pollution.

In this country, the motor assembly industry is the main force behind bringing in unleaded fuel, as most of the vehicles it produces are designed to run on it.

Oil industry sources point out that when unleaded petrol was introduced elsewhere, the move was usually accompanied by a declaration stating when leaded petrol would no longer be available. This has not happened here

Hoechst operating income



Analysts approve Hoechst SA shares

CT(BR) 14/6/95 (183)

By Charlotte Mathews
Investment Editor

The offer for shares in chemical and pharmaceutical group Hoechst SA, which plans to list on the JSE on July 12, has now opened

Analysts appear favourably disposed towards the company as a long term investment but warned that the opportunity for stagging profits would be nothing like the Chromecorp listing, where the price gained 70 percent on the first day

According to the Hoechst prospectus, published yesterday, Hoechst SA is offering its shares at 515c each, which will raise close to R200 million through a placing of the rights to 24,6 million shares to institutions, 1,5 million shares to employees and 12,2 million shares to the public

The money will be used to strengthen Hoechst SA's capital base and position it to raise further capital for expansion and development

Hoechst forecasts earnings of 39,4c a share for the year to December 1995, a 20 percent improvement on last year's 32,8c

At the listing price of 515c, this puts the shares on a forward price-earnings of 13,1, which compares with the current 15,7 for the chemicals sector and 16,0 for the pharmaceuticals sector. A dividend of 13,1c is indicated, against 10,9c previously

After the listing, Hoechst of Germany will hold 75 percent of the company, providing the backing of a worldwide network of pharmaceutical, polymer, fibre, chemical, agricultural, veterinary and technical products and chemical engineering businesses.

The total annual turnover of the group is about R128,8 billion and Hoechst SA contributes about R1,5 billion.

Hoechst has three main areas of operation — healthcare, polymers and derivatives and chemicals.

In 1994 healthcare accounted for 29 percent of operating income, polymers and derivatives for 54 percent and chemicals for 17 percent

According to an analyst from one of the sponsoring brokers, Hoechst has a good spread of businesses

In polymers, which is probably the most cyclical, Hoechst is in the process of expanding its Safripol joint venture with Sentrachem producing polyethylene and polypropylene

He said the plastics commodity cycle was unlikely to come off before mid-1997 and then only gradually.

In addition, Hoechst's investment would ensure that extra volumes coming on stream in 1996 would to a certain extent compensate for the cyclical downturn.

In chemicals, Hoechst focuses mainly on speciality chemicals, which are dependent on the domestic economy rather than on the international commodity cycles

In pharmaceuticals, the recent tie-up between Hoechst and Marion Merrell Dow of the United States will hold some benefits for the local operation further down the line, including advantages of scale.

The 'sanctions-buster' Karbochem lost R60,7-m

BY BRUCE CAMERON

The now defunct Karbochem division of Sentrachem, set up in the eighties to overcome possible rubber sanctions, has left taxpayers R60,7-million out of pocket

(183)

The parliamentary public accounts committee was told Sentrachem was encouraged to establish the synthetic plant by the government in 1984 with a R50-million subsidy

Sentrachem was to repay the subsidy at a rate of R86,30 a ton of rubber produced

But Koos Roelofse, director of business economic relations in the Department of Trade and Industry told the committee manufacturing levels never reached a height sufficient to even service the interest on the debt. By the time the plant was closed down in 1990, R77-million was owing.

And Roelofse said the result had been a much higher cost to motorists for motor vehicle tyres The only way the Karbochem plant could survive was with 10% tariff barriers and on going support

Initially Sasol had provided the raw products to the plant but after its cracker plant was closed down, Karbochem had to import the main raw materials.

Star 15/6/95

In a written reply to the committee, Dr Zavereh Rustomjee told the committee that the department faced the prospect of the debt continuing to increase if the plant was not closed down.

In terms of the contract no levies would be payable if the production of synthetic rubber was halted

Roelofse said the department was lucky to have recovered R16,3-million

Nampak and Sentrachem clinch deal

(183)

Marcia Klein

BD 15/6/95

NAMPAK had acquired Sentrachem's plastics converter Megapak, some related property owning companies and a plastic recycling company for an undisclosed sum, it announced yesterday.

Megapak converted high density polyethylene and polypropylene into primary and secondary packaging, and its products included plastic crates, bread trays, drums, bins and buckets. It had factories in Olifantsfontein, Pinetown, Bellville and Zimbabwe, and sales operations in Port Elizabeth and Nelspruit.

Nampak said the deal would enable it "to expand the plastic product range it already offers the beverage and food sectors, and to exploit new markets for crates and drums".

In a joint announcement, the companies said the deal was part of Sentrachem's recently announced restructuring of its plastics conversion business in Mega Plastics so it could focus on manufacturing chemicals.

In April it said it planned to merge the five divisions in Mega Plastics with companies operating in similar areas of the industry. Mega Plastics had an annual turnover of around R400m

Nampak recently acquired British liquid packaging group BlowMocan and merged it with Polysystems.

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Karbochem cost R60,7m for taxpayer

CT (BR) 15/6/95 (183)

By Bruce Cameron

Political Editor

The now defunct Karbochem division of Sentrachem, set up in the eighties to overcome possible rubber sanctions, has left taxpayers R60,7 million out of pocket.

The parliamentary public accounts committee was told Sentrachem was encouraged to establish the synthetic plant by the government in 1984 with a R50 million subsidy

Sentrachem was to repay the subsidy at a rate of R86,30 a ton of rubber produced

But Koos Roelofse, director of business economic relations in the department of trade and industry, told the committee that manufacturing levels never reached a height sufficient to even service the interest on the debt.

By the time the plant was closed down in 1990, R77 million was owing

Roelofse said the result had been a much higher cost to motorists for tyres

The only way the Karbochem plant could survive was with 10 percent tariff barriers and ongoing support

Initially Sasol provided the raw products to the plant but after its cracker plant was closed down, Karbochem had to import raw materials

If the plant was not closed down, the debt would continue to increase, the committee was told

In terms of the contract, no levies would be payable if the production of synthetic rubber was halted

Roelofse said the department was even lucky to have recovered R16,3 million.

Dithering over unleaded fuel leads to price bonus

CT(BR) 15/6/95 (183)

By Derek Tommey

Mining Editor

The Government's procrastination in setting a differential between the price of leaded and unleaded petrol has brought it and the South African motoring public, with cars requiring leaded petrol, a major bonus

The South African Petroleum Industry Association announced last night that it had agreed to a lower pump price differential than originally sought, which would eliminate the need to increase the tax on leaded petrol

The association wanted a 5 percent pump price differential in favour of unleaded petrol — about 9c a litre

This would ensure the 20 percent market penetration required for practical reasons to enable effective nation-wide distribution of unleaded petrol

The association said that to overcome the perception that an increase in the tax on leaded petrol would favour the rich at the expense of the poor, its members had agreed to a lower pump price differential with a review mechanism

This would be implemented should penetration not be sufficient to enable effective nation-wide distribution There would therefore be no need to charge more for leaded petrol

The association was sure this would enable the Cabinet to reach an early decision to introduce unleaded petrol, which would be to the advantage of all South Africans

The association said the availability of unleaded petrol would introduce modern engine technology and open the door to the protection of the environment by introducing emission control equipment

The association said it was not true that taxis and older vehicles could not use unleaded petrol Most would be able to use it with little or no adjustment to the engine

Less than 10 percent of vehicles on the road today would not be able to use unleaded petrol

These vehicles were mainly those with high compression ratios

The owners of these vehicles were not predominantly the poor, the association said

It was untrue that tax structures overseas were "manipulated" to bring about the use of unleaded petrol.

"The correct position is that tax structures were adapted to bring about agreed national priorities," Leaded petrol would be available in South Africa for many years to come, the association said

"To retain a competitive edge, it is essential for us to appoint a dedicated air carrier whose chief priority is to transport our mail as quickly and efficiently as possible," Smit says

"A third-party air carrier has many customers and despite strict contractual undertakings and a good relationship with SAA, we find that some of our items are just not meeting delivery deadlines since consignments are not being moved within contract specifications"

Smit explains that there is limited space available on existing commercial flights — especially since the demise of Flitestar and the withdrawal of Safair

"Because of the tremendous demand for our services, we are no longer able to wait in line for services that are determined according to passenger needs We need to be in a position to control our destiny to a greater extent," he adds

The call for tenders echoes the PO's move from rail to a dedicated road transport carrier in the late Eighties

Explains Smit "When Spoornet started transporting mail in containers on goods trains rather than placing them on passenger trains, delivery times became a nightmare So we called for the services of a dedicated road transport operator"

Trencor and Retief (a furniture mover) used a fleet of trucks specifically to transport the PO's mail Delivery times improved dramatically

SAA spokesman Leon Els comments "SAA would like to continue rendering the service and we believe we are able to meet the PO's requirements"

Mirryena Deeb

(58)

MSELE BANK FM 16/6/95

Strength from diversity

Possibly the biggest challenge faced by Msele Bank, the new banking entity which has emerged out of the financial services group established last year by the black-owned Thebe Investments, is to limit its exposure to loans, principally in housing, in the former black homelands

Most of its subsidiaries, including Citizen Bank, the Bank of Transkei, the Transkei National Building Society and Bophuthatswana Building Society, grew out of the old homeland system

This problem is recognised by Msele GM Litha Nyhonyha, who says the banks in the group are "vulnerable to regional economic conditions and need to be more diversified in their services and products"

Without a track record, it remains to be seen whether Msele can diversify its banking activities successfully into foreign exchange, treasury and merchant banking as it intends — and apply the economies of scale needed to keep costs down and improve access to capital

In its favour, it does have strong shareholders in Absa (with 15% overall) and FirstCorp Merchant Bank (about 6%) Thebe has 30% and the public the rest It's hoped the two banks will ensure diversification works by demanding prudence and providing expertise in key areas

Existing joint ventures through Msele Finance with Investec (fund management), FirstCorp (capital markets) and Nedcor (venture capital) show the group can use the skills of established institutions

The Msele restructuring involves the renaming of its listed entity, Citizen Bank Holdings, as Msele Bank Holdings This will wholly own Msele Bank Limited and Msele Finance Holdings Existing banks and building societies will continue to operate as divisions of the banking arm

The group has total assets of R1,6bn and deposits of R1,2bn

Patrick Lawlor

SERVGRO

Getting their steps right

Everyone's settling down That's the message from the assemblage of companies which emerged from the old Federale Volksbeleggings Listed in the JSE's beverages, hotels and leisure sector as Servgro, they appear to be taking on their new corporate identity with barely a missed step

Each year, management refines the mix more and the concentration is paying off in real income growth considerably higher than the inflation rate — at least for the 12 months to March

Turnover rose 18% to R1,14bn, feeding through to pre-tax income of R134,7m, up 29% on 1994 Income from associated companies fell 14% to R10,6m (R12,3m) but attributable income was still 27% higher than in 1994

In the Sankorp stable, Servgro's market sectors embrace travel and fleet services (Avis and Interpark), 24% of attributable income, catering and hotels (Fedics and Protea hotels), 12%, leisure and communications (Interleisure, Naspers, and Teljoy), 24%, and risk consultancy and insurance (including Price Forbes), 29%

As promised, chairman Peet van der Walt produced more information on the unlisted companies this year

Avis produced "excellent results," with productivity up by 13,1% and increased market share As official supplier to the Rugby World Cup, it expects to see spin-off business in financial 1996

Van der Walt *conducting a well-timed double-shuffle*

The parking business has experienced a "noticeable increase" in demand and toll road operator Intertoll has a contract to manage a European toll road

Fedics continues to turn in good results from 600 catering and 50 airline contracts Kitchen capacity at Cape Town airport has been doubled Food Services has concluded some SANDF contracts which will boost growth strongly Protea hotels, in which Fedics has a 40% interest, is reaping the benefits of increased tourism

The risk management division continues to be the largest contributor in the Servgro portfolio The group increased its shareholding in Price Forbes by 7% to 55% and acquired a 49% interest in Nelson Hurst UK, with management control Van der Walt considers this now a "well-balanced financial services group with several strong risk- and benefit-related business units"

SERVING SHAREHOLDERS

Year to March 31	1994	1995
Turnover (Rm)	966,3	1 139,2
Operating income (Rm)	121,8	150,8
Attributable (Rm)	58,9	74,6
Earnings (c)	53,3	66,7
Dividends (c)	21,0	24,0

THE NONLISTEDS

The SA Nonlisted Company award is being made for the 10th time this year.

Companies which want to enter must complete a qualification questionnaire by June 19 Copies are available from organisers Nikki Benfield or Adri Spangenberg at (011) 328-3000 Entries close on July 7

The contest, sponsored jointly by *Business Day*, Arthur Andersen & Co and Wits Business School, is intended to acknowledge entrepreneurial skill and innovation in meeting the challenges of business

Twenty finalists will be named in September and the award will be presented at a banquet in October

(183)

LION MATCH

When cash is king

FM 16/6/95

Activities: *Makes, sells and distributes consumer products including matches, lighters, shaving products and home and garden goods*
Control: *SA Breweries 70,5%*
Chairman: *L van der Watt MD T K Turner*
Capital structure: *45,4m ords Market capitalisation R295m*
Share market: *Price 650c Yields 3,7% on dividend, 8,8% on earnings, p e ratio, 11,3, cover, 2,4 12-month high, 750c, low, 575c Trading volume last quarter, 4,5m shares*

Year to March 31	'92	'93	'94	'95
ST debt (Rm)	12,7	4,3	5,4	4,2
LT debt (Rm)	23,2	23,0	13,6	10,2
Debt equity ratio	0,25	0,19	nil	nil
Shareholders' interest	0,51	0,60	0,81	0,80
Int & leasing cover	3,1	6,0	n/a	n/a
Return on cap (%)	17,3	17,4	11,9	8,5
Turnover (Rm)	330	295	238	167
Pre-int profit (Rm)	39	42	36	27
Pre-int margin (%)	11,9	14,2	15,0	16,3
Earnings (c)	28	34	45	57
Dividends (c)	11,5	14,0	18,5	24,0
Tangible NAV (c)	256	320	534	567

When the *FM* last looked at Lion Match (*Companies* July 15 1994), it characterised it as achieving the desirable miracle of getting smaller while getting richer. Astoundingly, the miracle has been repeated for a second successive year.

If you think this too good to be true, the figures reveal all. turnover down to R167m and, by the way, this is the fourth successive year of decline However, for the third year on the trot EPS have risen, in financial 1995 by a creditable 27% to 57c Not surprisingly, the dividend rose 30% to 24c

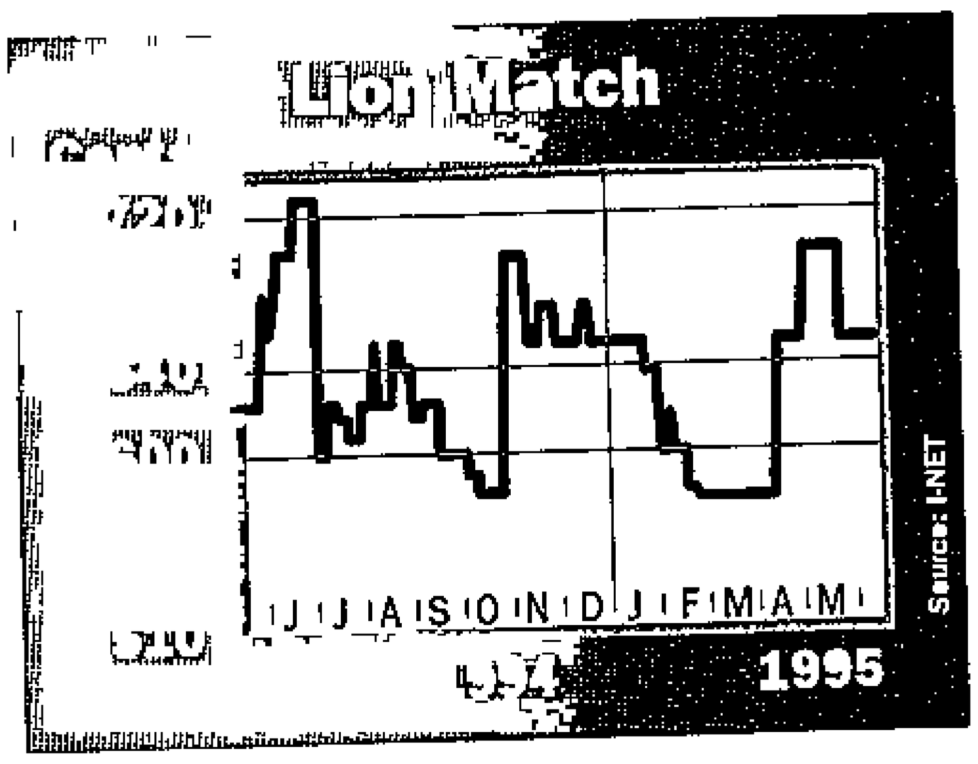
Lion makes those ubiquitous matches delivered in handy boxes which proclaim friendship and offer worthy homilies on how to live your life It also makes lighters (no surprise), shaving creams and razors, and some garden and home tools. Over the last few years it has disposed of a variety of other businesses, notably its involvement in packaging

Van der Watt

In the process, it has accumulated a cash mountain of R201m Since its market cap is now R295m, the market is saying its business is worth only R94m — the cash is what counts

Precisely — and what every analyst is asking is what does major shareholder SA Breweries intend doing with a company whose horizons have been severely lowered but which is rich? Chairman and SAB executive director Laurie van der Watt is tight-lipped — but then he has been ever since questions of this kind first emerged months ago "We are examining various possibilities," is all he will say

Any number have been floated perhaps SAB will inject Appletiser into Lion and list its fruit juices that way No, says Van der Watt Well, what about reverse listing a revitalised Southern Sun through Lion? That also gets Van der Watt's thumbs down



For what it's worth, the *FM* offers another alternative since Lion's cash hoard is so tempting, how about reversing all SAB's off-shore brewing interests into it (China, eastern Europe and Tanzania) in exchange for a cash payment and shares?

That would really give Lion shareholders something to look forward to in the form of a rand hedge counter *David Gleason*

SASOL

Capping the well

(183) FM 16/6/95

Even before the Arthur Andersen report on Sasol's synfuel protection is opened for public scrutiny, the full extent of its synfuel subsidy benefits from the public's purse is becoming evident

Elements of the report are filtering through already Sasol is understood to be unhappy with the Andersen proposals that floor price protection levels be substantially reduced over the next four years, from the current US$21,40/barrel to $17/barrel

It believes government acceptance of this recommendation would, at assumed oil prices, lead to zero tariff protection for Sasol from July 1999 The cumulative, projected loss of tariff subsidy revenue over the next four years, assuming constant oil prices, would be R2,5bn.

But the main dispute still centres around alleged differences between Arthur Andersen's provisional and final reports. There are suggestions of possible arm-twisting to change the final report in Sasol's favour, as well as suggestions that a back door has been kept open for continued protection for Sasol

By some estimates, Sasol has cost motorists and consumers of bulk fuels more than R9bn (in 1994 terms) since the introduction of the Sasol formula subsidy in July 1979 In 1994 alone, Sasol received about R1bn in so-called tariff subsidies And, say industry pundits, due to the capital flow and investment distortions created by the synfuel subsidy, Sasol effectively destroyed about R2,4bn worth of capital in 1994 alone — which would have flowed to more productive investment avenues had the subsidies not existed.

Sasol counters by saying that its synthetic fuels division is making an enormous contribution to the economy — R6,1bn a year in value added, savings in foreign exchange of R5,6bn a year, and the direct and indirect employment of 59 000 people

But, says University of Cape Town economist Brian Kantor. "It is possible to contribute to the economy, but still waste resources And why continue with the massive subsidy flow when Sasol can stand on its own feet as a growing company (with reduced profits) without any artificial support structures?

"In any case, should Sasol phase out or reduce its synfuel operations, it could obtain far better margins from the value-added petro-chemicals route"

Kantor . . . *favours Big Bang for Sasol tariff protection*

The oil industry suggests that only the total phasing-out of Sasol's tariff subsidy would suffice (Kantor says he favours the "Big Bang" approach), as even a ring-fencing of continuously subsidised synfuel operations would be almost impossible to police

It says the Andersen report and its recommendations, as they now stand, will be an inappropriate basis upon which to formulate future policy on a number of issues affecting the oil industry, including Sasol's subsidies

Sasol's financial statements for the period 1991-1992 and 1993-1994 show that its pretax synfuel income alone, without the subsidy, grew from R124,2m to R225,8m If its income from mining, oil (Sasref), chemical and other activities are added, total Sasol operating profits (unsubsidised) increased from R1,226bn to R1,547bn

So, says Kantor, Sasol clearly does not need to be subsidised any further — it is profitable without subsidies or tariff protection

Other industry observers say this historic profit record also excludes any projections of Sasol's probable entry into the retail market, given its situation close to the Gauteng economic heartland which would afford it a distinctive competitive advantage against coastal-based refiners ■

WATER RESTRICTIONS

Ballcock blues

Water consumers who don't comply with gazetted savings quotas can expect to pay punitive tariffs from August 1.

The penalties — affecting industrial, agricultural and domestic users — will apply to areas served by the Vaal system and include Gauteng and the Free State Details of the proposed tariffs have yet to be announced

The move follows poor summer rains and concomitant falling dam levels Water cuts of 20% for domestic consumers, 10% for industry and 40% for farmers in the Vaal River system were gazetted on March 1 and took effect on April 1

Department of Water Affairs managing engineer, planning, Claus Triebel says that, with the Vaal Dam at about 18% capacity and the slightly larger Sterkfontein Dam at 64%, there is no immediate emergency and restrictions have been imposed as a precautionary measure to ensure essential water supplies can be sustained should the drought continue.

"But unless targets are met during the next few months, punitive tariffs will be charged on a sliding scale for excess consumption"

So why the restrictions and threats if there is no immediate crisis?

Rand Water CE Vincent Bath says that, should the past summer's poor run-off be repeated during the next rainy season, SA's economic heartland could face "a serious situation" — especially as water from the Lesotho Highlands Water Project will only reach the Vaal Dam in January 1998. Water from the project has been delayed for a year because of geological problems in the transfer tunnel linking Lesotho and SA

With the urbanised Gauteng population of about 9m growing fast, Rand Water expects it will have to supply double the current water volumes, of about 2 800 Ml a day, to the region by 2015.

Bath says water costs are bound to escalate, as water will have to be transported from further afield. He says the current "Highlands levy" of 38c a cubic metre — included in the 110c/m³ Rand Water bulk tariff — could reach about 50c within four years, as additional costs of the Lesotho project are factored in But Triebel says that if sufficient savings can be achieved "I'm sure the Vaal system will see us through until January 1998, notwithstanding six percent annual gr[illegible] water demand in the Gauteng u[illegible]"

He adds that Eskom and Sasol, regarded as strategic industries, were asked to cut consumption by 5%, but both are using less water than the saving asked for Irrigation farmers served by State water schemes, such as the Vaalharts, have already been affected by the 40% cut

Water Research Commission executive director Piet Odendaal says that, while farmers still use about 50% of SA's annual

Kuwait steps into SA fertiliser

(183) ST(BT) 18/6/95

By DON ROBERTSON

A KUWAITI finance group has taken a major stake in South Africa's agricultural industry and is planning to supply farmers with fertiliser at between 30% to 40% below local prices.

A seven-member delegation from the Arab Company for Finance and International Trade (Acfit) last week met Deputy President F W de Klerk, Agriculture Minister Kraal van Niekerk and business leaders.

They subscribed R13,5-million to a rights issue floated by the recently established Trading Corporation of South Africa (Koopkor) and made available a $400-million revolving credit, mainly for buying fertiliser.

Koopkor has indicated it intends seeking a JSE listing within three months through a reverse takeover which will give it the financial muscle to expand operations.

Acfit has also signed an agreement with an international fertiliser group and Koopkor director Elias Olivier says it will be possible to supply farmers with fertiliser at between 30% and 40% below local prices. The first shipment is due this month.

Acfit has offices in 53 countries and has opened a Johannesburg branch to serve the sub-Saharan region. Its ultimate holding company is the Bank of Kuwait.

Tarig El Mamoun, Acfit's managing director, said his company had heeded Mr de Klerk's advice and would investigate involvement in tourism and industry, with particular emphasis on medium-sized companies with sound management which lacked capital.

Other delegates included Najeeb HM Al Saleh, chairman of Kuwait Interests for Financial Investments, Omar AA Al-Sayer, an executive director of the Gulf Bank, Abdulwahab R Al-Haroon, managing director of the Kuwait Public Transport Company and Bader Al-Bajan, a director of Kuwait Petroleum.

Koopkor was incorporated in June last year to provide a fully fledged service to farmers, particularly the many black farmers entering the industry, to assist with redistribution of land, providing scientific information, restructuring marketing systems and offering insurance and risk capital.

The company has about 400 members and will target the top 20% of farmers who produce 80% of agricultural products.

Mr Olivier says it has bought scientific information from the Agricultural Research Council, universities and research and development institutions, which it will supply to farmers. It will purchase goods for farmers on a traditional co-operative basis.

Koopkor has a seat on the SA Futures Exchange and will trade in all agricultural products.

One associate within the Acfit group is rated the third largest agricultural trading company in the world, handling over 60-million tons of agricultural commodities last year, says marketing director Tom van der Merwe.

Koopkor hopes to use this company to import maize to meet last season's shortfall and to negotiate trades in agricultural products.

Unleaded petrol price 'cheaper'

Mungo Soggot

(183) (68)

THE SA Petroleum Industry Association (Sapia) has agreed to make unleaded petrol 4c/l cheaper than leaded petrol instead of the 9c/l originally proposed

Sapia director Colin McClelland said at the weekend this meant there would be no need to increase the tax on leaded petrol to subsidise unleaded fuel It was hoped this would help Cabinet make a decision in time for unleaded petrol to go on sale in February Administrative delays had ruled out initial plans to have unleaded petrol on the market by September

BD 19/6/95

The industry had opted for February so that the changeover would not clash with the busy Christmas period Supplies would be available about four months after refineries started producing unleaded fuel, he said The price differential would be reviewed if the necessary market penetration for unleaded fuel was not achieved

McClelland questioned the perception that unleaded fuel was suitable only for wealthy people's cars and was therefore being subsidised by leaded petrol users. Most taxis and older vehicles could, with little or no adjustment, use unleaded petrol, he said. An unleaded fuel education campaign would be launched

Sapia said it did not favour an extra 7,5c/l fuel levy to raise R1bn for road repair, as recommended by Transport Minister Mac Maharaj. It proposed that the 9c/l synfuel subsidy be used instead

Building: Control cement prices

CT (BR) 20/6/95 (183)

Cement prices should be controlled until an investigation into pricing structures can be completed, the Industrial Strategy Project has recommended

Researcher Moses Ngoasheng said in his report on the building material supplies industrial sector that brick and cement industries had plenty of spare capacity to meet the challenges of a stepped-up home building strategy to meet the demands of the reconstruction and development programme

But he expressed concern about the narrow ownership in both industries.

The research was completed before the enforced breakup of the cement pricing cartel arrangement between the big three producers last year — a move recommended by Ngoasheng

He said the substantial capital outlay required to establish a new cement plant was a major barrier to entry

However, there were also other barriers, including the ownership to the rights of property of the major raw material supplies.

The three producers owned most known limestone reserves, while high degrees of backward and forward integration would put a new entrant in the market at a competitive disadvantage

Although the cartel arrangement had kept price increases steady, overall prices had gone up faster than any other manufacturing sector

The move away from cartels was unlikely to curb high prices and other measures should be investigated, with prices being controlled in the meantime.

Hampered

The price should be set by a pricing authority representing producers, consumers, trade unions and the state

Research into the brick industry was hampered because of the lack of comprehensive data

The industry was dominated by a few large producers with the largest being Corobrik, which produced between 30 and 50 percent of output

Ngoasheng recommended that encouragement and support be given to small brick producers

In both the brick and cement industries skill levels should be improved, while technological upgrades would result in greater efficiency levels

Afrox in name change (183)

STAFF WRITER

African Oxygen (Afrox), the R1,5-billion-a-year gases, welding and healthcare group, is to change its name and expand into sub-Saharan Africa.

Chairman and managing director Royden Vice says Afrox has repositioned its business to link the group more closely to its 58% parent, the R20-billion-a-year BOC Group

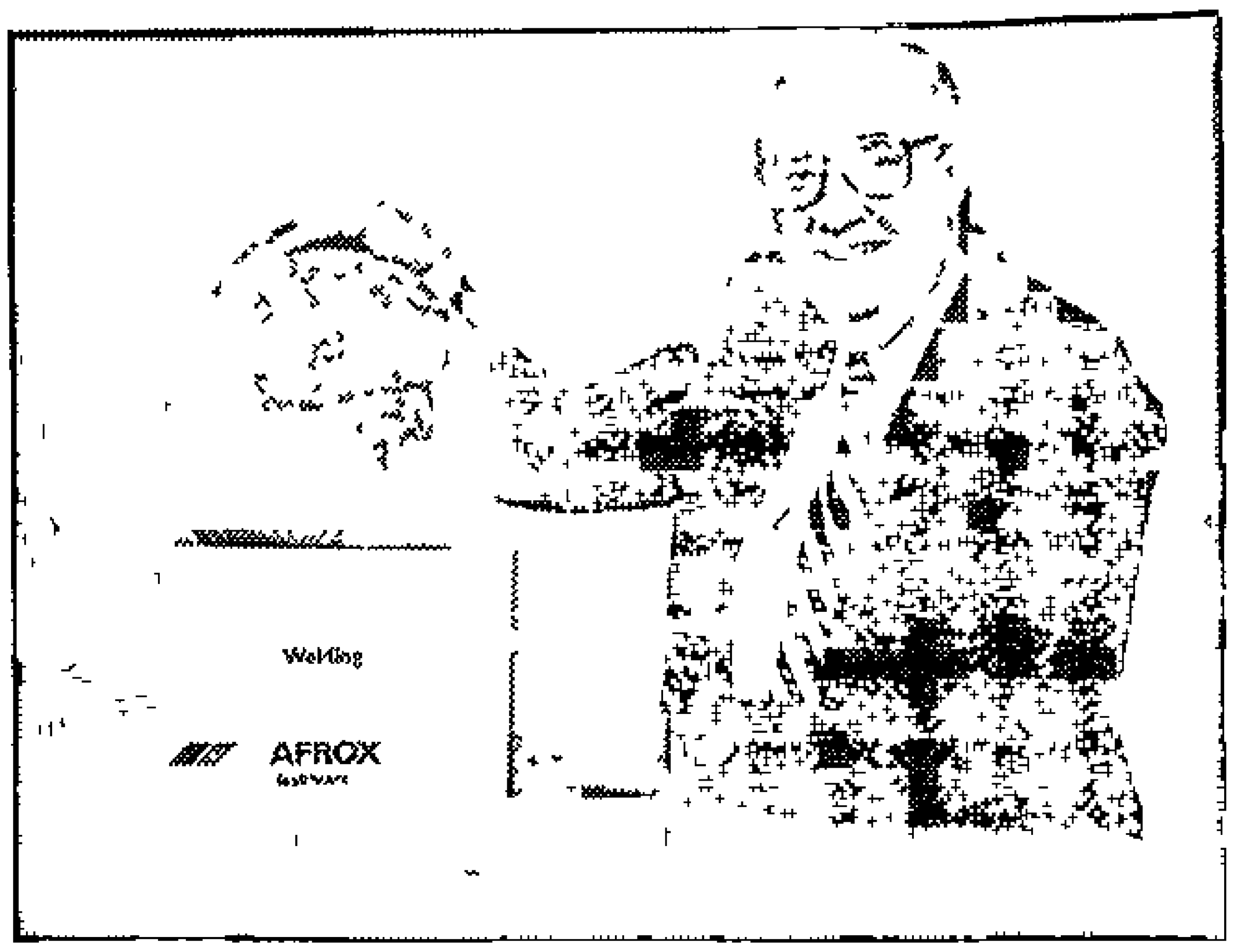
Afrox's core gases business will align itself totally with BOC Gases worldwide and operate in South Africa under the name, BOC Gases

According to Vice, Afrox has always had access to BOC Gases technology, research and development, but it will mean a strengthening of these tie and enable it to utilise their worldwide marketing initiatives.

"One of our business missions is to be a major player in sub-Saharan Africa in all our business areas. It is still early days, but since the move to a democratic South Africa slightly more than a year ago, we have purchased a 35% share in a gases company in the Seychelles, signed contracts to manage BOC companies in Zimbabwe and Kenya, listed Afrox on the Namibian Stock Exchange, bought a hospital in Botswana and are looking keenly at further expansion opportunities"

Afrox's interests outside South Africa include Namibia (100%), Botswana (100%), Malawi (78%), Mauritius (33%), Seychelles (35%), Swaziland (100%) and management contracts for BOC Gases companies in Zimbabwe and Kenya.

"Our welding products," says Vice, are being well received internationally and we are presently exporting to some 30 countries," he said



Going global . . . Royden Vice, Afrox chairman and MD, with the identities taking Afrox places.

Star 20/6/95

Move towards SA chemical forum

BD 20/6/95 (183)

Renee Grawitzky

MOVEMENT towards the establishment of a national industry bargaining forum to accommodate sectoral arrangements has been made in the chemical industry.

This forum would include industries ranging from heavy chemicals, glass and rubber to pharmaceuticals and petroleum.

Chemical Workers' Industrial Union (CWIU) general secretary Muzi Buthelezi said most companies which attended recent meetings had indicated willingness to discuss creation of a national forum.

It seems the industry forum would discuss issues such as provident funds, training, health and safety and industrial restructuring. Sectoral bargaining forums would address industry-specific issues, such as conditions of employment.

A joint employer/union working group would be established to define the sectors within the chemical industry.

Petroleum industry sources said the creation of the two forums would be conditional on the union recognising the petroleum industry as a separate one; productivity bargaining being held at plant level; representation of all unions in both forums; and no introduction of two-tier bargaining.

Industry sources have, however, expressed concern at the union's application for the appointment of a conciliation board in the wake of the progress made.

Glass SA human resources director Phil Cohen said a number of glass industry employers had agreed in principle to establishing a non-statutory chemical industries national forum with a separate statutory industrial council for the industry.

Cohen said this agreement in principle would be conditional on the union agreeing to resumption of plant level negotiations to be implemented this year. He said employers had agreed to form an employer association in the glass industry.

In the retail sector, no movement has been made in recent months towards the establishment of centralised bargaining structures. In the early 1990s the SA Commercial Catering and Allied Workers Union tabled the demand for centralised bargaining. A number of meetings were held and the union was requested to demarcate the industry.

In the paper industry, representatives of companies such as Mondi, Sappi, Nampak and Carlton have met on numerous occasions with the Paper Printing Wood and Allied Workers Union to discuss the formation of centralised bargaining forums.

Industry sources said that endless debate had taken place on what constituted the paper industry. This issue would be discussed at the unions' national congress in Durban this week.

Chemicals: Future of Sasol on the line

CT (BR) 20/6/95 (183)

By Bruce Cameron
Political Editor

The future of Sasol, the synthetic fuel producer, is on the line, at least in its current form

An investigation by the Industrial Strategy Project into the chemical industry has found that Sasol is a dinosaur, using outdated technology and the wrong primary material — coal

Major restructuring has been recommended for Sasol, which would see its coal-to-fuel process phased out and the company turned into a competitive petrochemical industry

Created in the sixties to ward off fuel sanctions imposed on South Africa, the company has been identified by the Industrial Strategy Project investigation into South African industry as the underlying cause of uncompetitive chemical and plastics industries

Sasol, which has been strongly defended for saving billions of rands in the balance of payments by former government representatives, is severely criticised by Industrial Strategy Project researcher Rod Crompton

Technologically, a backward step had been taken with the construction of Sasol The positioning of Sasol at Sasolburg had forced other major chemical players, AECI and Sentrachem, to relocate to inland a petrochemical complex which had been planned for the coast

"This struck a long-term blow at international competitiveness"

The older technology used by Sasol had added to costs with Sasol's ethylene prices 20 to 45 percent higher than elsewhere, with this affecting prices for the plastics industry

Economies of scale in the industry were low and many plants would not be viable without protection In terms of the General Agreement on Tariffs and Trade the tariff barriers had to be reduced, leaving the industry vulnerable

Survival

Crompton said the vastly complex chemical and commodity plastics industries needed to be restructured to become internationally competitive, with the change in the status of Sasol being an important part

For the chemical industry to survive it had to become focused and less preoccupied with self-sufficiency

Sasol would need a structural adjustment programme along the lines of that carried out by Dutch state mines in the 1960s

"With state help, and co-operation between the state and organised labour, this programme transformed the Dutch coal mining and coal-based chemical company into a respected international chemical company

Crompton said the programme of adjustment should be undertaken in four stages These were

☐ Firstly, the already accomplished lifting of the secrecy surrounding the oil industry in general and Sasol in particular,

☐ A ban on further investments by Sasol in new projects that depended on the coal-based synfuel process until synfuel support ended and the fuel industry was reregulated This would relieve Sasol of its responsibility to produce fuels and subsidies,

☐ When the fuel industry was reregulated, further investments in synfuel projects could be allowed if they provided the most competitive option and needed no tariff protection in order to be viable, and

☐ New projects should be aimed at husbanding the synfuel industry into its twilight years, while also being a platform for the emergence of a reoriented and vigorous company At the same time deliberate strategies would have to be adopted to promote the plastics industry, especially in the more labour intensive downstream area of making household plastic products

The plastics industry had been hampered by low productivity caused by old equipment and producers focusing on the domestic market

Both the chemical and plastics industry were criticised for poor environmental standards

Crompton said there were also restructuring tasks for the plastics industry

Safripol should boost Hoechst SA

Mungo Soggot (183) BD 21/6/95

CHEMICAL company Hoechst SA's earnings should be boosted by an increased contribution from Safripol — the joint venture plastics company with Sentrachem — in the short to medium term as it cashed in on a surge in thermoplastics demand, MD Reinhard Traub said yesterday

But Traub told an Investment Analysts' Society presentation meeting on the chemical and pharmaceutical company — which is to list on July 12 — that in the long term Safripol's contribution would be outflanked by that of Hoechst SA's health care sector, which it planned to expand.

Traub said there was also considerable room for growth in the SA plastics sector — per capita plastics consumption in SA was 16kg compared with between 80kg and 100kg in western countries.

Hoechst SA, a subsidiary of Hoechst AG which set up in SA in 1957, had decided to list to improve its capital structure and give it access to local capital markets to allow it to take advantage of its growth potential The R70m raised from the listing would cut its gearing to 30% by the end of the year from its current level of more than 70%

Traub said Hoechst SA — whose operations include health care, polymers and derivatives and chemicals — should post earnings growth of between 25% and 30% next year, after 20,1% growth in 1995 to 39,4c a share It had proved itself able to fight off the cyclical nature of the chemical sector with its broad-based operations

Hoechst SA would be able to reap the benefits of its parent company's worldwide daily research spending of R20m New products to be launched by its health care sector would cater for Alzheimer's disease, diabetes, chronic liver disease and AIDS

Cut rate self-service petrol

ARG 21/6/95

COLIN DOUGLAS
Business Staff

(183)

A LEADING convenience store chain has announced plans to open discount self-service petrol outlets as soon as fuel sales are deregulated — but the government has warned that the plans could be premature

George Hadjidakis, managing director of 7-Eleven, said 27 of his group's 70 stores had been earmarked to house self-service stations which would sell petrol at a discount of R5 to R7 per tank

This would be achieved by savings on staff costs

"All that still needs to be finalised is which oil companies will supply them," he said

Pumps would be controlled from inside the stores, with customers paying a cashier who would programme the pumps for the type and amount of fuel

But the chain's announcement could be premature, given the complexity of the deregulation debate, said Gert Venter, deputy director general of Mineral and Energy Affairs

Although his department was close to being able to present a document to the cabinet proposing a new fuel policy, any new dispensation would be phased in, Dr Venter said

Mungo Soggot

(183) BD 22/6/95

Sasol tariff report 'flawed'

THE SA Petroleum Industry Association (Sapia) yesterday described the Arthur Andersen report on Sasol's tariff protection as "fatally flawed".

In a statement ahead of the report's official presentation to the liquid fuels task force on Monday, it said Sasol's eagerness to implement it was a "short-term ploy to simultaneously retain the cash flow from its subsidies and delay the deregulation of the industry". Sapia also refuted Sasol's claim that the report proved there was no cross-subsidisation between its synfuels business and its other operations

The task force, which includes business, labour and government representatives — would have to approve the report's recommendations before it went to the National Economic and Development and Labour Council, which commissioned it in March

Sapia rejected the report in a task force subcommittee, but it could still be passed by the full task force when it meets

Sasol said it was surprised at the attack as Sapia had agreed to the terms of reference, but Sapia said assurances the report would look at tariff protection were not met

Sasol said the report recommended its tariff protection be reduced from its current level of \$21,40 a barrel of oil to \$17 a barrel by July 1999. Sasol gets the difference between the price of oil a barrel and the tariff protection figure

Plastics technology helps (362) ease Zimbabwe drought (183)

Zimbabwe's chronic drought is to be eased by state-of-the-art plastic moulding technology specially developed for applications in Africa by Pinetown engineering firm Duys Engineers

Already a forerunner in the field of manufacturing rotomoulding equipment in South Africa, Duys Engineers has developed a R1 million rotomoulding machine which will be used to construct 15 000 litre polyethylene water containers which can be used to store water in remote areas where the drought is particularly severe.

The Duys rotomoulding machine is well suited to manufacturing operations in Zimbabwe To fire the burner, it uses liquid paraffin, by far the most economical fuel available in Zimbabwe

The operation is also fully computerised with a dial-in recipe facility for different moulds

CT(BR) 22/6/95

(183)

SASOL/POLIFIN FM 23/6/95

Distributing the largesse

The proposed listing of low-density polymer manufacturer Polifin in July is causing turbulence in its share ownership Sasol, currently holder of about 60% of Polifin's shares (AECI owns 40%) plans to distribute almost a third of its holding in Polifin to its 21 000 shareholders, in a ratio of 15 Polifin for every 100 Sasol shares held After the distribution, Polifin's roughly 543m issued shares will be held by Sasol (about 42%), AECI (40%) and holders of Sasol shares, debentures and options (about 18%)

The reason for the distribution, which has been on the cards since Polifin was created, is primarily to meet the JSE listing requirement for a minimum spread of shareholders in Polifin An analyst suggests management also wants to make the shares as tradeable as possible to boost its rating once listed

A 10% spread is not large enough, 20% is almost the minimum for a tradeable float (number of shares available). As Sasol does not need to raise cash, it could simply hand over to its shareholders what they already own indirectly

The listing of Polifin offers another advantage· the market will be able to evaluate all the companies involved more efficiently once Polifin has a calculable market cap

As yet, it is difficult to assess the price at which Polifin shares will be brought to market. One analyst was willing to speculate on "a rand-ish per share," and some think the price could climb as high as R6-R7 Polifin is considered a difficult company to rate as it operates in a cyclical market, but the more optimistic are willing to look at an average p e ratio of between 9 and 12 on potential earnings

A major motive for listing is to unlock unrealised value in the company and there is a strong feeling in the market that Polifin's full value is not reflected in the Sasol share price, currently R34,50

The company operates three polymer plants making polypropylene, polyvinyl chloride (PVC) and polyethylene Most of its production is taken up domestically as raw material for value-added manufacture The company has been upgrading its PVC plants and increasing capacity to reduce bottlenecks, but has less control over a critical factor — the supply of its major feedstocks Since a large proportion of its output is already spoken for, the outlook for earnings is favourable

In theory, the Sasol share should lose value once the Polifin shares are unbundled, but the historical pro-forma calculations provided by FirstCorp Merchant Bankers indicate the effect on Sasol's earnings and NAV will be negligible — 2%-3% down — and the effect on shareholders on a fully diluted basis, assuming all shares as equity, will be nil

However, on an undiluted basis, debenture holders may gain 1%-2% in interest, earnings and the net worth of their assets And freeing up the value in Polifin should result in a net gain to Sasol's shareholders a case of the parts being worth more than the sum

Anyone wanting a part of this bonanza must buy their Sasol shares and register as a shareholder by July 21

Margaret-Anne Halse

UNLEADED FUEL

A case for the autocats

(183) FM 23/6/95

With just eight months to go before the planned introduction of unleaded fuel, concern is mounting over the environmental hazards of burning unleaded fuel in cars not fitted with catalytic converters

Critics charge that the motor industry is pushing for the introduction of unleaded fuel while remaining coy about its potentially damaging impact unless coupled to catalytic converter technology

"SA is the only country in the world where the introduction of unleaded fuel was motivated by industrial rather than environmental concerns," says Total MD Dennis Poole "It is an established scientific fact that unleaded fuel used in cars without catalytic converters is dirtier than leaded fuel

"Producing unleaded fuel is a costly exercise for the oil companies and there is no benefit in it for us In other countries where unleaded fuel has been introduced, it has been coupled with laws compelling the fitting of catalytic converters "

Poole's claims are supported by the UK's Royal Commission on Environmental Pollution in its report "Transport and the Environment" — presented last October

It says "Unleaded petrol generally contains more aromatic compounds (which serve as functional replacements for lead compounds) than leaded petrol These aromatics include benzene, a stable compound of which there are no significant natural sources other than petroleum "

The report goes on to say that benzene, a carcinogenic compound, is "perhaps the most important volatile organic compound arising from transport" The average benzene content in UK fuel is 2%-3% The European Community limit is 5%, but the German government wants it reduced to 1%, a level recommended for the UK by the Royal Commission

Though the commission recommended phasing out 97-octane super premium fuel, no action was taken But customers have been switching to lighter octane ratings out of environmental concern

Local oil companies plan to introduce a maximum 95-octane unleaded fuel, which will also have a higher aromatic content than the equivalent leaded fuel

Peter Emmel, MD of catalytic converter manufacturer Johnson Matthey, agrees the available European research shows that unleaded fuel has a higher aromatic content than leaded fuel, but laws compelling the fitting of catalytic converters virtually eliminate hydrocarbon emissions, including those of benzene

"There does not seem to be a drive to couple the introduction of unleaded fuel to the fitting of catalytic converters in SA, as has been the case overseas "

Emmel adds that the environmental effects of unleaded fuel in SA, without compulsory fitting of converters, will not be as damaging as in Europe, where congestion is greater In high density areas such as Johannesburg, however, large-scale use of unleaded fuel without converter technology could pose a health hazard

Filling up *unleaded waiting to be unleashed — but at what cost?*

Unleaded fuel has been touted as environmentally safer than leaded fuel, although both produce toxic emissions In removing lead from fuel, toxic aromatics are used to retain the fuel's octane rating

"Unleaded fuel is not an environmentally friendly product in itself," says Colin McClelland, director of the SA Petroleum Producers' Association "The industry compromised by electing to have a maximum octane rating of 95 on unleaded fuel, which will have similar noxious emissions to 97-octane leaded fuel"

The National Association of Automobile Manufacturers of SA (Naamsa) says unleaded fuel produces a "negligible increase in certain hydrocarbon components" to enhance its octane value Government and the motor and oil industries have commissioned the CSIR to carry out an environmental assessment of the air pollution caused by motor vehicle emissions

"No-one really knows what the effects will be," says Naamsa "Hence the rationale for emissions to be studied before and after the introduction of unleaded fuel Our approach is that we will be in a position to be pre-emptive regarding any potential problems rather than reactive "

Naamsa says the anti-unleaded fuel initiative was started overseas by lead supplier Octel, which has a vested interest Octel's attack was levelled at 98 RON unleaded fuel, whereas the maximum octane rating for unleaded fuel in SA will be 95

New engine technology is designed to burn fuel more efficiently, reducing noxious emissions, and most vehicle manufacturers plan to fit emission technology on new models

"However, we do not believe it is appropriate or logical for people to be forced to fit expensive exhaust systems on their vehicles in the absence of a proven need," says Naamsa

Given the high cost of retro-fitting catalytic converters to SA's 5m cars, legislation compelling vehicle owners to fit converters is likely to be stoutly resisted

Petro Terblanche, manager of environmental health and safety services at CSIR, says unleaded fuel contains compounds which have known carcinogenic effects

"There is concern in Europe and the US about the environmental impact of unleaded fuel," says Terblanche "There is also concern in some circles that unleaded fuel has done little to reduce lead in the blood of urban dwellers But we cannot pre-judge the environmental impact until the study is complete." ■

MANUFACTURING

Cosatu requiem?

FM 23/6/95

The sorry state of SA's manufacturing sector is well known and the findings of a two-year study released this week by Cape Town University's Industrial Strategy Project (ISP) add virtually nothing new to the debate

Nevertheless, the research needs to be taken seriously Some aspects are already shaping government's economic policy and a number of the researchers involved in the project have been appointed to senior government posts

Our enormous drug bill

WM 23-29/6/95 (183)

Pat Sidley

THE average private sector general practioner prescribes medicines that are spectacularly more expensive — sometimes as much as 700 percent — than do their colleagues in the public sector using an essential drugs list.

And drugs bought by the state are much more expensive than overseas drugs — despite the pharmaceutical companies' claim that the "low" state tender prices have to be subsidised by the high private sector prices.

This, and other startling information about South Africa's huge drugs bill, is contained in a report commissioned by the National Health Inquiry and tabled this week.

The report notes that the prices through Comed (the body which runs the state tender system of buying drugs) were around 23 percent higher than international prices for essential drugs.

A drug used to treat tapeworm, for example, was bought by Comed at a price 33 times higher than the international price.

The report states that despite the fact that Comed bought drugs worth R1,3-billion each year, it could provide no information on drug use.

Calculating the effects of the introduction of an essential drugs list, the report estimates that the pharmaceutical industry could loose up to 12 percent of its turnover if the private sector is given access to cheaper drugs.

It also calculates that private pharmacies may lose R13 000 each per year (a total of R46-million over the 3 500 pharmacies), with dispensing doctors each losing R10 000 a year.

The report recommends that international competition be allowed in the state tender system.

No merger

(183)

ST(BT) 25/6/95

IN a report on National Sorghum Breweries last week Business Times reported that Indian company UB International had merged its paint operation with Associated Paints & Chemical Industries. APCI says while it had talks with UB last year these had come to naught.

Reports by Business Times staff and Sapa-AP-Reuter

Pharmacies' monopoly under fire

(88) (183) ST 25/6/95

By CIARAN RYAN

SUPERMARKET chains are preparing a full-scale attack on the retail pharmacy industry following recommendations to the government to end pharmacists' monopoly over the retailing of prescription medicines

The Broomberg-Shisana Committee of Inquiry into National Health Insurance, which published its report this week, has proposed sweeping changes to the industry in a drive to cut medicine and health care costs

Rene de Wet, joint managing director at Pick 'n Pay, says his group will enter the pharmacy business as soon as allowed

"We will phase in pharmacies at our 147 stores countrywide, starting with the newer stores The objective is to offer the services of a typical family pharmacy, concentrating on delivering prescription drugs at a low price."

Trevor Honneysett, chief executive of Clicks, says that if the recommendations translate into deregulation, Clicks will enter the pharmacy business "But we have had a lot of false starts in the past, so we need to see whether this report will actually allow us to do that."

OK Bazaars is understood to be considering the lease of space to pharmacists, rather than open its own pharmacy retail chain

Ivan Kotze, executive director of the Pharmaceutical Society of South Africa, doubts whether supermarket pharmacies will be viable in the light of the recommendation that the state will be responsible for bulk purchasing of the Essential Drug List, covering 90% to 95% of common illnesses

Mr Kotze says the plan removes profit motive by requiring all pharmacies to purchase essential drugs at state tender prices

"If the motive for supermarkets entering this business is profit, then I am opposed to it. If, however, their motive is to advance the cause of universal health care, then I support it where there are no pharmaceutical services."

The entry of supermarkets into the pharmacy retail market poses a threat to many of the country's 3 000 pharmacies, particularly in dispensing drugs not on the Essential Drug List.

About half of South Africa's 10 000 doctors dispense their own medicines which they buy at prices below those of pharmacies The removal of this lucrative revenue from doctors may prompt many to emigrate, or form group practices employing a pharmacist to dispense medicines

"The pharmacist and doctor accredited by the state will now have to keep two sets of stock — one for the public and one for the private sector," says Kobus Nel, marketing director at SA Druggists, the country's largest producer of generic drugs

"While this plan is an improvement on the Deeble option announced earlier this year, it is still too socialistic I don't believe the state has the distribution capacity required to deliver what this plan promises"

Manufacturers of branded drugs such as Glaxo are awaiting publication of the Essential Drug List to determine what its impact will be

WATCHING BRIEF . . Clicks' Trevor Honneysett, who says the chain will enter the trade if recommendations translate into deregulation

COMPANIES

(183)

Import plans raise a stink

ST(BT) 25/6/95

By DON ROBERTSON

THE fertiliser industry says it will watch closely plans by the Trading Corporation of South Africa (Koopkor) to grab a significant share of its R1,6-billion market with imports

Koopkor said last week that the Arab Company for Finance and Investment Trade (Acfit) had bought a large shareholding in Koopkor and had made available a credit facility of $400-million, mainly to import fertiliser.

By importing nitrogen in the form of urea, phosphates and potash, Koopkor hopes to mix the fertiliser on the farmers' land, using soil samples to determine the chemical mixture It hopes prices will be 30%-40% less than those charged by the three major producers — Kynoch, Sasol Fertilizer and Omnia.

The first shipment of 25 000 tons is expected next month The price of locally produced fertiliser is based on world figures and has risen by about 40% in the past 18 months

John Skeen, managing director of Kynoch, an AECI subsidiary, insists Koopkor's import plans must be subsidised in some form or other and argues it will incur all the costs that the SA industry has to face

"There are no import duties on fertiliser and the local industry has to structure its prices to compete with imports. If international prices fall, local companies would have to adjust prices accordingly. "If we believe, however, that Koopkor's prices are sustainable we will react There is no way we will allow them to take our market. We will fight," says Dr Skeen.

Five years ago, Agriland took on the big three producers by leasing the Richards Bay granulation plant previously owned by Louis Luyt's Triomf Fertilizer. Its intention was to gain a 10% share of the market by substantially reducing prices. The local industry responded by matching these prices.

The Agriland policy was similar to that adopted by Koopkor in which various mixtures are blended on the land. Two months after it was established, the company was "wound down" through lack of finance and Kynoch took over its sales contracts.

Three years later, Zulfert Fertiliser entered the market and hoped to cut prices by importing raw materials from America and Europe and then blending them in a storage facility at Richards Bay. Only weeks later, the company encountered financial problems and the scheme was dropped.

André du Plessis, a director and head of the fertiliser division at Koopkor, says fertiliser represents the highest input cost faced by farmers and one way of reducing this is to prepare a "prescription" mixture, as done in most countries.

"A maize farmer can expect income of about R2 000 a hectare on which he would have to spend about R250 on fertiliser."

Maize farmers are just able to exist, earning an import-replacement price of about R610 a ton for white maize, but if there is a normal crop next season with a surplus for export, the price will be closer to the lower international price, so any savings will be vital, says Mr du Plessis.

Neville Crosse, Omnia's managing director, insists, however, that there are probably about 40 blending plants in the country serving small communities, but savings are not that big.

The industry has excess capacity and currently exports about 1-million tons of fertiliser, of which about 250 000 tons is in granulated form, he says.

Pe[illegible] Viljoen, managing direc[illegible] of Sasol Fertilizer, says [illegible] if imports are broug[illegible] in at 40% below local [illegible]rket prices, these imports would be below international prices, which would constitute dumping

Trademark now gets mean

ANC will reject subsidy for Sasol

(183) ST (BT) 25/6/95

By KEVIN DAVIE

THE ANC will block a report which recommends that state support of R2,5-billion be given to synthetic fuel producer Sasol during the next five years.

The report, by auditors Arthur Andersen, is due to be debated tomorrow at a meeting of the National Economic Development and Labour Council's liquid fuels task force

The report proposes that current protection, which would amount to R5,2-billion if continued over the next five years, be scaled down to about R2,5-billion

But ANC MP Marcel Golding, who chairs Parliament's energy committee, questions the level of support recommended in the study as being too high and unwarranted

"State subsidies to Sasol must be minimised. There must be a more focused phase-down"

The Arthur Andersen report was finalised on June 2 after a draft report was circulated on May 26 Big differences between the two have led to protest from the oil industry

Business Times this week examined the two reports The draft version envisaged R1,5-billion protection for Sasol between 1996 and 2000, R1-billion less than the final report

The draft says the protection received by Sasol "cannot meaningfully be described as anything other than a subsidy" The final report omits this

The draft says the collection mechanism which transfers the support monies to Sasol "is outside the scope of the study".

The final report considers retaining the present mechanism whereby payment is financed from the equalisation fund, but favours a special fuel tax which would exempt Sasol's product

It says "The Sasol Group believes, on the basis of legal advice, that the second option would reduce the risk of countervailing duties (imposed by foreign governments on dumped or subsidised imports) against Sasol's exports on the basis that protection provided to Sasol Synthetic Fuels (SSF) gave an effective subsidy to downstream chemical products"

MARCEL GOLDING

Arthur Andersen says "We believe the results of (our) review ensure that the level of protection recommended cannot be assumed to provide any effective subsidy to downstream activities"

Elsewhere in the report Arthur Andersen says an official view, obtained from Trade and Industry, and apparently confirmed by the World Trade Organisation, is that the present mechanism can be seen as a contravention of various articles of the General Agreement on Tariffs and Trade

The subsidy is not, however, prohibited in terms of Article 3 of the WTO as it is neither an export subsidy nor contingent upon the use of domestic over imported goods.

"But it is actionable if it is limited to a certain enterprise or group of enterprises This clearly applies in this case."

The onus would be on those seeking the duties to show they were justified

Arthur Andersen's Sam Abrahams says the draft report was not supposed to go public He says the report has been accepted by the project committee set up to oversee the study

Mr Abrahams says the matter is a national, highly-emotional issue and is "fraught with personal interests".

The study was totally independent, he says

SA Petroleum Industry Association members are irritated that their submission to Arthur Andersen, which included advice from company lawyer Michael Katz and economist Brain Kantor, was ignored

Mr Kantor has said that Sasol is sufficiently profitable to survive "a big bang"

Sasol has expressed its disappointment with the report but called for the findings to be implemented as soon as possible for planning purposes

INTERNATIONAL BENCHMARKS OF 25 COMPANIES

	Operating margin (%)	ROA (%)	ROCE (%)
[illegible]	[illegible]	[illegible]	[illegible]
Overall	9,4	7,4	10,1
International	9,7	6,9	9,0

Graphic FIONA KRISCH — Source ARTHUR ANDERSEN

New name and direction for Afrox

'CT (BR) 26/6/95 (183)'

STAFF WRITER

African Oxygen (Afrox), the R1,5 billion a year gases, welding and healthcare group, is to change its name and expand into sub-Saharan Africa.

Chairman and managing director Royden Vice says Afrox has repositioned its business to link the group more closely to its 58 percent parent, the R20 billion a year BOC Group

Afrox's core gases business will align itself totally with BOC Gases worldwide and operate in South Africa under the name BOC Gases

According to Vice "Although Afrox has always had access to BOC Gases technology, research and development, it will mean a strengthening of this tie and enable us to now utilise their worldwide marketing initiatives

"One of our business missions is to be a major player in sub-Saharan Africa in all our business areas

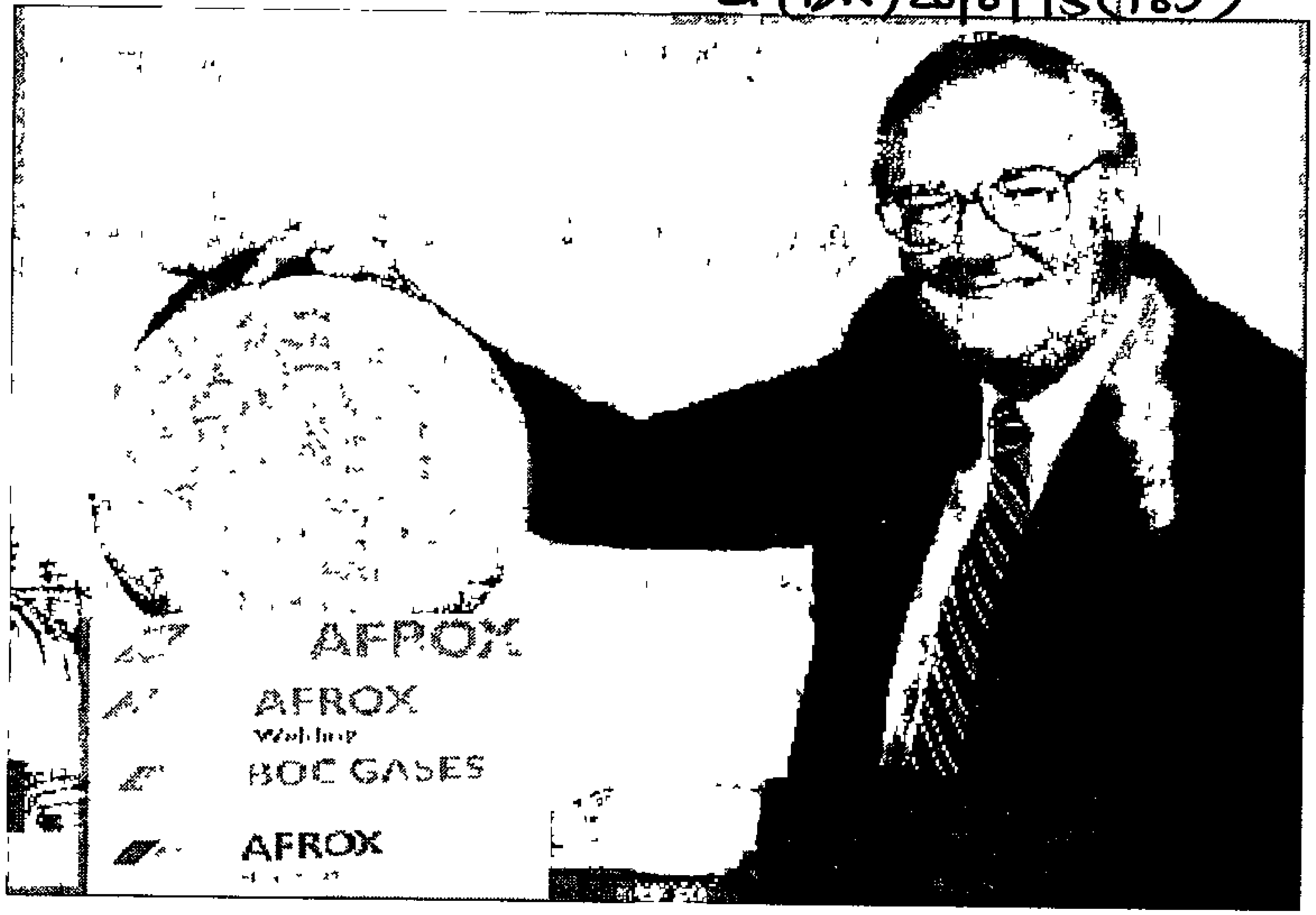
"It is still early days, but since the move to a democratic South Africa slightly more than a year ago, we have purchased a 35 percent share in a gases company in the Seychelles, signed contracts to manage BOC companies in Zimbabwe and Kenya, listed Afrox on the Namibian Stock Exchange, bought a hospital in Botswana and are looking keenly at further expansion opportunities"

Afrox's interests outside South Africa include Namibia (100 percent), Botswana (100 percent), Malawi (78 percent), Mauritius (33 percent), Seychelles (35 percent), Swaziland (100 percent) and management contracts for BOC Gases companies in Zimbabwe and Kenya

"Our welding products," says Vice, "are being well received internationally and we are presently exporting to some 30 countries, where we have made big inroads into several major markets

"The BOC Group is not a manufacturer of welding consumables but is the world's largest distributor of welding products, spending about R1 billion a year

"We are already supplying BOC companies in several countries with our welding equipment and expect this avenue of business to expand further over the next few years"



INTO AFRICA *The chairman and managing director of Afrox, Royden Vice, with the new identities which will take the company into the 21st century*

Engen share recovery expected despite slump

Edward West (183) BD 27/6/95

CAPE TOWN — Engen shares slipped 50c to a five-year low of R21,50 yesterday on expectations of "disastrous" results for the year to end-August 1995, but a recovery could be in the offing next year, analysts said yesterday.

The share price is a far cry from 1993, when it traded above R50. Analysts polled yesterday said lower production volumes due to commissioning of Engen's Genref refinery expansion, tight refinery margins and substantial restructuring costs would disastrously affect the year's bottom line.

Their earnings forecasts for Engen's financial year varied between 110c-140c a share, less than half the 295c a share achieved last year and substantially below the 309c a share achieved in 1993.

Factors which could lead to a recovery of the group's fortunes the next year included additional volumes once the refinery expansion was completed, and an improvement of the refining margin as a result of the upgraded capacity.

Refining margins in general were showing signs of improvement, while the bulk of the groups' restructuring costs — which one analyst estimated at R60m — was unlikely to be repeated and should result in cost saving next year. The growing economy would stimulate fuel demand.

The group had little control over the wholesale margin, which was unlikely to increase until the government and the industry could agree on deregulation.

Engen was quantifying the cost of substantial restructuring Further details, including possible retrenchments, are to be made available in about a fortnight. Exports would begin improving once the refinery started producing at its intended design specifications.

Sasol lashes out at tariff reform

CT(BR) 27/6/95 (183)

By Derek Tommey
Mining Editor

Sasol said yesterday it would resist a proposal to reduce its level of tariff protection to an effective zero rating over the next four years, saying the phaseout of protection should take place over at least eight years rather than four years

Paul Kruger, the managing director, told a media briefing Sasol was highly critical of two aspects of the controversial Arthur Andersen report on the level of synfuel protection afforded to the oil-from-coal company the low level of protection recommended by the report and the four-year time frame for ending that protection

The report, which has also been criticised by the oil-importing industry, calls for a reduction in the imported crude oil price trigger at which Sasol starts to receive protection It wants the protection price reduced from the current $21,40 a barrel to $17 a barrel by July 1999

The report also calls for a cap to be imposed on the cash paid to Sasol It says the cap must initially limit the amount paid to Sasol to 30 percent of the protection to which Sasol will be entitled, and then reduce it to 20 percent by 1999

The report recommends that the level of protection should not be significantly higher than the minimum necessary to ensure the continuation of Sasol's synthetic fuel business

But Kruger argued that this aspect had not been a consideration in any other South African industry when determining protection

"Eighty percent of industry has protection which is not based on their survival mode We think that we have been a little unfairly treated," Kruger said

He said Sasol manufactured its crude oil — unlike the multinational oil companies which imported their crude

"All over the world, import protection is granted to local industries which add value to natural resources"

Arthur Andersen found that Sasol's synthetic fuel business had made and continued to make a significant contribution to the economy It employed about 59 000 people, directly and indirectly, added R6,1 billion a year to low-value coal, saved foreign exchange of R5,6 billion a year and contributed 12 percent of the Eastern Transvaal's gross product

Its contribution to the economy was six times more than the cost of tariff production, a level of protection which was regarded internationally as "modest", Kruger said This protection currently amounted to less than 3 percent of the pump price of petrol

Kruger said there was near unanimity among the 36 organisations and interested parties which made submissions that the protection should at minimum be sufficient to ensure the continuation of the company's synthetic fuel operations

"This is because the business generates general economic benefits far in excess of the costs"

Kruger said the motor and textile industries were recently assured of protection for eight years and that the four years effective protection granted to Sasol was too short a time for a capital intensive industry to adjust

Kruger said the recommendations would cost Sasol about R2,5 billion during the next four years.

"However, the saving to the consumer at the petrol pump would probably drop by only about 1c a litre a year, he said

TARIFF TROUBLE *Paul Kruger, managing director of Sasol, discussing the protection of its synthetic fuel at a news briefing in Johannesburg yesterday With him is executive director André du Toit*

PHOTO JOHN WOODROOF

Sasol set to oppose proposed cuts in import protection

(183) ARGT 27/6/95

Business Staff

SASOL has said it will oppose proposed import protection cuts which would slash its income by R2,7 billion in five years.

Sasol accepted reductions to its import protection, but wanted this done over eight years and not the four recommended in the report by consultants Arthur Andersen, MD Paul Kruger said yesterday

"Synfuels is a capital-intensive industry with a replacement value of some R30 billion. We note that other less capital-intensive industries, have, in line with the General Agreement on Tariffs and Trade, been given far less onerous adjustment terms," Mr Kruger said in his response to the report.

"The motor and textile industries were recently assured protection for eight years"

The Arthur Andersen report, commissioned by the Liquid Fuels Industry Task Force, recommends that the crude oil equivalent floor price, on which the price for synfuels is based, be brought down from the present $21,40 a barrel to $19 a barrel from January, 1996

The report calls for the floor price to be further reduced to $18 a barrel during 1997 and 1998 and to $17 a barrel from July, 1999

If implemented, the recommendations would reduce Sasol's income by R2,7 billion in five years, Mr Kruger said Present protection amounted to less than three percent of the pump price of petrol

The floor price has already been adjusted downwards twice since October, 1993, when it was reduced from $23 to $21,8 and in June, 1994, when it fell to $21,40 These reductions cost Sasol R250 million a year

Mr Kruger said that at current oil prices the Arthur Andersen proposal meant that tariff protection would be effectively zero from July, 1999.

Cumulative protection during the next five years would be less than half of the projected figure based on current oil prices The cumulative loss of revenue would therefore be R2,7 billion in the next five years

Mr Kruger said Sasol would redouble efforts to streamline further its synfuel operations and improve profitability.

Costs would be cut, productivity improved and production yields raised. Sasol would also reconsider capital spending on synthetic fuels plants

"We manufacture our crude oil while the multinational oil companies import theirs All over the world, import protection is granted to local industries which add value to natural resources," Mr Kruger said

Arthur Andersen found that Sasol's synthetic fuels business made a significant contribution to the South African economy It employed nearly 59 000 people directly and indirectly, added R6,1 billion a year to low value coal, saved foreign exchange of R5,6 billion a year and contributed 12 percent of the Eastern Transvaal's gross product

Its contribution to the economy was six times more than the cost of tariff protection — currently less than three percent of the pump price of petrol

Although protection imposed economic costs on users and taxpayers, Arthur Andersen reports that there was near unanimity among the 36 organisations and interested parties which made submissions to the study that protection should, at a minimum, be sufficient to ensure the continuation of the company's synthetic fuel operations

This, the report says, is because the business generates general economic benefits far in excess of the cost.

Arthur Andersen found that the transfer prices of coal and chemical feedstocks were fair and were established at arm's length

Union may put spanner in works

Renee Grawitzky (183) BD 28/6/95

THE movement towards centralised bargaining in the chemical industry could face a major setback as the Chemical Workers' Industrial Union insists minimum wages be negotiated within the national industry forum, as opposed to sectoral forums.

This position was endorsed at the weekend by the union's national executive in reaction to employer responses to proposals on the establishment of centralised bargaining structures in the chemical industry.

The union said although employers responded positively to the establishment of sectoral forums, a commitment had not been given to negotiating wages at industry level. The union said "there will be no agreement unless employers agree to negotiate wages centrally at industry level".

A spokesman for the petroleum industry said employers had agreed in principle to minimum wages being negotiated within sectoral forums. It was possible further compromises could be found through negotiations and depending on union responses to employer counter-demands.

The union said whether there was industrial action depended "entirely on employers' responses".

It is believed employers are concerned that a settlement will not be achieved if employers do not agree to all union demands.

Sasol stable in wake of report on protection

(183)

MD 28/6/95

Mungo Soggot

SASOL's share price yesterday showed little movement following the release of the Arthur Andersen recommendations on its tariff protection, which could result in the synthetic fuel producer losing R2,7bn over the next five years.

The share closed at R35,50 from Monday's R35,60

Analysts said the price had already more than discounted the possibility of Sasol's tariff protection being removed in one swoop, so the recommendations from the report — most of which had already been leaked — had had little impact on the counter.

Another said many players had found the recommendations less drastic than feared. Uncertainty about government support for Sasol was the main factor in the share's decline, but implementation of the report would be positive.

"The most important thing is that uncertainty ends as soon as possible."

It remained to be seen whether the liquid fuels task force would back the report when it met next month

Despite the uncertainty, analysts said Sasol was set for earnings growth of more than 20% this year and its lucrative chemical business was "steaming ahead".

Even if Sasol had no tariff protection at all from now, it would post earnings growth of 11% next year.

He said if the report's recommendations came into effect, Sasol could do very well if the oil price went up.

BUSINESS DAY, Wednesday, June 28 1995

Allegations fuel row

Mungo Soggot (183) 28/6/95

CONSULTANT Arthur Andersen has rejected the SA Petroleum Industry Association's allegations that it was swayed by Sasol in its investigation into the group's tariff protection.

Arthur Andersen said yesterday it could not tolerate having its integrity and credibility questioned.

The association's allegations in a news release had not been consistent with what the association's representative had said at Monday's meeting of the liquid fuels task force of the National Economic, Development and Labour Council (Nedlac).

Arthur Andersen said it was considering its options and had approached Nedlac to deal with the association's allegations.

The association said: "There can be no doubt that influence was exercised by Sasol on the entire process into the investigation of their subsidy. The net result of this process deficiency is a report that is not independent and is of limited scope and transparency."

Liquid fuels task force meeting chairman Gert Venter said he had challenged all representatives at the meeting to question the consultants' independence and none had done so.

The association said it had at no time questioned Arhur Andersen's integrity and had stated so at the meeting. Its attack was aimed mainly at the process which had led to the report.

The terms of reference had been drafted by Sasol and labour representatives from the task force — which also has business and government representatives — and those not involved had been given little time to approve them. The association had complained that the terms of reference were too narrow.

● Comment: Page 10

Petrol price to rise by (183) cent a litre

ARG 28/6/95

JOHANNESBURG — South Africa's official Central Energy Fund (CEF) said the retail price of petrol would rise by one cent a litre on July 5 after remaining unchanged since May 3

In a statement it said the price of 93 octane petrol in the inland Gauteng province would rise to 188 cents a litre from 187 cents The coastal price would rise to 178 cents a litre from 177 cents

The fund said the international price of petrol, which is used to calculate the local price, increased marginally over the period May 26 to June 25

Although the rand strengthened against the dollar towards the end of the period under review it was weaker on average during the period.

The government last year instituted monthly adjustments to fuel prices.

The price of diesel would rise three cents a litre to 175 cents inland and 165 cents on the coast.

The price of illuminating paraffin inland would remain unchanged at 103,43 cents a litre — Reuter present, I think that Question 6 will have to stand over

Automatic granting of amnesty

*7 Mr D M BAKKER asked the Minister of Justice †

Whether his Department has made any proposals to him in respect of the automatic granting of amnesty, if so, (a) on whose initiative were these proposals made, (b) what was the content of these proposals and (c) what was his reaction thereto?

N858E

Hansard 28/6/95

The MINISTER OF JUSTICE

No However, the Head of the Office for Indemnity, Immunity and Release expressed a point of view to the Senate Justice Committee

(a) The said officer made the proposal on his own initiative

(b) The suggestion put was that the President should create a new category in terms of section 2(1) of the Indemnity Act, 1990 (Act No 35 of 1990), by virtue of which any person who before 6 December 1993 committed an offence with a political objective relating to the conflicts of the past, would automatically acquire indemnity in respect of any such offence, provided that no person was killed or seriously injured as a result of the commission of the offence It was further proposed that the President, in terms of section 82(1)(k) of the Constitution of the Republic of South ~~Africa, 1993~~ (Act No 200 of 1993), should remit the sentences imposed on persons in respect of offences of the said nature

(c) The proposals are being studied

The DEPUTY MINISTER FOR SAFETY AND SECURITY Mr Speaker, the Minister of Correctional Services was called away suddenly, but I understand that he is returning to the House I wonder if Question 8 could stand over until he arrives.

The DEPUTY SPEAKER . we have time

Certain person appointed as personal adviser

*9 Mr J A MARAIS asked the Minister of Defence †

(1) Whether a certain person, whose name has been furnished to the South African National Defence Force for the purpose of his reply, was appointed by him as personal adviser, if so, (a) what is the name of the person, (b) from what date is this appointment effective and (c) for what remuneration has the person been appointed,

(2) whether this person has been involved in any criminal activities at any stage, if so, (a) what was the nature of the activities and (b) in respect of what date or dates is this information furnished?

N862E

The MINISTER OF DEFENCE

(1) Yes I have appointed a special adviser

(a) He is Adv Fana Hlongwane,

(b) with effect from 1 November 1994

(c) Regarding salary and qualifications I respectfully refer the hon member to my written reply to Question No 62 in the Senate on 5 May 1995, in which I provided comprehensive details

(2) No I have been informed by my adviser and according to SA National Defence Force records he has not been involved in any criminal activities, and (a) and (b) therefore fall away

The DEPUTY SPEAKER Order! I note that the hon the Minister of Mineral and Energy Affairs has returned to the House Perhaps he would now like to deal with Question 6

Storage facilities for crude oil at Saldanha

*6 Mr A S BEYERS asked the Minister of Mineral and Energy Affairs † (1837)

(1) Whether Iran has indicated that that country wishes to acquire storage facilities for crude oil at Saldanha, if so, what are the relevant details,

(2) whether it has been decided to accede to this request, if not, what is the position in this regard, if so,

(3) whether it has been established whether such storage of crude oil will have an effect on the environment, if not, why not, if so, what are the relevant details,

Hansard 28/6/95

(4) whether he will make a statement on the matter?

N857E

The MINISTER OF MINERAL AND ENERGY AFFAIRS

(1) Yes, Iran is interested in leasing storage facilities for crude oil in Saldanha The negotiations are being conducted by SFF Association, the government body responsible for the facility, and the Minister of Mineral and Energy Affairs is being kept fully informed These are commercial negotiations and since other parties have expressed similar interest it would not be in the interests of South Africa to disclose the details before any agreement has been reached with Iran or with other parties

(2) No agreement has yet been concluded with Iran or any other interested party The current negotiations originate from a Cabinet decision on 28 September 1994 that under-utilised storage facilities resulting from the reduction of strategic stock be leased to oil-producing countries

The target level for strategic stock as approved by Cabinet is 35 million barrels, of which 10 million barrels are to be stored inland at Ogies, and 25 million barrels at Saldanha Saldanha has a total capacity of 45 million barrels The 25 million barrels of strategic stock planned for Saldanha will leave an under-utilised capacity of 17 million barrrels after providing for the three million barrel capacity leased to a local oil company

(3) Crude oil has been stored in Saldanha since January 1980 Since this date 545 cargoes of crude oil of an average of 1,5 million barrels each have either been imported or exported from the harbour without any effect on the environment

The handling of crude oil, however, remains a hazardous operation which can have serious detrimental effects on the environment in case of an accident

The following measure are taken to prevent accidents and, should an accident occur, to prevent or minimise any damage to the environment

— Strict quality control policies, procedures and standards are applied to ships, their owners and crews before ships are allowed to enter the harbour The performance of ships and crews is monitored during loading and discharge and ships that do not maintain the required quality standards are blacklisted

Due to the possibility of increased crude oil traffic in the harbour resulting from an agreement with an oil producing country, an environmental impact study has been commissioned to determine the effect that increased traffic may have on the environment and what additional steps may be needed to minimise the impact on the environment

— A substantial amount (R25 million) has been invested in oil pollution control equipment in Saldanha. The responsible people are fully trained in handling this equipment and prevention as well as contingency plans are regularly reviewed The equipment includes an oil pollution control vessel named *Plus Ultra*, a name implying a task that transcends the normal The technical capacity of this ship compares with the best in the world The skimmer which gathers oil slick from the surface of the sea is the largest of its kind in the world Instead of importing a vessel or having one constructed in South Africa, SFF bought an existing vessel and had it refitted in Cape Town, saving about one million rand in doing so

(4) I will make a statement on this matter at the appropriate time

The DEPUTY SPEAKER Order! I note that the hon the Minister of Correctional Services is now available Could he deal with Question 8?

Abolition of death penalty

*8 Mr G C OOSTHUIZEN asked the Minister of Correctional Services †

(1) Whether it has been established (a) whether the implications are implicit in the long-term detention of prisoners whose death sentences were lifted by the Constitutional Court and (b) whether the abolition of the death penalty will lead to an increase in the number of prisoners to whom long prison sentences are handed down, if not, what is the position in this respect, if so, what are the relevant ~~details,~~

Hansard 28/6/95

(183)

Petroleum industry rejects Sasol report

ET (BR) 28/6/95

By Derek Tommey

Staff Writer

The oil industry row over protection for Sasol's synthetic crude has intensified with the South African Petroleum Industry Association announcing last night that it rejected in its entirety the Arthur Andersen report, describing it as "hopelessly inadequate"

Arthur Andersen recommended that the protection afforded Sasol should end by 1999 Sasol has objected to this proposal and has called for an eight-year phasing-out period

The petroleum association said it intends pursuing statutory and other alternatives to the Arthur Anderson report "as a matter of extreme urgency"

It harshly criticised the report, alleging that Sasol exercised an influence on the entire process of investigation by Arthur Andersen into the subsidy

"The net result of this process is a report that is not independent and is of limited scale"

The association claimed the Arthur Andersen report failed to properly address several issues, including the macro-economic effects for foreign and other local investment on payment of a subsidy to a single local private sector company It did not investigate the distortions generated in the industry as a result of the subsidy, and it failed to consider the subsidy question relative to the rest of the oil industry and national economic policy as a whole

It said there were "gross omissions of facts relevant to key conclusions throughout the report

"There are several deficiencies in the assumptions on which the report is based"

One was the implicit assumption that the subsidy should be continued on the basis of an historical undertaking, another was the failure to substantiate the basic premise that the "subsidy should be the minimum necessary to ensure survival or an incentive to continue operations"

It also challenged "the implicit assumption that there is a greater public interest in the survival or profitability of Sasol than in any other enterprise"

The association said there were deficiencies in methodology and interpretation, including "the failure to address Sasol's historical and ongoing inefficient use of capital and the shallow interpretation of capital investment, gearing and financial return indicators relative to the benchmark group"

The report failed to meet the criterion of maximum transparency, the association said

It said the study was carried out under unrealistic time constraints Consequently Andersen simply did not have enough time to do the job properly

"Andersen has exercised the wrong judgment in responding to the time pressures by ignoring relevant submissions and data"

Petrol goes up again next week

(183)

■ BY MICHAEL SPARKS

Star 29/6/95

Motorists face another petrol price increase on Wednesday, when the retail price of petrol in Gauteng goes up by 1c a litre, the Central Energy Fund (CEF) announced yesterday.

This means that the petrol price will have increased by 15c a litre since the beginning of March, with a litre of 93 octane petrol increasing to R1,88 at the pumps in Gauteng. At the coast the increase is from R1,77 to R1,78 a litre.

The price of diesel is to rise 3c a litre to R1,75 inland and to R1,65 on the coast, illuminating paraffin will remain R1,04 a litre.

SA Chamber of Commerce economist Keith Lockwood was upbeat about the short term prospects for the economy in general and did not believe the increase would have a significant effect on inflation.

If there was no increase in the international petrol price, the performance of the rand against major currencies meant the petrol price could drop over the next few months, he said.

"Although fuel increases do push up inflation, there are other factors which are having a neutralising effect on inflationary pressures."

These included a slowing in the rate of increase in food costs, a rallying in the value of the rand against foreign currencies, and the imminent scrapping of import surcharges, he said.

Dr Ockie Stuart, director of the Bureau for Economic Research at Stellenbosch University, agreed, adding that inflation was likely to drop later in the year since food prices had stabilised.

Big Taiwanese stake in Mossgas on the cards

CT(BR) 29/6/95 (183)

By Neil Behrmann
London Correspondent

Montreux, Switzerland — A multi-billion dollar investment by Taiwan in South Africa's petro-chemical industry is imminent

Negotiations of the massive investment, which is likely to involve Mossgas, are in the final stages A delegation led by Zavareh Rustomjee, the director general of trade and industry, will fly from Switzerland to Taiwan to discuss details

Rustomjee was tight-lipped on whether a deal was about to be clinched Yet the talks were being conducted at a "high level" and "this is an indication of serious resolve", he said Representatives of the petro-chemical industry were already in Taiwan

The investment will be less than the R37 billion originally mooted, he said Potential for 400 000 jobs was also exaggerated in earlier media reports, he said

Costings would be based on an independent study that was commissioned by Taiwan, he said

Supplies to the Taiwanese petro-chemical downstream industries, notably plastics, will be constrained in coming years, Rustomjee said So industries wanted to assure themselves of future supplies, he said

Meanwhile, trade minister Trevor Manuel signed an investment protection code between South Africa and Switzerland in Berne on Tuesday A similar agreement was forged with Germany last week, following pacts with Britain and Italy

The code liberalises inward and outward investment between the European nations and South Africa, officials said Negotiations relating to the General System of Preferences have been positively received by the European Community hierarchy, said Manuel

Conditional

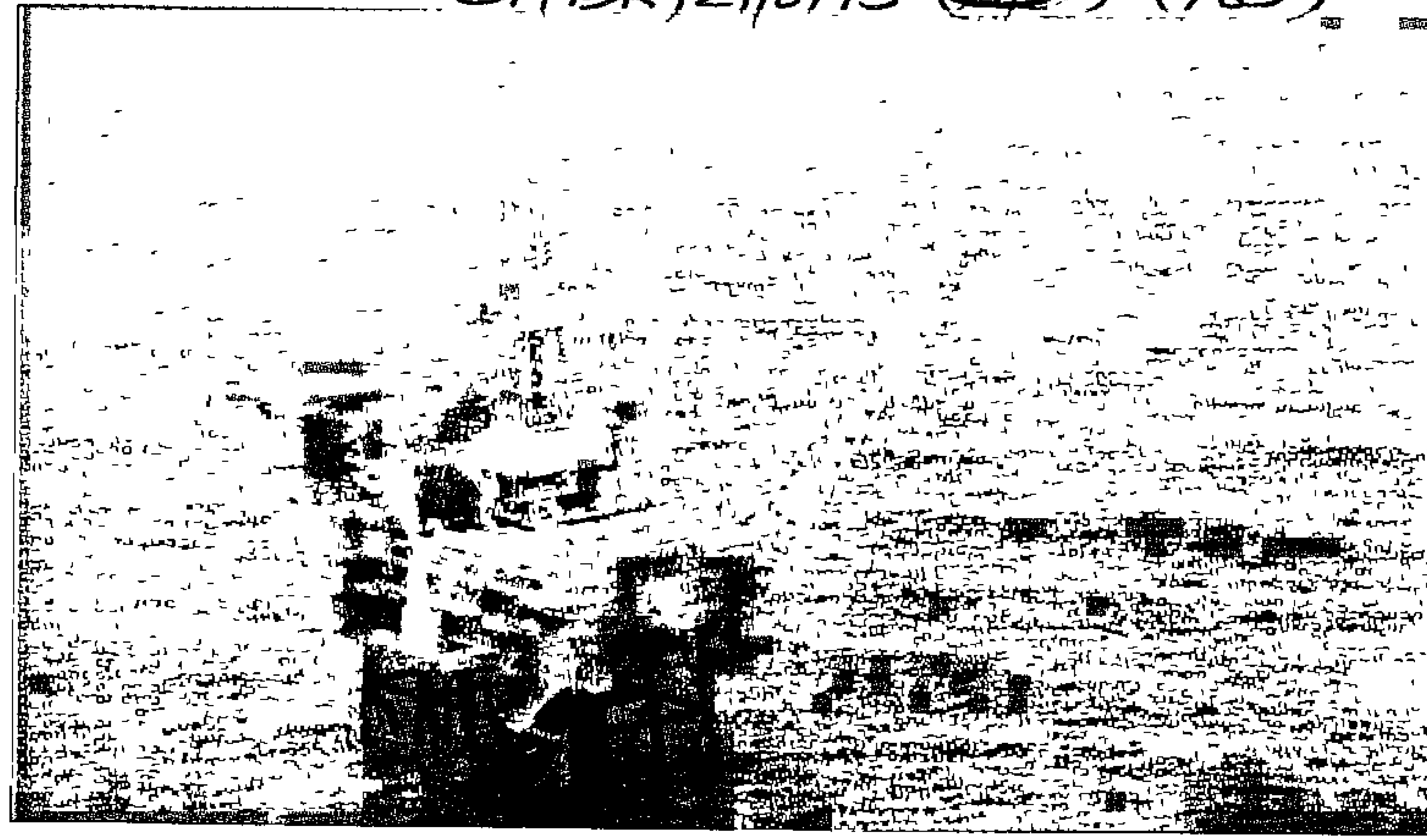
Negotiations for South Africa's entry into the Lomé convention, which allows Commonwealth nations such as Caribbean countries better access to the common market, are proceeding slowly, he said Yet South Africa is likely to gain "conditional" access, particularly in regard to sugar, the main export of the Caribbean countries

Manuel also led top South African industrialists on a "roadshow" to Frankfurt, Stuttgart, Cologne and Munich, before arriving at a conference on South Africa here Officials from the South African Industrial Development & Investment Centre were also present. From Switzerland, they will leave for Japan and South Korea and have investment roadshows there

"We aimed at attracting investment from middle-sized German companies," said Manuel The interest was considerable and about 420 German delegates attended, he added

"We were targeting companies that could invest in South African metals and engineering firms, auto-component industries, electricity and electrical goods and chemicals"

"Key executives of Eskom, Columbus, Alusaf, Sasol and others were at the German roadshows," said Hartmut Beckurts, counsellor at the South African embassy in Bonn and former managing director of Atlantis Diesel Engineering



SEARCHING FOR GAS *One of Mossgas' drilling rigs south of Mossel Bay*

SASOL

Worth looking after

183

FM 30/6/95

Sasol has a strong case for subsidy until it can do without support

Arthur Andersen, in a newly published report commissioned by the Liquid Fuels Industry Task Force, has called for the scaling down of Sasol's synthetic fuel protection formula. Within 24 hours of publication, the news reached SA of an attempt on the life of Egypt's President Hosni Mubarak. This coincidence is a harsh reminder of why the Western world — including SA — must continue to beware of reliance on the Middle East, still the world's main source of internationally traded oil.

The synthetic fuel industry originated from the need to develop a defence against oil sanctions The lingering animosity towards Sasol as a creature of apartheid could still easily cloud the issue of the future level of protection for synthetic fuel — a decision that needs to be taken on a sound economic basis in the contemporary international context.

The collapse — in the mid-Eighties — of Opec's former stranglehold on the oil price has resulted in a price structure that has been stable and low (except for the brief surge during the Gulf War against Iraq). Now the price of Brent crude (from

ever form) that ensures the survival of Sasol's synfuel without it becoming a national give-away is easier said than done We owe a debt of gratitude to Arthur Andersen for compiling a meticulously crafted analysis of the arithmetic of protection This report incorporates much original accounting research to arrive at figures comparable with those based on Sasol's recently reorganised structure, which segregates the synfuel activities into SSF

The report gives painstaking consideration to the important issue of transfer prices between Sasol's various arms These include the crucial issue of the price of coal fed into SSF and that of chemical intermediates tapped off from the synfuel trains for use by Sasol Chemical Industries and by partly owned Polifin Though Arthur Andersen considers the transfer prices currently used within the Sasol group to be sound, it has shaded them

Sasol argues that it needs more time to recapitalise SSF using its latest technology, especially the fixed fluidised bed synthol reactor, and so enable it to become competitive even with a base reference price for oil reduced from the current \$21-\$40/barrel to just under \$17/barrel by the year 2000 (see table)

The effect of the Arthur Andersen proposals will be to reduce Sasol's receipts from the protection mechanism by R2,7bn over the next five years At the present oil price, the protection would cease at the end of the transitional period

Sasol also points out that its assistance for financial 1993-1994 was less than a sixth of its contribution to GDP (around R6bn) and less than a fifth of its foreign exchange savings.

The SA Petroleum Refiners' Association says Sasol has no claim to special treatment, which it says will persist even under the reducing scale of protection proposed by Arthur Andersen Its press release also raises many procedural objections to the Arthur Andersen study

Sasol MD Paul Kruger has, however, made the point that Sasol opened its books fully to the investigators, which the oil companies have declined to do In the last resort, the refiners complain that there is no real investigation of the macro-economic effects of the assistance to Sasol, nor of the consequences in terms of unfair competition for the oil companies, nor of the implications for foreign investment of the payment of assistance to a local company only

The relationship between the oil companies and Sasol is contradictory because Sasol is a supplier of refined fuel to them and a competitor (through the Natref refinery run in partnership with Total)

Complex relationships of this sort are common in the petrochemical and liquid fuel industries Though Sasol would claim nothing in principle prevents a manufacturer of synfuel from entering retailing, there is a lot of political history built into its present powerful position

Regardless of the legitimacy of Sasol's ambitions to extend its retail marketing of petrol, there is a strong case that it has already strayed out of its core businesses of synfuel and related petrochemicals by becoming an oil refiner

Perhaps it should re-evaluate the merits of restraint — of divesting itself of Natref and even abandoning the Blue Pump Its relations with the oil companies might thereby cease to be adversarial It would be free to grow in its core businesses and undoubtedly remain the main manufacturer of liquid fuel in the inland SA market

What needs to be addressed concurrently is the level of protection now being given to Mossgas — roughly R300m in 1993-1994, compared with Sasol's R980m Mossgas also received additional assistance because the oil companies had to export part of their output at a loss as it could not be accommodated locally

The most dedicated fuel strategist cannot pretend that this misguided venture can ever deliver Sasol's potential benefits The gas will soon run out

If Mossgas cannot be switched to produce methanol during the remaining lifespan of the gas, it should be shut and this part of the national synfuel assistance bill salvaged with immediate effect

Arguably, the money could be used to moderate the stringency of the Arthur Andersen programme by providing a slower scaling down of assistance — which Sasol considers it needs to make it through the adjustment process ■

Glaxo takes an interest in SA plague

ST(BT) 2/7/95 (183)

By ZILLA EFRAT

GLAXO, the British pharmaceutical group, has embarked on a R60-million project in South Africa aimed increasing understanding of tuberculosis and finding new drugs and vaccines to cure and prevent it.

SA scientists say that TB is not usually a "rewarding disease" for pharmaceutical companies to research because it mainly occurs in the Third World, where those who contract it are largely unable to pay for treatment. The most recent TB drug was developed over 20 years ago.

Action TB, Glaxo's project, is the biggest research project under way in South Africa and the largest single source of funding worldwide for research into TB, a disease that kills 3-million people a year.

Martin Jennings, Glaxo's corporate affairs manager, says this is the first time Glaxo has funded basic research in South Africa.

The country was chosen because of its unique blend of First and Third World elements — represented by the standard of its research scientists and an outbreak of TB in the western Cape.

The five-year programme will unite research departments of three British and seven SA universities; 85 SA scientists are involved.

All aspects of the TB bacterium and its spread in a community are being studied A facility has been built in Pretoria which produces research material for scientists around the world.

Using geographic information and computer mapping systems, scientists are plotting the spread of TB "almost household by household" in the Western Cape, where some of the highest incidents of TB in Africa have been reported.

In addition, infected adolescents are being studied to understand further immunology through hormonal changes.

In 1993, the World Health Organisation declared TB a global emergency. Since then 6-million people have died from the disease and 60-million have been infected with it.

The WHO says while TB is the world's greatest infectious killer of adults, funding for TB has been severely neglected. Less than 1,5% of foreign aid is devoted to it and only a handful of institutions have increased their efforts to established more effective control programmes.

Mario Ehlers, head of UCT medical school's department of bio-chemistry, estimates that world sales for all TB drugs total less than $200-million a year while it could cost between $200-million and $300-million to develop a new drug.

Professor Ehlers says it is believed that one third of the world's population is infected with TB but only 10% actually develop the disease.

Infection occurs after one breathes in bacteria expelled in the sputum coughed up by someone who has the disease. The disease takes hold when the body's immunity is low because of malnutrition or diseases like AIDS and cancer. Signs of infection include weight loss, night sweats and coughing up blood.

Peter Donald, head of the University of Stellenbosch's department of paediatrics and child health, says the spread of AIDS could lead to the doubling of TB cases in the near future.

In some African countries, 60% of TB sufferers are HIV positive in what is being called the "cursed duet".

Glaxo's Action TB project began in 1993 but, according to Mr Jennings, it could take up to 12 years before a drug is brought to the market.

The vaccine given to infants reduces TB in children but not in adulthood and curative drugs must be used for six months even though the patient feels better earlier on.

Professor Ehlers says this has resulted in a problem particularly in places like New York, where resistant strains of TB have emerged because people stopped taking the drug too soon.

PETROPLAYER . Roy Pithey, chairman of the Central Energy Fund, a leading partner in government's search for a Mossgas investor

Mossgas offers a R4bn sweetener

ST (BT) 2/7/95 (183)

By KEVIN DAVIE

THE "For Sale" notice on fuel-from-gas plant Mossgas comes with a huge drawcard — a multi-billion-rand assessed tax loss.

Roy Pithey, chairman of the Central Energy Fund, confirms the tax loss is currently about R4-billion but that the total will "peak at a higher number".

Mr Pithey declines to specify the total expected tax loss which the new owners could inherit, but the figure is understood to be between R7-billion and R8-billion.

Energy Minister Pik Botha has announced that Mossgas is for sale and possible interested parties include a consortium of SA chemicals' companies, including Sasol, Sentrachem and AECI.

There is also the possibility that Taiwanese companies may enter into joint ventures with these companies and/or the Central Energy Fund, the parastatal which houses the state's interests in Mossgas, Soekor and the Strategic Fuel Fund.

Potential Taiwanese investors were briefed on Friday in Taipei by London-based Chem Systems, which has undertaken a study funded by the Republic of China, Taiwan, to facilitate investments in South Africa's chemical sector.

One mooted investment, by Taiwan fibre giant Tuntex, would create an $8-billion petrochemical complex.

Trade and Industry director-general Zav Rustomjee attended the presentation to show the government's support for the Taiwan government's initiative

Also present were representatives of major SA chemical companies, the Central Energy Fund and Industrial Development Corporation.

Chem Systems' Terry le Roux says the idea of putting together potential Taiwanese and SA investors was achieved

He says Dr Rustomjee's presence indicates that the SA government is serious about attracting new petrochemical investments.

Dr Rustomjee would also have had an opportunity to hear first hand that SA's current fiscal regime is not competitive with alternative destinations available to Taiwanese investors

Mr le Roux says while Trade and Industry does not set fiscal policy, Dr Rustomjee will be able to pass this message on to the Finance Ministry.

He says Mossgas's assessed tax loss did not form part of his study or presentation He says the study concentrates on the technical, commercial and economic fundamentals of the SA petrochemical industry.

Mr Pithey says the assessed tax loss may be a consideration in assessing the value of Mossgas when it is privatised.

He says the South Africans are not in Taipei to sell Mossgas.

"We want to show that we are serious in our desire to attract petrochemical investments to South Africa."

Mr Pithey stresses that the investigation into Mossgas's future is still in an exploratory phase There are a number of different ways of turning its infrastructure around

Some of these conflict with one another, meaning that there will have to be careful consideration to arrive at an outcome which maximises Mossgas's potential

The Sasol strategy for backing losers

(183) ST(BT) 2/7/95

A ridiculous economy would arise if the thinking behind the Arthur Andersen report on Sasol's subsidies was universally applied, argues KEVIN DAVIE.

IT is well-known that as the gold price falls many of South Africa's gold mines become marginal or loss-making concerns.

Since these mines employ tens of thousands of people and earn substantial amounts of foreign exchange, a case could be made for subsidising them.

It would be possible, for instance, to benchmark 23 gold mining companies in South Africa and internationally and use their rate of return to arrive at an acceptable rate of return for the higher cost mines.

Then a "floor" gold price could be calculated and a means found for the fiscus to subsidise them.

The problem with this approach, though, is that any SA company which employs people and earns or saves foreign exchange could use the same methodology to ensure its survival.

Mossgas, for instance, could benchmark itself against 23 comparable businesses to end up with its own floor price and guaranteed return on investment.

These scenarios are, of course, ridiculous. No policymaker of right mind would try and run an economy on this basis.

Yet this — oil industry spokesmen say — is exactly the course of action which auditors Arthur Andersen have proposed for synthetic fuel producer, Sasol, in its report tabled at the National Economic Development and Labour Council this week.

Arthur Andersen used "reconstructed financial information" to arrive at Sasol Synthetic Fuels' (SSF) financial data during the past three years.

SSF is the Sasol division which houses its giant synthetic fuel plants at Secunda. It contributes 43% of Sasol's operating profit.

Arthur Andersen compared SSF's financials with 23 SA and international companies.

"The companies selected included integrated oil companies, petrochemical companies and refining companies with turnover of the same magnitude or comparable refining capacity," says the Arthur Andersen report.

It found that on the key indicators of operating margin, return on assets (ROA) and return on capital employed (ROCE) that SSF was "significantly higher than the benchmark groups" if its R1-billion subsidy was included.

"When protection is removed, SSF's performance is significantly worse than the benchmark groups."

Arthur Andersen calculated that SSF would need a floor price of $19 a barrel this year falling to $17 in 1999. "If not, the continuation of the business, and the investment required, would appear unattractive to the Group."

The new "floor price" proposals will amount to a subsidy of R2,5-billion during the next five years, assuming that current oil prices prevail.

The recommendation has been attacked, particularly by the oil industry, as an affront to a sensible economic policy.

Colin McClelland, a spokesman for the SA Petroleum Industry Association, says any large corporation which saves foreign exchange or employs large numbers of people, could claim a subsidy.

Brian Kantor, the University of Cape Town economics professor who is advising the oil industry, says the report ignores basic economics explained by Adam Smith more than 200 years ago.

Professor Kantor says it is a mistake to try to separate out Sasol's synthetic fuels business.

"Its operations are integrated. There is no objective way of separating out synthetic fuels."

He says there is no case for continuing subsidies to Sasol. The group is sufficiently profitable to continue without any subsidies or tariffs.

The argument that Sasol should be subsidised to protect the balance of payments is "upsetting to me. If you were going to subsidise to protect the balance of payments, where would you stop?".

Professor Kantor says stopping subsidies to Sasol will not negatively affect the balance of payments as Sasol can meet its costs and will still be profitable without subsidies or tariffs.

He says tariffs should be distinguished from subsidies. A tariff is imposed on imports at the point of entry and the revenue accrues to the state.

In Sasol's case its protection gives it a cash infusion and so is a subsidy.

Sasol may invest less if its subsidies are cut but this would be "entirely appropriate. If the investments can't be justified (without subsidies), they have no right to make those investments.

"We have inherited an uncompetitive economy. The unions have an interest in maintaining this economy.

"Sasol and others have marshalled the interests of the unions."

Arthur Andersen's John Donnelly says the rationale underlying the level of protection recommended is based on the view that the financial performance of SSF should be sufficiently strong that it would not be in the best interests of the Sasol group to discontinue the synfuel operations.

"We believe that a competitive synfuel business is achievable by 2000. This is healthy within the context of the national economy and reduces the exposure of the economy to external shocks."

Mr Donnelly says SSF is unique in its operations, strategic imprtance to South Africa and contribution to the economy.

"It is invidious to make comparisons with other industries or sectors where many operationally similar suppliers compete in an open market."

Mr Donnelly says Sasol's view that it should be compared with other manufacturing businesses is also inappropriate.

He says subsidies should be avoided, but in Sasol's case the contribution made by SSF to the economy outweighs the cost.

"The benchmarking analysis was never intended to be, nor was it used as, the basis for assessing an appropriate level of profitability or return.

"Arthur Andersen did not seek to determine an absolute value for the appropriate rate of return, but assessed the value of projected pre-interest and tax cash flows at discount rates of between 20% and 35%."

Mr Donnelly says Arthur Andersen recognised that other operations in Sasol are closely linked with SSF. It made adjustments where appropriate to reflect the contribution of SSF to overall profitability.

Sasol's Alfonso Niemand responds to Professor Kantor by saying "he is a paid adviser to the oil companies. Our understanding is that he is a macro-economist and not an expert on tariff protection.

"Nor is he an expert on the synfuels industry."

Mr Niemand says differences between Professor Kantor's and Arthur Andersen's views should be seen in the light of Arthur Andersen being an independent, internationally reputable firm of auditors, which made use of numerous experts.

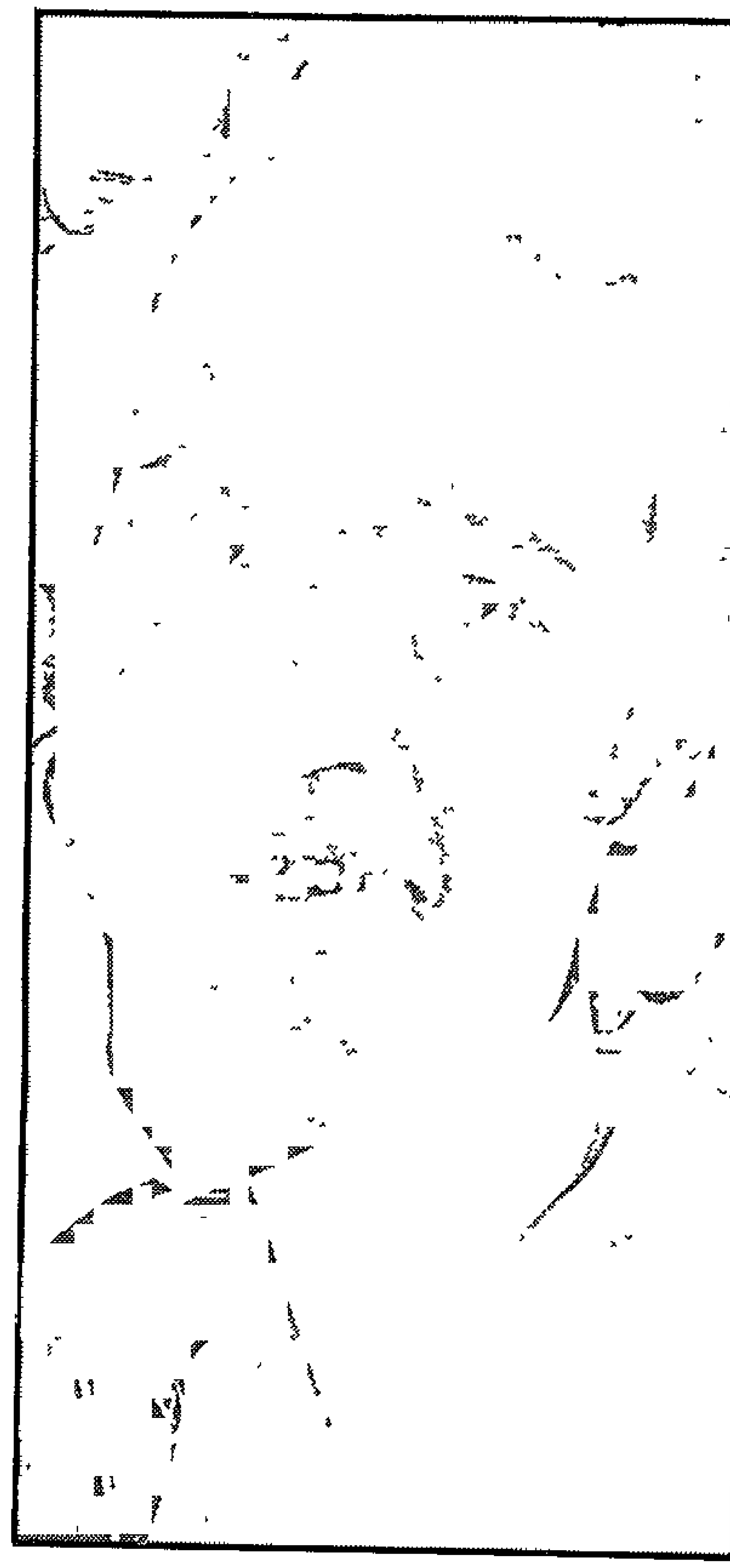
"While Sasol strongly disagrees with its recommendations we believe their study is an authoritative view."

Mr Niemand says the practice worldwide is to grant protection to industries as opposed to specific companies.

"For example, integrated oil companies have chemical operations which receive protection irrespective of the holding company's profitability."

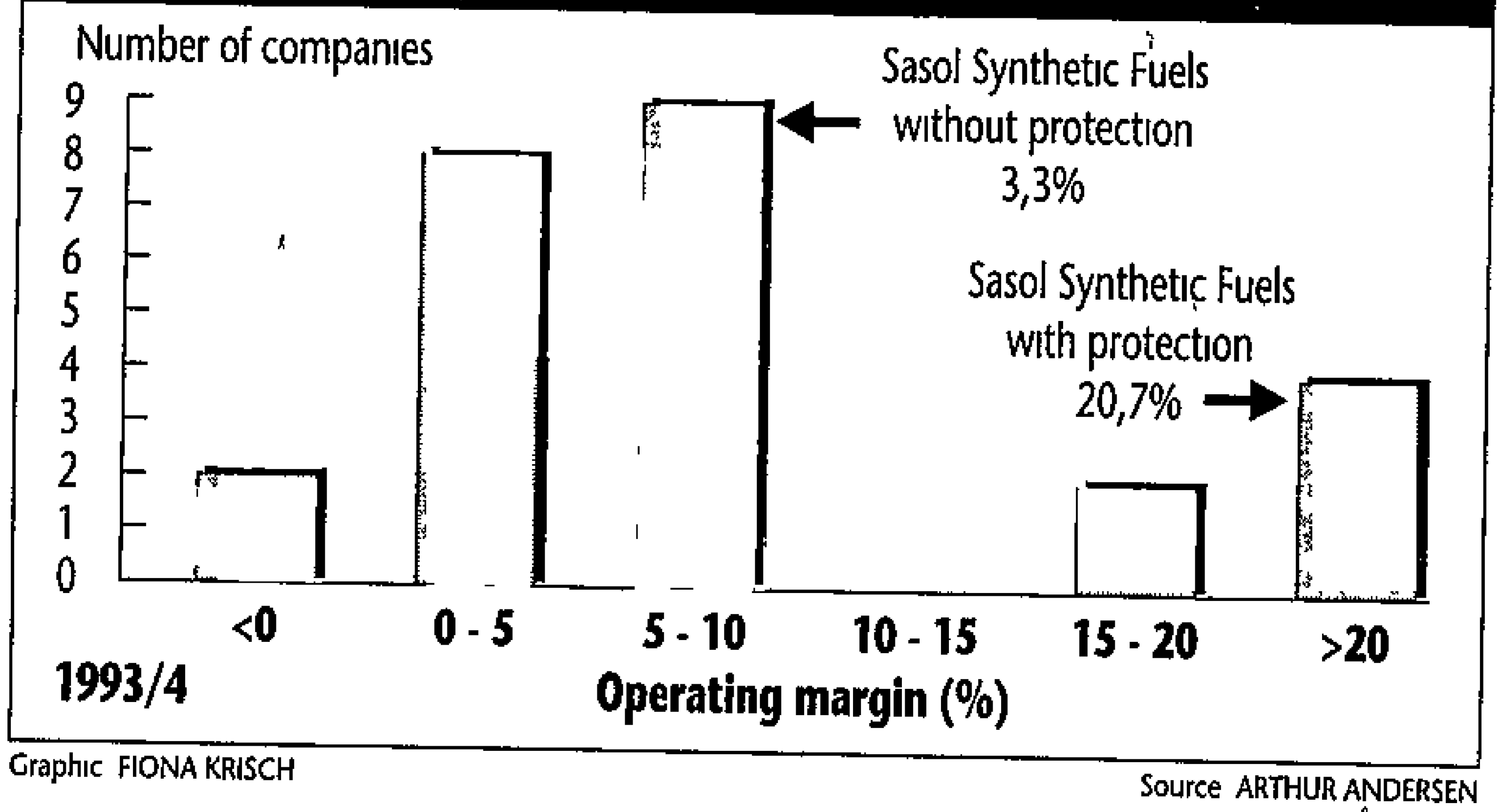
He says Sasol's synfuels is a crude oil manufacturer. "Sasol accepts that tariffs will go down but asks for equal treatment with other local manufacturers regarding the phasing down period.

"Synfuels is a capital-intensive industry and requires adequate time to restructure so as to mitigate the effects of the drastic reduction in protection that is proposed by Arthur Andersen."



BRIAN KANTOR: Audit ignores basic economic theory

OPERATING MARGINS FOR 23 SOUTH AFRICAN AND INTERNATIONAL COMPANIES



Graphic: FIONA KRISCH

Source: ARTHUR ANDERSEN

BUSINESS REPORT, MONDAY JULY 3 1995

Mossgas not included in investment report

(183)

CT(BR) 3/7/95

Negotiations on possible Taiwanese investment in South Africa's petrochemical industry would not necessarily include Mossgas, according to the minister of mineral and energy affairs, Pik Botha

"The main purpose of the visit to Taiwan is to explore investment opportunities, particularly in the petrochemical field, which do not exclude Mossgas but would not necessarily include it," he said.

Negotiations would be based on draft reports completed by British-based consultancy Chem Systems, which do not include specific reference to Mossgas "Chem Systems took into account all available options in the petrochemical field in South Africa in its draft report which will be discussed by the Taiwanese and South African delegations," said Botha

The team visiting Taiwan includes the director general of trade and industry, Zav Rustomjee, the deputy general manager of the central energy fund, Howard Roberts, and representatives of Sentrachem, Sasol, Polyfin, the IDC and labour — Reuter

Petrol retailers want margins increased

05/07/95 (183)

Mungo Soggot

THE Motor Industries' Federation, which represents some fuel retailers, had called on government yesterday to increase their retail margins, which had been static since 1993, executive director Vic Fourie said yesterday.

He proposed a 1,5c/l to 2,5c/l increase. In September 1993 there was a 0,5c/l increase to 15,6c/l.

Fourie said fuel retailers were being squeezed by a 13% to 19% increase in the sector's minimum wage and by the costs of improvements in medical and pension benefits.

He said the Fuel Resellers' Task Group — set up this year to represent both the MIF and a breakaway fuel retailer body called the Service Station Association — had discussed its proposals with Minerals and Energy Affairs Minister Pik Botha.

Minerals and Energy deputy director-general Gert Venter said government was sympathetic but no decision had been taken.

An analyst said that 1c/l translated into R90m in revenue for retailers, so the maximum proposed increase, 2,5c/l, would generate R225m

Meanwhile, tensions between the two rival fuel retail groups resurfaced when Service Station Association president Chris de Weerdt hit out at the federation for making the announcement to the Press, which he said breached an agreement that the Fuel Resellers' Task Group should be the official voice

The Service Station Association broke away from the MIF last August.

Fourie could not be reached to comment

Business venture to boost Parys

(183)

sowetan 6/7/95

This Free State town is about to come alive with industrial activity

By Mzimkulu Malunga

THE area around the Free State town of Parys could be bubbling with activity soon if discussions to build a factory to manufacture onduline are finalised

Behind the idea is a northern France based company Onduline, Sasol and a number of black business people

Onduline is a commodity used for roofing which is already in use in a number of African countries like Gabon and some parts of West Africa The deal is being facilitated by Professional Development Associates headed by consultant Luthando Matthews

Black groups which have been approached to be part of the venture include Kagiso Trust, Dr Nthato Motlana's New Africa Investments and the investment arms of Nafcoc and the Foundation for African Business and Consumer Services

Initially, the groups wanted the plant to be located somewhere in the Eastern Cape When that fell through they went looking for a place in KwaZulu However, sporadic incidents of violence scared the overseas partners from the discussions Eventually, Sasol offered to get involved in the deal on condition that the factory to manufacture onduline is located somewhere in the Vaal complex

Luthando Matthews is aiming for the sky.

Another blow for Nedlac

BD 6/7/95.

Oil companies withdraw from fuels task force

(183)

Mungo Soggot

SA OIL companies have pulled out of the National Economic, Development and Labour Council's (Nedlac's) liquid fuels task force in protest against acceptance by some task force members of a controversial report into tariff protection for Sasol.

Yesterday's withdrawal, which one industry commentator described as "another blow to Nedlac", follows a month-long fight between the oil companies and Sasol over the report, drafted by consultants Arthur Andersen The oil companies rejected the study's findings, saying they were too favourable to Sasol and had been swayed by the synthetic fuel producer

An SA Petroleum Industry Association (Sapia) spokesman said the organisation — which represents BP, Engen, Shell, Caltex and Total — would hold an emergency meeting today to plan its next move.

The association withdrew from yesterday's meeting of the task force's business caucus, which includes representatives from Sasol, the SA Chamber of Business and taxi groups, as a result of the report being accepted by other parties

"This simultaneously represents a withdrawal from the full task force, for now," another Sapia spokesman said.

At today's meeting, Sapia, which believes acceptance of the report will lead to continuation of Sasol subsidies, will consider going straight to government to try and stop the report's implementation.

The task force — which includes labour, business and government representatives — commissioned Arthur Andersen in March to study Sasol's subsidies

Sources at yesterday's meeting said Sapia had mooted the possibility of pulling out of the business caucus but remaining in the task force This was unlikely to happen as adding a fourth leg to the task force would violate Nedlac's tripartite labour, government and business spirit, one said.

The problem with the task force was that there was more conflict in the business caucus than in the task force as a whole as most of the issues discussed boiled down to a struggle for territory between Sasol and the oil companies. The task force was increasingly seen as an inappropiate forum for discussing the oil industry's deregulation

The withdrawal was likely to delay progress on deregulation talks, which started in September 1993

A Nedlac spokesman said the Nedlac secretariat would meet the task force to discuss "its current status and where it is" before July 20, when the full task force was due to discuss the Arthur Andersen report. The labour caucus is due to discuss it on July 18.

Sapia said the business caucus's decision had been qualified, and some other members had expressed concerns about the report. A Sasol spokesman said the company hoped Sapia would "come back on board so the negotiation process can continue. We don't think it is a very constructive step". There had been strong efforts to keep them on board at yesterday's meeting.

Arthur Andersen recommended Sasol tariff protection — which was R1bn last year — be phased out gradually until July 1999 when, if oil prices behaved as expected, it would effectively end.

BUSINESS REPORT, THURSDAY JULY 6 1995

Sapia pulls out of Nedlac over Sasol

(183) CT(BR) 6/7/95

The decision of the business caucus of the Liquid Fuel Industry's Task Force of Nedlac to accept, with some reservations, the Arthur Andersen report recommending the continuation of subsidies for Sasol's synthetic fuel, has generated a crisis in the petroleum industry

Sapia, which represents all fuel marketers except for Sasol, said last night that as a result of the acceptance of the 'flawed' Arthur Andersen report, it was withdrawing from both the business caucus of Nedlac as well as the task force

Sapia said that the qualified acceptance of the report by the business caucus, in Sapia's view, will inexorably lead to the continuation of the billions of rand paid in Sasol subsidies, which was contrary to the national interest, to sound public policy; and the interest of foreign investors in South Africa.

Prices push plastic firms to the edge

(183) CT(BR) 7/7/95

By Shirley Jones

Staff Writer

At least 30 percent of the country's plastic companies are set to go to the wall following massive increases in the price of raw materials this month, some smaller firms claim.

According to the owners of a number of small to medium concerns (who refused to be identified as they fear being persecuted by dominant local suppliers), prices of key substances such as PVC polymers and plasticisers manufactured by National Chemical Products (NCP) increased by between 40 percent and 180 percent in the past year

These companies are now asking the monopolies to account for their moves A Durban-based plastics producer is certain that clients who objected to previous increases will refuse to accept the July increase.

Margins

He points out that small concerns already operating on tight margins cannot absorb the ongoing increases or carry larger stocks. While the monopolies are prepared to push prices, they do not intend extending credit limits, he says

One of the chief criticisms against Polifin, which pushed the price of PVC up by between 7 percent and 12 percent from July, is that because it enjoys a total monopoly, it is a "law unto itself" in terms of quotas

Plastics producers who imported raw materials until massive duties were slapped on more competitively priced international supplies, believe they have been placed on a short list and are either undersupplied or not supplied at all when demand is particularly high

Sources suggest that, in contrast, some of the largest plastics converters could enjoy "confidential discounts" which enable them to fix prices way below competitors

The price of plasticisers, supplied by National Chemical Products, have increased by 180 percent over a 12 month period In June, one entrepreneur says he was paying R3,40 a kilogram

Rationale

The rationale behind the increases is believed to be a surge in world prices Repeated attempts to get comment from a range of executives at Polifin and NCP were unsuccessful

Bill Naudé, the executive director of the Plastics Federation, admits that local raw material producers enjoy extensive protection in the form of duties.

However, he says, plastics converters convinced the department of trade and industry and the board of tariffs and trade that protection was not necessary Local producers now have their houses in order and protection now amounts to a 10 percent duty at most

"What has happened is that world prices and the availability of polymers has changed. Certain grades are in short supply and prices are skyrocketing Local producers have to keep in line with overseas counterparts," he explains

He claims smaller companies may also be paying for past greed Last year, when some local prices were way behind those of overseas competitors, companies bought up supplies to re-sell on the export market. "We need prices which reflect the world situation. The converting industry is going to have to live with it whether it likes it or not

"We have to have an open market, not something in between," he said

Deregulation debate keeps oil companies in limbo

(183)

HILARY JOFFE

BD 7/7/95

DISCUSSIONS about whether government should subsidise Sasol's synthetic fuels business are only one aspect of a supposed move towards deregulation of the oil industry. With the focus in the National Economic Development and Labour Council (Nedlac) liquid fuels industry task force now on Sasol, the broader debate is on hold.

The SA Petroleum Industry Association's withdrawal from the Nedlac task force could delay the deregulation process further, although the oil companies may be hoping to put pressure on government to speed it up. Meanwhile, the oil companies are in a limbo which is dragging down profitability.

Almost three years on, government regulation of fuel pricing and marketing remains in place, but is in part suspension. Petrol retailers this week called on government to increase their retail margins, which have been static since 1993. Oil companies have effectively had no increase in their wholesale margin (the gap between ex-refinery price and market price) since July 1992.

In an industry dominated by multinationals, the malaise is visible only in Engen's financial statements, the one local, listed oil company. What government is not doing is costing Engen R140m this year, says CE Rob Angel. In financial 1994, government's failure to grant a meaningful margin increase, and interim changes to the pricing system, wiped R100m off Engen's bottom line.

These costs have added to Engen's other woes, resulting in a 49% decline in earnings at its February interims, following a 13% fall in last year's earnings. The group is suffering the effects of weak international refining margins and a narrowing of the differential between heavy and light crude oil prices, both of which have reached their lowest level in eight years. In addition, its Durban refinery experienced start-up problems following its 6-week planned shutdown for maintenance and upgrading late last year.

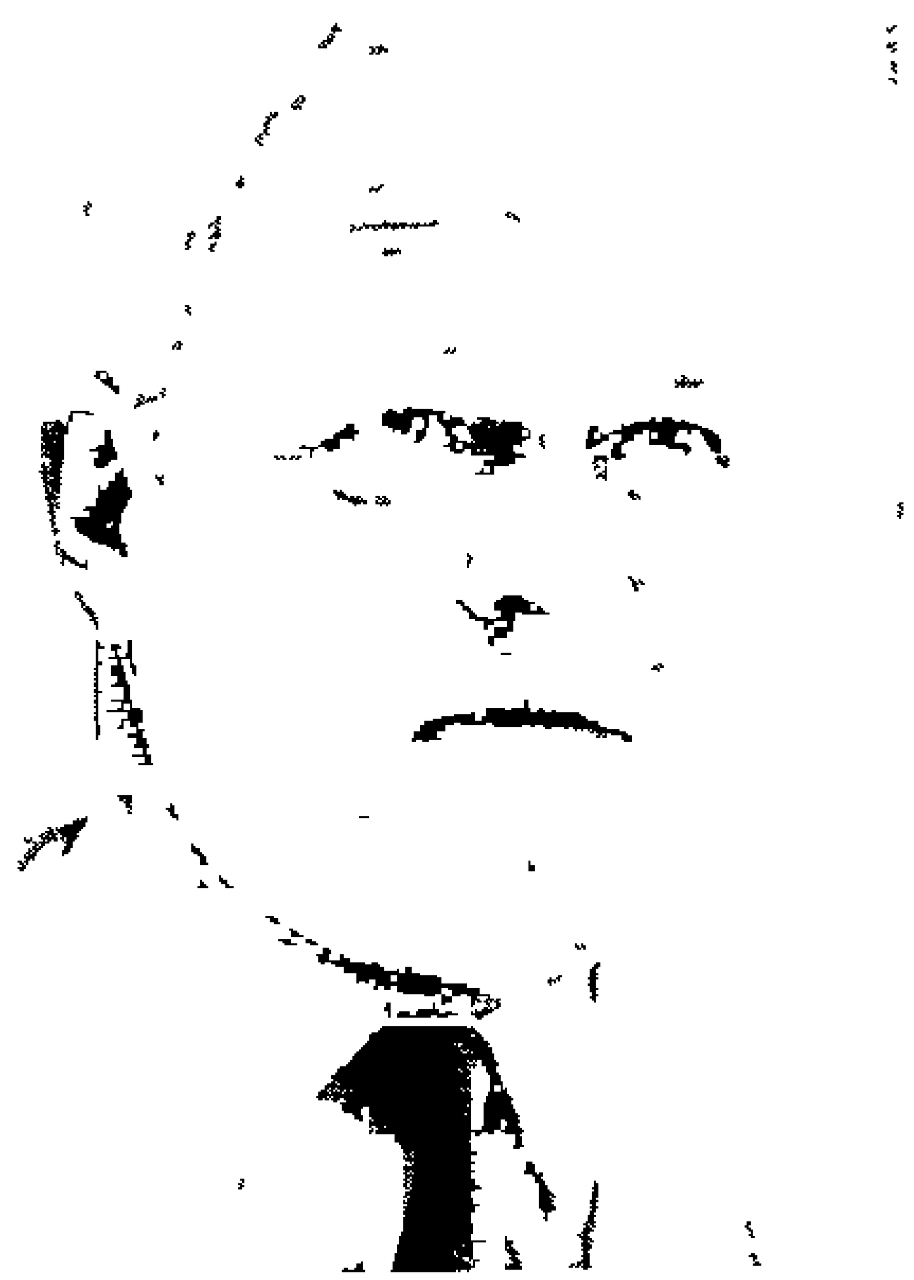
Uncertainty about the regulatory environment has therefore been only one factor behind the steep fall in Engen's share price. But, says Angel, who has just visited the investment community in the UK, it is a key factor deterring foreign investment in the share.

"Clearly we would like to get away from the industry as a political football and we believe free market principles should apply," he says. "Our frustration is that there are current rules of the game which are not being adhered to and this is patently unfair: no other industry is subjected to this kind of control over its margins."

Angel believes there is no reason why investigation into deregulation of the industry can't run concurrently with the Sasol tariff protection investigation, and the current pricing criteria applied until a new dispensation is introduced.

Engen and its competitors favour an industry run on free market lines and government supports this in principle. The Sasol issue arose along the way because, if Sasol were to be allowed into the retail market, the financial strength its synfuel subsidy gives the group could give it an unfair advantage over competitors. At present it is allowed to market its petrol and diesel only through the other oil companies. Hence the commissioning by the Nedlac task force of the Arthur Andersen report released last month and the subsequent controversy.

Just as it seems the approach to Sasol might be a gradual phasing out of the subsidy, so it may be that deregulation of the industry as a whole may be a phased process.



ANGEL

Whatever the outcome, competition is likely to increase.

A fully deregulated industry could well mean further pressure on margins as the oil companies, including Sasol, jockey for market share. Angel believes Engen would be well positioned to operate in a deregulated environment. "We've got the market size and we are getting our cost structure in shape to handle it." The group is restructuring with the objective of transforming itself into an "independent African oil company", says Angel.

Although Engen's formation in 1989 followed the Mobil disinvestment, parts of the business still bear the stamp of their multinational past and the group is getting away from that. The restructuring, says Angel, is "about focusing on business operational excellence at lowest cost".

The process began last year, with the closure of uneconomic filling stations, the sale and rationalisation of certain businesses and action to increase refinery efficiency. The group is to announce further details of the programme (dubbed "Project Discovery") this month. Retrenchment and other costs are being quantified, but the intention is to take all costs in this financial year, so as to begin next year with a clean slate.

Engen's high level of capital expenditure in recent years should enhance its competitiveness. It invested more than R700m in the latest upgrade and expansion of its refinery, completed in December, bringing to about R1,4bn its total spending on construction at the refinery over four years and putting it ahead of others in the industry. No more major capital projects are planned in the next couple of years, which will enable the group to focus on improving operations, says Angel.

But it should not be assumed that Engen and Sasol would be competitors in a deregulated environment. A merger between Engen and Sasol Oil is clearly on the cards. Angel confirms the two are talking, but there are several hurdles. He notes the synergies between the two and says it would make sense to put all the SA oil interests together.

A merger would give Sasol the distribution network it would like in a deregulated environment; for Engen it would provide access to another refinery and increase market share to some extent.

The current dispensation allows Sasol to capture up to 9% of the national market through its "blue pumps". In fact Sasol has never reached more than an 8% share of the market. Analysts believe, in the absence of an alliance, it might seek to double this longer term, bringing its market share in line with output from Natref, its crude oil refinery.

Engen's share of the total "white products" market (petrol, diesel and paraffin) is estimated at 26%, followed by Shell (19%), Caltex (18%), BP (17%) and Total (13%). The multinationals wouldn't like an Engen/Sasol Oil merger but, says one analyst, they might have to live with it. But this is all in the future, and dependent on what happens in Nedlac and in Parliament.

The group has said at interim stage that net income for the second half of 1995 will not be higher than in the first half due to restructuring costs, but operational performance will improve significantly.

Angel says the group is just about through with the problems at its refinery which affected first half results. International refining margins are not expected to fall further and the group is assuming they continue at the present level. If margins were to rise it would be a "huge plus" for Engen, as would a widening in the light/heavy crude oil price differential. Engen is also beginning to receive some cash from its small stakes in several foreign oilfields, which will in time help guarantee supplies and provide more stable earnings.

Analysts expect Engen's earnings this year to be well down on last year's 267c (forecasts go as low as 105c, taking in restructuring costs). Earnings growth is expected to resume next year but, as one analyst puts it, this could be 10% or 70% — depending on the regulatory environment.

SASOL

Encouraging inefficiency

(183) FM 7/7/95

SA Petroleum Industry Association director Colin McClelland responds to the *Leading Article* of June 30 on the question of subsidies for Sasol.

Your article on the Arthur Andersen recommendations seems schizophrenic Even the bold headline stating "Sasol, Worth Looking After" was contradicted by the subheading "Sasol has a strong case for subsidy until it can do without support"

This is not merely a debate between oil interests as superficial reports assume It is, as your article shows, a matter of national interest concerning national assets and how they should be deployed for the good of all

Far from SA owing Arthur Andersen a "debt of gratitude" for a "meticulously crafted analysis," as the *FM* rather strangely says, the shallow premises and hasty findings of the Andersen report can materially damage the future economic well-being of this nation This is why the SA Petroleum Industry Association (Sapia) is working so hard to draw attention to the shortcomings of the Andersen report

Sapia fully agrees with your comments on Sasol's value to SA Indeed, Sapia has always said that Sasol is a national asset and that its members are prepared to uplift Sasol's production of synthetic fuel We do feel, however, that there is no intrinsic reason for Sasol to be regarded as having more value than any other business

Your article sums up the core issue in the subsidy debate well when it says "We can see good reason for Sasol to be given enough support to enable it to stay in the synfuel business," or, using your alternate words, for Sasol to be given enough time to (learn to) do without support We could not agree more

There is evidence, though, that Sasol is already over-subsidised, and we are surprised that the *FM* now appears to be defending the idea of a State subsidy for a private corporation which has produced figures to show that it makes profits without its giant subsidies

If the terms of reference of the Arthur Andersen study had been to establish, in the interest of all South Africans, the minimum level of subsidy or time defined in the words of your article, Sapia would not have had the problems of process to which you fleetingly refer in the article

The actual terms of reference directed Arthur Andersen to look at the level of subsidy required by Sasol rather than that required by SA

This meant the report was unfortunately influenced towards Sasol's interests ahead of those of what can usefully be described as "SA Inc"

For example, Arthur Andersen assumed that the excess Petronet tariff benefits, due to inflated pipeline charges, will cease The investigators set their recommended subsidy figures, as tabled in the report, on the assumption that such lower Petronet tariffs were already in force Thus their recommended support levels are automatically overstated by R250m a year

Sasol should be encouraged to become more efficient In its media statements, it has been saying that lower subsidies will force it to review costs, production efficiencies and capital expenditure Sapia is concerned that a continuing subsidy can encourage the inefficient use of scarce national capital resources by encouraging Sasol to make investments which look to future subsidies for returns

We should also respond to the point made by Sasol about Sapia members not disclosing their financial results Sasol seems to forget that Sapia members are not — unlike Sasol — seeking a subsidy from the public and are not the subject of an investigation. Nonetheless, we should mention that in 1993 Sasol's subsidy, not even counting the excessive pipeline tariffs and other hidden subsidies, exceeded the aggregate profits of Sapia members Engen, a Sapia member, is a quoted company and its profits are at least as open as those of Sasol ■

The replies

During the apartheid years an arrogant Sasol had only to nod to government to be given whatever succour it wanted And the oil majors themselves (reincarnated as Sapia) calculated the notorious in-bonded landing cost (IBLC) of oil, into which we suspect they built their own compensations for doing business here

As Sapia says now, the support given to Sasol and the existence of the IBLC under the apartheid government were "perceived to be in the public interest" The oil companies saw fit then to be seen to acquiesce and lent their tacit support to the system they now attack

When the *FM* and other publications criticised the support given to Sasol, direct and otherwise, there was never a hint of support for that point of view from the oil companies Even after 1992 some continued to argue for regulation

The oil majors chose to be inert, even though they were in a strong position The apartheid government needed them as procurers and, to all outward signs, they were happy to oblige

A new government now sees the public interest in a different light and the oil companies are anxious to change their views accordingly

The arguments advanced by Sapia against Sasol's support have all been voiced by the *FM* before There is nothing new in its criticism of Sasol's excesses, its poor return on capital and so on But that is not the point now

Sasol synthetic fuel operations today represent capital that has been sunk Technological advance places it within a few years of self-sufficiency and the Arthur Andersen report allows it four years to make the investment necessary to reach that happy state

The oil companies argue for an immediate "shock" ending of support for Sasol, saying that if it needs capital for this final adjustment let it raise it commercially

Sasol, however, comes from a past of poor capital usage and the enervation of too much financial support given too easily If it had to raise capital competitively now, it would have to pay through the nose and, in consequence, the adjustment process would be prolonged

To our minds, what should determine government action is its view on the future price of oil If the price is going to be below the $17/barrel support level for a prolonged period, Sasol might as well take the shock and begin what will be a protracted period of substantial readjustment, regardless of job losses

If, however, the oil price is likely to rise over the medium term (and that is the expectation the *FM* expressed last week), then price support does not apply and the argument becomes academic

The *FM* remains against government support for uneconomic enterprises But the Arthur Andersen plan is not unreasonable It limits support to a finite period The parameters might be arguable but not the principle Sapia's attitude smacks of vindictiveness

Cosatu lashes oil firms

CT 7/7/95 (183)

JOHANNESBURG: Cosatu condemned yesterday the withdrawal of the South African Petroleum Industry Association from the Liquid Fuels Task Force (LFTF), describing the move as churlish and short-sighted

The trade union federation questioned oil companies' commitment to democratic restructuring in the industry

Oil companies pulled out of the National Economic Development and Labour Council's LFTF on Wednesday in protest against acceptance by most task group members of a report on tariff protection for Sasol, saying it favoured Sasol and had been swayed by the synthetic fuel producer.

The withdrawal follows a month-long disagreement between oil companies and Sasol over the report, which recommends that Sasol's tariff protection — which was R1 billion last year — be phased out until July 1999.

Progress on deregulation talks, which started in 1993, are likely to be delayed by the withdrawal. — Sapa

Pik lashes fuel industry over walkout

(183) CT(BR) 7/7/95

BY BRUCE CAMERON

POLITICAL EDITOR

Pik Botha, the minister of mineral and energy affairs, has threatened to ignore a petrol industry walkout from talks over future subsidies for Sasol, the synthetic fuel producer, and refer the issue to the Board on Tariffs and Trade for a decision.

Botha and Cosatu, the labour federation, yesterday strongly criticised the South African Petroleum Industry Association (Sapia) for pulling out of the Nedlac Liquid Fuel Industry Task Force, which is investigating the deregulation of the fuel industry

Sapia, which represents all the major fuel refiners and marketers except Sasol, stuck to its position, issuing a statement demanding a halt to the subsidies paid by taxpayers for Sasol

The Sapia walkout follows its rejection of continued subsidies for Sasol recommended in a report prepared at the request of the fuel task group by consultant Arthur Andersen

The report has been supported by the business task force caucus in the task group, including representatives from Sasol, the SA Chamber of Business and taxi groups.

Botha told Business Report he intended to send the Arthur Andersen report, the views of the task group members and of Sapia to the Board on Tariffs and Trade to make a decision.

He said yesterday "The walkout only makes resolution more difficult.

"The country can ill-afford ultimatum politics with withdrawals, threats and deadlines It doesn't matter if they come from labour, business or government

"People who pay taxes don't expect the major players to behave like this"

Cosatu described the move as churlish and short-sighted and questioned the commitment of Sapia to democratic restructuring of the industry.

Cosatu called on Business South Africa to "take every step possible" to bring the association back into the task force negotiations

Arthur Andersen recommended that Sasol's tariff protection — R1 billion last year — be phased out gradually until July 1999, if oil prices responded as expected.

Colin McClelland, director of Sapia, said the core reason for its withdrawal was the continuation of subsidies to Sasol, which "is profitable without taxpayer support.

"Not only will this cause continued regulation of the industry, but it will seriously inhibit foreign investment

"Sasol is a national asset and has a role to play in the industry and the economy, but Sapia does not believe that money should be channelled to give Sasol shareholders higher returns

"Sapia was forced to conclude it could no longer be part of a process acting so much against the national interest and which was making little or no progress towards a fair and rational policy framework for one of the country's largest and most essential industries.

"Far from wanting to disrupt the process of establishing a new dispensation for the industry or to act in a closed way, Sapia members are determined to move forward in an open, rational and transparent way"

Oil firms slammed for leaving task force

Mungo Soggot (183) BD 7/7/95

COSATU yesterday hit out at SA oil companies for withdrawing from Nedlac's liquid fuels task force, saying it was "deeply concerned" about their intention to deal with the study into synthetic fuel producer Sasol's subsidy directly with government.

The oil companies, meanwhile, indicated that the task force had got nowhere, "voting down" the industry's interests. An SA Petroleum Industry Association spokesman said Sapia, which represents the international oil companies in SA, wanted to raise the oil industry debate to a level "where progress could be made". It could decide to go straight to government.

On Wednesday, Sapia withdrew from the business caucus of the liquid fuels task force after it approved the Arthur Andersen report into Sasol's subsidies. It said the report was not independent as it had been influenced by Sasol and was too favourable to Sasol.

Cosatu said it was confident the study had been conducted with "the utmost integrity". The oil companies' move was "churlish and short-sighted".

It was crucial that Sapia returned to the task force, which had to continue its negotiations to work out a "social plan" for the industry. The task force's talks — which have centred on the possible deregulation of the industry — started in September 1993.

Meanwhile, Fuel Resellers Task Group — part of the business caucus — chairman Roy Close said Nedlac's task force would be powerless without the oil industry. Although Sapia had signed the terms of reference for the report, the retailers sympathised with its position. He suggested that a fourth leg of the task force be set up, which included the oil industry, the synfuel industry and the fuel retailers.

● See Page 12

OIL RESERVES (185)

Rise and fall

FM 7/7/95

The long-argued point of how much crude oil SA had stockpiled can now be answered With the strategic need for secrecy dead and buried, SFF Association (formerly the Strategic Oil Fund) GM Kobus van Zyl says the peak figure was 158,5m barrels, during March 1988

At the then-unconstrained rate of consumption of crude oil of perhaps 200 000 BPD (70m barrels a year), this would have lasted about two years

Given the more effective imposition of oil sanctions, and therefore petrol rationing, it could have been made to last three years or more

Even at an oil price of US$17 a barrel, the peak level of oil would have been worth $2,7bn, or almost R10bn at the current exchange rate

The oil was held in several locations Stockpiling began in 1967, the time of the June War between Israel and the Arabs, and the blockage of the Suez Canal Even though some oil has been stored underground in disused coal workings at Ogies in the Eastern Transvaal for 20 years, there has been no evaporation and thence no change in its original composition Oil from Ogies is now being refined at the Natref refinery at Sasolburg without any adjustments

There is a limit to the rate at which the Ogies oil can be drawn on the capacity of Natref and unwillingness to sever supply links with oil exporters While Natref's daily capacity is 85 000 BPD, it normally draws between 30 000 and 35 000 barrels from the underground storage.

An interesting question is the reasonable level at which SA should stabilise its reserves of crude oil Considering the continued instability in the Middle East, the political and strategic factors are not to be ignored

If Saldanha's 45m barrels of storage capacity could be leased to a Middle East producer, SA could continue to enjoy the strategic benefit of a substantial reserve (150 days of oil at the current rate of imports of 300 000 BPD) without having to carry the financing cost

There's also the current level of synfuel output — 200 000 BPD of crude oil equivalent — from Sasol and Mossgas

Money recovered from the liquidation of the stockpile is paid direct to the Treasury If we assume that 90 days' of supply in SA hands is enough, this would amount to 27m barrels, leaving 36m barrels still available for sale — worth another $600m, or about R2,2bn, to the State Taking account of Sasol's ability to supply 150 000 BPD, there seems to be a strong financial case for further reductions, especially if Saldanha's 45m barrels are physically loaded with oil, but financed by a producer ■

Fuel no reason for an alliance with business

(183) ST(BT) 9/7/95

VARIOUS parties in the Liquid Fuels Task Force have doggedly pursued their own narrow objectives in negotiations on a new regulatory dispensation for the petroleum industry, to the detriment of the industry and the economy as a whole.

Labour obviously has its own priorities in these negotiations but to accuse unions of siding with one faction of business, as Brian Kantor does ("The Sasol strategy for backing losers," Business Times, July 2), is nonsensical.

The unions participating in the LFTF organise across the industry and get their mandate from workers in oil companies, synthetic fuel plants, service stations and distribution depots. They are also answerable to Cosatu and other labour federations and have a wider responsibility to workers, whose position as commuters, consumers and employees would be affected by developments in industry.

The breadth of this constituency does lead to some internal conflict, but it is the general welfare of workers which ultimately informs positions taken by the labour caucus

Professor Kantor's assertion that labour has an interest in maintaining the uncompetitive economy which we have inherited is equally contestable The policy framework of the previous government — based on low wages, limited opportunities for training, appalling health and safety standards and protected, overpriced basic goods — held little interest for labour.

Big business on the other hand enjoyed the benefits of an oppressive industrial relations system, import protection on demand, superfluous subsides and feeble competition policy

Companies in the liquid fuels industry were clear beneficiaries of past policies, cashing in on the profit guarantees, subsidies, fixed prices and market sharing arrangements provided by government as incentives to keep multinationals in a pariah market It is the conflict within the business caucus over the retraction and redistribution of such benefits that has been responsible for most of the deadlock and delay in the LFTF.

In this light, antagonism over the subsidy which Sasol receives for producing synthetic fuel should come as no surprise — Sasol would obviously do everything in its power to have its protection maximised and likewise its competitors would do everything to have it removed.

Tripartite bargaining can be arduous and time-consuming, but the benefits of substainable policy and growth should outweigh short-term irritations. If tripartite forums are to work, the three constituents must be consolidated into coherent organisations which can take a long-term view Business representation in the LFTF has been far from coherent

The controversy around the synfuel study has shown that, if anything, it is the interests within the business constituency which need to be marshalled. — CHRISTIAN SELLARS, Chemical Workers' Industrial Union, Johannesburg.

Sasol asks WTO for advice on subsidies

ST(BT) 9/7/95 (183)

By KEVIN DAVIE, SIMON BARBER and JOHN CAVILL

SASOL and World Trade Organisation officials held talks this week on whether the protection mechanisms proposed in the Arthur Andersen report on Sasol are compatible with WTO rules.

At stake is up to R1-billion of Sasol's chemical exports which can have duties imposed if found to be subsidised

Sasol's Pat Davies confirmed on Friday there had been "rumours" last year that Louisiana-based Albermarle Corporation might petition the US Commerce Department and International Trade Commission for protection against Sasol

Franklin Sonn, South Africa's ambassador to the US, has confirmed he was briefed on the issue by Sasol managing director Paul Kruger and an Albermarle consultant, but did not intervene.

Mr Davies confirms that two Sasol officials held talks this week with officials of the WTO, the successor to the General Agreement on Tariffs and Trade, on the mechanism of Sasol's tariff protection.

Mr Davies says the talks have been concluded He is unaware of the outcome

Paul Jourdan of the Department of Trade and Industry says the department facilitated contact between economist Trevor Bell, a consultant to Arthur Andersen, and the WTO The department was also involved in this week's talks

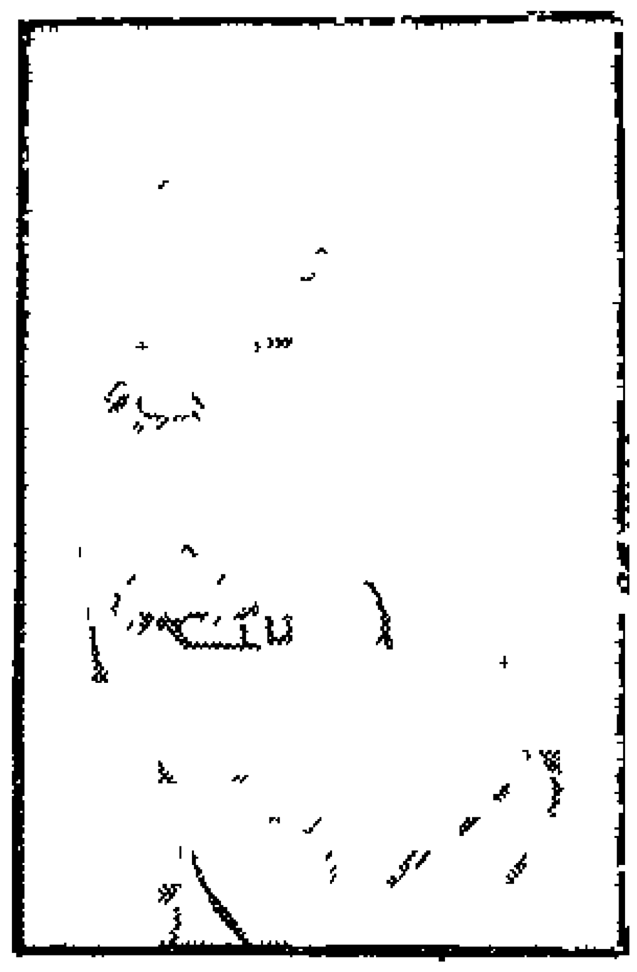
Dr Jourdan says Sasol's chemical exports will not be subject to duties if Sasol can conclusively show the subsidy applies only to the liquid fuel side of the business. "Sasol feels it is able to do that"

Mr Davies says Sasol is satisfied it faces no danger of being slapped with countervailing or anti-dumping duties on its highly profitable exports of hexene — a plastics ingredient — to the US.

He confirms that Albermarle, which derives a significant proportion of its $1-billion revenues from hexene, approached Sasol to do a joint marketing deal in the US

"We did not find the terms acceptable and declined Sasol does its own distribution through Alpha Olefins North American Inc, based in Houston."

Mr Davies says "when Albermarle approached Sasol regarding the possible agreement, the rumours of possible countervailing duties/anti-dumping measures were discussed but we did not



PAT DAVIES

ask Albermarle to sign an undertaking not to take such action"

Sasol took "expert advice" and concluded its hexene exports to the US were not in danger

"Anti-dumping duties can be instituted in this case only if our free on board prices into the US are lower than to other regions of the world. As this is not the case, an anti-dumping action would be unsuccesful.

"Sasol entered the market by matching, not discounting, the existing prices"

Mr Davies said countervailing duties could be imposed only if the "tariff protection/subsidy" seeps to the Aplha Olefins division

"The prices of feedstock sold by Sasol Synthetic Fuels to Sasol's chemical companies (including Alpha Olefins) are arms-length market prices . there is no cross-subsidisation between synfuels and chemicals"

Sasol places about 30% of its hexene exports in the US. The chemical is a "natural" by-product of its synthetic fuel process.

Albermarle, by contrast, purchases ethylene from companies like Union Carbide and Dow Chemical to synthesize Alpha Olefins

An article in Financial World last November noted that rising ethylene prices were squeezing Albermarle, ranked the 38th largest US chemicals company by Fortune magazine Albermarle officials did not respond to a request for comment

A WTO spokesman said he could not comment on the discussions with Sasol, but added "We do offer advice on a very informal basis"

Energy Minister Pik Botha says he welcomes the move to involve the WTO. "We can survive only if we play the game according to international rules even though this can be painful at times"

Arthur Andersen recommended that subsidies to Sasol of about R5,2-billion over the next five years (at current oil prices) should be cut back to R2,5-billion

Oil industry association Sapia pulled out of Nedlac's liquid fuels task force this week after the business caucus decided to accept the Arthur Andersen report

Sapia's Colin McClelland says the industry will put its case to a full meeting of Business South Africa on July 19.

Mr Botha says he has urged Sacob's Raymond Parsons and Ben van Rensburg to "get the business family together to reach consensus at least on the procedure to be followed in respect of the Arthur Andersen report"

Black Leaders in the RSA, were all subprojects of Project Kampong

(i) The purpose of all three subprojects was to mobilise the different population groups of the RSA, through the medium of moderate community leaders, organisations and movements, to accept and support the initiatives for peaceful reform of the former Government

(ii) Refer to (1)(c)(i) to (v) above

(iii) Project Kampong was conducted in accordance with the written delegations made by the State Security Council—refer letter with reference 22/5/B dated 2 July 1986

The hon member's attention is also drawn to the press release made by the former State President on 18 August 1991 as well as the findings of Justice Goldstone released on 4 February 1992

Police officers retired since 1 May 1994

151 Mr D H M GIBSON asked the Minister for Safety and Security

(1) How many (a) generals, (b) brigadiers, (c) colonels, (d) majors, (e) captains and (f) lieutenants in the South African Police Service have retired since 1 May 1994,

(2) whether any of these officers retired early due to ill health or any other reason, if so, (a) how many in each category, (b) what was the reason for early retirement in each case and (c) what total amount in pension, gratuities and accumulated leave payouts was paid to each such officer on retirement?

N296E

The MINISTER FOR SAFETY AND SECURITY

Information as on 29 March 1995

(1)	(a) Generals	16
	(b) Brigadiers	44
	(c) Colonels	130
	(d) Majors	27
	(e) Captains	47
	(f) Lieutenants	8

(2) Yes

(a)	Ill health	248
	Other	18

(b) Medical unfitness, own request for early retirement and as a result of the rationalisation and amalgamation process in the South African Police Service

The individual information is available, but due to the magnitude of the work involved and the manpower resources which would have to be utilised in order to provide the answer, the desired information can, unfortunately, not be supplied

(c) The question with regard to pension gratuities cannot be answered and must be referred to the Department of Finance

Accumulated leave payouts The information per individual is available, but again due to the magnitude of the work involved and the manpower resources which would have to be utilised in order to provide the answer, the desired information can, unfortunately, not be supplied

Directives/guidelines to make Public Service more representative

152 Mr C W EGLIN asked the Minister for the Public Service and Administration

(1) Whether any directives or guidelines have been issued to government departments in regard to the practical implementation of policies designed to (a) make the Public Service more representative of the people of South Africa and (b) promote affirmative action in respect of persons, groups or categories disadvantaged by discrimination, if not, why not, if so, what is the content of such directives or guidelines,

(2) whether his Department is taking any steps to monitor the implementation of such directives or guidelines, if not, why not, if so, what are the results of this monitoring in respect of each specified department?

N297E

The MINISTER FOR THE PUBLIC SERVICE AND ADMINISTRATION

(1) (a) and (b) Yes, a policy framework for the promotion of a broadly representative Public Service was made available to all departments/administrations on 3 March 1995 as Chapter B VII of the Public Service Staff Code, of which a copy has been provided to the hon member

(2) Yes, the relevant policy makes provision for the Commission to monitor progress in this regard Since the policy has only been implemented with effect from 3 March 1995, it is not possible at this stage to report on the results thereof

Oil companies: purchase of petrol produced by Sasol

179 Mr J A JORDAAN asked the Minister of Mineral and Energy Affairs

Hansard 9/5/95

(1) What percentage of (a) the fuel sold in the country during the latest specified period of 12 months for which information is available consisted of petrol produced by Sasol and (b) their purchase of fuel are oil companies required to purchase from Sasol,

(183)

(2) whether the requirement that a certain percentage of fuel is to be purchased from Sasol is to be amended or renegotiated in any way, if not, why not, if so, (a) when and (b) what are the further relevant details?

N364E

The MINISTER OF MINERAL AND ENERGY AFFAIRS

(1) (a) Petrol produced by Sasol constituted 26,7% of the fuel (ie petrol, diesel, illuminating and power paraffin, jet fuel and liquid petroleum gas) sold in the country during the period 1 April 1994 to 31 March 1995

During the same period Sasol produced, from coal and crude oil, the following percentage of the country's total petrol and diesel production

	From coal	From crude oil	Total
Petrol	37,3%	10,1%	47,4%
Diesel	32,0%	26,0%	58,0%
Total	35,5%	15,6%	51,1%

The remaining 48,9% was produced by the oil companies from crude oil

(1) (b) and (2) The oil companies purchases of fuel from Sasol take place in terms of a commercial agreement which imposes rights and obligations on both parties In terms of this agreement Sasol is not permitted to enter the retail market by means of a comprehensive filling station network (Sasol marketed 7% of its petrol through its limited blue-pump distribution network during the period 1 April 1994 to 31 March 1995) The establishment of a filling station network for the fuels which Sasol produces from crude oil is currently being negotiated with the oil companies Only the oil companies concerned can provide an exact percentage of what their purchases of Sasol fuel represent of each of their total fuel purchases, since their individual total fuel purchases are known only to them

Security Officer's Board: representations received by SAPS

184 Mr D H M GIBSON asked the Minister for Safety and Security

(1) Whether he or the South African Police Service has received any representations in regard to the Security Officers Board (SOB) from (a) the South African National Security Employers' Association (SANSEA) and (b) any other person and/or organisation during the latest specified period of 12 months for which information is available, if so, what was (i) the nature of each such representation and (ii) his response thereto in each case,

(2) (a) who are the current members of the SOB, (b) when were they appointed and (c) when are they due to be replaced,

(3) whether he intends dissolving the present SOB and appointing new members to this Board, if not, why not, if so, (a) when and (b) how will the new members be selected,

(4) whether he will make a statement on the matter?

N386E

sumer spending in South Africa.

PHOTO PETER MCKENZIE

Jordan out to protect Telkom

ET (BR) 10/7/95

By Ross Herbert

STAFF WRITER

The long-awaited "green paper" discussion document on the future of telecommunications in South Africa was unveiled on Friday with Pallo Jordan, the minister of posts, telecommunications and broadcasting, saying he "would not even think about" allowing other firms to compete with Telkom

The green paper offered no recommendations on the industry but asked a series of questions that Jordan said he hoped would be answered through public debate during the next 10 weeks

Jordan refused to offer his or the ANC's position on any of the issues raised, which made his unequivocal denunciation of competition particularly pointed. How the government handles the issue of competition against Telkom promises to set the tone for decisions on competition and privatisation throughout the economy.

"Telkom stands on very unstable, narrow legs, which is the white population of Gauteng If we allow international competition in, they will cherry pick and there would be no more Telkom. It would be very subversive," Jordan said

However, he added that the decision would ultimately be up to the whole Cabinet and if citizens wanted competition they must convince politicians of its efficacy during the debate phase

In October, a conference will be held to analyse public comment on the green paper and to appoint a panel to draft a white paper, due one month later, which will be the basis for legislation to be introduced early next year

Jordan said he would only consider competition if Telkom got "so fat and bloated" it was uncompetitive, a remark that evoked murmurs and chuckles from the crowd assembled for the unveiling

Compared with US telephone companies, Telkom operates with five times the staff, earns three times the return on assets and takes as much as 30 times as long to provide service to new customers.

"You give us far more credit than we deserve," quipped Frank Coleman, president of AT&T South Africa, who attended the unveiling and made no secret of his desire to compete with Telkom Coleman said there were a number of regulatory options to direct more telephones into under-served areas, adding that lower prices, better service and more innovation were among the benefits of competition.

Jordan said many other telecommunications issues needed to be debated, including whether and how the government should be allowed to intercept telephone traffic, whether tariff protection should be given to local telecommunications equipment suppliers, what structure a regulatory authority should have and Telkom's role in setting regulations

☐ See Forum

Hoechst optimism

(183)

ET (BR) 10/7/95

By Thabo Leshilo

STAFF WRITER

Pharmaceutical and chemical company Hoechst SA's recent offer of 12,2 million shares to the public had been over-subscribed 3,6 times, attracting a response of R230,9 million for the R62,8 million on offer, Reinhard Traub, the company's managing director, said yesterday

The shares were offered at 5,15 cents each.

Traub said the company's private placing of 24,5 million shares - at the same price to financial institutions was fully subscribed and 92,6 percent of the 1,5 million preferential offer was taken up The remaining preferential shares were added to the public offer

At its price of 5,15 cents, Hoechst has a 13,1 times forecast earnings ratio, forecast earnings of 7,7 percent and a forecast dividend yield of 2,5 percent.

UNIT TRUST RETURNS

Fuel retailers slam SA oil companies

(183)

CT (BR) 10/7/95

STAFF WRITER

Fuel retailers have hit out at the breakdown of industry deregulation talks after last week's walkout of the oil companies' South African Petroleum Industry Association from the liquid fuels task force of the National Economic Development and Labour Council

Roy Close, the chairman of the Fuel Resellers of South Africa group, says retailers want a speedy end to the process

Close said retailers were having a terrible time making ends meet while the government kept the system on hold, insisting on a deregulation decision coming from Nedlac

"We haven't had an adjustment of retail price margin since 1993 and our own investigation shows retailers cannot be profitable"

Close accuses Business South Africa, particularly the banking sector and oil companies, of pushing for price deregulation regardless of the cost in retail jobs and fuel prices

Commission

The oil refiners, he says, want to hike wholesale margins considerably, while banks are keen to boost their takings from the commission on credit sales that would become the norm at automated service stations

Close says the public should be asked whether they would rather pay an extra 5c a litre for fuel in return for the relative security of staffed forecourts The alternative — given the country's present state of lawlessness — would be rampant crime at self-service fuel stations, as had been the experience when the Brazilian industry deregulated

The resellers are to meet in Gauteng next week to debate a plan of action

Close says that while the majority, himself included, want to get the liquid fuels task group back on track, a militant few are talking of refinery blockades and similar action "Mind you, that's nothing compared with the trouble when 50 000 or 60 000 laid-off service station attendants picket them"

SA Druggists could be fishing overseas

Beatrix Payne (183) BD 11/7/95

PHARMACEUTICAL group SA Druggists (SAD) could be negotiating the acquisition of a generic medicine-linked operation based in Europe, analysts said yesterday.

SAD CE Peter Beningfield refused to comment, saying an official announcement would be made by the middle of August. He said the acquisitions lay outside Africa.

A cautionary announcement was issued at the weekend that negotiations for "certain international acquisitions and investment projects" were at an advanced stage

He said further announcements would probably coincide with an announcement by parent company Malbak concerning attempts to raise funds through a Global Depository Receipt (GDR) programme. SAD's acquisition would probably be financed with funds raised through the GDR.

An analyst said the group probably intended to capitalise on expertise.

SAD's shares closed unchanged on the JSE yesterday at R30 with buyers pitched at R29. Malbak also closed unchanged, finishing at R22 after shares worth R3,1m changed hands.

CT

BUSINESS REPORT, TUESDAY JULY 11 1995

Sasol awaits outcome of talks with WTO

(183)

Synthetic fuel and chemical producer Sasol says it is awaiting the outcome of last week's talks with the World Trade Organisation (WTO) on proposed protection mechanisms.

A report commissioned by the Liquid Fuels Industry Task Force has recommended a phased reduction of tariff protection for Sasol over four years A Sasol official said petroleum fuels and crude oils had not been specifically addressed at the WTO talks and Sasol had asked the organisation for its opinion on the recommendations

Last week the SA Petroleum Industry Association withdrew from the task force's debate on deregulating the oil industry after the National Economic Development and Labour Council's business caucus supported further protection for Sasol's synthetic fuel operation

Taxi industry supports Sasol subsidy

Mungo Soggot (183) BD 12/7/95

THE organised taxi industry came out in support yesterday of continuing subsidies to Sasol, despite the fact that the subsidies increase the price of petrol

Organised Taxi Industry convener Boetie Letsoela said his organisation supported the Arthur Andersen report into Sasol's tariff protection — which sparked a war of words between Sasol and the oil companies and prompted the oil companies to withdraw last week from the National Economic, Development and Labour Council (Nedlac) liquid fuels task force.

The organisation agreed with Sasol that the report's recommendations were too harsh on the synthetic fuel producer.

Letsoela said, the report showed that Sasol's synfuels operation was a "highly desirable industry". It showed tariff protection was justified given Sasol's "massive" and important contribution to the SA economy "The report showed clearly that Sasol's contribution to the economy is six times greater than the cost of its tariff protection. It also found that there is no cross-subsidisation between Sasol synfuels and its other operations"

Sasol said last month the Arthur Andersen report had found Sasol's synthetic fuel business was "a desirable industry which

Continued on Page 2

Sasol (183) BD 12/7/95

Continued from Page 1

justifies continued tariff protection by virtue of its massive contribution to the SA economy" It said the report's recommendations were "too harsh" and the phase-in period for the cuts in its tariff protection should be longer

Letsoela said if Sasol's subsidies were cut dramatically there would be severe job losses at Sasol. This would be bad for the taxi industry as there would be fewer people to transport.

Both Letsoela, who sits on the liquid fuels task force, and Sasol denied collaborating over their statements.

Sasol, which sponsored the organised taxi industry's AGM last year, and the taxi industry said the report's terms of reference were agreed to by all members of the fuels task force.

The money Sasol gets from government comes from the extra 9c/l motorists pay for fuel. Most of this goes to Sasol and the rest to Mossgas.

One industry analyst said it made sense for Sasol to cultivate the taxi industry ahead of its possible entry into the retail fuel market. But he said. "It does not make sense for the taxi industry to support Sasol's subsidies which put up the fuel price."

Letsoela said it was "critical that these issues are resolved speedily since the restructuring of the whole industry depends on it" The taxi industry wanted its own pumps at fuel stations and the sooner the Arthur Andersen report issue could be worked out, the sooner the task force could address the taxi industry's needs.

He said if the taxi pump scheme came through, the job of supplying petrol would not necessarily go to Sasol. "It will be put forward on an open tender basis."

The oil companies said the report was flawed, had been influenced by Sasol and was too favourable to Sasol.

Sentrachem buys US company for R850-million

(183)

Star 13/7/95

■ BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Chemical group Sentrachem has bought the Hampshire Chemical Corporation, based in Massachusetts, US, for about $236,5-million (about R850-million), including debt - one of the largest offshore purchases by a local company

According to an announcement today, Hampshire has turnover of about $220-million a year and employs 800 people at five plants in the US and one at Teesside in the UK Its profit before goodwill write-offs last year was $6,5-million

Sentrachem MD John Job said in an interview yesterday the PE ratio on the acquisition was about 14, slightly below Sentrachem's own 15

"I believe we are paying a fair but full price, but we are obviously looking beyond that," he said

"Firstly, Hampshire is not a cyclical commodity company Secondly, the price is higher in 1995 than it would have been in 1994, but it was not for sale in 1994 We are paying for the business in the company at the present time "

The acquisition will add close to R1-billion to Sentrachem's existing turnover of over R3-billion a year Hampshire focuses on higher value chemicals which are used in a range of intermediate applications for the pharmaceutical, agricultural, speciality detergents and cosmetic sectors

Job said Hampshire's products complemented those of Sentrachem

It was intended to develop opportunities for Hampshire in southern Africa, while Sentrachem would export intermediaries for Hampshire The two companies could together develop export markets

About $30-billion of the purchase price will come from international investments, and the remainder from borrowings, some through a Sentrachem offshore subsidiary

It was impossible to say at this stage what the effect on gearing - 19% at interim stage - would be because of the timing of other cash flows, Job said

About R150-million would be raised from the sale of Mega Plastics, and Sentrachem itself has strong operating cash flows

The possibility of an issue to raise cash was being debated

Mixed reactions to Hoechst debut

Mungo Soggot (183)

BD 13/7/95

CHEMICAL company Hoechst SA, a wholly owned subsidiary of Germany's Hoechst AG, had a mixed reception at its JSE debut yesterday, trading at a slight premium to its 515c issue price

The share's first trade was at 545c and it ended the day at 543c after 1,23-million shares worth R6,64m changed hands It touched a high of 550c and a low of 530c.

Simpson McKie director Henry Blumenthal said the share's performance showed it had been pitched accurately and he dismissed talk that it had traded at a disappointing premium to its issue price Simpson McKie was one of the sponsoring brokers for the issue

Some analysts said institutions had expected the counter to open at 560c-570c One said "Despite the below expectation price, the floor was pretty active at the time of the listing."

Another analyst said he believed the share was overpriced and that the benefits of Hoechst SA's German parentage and its track record had been exaggerated He believed its pharmaceutical division's outlook — which had been highlighted by the company — was not as rosy as suggested. "Let's look at the price again in a week or two when all the noise has died down."

Hoechst SA MD Reinhard Traub said he was delighted "It is a superb result The P E ratio of 16,5% makes it the biggest in the sector. As a diversified chemical company with a large health care component it is unique among local companies."

The public offer of 12,2-million shares had been 3,6 times subscribed

Imports will hurt plastics supplier

CT 13/7/95 (183)

By Shirley Jones

Staff Writer

Plans by local companies to import plastic packaging in response to massive price increases would ultimately affect Polifin, which is the sole South African supplier of the major raw material, low density polyethylene, packaging users said yesterday

Consumers of plastic packaging suggested in interviews that the blame for recent price increases lies more with Polifin than with the converters of the raw materials

Should companies like Tastic Rice decide to import, there could be "a big hole" in the local packaging industry which would ultimately undermine Polifin's market, said Mark Molker, the group packaging manager of Tastic Rice

His company was looking to buying packaging from Israel as no South African company could match prices

He said consignments of plastic bags printed overseas could be landed at prices well below those asked for by the local industry, transport and import duties included

"We want to help the local market, but are confronted with continual increases More and more aggressive international players are entering the South African market offering technical expertise equal or superior to local companies at far cheaper prices," said Molker

Tastic Rice has had to contend with four increases in the price of packaging since October last year, he said

This had increased the company's packaging costs by 35 percent, a marked contrast to the 4 percent increase between October 1993 and October last year

Beacon Sweets, another company which was up in arms over rocketing packaging costs, claimed to be way over its packaging budget Ever-increasing packaging costs were placing the company at a serious disadvantage on both local and international markets, said Steve Evans, the packaging manager of Beacon Sweets

Packaging price increases, both plastic and paper, could prevent the company securing additional business on cost sensitive world markets, he said

South African Breweries, Amalgamated Beverage Industries, Glodina and others had also registered dissatisfaction with rocketing packaging costs

Converters said they were caught between a monopolistic supplier and corporate clients Many converters saw themselves as the true victims, having had to contend with price hikes and severe rationing of polyethylene

In order to maintain prices on standing contracts, many converters have had to absorb increases and prune margins

They were not prepared to accept Polifin's response that it had been forced to keep pace with increasing prices on world markets, pointing out that Polifin could not have encountered increased overheads to such an extent as to justify the massive price adjustment of the past 10 months

In response to both an international polyethylene shortage and a surge in local demand, it had to institute a fair rationing system based on historic buying records, Polifin executives have said in response to the criticism

Polifin had also resorted to importing as a means of supplementing local supply, and the company intended implementing a number of projects to increase capacity

Sentrachem to buy US firm for R800m

(183) BD 13/7/95

Mungo Soggot

CHEMICAL group Sentrachem said yesterday it would buy a US speciality chemical company for about R800m in a deal which would add nearly R1bn to turnover

The acquisition, which Sentrachem dubbed a "launch pad into international markets", would be financed largely offshore. MD John Job said $30m of the purchase price for the Hampshire Chemical Corporation would come from the sale of some of Sentrachem's overseas trading companies and the rest would be borrowed He was not in a position to disclose the identity of the banks involved.

The Reserve Bank had approved the acquisition, due to take effect on September 1, in principle, but some of the details still had to be sorted out.

Although Sentrachem was well entrenched locally, the erosion of import tariff barriers would expose it to increasing competition. "The chemical business has become a truly international game We have to have a world plan," Job said

The hefty borrowings would push gearing above its conservative target of 30%.

He was reluctant to predict how long it would take for the borrowings to be digested and the acquisition to hit earnings.

Hampshire concentrated on the higher value chemicals field and there was very little product overlap. Sentrachem aimed to expand Hampshire's market in southern Africa, while the deal would also make Sentrachem a global player Job said the deal would spread both companies' market shares and in the long run could spawn "technical migrations".

He said Sentrachem, which has been stepping up its exports, expected them to rise to 20% of turnover this year and to about 25% by 1997.

Hampshire's products were sold to the pharmaceutical, agricultural, speciality detergents and cosmetic industries

Before making further acquisitions, Sentrachem wanted to show its shareholders that it could absorb the deal successfully.

Job said the restructuring of Sentrachem's Mega Plastics continued Another announcement — after the recent sale of Mega Pak to Nampak — was imminent

Sentrachem lifted earnings 96% to R90m in the six months to February.

Companies fear dumping

Nicole Mordant (183)

BD 13/7/95

THE looming downturn in the world commodity price cycle could once again expose SA chemical companies to the threat of dumping, Polifin MD Pieter Cox said yesterday.

He told an analysts presentation the situation was exacerbated by the removal of protective trade tariffs and ineffective dumping protection afforded to manufacturers.

Chemicals and plastics manufacturer Polifin, which is jointly owned by Sasol and AECI, would list on the JSE on July 24

Average prices for polymers had peaked recently, but with a cutback in buying from China, a major influence in the industry, and a decline in purchases from the northern hemisphere due the summer holiday period, prices had slipped back about $100 a ton.

"Whenever there is a downturn in the cycle, the industry becomes vulnerable to dumping," Cox said.

In line with GATT, chemical imports were protected only by a nominal 10% ad valorem duty.

"Government's way of dealing with dumping is through an arithmetic formula which sets a price on imports But importers seem to know how to get around this formula and it is therefore ineffective," mining reagents division GM Kim Fraser said

Polifin had earlier forecast a R600m rise in turnover to R3bn and a 23% lift in attributable earnings to R275m for the year to end June. Cox said the effect of declining chemical prices on profits would be cushioned by the weaker dollar/rand exchange rate and increased capacity from the Polifin plant in Sasolburg, which would be restructured next year

Sentrachem to buy US chemical plant

(183)

ARG 13/7/95

Business Editor

SENTRACHEM is to borrow about $200 million offshore to finance its purchase of United States speciality chemical company Hampshire Chemical Corporation

The Massachusetts-based group has a debt-free value of $235 million and turnover of about $220 million, according to Sentrachem managing director John Job

He said this ratio of turnover to assets was typical for the industry.

The deal will be done through London-based Sentrachem International, which will buy Hampshire's share capital from holding company Vestar Capital Partners

About $30 million would be raised from Sentrachem's offshore investments and the balance in loans — $100 million in short-term finance and $100 million in long-term, Dr Job said

Hampshire, with 800 employees, five plants in the US and one in Britain, produces a range of chemicals which are converted into products used for the pharmaceutical, agricultural, speciality detergent and cosmetic industries.

Dr Job said the US group fitted well with Sentrachem and there was little product overlap

The deal should enable both Sentrachem and Hampshire to boost sales significantly over the next five years

THE CAPE TIMES
BUSINESS REPORT
SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

Sentrachem buys US firm for $236,5m

(183) CT(BR)13/7/95

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

The chemical group Sentrachem has bought the US-based Hampshire Chemical Corporation for about $236,5 million, including debt — one of the largest offshore purchases by a local company

According to an announcement today, Hampshire has turnover of about $220 million a year and employs 800 people at five plants in the United States and one at Teesside in Britain Its profit before goodwill write-offs last year was $6,5 million

Sentrachem's managing director, John Job, said in an interview yesterday the price earnings ratio on the acquisition was about 14, slightly below Sentrachem's own 15.

"We are paying a fair but full price, but we are obviously looking beyond that," he said

"Firstly, Hampshire is not a cyclical commodity company Secondly, the price is higher in 1995 than it would have been in 1994, but it was not for sale in 1994.

"We are paying for the business in the company at the present," Job said

The acquisition will add close to R1 billion to Sentrachem's existing turnover of over R3 billion a year

Hampshire focuses on higher value chemicals which are used in a range of intermediate applications for the pharmaceutical, agricultural, speciality detergents and cosmetic sectors

Job said Hampshire's products complemented those of Sentrachem.

It was intended to develop opportunities for Hampshire in southern Africa while Sentrachem would export intermediaries for Hampshire The two companies could develop export markets together

About $30 billion of the purchase price will be sourced from international investments and the remainder from borrowings, some through a Sentrachem offshore subsidiary

It was impossible to say at this stage what the effect on gearing — 19 percent at interim stage — would be because of the timing of other cash flows, said Job

About R150 million would be raised from the sale of Mega Plastics, and Sentrachem had strong operating cash flows

The possibility of an issue to raise cash was being debated but this was by no means certain, he stressed

Polifin to spend R40m on clean-up

C.T. 13/7/95 (183)

By Derek Tommey
Mining Editor

Polifin, the new plastic and chemical company formed by AECI and Sasol, is spending R40 million on environmental controls at its Midland, Sasolburg, plant

It is installing advanced emission-control technologies, many of which are world firsts.

Polifin will spend another R10 million next year cleaning up when it closes old plants following the completion of facilities

New "closed-circuit" processes will reduce the Midland site's emission to 30 percent of their previous levels, solid emissions to 20 percent and gaseous emissions to 17 percent of past levels.

Emissions to the area's rivers are being reduced to one-fourteenth of globally accepted standards

Freek van Heerden, Polifin's engineering manager on the Midland Restructuring Project, says these levels are mere fractions of those permitted by the strictest emission controls on earth.

Gaseous emissions are traditionally vented into the atmosphere, says van Heerden.

"But the days of the tall chimney stacks are over."

These developments form part of Polifin's R650 million Midland restructuring development

The project will improve Polifin's international competitiveness as a manufacturer and supplier of Polyvinyl chloride (PVC).

Polifin angles for competitive edge

CT(BR) 13/7/95 (183)

By Derek Tommey

Staff Writer

Polifin, the plastics manufacturing company which is to be listed on July 24, is positioning itself to be competitive in the next downturn in polypropylene, polyethylene and PVC prices, Pieter Cox, the chief executive, said in Johannesburg last night

Sasol shareholders are to receive 15 Polifin shares for every 100 Sasol shares or convertible debentures or options held

Cox said Polifin's feedstock was competitive with that of its overseas competitors and it had a geographic advantage in the South African market But Polifin's plants were small by northern-hemisphere standards and this prevented it from getting the same economies of scale as the foreign competitors

However, by 1997, when the downturn was expected to start, Polifin's new plants would be in production and this was expected to produce savings of R150 million a year

The company was seeking to increase supplies of ethylene and propylene from Sasol and this, with removing bottlenecks at certain production facilities, should enable it to increase its polypropylene and polyethylene production

But the company would be vulnerable to foreign dumping, which would have to be expected during a downturn, unless the authorities were able to stop it

Cox said new capacity was expected to come on stream overseas during the next year or so, but would not be of the same size as a few years ago which, coming when the world economy was in recession, resulted in polypropylene prices almost halving They were still at their 1988 level

Polifin is expecting earnings of 60c a share for the year ended June 25, and is forecasting a further improvement

☐ See next page

PREPARED *Pieter Cox, Polifin's chief executive, is confident new plant will be in operation before the slump*

PHOTO JOHN WOODROOF

SASOL'S SUBSIDY

Profits or principle

Government needs to keep investment opinion in mind

(183) FM 14/7/95

They say in Texas that there is no such thing as a gentleman oilman For oilmen take enormous risks and make vast fortunes and any government that gets between the two gets squeezed And that is as good an explanation as you'll get why government here hasn't entered the dispute between the oil majors and Sasol over the latter's generous protection

The fight, which has been dragging on for nearly two years, took a dramatic turn last week when the oil majors walked out of a Nedlac committee meeting Their protest is against acceptance in principle by the committee of a report by auditor Arthur Andersen that recommends Sasol's price support be continued for another four years, though kicking in at a lower level of the benchmark oil price than before

Sasol says it needs continued — but for a limited period — support should the oil price decline, to enable it to make the capital investment that will ultimately enable it to earn a competitive return without help

The oil companies are adamant that Sasol has wasted capital, is still wasting capital and that its support must end now As its profits record is near the top of the world league, they have no sympathy for its plea for limited clemency

The fact is that international refining output has become so streamlined and competitive that some of the oil giants here are showing returns of less than the 3% Sasol would show at oil prices below US$20 a barrel without the subsidy Their chagrin is understandable

In the end, government is going to have to decide The only official statement so far is Mineral & Energy Affairs Minister Pik Botha's chiding of the oil majors for walking out But government is a player It pays the subsidy — and it does so out of taxpayers' money

We're not sure that government knows which of its Ministers should intervene Sasol falls under the energy portfolio but the money is the Treasury's

Some of the ferocity of the engagement can be felt from the exchanges over the objectivity of the Arthur Andersen report which, while dated June 2, was preceded by a draft dated May 26 There are material differences which centre on the expected value of protection to be given to Sasol Synthetic Fuels (SSF) over the scaling down period (see table) The final, published version incorporates much higher envisaged protection levels in the early years of transition

There are other passages in the first report less favourable to Sasol than their final counterpart Thus the terms of reference stated that protection should — at a minimum — be sufficient to guarantee the continuation of Sasol's synthetic fuel operations The draft refers to an aggregate of less than R1,5bn over the five-year transition and the published version refers to R2,5bn in nominal terms The draft concludes that the synfuel operation is saving R2bn a year of foreign exchange, the final version puts it at R5bn When considering the year 1994-1995, the draft says the amount is R3,4bn The final version says it is R5,6bn

On the question of the nature of the future protection mechanism, the draft says its determination would involve a range of technical legal issues, which are to be regarded as outside the scope of the study The final version says there are only two realistic options — a continuation of the current mechanism involving payment to SSF out of the Equalisation Fund levy or a variation under which there would be a rebate against amounts payable by SSF under the fuel tax

The draft contained two statements which were omitted from the final version First, that "there has been much controversy about whether the protection received by Sasol's synthetic fuel business takes the form of a subsidy or a tariff In our view, the protection cannot meaningfully be described as anything other than a subsidy

"Furthermore, the Equalisation Fund levy from which the subsidy is paid is a purely domestic tax It is essentially in the nature of an excise duty or consumption tax and cannot reasonably be described as a tariff, which is an import duty imposed at a country's borders"

When considering the outcome of a cost-benefit analysis, the draft says it is difficult to compare the costs and benefits in strict economic terms, the final version says "the analysis above shows that the costs associated with continued protection compare favourably with the resulting benefits"

Paragraph 7 4 4 of the draft is omitted from the final version It reads "Economic value added is created when a company's internal rate of return exceeds its cost of capital SSF's cost of capital is reduced because it receives protection, thereby reducing risk to providers of capital Potentially, this could allow SSF to undertake otherwise marginally economic capital projects or ones which would not be economically viable (without) protection"

The draft concludes with consideration of SSF's underlying strength of business, given the proposed levels of protection Though the business looks relatively weak on post-tax earnings and cash flow measures, the underlying cash flows are much stronger than they appear In the final year in particular, short-term changes in working capital mean that the net cash flows significantly understate the longer-term return The final version says the (revised) levels of protection are adequate but not excessive In discounted cash flow terms, the results

JOURNAL ENTRIES?

Proposed level of protection

Arthur Andersen draft | Arthur Andersen report

	Price of oil		
	US$/m[1]	US$/barrel equivalent	Expected value of protection Rm
1995/96	185,00	19,06	777,40[2]
	184,90	19,00	352,80
1996/97	185,00	19,06	726,20
	184,90	19,00	458,20
1997/98	177,00	18,01	522,60
	180,30	18,40	366,20
1998/99	177,00	18,01	320,50
	180,30	18,40	228,60
1999/2000	169,00	16,97	-
	173,40	17,50	0,00

1 Under the protection formula, Sasol receives enough assistance, when the oil price falls below the base level, to restore its revenues to what they would have been at that level However, the dollar/rand conversion rate is calculated according to purchasing power parity, not on the market rate

2 Annual equivalent figure. If the revised floor price applied from January 1996, and the current levels of protection continued until then - as Arthur Andersen assumed - the total value of protection provided in the financial year 1995/96 would be approximately R888,7m

SOURCE ARTHUR ANDERSEN

could be seen as relatively strong But the financial indicators, though positive, are well below benchmark levels

To this Arthur Andersen partner John Donnelly replies that both comments relate to the same rand value of protection — R2,5bn, as indicated by reference to the graphs on page 99 of the draft and page 100 of the final report.

The oil industry representative body, the SA Petroleum Industry Association (Sapia), says its members are rejecting the Arthur Andersen report for three main reasons the process by which the investigation was carried out, the report itself and the scope of the investigation

Sapia claims that Sasol exercised influence on the entire process of investigation — hence the report is not independent and is of limited scope and transparency The terms of reference were drawn up in private between Sasol and labour to the specific exclusion of all other participants in the task force, a procedure never generally agreed to. Then there was no reportback to the task force during the course of drafting the terms of reference Lastly, the terms of reference and the consultants' proposals were presented as a fait accompli

There was resistance to changes in the terms of reference Reluctantly, Sapia agreed to participate after limited changes were made to the terms of reference and assurances on their interpretation had been given by Arthur Andersen

Sapia says the report is neither comprehensive nor independent and is inadequate in substance There was a narrow interpretation of the terms of reference and a failure to address such issues as the macro-economic effects of a subsidy for a single private-sector company on foreign and local investment as well as the distortions generated in the industry as a result of the subsidy, not to mention international conventions on unfair competition A further deficiency is the failure of the report to give any clear policy direction even after the proposed sunset period Still worse, claims Sapia, is the gross omission of relevant, important facts

There are also deficiencies in assumptions the implication that the subsidy should continue based on an historical undertaking, a failure to substantiate the basic premise that the subsidy should be the minimum necessary to ensure survival, and the implicit assumption that there is a greater public interest in the survival of Sasol than of its competitors Further, there is an assumption that rail tariffs will be reduced The revised level of subsidies if tariffs are not reduced was not calculated

Sapia argues that there are deficiencies in methodology and interpretation These include a failure to address the full costs incurred by the consumer and the taxpayer The subsidy, in effect, is used to fund new investment, probably a violation of competition principles There is an inability, despite the claims in the report, to isolate subsidies from Sasol's operations and capital cash flows Sasol, says Sapia, represents a significant waste of capital

Because of a lack of supporting data, the report fails to meet the requirement of maximum transparency as required by the terms of reference The study was done too quickly and without enough qualification

Arthur Andersen partner John Donnelly says the differences between the two versions were discussed at a project committee meeting on June 6 The committee resolved that Arthur Andersen had fulfilled its contractual obligations, that the process had been equitable and sufficiently transparent and that Arthur Andersen had not made the changes as a result of any outside influence

The draft report was accompanied by a covering letter dated May 26 which recorded that it was subject to internal quality assurance procedures The final report complied with these procedures

In comparing the underlying floor prices between the draft and final report, Donnelly says these decreased marginally As these are used to compute the rand value of protection, this indicates that the shift in the computed rand value of protection was not influenced by anyone

Donnelly says the term subsidy appears in more than one place in the final report other than in paragraph 4 1 and he considers his firm conducted a broad and rigorous assessment of the relevant issues and that the report required no qualification

Sasol's Alfonso Niemand says the criticisms of the Arthur Andersen report are "distorted and incorrect" He confirms that Arthur Andersen reserved the right to amend the draft report and says Sapia failed to mention that Arthur Andersen gave a detailed explanation to the project committee (comprising government, labour and business) of the differences between the reports.

Sapia's claim that the level of protection is more favourable in the final report is disputed The crude oil reference price recommended by Arthur Andersen as the basis for protection was higher in the draft report. This was offset by a "bona fide computation error made by Arthur Andersen in the corresponding rand value of the protection This error was pointed out immediately after the draft was released" Other points on which Niemand refutes Sapia are

❑ The extent of the foreign exchange savings in the draft report was clearly incorrect This is confirmed by the CEAS study which was annexed to the final report,

❑ Labour, government and Sasol pointed out to Arthur Andersen that they needed to express a view on the protection mechanism to comply fully with the terms of reference. Hence this was done in the final report,

❑ The difference in cost-benefit analysis between the draft and final reports was due to minor editing Both reports indicated that the contribution to the economy exceeds the current cost of tariff protection by a factor of six

Arthur Andersen says it has challenged Sapia to point out the facts alleged to have been omitted

Sasol does not agree with all the final recommendations but considers the study to be an authoritative view It would like a few more years of support — and who wouldn't in its position?

Government will have the final decision and it will be a difficult one Sasol may be sunk capital worth nurturing for a while But it must also keep in mind how other investors abroad, including some oil companies, will interpret its actions Sasol alone cannot supply all our needs ■

WILHELM'S PRIZE

Peter Wilhelm, senior assistant editor of the *FM*, has been awarded the 1995 Sanlam prize for literature He received the award — sponsored by Sanlam and the Grahamstown Foundation — last week at a special ceremony in Grahamstown It was for his novel, *The Mask of Freedom*. The prize carries a cash award of R6 000

The Mask of Freedom — also shortlisted for the M-Net book award — is an anti-utopian story of SA set in an imaginary near-future in which factors such as endemic poverty, the intractable spread of Aids, corruption and violence have endured and created the conditions for a second revolution It has been described as a South African *Nineteen Eighty-Four*

The novel follows the wanderings throughout SA of the two main characters in a quest for refuge from the tides of history

Wilhelm, who is based in the Cape, was editor of *Leadership* magazine for two years and has specialised in coverage of the Constitutional Assembly for the *FM* this year He is the author of several novels, collections of short stories and poetry and winner of a Pringle prize for his book reviews as well as other literary awards

Sasol Oil slips up on Total in Engen deal

(783) ST 16/7/95

THE proposed merger by Sasol Oil and Engen is being delayed by Sasol's contractual obligations to Total SA, writes **KEVIN DAVIE**

Sasol Oil, Sasol's conventional fuel business, and Total SA are shareholders in the Natref refinery at Sasolburg. Total SA, which is jointly owned by French fuel giant Total (55,7%) and Rembrandt (34,4%), has a 36,6% interest in Natref, Sasol Oil holding the remainder.

Sasol and Engen have for some months been in talks to merge their fuel operations. It is understood that an agreement has been reached on a merger, but a senior oil man says the deal is being snagged by Total SA's pre-emptive rights in its shareholder's agreement with Sasol

Dennis Poole, Total SA's managing director, confirms a letter of complaint has been delivered to Sasol.

"The matter is awaiting developments. It could be resolved by settlement or arbitration," says Mr Poole. "Total SA has responded to a situation which we consider potentially threatening to our interests."

Sasol's Alfonso Niemand says "some differences of opinion have arisen and are receiving attention".

Pik's fuel reform plan draws fire from an old foe

ST 16/7/95 (BT) (183)

By KEVIN DAVIE

ENERGY Minister Pik Botha has presented Nedlac with long-awaited proposals to reform the fuel industry But Pick 'n Pay's Raymond Ackerman, veteran campaigner for the right to discount petrol, says the proposals are "totally fudged"

"The situation is as it was five years ago", says Mr Ackerman.

Mr Botha proposes that petrol should "eventually" be subject to maximum and minimum prices.

"The current fixed price mechanism should (eventually) be replaced by a system of maximum prices which could allow for discounting," says a government document tabled at Nedlac's liquid fuels task force.

Mr Ackerman says "this is no progress at all" He supports maximum and minimum prices but says this should be for a fixed period of one or two years

The government says the Ratplan, which limits new entry into the service station market, should be lifted as retail price maintenance is phased out.

"Being an artificial intervention mechanism in the market, severely limiting entry into the service station industry, (the Ratplan) should eventually disappear"

Mr Ackerman says the Ratplan gives protection to the big oil companies which can play havoc with small businesses which operate fuel stations.

"We were chucked out of one site. The Ratplan should be abolished."

The government has proposed a moratorium on self-service pumps at fuel stations. Mr Ackerman says he supports the moratorium but it too should have a fixed timetable.

"As a country we must be able to pursue the cheapest cost method to improve efficiency.

"Petrol and food are the two biggest costs for most people. Petrol should be run like the food business, to bring prices down."

The government has also proposed continued import control of petrol. "Imports not specifically aimed at addressing temporary shortages may lead to underutilisation of refining capacity and can detrimentally affect this type of investment"

Mr Ackerman says supermarket chains in Europe import fuel as one method of ensuring petrol is supplied by domestic refineries at a competitive price.

The government also says a social plan to deal with "inevitable" retrenchments at service stations will have to be agreed before dismantling the Ratplan.

"Franchising agreements will have to be strengthened in favour of the franchisee, before dismantling the Ratplan."

The government document says tariff protection for synfuels has to remain in terms of current agreements and formulae until the end of 1995 for Sasol, and 2003 for Mossgas.

It takes no position on the question of continuing protection for Sasol after the end of this year.

"A decision on the government's position on tariff protection to the synfuels industry should be deferred until the outcome of the current investigation into tariff protection for Sasol synfuels is known.

"The Mossgas situation should be assessed separately."

Retrenchments to hit Engen earnings

Mungo Soggot (183) BD 18/7/95

ENGEN warned shareholders yesterday of a big drop in year-end earnings, as it braced itself for more hefty retrenchment and restructuring costs

It said second-half earnings were likely to be well below those of the first half, which were almost 50% down on the same period the previous year at 57c a share.

Restructuring costs for the year would probably top R80m — most of which would be for retrenchments — which would see Engen's workforce cut by 15%

This follows the scrapping of 500 jobs at senior and middle management level in financial 1994.

CE Rob Angel said the cutbacks would save the company R55m annually.

Engen — the only crude oil company listed on the JSE — was not the only oil major in SA facing these problems.

"Similar restructuring in the downstream part of the oil industry worldwide is prevalent," Angel said

He said profitability should improve in the 1996 financial year But although Engen's operating performance in the four months to June had been better than in the first half, profits from continuing operations would be slightly down on the R187m reported in the first six months.

Singapore fuel margins — to which SA's fuel pricing system was tied — had only recently shown signs of a "sustainable improvement", Angel said.

The company said if crude and refined prices held at similar levels for the rest of the financial year the inventory loss for the full year would be in line with the R20m loss reported at the interim stage

Second-half financing costs were expected to be "somewhat higher" than the R68m recorded for the first half.

Angel said several hurdles were barring the possible merger between Sasol and Engen The most important was the pre-emptive right of Total SA — Sasol's partner in the Natref oil refinery — over Natref, he said.

"The restructuring and repositioning process that we have been through in the past few years has gone beyond mere cost-cutting. We expect to derive significant benefits in all areas of our business as our lean and mean team concentrates its attention on our core business in southern Africa," Angel said.

Engen reported earnings a share of 267c for the year to August 1994

Creative financing takes SA overseas

CT(BR) 19/7/95 (183)

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Sentrachem's announcement of a $236,5 million purchase of United States-based Hampshire Chemical last week is the latest in a handful of overseas acquisitions by South African companies that have been made possible through ingenious financing mechanisms

Although the government will allow asset swaps, which would enable local institutions to invest assets abroad if an overseas institution made a similar investment in a South African portfolio, this appears to be limited to institutions

The proposal has also been greeted with some scepticism because of the unattractive codicil that would require overseas institutions to be locked into the purchase for a certain period

In the past few years, the value of major overseas acquisitions made by local companies has exceeded $3 billion — mainly because of the two massive purchases of SD Warren and Billiton

Owing to exchange control regulations, the purchase price for all these deals had generally been negotiated as a cash deposit raised through the sale of part of a South African company's overseas assets, or a loan against those assets, and the rest through debt secured against the company being acquired

The possession of overseas assets has been a prerequisite for a deal, which has ruled out many otherwise cash-flush and acquisition-hungry local companies

However, the trend started by Nedcor of issuing global depository receipts, had given certain South African companies a means of raising funds offshore and keeping them there to be used for foreign purchases

The biggest deal so far has been Sappi's $1,6 billion purchase of SD Warren

For example, Malbak announced its intention to issue global depository receipts, while its subsidiary SA Druggists warned shareholders it was at an advanced stage of negotiations for foreign acquisitions

Sage Group, which has an option to take up 50 percent of Independent Financing Marketing Group of the United States, from which it disinvested in 1991, will have to pay a nominal sum to exercise its option

But Sage announced plans to raise $50 million in global depository receipts to finance acquisitions and form alliances in the United States

The biggest deal so far has been paper group Sappi's $1,6 billion purchase last October of SD Warren of the United States This was funded by an investor group, including Sappi and American financial institutions DLJ Merchant Banking Partners and UBS Capital

To purchase SD Warren's equity, Sappi raised a $250 million loan against the security of its European assets and the remaining $150 million was subscribed for by DLJ and UBS Capital

The debt financing was through a fully underwritten bank facility of $1,1 billion from the Chemical Bank of the United States

Just three months earlier, Gencor had announced the $1,22 billion purchase of Billiton, the mining business of Royal Dutch Shell, which was of record size for a South African company

Gencor sold $335 million of overseas assets, to which was added a $430 million bank loan, $300 million in exchangeable bonds taken up by a Shell subsidiary, and a $170 million revolving loan facility for refinancing and working capital

Sentrachem's announcement has been the largest offshore purchase by a South African company this year

The transaction will be financed by $30 million, raised from Sentrachem's international investments, $100 million through existing or replaced financing at Hampshire and $106,5 million from additional financing facilities, some of which are from an offshore subsidiary

Caltex head slams Sasol's massive subsidy

CT (BR) 19/7/95 (183)

BY AUDREY D'ANGELO
CAPE BUSINESS EDITOR

Petrol would instantly become more than 15c a litre cheaper if the subsidy to Sasol — a profitable, privately owned company — was stopped and Mossgas closed down, Mike Rademeyer, chairman and managing director of Caltex Oil SA, said in Cape Town yesterday

He told the Western Cape branch of the Institute of Directors that 9,4c of the price paid for every litre of petrol went to Sasol, which was one of the most profitable companies on the JSE

"This money goes straight into the pockets of very wealthy shareholders These are organisations like the Old Mutual and Sanlam"

Another 5c or 6c a litre went to Mossgas which could not stand on its own feet "and should be closed down tomorrow"

Rademeyer said the subsidy to Sasol was equal to the entire bottom-line profits of all the oil companies in South Africa The industry could not be deregulated until this subsidy was stopped

He said it was a waste of money to introduce unleaded petrol in South Africa It was being done so car manufacturers could produce models for export where unleaded petrol was used with catalytic converters Without these converters unleaded petrol, far from reducing pollution, would result in more dangerous emissions

The South African car manufacturers, he claimed, would not fit the converters because it would push up the cost of cars

Rademeyer said it was costing Caltex R150 million to install a capability to make unleaded petrol "We would rather give the money to the reconstruction and development programme"

Although unleaded petrol would be cheaper to begin with, to help it gain market share, it would become more expensive He hoped the government would reconsider a proposal to phase out production of leaded petrol.

Rademeyer warned that foreign shareholders in Caltex, who had made big investments during the apartheid years, were less willing now that the struggle was over while returns in the South African oil industry were lower

Referring to a warning by Engen that its earnings would be lower in the second half of its financial year, Rademeyer said Caltex was "operating in the same environment and our results will not be all that different"

Lion Match strikes against brand fake

CT(BR) 19/7/95 (183)

By Shirley Jones

Lion Match has obtained an interim court order restraining a Johannesburg import agent, Abdul Mitha, from distributing and selling imitation Lion matches which he imported from Turkey last month

The allegedly counterfeit matches (on the right of the picture) have black heads and a white tray, and the authentic ones have brown heads and a blue tray

The 19 million box consignment, which is reportedly worth millions and is expected to cost Lion Match R1,3 million in lost revenue, was intercepted by Durban and Port Elizabeth police a month ago

The boxes were shipped in eight containers to Port Elizabeth from Turkey Four containers remained in Port Elizabeth while two were intercepted in Durban and Pretoria

The consignment — the majority of which has been confiscated by police — was apparently headed for Lesotho where Lion Match is the registered owner of the trademark

Ted Turner, the managing director of Lion Match, said his company, which had owned the trademark for over 100 years, would "pursue the matter to the fullest extent of the law" He said the police and Lion Match intended pursuing criminal and civil action against offenders.

"We have a quality product and an established brand name to protect. We trust the courts will deal severely with those charged and, in so doing, afford protection to other manufacturers of established local brands," he said

After detecting two previous infringements of their trademark last year, Lion Match hired private investigators However, these consignments were small and it was impossible to trace the importer

Turner said he hoped the draft Counterfeit Goods Act under discussion by government would protect traders and deter criminals as infringements of trade laws were clearly on the increase

Engen warning leads to 100c share price fall

CT (PR) 19/7/95 (183)

By Andy Duffy

Staff Writer

More than 4 percent was wiped from the value of Engen shares yesterday after the group's warning that refinery hitches and restructuring costs would hit its second-half earnings.

The share fell 100c to R23,50 — ending its steady upward trek since June — and analysts were split over whether the stock would weaken further

Several brokers said the ruling price range suggested the profit warning may have surprised few investors

But they said most shareholders were likely to wait until Engen officially tabled its full year earnings before any share rerating Brokers have downgraded forecasts for Engen's earnings for the year to August, with estimates ranging from 105c to 115c a share, against 267c a share for financial 1994.

"We knew there were some difficulties," one analyst said, "but there are going to be a lot of disappointed people

"It's clear they're not going to produce a decent set of results"

Engen said operational hitches, poor margins and heavy restructuring costs would leave second-half earnings lower than the R187 million recurring earnings posted for the six months to February It had previously suggested second-half earnings would be higher

Analysts said the extent of the restructuring — 15 percent of employees, costing more than R80 million — had come as little surprise

If Engen was right that annual savings would be R55 million a year, then the one-off hit would be recovered in just 18 months

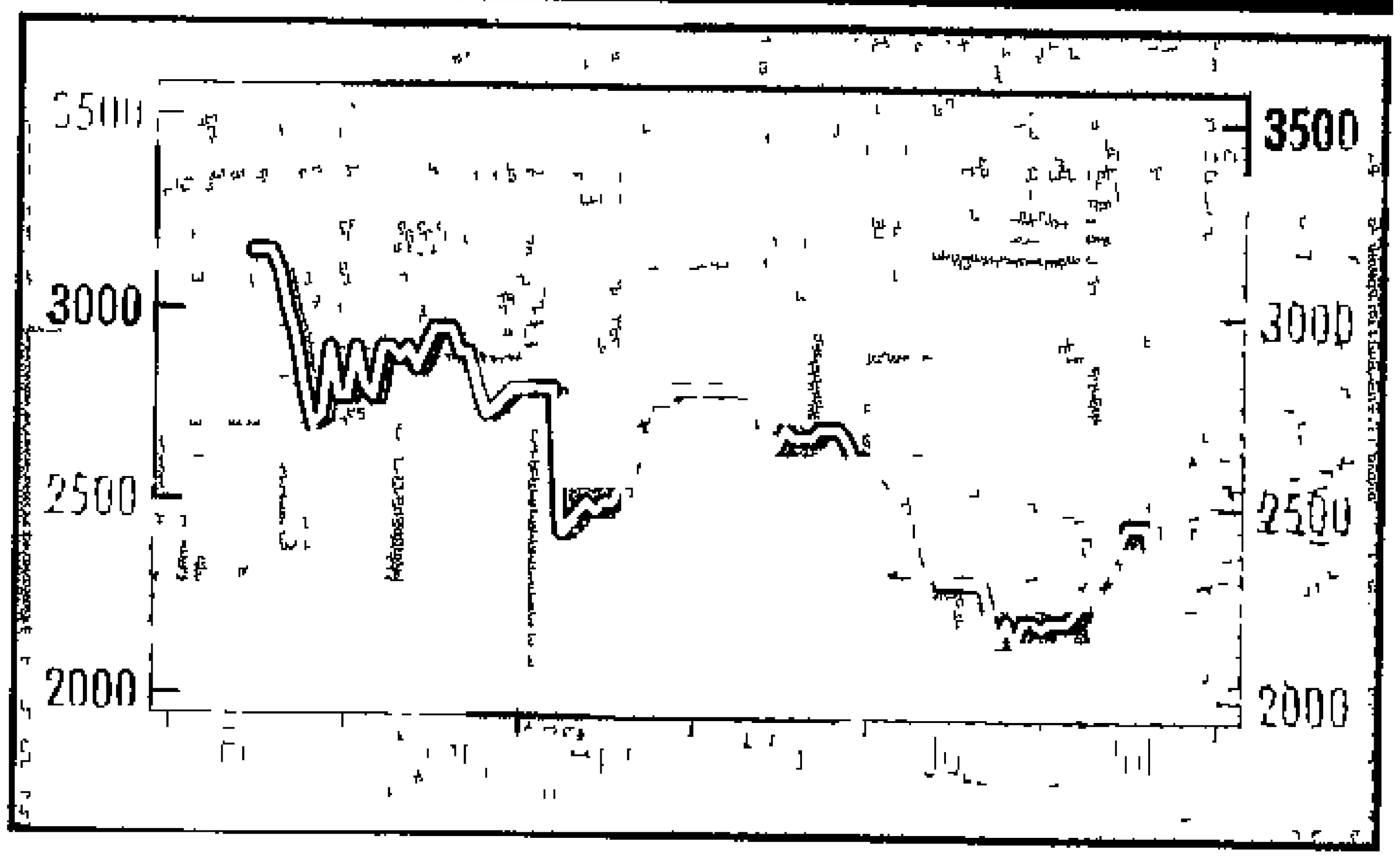
But there were serious concerns about hitches in commissioning new refining plant. "This has just not been working up to speed," one broker said.

New refining plant was now producing 93 000 barrels a day, but average production over the second half was thought to be closer to 80 000 barrels, 17,5 percent below operational capacity

Analysts said Engen would show a recovery in 1996, given the figures would be off a low base.

Some brokers said earnings should at least double next year, provided the operational problems were ironed out

Engen share price (13 Feb 1995 - 18 Jul 1995)



Money market shortage back above R2bn level

PETER GALLI

FEATURES EDITOR

The money market shortage was back above the R2 billion level on Monday after plunging to R776 million on Saturday, dealers said yesterday

The fall in the shortage on Friday had been due to payments into the government's tax and loan account and the payout of civil service employee salaries But it appeared that much of this had moved out again on Monday, resulting in the upsurge in the shortage.

"The moves in the shortage are unusual compared with normal fluctuations at this time of the month. But the shortage is back to its normal level and overnight call rates have not been affected. The market is pretty stable," a dealer said.

The shortage — reflecting the amount of money commercial banks borrow from the Reserve Bank to meet daily withdrawals — rose R1,7 billion to R2,5 billion on Monday.

Another dealer said: "The lower shortage is largely due to three factors Firstly, there is a lot of cash coming in from abroad as money raised by local companies starts to flow through.

"Secondly, the Reserve Bank is active in the market, taking funds out as part of its drive to keep rates down. Thirdly, there is normally little activity in the money market at this time of the month.

And on the bond market, long-dated gilts yesterday weakened in sympathy with the easier trend on the US market on Monday night. The key government R150 bond and the Eskom 168 stock both ended the session 6,5 basis points up at 16,59 percent and 16,56 percent respectively.

A dealer said there had been some selling following the weaker trend on Wall Street, but volumes has been thin.

The US bond market was unchanged in early trade yesterday from Monday's closing levels.

Petrol price cut likely

183 CT(BR) 19/7/95

BY ANDY DUFFY

Falling international oil prices could clear the way for the first South African petrol price cut since February, economists said.

Oversupply in international markets had already pushed barrel prices down to seven-month lows, which could allow the Central Energy Fund to trim 1c from the R1,87-a-litre pump price next month. If crude stayed low, prices could be cut by a further 3c in September.

Mike Schussler, an economist with Transnet, said pump prices should have fallen already, given crude's fall from its $20 a barrel average in April. Brent Crude prices for September delivery closed at $15,86 a barrel in Singapore yesterday, down 8c from Monday amid fears of North Sea oversupply.

But, another economist said the link between international oil prices and local pump prices this year had proved tenuous.

□ See page 16

SA executives low on pay scale

CT(BR) 19/7/95

BY NEIL BEHRMANN

LONDON CORRESPONDENT

London — South African chief executives are way down the international pay league, according to Towers Perrin, the remuneration consultancy.

Towers Perrin, the company that advised the Greenbury Committee which has proposed a code of conduct for British directors' pay and perks, ranks South African executive pay scales eighteenth on the list.

They beat only Mexico, Sweden and South Korea. The ranking is for large sized corporations with annual turnovers in excess of R900 million.

Yet before South African company chiefs p[illegible]d poverty and demand a big raise from their shareholders, the reason is due to the weak rand. In rand terms, they cannot complain since their total remuneration averages $336 000 (R1,2 million) estimates Towers Perrin.

In the end, they can only judge their worth in the international market place. Now that South Africa is part of the international community, chief executives are available to global corporate head hunters.

United States chief executives are ranked top in the salary package stakes, earning an average of $928 000 (R3,4 million). They are followed by Brazilians ($698 000); French ($600 000); Swiss ($572 000); and Japanese ($558 000).

Interestingly — and despite the strong mark — German managing directors on average earn $512 000 and are only ninth on the pay scales.

British chiefs are tenth with a package of $484 000 and their counterparts in Singapore, and Hong Kong are not far behind. Australian managing directors are rated 17 with a total package of $377 000, just ahead of South Africans.

The Greenbury report commented that remuneration packages must be "sufficient to attract, retain and motivate directors of the highest quality."

Chief executive salaries of medium and smaller businesses tend to be much lower than large companies

Lion bites back over counterfeit matches

(183)

ARG 19/7/95

JOHANNESBURG. — More than 19 million counterfeit Lion match boxes made in Turkey have been confiscated and an interdict granted against the importer, Durban police spokesman Col Bala Naidoo said.

The inderdict was granted on July 11 in the Durban Supreme Court against Abdul Mitha from Lenasia, according to Gillian Gamsy International, Lion Match's public relations company

Mr Mitha allegedly imported the counterfeit Lion matches and planned to sell them in South Africa and Lesotho

The Lion Match trademark is protected under the Trade Marks Act

"We trust that the courts will deal severely with those charged with the offence and in doing so afford protection to other manufacturers of established local brands," said Lion Match managing director Terry Turner.

The counterfeit matches have black tips and are contained in a white inner tray. Real Lion matches have brown heads and have a blue inner tray — Sapa

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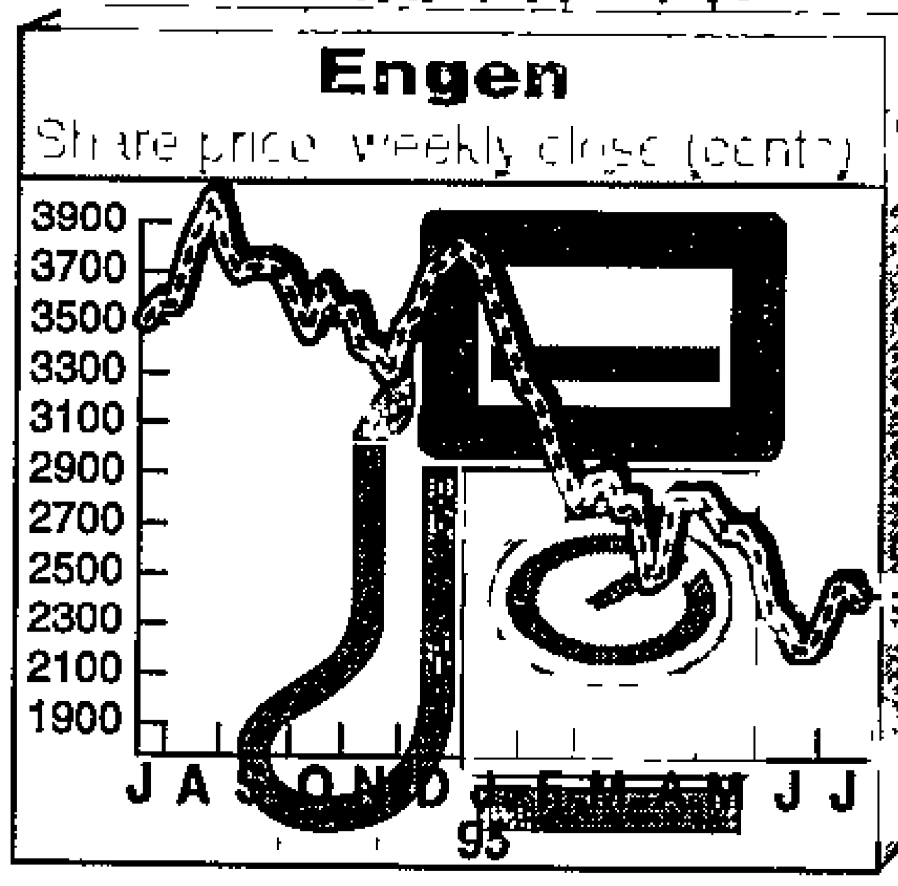
Engen's share price dives following bail out (183)

BD 19/7/95

Mungo Soggot



ENGEN's share price dived R1 or 4% on the JSE yesterday as stockholders bailed out after the fuel company's warning of paltry year-end earnings The share closed at R24,50 compared with a previous high of R42 and a low of R21,50

Analysts' forecasts of year-to-August earnings ranged between 70c and 80c a share, from 267c in financial 1994

But they predicted a strong recovery in financial 1996 as the company emerged from its painful restructuring. One bet on earnings of 270c a share He said the bail out from Engen was "myopic" and reflected fund managers' very short-term view.

Engen said yesterday the company's earnings would be hit by restructuring costs of more than R80m, most of it for retrenchments

An Engen spokesman said yesterday it was rare for a company to be confronted with so many negative developments in one year

"There was the shutdown at the refinery, further refinery problems, record low international refining margins and the restructuring," she said

The continued uncertainty about the possible deregulation of the local fuel industry — exacerbated by the recent row over the Arthur Andersen report into Sasol's subsidies — played havoc with planning the direction of the company Engen believed its restructuring, which would save it about R55m a year, would leave it "robustly positioned" to cope with any changes to the regulatory environment.

It was too early to say whether the recovery in Singapore fuel prices — to which SA's fuel pricing system was tied — was sustainable

She said Engen did not expect an increase in the wholesale fuel retail margin set by government, which had not been lifted for three and a half years

The Engen Refinery (Enref) in Durban should be running smoothly in a few months However, an analyst warned that Engen's performance would continue to be hampered by "the double burden of a massive interest bill and a semi-crippled cash flow"

'Financial skills shortage in govt'

Adrian Hadland BD 19/7/95

PRETORIA — SA was suffering from a critical lack of financial expertise at all levels of government, a conference on democratic constitutional development heard yesterday

Finance deputy director-general Maria Ramos said huge human resources were required to wind down the accounts and structures of the previous political and financial dispensation and replace them with new institutions and arrangements.

An enormous demand had developed for financial skills at all tiers of government, she said.

"If the problems we are encountering at central government are anything to go by, provincial and local governments are suffering the same difficulties"

Finance ministry advisor Cyrus Rustomjee said the new constitution was being written at a time of wholesale institutional change.

This suggested the constitution would have to evolve over time to take into account the functioning and efficiency of new structures and the availability of skilled personnel.

An example was the auditor-general's office, he said

It had been agreed during Constitutional Assembly discussions that auditor-general functions should be extended to the provinces "But there was simply not the capacity at this stage." As a result, the concept of provincial divisions of the auditor-general's office had been put on the "backburner"

ANC MP Johnny de Lange said the expansion of SA's human resource base required careful attention.

The constitution perpetuated the problem by permitting only elected politicians to become provincial executive committee members, he said In provinces suffering a skilled personnel shortage, alternative arrangements should be possible.

The constitution prevented central government from intervening when a provincial government was experiencing financial difficulties

A supervisory body should be established to assist provinces with financial problems because of a lack of adequate skills, said De Lange.

General Affairs Minister Chris Fismer, left, and Lotteries and Gambling Board chairman Prof Nic Wiehahn at yesterday's announcement of the board's recommendations to government on the lotteries and gambling industries. Picture NICKY DE BLOIS

Lion Match incensed over Turkish-made counterfeits

(183) BD 19/7/95

Nicola Jenvey

DURBAN — The Lion Match company has obtained an interim court interdict restraining a Johannesburg-based importer-exporter from distributing Turkish-made counterfeit Lion matches, MD Terry Turner said yesterday.

This followed a swoop by the Durban and Port Elizabeth SA Police Service commercial branches which uncovered an import scam involving consignments of more than 19 million boxes of matches supposedly destined for Lesotho.

The court order restrained importer Abdul Mitha of Lenasia from using the Lion Match trademark, in terms of the Trade Marks Act.

Turner said the counterfeit variants were "notably different" with black match heads instead of brown and a white inner tray instead of the regulation blue

The increase of trade law infringements has resulted in a draft Counterfeit Goods Bill

The respondents have until August 7 to show cause why the order should not be made final

Liquid fuels task force to meet today

(183) BD 20/7/95

Mungo Soggot

NEDLAC's liquid fuels task force will meet today despite the oil industry's pull-out in protest against the Arthur Andersen report into synthetic fuel producer Sasol, which most industry commentators believe has rendered the task force impotent

A Nedlac spokesman said the task force — which houses labour, business and government representatives — would meet to discuss the report and debate the task force's future following the oil industry withdrawal two weeks ago

The oil industry pulled out after the business caucus said it accepted the report, which the oil industry said was flawed, too favourable to and influenced by Sasol. A Chemical Workers' Industrial Union spokesman said the whole task force would try to work out a joint position on what to do with the report

Some other task force members were expected to voice criticism of the report, but not to reject it

Most industry sources said without the oil industry, anything the task force did would be "hollow", although one said it was the oil industry which would lose out

Minerals and Energy deputy director-general Gert Venter said he hoped the oil industry would go back to the negotiating table, but as the whole issue boiled down to a battle between vested interests it was bound to be difficult to get consensus

SA Petroleum Industry Association director Colin McLelland said the oil industry had withdrawn as the task force had made negligible progress in its 23-month life The business caucus's acceptance of the Sasol report had been the "final straw"

It had not withdrawn to frustrate the process of discussing the industry's possible deregulation, he said It was in its interests to make progress as major planning decisions hinged on the industry's future environment

Until a solution was found to the Sasol subsidy problem, no progress would be made on the future of the industry, McLelland said

CWIU talks continuing

Renee Grawitzky (183) BD 20/7/95

NEGOTIATIONS are still continuing between the Chemical Workers' Industrial Union (CWIU) and chemical industry empoloyers regarding the establishment of a national industry forum and sectoral bargaining forums covering specific sectors within the chemical industry.

It appears the majority of employers covering industries from petroleum, glass and pharmaceuticals to plastics, as well as heavy and light chemicals have agreed in principle to the establishment of sectoral forums.

Differences, however, exist about whether to negotiate minimum and actual wages at sector level.

The union's campaign co-ordinator John Appolis said that the employers who had responded represented about 60% of the union's membership in the overall industry.

It is understood that the Labour Department is facilitating a meeting between the CWIU and other unions operating in the chemical industry such as Nactu-aligned SA Chemical Workers Union (Sacwu) to discuss the establishment of a national industry forum.

CWIU suspended wage negotiations at plant or company level in April in support of its demands regarding centralised bargaining.

In response some petroleum companies declared disputes on the basis of the unions' failure to settle on wages and in breach of current agreements and applied for the establishment of conciliation boards.

(183)

SA strikes Iranian oil deal: South Africa and Iran reached an accord to store 15 million barrels of Iranian oil at Saldanha Bay, Kobus van Zyl, the managing director of the Central Energy Fund, said yesterday. The deal could be worth R50 million annually.

CT(BR) 21/7/95

SENTRACHEM FM 21/7/95

Gearing up again

(183)

The timing of Sentrachem's R800m acquisition of US-based Hampshire Chemical Corp will not affect group gearing in the financial year to August 31 With the deal effective from September 1, MD John Job expects the interim gearing ratio of 19% to have declined by year-end

But, in financial 1996 it could push group gearing up to around 60% That's not necessarily high for an offshore-financed acquisition but could be important for Sentrachem after the group's concerted drive in recent years to get borrowings down to improve its investment profile

About US$30m of the roughly $220m purchase price will come from reserves held by some of Sentrachem's international investments The balance will be raised offshore, probably borrowed from banks against the assets of the company Sentrachem is buying

The strategic benefits of the acquisition — apart from the nearly R1bn it will add to Sentrachem's turnover and the opportunities for international market expansion it offers — put the increased borrowings into perspective The fact that the money will probably be repaid at New York interest rates, under 10%, also casts a different complexion on the additional debt Sentrachem will be taking on board

Sentrachem's Job *won't let gearing go wild*

Job emphasises, though, that Sentrachem will "not let gearing go wild now that we have bought an international company" He says the priority will be to service the debt as quickly as possible He wants gearing to drop below Sentrachem's 30% target figure

But Job won't be drawn on the timing A number of considerations and decisions still have to be taken, he says

Locally, Sentrachem has raised cash by selling parts of Mega Plastics after deciding it was not a core business Nampak recently acquired part of Mega Plastics for about R80m — Job says further disposals are being negotiated

Initially, Hampshire Chemical Corp was not a willing seller, he says Sentrachem had been looking for a significant foreign acquisition since a deal to buy Australian company Chemplex fell through about four years ago

He regards the price as "full" but says Sentrachem did not pay an undue premium considering it wanted the company and that it was running profitably

The acquisition will give Sentrachem access to US markets where Hampshire has five plants (with a sixth in the UK) and sells about 80% of its products The balance are exported, mainly to Europe. *Shaun Harris*

The architect of Hoechst SA

(183) WM(BM) 21-27/7/95

Cosmopolitan climber: Reinhard Traub is confident about Hoechst's future
PHOTOGRAPH RUTH MOTAU

Chemical giant Hoechst SA's managing director, Reinhard Traub, speaks to Aspasia Karras

REINHARD TRAUB, managing director of chemical company Hoechst SA, which went public last week, had a long career within Hoechst's multinational network before coming to South Africa in 1989.

He has a cosmopolitan air which he attributes to a deep-seated appreciation for each culture he has lived with. The same approach typifies Hoechst SA, he says. It has culturally diversified to become a truly South African company, particularly now that the parent company has distanced itself to facilitate the listing

Traub says the selling of shares to the public can be seen as the culmination of his own work here.

Hoechst was severely criticised during the heyday of apartheid, but, he says, its refusal to leave South Africa was positive. "When the world was considering disinvesting, we had the confidence to expand our business competitively."

The company's strong position in the South African chemical industry has encouraged the media to label it as a very "sexy" option. The market has taken another view. Hoechst's shares have not exactly taken off since the listing. One view is that it is just bad timing the issue price of R5,15 was too high, in the light of the flat market and the cyclical nature of the chemical and pharmaceutical sector.

Traub, seeing himself as the architect and designer of the company's rapid expansion in the past few years in a difficult economic climate, is confident about the firm's future.

"We were in a position to expand and develop our organisation very rapidly, and this has given me tremendous satisfaction."

Traub has helped launch Hoechst's World Class 2000 programme, created to enhance the company's operational systems, products and services. The programme complements the company's "high chem" vision.

Traub maintains that "business is about the right people working as a team, pursuing the same objectives and goals".

He has climbed Kilimanjaro twice and also likes scuba diving and tennis

Traub says the environment is a formative element in a company's ethos. And environmental issues in general are taken seriously by Hoechst.

Says Traub: "The attitudes of the manufacturers and consumers should be changed. As a manufacturer, Hoechst adheres to international standards to prevent any kind of detrimental effects on the environment, and ensures that the handling of its products is done within these constraints. But if one looks around the countryside and sees the pollution, one realises that attitudes have to be changed, especially when it comes to plastics."

Joint venture could benefit SA industry

CT (BR) 25/7/95 (183)

STAFF WRITER

The establishment of a joint venture in South Africa between RCG Moody International, the multinational consulting and technical services organisation, and FPH Consulting Services, could benefit the petrochemical, industrial and mining heavy-equipment sectors and project engineering concerns

Moody International SA will extend the multi-national organisation's operations into Africa and open up the services of the group's global network to South African companies

Moody International is represented in more than 50 countries and is authorised to issue international listing accreditation in terms of the ISO 9000 system

Rennie van Wyk, a director at FPH Consulting Services, said that this could be vital to local companies seeking to export to other parts of the world, particularly Europe

Overseas

He said Moody International's extensive inspection and expediting network meant that overseas companies involved in projects in South Africa could obtain internationally accepted quality control and expediting services anywhere in the world

By placing an order for such services in South Africa, machinery, materials or components produced in countries such as Germany, China or Sweden could be approved to the client's own specifications or to the highest of international standards

Similarly, the South African joint venture was staffed, and equipped, through FPH Consulting Services, as an accredited SABS-listed inspection authority to supply the same level of service in southern Africa to importers of South African produced goods

Local govt warned on Caltex

CT 26/7/95 (183) (8)

STAFF REPORTER

THE future of local government depends on it holding Caltex accountable for pollution, a group of Milnerton residents who met earlier this week to discuss the proposed Caltex modernising project said yesterday.

The modernising project, Calref 2 000, is aimed at improving the Milnerton refinery's economic and environmental performance

In April, the company announced its plans to establish a review panel which would include representatives from community organisations, non-governmental organisation and relevant authorities

But according to residents, Caltex would be able to ignore suggestions by the panel

Last night Caltex Media Manager Mr Terry O'Donovan denied this, saying "We see the panel as an integral part of the process "

Bothasig Ratepayers and Residents' Association representative, Mr Robbie Upton, said "Pollution from Caltex is one of the biggest problems in Milnerton Caltex must negotiate a good neighbour agreement, failing that, local government should be on notice that their political future depends on holding Caltex accountable "

Lion Bridge Feeds in private hands after buyout

CT (BR) 26/7/95 (183)

BY ROY COKAYNE
PRETORIA BUSINESS EDITOR

Lion Bridge Feeds, the Pretoria-based gardening and animal health company, which has been owned by several major, local pharmaceutical companies since 1989, is back in private hands

In a management buyout, Albert Luus, the inventory control manager, and Martiens Ferreira, the marketing manager, have taken control of the company from Premier Pharmaceuticals in a multimillion rand deal

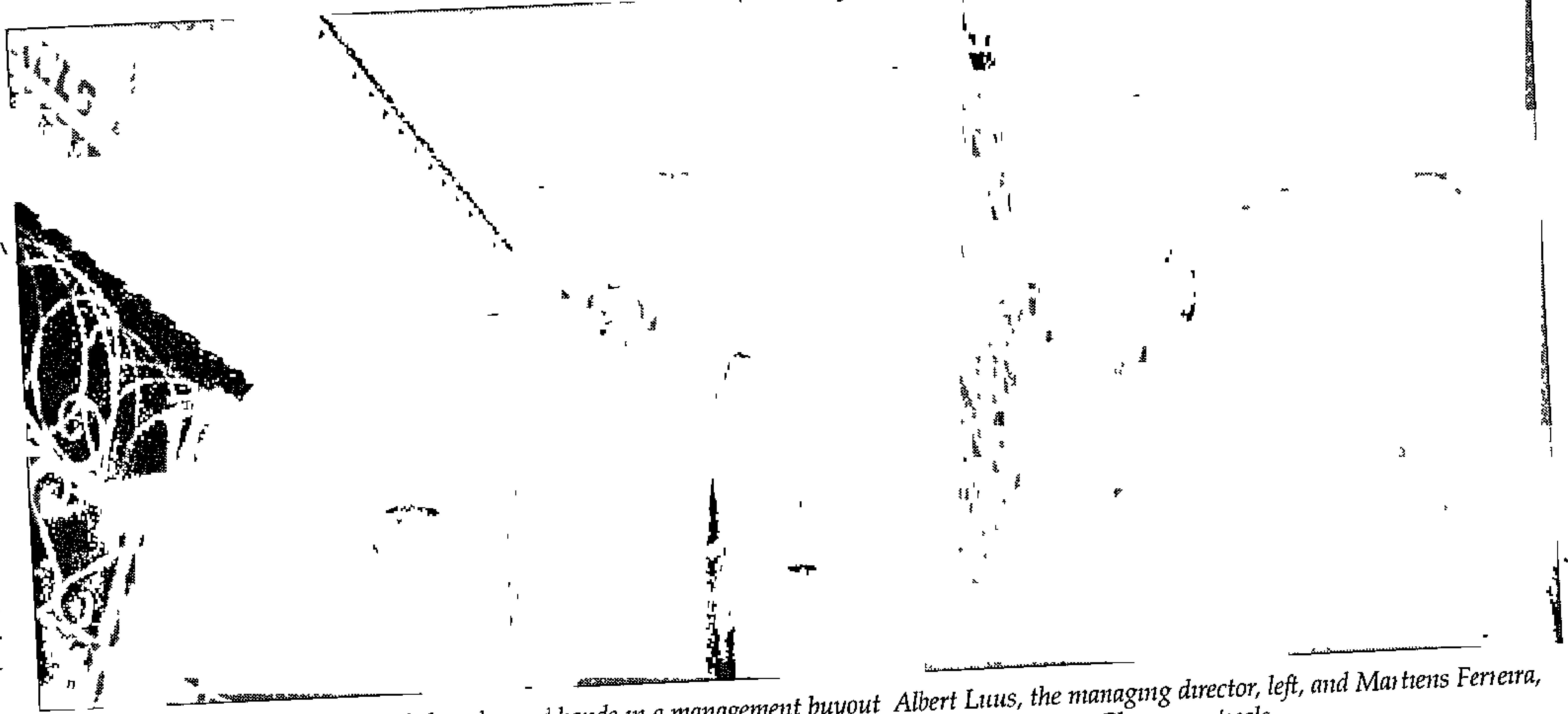
The deal includes Lion Bridge Feeds and its subsidiary, Lion Bridge Veterinary and Ethicals

Lion Bridge Feeds comprises four departments with the veterinary pharmacy accounting for 75 percent of its business The other departments are gardening, hardware and saddlery

Luus, now managing director, has been with the company for the past eight years while Ferreira, now marketing director, has spent the past 21 years with the company

Ferreira was not prepared to state the exact amount paid for the company but said it was acquired at net asset value, saying that they did not pay any goodwill

"We have bought a very profitable company purely as a going concern but we have now got major debt However, we estimate we will be able to repay all debt and loans within five years



NEW LEADERS *Lion Bridge Feeds has changed hands in a management buyout Albert Luus, the managing director, left, and Martiens Ferreira, the marketing manager, bought the company, established in 1927, for an undisclosed sum from Premier Pharmaceuticals*

"The company was never really for sale We heard a rumour that it was no longer fitting in with Premier Pharmaceuticals and made an offer for it," Ferreira said

They planned to double the company's annual turnover of R20 million within the next three years, he said

"We are looking at doing our own imports and specialising in various departments For instance, the pet market is growing phenomenally in South Africa

"We aim to bring in collars, muzzles, choke chains and training aids for guard dog training, as well as specialised feeds for dogs"

The veterinary pharmacy — the only business in South Africa with a pharmacy dealing exclusively in animal health products — had two qualified veterinarians

Ferreira said the company was a retailer and a wholesaler of veterinary products and distributed the products of all veterinary companies in South Africa

The company planned to target and supply all veterinarians

"Our orders with several veterinary companies are worth more than R1 million annually," he said

Luus said Lion Bridge Feeds exported a fair amount of veterinary products to neighbouring and other African countries but wanted to increase this substantially

"Although Lion Bridge Feeds is Pretoria-based it supplies clients throughout South Africa We have a specific wholesaling department in the veterinary section that only handles telephone orders," he said

Lion Bridge Feeds was established in 1927 as the first autonomous feeds company in South Africa

Petrochemicals could slip soon — analysts

Mungo Soggot (183) BD 27/7/95

THE looming downturn in the petrochemical price cycle could come sooner than many chemical companies had hoped, analysts said yesterday.

One said that this month's two newcomers to the JSE's chemicals, plastics and oils sector — AECI and Sasol's Polifin and Hoechst SA — could well have started their listed life at higher prices had it not been for fears that dips in international prices would be sustained after the seasonally quiet northern hemisphere summer.

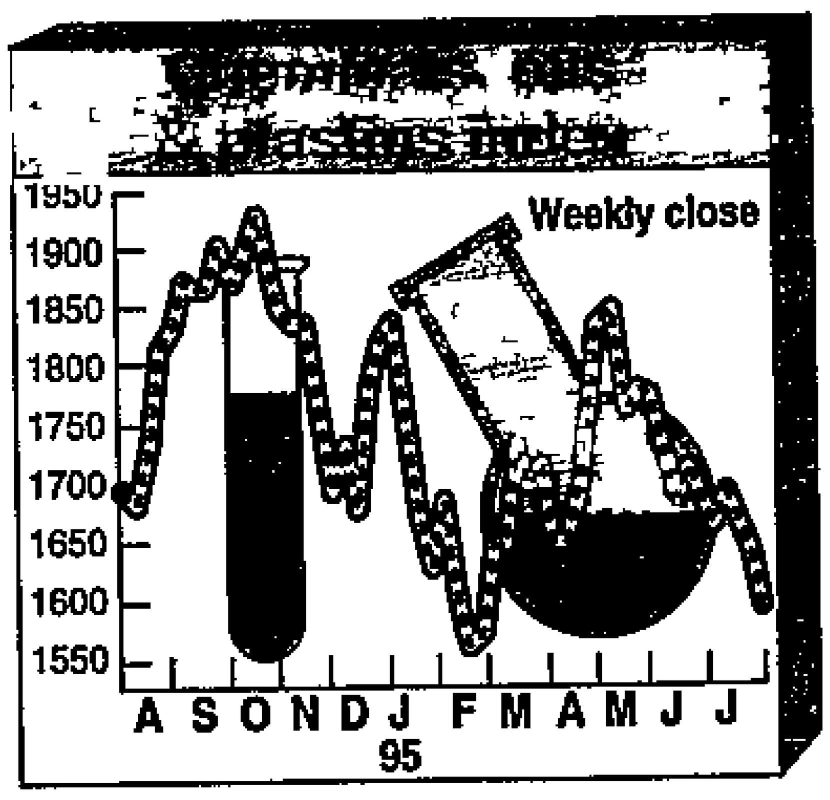
Forecasts for the length of the up cycle had been thrown by an unexpected slowdown in Europe's economic growth and static growth in Japan.

Polifin yesterday ended its third day down 30c at 770c. Most analysts downplayed the drop, blaming it on Sasol shareholders' profit taking after getting their shares free through Sasol's unbundling of its stake in Polifin.

However, one analyst said the fall was not entirely due to such technical factors "Let's hope the market has come to its senses. It is a good solid company, but it is going to be cyclical. It is not worth more than R8," he said. Polifin ended its debut on the JSE at 830c.

Hoechst SA — which analysts said was to some extent shielded from the effects of chemical price movements because of its pharmaceuticals business — yesterday closed 5c up at 520c On its first day on the JSE on July 12 it closed at 543c

A chemical industry analyst said the market would be watching August and September prices carefully to see whether the dip during the quiet summer period



was "just a dip".

Monomer prices had dropped sharply from about $600/ton to about $500/ton, while polymer prices had just started to come off

Another analyst said recent oil price movements had confirmed his fears about the chemical price cycle. Whereas a few months ago it looked as if oil could hold at $18 to $19 a barrel, it now looked doomed to hang around $15 to $17 a barrel.

Meanwhile, European Chemical News warned the upward cycle could be the last as overcapacity stemming from the current round of capacity additions could be permanent and not cyclical

But it said although demand growth was likely to slow or even decline, plastics prices should hold well into 1996 as plastics remained competitively priced relative to other materials. "The immediate outlook looks good, but the long-term forecast looks grim."

A local analyst said as import tariff barriers tumbled, SA chemical and plastics companies would have a tough time competing with cut price producers.

(183)

SA plans to reduce strategic oil stockpile to 35 million barrels

CT(MR) 28/7/95

South Africa will reduce its strategic oil stockpile by about 20 million barrels to around 35 million barrels over the next 20 months, the Central Energy Fund has announced.

The oil stocks would be sold to Sasol's inland Natref refinery, the funds general manager Kobus van Zyl said during the first-ever media tour of the Saldanha Bay oil storage facility.

South Africa now had 16 million barrels stored at Saldanha, about 40 million barrels in an abandoned coal mine at Ogies near Witbank and two million barrels in Milnerton, Cape Town, he said.

"Our objective is 35 million barrels so we need to liquidate about 20 million barrels," Van Zyl estimated. The fund aimed to have 25 million barrels in Saldanha and 10 million barrels at Ogies. The Milnerton storage tanks would be commercialised. — Reuter

German trade surplus grows: Germany posted a DM73,2 billion trade surplus for last year, sharply up from the

Basic fuel price set to rise 2,5c/l

Mungo Soggot (183)

THE basic fuel price is set to rise 2,5c/l from Wednesday to beef up fuel retailers' margins. BD 3/7/95

Industry sources said the Cabinet was expected to approve the increase in the basic fuel price this week

To cushion the blow to consumers, the permanent adjustment to the fuel price would be timed to coincide with an expected fall in the price of fuel in line with lower international oil prices

A minerals and energy affairs spokesman confirmed that the Cabinet could approve the move as the fuel retailer margin had not changed since 1993, when the retailers received only 0,5c/l despite asking for 2,4c/l.

When fuel retailers approached government last month for a 2,5c/l margin increase, they cited a 13% pay rise for forecourt operators as their motivation.

Sources said although government had agreed that all changes to the basic fuel price should be sanctioned by the liquid fuels task force, the mineral and energy affairs department now wanted to make "short-term management" decisions and leave long-term strategy — such as possible deregulation of the industry — to the task force, which is now part of the National Economic, Development and Labour Council.

The task force has been paralysed by a recent walkout by oil companies over a report on Sasol tariff protection

According to daily Central Energy Fund data, lower international oil prices and a stable rand would have led to a 2,6c drop in the petrol price and a 6c drop in the price of diesel when the fuel price is changed on Wednesday. Now the petrol price is likely to remain at the current level.

Sasol first in line in the war on high input prices

(183)

ST (BT) 30/7/95

By KEVIN DAVIE

TRADE and Industry Minister Trevor Manuel has fired the first shots in his war against high input prices.

The Department of Trade and Industry has told Sasol that government support for the continuation of subsidies on synthetic fuel operations will be linked to the supply of competitively priced feedstocks to SA manufacturers.

The move is part of Mr Manuel's war against import parity pricing — the practice where big firms price products at, say, European prices, plus shipping, plus import duties

In the case of Gauteng, where much of SA industry is located, import parity pricing allows single suppliers to add transport costs from the coast to the Reef to their prices

"Government will use whatever levers it can to reduce feedstock prices to improve competitiveness and the potential for job creation," says Trade and Industry's Paul Jourdan.

Dr Jourdan says the 37E tax concession established a precedent Companies given this concession had to agree to supply their output at international prices to exporters

A World Bank study noted that import parity pricing added about R2-billion a year to prices.

Government was meanwhile subsidising exports at a R2-billion cost to the taxpayer. The World Bank said if government scrapped import parity pricing, R2-billion could be saved

Mr Manuel is understood to have set up a committee to look at ways of encouraging SA companies to sell domestically at the same price as they export.

Critics say foreign countries benefit from competitively priced SA exports while high domestic prices kill off potential for job creation at home.

"We want companies to price their produce as though they were in a market with five or so competitors, even though they may be the only supplier," says Dr Jourdan

The policy is expected to apply to all of Sasol, including Polifin, its joint venture with AECI, listed on the JSE this week

Polifin will sell 90% of its products, used by the plastics and related industries, locally. Domestic sales are expected to top R3-billion annually.

Import duties on feedstocks used by the plastics industry can be as high as 45%. After transport costs, domestic manufacturers can face severe price penalties compared with their overseas competitors.

Dr Jourdan says Sasol was not in principle opposed to Trade and Industry's proposal, but went away to "think about it".

Consultants Arthur Andersen have recommended that Sasol's synthetic fuel operations be subsidised by about R2,5-billion (at current oil prices) until 1999.

Dr Jourdan says the Arthur Andersen report is "good and thorough" Trade and Industry is yet to finalise its view on the report.

Sasol's Alfonso Niemand says discussions with Trade and Industry included support for synthetic fuels and the development of labour intensive downstream sectors of the chemical industry.

"We do not believe the issues are linked."

Mr Niemand says pricing should not be a problem as "much of our production is already being exported. We believe opportunities for downstream development exist"

Scientists in SA impress Glaxo

BD 31/7/95

(183)

Kathryn Strachan

GLAXO Wellcome Pharmaceuticals' investigation into the treatment of tuberculosis could provide a model for multinational drug companies seeking to extend their research into SA

The R60m research project, which is being carried out with the Medical Research Council and Wits, Natal and Cape Town universities, is the largest research project in any field in SA

Glaxo Wellcome corporate affairs manager Martin Jennings said SA was chosen as a country with the quality academic scientists and well established infrastructure needed to conduct the basic research

The research was being carried out with two schools of hygiene in London and Birmingham It was expected to be about 10 years before a drug could be synthesised and tested, and then released on the market

Although it could be questioned whether the huge investment made by pharmaceutical companies was eventually realised in profit, Glaxo believed there were other more far-reaching benefits Through the project, Glaxo had secured an impressive array of medical research expertise to sharpen its competitive edge As a public relations exercise the initiative was unquestionably a success

It provided an example of how the pharmaceutical industry and academic sciences could work together.

State of the art laboratories at the Medical Research Council, which are funded by Glaxo, provided scientists around the world with the microbacteria needed for TB research.

Finding the cause of multiresistant strains of TB would have a great impact on the AIDS epidemic, as it is mostly HIV-positive patients who contract this form of TB. The disease has reached epidemic proportions in the Western Cape.

TB had re-emerged as a global threat.

Glaxo also recently funded a £375 000 department at Cape Town University which will look into delivering primary health care

Roche marketing manager Roberto Augustoni said his company, too, was looking to extend its research and development in SA While Roche at present carried out only end-phase clinical trials in SA, it was looking to SA for the earlier phases of the clinical trials as well.

Bristol-Myers Squibb medical director Dr Stephen Levenstein said the high level of clinical investigators in SA made the country an attractive site for the US-based company to carry out its research, and it was planning to increase its capacity for clinical trials in SA

Adjustment to fuel price put on hold for now

JOHANNESBURG. — The adjustments in the petrol and diesel prices for August have been delayed to coincide with a possible adjustment to the retail margin

According the the Central Energy Fund today, an adjustment to the retail margin was currently being considered by cabinet (183)

The statement said petrol over-recovered in the month to July 26 by 1,011 cents a litre, while diesel over-recovered by 3,678 cents a litre, indicating the possibility of a drop in the prices

However, the cabinet was said to be set to approve a 2,5c a litre increase in the price of petrol to improve retailers' margins. ARG 31/7/95

The price adjustments would be delayed to cushion the blow to consumers from the higher retail margins.

An over-recovery of 3,453 cents a litre for illuminating paraffin has allowed for a 3c a litre drop in the price of illuminating paraffin, with effect from Wednesday.

Sentrachem to tap international equity markets to cut debt?

(183) Star 31/7/95

■ BY ANDY DUFFY

Sentrachem could tap international equity markets to cut the debt stemming from its recent $236,5-million takeover of US-based Hampshire Chemical Corporation.

The group, which will see consolidated debt hit more than R650-million next year, said at the weekend it had several options to cut gearing from 60% to a target 30%.

But current talks to sell components of its non-core Mega Plastics division would not reduce the debt significantly.

A local rights issue was also unlikely, given that Sentrachem had raised R294-million only last year, and the Hampshire deal debt was offshore

Finance director Norman Kennelly said the group would instead consider an international equity placing within the next 12 months.

It was not clear how much Sentrachem would go after, but brokers suggest the figure would be between $50-million and $75-million to bring gearing closer to the group's target.

"The fact that we have reduced gearing in the past is one of the main reasons for our improved market capitalisation," Kennelly said "Everything is in place for us to go for capital raising. We're prepared to move very quickly."

The Hampshire deal, struck earlier this month, will add close to R1-billion to Sentrachem's turnover of more than R3-billion.

The company funded the deal by selling offshore investments worth around $30-million, with the bulk borrowed offshore against Hampshire's assets.

The deal will not hit Sentrachem's balance sheet until the 1996 financial year, because it only comes into effect from September 1.

Kennelly said gearing for the 1995 year end would probably be close to nothing.

Sentrachem has already raised R80-million by selling MegaPak and related interests to Nampak

The sale of MegaPlastics' components – MegaPipe and MegaFlex – was close to conclusion, he said

CAPE TIMES

BUSINESS REPORT

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

Sentrachem looks to equities to cut debt

CT (BR) 31/7/95 (183)

By Andy Duffy

Staff Writer

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Pik under fire from union chief

Mungo Soggot (183) BD 1/8/95

THE Chemical Workers' Industrial Union yesterday hit out at Minerals and Energy Affairs Minister Pik Botha's proposal to lift the fuel retail margin by 2,5c/l, dubbing it a throwback to the "old undemocratic days"

Union president Abraham Aghulas said Botha's unilateral decision undermined Nedlac's liquid fuels task force, as the proposed changes to SA's highly regulated fuel price were due to have been discussed formally at a meeting on August 16 It did not object to the increase itself

Other industry sources said Botha's move was a major blow to the task force, which suffered a walkout by the oil industry last month. It was seen as increasingly ineffective by government and business

A source said the department wanted to take short-term management decisions and leave long-term strategic issues, such as deregulation, to the task force.

Announcing a package of proposed changes to the regulated fuel price and his department's unleaded fuel plans to be discussed by Cabinet this week, Botha said that in addition to the 2,5c/l increase in the retail margin to 18,1c/l, a further 0,6c/l should be added to the basic fuel price to compensate retailers for higher delivery costs from oil depots.

He said that, assuming Cabinet approved, unleaded petrol should be on the forecourts by February next year It would be 4c/l cheaper than leaded fuel. The department had decided against the compulsory use of catalytic converters.

Some industry watchers said the proposed changes to the fuel price underlined the urgent need for the dismantling of the regulatory system which was set up in the sanctions era to make it more attractive for international oil majors to stay in SA.

Econometrix economist Tony Twine said some fuel stations with high throughputs were profitable, but the smaller ones were vulnerable. Because of the fuel price, wholesale and retail margins were locked. This meant all oil majors could set up together in unviable remote towns

One problem caused by the regulated system was that garages had to offer workshop space, which was expensive and often underused. "Many unviable stations would not be there with deregulation," Twine said.

□ The Central Energy Fund said because of the proposed changes to the fuel price, the petrol price would not change tomorrow as it did every month, but diesel would go down 3c/l. The department said the increase in the basic fuel price would be phased in gradually and, it was hoped, would coincide with lower international fuel prices so as to minimise the blow to consumers.

of this is managed through the

Petrol price may rise again

CT 1/8/95

JOHANNESBURG. Adjustments to petrol and diesel prices for August have been delayed to cushion the blow of a possible adjustment to the retail margin, being considered by the cabinet.

The Central Energy Fund said yesterday petrol over-recovered by 1,011c/l in the month to July 26 and diesel by 3,678c/l, indicating the possibility of a price drop.

However, the cabinet may be about to approve a 2,5c/l increase in the price of petrol to improve retailers' margins.

The price of illuminating paraffin will decrease by three cents a litre from Wednesday. — Sapa

See Page 15

(183)

Military doctors joining exodus to better-paid jobs

CT 1/8/95

OWN CORRESPONDENT

PRETORIA: Military hospitals, along with their state counterparts, are facing the growing threat of defections to greener pastures by promising young doctors.

Hopelessly inadequate salaries are believed to be at the root of more than 30 resignations from 1 Military Hospital in Voortrekkerhoogte since January this year and the trend, according to a senior hospital spokesman, is not likely to be overturned in the near future.

Officer commanding 1 Military Hospital Brigadier André Lotter said yesterday that without exception all the doctors who left the hospital either went into private practice or were lured overseas.

He said most if not all doctors who left the hospital fell into the same category — young qualified doctors who earned an average salary of R60 000 a year.

These doctors had huge study debts to pay, usually had a family to provide for and were often called away from the hospital on special duties at short notice, he said.

To alleviate the financial burden, doctors were allowed to practise at private institutions after hours to bolster their income, but they lost this form of income when they were called away on special duties.

Brig Lotter said none of the doctors left to join other state hospitals as they were usually offered salaries of up to 50% more in the private sector.

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● See Page 15

(183)

Lighting up in public will burn your pocket

DAN SIMON
STAFF REPORTER

THE Cape Town City Council has recommended a R50 fine for smokers lighting up in public places, but does not envisage using law enforcement officers to enforce the recently passed by-law banning smoking in public places.

Instead, it would prefer to educate smokers on the hazards of smoking and in the process teach them to respect the rights of non-smokers, city council spokesman Mr Ted Doman said yesterday.

The city council was granted the power — under the Tobacco Products Control Act — to make regulations to control smoking in all indoor public places. Restaurants will be expected to allocate 20% of floor space for smoking.

The act provides for a substantial fine and period of imprisonment but representations have been made to chief magistrates of various districts to impose relatively low admission of guilt fines for the initial period of the operation of the regulations. CT 1/8/95

The council also recommended a R100 fine for property owners or lessees who did not set aside adequate space for smokers and non-smokers.

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REWARDS OFFERED FOR TIP-OFFS

State loses R600m a year in drug thefts

CT 1/8/95 (183)

"HIGHLY ORGANISED and sometimes violent drug lords" are responsible for huge thefts of state medicines each year. **EUNICE RIDER** reports.

ABOUT R600 million worth of medicines "disappear" from state warehouses and hospitals each year The problem has become so serious and the thefts so well-organised that the drug industry has had to turn to loss adjustment companies — offering huge rewards — for clues

Mr Calvin Henry, a director of Roche Pharmaceuticals, said "highly organised and sometimes violent drug lords" were responsible for the theft or diappearance of about R600m worth of medicines from state warehouses and hospitals each year.

Grey market

He said the problem had become so serious that various pharmaceutical companies, including Roche, had been forced to turn to loss adjustment firms offering massive rewards for information and assistance in their fight to stop the thefts and trace back some of the stolen drugs

Mr Lee Dutton, the managing director of one such firm, Hamilton Whitton and Associates, in Johannesburg, described tracing stolen drugs as "a battle that never comes to an end"

He said there was a "burgeoning grey market" in illegal or stolen pharmaceuticals and thefts from the state were "substantial"

He said that after the drugs were stolen from the state they were "recycled" — some being repackaged — and resold into the private market

He said his firm also often found illegally imported medicines, which often turned out to be unregistered, expired drugs in counterfeit packaging with "new" expiry dates and serial numbers.

Mr Dutton said there were moves afoot to try to stop all repackaging of medicines by trading or dispensing doctors and pharmacists into jars, bottles and envelopes.

"We are finding state stock in private circulation in retail pharmacies," he said

Unscrupulous dispensing or trading doctors also bought large quantities of medicines from wholesalers and got stocks of supposedly "free" samples, which they repackaged and sold, illegally, said Mr Dutton

Sometimes drugs nearing their expiry dates were sold at lower prices to doctors who then sold them at full price

Tipped off

Detective Sergeant Willem van der Vyver of the narcotics bureau in Sea Point said large quantities of drugs were stolen from state premises, and unmarked state drug delivery trucks were regularly hi-jacked — especially in Gauteng

"There is a huge black market out there"

He said. "We believe the drugs are sold to wholesalers by large, syndicated organisations, which include hospital staff — people with a good knowledge of medicines and people with excellent inside information on which medicines are leaving or arriving at state premises at what times. The hi-jackers are tipped-off."

'Desperate' need to control chemicals

(183)

ET (BR) 1/8/95

By Jon Beverley

Staff Writer

There was a desperate need for legislation that would control chemicals in the workplace and which would include a proper inspectorate, Dr M Colvin of the Industrial Health Unit at the University of Natal told a Durban seminar yesterday.

Speaking on cancer prevention, Colvin said there was no health inspectorate in the province which could deal with chemicals

He said developing countries tended to have lower standards to control the storage, transport and use of chemicals than in industrialised countries Standards in South African chemical plants were generally far lower than in Europe

A doctor in practice told delegates that there were 24 500 smoking related deaths each year, compared with 1 000 from Aids and 11 000 that were TB-related

The estimated health-related costs of smoking in South Africa were R290 million a year and a further R1,1 billion was lost due to absences from work, low productivity and early deaths

Petrol price drop to benefit industry, not consumers

CT 1/8/95 (BR) (183)

By Andy Duffy

Staff Writer

Petrol prices will stay at existing levels, despite falling international oil prices, following government plans to hand nearly R300 million a year to the fuel industry to cover its rising costs

Pik Botha, the minister of mineral and energy affairs, said yesterday he would urge Cabinet tomorrow to allow pump operators and petrol suppliers a greater slice of the pump price to cover their higher labour and delivery costs

The move means tomorrow's expected 1c a litre price cut is effectively cancelled, and price cuts in September could also be negated as the Central Energy Fund phases in the higher margins

Pump operators would gain an extra 2,5c a litre on top of the 15,6c a litre they already received

This would lift their annual revenues, according to the department's sales figures, to R1,74 billion from last year's R1,5 billion

Oil companies would gain an extra 0,6c a litre delivery margin, against their existing 3,5c a litre, lifting their annual revenues on petrol deliveries by R57 million to R394 million

Surplus supplies have sent international oil prices to 10-month lows, opening the door for the first pump price cut since February

But Botha has faced heavy lobbying from retailers and the oil industry which is represented by the South African Petroleum Industry Association

Its margins have not risen since 1993 while higher costs, particularly for labour, threatened to send many service stations to the wall, said Botha

"All cost items for service stations have increased dramatically with a consequent squeeze on profit margins in the sector," he said

"Higher fuel delivery costs are documented and verifiable The oil companies have had to bear the increase"

Analysts said the increase in delivery margins was unlikely to have a major affect on the industry's earnings

The association said the gains would be minimal, given the companies' cost rises

But a department spokesman said there were no plans to lift the oil industry's wholesale margin, which stands at 14,5c a litre

The Central Energy Fund said diesel and paraffin prices would also not be affected, with both falling 3c a litre at tomorrow's scheduled meeting

Botha said he would also recommend tax cuts on unleaded fuel to give it a 4c a litre price advantage, which he said could open 20 percent of the market to it

Petrol prices to stay on hold

Star 1/8/95 (183)

■ BY ANDY DUFFY

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The move means tomorrow's expected 1c/l price cut is effectively cancelled, and price cuts in September could also be negated as the Central Energy Fund phases in the higher margins

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Their margins have not risen since 1993, Botha said, while higher costs, particularly for labour, threatened to send many service stations to the wall

"All cost items for service stations have increased dramatically with a consequent squeeze on profit margins in the sector," he said.

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Analysts said the increase in delivery margins was unlikely to have a major affect on the industry's earnings Sapia said the gains would be minimal, given the companies' cost rises.

But a department spokesman said there were no plans to lift the oil industry's wholesale margin, which currently stands at 14,5c/l.

The CEF said diesel and paraffin prices would also not be affected

What about factory accredited training programs

'Greener' fuel likely to be cheaper

Plan to introduce unleaded petrol

(183) Star 1/8/95

CONSUMER REPORTER

The Ministry of Mineral and Energy Affairs is to ask the Cabinet to consider a price-and-tax plan for the introduction of unleaded petrol which proposes that the "greener" fuel be 4c/l cheaper than its leaded counterpart

If the plan is accepted, the lower price will be achieved by levying a lower tax on unleaded petrol so that the difference in price will not be subsidised by leaded petrol users.

Minister of Mineral and Energy Affairs Pik Botha said in order to render the refining of unleaded petrol economically viable, "it needs to capture at least 20% of petrol sales within the first year of introduction"

"It is estimated that the 4c/l difference on the price of unleaded petrol will achieve this"

More than 90% of vehicles on South African roads can operate on unleaded petrol, Botha said Of these, 65% required no modification at all, 15% needed only minor ignition-timing adjustments, and 10% required one tank of leaded petrol for every four to five tanks of unleaded petrol used.

A survey conducted by the National Association of Automobile Manufacturers of South Africa found that no specific ownership group would be materially prejudiced by the introduction of unleaded petrol

More than 90% of minibus taxi operators would be able to pull up next to unleaded pumps

According to Botha, unleaded petrol would not be introduced to South Africa for ecological reasons alone

"The main reason is for the country to benefit from the advantages of economies of scale and contemporary technological development, since 80% of the world's current motor vehicle technology is based on unleaded petrol," Botha said.

Should the Cabinet give the price-and-tax plan the nod, unleaded petrol is expected to become available in South Africa by February aded petrol did not come about because its emissions are healthier to breathe than those from leaded petrol, as seems to be the general perception In fact, lead was removed from petrol because it attacked the catalytic converters that were increasingly being fitted to cars in the United States in the 1970s, rendering them useless in a short time

It is the catalytic converter, not the unleaded petrol, which reduces the health risk of petrol emissions by converting harmful carbon monoxide, hydrocarbons and nitrogen oxides into harmless compounds such as water vapour, carbon dioxide and nitrogen

Unleaded petrol, as opposed to lead-free petrol, still contains some lead, albeit in very small quantities International standards allow up to 13mg of lead a litre of petrol to qualify as unleaded, compared to the current 400mg in leaded petrol

Unleaded became available in the United States in 1975, followed by Japan in the same year Many other countries followed suit, but Cameroon is the only African country to have introduced it so far

The Unleaded Petrol Coordinating Committee (UPCC), a body formed in 1991 to develop a programme for the introduction of unleaded in South Africa, claims only 1 percent of vehicle exhaust emissions are harmful

The bulk of emissions are made up of harmless nitrogen (68 percent), carbon dioxide (15 percent), water (15 percent) and oxygen (1 percent) Harmful emissions are said to comprise carbon monoxide (0,1 percent-0,4 percent), nitrogen oxides (0,3 percent) and unburned hydrocarbons (0,3 percent)

The level of these emissions also varies depending on the state of tune of an engine

Octane-boosting lead alternatives such as aromatics and olefins will probably increase the proportion of unburnt hydrocarbons, but the UPCC admits that no local research has been carried out as to their possible harmful effects

The relatively low octane level of South African unleaded (in comparison with Britain, for instance) should keep emissions down, it says

It will initially not be compulsory to fit expensive catalytic converters to cars running on unleaded when it is introduced in South Africa

Indecision causes delay

THE controversy surrounding the pricing structure of unleaded petrol has delayed its introduction in South Africa from October this year to the middle of 1996 The delay resulted from the government's indecision on whether to make leaded petrol users subsidise unleaded petrol users

It all came about when the Unleaded Petrol Co-ordinating Committee, backed by the oil companies, decided that to be economically viable, unleaded must achieve a market penetration of about 20 percent in the year of its introduction

To achieve this unleaded would initially have to be sold cheaper than leaded petrol However, unleaded is more expensive to produce so it was proposed to price unleaded about six cents cheaper by taxing leaded

However, the government feared this might cause an outcry among motorists already burdened with a petrol price heavily loaded with tax

The petrol price has already risen by 14c since March, following the recent introduction of a revised mechanism which adjusts the price monthly

Another problem was that the less well-off might also put the cheaper unleaded in their vehicles which could damage their engines

The Automobile Association believes free market principles should determine the acceptance of unleaded petrol, saying oil companies should carry the cost of its introduction

"We support the decision to go unleaded because we can't stay with motorised ox wagons," says AA spokesman Quinton van Eeden "But we support the Cabinet's decision to hand the matter back for review Why should today's motorist subsidise unleaded petrol so that South Africa's seven oil companies are guaranteed a return on investment?"

Count on the Cat to clean up...

DEPENDING on how well a vehicle is tuned, only between 1 percent and 3 percent of exhaust fumes — carbon monoxide, nitrous oxide and hydrocarbons — are said to be harmful

A catalytic converter (Cat for short) significantly reduces these harmful emissions by making use of the unique properties of platinum group metals. The metals act as catalysts in a chemical process which changes the emissions to harmless carbon dioxide, nitrogen and water vapour

However, a Cat is only effective when used with unleaded petrol, as leaded petrol soon clogs it and makes it inoperable

The law will not initially require the compulsory fitment of Cats to vehicles, as South Africa is going the unleaded petrol route for technological rather than health reasons

There is no proof that vehicle emissions are a major contributing factor to pollution in South Africa, and it is believed that electrifying townships and rural areas would do far more to curb air pollution than cleaning up the emissions of our relatively small car population

However, an emissions working group set up by the Unleaded Petrol Co-ordinating Committee is developing a national policy on vehicle emissions, and government policy could change depending on their findings

The five-phase project is due for completion within three to four years

The cost of going green would not be cheap, with Cats costing between R2 000 and R3 000 a unit

Unleaded petrol on way

New fuel next year will be the catalyst to boost SA car sales

The introduction of unleaded petrol in South Africa, intended to take place between July and October this year, has been delayed recently after government indecision over pricing. Now the nationwide launch will probably take place next June. This special investigation by Argus Correspondent DENNIS DROPPA for Spectrum looks at the facts and issues surrounding unleaded petrol in this country.

(183) ARG 2/8/95

UNLEADED petrol is usually introduced for environmental reasons But in South Africa it is being introduced for economic reasons.

Exports will play a vital role in the future survival of South Africa's seven vehicle manufacturers now that duties are decreasing and imports are becoming more competitive

Internationally, new engine technology is almost entirely based on unleaded petrol and South Africa needs to fall in line if its exports are to find markets The alternative, converting engines that have been designed to use unleaded petrol so as to enable them to use leaded, will make cars more expensive in South Africa

It has been estimated that export markets which could open up to South African motor manufacturers could earn the country up to R250 million a year in the first 10 years

The benefit for South African motorists in the long term is the improved fuel efficiency of engines designed to run on unleaded petrol However, engines not wholly compatible with unleaded petrol are expected to be less efficient in the meantime

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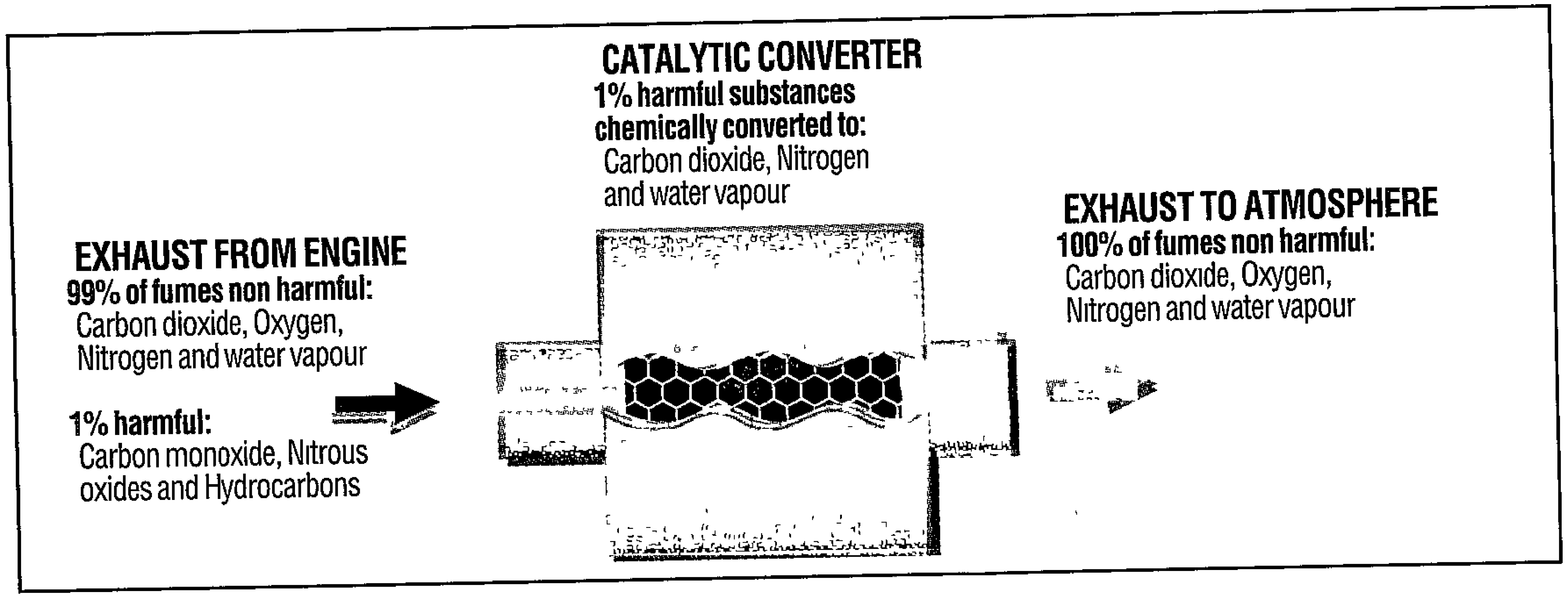
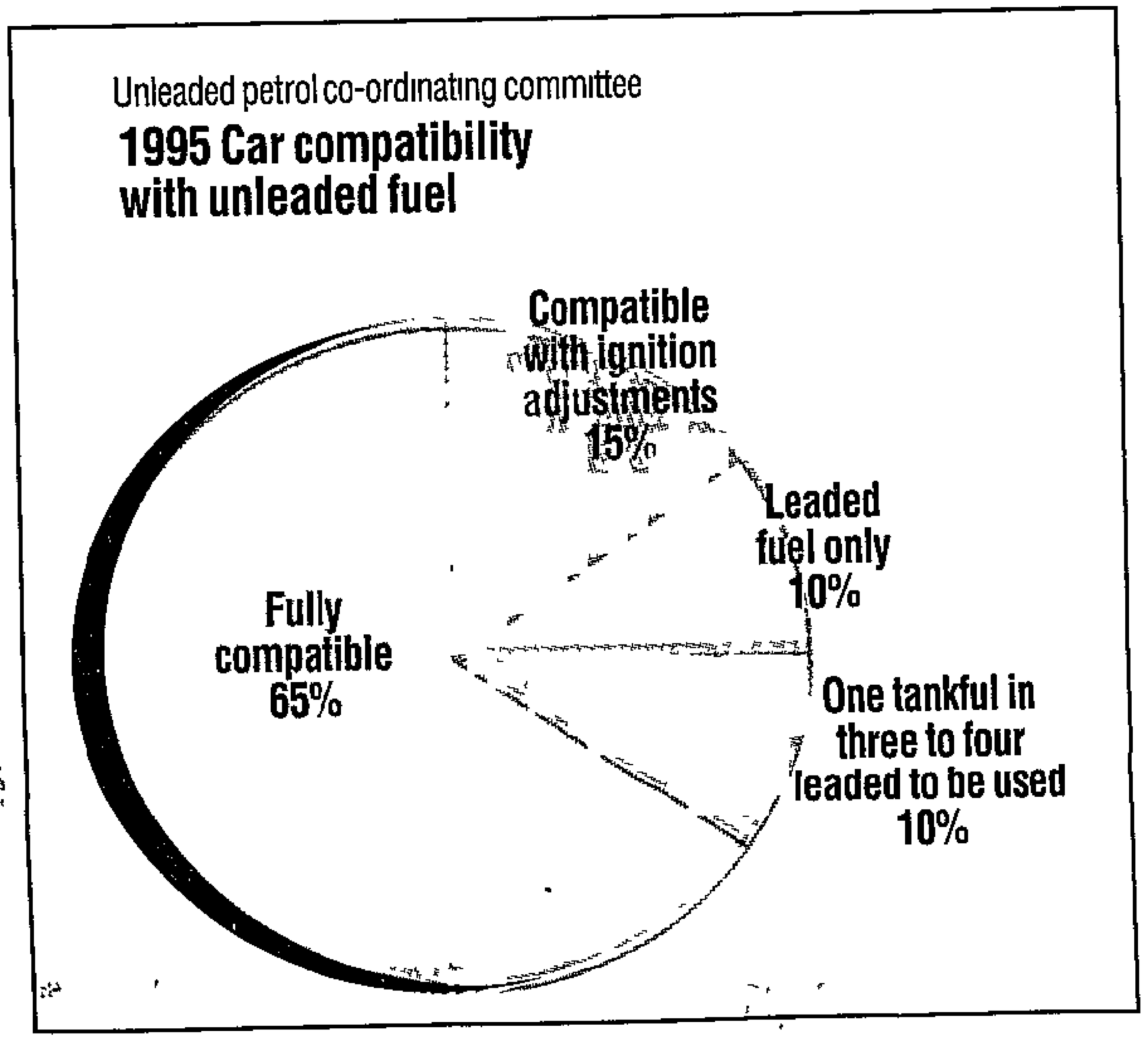
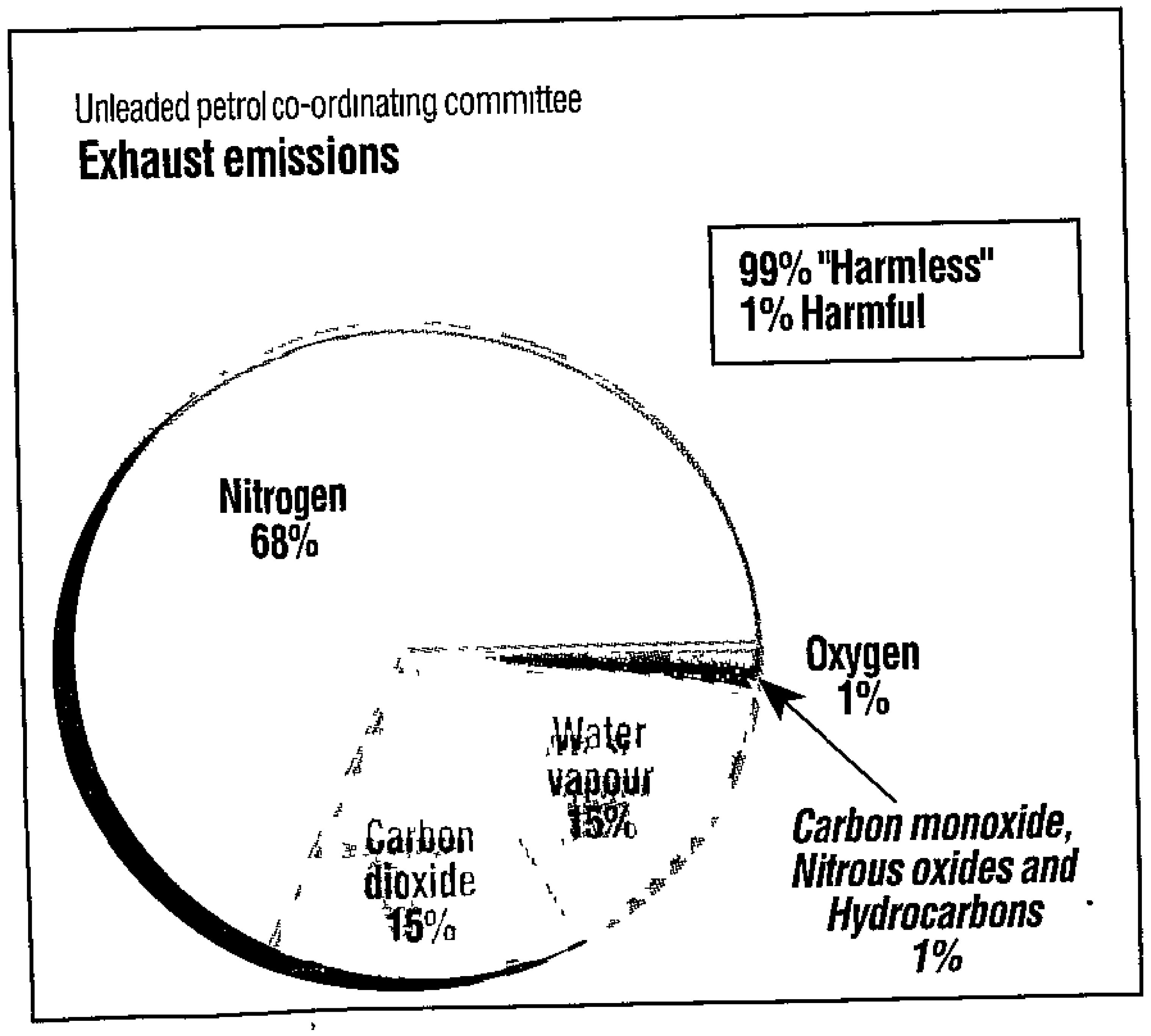
To achieve a market penetration of about 20 percent in the first year, it was proposed to make unleaded (which is more expensive to produce) cheaper to buy than leaded petrol But because unleaded is more expensive to produce than leaded, it has been proposed to push up the price of leaded so as to subsidise unleaded

It was disagreement over this that led the government to postpone the introduction of unleaded petrol

Lead has traditionally been







90 percent can use it

IT is claimed that about 90 percent of cars on South Africa's roads will be able to use unleaded petrol Of these, 65 percent will be able to use the new fuel without any tinkering under the bonnet while 15 percent will be able to use it with minor ignition timing adjustments

In older cars, mostly pre-1980, unleaded petrol might cause a problem with valve seat recession, but in most cases this can be overcome by filling the car at a ratio of one tank leaded to three or four tanks unleaded

The 10 percent of cars not compatible with unleaded mostly comprise high performance or modified engines

By 2005 it is expected that 98 percent of all new vehicles in South Africa will run on unleaded only, but leaded petrol is expected to be available here for another 15 years

A widespread public education campaign will accompany the launch of unleaded next year to ensure that motorists use the correct fuel in their vehicles

The National Association of Automobile Manufacturers of SA (Naamsa) is compiling a register of vehicles that are compatible with unleaded, which will be available at every petrol station

It covers most local and imported cars, trucks and buses up to 15 years old, as well as motorcycles, outboard engines, and lawnmowers There will also be a hotline network in operation for queries on unleaded

Unleaded pumps will be identifiable by special narrow dispensing nozzles and vehicles running only on unleaded will have narrower fuel intakes to prevent accidentally filling up with leaded petrol

Only two grades of petrol will be sold inland and at the coast — 91 octane unleaded and 93 leaded inland, and 95 unleaded and 97 leaded at the coast The lower grade 87 octane will fall away

Diesel will not be affected by the introduction of unleaded petrol

CAPE TIMES

BUSINESS REPORT

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

Engen to shift activities to new listed company

CT (BR) 2/8/95 (183)

By Andy Duffy
STAFF WRITER

Engen is planning to shift its exploration and production activities into a new listed company in a bid to lighten their growing burden on the group's finances

The group said yesterday about 40 percent of the new company — which would hold major oil interests in the North Sea and West Africa — would be offered to institutions and the public in the JSE listing

It was unable to value the assets, but brokers said Engen wanted a premium about 15 percent above book value, which stood at R531 million before liabilities in Engen's latest accounts

Engen said the division's expenditure of R30 million a year was poised to surge as it invested in current ventures and pursued acquisitions

An independent listed company could better fund itself without straining central resources "We really need a mix of higher risk assets," said Peter Cook, the finance director

"With this, we would no longer have to divert funds from our downstream business."

The move represents another stage in Engen's long-term restructuring, which will cost the group about R80 million this year and 500 staff members their jobs

The division's major asset is a stake in the North Sea Alba field, which has reserves of about 350 million barrels

It also held just under 5 percent of the N'Kossa oil field off the Congo coast, which Cook said was worth about $100 million.

The new company would also house Engen's 10 percent stake in Oman's Bukha field, a 20 percent holding in a venture in the Bredasdorp Basin, and exploration activities in Angola, the Congo, Gabon and Namibia, he said

Cook said the spin-off plans were at an early stage A listing was conditional on market conditions and was unlikely to go ahead until the last three months of the year

Petrol price increase for industry's benefit

■ BY NIKKI WHITFIELD
CONSUMER REPORTER

The service station industry is set to be given a boost this week with the anticipated rise of 2,5c/l to increase the profit margins of petrol retailers.

The Cabinet is expected to approve the increase tomorrow in the first increase to retailers' profit margins since September 1993, Minister of Mineral and Energy Affairs Pik Botha announced yesterday.

But consumers can breathe easy for the time being — if given the go-ahead, the increase will be phased in gradually.

The monthly price adjustment mechanism only takes account of external factors.

Now, however, it is proposed that the petrol price be maintained at its present level and 1c/l be allocated to partly meet the 2,5c/l retail margin increase.

"It is hoped that conditions prevailing at the beginning of September will be such that the remaining portion of the margin increase will be able to be similarly phased in at that time," Botha said.

■ The Cabinet is also to consider increasing compensation by 0,6c/l for higher fuel delivery costs.

Compensation for these costs had not been adjusted for two years, Botha said, and oil companies "had to bear the increase in the meantime with a negative effect on revenue".

Should external factors allow, the adjustment would also be introduced to minimise its impact on the petrol price.

▶ **Unleaded petrol plan – Page 5**

1837 (244) Star 1/8/95

Engen to create separate oil arm

Mungo Soggot (183) BD 2/8/95

ENGEN planned to hive off its oil exploration and production assets into a separate listed company which would focus on expanding its business in Africa, the company said yesterday

The move is seen as a bid by Engen to develop a more balanced portfolio, with an expanded exploration operation which could act as a hedge against its fuel refining business

In a cautionary announcement to shareholders, Engen said it intended to list the new company (Newco) on the JSE to raise both international and local capital for exploration and production activities

The assets it would move into Newco included 8% of the Alba field in the North Sea, 10% of the Bukha field in Oman, its stake in the N'Kossa field in Congo and 20% of a potential SA development in the Bredasdorp basin Its exploration portfolio also included assets in Namibia, Angola, Congo and Gabon Engen would keep a majority shareholding in Newco

An industry analyst said the move would enable Engen, SA's only listed oil company, to raise money offshore to feed the capital hungry business of oil exploration

Engen financial director Peter Cook said its stakes in production projects amounted to about 8 000 barrels a day — most of which came from its stake in the Alba field Engen's long-term plan was to get to about 50 000 barrels a day — half of what it uses daily for refining

Cook declined to attach a value to its production and exploration assets, but said they were not fairly reflected in the Engen share price

Engen aimed to develop a mix of assets in Newco, ranging from pure exploration to development and production

Raw material costs curtail Bowler Metcalf

CT(BR) 2/8/95 (183)

BY MAGGIE ROWLEY

"Horrendous" increases of up to 70 percent in the price of raw materials curtailed the bottom line of Bowler Metcalf, the plastic packaging manufacturer

The company saw turnover soar 54 percent to R19,7 million in the six months to June against the corresponding period last year

Operating income rose 29 percent to R4,1 million as margins came under pressure with the company having to absorb most of the price increases which could not immediately be passed on to customers

Although the interest bill was down, an effective 48 percent increase in taxation to R1,4 million saw after tax income at R2,4 million 25 percent higher than at the halfway mark last year.

However, due to the greater number of shares in issue, earnings a share have been diluted to 8,4c, an improvement of 12 percent. An interim dividend of 3c (2,5c) will be paid

Michael Brain, the financial director, said the high trading levels of the latter half of last year had continued during the period under review and they were now hopeful that this heralded the start of better trading conditions in the long term

He said price increases of raw materials which had to be mostly absorbed, had now been accounted for, while the high wage increase in July of 12 percent would be partly absorbed and partly passed on

During the past six months the company had moved its Gauteng operations to a new factory in Kempton Park and disruptions in the production schedule, although minimised, had a real effect on the bottom-line, he said.

Further disruptions were expected with the Cape Town factory being relocated.

"However, these are once-off costs and we are confident that the efficiencies of the new factories will help the company to trade at an above average rate for the rest of the year and beyond."

During the past six months, capital expenditure of R14,7 million had been incurred both in new buildings and in plant and equipment.

A further R4,4 million had been contracted for during the second half of the year. While this would put some pressure on gearing, borrowings would be well within limits and would not exceed 25 percent of shareholders funds, said Brain.

Chemicals union threatens strike

BD 2/8/95 (183).

Renee Grawitzky

MORE than 400 chemical industry companies involving 46 000 workers face a nationwide strike if agreement is not reached on centralised bargaining at a conciliation board meeting with the Chemical Workers' Industrial Union next week.

The union and Cosatu said the stance was "compatible with the spirit of the recent Nedlac agreement on centralised bargaining"

The agreement made provision for any party to utilise industrial action in pursuance of centralised bargaining on wages and conditions of employment, the union said.

The union said chemical employers had "no intention of reaching an agreement on centralised bargaining" after months of negotiations.

The union has demanded actual wages and conditions of employment be negotiated at national sector level within each chemical industry sector

It has defined a number of sectors within the broad chemical industry.

It said areas of difference had arisen between various parties regarding the demarcation and definition of sectors as well as whether actuals or minimums should be negotiated at sector level.

Petroleum employers have been accused by the union of raising new issues "as a means of frustrating a final agreement on where wages will be negotiated".

A petroleum industry spokesman said at a meeting with the union on Monday certain employers had indicated willingness to negotiate actuals at sector level.

This was in line with what the union had demanded, he said.

He said employers at the meeting wanted to reach final agreement on this issue

However, the union said this could not be achieved until employers in the other sectors had agreed to centralised bargaining as proposed by the union.

He said as a result petroleum employers indicated their position would have to be reconsidered and parties would have to meet at a conciliation board for further discussion

The union said the conditions demanded by employers were being used as obstacles to a settlement on centralised bargaining within the chemical industry.

The union said "We will endeavour to use the conciliation board as a last ditch attempt to reach an understanding on centralised bargaining."

'Petrol price should benefit consumers'

(183) [illegible] BD 2/8/95

PICK 'n Pay yesterday called on Mineral and Energy Affairs Minister Pik Botha to "stick to his guns" and set a minimum price for petrol that gave service station owners the option of cutting their margins to benefit consumers.

Gareth Ackerman, joint MD of the chain store group which operates a number of service stations, said his company would be prepared to reduce the price of petrol by the increase in the dealer margin of 2,5c, which Botha is to propose to the Cabinet today

"Pik Botha has gone on record recently as being prepared to set a minimum and maximum price for petrol. Now is the time"

He said oil prices internationally were at a 10-month low and the rand had recently strengthened against the dollar

"We are able to operate our service stations at the current margin and therefore cannot understand why the Cabinet, which is starting to focus on eliminating unfair influences in the economy, should reward the regulated petrol industry with a 'bonsela' once again"

A newspaper had reported yesterday that 18,1c/l would now go to service station operators. "That is more than R12 you are putting into the dealer's pocket each time you fill the average car and that's after you have paid more than R10 to cover the oil company's wholesale margin.

"We still believe that the sooner SA deregulates its oil industry to let market forces come into play in the transportation and selling of petrol, the better it will be for the whole economy, instead of just a protected few," he said — Sapa

CAPE TIMES

BUSINESS REPORT

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

THURSDAY AUGUST 3 1995

Mossgas costs the taxpayer R413m despite healthy gains

(183) CT(BR) 3/8/95

BY ANDY DUFFY
STAFF WRITER

Mossgas, the synthetic oil producer, cost the taxpayer R413 million in direct support for the year to March, despite soundly beating its operational targets across the board

Figures leaked to Business Report show the apartheid-inspired project — which has cost the public about R11 billion — boosted production and cut costs to post a surplus of R114 million, against R58,2 million last year and a budgeted R76 million.

Operating costs fell to R616 million, 4 percent below budget, and R12 million lower than the figures for the last year.

Heavier throughput pushed production by an undisclosed amount above last year's 1,34 billion litres

But the accounts show Mossgas still had to pull in R118 million from the synfuel levy to underpin itself and a further R285 million from tariff protection.

The total operating surplus came in at R517 million for the year, against a budgeted R455 million and last year's R169 million total

Mossgas and the Central Energy Fund have refused to publicly release the figures, which are still being signed off by the auditor-general.

But the extent of taxpayers' support, despite the operational gains, is likely to fuel the debate about the project's future.

Government either has to scrap it when its reserves run out in two years, or pump a further R700 million in to access new gas fields

Pik Botha, the minister of mineral and energy affairs, has said the scheme should be privatised, and various international and domestic players have shown interest

A sale would raise less than R2,5 billion, leaving the taxpayer shouldering losses of at least R8 billion, but any buyer would net a tax loss estimated at R4 billion.

Mossgas management, under John Theo, the managing director, is hoping to convince MPs that the project should be extended.

Unleaded petrol could be introduced locally before June next year. In a special investigation for Spectrum, **Denis Droppa** looks at the facts and issues surrounding unleaded petrol in South Africa

The fuel of the future

(183) Star 3/8/95

Fitting of converters likely to be optional

Depending on how well a vehicle is tuned, only between 1% and 3% of exhaust fumes – carbon monoxide, nitrous oxide and hydrocarbons – are said to be harmful.

A catalytic converter (Cat for short) significantly reduces these harmful emissions by making use of the unique properties of platinum group metals. The metals act as catalysts in a chemical process which changes the emissions to harmless carbon dioxide, nitrogen and water vapour.

However, a Cat is only effective when used with unleaded petrol as leaded petrol soon clogs it and makes it inoperable.

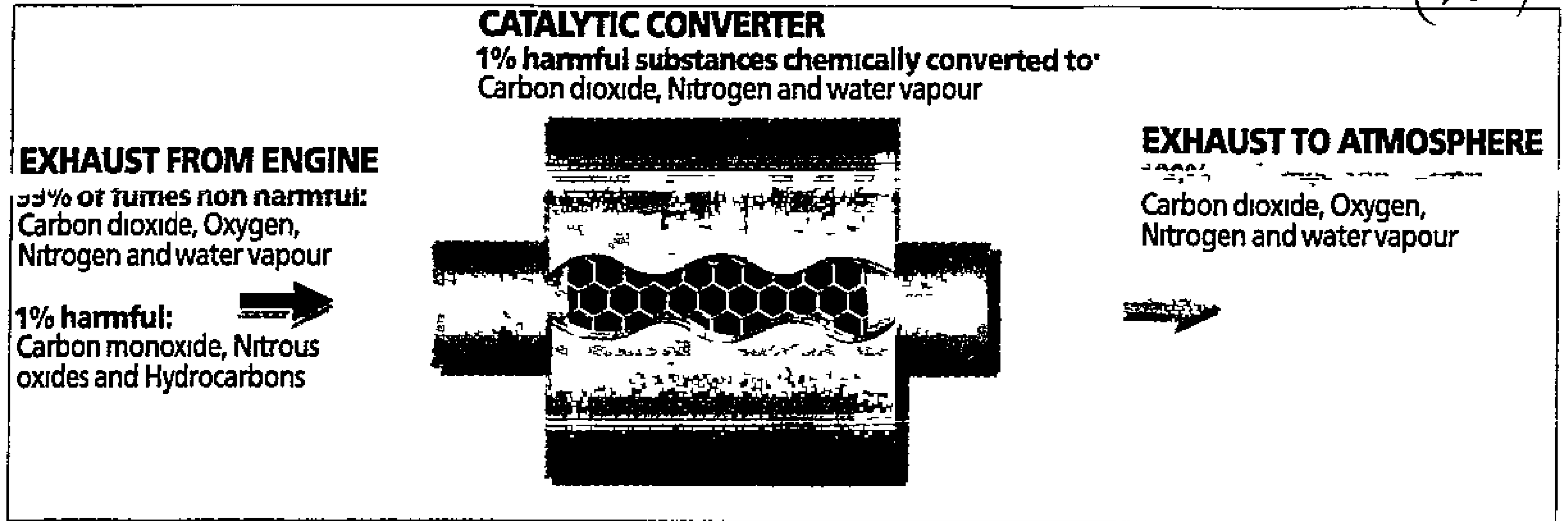
Pollution

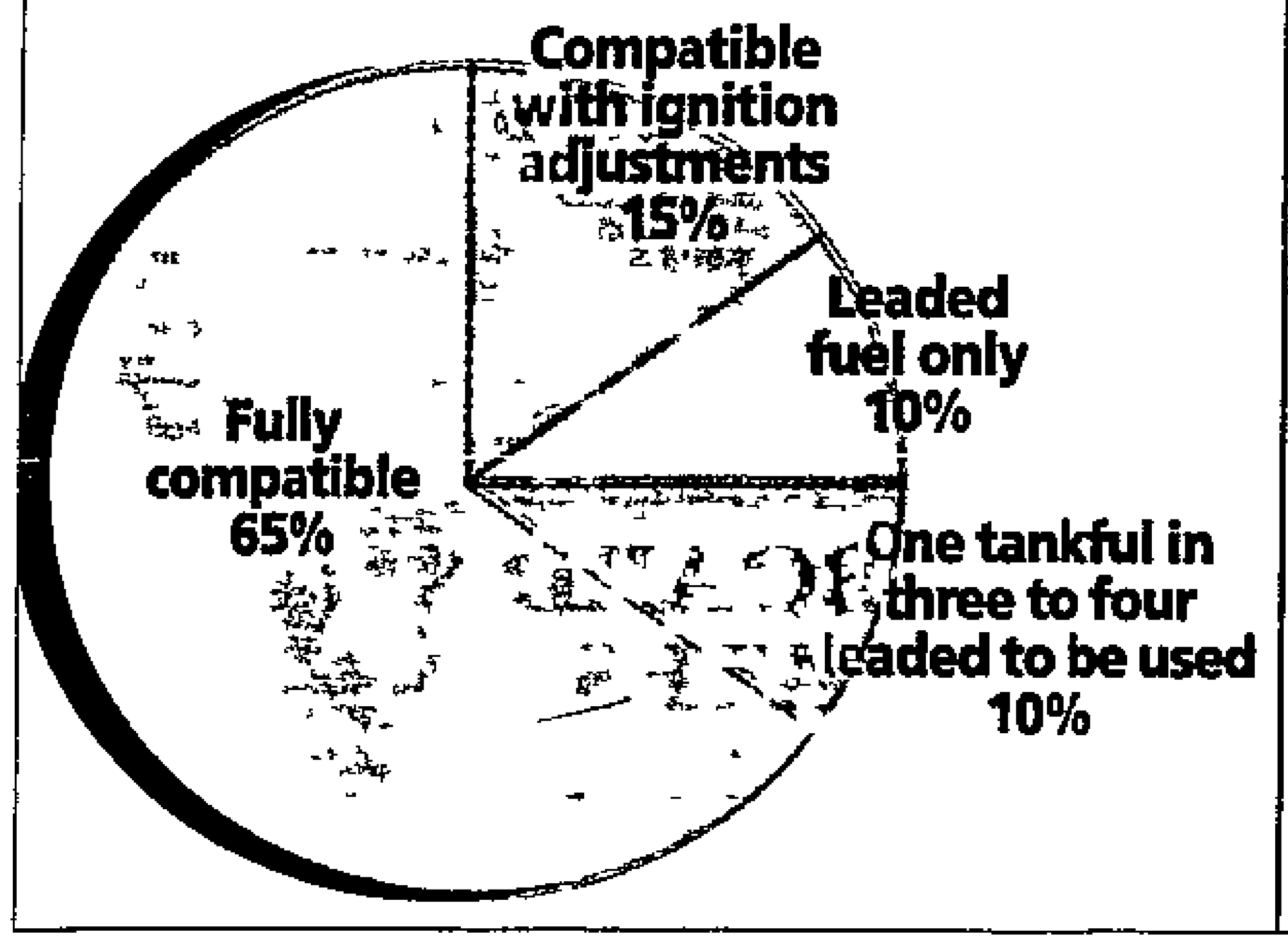
The law will not initially require the compulsory fitment of Cats to vehicles, as South Africa is going the unleaded petrol route for technological rather than health reasons.

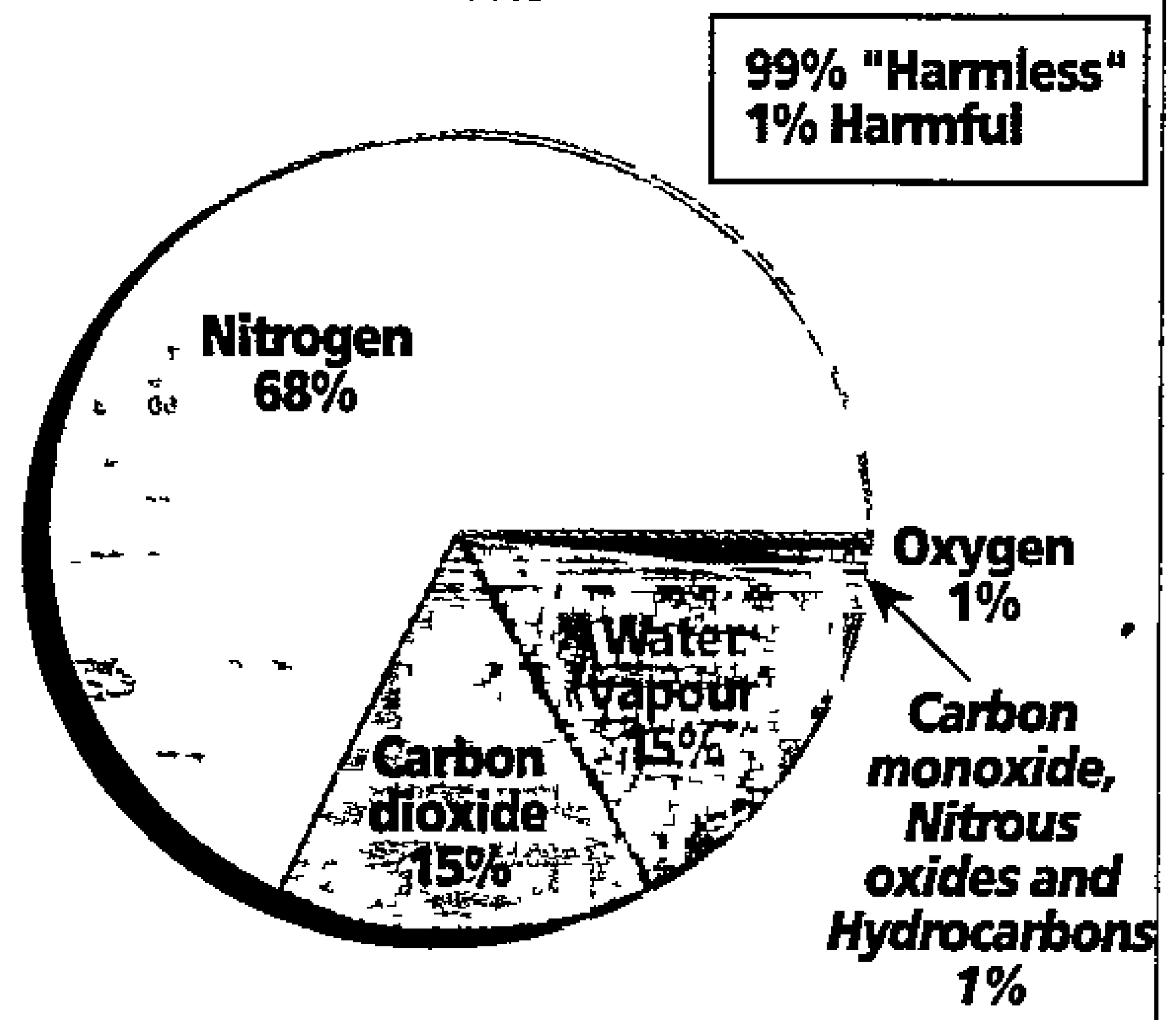
There is no proof that vehicle emissions are a major contributing factor to pollution in South Africa. It is believed that electrifying townships and rural areas would do far more to curb air pollution than cleaning up the emissions of South Africa's relatively small car population.

However, an emissions working group set up by the Unleaded Petrol Co-ordinating Committee is currently developing a national policy on vehicle emissions, and government policy could change depending on their findings.

The five-phase project is due for completion within three to four years. Cats cost between R2 000 and R3 000.







Unleaded petrol is usually introduced for environmental reasons. But in South Africa it is being introduced for economic reasons.

Exports will play a vital role in the future survival of South Africa's seven vehicle manufacturers now that duties are decreasing and imports are becoming more competitive.

Internationally, new engine technology is almost entirely based on unleaded petrol and SA needs to fall in line if its exports are to find markets. The alternative, converting engines that have been designed to use unleaded petrol so as to enable them to use leaded, will make cars more expensive in South Africa.

It has been estimated that export markets which could open up to SA motor manufacturers could earn the country up to R250-million a year in the first 10 years.

Wholly compatible

The benefit for South African motorists in the long term is the improved fuel efficiency of engines designed to run on unleaded petrol. However, engines not wholly compatible with unleaded petrol are expected to be less efficient in the meantime.

Engines built according to unleaded technology are claimed to have a longer life than leaded petrol engines and to require lower maintenance. Spark plugs and exhausts are also said to last longer too.

To achieve a market penetration of about 20% in the first year, it was proposed to make unleaded (which is more expensive to produce) cheaper to buy than leaded petrol.

But because unleaded is more expensive to produce than leaded, it has been proposed to push up the price of leaded so as to subsidise unleaded.

It was disagreement over this that led the Government to postpone the introduction of unleaded petrol (see accompanying story).

Lead has traditionally been added to fuel because it lubricates valves, reduces engine knock, and is a low-cost octane enhancer. Octane improves performance.

Unleaded petrol did not come about because its emissions are healthier to breathe than those from leaded petrol, as seems to be the general perception. In fact lead was removed from petrol because it attacked the catalytic converters that were increasingly being fitted to cars in the US in the 1970s, rendering them useless in a short period of time.

It is the catalytic converter, not the unleaded petrol, which reduces the health risk of petrol emissions by converting harmful carbon monoxide, hydrocarbons and nitrogen oxides into harmless compounds such as water vapour, carbon dioxide and nitrogen.

Unleaded petrol, as opposed to lead-free petrol, still contains some lead, albeit in very small quantities. International standards allow up to 13mg of lead a litre to qualify as unleaded, compared to the current 400mg in leaded petrol.

Unleaded became available in the US in 1975, followed by Japan in the same year. Many other countries followed suit, but the Cameroon is the only African country to have introduced it so far.

The Unleaded Petrol Co-ordinating Committee (UPCC), a body formed in 1991 to develop a programme for the introduction of unleaded in SA, claims only 1% of vehicle exhaust emissions are harmful.

The bulk of emissions are made up of harmless nitrogen (68%), carbon dioxide (15%), water (15%) and oxygen (1%). Harmful emissions are said to comprise carbon monoxide (0.1% – 0.4%), nitrogen oxides (0.3%) and unburned hydrocarbons (0.3%).

State of tune

The levels of these emissions also vary depending on the state of tune of an engine.

Octane boosting lead alternatives such as aromatics and olefins will probably increase the proportion of unburnt hydrocarbons, but the UPCC admits that no local research has been carried out as to their possible harmful effects.

The relatively low octane level of South African unleaded (in comparison with the UK, for instance) should keep emissions down, it says.

It will initially not be compulsory to fit expensive catalytic converters to cars running on unleaded when it is introduced in SA.

Most cars can adapt with barely a hiccup

(183) Star 3/8/95

It is claimed that some 90% of cars currently on South Africa's roads will be able to use unleaded petrol. Of these, 65% will be able to use the new fuel without any tinkering under the bonnet, while 15% will be able to use it with minor ignition timing adjustments.

In older cars, mostly pre-1980, unleaded petrol might cause a problem with valve-seat recession, but in most cases this can be overcome by filling the car at a ratio of one tank leaded to three or four tanks unleaded.

The 10% of cars not compatible with unleaded petrol mostly comprise high performance or modified engines.

By the year 2005 it is expected that 98% of all new vehicles in South Africa will run on unleaded only, but leaded petrol is expected to be available in the country for another 15 years.

A widespread public education campaign will accompany the launch of unleaded petrol next year to ensure that motorists use the correct fuel in their vehicles.

The National Association of Automobile Manufacturers of South Africa (Naamsa) is compiling a register of vehicles that are compatible with unleaded fuel, which will be available at every petrol station.

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There will also be a hotline network in operation for queries on unleaded petrol.

Unleaded pumps will be identifiable by special, narrow dispensing nozzles, and vehicles running only on unleaded petrol will have narrower fuel intakes to prevent anyone accidently filling up with leaded petrol.

Only two grades of petrol will be sold inland and at the coast – 91 octane unleaded and 93 leaded inland, and 95 unleaded and 97 leaded at the coast.

The lower grade, 87 octane, will fall away.

Diesel will not be affected by the introduction of unleaded petrol.

Why the wait for new petrol?

The controversy surrounding the pricing structure of unleaded petrol recently delayed its introduction in SA from October this year to the middle of 1996. The delay resulted from Government's indecision on whether to make leaded petrol users subsidise unleaded petrol users.

It all came about when the Unleaded Petrol Co-ordinating Committee, backed by SA's oil companies, decided that to be economically viable, unleaded must achieve a market penetration of about 20% in the year of its introduction.

To achieve this, unleaded would initially have to be sold cheaper than leaded petrol. However, unleaded is more expensive to produce so it was proposed to artificially make unleaded about 6c cheaper by taxing leaded.

However, the Government feared this might cause an outcry among motorists already burdened with a petrol price heavily loaded with tax.

The petrol price has already risen by 14c since March, following the recent introduction of a revised mechanism which adjusts the price on a monthly basis.

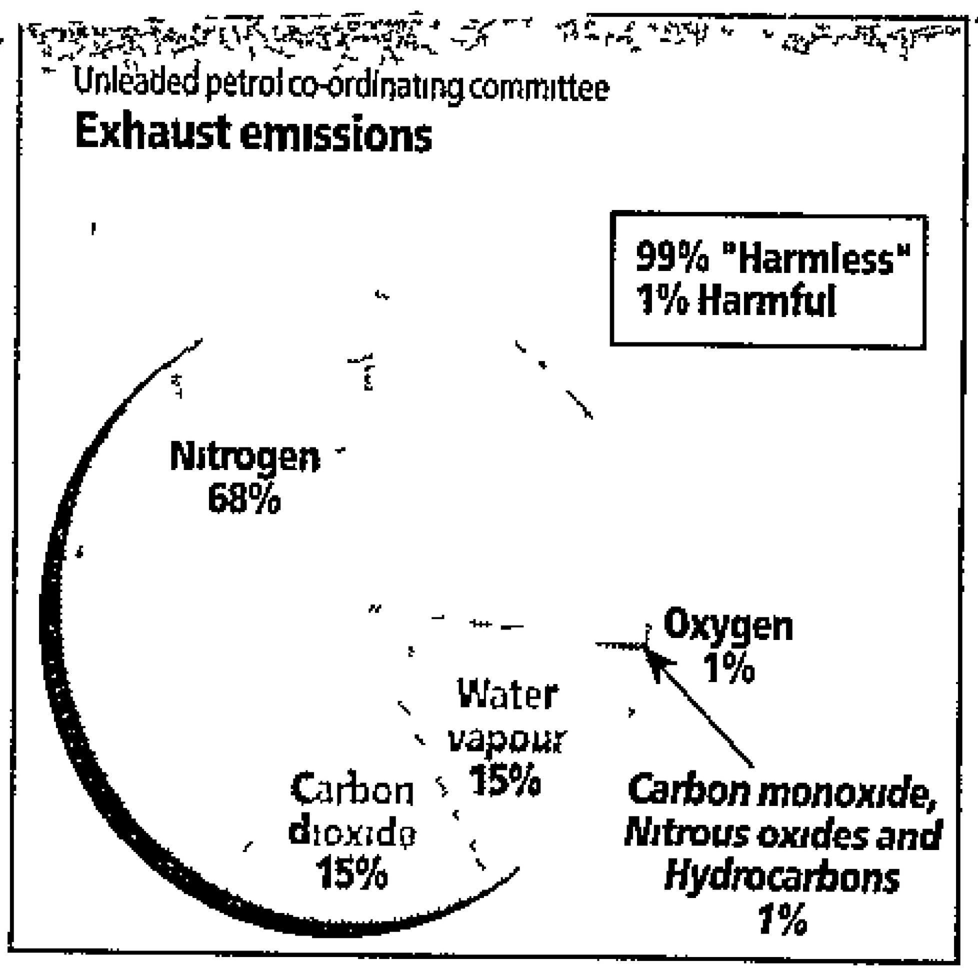
Damage

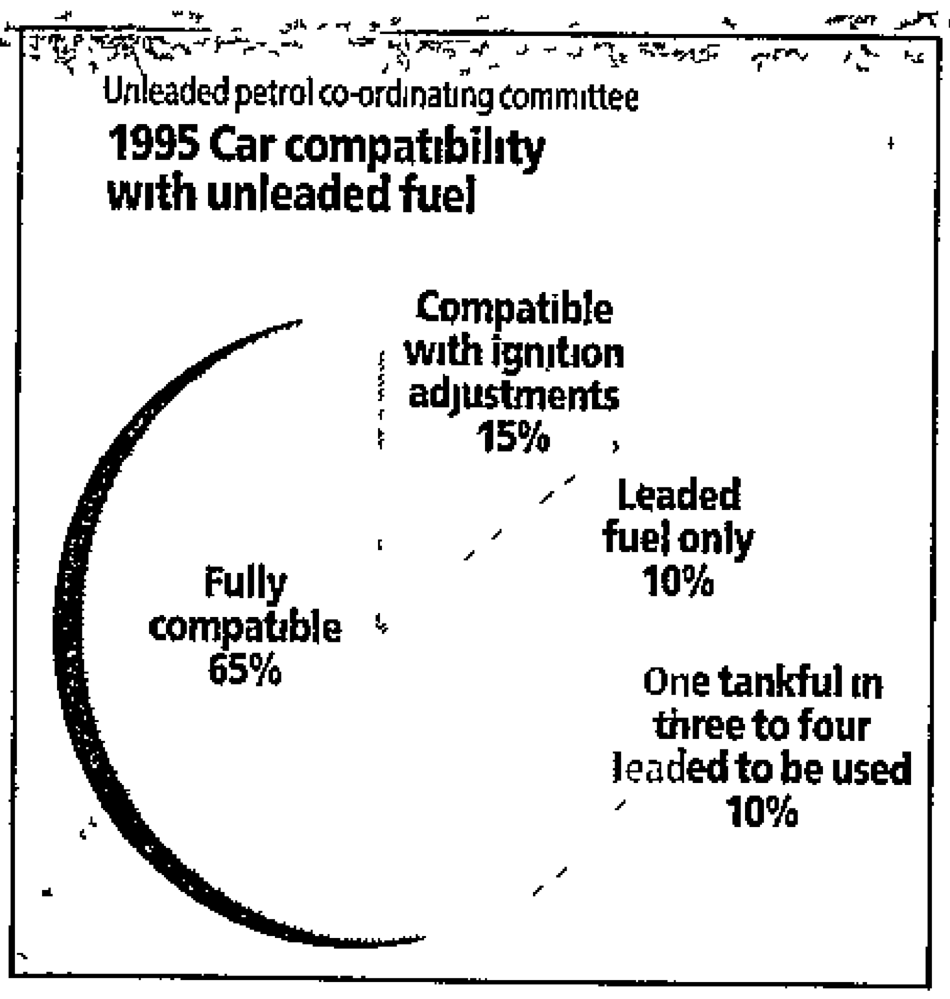
Another problem was that the less well off might also put the cheaper unleaded in their vehicles which could damage their engines.

The AA believes free market principles should determine the acceptance of unleaded petrol, saying oil companies should carry the cost of its introduction themselves.

"We support the decision to go unleaded because we can't stay with motorised ox wagons," says AA spokesman Quinton van Eeden. "But we support the Cabinet's decision to hand the matter back for review.

"Why should today's motorist subsidise unleaded petrol so that South Africa's seven oil companies are guaranteed a return on investment?"





Big bucks in petrol for SA

(183)

Sowetan 3/8/93

By Dennis Droppa
Spectrum

SPECTRUM
MAKING A DIFFERENCE

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Unleaded became available in the US in 1975, followed by Japan in the same year

AA concerned at proposed fuel increases

(183)

CT 4/8/95

JOHANNESBURG: The Automobile Association (AA) expressed concern yesterday that the proposed increases in the retail margin and delivery cost of fuel would precipitate increases in other components of the fuel price structure.

It said this would severely impact on the motoring costs of private motorists.

It is unfortunate the increases are being entertained when the future of the liquid fuels industry has still not been resolved.

It is appreciated that new wage deals have been concluded and this is the reason for the increase in the retail margin. It is therefore imperative that the deregulation debate be concluded soon.

On the price of unleaded fuel, the AA said it was encouraging that the reduced price would not be cross-subsidised by the buyers of leaded petrol but by levying a lower tax on unleaded petrol. — Sapa

THE NA

Affirmative action uproar at Caltex

(183)

□ *Management hits out at breakaway group*

ARGUS 4/8/95

COLIN DOUGLAS
Staff Reporter

A ROW over affirmative action has erupted at Caltex Oil with the majority of black staff in its Cape Town head office forming a breakaway organisation to press the firm to accelerate black advancement.

Caltex management has hit out at the group — the Black Employees' Forum — accusing it of racism and defending the company's affirmative action policies.

At the centre of the dispute is a committee, in the process of being elected by all Caltex employees, which will advise management on affirmative action.

The forum has opposed the election procedure, saying it is unfair to black employees who still form only a small minority in most sections of the company.

"Because of numbers, black people didn't feel comfortable with the process — it effectively excludes most blacks," said a member of the forum, who did not want to be named.

The forum has demanded that two of its members be appointed to the affirmative action committee — a demand rejected outright by the company's management.

Human resources director Ivan Bonorchis lashed out at the forum, saying. "They stand for everything we won't tolerate."

Although Caltex supported the right to freedom of association, the company could not accept racially-based employee groups, he said.

Managing director Mike Rademeyer, in a memorandum to the forum, said. "We would like to make it perfectly clear that management cannot tolerate any attempts from staff to undermine this transparent and democratic process (the election of the committee) to suit their own narrow interests."

A copy of the memorandum was given to The Argus by a member of the forum.

"Those who cannot accept company policies and believe their future prospects look brighter outside the company are free to leave," wrote Mr Rademeyer.

"We are satisfied that our company's affirmative action policy and procedures are comparable with, or even better than, those of our competitors."

Mr Rademeyer's memorandum referred to "acts of intimidation which prevent management or staff communicating with one another and doing their work".

Mr Bonorchis said the company would not comment publicly on these charges.

Forum members denied intimidating anyone.

113 (17)

No decision on Sasol protection report

Mungo Soggot

(183) BD 4/8/95

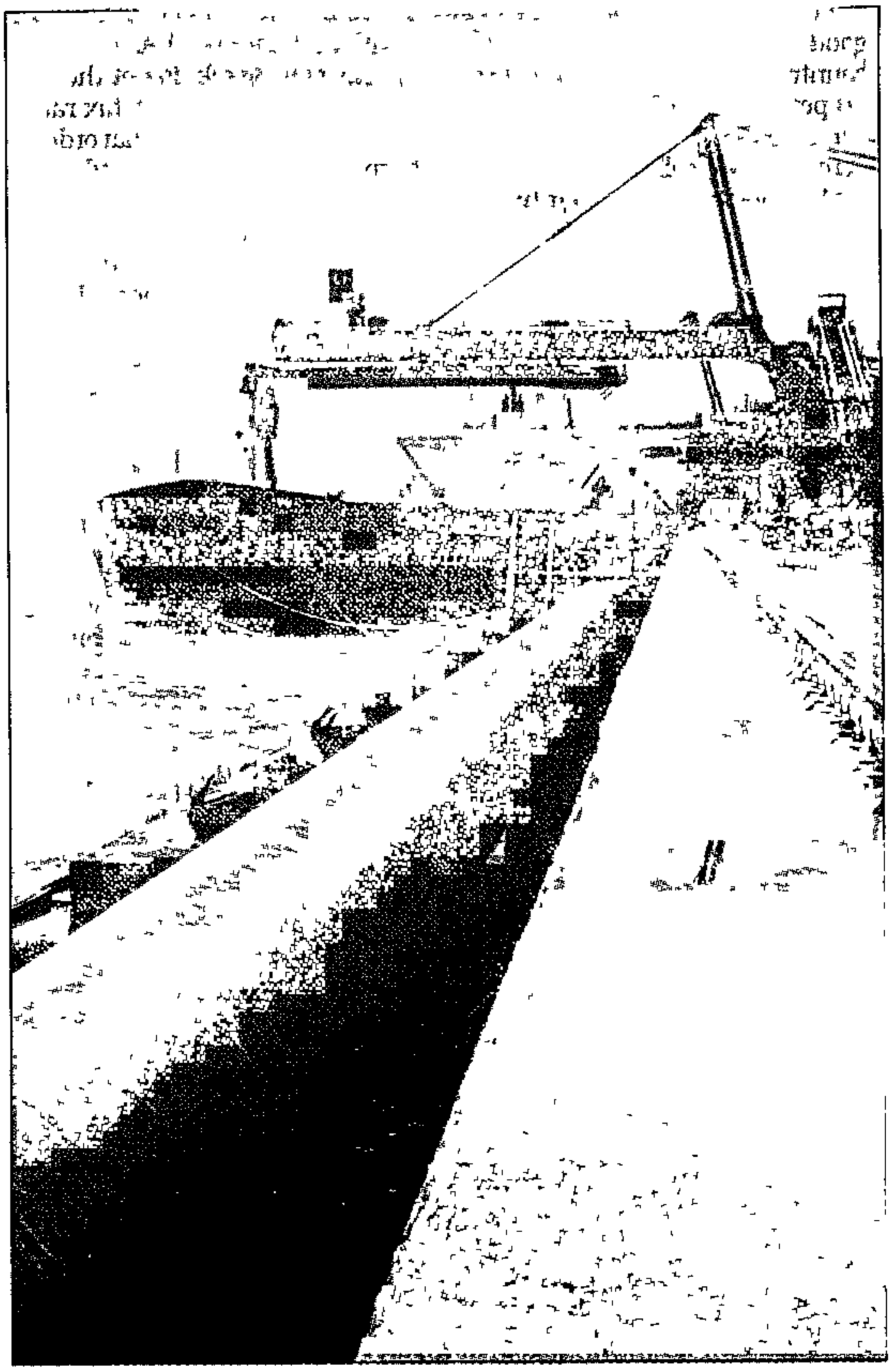
GOVERNMENT met yesterday to decide its position on the Arthur Andersen report into Sasol's protection, rejected by the oil companies, a minerals and energy affairs spokesman said yesterday.

He said the interdepartmental team had not reached a final conclusion for the August 16 Nedlac meeting which would discuss the report.

Another source said the department had problems with some of the report's assumptions and, because of the controversy surrounding it, would probably try to distance itself when formulating its decision

The spokesman said the minerals and energy department accepted Arthur Andersen's integrity.

It is understood that although government supports the idea of thrashing out the future of the fuel industry in Nedlac, it is unhappy with the progress of its liquid fuels task force, derailed by the walkout of the oil companies. But no final decision on dismantling the task force had been taken



Line of black gold. The pipeline which connects Saldanha's oil terminal to its oil tank farm
PHOTOGRAPH KAREN HARVERSON

Portnet may spend R40m for oil deal

~~189~~ (183) wm (pm) 4-10/8/95

Karen Harverson

PORT and harbour authority Portnet may have to spend R40-million on infrastructure to cope with an expected increase in oil-tanker traffic as a result of the oil deal between South Africa and Iran

The agreement between the government-owned Strategic Fuel Fund (SFF) and the National Iranian Oil Company (Nioc) entails the storage of 15-million barrels of Iranian oil at the in-ground tank farm at Saldanha

Oil tanker traffic at the Saldanha Bay bulk storage facility is expected to increase from 25 to 75 tankers a year

The port authority already plans to spend R500-million to cope with materials handling for the Saldanha Steel project This will include building two new quays with a total length of 635 metres, and dredging the harbour to handle 60 000-ton ships as

■ To PAGE B2

Portnet may spend $40m for oil deal

(183) wm (pm) ~~10~~ 4-10/8/95

■ From PAGE B1

opposed to the 40 000-ton ships it now handles The channel will also be widened to allow a ship to pass a berthed ship

A study on the environmental impact of increased oil tanker traffic is being conducted separately from the environmental assessment of the Saldanha Steel project

Portnet Harbour Manager Danie Barnardo says no alterations will be done until the oil traffic study is completed "Depending on the impact study and the expected tonnages, an additional fender board may be installed to connect bigger ships to the quay We'll also need to increase the size of the turning basin," he says

As the ore jetty is coupled to the oil jetty, Barnardo expects the channel will have to be widened by about 80 metres to enable ore ships to pass by oil tankers to reach the ore terminal.

"At the moment we can only load and unload one ship at a time," says Barnardo, adding that the harbour currently handles 220 ore ships and 25 oil tankers a year

"With the increased demand for South African iron ore exports, the number of ore ships will increase slightly " Portnet has a contractual agreement with South African ore exporters to transport some 420 000 tons of ore a week by rail from Sishen to Saldanha for export.

If the Iranian oil deal results in an increased volume in traffic, SFF installation manager Willie du Toit says the company will probably expand its loading facility, install additional fire-fighting equipment and put in new loading arms to accommodate ships which have a higher air draft (distance from water line to deck)

Barnardo says this expansion entails duplicating the quayside facilities on the Langebaan side of the quay and would not be undertaken by Portnet but rather by the SFF

M&R close to finalising Sentrachem deal

(183) CT(BR) 7/8/95

BY ANDY DUFFY
STAFF WRITER

Murray & Roberts is negotiating to buy a major slice of Sentrachem's assets in a deal thought to be worth about R100 million

The two groups, both controlled by Sankorp, are close to finalising the deal in which the construction company will buy Sentrachem subsidiary MegaPlastics' pipe and hose activities

Graham Hardy, the Murray & Roberts group chief executive, confirmed at the weekend that talks were under way, but refused to elaborate

"We do anticipate releasing an announcement shortly," he said. Sentrachem declined to comment on the matter

A deal would be in line with M&R's plans to target the uptick in gross domestic fixed investment — a move which prompted the reorganisation last month of its seven divisions into five

The two businesses, MegaFlex and MegaPipe, sell into general industry and household markets

They could be housed within M&R's R2,4 billion-a-year engineering division

This has also been restructured recently

The sale would also represent a major phase of Sentrachem's plans to offload non-core activities in a move to refocus and cut debt

In June, it sold plastics converter MegaPak to Nampak for R80 million

The deal would leave MegaPlastics with mouldings business Megalitec and polystyrene insulation producer Sagex.

Sentrachem said last week it would tap international markets to reduce debt stemming from its recent $236,5 million takeover of Hampshire Chemical Corporation.

The company's share price slipped to a new year low of R13,25 early last week, but closed at R14,00 on Friday

M&R, which was due to report its year-end results at the end of the month, closed 5c down on the day at R21,85

Govt toying with idea of fuel giant

CT (B.R) 7/8/95 (183)

By Staff Writer

The government was toying with the idea of creating a giant SA fuel company, but there was no question of frogmarching the private sector into the deal, the mineral and energy affairs department said yesterday

Reacting to a weekend press report that the government wanted to merge Sasol, Engen and Mossgas with other state-owned businesses, the ministry said the idea was one of many floating around as government and industry grappled with plans to reshape the fuel sector

But any proposal would need the backing of the private sector, and the idea remained untested, a spokesman for Mineral and Energy Affairs Minister Pik Botha said yesterday.

"It's an idea that has been floated, but it's not as if the minister can decide on it, even if it is to happen at all"

The report said Deputy President Thabo Mbeki met Botha, Trevor Manuel, the trade and industry minister, Chris Liebenberg, the finance minister, and Paul Kruger, the Sasol chief, on Thursday to discuss creating a state and private-owned South African National Oil Company

But a source from the meeting – speaking on condition of anonymity – said the ministers had actually convened to discuss government's role in the industry.

Five issues dominated the agenda the wholesale trade, the retail trade, labour issues, state assets; and forming a consensus policy. The disbandment of the liquid fuels task force was also mentioned

But the merger idea was "an aside," he said "It wasn't an issue."

Government was pursuing every avenue to extricate itself from the industry, particularly from subsidies to Sasol and support for the R12 billion synthetic oil producer Mossgas

The merger proposal is thought to have originated from the ANC.

But ANC MP and Mineral and Energy Affairs Parliamentary Committee chairman Marcel Golding played down the report.

"The industry is in a mess and we've got to find a solution for it," he said.

"In every commercial area there are often discussions taking place to find synergies

"But the important thing is that this is in the context of market economics," he said.

AECI rides high on sales volumes

BD 8/8/95 (183)

Adrienne Giliomee

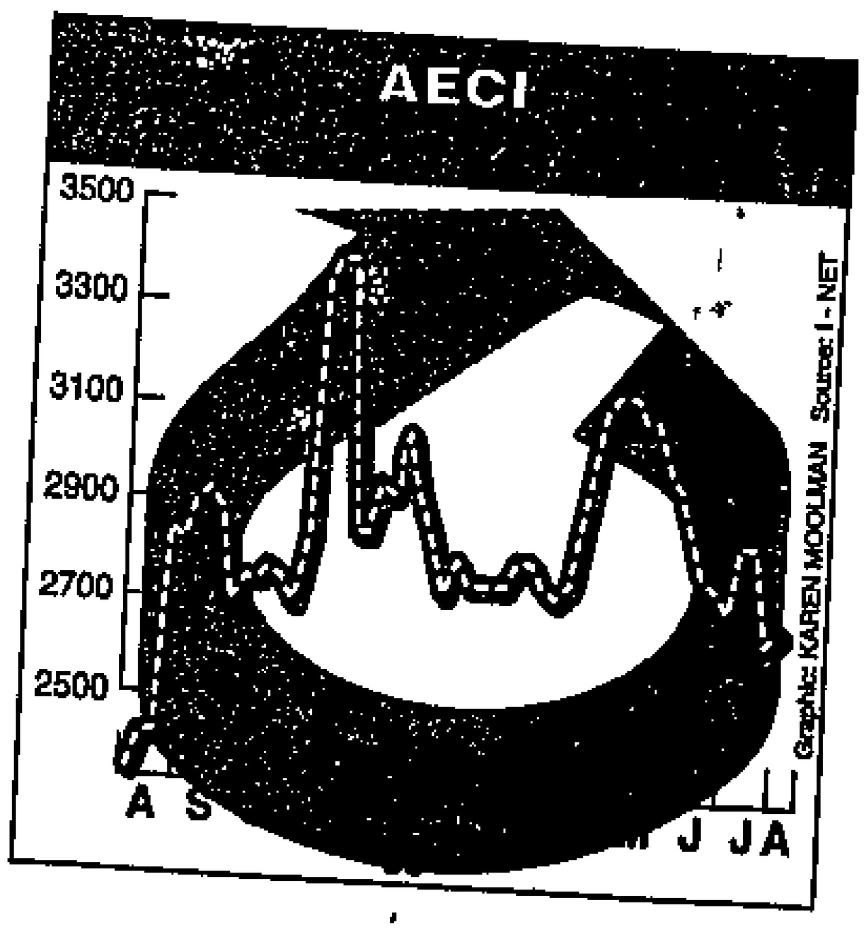
ROBUST demand for AECI's products and surging international chemical prices led to attributable earnings increasing 76,8% to R145m for the six months ending 30 June compared with R82m in the same period last year

Earnings an ordinary share increased by 41c, or 77%, to 94c and the group declared an interim dividend of 25c a share.

In the interim report published today, management said domestic sales volumes were substantially higher than for the first six months of last year. Turnover increased 25% from R2,5bn for the first six months last year to R3,2bn The higher volumes enabled an improvement in the trading margin to 8,2% of sales from 5,6% in the comparable period.

Axelson said the group's first quarter results were much stronger than for the comparable period last year He attributed this to election uncertainties. "When one compares the two second quarters of 1994 and 1995, the effect is less pronounced," he said.

Analysts had expected even better trading profit in the light of the excellent performance by AECI subsidiary Polifin While Polifin and Chemserve had shown dramatic increases in trading profits, it seemed fertilising volumes, together with the explosives division, had been under pressure, said an analyst.



He warned the group might not be able to maintain the buoyant level in the second half of the year because its business was cyclical.

Short-term debt increased 102% to R844m, helping to lift gearing from 46% to 56%. Management said increased borrowings were required to fund capital expenditure of R300m, of which R239m related to expansion.

Analysts did not perceive the higher gearing as problematic.

"The group has a healthy cash flow which will take care of finance costs," said one.

Axelson said no new developments had taken place on procuring the continued operation of Soda Ash Botswana but said negotiations appeared to be in the final stages.

AECI's half-year earnings up 77%

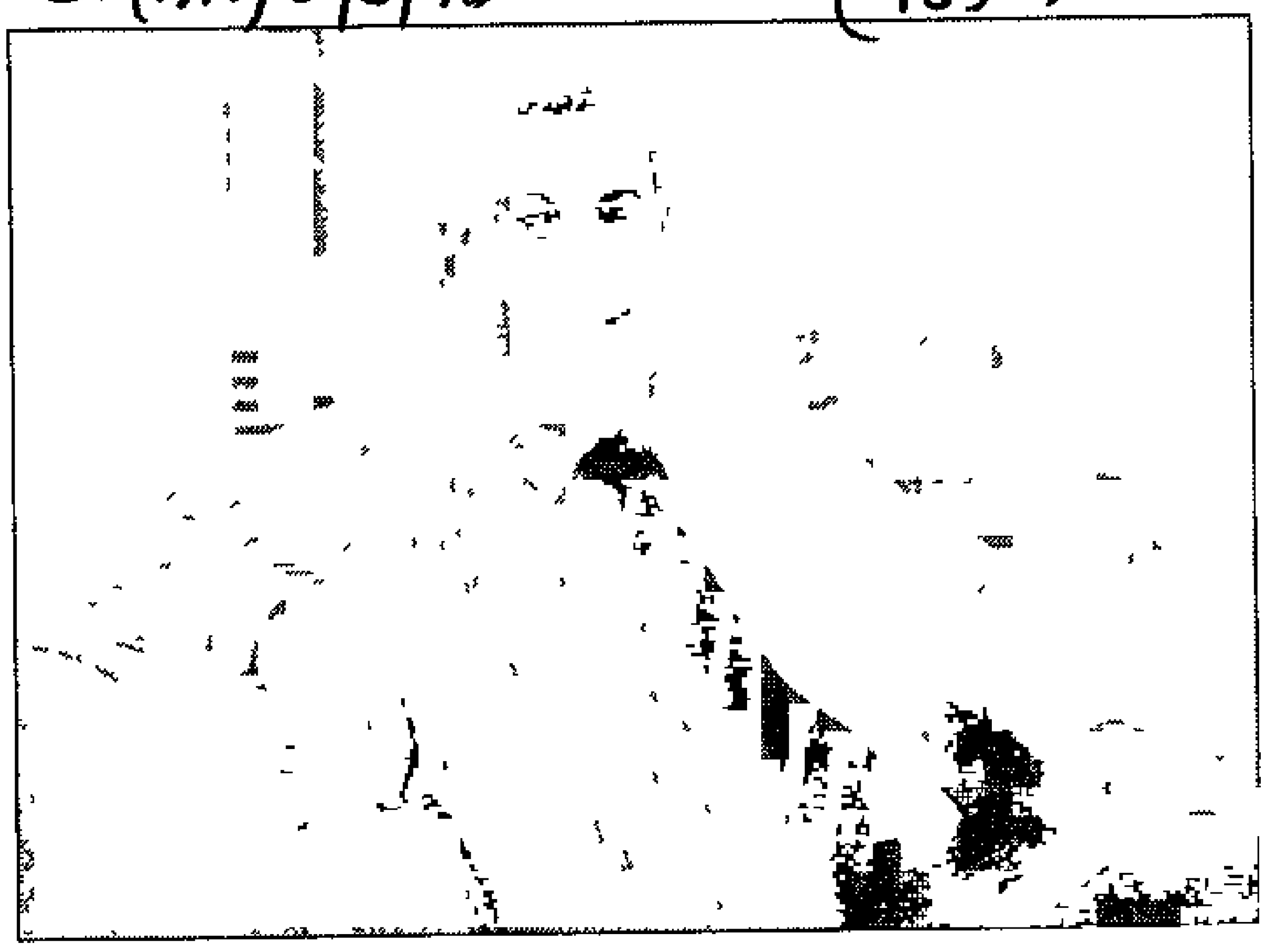
CT (BR) 8/8/95 (183)

By Andy Duffy
STAFF WRITER

AECI lifted attributable earnings 77 percent to R145 million for the six months to June, as higher volumes and productivity enabled the group to exploit the recovery from last year's dire market conditions.

Improved domestic markets coupled with a 26 percent jump in international sales propelled turnover ahead one quarter to R3,16 billion.

The group — controlled by Anglo American Industrial Corporation — was able to lift its prices to help push operating profit up 83 percent to R260 million.



ON THE UP *AECI managing director Mike Smith yesterday as the group unveiled a 77 percent leap in earnings*

PHOTO JOHN WOODROOF

Investment

An increase of 44 percent in financing costs at R82 million and a higher taxation bill were partially offset by improved investment and associates' income.

Share earnings came in at 94c from 53c, while the dividend rose 25 percent to 25c.

Mike Smith, the managing director, said the results had been underpinned by improved economic conditions and strong operational efficiency.

But he said second-half growth would struggle to match that of the first half, given that the half-year showing was off such a low base.

"We want to say don't project 77 percent through to the year-end," Smith said.

"Barring an unexpected reversal of the economic upswing, earnings in the second-half should be significantly higher than in 1994."

Interest-bearing debt rose to R1,4 billion from just over R1 billion, as working capital rose and capital expenditure moved to R300 million from R201 million.

Expansion at AECI's lysine and nylon tyre plants, and its contribution to associate Polifin's Midlands upgrade accounted for most of the capital expenditure.

Smith said gearing at 56 percent (from 46 percent) was likely to fall during the second half. He said AECI was fully covered for the losses from its 26,5 percent stake in Soda Ash Botswana with the R305 million it set aside last year.

The group and fellow Soda Ash shareholders Anglo American Corporation, De Beers and the Botswana government put the company into provisional liquidation in June. Negotiations to buy back Soda Ash's assets were likely to be finalised in days, Smith said.

AECI lifts half-year earnings to R145-m

(183)

Star 8/8/95

■ BY ANDY DUFFY

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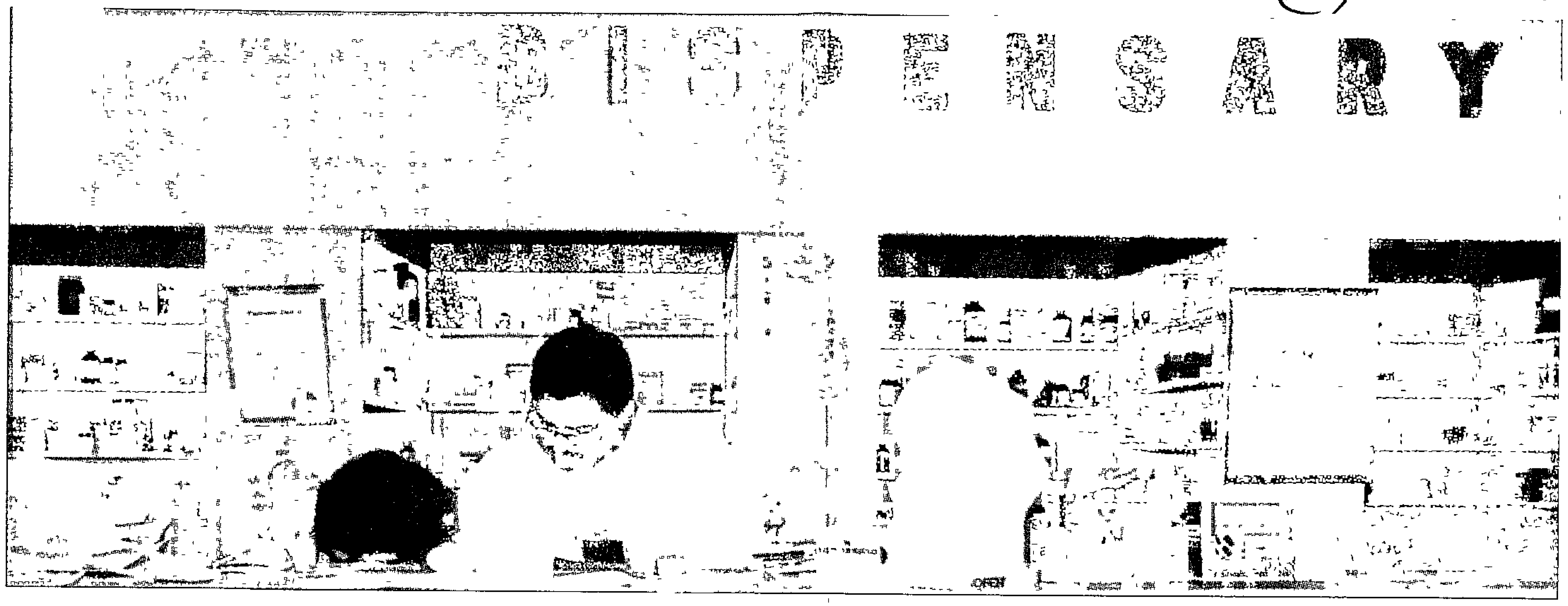
he entire pharmaceutical industry, from manufacture to final distribution, is facing radical overhaul, with wide-ranging proposals by the State now lending impetus to industry-based attempts to get the nation's medicine chest in order. Health Writer David Robbins reports

A positive prognosis for drugs

(183) Star 8/8/95



Squeeze on the middle man . . . as medical aids feel the rising strains on their budgets, so the pressure transfers on to the pharmacist and his profit margin.
PICTURE THYS DULLAART

The state of play at the receiving end of the pharmaceuticals business in South Africa is well known In a nutshell, the amount spent on medicine by medical schemes is very high, and rising at an alarming rate Between July 1994 and March this year, for example, medical schemes faced an increase in medicine payouts of more than 9% above the rate of inflation And it's a cost which is ultimately borne by medical scheme members and their employers

What needs to be done to rectify the situation? The recently published national health insurance proposals refer to an essential drugs list (EDL), a device called a "single exit price" on pharmaceutical products, and curbs on dispensing doctors

But will such measures help? A valid answer can be reached only once the broad outline of the current system has been sketched

The industry, as it serves the private sector, can best be understood by making use of the analogy of a ladder Rung one is the pharmaceutical manufacturer, rung two the wholesaler, rung three the retailer, and the space between the rungs is the profit which each needs to make if the whole system is to continue to function more or less smoothly

Who sets the prices? The answer is that the manufacturers do when they suggest recommended trade prices to the retailer and retail prices In other words, the spaces between rung one and two (wholesaler's profit) and between two and three (retailer's profit) are affected by the manufacturer's recommendation These recommended prices are published in what is widely known in the industry as the Blue Book, and establishes a markup of around 21% for wholesalers and a further 50% for retailers

So much for the theory In practice, however, the picture looks very different

Although medical aids recognise the Blue Book retail price, most are under pressure to reduce their overall costs, and this pressure has increasingly been passed to the retail pharmacies The effect has been to force their rung of the ladder downwards through various discounting procedures which have often slashed retail mark-up by half

But the pressure doesn't stop there Wholesalers are also being squeezed – some of them are surviving on a mark-up of only 7% – as the pressure from above (from the medical schemes) forces the rungs of the ladder closer together

But the rung that has moved least is the bottom one, in other words the price at which manufacturers sell their products into the market place – the exit price

Most manufacturers tender for the huge volumes of pharmaceuticals required by the State To retain a share of this business, manufacturers are willing to tender at prices well below the normal exit price Two main effects need noting The first is that State pharmaceuticals have an immediate value in the private sector market which encourages theft from State institutions The second is that the private sector exit price can be manipulated by manufacturers to make good any shaving of profitability engendered by their low-profit activities in the State tendering system

To put it crudely prices in the nation's pharmacies are often as high as they are to compensate for the cutthroat competition involved in selling to the State

There are other complications as well Rather than succumb to the ordinary market pressures in the private sector to reduce their exit price, many manufacturers have found a route which operates outside the rungs of the normal distribution ladder This route also encourages a preference for their products by those who prescribe them, but it rarely results in lower prices to the patient We're talking here about the medical practitioner who keeps his own stock of medicines to which he prescribes and from which he dispenses

These dispensing doctors are often supplied directly by the manufacturers or via short-line wholesalers (those who do not keep the whole range of pharmaceutical products available) While some dispensing doctors perform an essential and high-quality service, the system is widely abused – significantly contributing to the high cost of medicines in South Africa

Listen to a document prepared last month by the Representative Association of Medical Schemes (RAMS) which outlines these abuses and their *modus operandi*

"Bonusing and excessive sample allocations to dispensing doctors are the main methods of providing preferential prices It is common for doctors to enjoy profit margins of more than 100% and up to 600% This practice is made possible by medical schemes basing benefits on the Blue Book recommended retail price Certain manufacturers find it to their advantage to inflate this published price and to use the increased flow of funds to 'incentivise' willing dispensing doctors and other suppliers (notably, doctor-controlled short-line wholesalers) to favour their medicines "

The size of the problem is indicated by the numbers involved there are considerably more dispensing doctors in South Africa than there are pharmacies

So the price of medicines is largely controlled by the manufacturers who are in a position to use this control not only to make good any reduction of profits experienced through the public tendering system, but also to underwrite their favours to dispensing doctors These doctors often get involved with wholesalers who select the high-volume, high-profit lines which doctors could have a pecuniary interest in prescribing, leaving the full-line wholesalers with a diminished ability to cross-subsidise through the whole range And the whole system is perpetuated by the practice of medical schemes paying Blue Book prices for prescribed medicines

What can be done?

The Health Ministry is proposing the introduction of an EDL which will cope with around 90% of all primary health care problems Of course, these drugs will be supplied to the public sector in the normal way But the ministry is proposing that they also be made available to private sector consumers at the same prices to emerge from the State tendering system

This means that a limited list of prescription medicine will be strictly cost controlled A side effect of this proposal will be to remove the theft incentive But what about those drugs not included in the EDL, in other words those more sophisticated and expensive products?

You don't need to be an economics wizard to understand that the prices of extra-EDL medicines could rocket if manufacturers seek to use the diminishing uncontrolled segment of the industry to safeguard their profit margins

Clearly the Health Ministry has reason to intervene By imposing a single exit price on manufacturers, the ministry would, in theory at any rate, neutralise the excessive incentives available to dispensing doctors In practice, though, willing parties will always find a way around such arrangements So the ministry may well go a step further and outlaw dispensing doctors

This separation of the prescribing and dispensing function appears to be crucial to the reform of South Africa's pharmaceutical industry The ministry has also been advised that the profit motive should as far as possible be removed from both activities For this reason doctors may be prohibited (if the proposals to the ministry become law) from owning shares in manufacturing or wholesaling enterprises, and pharmacists will be paid a dispensing fee rather than relying on shrinking profit margins in order to to stay in business

All this bodes well for the future But the best news of all is that the private sector itself, after years of grappling ineffectually with these problems, seems set to introduce self-regulatory reforms Not surprisingly, the medical schemes hold the key since they are the agencies which pay on behalf of the consumer

"The result could be of great assistance to the ministry as it attempts to reform a muddled and often corrupt segment of South Africa's health care system

AECI

Heading for a new peak

(183) FM 11/8/95

AECI's strong interim surge — EPS up 77% to 94c — will have analysts revising full-year forecasts for earnings growth These ranged between 34%-38%, it now appears EPS growth for financial 1996 could be considerably higher

First-half results were largely demand-driven as domestic sales volumes grew substantially over the previous period and growth in exports, at 27%, outstripped the 25% advance in turnover Exports, largely from fibres (about 40% of output) and fertilisers, now account for 16% (1994 15%) of group turnover

AECI's Smith *the second half won't be as strong*

MD Mike Smith warns that the interim performance is unlikely to be repeated over the second half Results came off a relatively low base, considering disruptions around last year's elections, the high number of holidays and the motor industry strike

There are also a few uncertainties The performance of fertilisers — which, despite the drought in central SA, enjoyed higher export prices and volumes — depends on good early summer rains Industrial action is a constant threat

"Conditions in the gold mining industry will be important, not only for the sale of explosives but also because of the number of customers we supply in the secondary industry," says Smith "It also seems the rate of growth in some industries, such as car manufacturing, has been unusually high over the first half after last year's strike and could ease off"

Still, AECI is a second-half company It now seems certain that full-year EPS will comfortably top 203c, the 1989 peak which has hung around the company's neck like an albatross following the decline in earnings from then to 1993

Recently listed Polifin, 40%-held by AECI and Sasol, played an important part in the interims (see separate report) and should provide a useful contribution for the full year Divisional breakdowns are not provided but Polifin is AECI's biggest profit contributor, probably accounting for more than 30% pre-tax Its performance should underpin growth as it enjoys high world chemical prices and the coming cost-savings of the R630m conversion from coal-based acetylene to cheaper ethylene feedstock

Subsidiary Chemical Services reported a 47% rise in interim EPS and has conservatively forecast full-year growth of more than 30%

SA Nylon Spinners is becoming a serious world player after its R120m expansion and the recently commissioned R250m lysine plant near Durban is to become a major exporter, it will sell about 80% of its initial 12 000 t capacity abroad and can eventually double output

Capital spending of R300m, most of it on expansion, has raised gearing to 56% Smith says it is higher than the group would like but that borrowings tend to peak in the third quarter as AECI builds up stock for the seasonal high demand for fertilisers and packaging "We would like gearing a bit lower by year-end," he says

Negotiations over the future of 26,5%-held Soda Ash Botswana, recently placed in provisional liquidation, are continuing An announcement could be made soon However, even if it is liquidated, AECI has been covered by a R305m provision made in the previous financial year Future earnings growth will be protected

Though AECI is a cyclical investment (and the cycle should be sustained for at least another year), structural changes — such as the unbundling of Polifin assets and the ICI shareholding swap (42% of AECI for 50% of the explosives business) — has made the group more world-competitive

The hefty investments in fibres and lysine should reduce the group's cyclicality There is certainly short-term value in the share — at R26,75, still some way off last year's high of R35 after the more than 60% price increase over calendar 1994 *Shaun Harris*

EXPLOSIVE

Six months to	Jun 30 1994	Dec 31 1994	Jun 30 1995
Turnover (Rbn)	2,52	3,02	3,16
Operating income (Rm)	142	288	260
Attributable (Rm)	82	205	145
Earnings (c)	53	133	94
Dividends (c)	20	48	25

POLIFIN

Stretching the limits

The first set of annual results — to June 1995 — for recently listed Polifin shows some excellent chemistry as the group transmuted possibilities into reality As it operates in a cyclical industry currently on the upswing, it should be in its growth period The question was how far could Polifin ride the wave? It has comfortably transcended the pro forma results for the year to June 1994 in the prelisting statement

"We exceeded our own expectations," says CE Pieter Cox "It is particularly gratifying coming so soon after our formation and listing " Turnover jumped 25,8% to R2,99bn and operating profit reached R730m, 87% up on the pro forma results and 7% up on the prelisting forecast The operating margin of 24,4% dwarfs the pro forma margin of 16,4%

Attributable income of R354m, outdoing the prelisting forecast of R324m, translates into EPS of 65c, compared with the pro forma 41c for 1994 Cox says the maiden dividend will be declared in about March for the first half of financial 1996 He expects it to be on target

The balance sheet shows shareholders' interest at R1,04bn, after goodwill totalling R104m and stemming from Polifin's incorporation was written off against reserves

Borrowings total R427m, of which about R53m is current The debt was incurred to finance the company at its genesis, Cox says, and major shareholders Sasol and AECI were "reasonably comfortable" with 41% gearing However, Cox is confident that this level of debt is temporary and will come down substantially in the next year, reduced by strong cash flow

The Midland restructuring project, in which a number of plants using carbide-acetylene feedstock — an outdated method — are being converted to handling ethylene, is due to come on line in the first and second quarters of financial 1996 The project, expected to cost R646m when complete, is ahead of schedule

Cox says other capex projects, possibly as large, are being considered "We plan to be world-class," he says "The industry has

Pumping up profit

(183)
FM 11/8/95

The latest government-decreed 2,5c/*l* increase in profit margins is good news for petrol retailers — but not for the public.

Over-recovery in the fuel price Slate has enabled government to impose the initial 1c/*l* retail profit margin rise without increasing pump prices And the remaining 1,5c/*l* rise may be introduced the same way Ultimately, though, the 2,5c will be felt in the pocket Indeed, without it, there was an argument for reducing prices this month

One can ask why people should have to subsidise an inefficient industry. If margins are so tight, why are there so many new filling stations in areas already well catered for? Guaranteed profits are encouraging oil companies to pump millions of rand into an already overtraded market

The new margin increase was announced last week by Trade & Industry Minister Trevor Manuel He says the remaining 1,5c/*l* will be granted when "the opportunity arises" Given the weakness in the oil price, that could be as early as September.

Under the current arrangement, the petrol, diesel and illuminating paraffin prices are automatically adjusted monthly through a formula based on various factors including oil price and rand-dollar exchange rate Prices of diesel and illuminating paraffin have been reduced by 3c/*l* this month to adjust for over-recovery.

The manipulation of the petrol price to meet retailers' demands suggests a return to the days when every price move was calculated politically The change to a monthly adjustment was supposed to end that

Retailers say they have had no increase since a 0,5c/*l* rise in 1993 Relative to the weighted average retail petrol price at the coast during July, the retail margin (now 15,6c) represents about 8,8% of the price Taxes and levies (at around 80c) are 45,1% (see table) Mineral & Energy Affairs Minister Pik Botha says cost items for service stations have increased substantially, squeezing profit margins Notably, the latest wage settlement for forecourt employees is 13% But again the question must be asked: why support inefficient petrol stations? Garages that cannot be run without subsidies from motorists should close

A move towards a deregulated and more efficient liquid fuels market is overdue

Unions and petrol retailers say deregulation will jeopardise about 25 000 forecourt jobs — especially if self-service pumps are used Critics say this will also heighten the problem of forecourt security A more sensitive issue is that many marginally profitable filling stations in black hands might be squeezed out by deregulation Manuel, significantly, says that some filling stations will have to close without the increase

Cabinet also conceded an increase of 0,6c/*l* in fuel delivery costs from depots to service stations This is the so-called service differential, now 3,5c/*l* This item has not been adjusted for two years, while costs have increased and are being borne by the oil companies

The introduction of unleaded petrol will further complicate matters Government has decided to cut taxes on this fuel so that it can be sold at an initial discount of 4c/*l* to leaded petrol To make the refining of unleaded petrol profitable, it must capture 20% of the market within a year The discount could be lowered when it gets 15%-25%, says Manuel, and ended at 30%

Studies show more than 90% of SA's vehicles can operate on unleaded petrol About 65% will need no modification, 15% inexpensive ignition timing adjustments and 10% one tank of leaded petrol for every four or five tanks of unleaded Only 10% will have to carry on using leaded petrol More than 90% of minibus taxis will be able to use unleaded

The main reason for introducing unleaded petrol is not to relieve the environment but to help local motor manufacturers as 80% of the world's car technology is now based on the use of unleaded petrol If SA does not provide for unleaded petrol, future exports of cars and car parts will be harmed.

Unleaded petrol should be available by February 1996 But (expensive) catalytic exhaust converters need not be installed yet Government will establish a comprehensive environmental monitoring system to check pollution levels This should indicate when there will be a real need for converters.

DISSECTING THE PAIN

Composition of fuel price [illegible]

	Petrol 93 (cents)	Diesel (cents)	Illuminating paraffin (cents)
Basic fuel price	57,8	57,4	57,2
Wholesale margin	14,1	14,1	14,3
Service differential	3,5	3,5	10,5
Dealers margin	15,6	11,9	
Zone differential at the coast	0,2	0,1	
Equalisation fund levy	9,4	8,0	7,0
Fuel tax	62,9	55,4	
Customs & excise duty	4,0	4,0	
MMF levy[1]	9,0	5,8	
CRSF levy[2]	0,2	0,2	
Average unit over recovery	1,0	3,7	3,5
Weighted average retail price at the coast	177,7	164,0	
Weighted average wholesale price at the coast	[illegible]	[illegible]	92,4

1 MMF = Multilateral motor vehicle fund (ie third party insurance)
2 CRSF = Central road safety fund

SOURCE. CENTRAL ENERGY FUND

ENGEN (183) FM 11/8/95

Upstream listing plan

It's hard to fault the thinking behind Engen's plans to unbundle and separately list its oil exploration and production assets Upstream development, expensive and risky as the business may be, is an essential part of any true oil company The lack of a significant source of crude oil has been a hole in Engen's business

Its ambitions here have been hampered by exchange control regulations The potential to raise capital offshore, probably in London, must be the main motivation behind the proposed listing

The size of the new company, though, could be a drawback Engen is competing with the oil majors, most working in consortia, to secure an independent supply of oil. That is why the value to be placed on the new company is important At this stage, with so little information available on Engen's exploration and production interests, a valuation is difficult.

The company declines to place a value on its upsteam assets Some external valuations run around R315m The bulk would be its 8% stake in the North Sea Alba field, which supplies most of the 8 000 BPD it sources from its production interests

But any such valuation at this stage would not be particularly useful It would probably only include the tangible value of production assets — exploration assets are harder to value and absorb considerable funds

An analyst says he will not even try to value the new company until further information is released, probably in a prelisting statement Production profiles of individual oil fields need to be taken into account, including output, production costs and the expected life of the fields

Engen has said it plans to source about 30% of its throughput at the Durban refinery from upstream assets, that is about 33 000 BPD compared with the current 8 000 BPD On full stream the refinery produces 105 000 BPD, though the average is about 97 000 BPD

Engen declines to say how much capital it intends to raise through the listing Considering the company last year spent R30m on exploration and development — and that it plans to more than treble its supply of crude oil — the amount will be large, perhaps around R200m

The nature of the investment will probably be high-risk, comprising income-producing assets such as Alba but also the N'Kossa oil field which is still coming on stream and the nonyielding Bredasdorp Basin *Shaun Harris*

Overberg oilfields in the pipeline

(183) ARG 12/8/95

WILLEM STEENKAMP
Staff Reporter

SOEKOR is ready to press ahead with the development of nine small oilfields off the South Western Cape coast near Bredasdorp — promising a mini-boom for the area.

Soekor's board of directors have given the project the go-ahead

Their report has been forwarded to the Department of Mineral and Energy Affairs for approval.

Soekor hopes to get the green light from central government before the end of this year.

Once in full production, it is estimated that the oilfield will deliver upward of 20 000 barrels of high-quality crude oil a day

A spokesman for Soekor said it would cost about R250 million to develop the oilfield.

Weekend Argus broke the story about the discovery of South Africa's first viable oilfield last year with pictures of high-quality crude oil extracted from the E-BT oilfield in the Bredasdorp Basin. This field has nothing to do with Mossgas

Soekor has an 80 percent stake in the oilfield, while Engen is expected to take up a 20 percent share Oceaneering Production Systems, an American company, has been chosen to develop the oilfield after a bidding and evaluation process.

Although the field is seen as a marginal oil find in world terms, new technology has made the project a viable proposition

A floating platform facility will be used to tap into the oilfield and pump oil directly into waiting tankers Once the oil from one field has been depleted, the platform will be moved to another site

Production should start about seven months after the government has given its approval, a spokesman for Soekor said

The venture would be run to make a profit and would not cost the taxpayer a cent, he said

Oil would be sold on the open market and would save the country millions of rands in foreign exchange, he added

About 200 jobs — mostly for people living in the area — should be created, said the spokesman.

Union agrees to wage forums

THE 46 000-member Chemical Workers' Industrial Union (CWIU) on Saturday backed an agreement on the establishment of two bargaining forums for sectoral wage talks and social policy debates.

The target date for the bargaining forums to be operative was next April 1, with the sectoral agreements on wages and working conditions to be implemented from July 1 next year, the union said

The agreement was accepted in principle at a Conciliation Board meeting this week, and followed more than four years of negotiation. The CWIU said it would cover 65% of its members, as well as all major industry employers and multinationals.

(183) BD 14/8/95

The union executive warned mass action could be used to put pressure on any smaller employers who refused to accept the agreement

CWIU general secretary Muzi Buthelezi said minimum wages in the industry fluctuated between R1 000 and R1 400 a month.

"Sectoral bargaining provides the union with the opportunity of standardising and equalising wages as well as conditions of workers, away from the fragmented plant level process," he said.

Wage increases last year ranged from 8% to 12%. — Reuter.

Soekor's rig contracts go to French

(183)

FROM SAPA

CT (BR) 15/8/95

Soekor, the off-shore exploration arm of the Central Energy Fund, said yesterday it had awarded management contracts for its Actinia and Omega semi-submersible oil drilling platforms to Sedco Forex of Paris

The Actinia is contracted to British Petroleum and has been drilling for oil in the South China Sea for the past three years. For the past two years the rig has been in Vietnamese waters

During this time, the rig has been successfully marketed for more than 95 percent of its available time at market related rates.

Contractual Rate

While revenue earned from the rig is not available, the going contractual rate is between $30 000 and $35 000 a day.

The second rig, the Omega, is used by Soekor for exploration and appraisal drilling in the Bredasdorp basin.

Its facilities are contracted out from time to time and Sedco Forex will take over management of the Omega from October.

The rig will undergo a brief shipyard visit in South Africa before commencing work off the west coast of Africa.

Sedco Forex will take over management of the Actinia at a mutually agreed date dependent on its obligations in Southeast Asia.

Sedco Forex has offices in 25 countries around the world. The company owns and manages 70 rigs

Its headquarters are in Montrouge, Paris, and it has regional offices in Singapore, Caracas and Dubai

AECI may lower Soda Ash stake

(183) BD 15/8/95

Mungo Soggot

AECI, Anglo American's chemical business, was likely to cut its stake in the resurrected Soda Ash Botswana in a deal which would allow the original shareholders to bag its assets at a substantial discount, sources said yesterday.

It appeared AECI would reduce its exposure to the operation in the new company to be formed, they said. AECI had opted for a smaller stake than its original 26%, while the other original shareholders — De Beers (12,5%), Anglo American (12,5%) and the Botswana government (48%) — would also reshuffle their shares in the company.

AECI, which provided R305m for Soda Ash's losses in last year's accounts, is expected to continue managing the plant.

Soda Ash Botswana was provisionally liquidated in June, since when it has emerged the original shareholders are going to buy it back.

An AECI spokesman said only he hoped there would be an announcement made this week.

A source said finalising the bid had been delayed by protracted negotiations with Soda Ash's creditors and with the Botswana electricity utility and Spoornet, which serviced Soda Ash.

The high costs of these services, which

Continued on Page 2

Soda Ash

(183) BD 15/8/95

Continued from Page 1

had been linked to Botswana's inflation rate, had been one of the problems which had forced the former shareholders to put the operation up for liquidation. The shareholders had also blamed their decision on a slump in soda ash prices.

One analyst said the high fixed costs of the original operation meant it was cheaper to import soda ash from the US.

A source said the negotiations had probably given Anglo American the chance to make these costs less harsh and generally to make the company more competitive.

Soda Ash's creditors, led by First National Bank, have not commented since it became clear last month that the original shareholders were going to buy it back off the chopping block.

Soekor rig contracts go to French

(183) Star 15/8/95

■ FROM SAPA

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Sedco Forex has offices in 25 countries around the world

DISAGREEMENT OVER VALUATION OF INVESTMENT

Mossgas hinders audit

(183) CT 16/8/95

THE AUDITOR-GENERAL has declined to give an opinion on the balance sheet and income statement of the Central Energy Fund because of uncertainties over Mossgas.

THE auditor-general has declined to give the Central Energy Fund (CEF) an unqualified audit opinion because of its investment in Mossgas

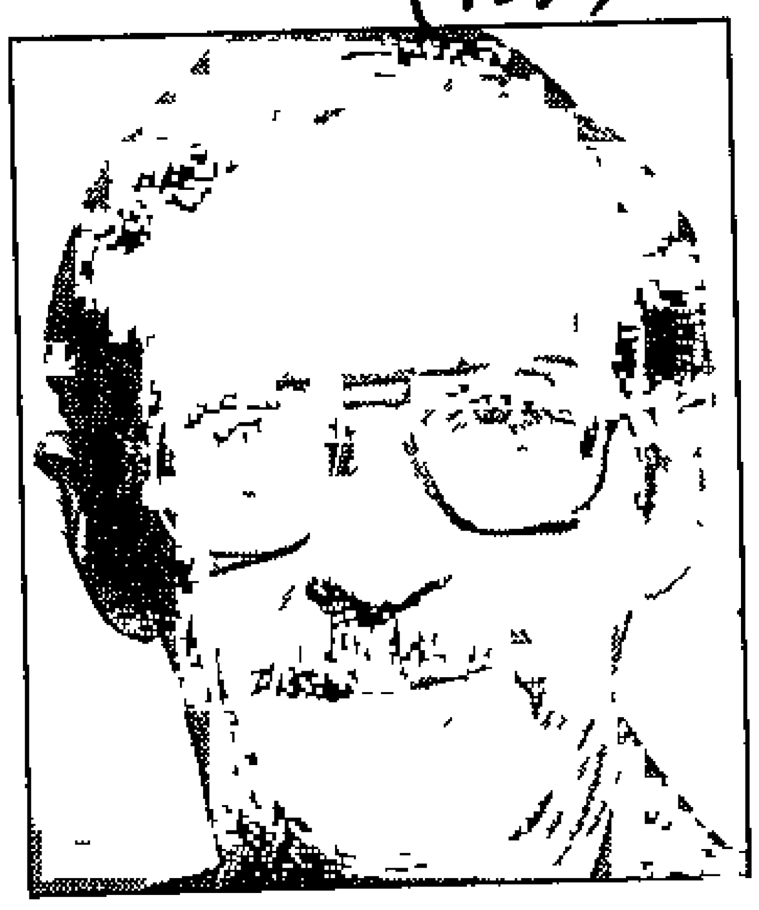
In a report tabled in Parliament, Mr Henri Kluever said he could not agree with the directors of the CEF on how they had calculated the value of its investment in Mossgas

The CEF has a 70% stake in Mossgas, with Engen holding the balance Negotiations are still under way for Engen to withdraw its investment

The CEF has placed the value of its investment in Mossgas at R8,9 billion

Mr Kluever said the valuation should be based on the expected cash flow that the CEF will receive from Mossgas, but the CEF directors in their report said the valuation depended on several uncertain factors such as the oil price, the exchange rate and the gas field reserves

Mr Kluever said "The inherent uncertainties surrounding the variables underlying the value of the investment, are in my opinion, too significant to be able to express an opinion on the balance sheet and the income statement, especially since this investment constitutes the larger part of the capital structure of the CEF"



AUDITOR: Mr Henri Kluever

Dealing with Mossgas itself, Mr Kluever said it was classified as a mine and followed the generally accepted accounting policy of the mining industry

"The directors are of the opinion that, in terms of this policy, Mossgas is in fact able to continue as a going concern and that the financial statements are therefore reasonable"

While he concurred with the opinion of the directors it did not affect his concern about the inherent uncertainty at which the Mossgas investment was carried in the CEF books and the possible inability of Mossgas to meet its total commitments to the CEF

● Synthetic fuel producer Sasol was paid more than R3,3 billion in subsidies over the 10 years to March 1994.

The subsidies were defined as "import protection" and have been at the centre of the disputes with the other fuel refiners and marketers in South Africa — Political Staff

(3) whether such aid is being granted by means of a refundable loan, if not, what is the position in this regard, if so, what are the relevant details?

S318E

The MINISTER OF TRANSPORT (for the Minister without Portfolio)

(1) Yes an agreement was signed with Mr Gareth Evans, the Australian Foreign Minister to (a) strengthen democratic development and to foster social and economic equality in the RSA This agreement is aiming to co-operate in a Programme of development co-operation to meet the following objectives

— assist the Government of the RSA (in areas identified by South Africa's Reconstruction and Development Programme) in its satisfaction of the basic needs of its people,

— assist in human resource development capacity building and institutional strengthening,

— contribute to the democratisation of the State and society, and

— develop long-term links between Australian and South African institutions

(b) Focus will be placed on the following kinds of development

— Public sector strengthening in, for example, health administration and management, telecommunications, statistical collection and analysis, education, housing policy, water management, mining and international finance management,

— the media,

— constitutional reform and local government,

— economic policy and planning,

— primary health care,

— water and sanitation,

— basic education (including adult literacy),

— agriculture,

— micro-enterprise development,

— sports,

— low-cost housing, and

— the trade union movement

(2) No, it is not a refundable loan but a grant

(3) The funds are being granted mainly for technical support The Australian Government will, subject to annual Parliamentary approval of appropriations, make available for the purposes of the Programme thirty million Australian dollars (A$30 million) during the period 1 July to 30 June 1997)

Legislation/laws on land affairs iro Ingonyama Trust assigned to Province of KwaZulu-Natal

*2 Sen Dr R RABINOWITZ asked the Minister of Land Affairs

(1) Whether (a) any land affairs legislation and/or (b) laws pertaining to the Ingonyama Trust have been assigned to the Province of KwaZulu-Natal, if not, why not, if so, what are the relevant details,

(2) whether he will make a statement on the matter?

S320E

The DEPUTY MINISTER OF LAND AFFAIRS

(1) (a) The following laws of South Africa dealing with land affairs have been assigned to the Province of KwaZulu-Natal—

— Land Regulations, 1969 (Proclamation No R188 of 1969)

— Regulations concerning Land Tenure in Towns, 1988 (Proclamation No R29 of 1988)

— Regulations for the Disposal of State Land in Towns, 1988 (Government Notice No R402 of 1988)

— Land use and Planning Regulations, 1990 (Government Notice No R1888 of 1990)

— Commonage Act, (Natal), 1904 (Act No 35 of 1904)

— Regulations relating to Township Establishment and Land Use, 1986 (Government Notice No R1897 of 12 September 1986)

(b) No The Ingonyama Trust Act, 1994 (Act No 3 of 1994) has not been assigned to the Province of KwaZulu-Natal The Cabinet decision on 15 June 1994 regarding the Ingonyama Trust Act reads as follows

Cabinet resolved that the Act should be amended or substituted in order to assure that—

(a) the Ingonyama will continue as the guardian of tribal occupied land The Act should describe the functions and powers of the Trustee and among other matters address issues dealing with alienation of land and resolution of tribal border disputes,

(b) the Act govern all tribal-owned land falling within the former territory of KwaZulu, subject to the existing rights of occupants of that land,

(c) the Act provide for the land to be dealt with in accordance with a set of agreed principles, and

(d) the legislation create a structure for managing the land which is sufficiently broadly-based to ensure that any unwarranted interference by any person or body, or manipulation of the land would not be possible This should be done to allay any fears of possible illicit interference or manipulation

Cabinet also resolved that—

(a) legislation to give effect to this decision should be the subject of consultation between the national government and the provincial government, and

(b) all parties should agree and undertake not to take any action which might pre-empt the implementation of this decision

My Department has already done preparatory work in this regard My intention is to have discussions with the Province in the near future on how to give effect to the Cabinet decision

(2) No, it should not be necessary to make a statement A statement was made at the the time of the Cabinet decision, and this reply should provide sufficient clarity on the matter

Premiers of provinces to formulate own budgets

*3 Sen Dr R RABINOWITZ asked the Minister of Finance

(1) Whether the premiers of provinces may formulate their own budgets, if not, why not, if so,

(2) whether they may distribute financial resources as they deem necessary, if not, why not, if so, what are the relevant details?

S321E

The MINISTER OF FINANCE

(1) Yes

(2) Yes In terms of section 125 of the Constitution a provincial legislature has the power to make laws for the province which, *inter alia*, include appropriation Acts It should also be noted that appropriation Acts are essential for provinces in order to be able to utilise revenue in provincial revenue funds (that is own revenue together with the transfer payments from the National Revenue Account) Provinces are therefore, within this legal framework, autonomous to distribute financial resources according to their specific priorities

Introduction of lead-free petrol in Republic

*4 Sen E K MOORCROFT asked the Minister of Mineral and Energy Affairs

(1) Whether his Department intends introducing lead-free petrol in the Republic, if not, why not, if so, when,

(2) whether such petrol will be sold at a premium price, if so, what are the relevant details, if not,

(3) whether such petrol will be sold at a price competitive to that of standard grades of

(183)

petrol, if not, why not, if so, what are the relevant details,

(4) whether any obstacles are being envisaged in regard to the introduction of lead-free petrol, if so, what obstacles?

S322E

The DEPUTY MINISTER OF LAND AFFAIRS (for the Minister of Mineral and Energy Affairs)

(1) Following the Cabinet's confirmation, on Wednesday, 3 August 1995, of the introduction of unleaded petrol, it is expected that unleaded petrol will become available in South Africa by February 1996

(2) and (3) On 3 August 1995, Cabinet approved a price-and-tax plan for the introduction of unleaded petrol The plan provides for the initial price of unleaded petrol to be 4 cents per litre cheaper than the present leaded petrol If the plan is accepted, the lower price will be achieved by levying a lower tax on unleaded petrol so that the price differential will not involve the subsidisation of unleaded petrol by leaded petrol users

The introduction of unleaded petrol at a marginally lower price follows the practice of other countries In order to render the refining of unleaded petrol economically viable, it needs to capture at least 20% of petrol sales within the first year of introduction It is estimated that the 4 cents per litre difference on the price of unleaded petrol will achieve this

(4) More than 90% of the current South African vehicle population can operate on unleaded petrol 65% of vehicles require no modification at all, 15% require minor and therefore inexpensive ignition timing adjustment, and 10% require one tank of leaded petrol for every four to five tanks of unleaded petrol used Only 10% of vehicles will not be able to use unleaded petrol and will have to continue using leaded petrol

A survey by the National Association of Automobile Manufacturers of South Africa found that no specific ownership group will be materially prejudiced by the introduction of unleaded petrol Such vehicles as will still require leaded petrol are mostly of the high-performance type more likely to be owned by upper and upper-middle income groups The survey also showed that over 90% of minibus-taxis will be able to use unleaded petrol Most minibus-taxi operators, and through them the 52% of commuters whom they transport, will therefore benefit from the introduction of the lower-priced unleaded petrol

Unleaded petrol is not being introduced into South Africa primarily for ecological reasons although it is a first step in the process to render motor vehicle emissions more environment-friendly The main reason for its introduction is to benefit from the advantage of economies of scale and contemporary technological development, since 80% of the world's current motor vehicle technology is based on unleaded petrol

On 3 August 1995, Cabinet also considered the use of catalytic converters for motor vehicles in South Africa Preliminary investigations show that environmental considerations do not yet require the use of catalytic converters here It was decided that no compulsory use of catalytic converters would be required upon the introduction of unleaded petrol

A comprehensive environmental monitoring system is being established to determine pollution levels and will indicate when the use of catalytic converters may become necessary

As can be seen from the above, no significant obstacles are expected in connection with the introduction of unleaded petrol

Land Reform Bill: agricultural unions consulted

*5 Sen E K MOORCROFT asked the Minister of Land Affairs

Whether at any time during the preparation of the Land Reform (Labour Tenants) Bill of 1995, he consulted with any agricultural unions, if not, why not, if so, which unions?

S323E

The DEPUTY MINISTER OF LAND AFFAIRS

Yes

The Land Reform (Labour Tenants) Bill, 1995, is the result of various discussions between myself and interested role-players involved with this issue I have met, on a number of occasions, with representatives of landowners and labour tenants

Earlier this year, I stated publicly that I had appointed a task team to investigate the issue and to draft legislation which would serve as a basis for further discussion The result of that work was the Land Reform (Labour Tenants) Bill, which was approved by Cabinet and published on 2 June 1995 in the *Gazette* for general comment In order to give ample opportunity for general comment and discussion, a period of six weeks was allowed

Discussions have already been held with representatives of the Transvaal Agricultural Union at a public meeting in Pietersburg, as well as with the President of the Natal Agricultural Union

At a two-day workshop with interested parties during July, a number of experts, representatives of organised agriculture, the financial sector, organised labour and the government household got together in an effort to assist with the finalisation of the Bill Following these deliberations, representatives of both the organised agriculture and the labour tenants met with our legal adviser to affect amendments as agreed to

This, in my opinion, was a transparent and consultative process to deal with the Bill

New questions

Persons convicted of economic crimes released on parole

*6 Sen J SELFE asked the Minister of Correctional Services

(1) Whether any persons convicted of economic crimes have been released on parole since 1 January 1995, if so, (a) how many and (b) what crimes were they convicted of,

(2) whether any of these persons had not yet served any part of their sentences, if so, how many?

S343E

The MINISTER OF CORRECTIONAL SERVICES

(1) Yes (a) and (b) Information in this regard is not readily available and can only be obtained through a time-consuming, expensive and manpower-intensive country-wide survey

(2) No

*7 Sen W F MNISI—Education [Question standing over]

Persons resigned from service of Division of Sea Fisheries

*8 Sen M G E WILEY asked the Minister of Environmental Affairs and Tourism †

(1) Whether any persons resigned from the service of the Division of Sea Fisheries recently, if so, (a) what are the names of these person, (b) what rank did each of these persons hold, (c) which of these persons (i) retired due to reaching retirement age and (ii) accepted a retirement package and (d) what reasons were furnished for these retirements in each case,

(2) whether their retirement will have an adverse effect on the functioning of the Division of Sea Fisheries, if so, what steps does he envisage in this regard?

S345E

The MINISTER OF FINANCE (for the Minister of Environmental Affairs and Tourism)

(1) Yes, nine persons left the service of the Chief Directorate Sea Fisheries during the period from 1 January 1995 to 31 July 1995

(a) and (b) They are
Mr J J Frans—Temporary Ship's Cook
Mr J N Long—Chief Navigation Officer
Mrs E Samuels—Cleaner I
Dr L V Shanon—Director
Mr C Pengilly—Assistant Director Administration
Mr E H le Roux—Assistant Director Financial Management
Capt J D Richardson—Chief Marine Superintendent
Dr L Botha—Chief Director
Mr L E Olivier—Deputy Director Administration

(c) (i) Messrs J J Frans and J N Long retired due to reaching the retirement age

Black gold: New oil company set to open

ARG 18/8/95 (183)

□ Afric Oil 'gives boost to economic empowerment'

Business Staff

IN what has been described as an effort to boost black economic empowerment and ownership in the oil industry, a joint venture to be known as Afric Oil will be launched in Gauteng next week

Partners in the venture are Worldwide African Investment Holdings, an investment company which focuses on establishing black-owned and controlled business in the retail sector, with 51 percent shareholding, Bongani Motor Holdings, which has promoted similar ventures in the motor industry, with 29 percent, and Caltex Oil (SA) and First Corp Bank with 10 percent

Caltex will initially transfer 50 existing service stations to the new company, including both franchised and non-franchised sites

They will be converted to new Afric Oil branding early next month Initial marketing will be in the Johannesburg area, with a view to going national

Africa Oil's contribution to the reconstruction and development programme will include the recruitment and appointment of black staff such as sales managers, retail engineers, representatives and merchandisers

Afric Oil will also facilitate the movement of black executives to senior management positions Caltex will serve the sites with product, and assist with advice until new staff take over

Lease, loan arrangements and administrative matters will be finalised once transfer takes place

Afric Oil managing director Bheki Shongwe said the company's marketing activities would not be confined to the retail sector

"Afric Oil intends operating in the agricultural and industrial areas with a view to possibly expanding into exports as well We also hope to grow our customer base through more truck stops," he said

Caltex chairman and managing director Mike Rademeyer said the company was delighted at being able to provide a meaningful, tangible contribution to black economic empowerment

COMPANIES

Black-owned fuel company formed

Mungo Soggot (183) BD 18/8/96

AFRIC OIL, the new company to be set up by Caltex Oil SA and others, would establish a network of black-owned fuel retailers in Gauteng in a bid to "boost black economic empowerment and ownership in the oil industry", Caltex said yesterday

Caltex Oil and First Corp Bank would each have 10% in the new venture, Bongani Motor Holdings 29% and Worldwide African Investment Holdings 51%.

Caltex spokesman Terry O'Donovan said Bongani Motor Holdings was controlled by Transnet fleet transport arm, Viamax.

He said the details of the deal had not been wrapped up, so he could not say how much the company would be worth.

Caltex would transfer 50 existing service stations — both franchised and non-franchised sites — to the new company The stations, which would all be in Gauteng, would be converted to the Afric Oil logo early next month.

O'Donovan said the stations represented about 12% of Caltex's volume sales in the region. Caltex would provide the sites with fuel and assist with advice until new staff took over.

Afric Oil MD Bheki Shongwe said it would not only operate in the retail sector, but also in agricultural and industrial areas. It hoped to set up more truck stops.

The company would appoint black staff such as sales managers, and "facilitate the movement of black executives to senior management positions".

Yesterday's announcement follows Sasol's announcement on Tuesday that it was close to establishing links with a black business group it could not yet name.

CHEMICAL COMPANIES

Back from a four-year slump

Internal restructuring and better world prices have helped profits recover

(183) FM 18/8/95

A sharp international chemical price rally last year after a four-year trough — aided by stronger demand from the firming SA economy — supports recent sound earnings growth by major chemical companies

Better performances from listed players like AECI, its subsidiary Chemical Services (Chemserve) and Sentrachem were not unexpected Share prices appreciated strongly in 1994, in a range from about 44% (Chemserve) to 68% (Sentrachem), as investors anticipated the upturn in the chemical cycle

Share prices have been flat this year, but that probably has more to do with the lacklustre stock market than prospects for the companies All are expected to grow EPS by well over 30%

Job

Last week's 77% increase in interim EPS from AECI — and new listing Polifin's 58,5% advance for the year — underscore prospects P e ratios are relatively undemanding, there could still be good value

Adding sex appeal are July's two big new listings Polifin, heavyweight child of Sasol and AECI, and Hoechst SA, 75%-held offspring of German multinational Hoechst

Together, they added close to R5bn to the sector's market capitalisation of about R7,1bn, excluding oil company Engen (market cap R3,7bn) and Sasol (R18,6bn), which produces fuels and mines coal as well as petrochemicals

Sasol remains a major producer and exporter and dominates many markets At its June 1994 year-end the chemical division contributed 26% of group sales of R12,4bn and 17% of operating profit of R2,5bn, both figures well up on the previous year

The increasing contribution from chemicals reflects Sasol's heavy capital programme — R6,63bn in the past five years — much on projects to make high-value petrochemicals for local and export sale

The home-grown giant's chemical activities, particularly the low cost of many important feedstocks for petrochemicals from its coal-to-oil conversion process, have been a big factor behind the remarkable performance of Sasol's share since early in 1994

Yet it is hard to isolate the effect of the chemical division from other activities More than one analyst argues the chemical activities are undervalued because of continuing controversy around Sasol's "tariff protection" and that the share, R32,25 this week, has value up to R40 or more

That may have been an unstated reason for the listing of Polifin, which combines Sasol's upstream ethylene and propylene feedstocks with AECI's PVC-producing Coalplex and other downstream facilities

The single most important factor influencing chemical companies is world prices Generally it's believed prices will be sustained, or draw back only slightly, over the next year Beyond that the picture gets more complicated

The recent spate of strong results has been supported by chemical prices which in some cases have more than doubled

For one, low density polyethylene, a major polymer produced by Polifin, has climbed from below US$600/t in January 1994 to about $1 200

Monomer prices, particularly ethylene, have pulled back, but observers believe this is only a technical correction

Much depends on demand patterns which emerge in the next two months after the northern hemisphere summer holidays There is consensus, though, that chemical producers should enjoy at least another full year of high prices

That does not necessarily mean it'll be an easy ride While the world cycle holds its trend local producers are faced with a gradual reduction of tariff protection under Gatt agreements It's a complicated process based on a system of reference prices, but basically protection will decline over a five-year period Effectively, producers now enjoy an 11% *ad valorem* duty

But there are developments within SA companies which change the complexion of the sector, not least the large amounts of capital committed to expansion and increased efficiency Some of these could help the main players ride out the next downturn

Smith

AECI has undergone possibly the most radical structural change This helped transform the explosives, fibre, fertiliser and polymer group, and aided its recovery from the 1989-1993 earnings trough Polifin, AECI's largest earner, will underpin profits for the next few years

The second big change is the realignment of the explosives business with UK parent Imperial Chemical Industries (ICI) ICI swapped its 42% of AECI for half the explosives subsidiary This unlocked potential benefits, relieving AECI's explosives division from its strong reliance on SA gold mining, which may have gone ex-growth, and bringing access to ICI's world markets.

AECI is also growing foreign business in two other key areas fibres and amino acids

A R250m plant near Durban has been commissioned, which AECI MD Mike Smith says will make AECI a serious player in the world lysine market (an amino acid used for animal feeds) "About 80% of production will be exported Initial capacity is 12 000 t, but this could be more than doubled within a few years"

AECI has problems, notably a 26,5% stake in Soda Ash Botswana (SAB) Negotiations around the future of the project, provisionally liquidated last month, continue and an announcement is expected soon

Vigorous entry into world markets reflects capital spending of R481m in financial 1994 and an expected R500m+ this year, the bulk of it export-orientated Gearing — 56% at the interim — is high, but should fall as earlier spending translates into operational cash flow

AECI may also realise about R1bn, at current prices, from selling its 50% of private company Afex Holdings, an anomaly flowing from its historic relationship with ICI by which AECI holds 25% of itself

AECI is essentially a cyclical group and should benefit from the upcycle for at least another year but profits should be more sustainable as capital spending starts to pay off Entry into world markets will cushion declining tariff protection

Chemserve has proved an excellent investment, particularly since 1992 when it recovered from the slump in the cycle ahead of the larger groups Earnings growth has been consistent and continues to improve Interim EPS were up 47% Chemserve used the bottom of the cycle for an aggressive acquisition spree, spending R53m on five companies This was part of a longer-term strategy to realign towards the high volume chemical agency and distribution business

Continued on page 31

Continued from page 26

The company consistently makes earnings forecasts which it comfortably beats At the interim MD Lex van Vught revised the forecast upwards to an increase of 30,4% Chemserve is not afraid of gearing up to make acquisitions Strong operational cash flow usually reduces debt quickly

The problem with Chemserve is the limited tradeability of the share AECI holds 66%; institutions have much of the rest This is one factor that has kept the price more or less static this year Long-term potential, though, makes Chemserve a share worth acquiring when possible

Sentrachem has shown a remarkable realignment and repositioning of its business interests from earlier days, when it relied heavily on tariff protection and, in some cases, subsidisation The synthetic rubber venture tarred its image for years Unlike AECI, these changes have been internally motivated by management as the focus shifted from internal import replacement to outward looking world competitiveness

Under MD John Job Sentrachem redefined its product portfolio, getting back to core businesses and moving from dependence on commodities to higher value-added, or fine chemicals

Results were seen in consistent EPS growth and a lowering of debt, which improved the investment profile Share price appreciation has been strong, from a low of close to R5 in 1992 to R14,25 now, making Sentrachem one of the most highly rated shares in the sector

The recently announced R800m buy of US-based Hampshire Chemical — more than the R750m capex committed largely to value-added and export based expansion over the next three years — was a long-awaited move offshore

Sentrachem's history made it particularly vulnerable to lower tariffs, but Job says the reduction was anticipated and, helped by the firm international price cycle, most target rates have already been achieved

The Hampshire acquisition fits in with Sentrachem's strategy in several ways Apart from strengthening the move into value-added chemicals, it offers access to new products and technology, increases Sentrachem's geographic spread (it now has five manufacturing plants in the US and one in the UK), and offers potential to produce more chemicals by combining SA-based technology with Hampshire's facilities

One effect will be to push up offshore gearing Financing details have to be finalised, but it could raise gearing to around 50% Job points out attitudes towards gearing in chemical companies differ abroad "Hampshire is operating in a US-dollar environment and can raise capital from banks at lower interest rates than in SA"

He won't speculate on when borrowings will be retired, but notes the traditional strong cash flow of chemical companies grows significantly at the top of the cycle

Sentrachem still has a large exposure to commodities, mainly through jointly held Safripol (with Hoechst SA), which is enjoying the full benefit of high polymer prices About a third of the capex budget is for expanding commodity products This is the cyclical part of the investment

Recent and planned capital spending (about three-quarters directed at growing exports) should move Sentrachem into more predictable and sustainable markets With a strong balance sheet and the Hampshire acquisition, Sentrachem should be in a far better position to weather the next downturn in the chemical cycle

Newcomers Polifin and Hoechst did not have particularly auspicious listings, though market conditions (equities down about 5% over the past year) were unhelpful But they add much weight to the sector

Polifin's first trading price was R8,25, in line with expectations The share has since drifted to R7,65, though forecast-beating results last week suggest considerable value at this level, possibly up to around R10

Investors have the strong commodity chemicals price cycle to look forward to in the shorter term They should also have a saving expected to be around R150m a year when the PVC conversion comes on stream early next year CE Pieter Cox says the Midlands project is ahead of schedule

Earnings prospects are enhanced by the integration of AECI's and Sasol's facilities and lend longer-term value to the share

Hoechst, on the other hand, was listed at a demanding 545c, and at 540c is highest-rated share in the sector It has a consistent record and there must be value in the links with Hoechst AG

With just over half profits drawn from polymers, mainly Safripol, there is a strong element of cyclicality Management argues otherwise, saying the health-care component (about 29% of operating income of R25m through subsidiaries Noristan and Hoechst AG-Vet) should reduce dependence on the chemical cycle and outperform competitors during a downturn

The claim, however, is open to question Pharmaceuticals in SA were consistent performers earlier this decade but fragmentation of the health-care market and the lack of clarity on future government health policy casts doubt over the industry

Hoechst's spread covers ethical and generic pharmaceuticals, pharmaceutical chemicals, consumer and animal products Links with international research and development could be valuable, but may have been overstated

That does not deny the short-term value in the share, despite perhaps coming on to the market too high Hoechst's forecast of 20% EPS growth is probably conservative, and the R197m raised at listing will accelerate projects already under way

As a sector, chemicals, oils and plastics is now offering more value than most In the second half of last year it strongly outperformed the JSE Industrial index — this year it has tracked the industrial market, though the continuing high chemical price cycle offers value for p e ratios between 11-13,5

Many of the companies, thanks to capital spending and strategic moves into world markets, should be able to extend earnings growth beyond the cycle

Shaun Harris

CATCHING THE UPSWING

Profit history of main chemical companies

	1990	1991	1992	1993	1994	1995
AECI (Dec 31)						
Turnover (Rm)	5 031	5 280	5 545	5 968	5 547	
Pre-tax profit (Rm)	369	243	241	347	304	
Attributable (Rm)	238	187	164	206	287	
Earnings (c)	154	121	106	133	186	
Dividends (c)	87	58	58	58	68	
Chemserve (Dec 31)						
Turnover (Rm)	446	478	438	602	742	
Pre-tax (Rm)	45,3	49,8	40,5	52,5	62,8	
Attributable (Rm)	22,8	26,7	19,8	25,6	32,7	
Earnings (c)	367	430	319	402	506	
Dividends (c)	120	140	140	155	176	
Hoechst (Dec 31)						
Turnover (Rm)	843	920	1 095	1 213	1 513	
Pre-tax (Rm)	27,7	35,9	41,4	39,1	40,2	
Attributable (Rm)	20,7	26,6	30,1	28,4	45,8	
Earnings (c)†	12	19	18	20	33	
Dividends (c)†	4,0	6,4	6,0	6,8	10,9	
Polifin† (Jun 25)						
Turnover (Rm)	n/a	n/a	2 362	2 443	2 380	2 994
Pre-tax (Rm)	n/a	n/a	288	305	324	582
Attributable (Rm)	n/a	n/a	160	228	223	354
Earnings (c)	n/a	n/a	29	42	41	65
Sentrachem (Aug 31)						
Turnover (Rm)	2 991‡	2 275	2 433	2 623	2 795	
Pre-tax (Rm)	195‡	108	145	148	193	
Attributable (Rm)	110‡	62	72	87	120	
Earnings (c)	95‡	54	62	75	91	
Dividends (c)	36,5‡	18	20	24	28	

† Pro forma ‡ 17 months

(183)

Sign or we strike – union

STAR 18/8/95

■ BY JUSTICE MALALA
LABOUR REPORTER

A total of 46 000 chemical workers may go on strike if a group of companies do not sign an agreement which commits them to participation in centralised bargaining forums for the industry from next year.

Chemical Workers' Industrial Union centralised bargaining co-ordinator John Appolis said the union, which had been fighting for the establishment of centralised bargaining structures for years, had given employers until Monday to sign the agreement.

"We have reached agreement with 210 out of about 400 companies in the chemical industry on the establishment of centralised bargaining forums," he said.

"These companies, which employ about 65% of our members, still have not signed the agreement, and if they have not done this by Monday we will ballot our members for strike action."

(183)

Huge spinoffs from oil deal

ARG 16/8/95

CLIVE SAWYER
Political Correspondent

SOUTH Africa's oil-storage deal with Iran will generate R50 million profit annually, boost jobs and could triple this country's share of world oil trade

There could be a windfall for taxpayers if the government used its new access to Iranian oil to reduce its strategic fuel reserves

The sale of fuel reserves in the past has proved a huge boost to socio-economic spending

And, a tripartite oil trade agreement between South Africa, Iran and the Russian Federation is in the offing

These are among the controversial deal's spinoffs, which the government believes will offset negative reaction by the United States

The deal, which will see Iran being allowed to store 15 million barrels at Saldanha, was within a week of being signed, said Mineral and Energy Affairs Minister Pik Botha yesterday

Mr Botha will address parliament today on the economic and diplomatic implications of the deal

South African Foreign Minister Alfred Nzo, who yesterday signed an agreement with his Iranian counterpart, Ali Akbar Velayati, setting up a commission to boost ties between the two countries, said there was a sound basis for the expansion of mutually beneficial relations.

General manager of the Strategic Fuel Fund (SSF) Kobus van Zyl was bullish about prospects for expansion of South Africa's oil trade

The deal meant a huge boost to the bargaining chips of the SFF, he said

This was a far cry from its apartheid-era role of securing fuel for a regime blockaded by sanctions

It would enable expansion into the South American market, where Iran did not have a presence at present.

The oil stored in Saldanha could serve as collateral for deals in commodities other than liquid fuels

Mr Van Zyl said the oil could allow South Africa to decrease its own strategic fuel stock, thus easing the burden on the treasury

A lessening of the cost of maintaining fuel reserves, estimated at present to be about R1 billion a year, could open the way to easing taxes

Mossgas stumps Kluever

Tim Cohen BD 16/8/95 (183)

CAPE TOWN — Auditor-general Henri Kluever has said he is unable to express an unqualified audit opinion on Mossgas's 1993/94 financial statements because of the number of variables involved in assessing the value of the company.

The valuation of the investment in Mossgas depended on uncertain factors such as the oil price, the exchange rate, the gas field reserves and the regulatory environment, Kluever said in a report tabled in Parliament yesterday.

The cumulative nominal cash flow from the operation of the Mossgas project was estimated at R8,933bn, based on the best information available when the financial statements were finalised.

Sapa reports the Unemployment Insurance Fund had paid out benefits of R16,1m "in error" by the end of 1993, according to the auditor-general's report. The total at the end of the previous year had been only R13,5m. During the 1993/94 financial year payments amounting to R29,4m, involving 39 564 cases, had been disallowed, while R21,6m had been recovered. A further R3m in wrongly paid benefits was written off.

Sasol sets new export target

Sasol Mining said yesterday it would export 3-million tons of coal a year through its Twistdraai coal export project

Speaking at a briefing, Sasol's coal division general director Johan de Vos said the project would begin with exports of 0,96-million tons in 1997, building up to 3-million tons in 1999

The total project value was estimated at R635-million and would include a beneficiation plant, the purchase of a 5,2% stake in the Richards Bay coal terminal, and capacity extensions at the Twistdraai mine

Twistdraai Colliery's capacity would be increased from 4,5-million tons to 8,5-million tons a year

De Vos said Sasol had finalised an agreement with Shell South Africa to purchase 5,2% of Shell's stake in the Richard's Bay terminal.

Sasol Coal presently produces 41-million tons for its Sasol fuels and petrochemical factories

De Vos said by the year 2000, the demand for Sasol coal was expected to increase to 50-million tons

The export project would create 400 new jobs and earn US100-million dollars a year in foreign exchange, he said – Sapa

(183) STAR 16/8/95

Black business on verge of Sasol deal

CT (BR) 17/8/95 (183)

By Thabo Leshilo and Andy Duffy

Talks with black business aimed at creating a black-owned oil company were at an advanced stage, Sasol said yesterday

The announcement came one hour before Nedlac announced it had linked Sasol's continued subsidies to black empowerment

The synthetic oil producer said it had struck an "exclusivity agreement" with a "specific black business group" to discuss establishing a black-controlled oil company

Sasol would not disclose names, but it is understood to have courted Thebe Investments and black taxi organisations New Africa Investments chairman Nthato Motlana sits on the Sasol board

The statement was swiftly followed by Nedlac's announcement that continued state support to Sasol — worth R1 billion last year — was justified

But Nedlac's Liquid Fuels Industry Task Force, meeting in Johannesburg yesterday, said the handout hinged on Sasol developing downstream industries, empowering disadvantaged communities and committing itself to a national strategy for the petroleum and petrochemical industries

Sasol's statement comes just days before Caltex South Africa is to detail its plans to create a black-owned oil company with Wiseman Nkuhlu's Worldwide Africa Investment group

Sasol refused to further detail its plans, but said initial discussions were encouraging

"The aim is to discuss the most practical way in which a viable black-controlled oil company can be established," the company said

"Sasol has been given the assurance that the black business group has consulted widely with black businessmen presently involved in the petroleum industry"

The company announced in parliament in March it was considering creating a black-owned company It has also been recently attempting to lobby parliamentary sources about the plans Nedlac's statement follows weeks of wrangling over a report on Sasol's subsidies compiled by auditors Arthur Andersen.

Other oil producers have already walked out of the taskforce because of support for the report, which said the subsidies should continue to 1999

Jayendra Naidoo, Nedlac's executive director, said the task force also said Cabinet must decide urgently on Sasol's subsidies

It agreed there should be a phase-out period to allow Sasol time to restructure "with the understanding that the protection will be finite and with due regard to macro-economic constraints".

The Arthur Andersen report should be used as a basis for the determination of the level, mechanism and duration of the protection

The meeting's findings would be tabled for the trade and industry chamber next week. The government is due to put forward a discussion document on September 22

SA Druggists buys Britain's Lagap

(183) CT (MR) 17/8/95

By Charlotte Mathews

Investment Editor

SA Druggists, which is 75 percent held by Malbak, acquired Lagap Pharmaceuticals, one of Britain's largest remaining independent generics companies, for an undisclosed sum, it said yesterday.

Peter Beningfield, SA Druggists' chief executive officer, said the value of the deal was more than R50 million and would be "earnings positive" for the group

Lagap, which has about 100 dossiers, or formulas for generic medicines, was acquired through Trinity Pharmaceuticals, SA Druggists' British division The acquisition had enabled Trinity to achieve critical mass quickly, Beningfield said

"It now has a strong flow of high-quality products in an enlarged pipeline, a wealth of operational and marketing expertise, and many exciting opportunities for further expansion"

More opportunities would arise from the manufacture of products for Lagap and other markets as well as the entry into new export markets Trinity was already engaged in discussions with several European companies who were interested in forming strategic alliances

BD 17/8/95 (183)

SA Druggists acquires British generics company

Beatrix Payne

PHARMACEUTICAL manufacturer SA Druggists had bought UK-based generics company Lagap Pharmaceuticals for more than R50m, SAD CE Peter Beningfield said yesterday.

The acquisition would be financed by an issue of shares and cash raised through parent company Malbak's global depository receipt programme

The move would extend the group's presence in the UK where it traded as Trinity Pharmaceuticals and would give impetus to the group's plans to expand into Europe

According to Beningfield, "Lagap is one of the UK market leaders with an impressive product portfolio as well as a broad, well-established base"

The deal — effective from August 1 — would give the group export opportunities through Lagap's dossier of about 100 UK registered products. "This is a quantum step for us as UK-registered products are generally more acceptable internationally than SA-registered ones It increases the number of products we can export."

Trinity was already engaged in discussions with a number of European companies interested in forming alliances.

"The alliance will give the group a major presence in the UK's generic sector, and have a reasonably positive effect on earnings from financial 1996"

Oil companies scramble for black ties

Mungo Soggot (183)(85)

OIL companies are scrambling onto the black empowerment bandwagon, with Sasol hinting at its plans days before Caltex is due to announce the formation of a new oil company. BD 17/8/95

Sasol announced yesterday it was close to establishing links with a black business group which it could not name. The announcement coincided with a decision by the tripartite liquid fuels task force that the continuation of Sasol's tariff protection be linked to, among others, empowerment of disadvantaged communities.

The synthetic fuel producer said it was negotiating with a specific black business group. "The intention is to include as shareholders of any new oil company, as broad a spectrum as possible of black individuals, organisations or groups.... Sasol has been given the assurance that the black business group has consulted widely with black businessmen involved in the petroleum industry."

Sasol said the group's identity could not be disclosed as the deal had not been finalised. It could not confirm speculation that it was a company called Powerlib, run by a consortium of influential businessmen keen to get into the local oil industry.

One industry source said it appeared Sasol was trying to steal the thunder from Caltex SA, which is due to announce the formation of a company called Africoil, whose stakeholders are believed to be Caltex SA, Worldwide African Investment Holdings, Bongani Motor Holdings and Transnet. The company is to start operating next month. A source said it would not be that substantial and would be a "vehicle for black empowerment".

Sasol denied it was trying to steal the limelight. Communications manager Alfonso Niemand said it had decided to issue a statement because it had been talking to

Continued on Page 2

Oil companies (183)(85)

Continued from Page 1 BD 17/8/95

black business groups since the start of the year and had reached a stage where "certain substantial issues" were agreed upon.

Meanwhile, Nedlac's liquid fuel task force decided yesterday Sasol's tariff protection was justified and accepted the findings of the Arthur Andersen report into its tariff protection. It decided protection for Sasol should depend on empowerment of the disadvantaged and development of downstream industries. It said Sasol's tariff protection should be phased out gradually to give Sasol time to adjust and called on government to address this urgently.

The task force included labour, government, taxi industry and fuel retailer representatives, but no SA petroleum industry association (Sapia) representatives. Sapia walked out of it last month in protest against the report. A government spokesman said although government accepted the report, it would not necessarily implement its recommended five-year phase out programme for Sasol's tariff protection.

Industry sources said there were signs that government was increasingly keen to make progress on untangling the vested interests and highly regulated nature of the industry, and play a more active role in changing the industry. This would coincide with a revamping of the task force, widely seen as directionless.

Black fuel retailers in Sasol talks

ET 18/8/95 (183)

BY THABO LESHILO

STAFF WRITER

The National Black Fuel Retailers' Association has been identified as the group with which Sasol is discussing the establishment of a black-owned oil company

The group of 400 filling-station owners was founded in 1993 by Moses Molele, who owned fuel stations in Alexandra and Gallo Manor The group draws most of its members from Gauteng and Natal

Sasol yesterday welcomed the consensus reached by the National Economic Development and Labour Council's Liquid Fuels Industry Task Force

On Wednesday, the task force linked continued state support for Sasol — worth R1 billion last year — to black empowerment

"Sasol believes that it can make a significant contribution to the development of a national strategy for the petroleum and petrochemical industry and the empowerment of disadvantaged communities," the company said in a statement

In another development, Caltex South Africa announced the ownership structure of the new oil company it had formed with Wiseman Nkuhlu's Worldwide African Investment Holdings and Bongani Motor Holdings' Afric Oil

The Worldwide African Investment group would hold 51 percent of the shares, Bongani Motors 29 percent and Caltex Oil and First Corp Bank 10 percent each

Caltex boost for black stake in oil

(183)

Star 18/8/95

In an effort to boost black economic empowerment and ownership in the oil industry, a joint venture to be known as Afric Oil is to be launched in Gauteng next week

Partners in the venture are Worldwide African Investment Holdings, an investment company which focuses on establishing black-owned and controlled business in the retail sector with 51% shareholding, Bongani Motor Holdings, which has promoted similar ventures in the motor industry with 29%, and Caltex Oil (SA) and First Corp Bank with 10%

Caltex will initially transfer 50 existing service stations to the new company, including both franchised and non-franchised sites They will be converted to new Afric Oil branding early next month Initial marketing will be in the Johannesburg area, with a view to going national.

Africa Oil's contribution to the RDP will include the recruitment and appointment of black staff such as sales managers, retail engineers, representatives and merchandisers Afic Oil will also facilitate the movement of black executives to senior management positions Caltex will serve the sites with product and assist with advice until new staff take over

Lease, loan, arrangements and administrative matters will be finalised once transfer takes place

Commenting on the initiative, Afric Oil MD Bheki Shongwe said the companies marketing activities would not be confined to the retail sector "Afric Oil intends operating in the agricultural and industrial areas with a view to possibly expanding into exports as well. We also hope to grow our customer base through more truck stops," he said

Caltex Chairman and MD Mike Rademeyer said the company was delighted at being able to provide a meaningful, tangible contribution to black economic empowerment

Black fuel retailers in Sasol talks

Star 18/8/95 (183)

■ BY THABO LESHILO

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Blacks in oil market

Sowetan 18/8/95 (183)

By Mzimkulu Malunga

A BLACK retail group is holding talks with Sasol on the establishment of a black-controlled oil company

Negotiations with Sasol are currently being led by members of the executive committee of the National Black Fuel Retailers Association

The negotiators are said to be the organisation's national president Mr Jeff Hlabangane and the national organiser Mr Moses Moloele

Two days ago, Sasol announced that it was on the verge of finalising a deal with a black business group which would lead to the establishment of a black-controlled oil company

It declined, however, to give the names of those involved in the negotiations, saying details would be released in the "next couple of days"

Contrary to earlier speculation, a *Sowetan* investigation found that most of the people involved in the deal are fuel retailers who are not necessarily well known

Sowetan was unable to speak to the two main men involved in the negotiations as one was in a meeting and the other was overseas

In a separate deal, Caltex Oil is expected to announce on Tuesday that it is entering into a joint venture with black owned Bongani Motor Oils led by Professor Wiseman Nkuhlu

(183) FM 18/8/95

OIL INDUSTRY

Shaky platform

A proposal to form a mixed State/private-sector company to control Sasol, Mossgas and Engen could hardly be more misguided. The proposed holding company — to be called Sanoco (SA National Oil Company) — would also control Soekor and the Strategic Oil Fund.

What is wrong with this idea in the context of a free-market economy and policies designed to attract overseas investment? Practically everything. It would involve the State more closely in the oil industry at a time when it should be withdrawing It would confer unjustifiable benefits on Sasol, Engen and their shareholders simply because they are SA-controlled

Merging Sasol's synthetic fuel interests into Sanoco would further aggravate the already difficult task of rationalising the excessive levels of State assistance for synthetic fuel output. Another risk is that it would delay, perhaps indefinitely, the painful task of writing off the State's R11bn investment in Mossgas. Mossgas could continue limping along at a loss, consuming national resources

Whatever solutions are eventually found for the phasing out of State assistance to Sasol, sound competition policy seems to dictate that the company making synthetic fuels should not extend its interests in petrol retailing. Rather, it might be better to require Sasol to divest itself of its existing oil refining and retailing interests as the price for continued State assistance

Overseas companies contemplating substantial direct investments in SA (and not only in the oil industry) would have every reason to object to such a trend in industrial policy. ■

SUMMER'S ALMOST HERE: G

Unleaded fuel from February

By ESTHER WAUGH (183)

Unleaded petrol will be available in South Africa from February, and will cost 4c a litre less than leaded petrol

In terms of a price-and-tax plan for unleaded petrol, approved this month by the Cabinet, it was decided that the "initial price" for unleaded petrol would be 4c cheaper.

Minister of Mineral and Energy Affairs Pik Botha told the senate the lower price would be achieved by levying a lower tax on unleaded petrol so that the price differential would not involve subsidisation

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♦Unleaded petrol

(183)

Star 19/8/95

"In order to render the refining of unleaded petrol economically viable, it needs to capture at least 20% of petrol sales within the first year of introduction.

"It is estimated that the four cents per litre difference on the price of unleaded petrol will achieve this," he said in reply to a question by Democratic Party Senator Errol Moorcroft.

Botha also said that more than 90% of South African vehicles would be able to operate on unleaded petrol About 65% required no modification, 15% would need minor and inexpensive ignition timing adjustments and about 10% required a tank of leaded petrol for every four to five tanks of unleaded petrol used.

The minister said only 10% of vehicles would not be able to use unleaded petrol.

Total eyes Sasol's portion of Natref

ST(BT) 20/8/95 (183)

By CIARAN RYAN

FUEL company Total is claiming a pre-emptive right to acquire Sasol's 63,64% share of the giant Natref crude oil refinery, after Sasol transferred its shares from Sasol Mining to Sasol Oil

Total, which owns the balance of the Natref shares, claims this transfer constitutes a transaction between one legal entity and another, triggering a pre-emptive right which allows it to acquire Sasol's shares in the refinery

Sasol claims that the transfer of Natref shares to Sasol Oil — a transfer which was subsequently reversed — was part of a group restructuring

Sasol issued a notice to shareholders on Friday disputing Total's contention that "the inter-group transfer of Natref shares as part of the process of restructuring entitled Total to any exercisable right of pre-emption"

In terms of a shareholders' agreement, Total believes it has first option to acquire Sasol's shares

The dispute will be arbitrated by the International Court of Arbitration of the International Chamber of Commerce The question to be decided is whether the transfer of shares to Sasol Oil constitutes a sale or an internal restructuring

Oil industry sources believe Sasol was preparing for a merger with Engen which would combine the crude and synthetic fuel refineries of both companies, as well as Sasol's chemical interests, Mossgas, and Engen's retail network

"It is clear that Sasol's interests in the Natref refinery formed part of a plan to create a giant fuel consortium which would have the power to wipe out competitors," says an industry source

"We see this as an attempt by Sasol to gobble up oil competitors in much the same way it did in the chemicals industry Pre-emptive rights must be taken seriously It has been impossible for multinational oil companies to expand into the SA market for a long time and these pre-emptive agreements tend to be forgotten," he says

Should Total win its case at the Arbitration Court, it could retard Sasol's merger plans and pave the way for a realignment of multinational oil interests

Total says it cannot comment as the matter is confidential and due to be heard by the court

In its notice to shareholders Sasol says the group needed reorganisation

Refinery skirmish halts Sasol-Engen merger talks

BY ANDY DUFFY
STAFF WRITER

Sasol and Engen's merger plans have been derailed by the latest skirmish in Sasol's battle with Total SA for control of Natref, the R3 billion oil refinery

Engen said at the weekend that long-running talks with Sasol were halted earlier this month after Total SA took the ownership dispute to arbitration

The merger would bring together Sasol's stake in the Sasolburg-based Natref refinery with Engen's retail outlets

Sasol had already reshuffled its oil assets, including the 63,64 percent Natref stake, in preparation for the merger

But Sasol said on Friday that Total SA had applied to arbitrators for the right to buy the stake, claiming the reshuffling had triggered a pre-emptive rights clause

Sasol said it had opposed the application and proceedings were unlikely to go ahead before early next year It had also reversed the Natref reshuffling

"Our talks with Sasol have discontinued as a result of this action," said an Engen spokesman

"We cannot do a deal until that matter is resolved We are waiting for the dust to settle"

Engen would not oppose, in principle, a deal in which Total SA was brought into the merger, said the spokesman

Sasol and Total SA both refused to comment officially beyond Friday's statement

Natref is the only inland crude oil refinery in South Africa, producing about 90 000 barrels a day

Last year it was the main contributor to Sasol Oil, which produced an operating profit of R515,8 million for the year to June last year — 21 percent of the group's total

Sasol had shifted Natref from its mining to the oil division in June last year — a move which Total SA claimed had triggered its pre-emptive rights

Total SA went to the International Court of Arbitration of the International Chamber of Commerce on July 18

Sasol said it had now shifted the Natref stake back into Sasol Mining, but said it "disputed the contention that the inter-group transfer of Natref shares entitled Total to any exercisable right of option"

Analysts said Total SA could be hoping to squeeze Sasol to pay a high price to buy out Total's Natref stake prior to the Engen merger

They said Total SA might also be attempting to force a place at the merger table But Total SA sources said its French parent had made clear it was prepared to pump cash into South Africa to buy out Sasol if its application succeeded.

(183) CT (BR) 21/8/95

Iscor and SA Druggists fail growth fund's test

(183)

By Charlotte Mathews
Investment Editor

CT (ML) 21/8/95

Iscor and SA Druggists have failed to meet the social criteria of the unit trust The Community Growth Fund on the grounds of their labour practices, according to a fund report for the first half of this year

The Community Growth Fund's investment portfolio is run by Syfrets Managed Assets but its decisions to invest in particular shares are vetted by Unity, a committee including trade union representatives.

"Reports of poor labour practices in northern KwaZulu Natal were the main reason for the decision to reject Iscor," the report said

Still, Unity had said it believed that its concerns with Iscor could be resolved "positively"

Bargaining

SA Druggists, a Malbak subsidiary, had been criticised for insisting on plant-level bargaining, which had resulted in mixed labour standards and a poor relationship with union members.

Members of the Chemical Workers' Industrial Union at one of SA Druggists' plants in Cape Town, who recently marched in favour of centralised bargaining, had been immediately dismissed, the report said They had later been reinstated, but had received a written warning.

Unity had added food group ICS to the list of acceptable investments since its major advances in industrial relations. Only a couple of years ago, there had been numerous strikes at ICS.

The committee had given high ratings to Umgeni Water, the report said, for its successful implementation of rural water schemes and affirmative action programmes, and to Future Bank for its training and affirmative action policies.

Adcock Ingram and Premier Group had been well rated for worker participation and Palaborwa Mining commended for its safety standards and industrial relations.

Unleaded fuel by February '96

(183)

TYRONE SEALE, Political Staff

SOUTH African motorists will be able to tank up with unleaded petrol from February 1996 — with the new fuel initially selling at four cents a litre cheaper than the present leaded variety.

Unleaded fuel will not only provide cleaner exhaust emissions but will also keep South Africa's seven major vehicle manufacturers more competitive in a market where 80 percent of the world's motor vehicle technology is based on unleaded petrol

BD 21/8/95

Details were released in the senate yesterday in a reply by Mineral and Energy Affairs Minister Pik Botha to Democratic Party senator Errol Moorcroft Mr Botha was represented in the chamber by Deputy Minister of Land Affairs Anthon Meyer, who said the cabinet had approved a price-and-tax plan that provided for the cheaper price of unleaded fuel

The lower price would be achieved by levying a lower tax on unleaded petrol so the price differential would not involve the subsidisation of unleaded petrol by leaded petrol users

Idling the engine does not propel the car

CT (ML) 22/8/95 (183)

CANDIDLY CAMERON

Its difficult to tell the good guys from the bad guys and they keep changing side

By Bruce Cameron

Some years back when the long-gone United Party was in the first stages of self-destruction, the then leader of the party, Sir de Villiers Graaff, was asked why he did not intervene between the scrapping left and right wings of his party

His response was that he thought it was best to treat the adversaries in the same way as he treated a dog fight They would sort themselves out and there was hardly likely to be permanent damage

In the first year of government it appears that ministers in the government of national unity have been tempted by the same philosophy

One of the more high profile of these scraps was the row over the labour relations bill, which seemed set to continue ad infinitum. Eventually Labour Minister Tito Mboweni took the combatants aside and showed them the way

But the labour dispute is small fry There is a scrap in progress of far greater dimensions and far more complicated It is the row about the fuel industry

To most it is about Pick 'n Pay's Raymond Ackerman, standing at the petrol pump with bowser nozzles at hand like a gun fighter, wanting to drop the bad guys who don't want to let him discount petrol

The problem is telling the bad guys from the goods guys — and they keep changing sides depending on the latest squabble

For example when government threatened to halt discounted sales by Ackerman, Engen backed it up

It is surprising that the Ackermans (with the backing of Premier and Bonnita) have not retaliated with a court action to stop Engen selling milk and bread — based on the argument that check-out till operator jobs are being threatened

On the mystifying, in-bond landed-cost formula for setting the price of petrol and with its more-or-less guaranteed profit margins, government and the petrol marketing companies have tended to stand firm. But since last year, the petrol companies have agreed to a deregulated market with the proviso that Sasol loses its subsidies On that topic the government and Sasol seem more or less happy

Taxpayers may be interested to know that between 1979 and now they have shelled out close to R5 billion to Sasol It does not really matter when politicians promised a synthetic fuel plant near PW Botha's old constituency at George for R4,8 billion — and the final price came to more than R11 billion (and that is quite a few houses)

Arrangement

But this subsidy (sorry, tariff protection) received by Sasol is not the end of the story Sasol and Transnet have a nice little arrangement going that costs taxpayers another R250 million a year

Added into Sasol's pricing structure is the cost of pumping petroleum up from the coast. If the pipeline system was fully utilised it is estimated this would cost about 3c a litre The pipeline system is not fully utilised so, hey presto, in this land of monopolies and oligopolies the price is set at 10c a litre

Let s hope Trevor Manuel sets his anti-competitive behaviour sights on the government s quite substantial stable of companies

But no one should be surprised by Transnet — it has achieved the remarkable feat of running a company (PX freight services) which has had losses greater than turnover for a couple of years

Everyone it seems is fed up with Pik Botha, the mineral and energy minister, because they say he has not done enough to clear up the confusion bedevilling the industry

There is one area, I think, where everyone is united — the whole mess was caused by apartheid

While on the issue of Sasol, it may like to explain to the public if and why it recently almost upset the entire pricing structure by cutting a deal that would have left competitors and others in the industry beached like penguins in an oil spill

There are apparently two formulas — an Eastern formula and a cheaper Western formula South Africa s pricing works on the Western formula

Sasol has apparently done a deal with the Kuwaitis on a fifty-fifty basis on both formulas, apparently leaving the Iranians, who supply most of our oil a bit peeved

Opponents

Another interesting aspect is people in the industry even in its most secret places, are now occasionally prepared to talk to the media and in some cases seek them out, though often limiting their remarks to off-the-record conversations in which they grease the slopes for their opponents

The petrol companies that is, all except Sasol walked out of talks in the Liquid Fuels Task Group of Nedlac some months ago because they did not like the report of consultants Arthur Andersen with its support for continued subsidies The companies in the form of the South African Petrol Industry Association also did not like the weighting of the membership which left them well out-voted.

The Liquid Fuels Task Force has been continuing its work, sometimes with decisions being made in those quiet times after lunch when not everyone is there Last week, some agreement was reached by the task group and a statement was duly issued, without any great surprises effectively backing the disputed Arthur Andersen report

But agreement on the fuel industry without the petrol companies is about as useful as the lengthy investigations and framing of the new constitution without the Inkatha Freedom Party

The point of this potted commentary is that in fact it all now means very little Pik is fed up The government was going to govern, he said in an interview

He said his own department's task group, in co-operation with the department of trade and industry was about to complete a policy document on the industry and he has submitted a broad outline to the Cabinet, which was in the process of being fine-tuned before being released for public comment.

Botha s intention is to take all the views — including his own, and other reports — to the Cabinet and reach a point-by-point approval "that will let us move forward with a new system.

"It is impossible to please everyone Everyone will have to take the pain the oil companies Sasol and the retailers,' he said

☐ Cynics in the industry believe Sasol is now attempting to find black owners as another method of protecting their subsidies. Pik Botha denied this, he suggested some time ago to Sasol that they should do this in the interests of the country

SA Druggists to expand into health care

CT(BR) 23/8/95 (183)

By Charlotte Mathews

Investment Editor

SA Druggists, the pharmaceutical and medical group in the Malbak stable, is setting up a new subsidiary called Healthcare Management Services (HMS) to house its expansion into health care, its chief executive, Peter Beningfield, said yesterday

HMS will hold SA Druggists' controlling interest in Mediscor and 75 percent of Medicross — which includes Malbak's 50 percent interest and 25 percent acquired from the other shareholders The company will be headed by Tommy Edmond, who is at present chairman of Medicross and a director of SA Druggists

Beningfield said HMS would develop over the next three to four years but was likely to become a major contributor to SA Druggists' earnings by the end of that period

The initial investment was likely to be about R400 million, which would include equipping 26 additional Medicross clinics

HMS' two main operating subsidiaries are already well established Mediscor annually processes about four million pharmaceutical scripts — submitted by pharmacies on behalf of medical aid members — with a value of about R600 million

Its services include developing formularies, that is, lists of approved patent and off-patent generic drugs, to help medical aids keep costs down

Medicross has 20 medical centres around the country treating about 56 000 patients a month, and another 26 centres are being planned Each centre is fully equipped to cater for routine medical needs and all services are charged at rates agreed with participating medical aids

The main thrust in the future, will be in developing these centres in lower income and rural areas

Although HMS' first priority would be to develop these two businesses further, it was also actively investigating a number of new ventures and acquisitions in delivery systems and medical services

Edmond said there was a pressing need to restructure South Africa's present health care system and to develop a more cost-effective delivery mechanism As medical costs continued to rise, patients were increasingly unable to fund medical expenses and employers were resisting high medical aid contributions

From SA Druggists' point of view, HMS would provide it with an enlarged and secure customer base, improved access to consumers, better information about market conditions and opportunities to meet patient requirements with new products

PUTTING OUT FIRES *Bhekisisa Shongwe, the managing director of Afric Oil, at the company's launch*

PHOTO: OTHLALEF MAHLABE

Enrichment accusations cloud Afric Oil's launch

By Thabo Leshilo

Staff Writer

Accusations of enrichment hung like a dark cloud over the launch in Johannesburg yesterday of Afric Oil, the country's first black-controlled oil company

The allegation by the National Black Fuel Retailers Association (Nabfra), coincided with a breakfast function celebrating the launch of the joint venture by Caltex, Worldwide African Investment Holdings (WAIH), chaired by Wiseman Nkuhlu, and Bongani Motor Holdings

Moses Molele, Nabfra's national organiser, said black Caltex dealers had been ignored when forming Afric Oil

"Nabfra sees the deal as big business once more empowering a few black elites and leaving out the disadvantaged dealers who have produced profit for Caltex throughout the years," Molele said

The dealers, under the auspices of the Caltex Black Dealers Committee, have threatened to frustrate Caltex's plans to transfer 100 of its existing franchised and non-franchised outlets in Gauteng to Afric Oil

Carlo Maccelari, Caltex's director for customer service, denied the allegations at the launch, saying the new partnership was "nothing but a commercial venture"

Maccelari said 50 sites had already been identified for conversion into Afric Oil towards the end of September Initial marketing would be in the Johannesburg area

The cost of converting and branding the 100 outlets was estimated at about R15 million

Nkuhlu, chairman of WAIH, said his consortium felt that it was important to initially have a few entrepreneurs, who were prepared to raise the necessary capital, and to drive the process of establishing Afric Oil

WAIH owns 51 percent of the new company and Bongani Motors, a subsidiary of Transnet, 29 percent. Caltex and Firstcorp Merchant Bank, which financed the deal, hold 10 percent each

ET (BR) 23/8/95 (183)

SA Druggists is to expand into health

(183) Star 23/8/95

■ BY CHARLOTTE MATHEWS

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Rumblings over new oil merger

(183) Sowetan 24/8/95

By Isaac Moledi

Black fuel retailers demand participation in the new Afric Oil deal

THE JOINT VENTURE oil deal between Caltex and a black consortium which was formally signed this week got off to a controversial start as Caltex's black fuel retailers threatened to derail it

Afric Oil, a joint venture oil company which was launched on Tuesday in Johannesburg to encourage and promote black participation in the petroleum industry, could encounter serious obstacles if no agreement is reached with black retailers who own Caltex's filling stations

Afric Oil shareholders are Worldwide African Investment Holdings, a black-owned investment company chaired by Professor Wiseman Nkuhlu, Transnet subsidiary Bongani Motor Holdings, Caltex Oil South Africa and First Corp Merchant Bank – which financed the deal

Caltex's black fuel retailers in the townships this week reiterated their earlier threat not to cooperate with Caltex and the new company unless an agreement is reached to resolve their differences with the company

Caltex Black Dealers Committee said it is extremely unhappy with the deal despite an agreement with the company that its members will be considered when Caltex embarks on its black empowerment programme.

The group's representative, Themba Xaba, said not a single black fuel retailer was invited to take part in the deal.

Declare deal invalid

"We are meeting the Caltex management on August 31 where we will put our proposals on the table

"If our proposals are not accepted, then we will have no other alternative but to declare the whole deal invalid," said Xaba.

He added that his committee would try not to go to the extreme as they were in the position to mobilise other members of the National Black Fuel Retailers Association, an umbrella body of all black fuel retailers in the country.

"A lot has been said about enriching the elite few blacks at the expense of the majority Why would Caltex add further injury to an insult?" Xaba asked

However, Caltex said the joint venture deal – which will result in blacks having the majority control in Afric Oil – was a "pure commercial venture".

Caltex customer service director Mr Carlo Maccelari said although he was aware of the dissatisfaction prevailing among some members of Caltex fuel retailers, his company opted for the parties in the deal after they presented a business plan which corresponded with what Caltex was looking for

"Because we have completed putting all the pieces together, our mission is to try and encourage other stakeholders to take part in the deal within the new group," Maccelari said

He said he was optimistic that an agreement satisfactory to all parties would be reached

The agreement was that Caltex would transfer 100 of its existing service stations owned by both black and white fuel retailers in Gauteng to the new company

Maccelari said 50 sites had already been identified and the process to convert the existing service stations to new Afric Oil branding would start towards the end of next month.

Bheki Shongwe, Afric Oil's managing director.

Afric Oil's new managing director Mr Bheki Shongwe said his company's contribution to the RDP would include the recruitment and appointment of black staff such as sales managers, retail engineers, representatives and merchandisers

Afric Oil would also facilitate the movement of black executives to senior management positions

Caltex would service the sites with fuel and assist with advice until new staff took over

Lease, loan arrangements and administrative matters will be finalised once transfer takes place

Commenting on the initiative, Professor Nkuhlu said while Afric Oil's initial activities would be concentrated on the wholesaling of petroleum products in South Africa and the neighbouring countries, their ultimate goal was to pursue oil refining opportunities in the short and medium term

PETROCHEMICAL INDUSTRY

Will the Taiwanese bite?

(183) FM 25/8/95

Could giant Taiwanese chemical firms commit themselves to joint ventures with SA companies, either on a greenfields basis or perhaps to rescue Mossgas, the industry's basket case?

A study of all prospective SA petrochemical projects by chemical project analyst Terry le Roux (in London-based Chem Systems' *Review of Investment Opportunities in Petrochemicals*) should focus industry minds on the most attractive possibilities — all in the multibillion-rand category The comprehensive study was commissioned by Taiwan at a cost of R500 000

It must not be forgotten that Mossgas remains an expensive embarrassment to semi-State corporations such as the Industrial Development Corp (IDC) So SA should be especially careful in evaluating proposals for tax concessions or — still worse — spending more public money in a vain effort to validate the R11bn wasted on this white elephant However, if the private sector — local or Taiwanese — could put the Mossgas plant to profitable use, no-one should stand in its way

Le Roux's study contains many valid suggestions It describes the potential for large joint investment projects based on using existing and potential synergies If one or more could be brought to fruition, the local manufacture of intermediate chemical feedstocks to supply Taiwan's petrochemical giants could help make SA a global player

Central Energy Fund (CEF) technical deputy GM Howard Roberts says the Department of Trade & Industry (DTI) and its Taiwanese counterpart, plus the CEF, the IDC, research organisations and representatives from the petrochemical industries in both countries took part in the study

Last week, a local advisory board, representing most top public- and private-sector stakeholders in SA's petrochemical industry, met in Johannesburg to receive the report Private bodies included the SA Plastics Federation, the SA Petroleum Industry Association, the Chemical & Allied Industries' Association, Sasol, Polifin, AECI and Sentrachem The DTI, CEF and the IDC were also represented

Roberts suggests government should consider creating tax and other investment incentives, apart from following sound fiscal policies The goals should be

- ❑ To make SA a manufacturer of internationally competitive feedstocks (ethylene, propylene and aromatics) for local fabricators,
- ❑ Create a "chain" of petrochemical producers, from feedstocks to final products,
- ❑ Provide a research and development technology base for the industry, possibly with the help of the CSIR,
- ❑ Create a global marketing system, similar to the Japanese trading house concept, and
- ❑ Make available a "good supply" of local skills to man the expanding feedstock and fabricating industries

In SA, the petrochemical industry represents about 5% of GDP — against 30% in Taiwan Favouring more local development is, arguably, SA's geographic location relative to the markets of Europe, North America and the Far East Other positive factors include, notably, cheap power and a good infrastructural base, as well as some specific, coal-based feedstocks

However, an inhibiting factor is SA's lack of a catalytic cracker, which denies access to aromatic feedstocks for the fast-growing polyester fabrics sector So many of the projects are intended to give SA a base in aromatic chemicals This is sound in principle, provided the plants become feasible without public assistance ■

JOINT VENTURE PROJECT OPTIONS

Chem Systems' July 1995 study points out numerous potential joint venture projects between SA and the Republic of China (Taiwan).

❑ Revamping the Mossgas gas-based synthetic fuel plant to operate on a condensate feedstock The product stream would be redirected to produce less fuel Instead, it would be tailored to produce substantial quantities of the important feedstock, naphtha, to feed a 500 000 t a year ethylene plant

Another possibility would be to convert Mossgas into a crude oil-based refinery, taking Arabian heavy crude Naphtha production would be maximised by including a hydrocracker, with the naphtha feeding a world-scale aromatics plant as well as ethylene

Yet another option for Mossgas is to convert the plant to make methanol

❑ AECI proposes the construction of a greenfields, world-scale, naphtha cracker at Richards Bay, based initially on imported naphtha;

❑ Sasol proposes six options of producing olefin derivatives, from its streams Sasol also proposes a world scale, coal-based 900 000 t a year methanol plant to use the existing synthetic intermediate stream at Secunda, and

❑ The Taiwanese Tuntex corporation suggests a world scale, greenfields aromatics plant, to be based on a new Durban crude oil refinery and involving the co-operation of operating refiners

Move may slash medicine costs

CT 25/8/95 (183)

MEDICINE prices could drop by as much as 60% if the law is changed to make provision for generic substitution, Health Minister Dr Nkosazana Zuma told Parliament yesterday

"Generic substitution is a definite possibility and it is likely to be legislated," she told the Senate.

Appeal puts Iranian oil storage deal in balance

JOHN YELD (183)
Environment Reporter ARG 29/8/95

ENVIRONMENT Minister Dawie de Villiers may delay the signing of a controversial deal with Iran to store oil at Saldanha Bay after an appeal by the Steyn Board of Inquiry.

The agreement with Iran is due to be signed this week.

And in another development, board chairman Mr Justice Jan Steyn told the inquiry today that positive statements by Iscor and Saldanha Steel executives and advertisements for staff for the proposed 4,7 billion steel plants at Saldanha Bay were "pure speculation" and did not reflect any preliminary view of the Steyn inquiry.

Today the Steyn board of inquiry met Dr De Villiers, asking him to take no irreversible decision leading to increased oil tanker traffic in the Saldanha Bay area before he had studied the results of impact assessments and a risk analysis now being done

Mr Justice Steyn said after the meeting that Dr De Villiers had indicated he shared the board's concerns and "will urgently consider giving the assurance sought by us".

The Steyn Inquiry was appointed by Dr De Villiers to investigate the proposed R4,7 billion steel plant at Saldanha Bay.

The inquiry's request to Dr De Villiers comes on the eve of the signing of a contract between South Africa and the Iranian government which will see oil tanker traffic in Saldanha Bay increase from an average of 25 tankers a year to about 75.

In terms of the oil deal, the spare storage capacity at the Strategic Fuel Funds oil storage tanks at Saldanha Bay will be used to store Iranian oil and this will be traded out of Saldanha on the international market.

The Steyn inquiry is hearing final arguments this week.

Before the start of today's proceedings at a Woodstock hotel, chairman Jan Steyn read out a statement following the board's meeting with Dr De Villiers.

The board sought an assurance from Dr De Villiers that no irreversible decision would be taken which would lead to any

(To page 4)

Oil deal in balance

(183)
(From page 1)
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increase in oil related activcities in Saldanha Bay without Dr De Villiers exercising appropriate powers in terms of the Environment Conservation Act to control oil related activities in the region.

They asked Dr De Villiers not to take a decision without taking "such steps as would give effect to recommendations emanating from studies as he deems appropriate."

● Mr Steyn said the board's attention had been drawn to weekend statements by Iscor managing director Hans Smith and Saldanha Steel executive chairman Bernard Smith regarding the board's possible findings.

The board had also been referred to certain advertisements for staff to be employed at the proposed mill.

The advertisement read: "We are involved in the development of a steel factory in Saldanha; we have resolved the critical issues such as the impact on the environment, water usage, etc. and are concentrating on the positive aspects such as providing social upliftment and job opportunities for the local populace."

Mr Steyn said it was self evident that these statements were "pure specualtion" and were in no way to be seen as reflecting any preliminary view of the board.

"Indeed, we have not even begun to consider the voluminous testimony before us and we have most certainly not come to any conclusions"

Referring to the advertisement for staff, Mr Steyn said the efforts and expense of this initiative was clearly done at the risk of the developer

"We wish to give all concerned the assurance that the board will in no way be influenced either by the statements or the advertisements concerned in the advice it gives to the Minister of Environmental Affairs."

Mr Steyn told journalists he could not give any indication when the board would make its final recommendation.

Levies on private cars suggested

(183)

30/8/95

JOHANNESBURG — The government is considering rebates on fuel costs for bus and taxi operators and levies on private cars to make transport more affordable to low-income communities.

According to a Green Paper released by the Department of Mineral and Energy Affairs to launch a discussion on future policy options, the R2,4 billion now being spent on transport subsidies were of questionable help to poor commuters. Lower fuel taxes would help the rich as much as the poor, lead to an increase of already over-burdened roads and make it necessary to increase taxes in other areas to generate funds. — Special Correspondent

NEW

Hoechst SA lifts earnings to R21,4m

(183)

CT (BR) 30/8/95

BY ANDY DUFFY

STAFF WRITER

Hoechst SA, the German-owned chemical company which listed on the JSE last month, lifted attributable earnings 36 percent to R21,4 million for the six months to June.

The company pinned the rise on strong trading conditions and said it had lifted its year-end income forecast 5 percent to R60,5 million — a 26 percent pro forma gain on the year to December last year.

But Hoechst said growth in its mainstay polymer and derivatives business was tapering off, while its healthcare business faced tough market conditions.

Sharp increases in volumes and prices for its polymer and chemicals divisions helped lift sales 27 percent to R883,3 million, while operating profit surged 60,5 percent to R39,3 million.

Finance costs up 93 percent at R23,4 million left pre-tax income 31,5 percent higher at R18,3 million, but Hoechst dipped into deferred tax to keep its tax bill at R4,7 million from R4,5 million last year.

Higher input from associates left share earnings ahead 36 percent at 15,3c. There was no interim dividend — in line with the company's prospectus statement — but the full year dividend would be about 7c, against the 6,6c forecast in the prospectus.

Richard Traub, the managing director, said the healthcare business would be responsible for future earnings growth, as the polymer division's engine slowed.

The healthcare division faced pressure on margins and uncertain government policy but would reply with a stream of new drugs from the second half.

The chemicals division was expected to continue its strong performance for the rest of the year, spurred by strong speciality and commodity product demand.

Traub said the R69,7 million raised through the JSE listing would cut Hoechst's gearing from more than 70 percent to just under 40 percent. Net borrowings stood at R157,3 million at the end of June

Traub was also relinquishing his position at the company.

He had been appointed executive chairman and would become non-executive chairman from next year when he would move to Germany to head the parent company's polyolefin unit.

The new managing director would be Steffen Beuthner, who steered Hoechst's Colombian operation through the South American countr[illegible] to restructure its industry.

Hoechst takes advantage of local demand for polymers

(183)

BD 30/8/95

Mungo Soggot

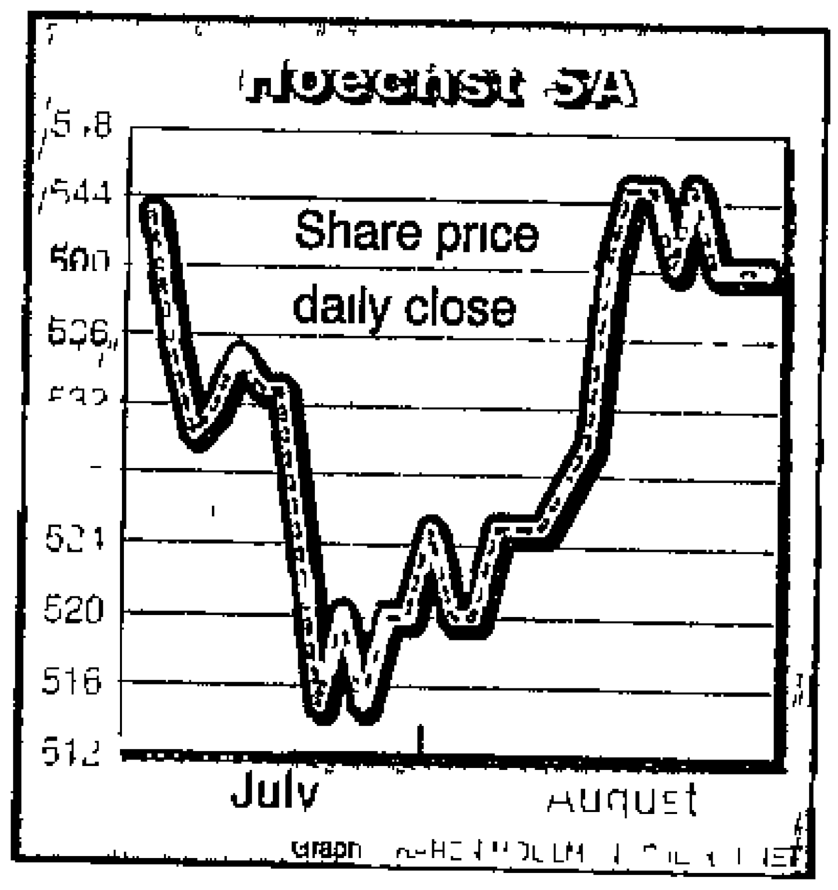
HOECHST SA, which listed on the JSE last month, pushed up attributable earnings 35,7% to R21,4m in the six months to June

The group said better than expected trading conditions for most of its operations had led it to revise its year-end earnings forecast to 41,3c — a 25,9% improvement over 1994

Earnings a share for the period under review were pegged at 15,3c, compared with 11,3c for the same period last year

"Overall the group has performed satisfactorily. The results also reflect the effects of the positive phase of world prices in our polymers and derivatives business. This will not last and we then expect an increasing earnings contribution to come from our healthcare and speciality chemicals businesses," said Hoechst MD Reinhard Traub

Turnover rose 26,7% to R853m and operating profit was up 60,5% at R39,3m. Income after tax was R13,6m (R9,4m)



Traub said Hoechst SA's polymers business had cashed in on buoyant local demand Although demand was expected to tail off in the second half, the group would be able to boost exports with the help of Hoechst's global network

The chemical business sector had also shown a healthy increase in its contribution, mainly because of strong demand for speciality chemicals which was expected to continue into the second half.

Traub said the company's healthcare business sector had fought off "uncertain" conditions and pressure on margins to increase its contribution to group earnings. The sector was expected to perform better in the second half He said the generics and consumer division's showing had not been "entirely satisfactory".

The group said Traub had been appointed executive chairman and would be based in Germany He would be replaced by Steffen Beuthner, currently MD of Hoechst Colombiana SA. It said his experience in Colombia, where the government's scrapping of protection of local industry had forced a restructuring of Hoechst Colombiana, meant he was highly suited to take up the reins of Hoechst SA

As stated in the company's prospectus, there would be no interim dividend

The share closed unchanged yesterday at 540c.

Iran oil deal on hold after appeal by Steyn

MELANIE GOSLING

CT 30/8/96 (183)

ENVIRONMENT Minister Dr Dawie de Villiers has agreed to put the Saldanha Iranian oil storage deal on ice after an appeal by the Steyn board of inquiry.

Mr Justice Jan Steyn met Dr De Villiers yesterday to ask that "no irreversible decision" leading to increased oil tanker shipping in Saldanha Bay be taken before the minister had studied the results of an environmental impact assessment commissioned by Portnet and an environmental risk assessment commissioned by the Strategic Fuel Fund.

The deal, which would increase shipping in Saldanha from 25 tankers a year to 75, was to have been signed this week

● See Page 3

(183)

CT (BR) 30/8/95

Botha rules out deregulation of liquid fuels industry

Pik Botha, the minister of mineral and energy affairs, yesterday ruled out total deregulation in the liquid fuels industry but said the government was in favour of less state involvement.

He said issues that would have to be considered in reducing regulation of the industry would include. The future of oil refineries built under a monopolistic regime that banned the import of refined petrol, and the future of about 5 000 petrol stations built in terms of regulations designed to bolster small retail outlets Final policy would be designed to ease the transition from protection to a free market

Botha said the cabinet had not yet decided formally whether to phase out the tariff protection — currently 6c a litre sold — given to Sasol

He said the subsidy would probably be phased out over a number of years — Reuter

Oil storage decision on hold

Edward West

(183)

CAPE TOWN — Environmental Affairs Minister Dawie de Villiers had agreed to the Steyn inquiry's request that no irreversible decision be made on Iran's use of oil storage facilities at Saldanha Bay until the inquiry was finished, a spokesman for the minister said yesterday.

The board of inquiry met De Villiers yesterday and advised him of the evidence before the inquiry relating to the proposed increased use of the facilities by Iran

The board, appointed to investigate Iscor's proposed R4,7bn steel plant at Saldanha Bay, said it shared concerns expressed before the inquiry and had sought the assurance from De Villiers

In terms of the oil deal — which Central Energy Fund Association CE Kobus van Zyl said recently was within weeks of being concluded — the spare capacity at the oil storage tanks would be used to store Iranian oil, which would be traded out of Saldanha into international markets

A Central Energy Fund spokesman said the Council for Scientific and Industrial Research was conducting an environmental impact study of the oil storage deal

Meanwhile, Sapa reports that Judge Jan Steyn said yesterday Saldanha Steel's claims that the inquiry would find in its favour were "pure speculation"

Steyn said statements by Iscor MD Hans Smith and Saldanha Steel executive chairman Bernard Smith, who were reported to have said they were confident the inquiry would give the mill the go-ahead, should not be seen as reflecting the view of the board of inquiry

BD 30/8/96

Botha rules out fuel deregulation

(183) BD 30/8/95

CAPE TOWN — Mineral and Energy Affairs Minister Pik Botha yesterday ruled out total deregulation in the liquid fuels industry, but said government favoured less involvement by the state

Botha said the liquid fuels aspect of the mineral and energy affairs policy Green Paper published yesterday would be dealt with as a matter of urgency.

"Basically, we are in favour of less state involvement, less regulation," Botha said

"Oil is a strategic product Without it your whole economy grinds to a standstill and government has an overall responsibility to prevent that

"Some people (want) complete deregulation If they mean by that no government involvement at all, then the answer is 'No, sorry' What we are concerned about is the degree and level and extent of government involvement That's what we are wrestling with," Botha said

He said issues that would have to be considered in a strategy to reduce regulation of the liquid fuels industry would include

☐ The future of oil refineries built under a monopolistic regime that banned import of refined petrol,

☐ The future of some 5 000 petrol stations built in terms of regulations designed to bolster small retail outlets

Botha said a final policy would be designed to ease the transition from protection to a free market

"Part of the idea would be that big oil companies do not enter this retail market, that self-service will not be allowed All of this is being done to assist the retailers so that they have a fair chance to seek other ways if they cannot keep up with the competition."

The financing of SA's ambitious electrification scheme could involve the establishment of a National Electrification Fund, according to the Green Paper

It said that most of the financing could, as at present, be met through debt or loan financing by the industry but that "there may be a need for subsidisation of the very poor by means of government grants."

Another option would be to establish electrification development funds which would cross-subsidise low-usage domestic customers through a new national tariff structure

A National Electrification Fund could be established from 1996 onwards through the provision of increased grant finance to distributors Poor consumers would not have to pay higher tariffs

It says electrification funds could also be raised through a dedicated levy on electricity sales

SA-Iranian fuel storage deal 'may already have been signed'

Cape Town — Strategic Fuel Fund (SFF) general manager Kobus van Zyl is in Tehran to sign a deal that will give Iran use of oil storage facilities at Saldanha Bay, the Ministry of Mineral and Energy Affairs confirmed yesterday

Van Zyl, who flew to Iran on Monday night, had gone with the intention of signing the deal this week and "may have already done so", Ministry spokesman Roland Darroll said

On Monday Van Zyl's office said he was going on leave for a week, and was not going to Tehran

Darroll said the contract would be subject to the completion of an Environmental Impact Assessment (EIA) commissioned by the SFF on the risk of pollution to the harbour from increased oil tanker traffic

"The EIA must say there will be no unacceptable damage to the environment," he said

Environmental Affairs Minister Dr Dawie de Villiers agreed on Tuesday that "no irreversible decision" leading to increased oil tanker shipping in Saldanha Bay would be taken before he had studied the results of two EIAs commissioned by Portnet and the SFF

The Portnet EIA focuses on the planned extension of the general cargo quay and is due to be released next week

The first step in the SFF EIA will be taken tomorrow with a "project initiation meeting" between representatives of the Centre for Scientific and Industrial Research and the SFF

The CSIR has been told Van Zyl will be at the meeting, but it is unlikely he will be back in time A spokesman said the EIA would take a minimum of seven months to complete to ensure full public participation — Sapa

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BUSINESS

Fuel deals hit by controversy

(183) Sowetan 31/8/95

Black fuel retailers say no to deals involving black oil consortiums

By Isaac Moledi

THE JOINT VENTURE fuel deals between two giant oil companies and black consortiums appear to be facing major hiccups before the ventures can even start functioning

Caltex's launch of Afric Oil last week got off to a controversial start when some of the company's petrol station owners in the townships threatened not to recognise the new oil company.

The retailers and Caltex are holding a crucial meeting today to discuss the Afric Oil issue.

However, Afric Oil, a joint venture oil company consisting of Worldwide African Investment Holdings, a black-owned investment company chaired by Professor Wiseman Nkuhlu, Transnet subsidiary company Bongani Motor Holdings, Caltex Oil South Africa and First Corp Merchant Bank, is going ahead, says Caltex.

The company says the venture has been established to promote black participation in the petroleum industry.

Caltex representative Mr Terry O'Donovan says there hasn't been any change in the Afric Oil deal. All 100 Caltex filling stations which have been transferred to Afric Oil as part of the deal will operate as planned.

He says the company will continue talking to the retailers to try to resolve the controversy surrounding Afric Oil.

The future participation of the black fuel dealers in the new oil company will be known after today's meeting. But a reasonable resolution seems impossible yet as the Caltex Black Dealers Committee is adamant that it does not recognise the new company because Caltex has reneged on its promises to its black retailers.

Part of the deal

The committee's representative, Themba Xaba, says since most of the 50 stations identified for the transfer to Afric Oil are operated by members of his committee, he does not see the success of the company if his members are not part of the deal.

The National Black Fuel Retailers Association has thrown its weight behind the retailers.

Nabfra says although it is not against the formation of Afric Oil as it supports the black economic empowerment programme, the association supports the black Caltex dealers "who were left out of the deal".

"Black Economic Empowerment should take into account those black stakeholders who have been driving the profit motive for Caltex throughout the years," the association's spokesman Mr Moses Moloele said.

Moloele himself has been linked to another oil deal involving Sasol.

Both Sasol and Caltex announced two weeks ago that they want to bring blacks into the oil industry.

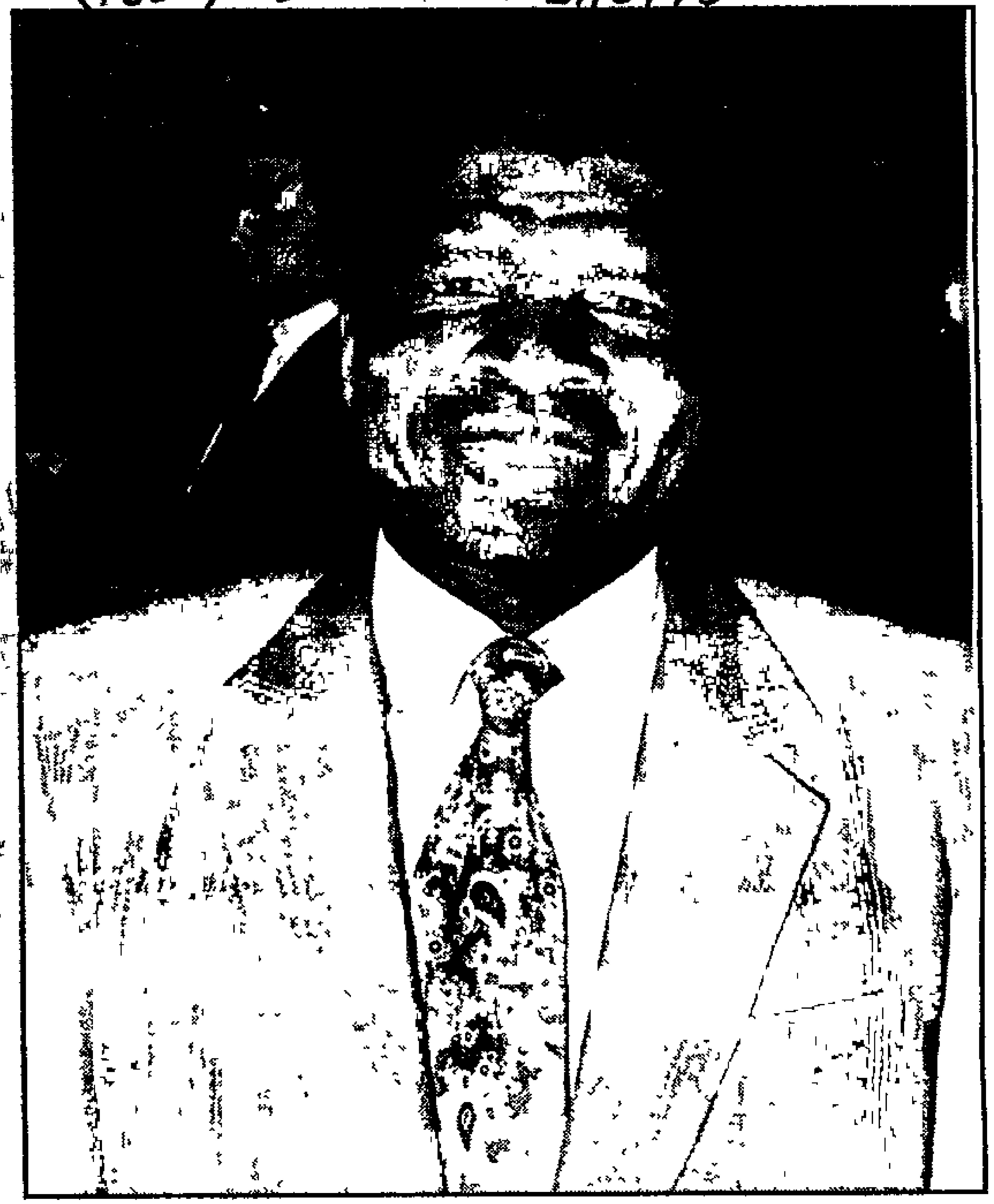
The Sasol deal is also said to be running into problems following the withdrawal of one of the black consortiums, Powerlib, from the joint venture talks with Sasol on grounds that Sasol bridged a confidentiality agreement with the group.

Powerlib is the black-owned company which has had a long-term ambition of having a huge stake in the country's fuel retail sector. Sasol has denied bridging the confidentiality agreement with Powerlib.

Sasol spokesperson Amelia Soares says reports that the talks are running into problems are incorrect. The company's discussions with a specific black group – believed to be black retailers – has nothing to do with Powerlib.

"Sasol has had discussions on black economic empowerment with several groups," explains Soares. "In all these cases we undertook to keep the discussions confidential and we have stuck to these undertakings.

The identity of the "black group" involved will be revealed once an agreement has been reached.



Nkuhlu . . . retailers are crossing swords with his venture.

Environmental fear could terminate SA-Iranian oil deal

@ 183

JOHN YELD, Environment Reporter

THE oil storage contract between South Africa and Iran has a suspension clause that will nullify the entire contract if an environmental impact assessment finds the potential risk to Saldanha Bay too great.

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In terms of the contract, some 15 million barrels of Iranian oil will be stored at the Strategic Fuel Fund's vast 45 million-barrel oil storage facility at Saldanha Bay, from where it will be traded on the international market on a speculative basis.

Kobus van Zyl, general-manager of the fund, is in Tehran this week and may already have signed the contract.

This was confirmed today by Roland Darroll, spokesman for Energy and Mineral Affairs minister Pik Botha, who said the ecological aspects of the oil deal were "fully catered for and have been all along"

On Tuesday the Steyn board of inquiry, investigating a proposed steel mill on a site adjoining the oil storage tanks, asked Environmental Affairs Minister Dawie de Villiers to ensure no irreversible decisions were taken relating to increased oil traffic in Saldanha Bay before environmental impact assessments had been completed.

But Mr Darroll said the suspension clause in the contract with Iran meant that the inquiry was "trying to do something that has already been done"

In a joint statement by the two ministers released last night, Dr De Villiers said he had told Mr Botha of the Steyn board's concern

But the statement added "The sensitivity about any further increase in oil-related activities in the bay is fully understood by Mr Botha."

Iranian oil deal 'sealed'

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STRATEGIC Fuel Fund general manager Mr Kobus van Zyl is in Tehran to sign a deal that will give Iran the use of oil storage facilities at Saldanha Bay, the ministry of mineral and energy affairs confirmed yesterday.

Mr Van Zyl, who flew to Iran on Monday night, had gone with the intention of signing the deal this week and "may have already done so", spokesman Mr Roland Darroll said.

On Monday Mr Van Zyl's office said he was going on leave for a week, and was not going to Tehran. However, yesterday they confirmed he was out of the country and was due back on Monday.

Impact studies

News of Mr Van Zyl's departure co-incided with a joint statement released late yesterday by Environmental Affairs Minister Dr Dawie de Villiers and Mineral and Energy Minister Mr Pik Botha.

The statement stressed that the agreement with Iran over the storage of oil at Saldanha Bay would not be implemented if environmental impact studies concluded the risk of oil pollution would increase.

It also denied that there was at any stage any divergence of views between the two ministries.

They added that "at no stage" did Dr De Villiers have any intention to suspend the agreement with Iran.

The Steyn Commission had expressed its deep concern at the potential impact of the storage and transport of oil at Saldanha, and had requested that no decision be taken without considering the outcome of two environmental impact studies that were currently being undertaken.

Pollution

"The sensitivity regarding any further increase in oil-related activities in the Bay is fully understood by Minister Botha," the statement said. "That is why environmental impact studies are currently being undertaken by the CSIR and Portnet."

The board of the Central Energy Fund still had to make a decision and Mr Botha had no doubt it would share his view that the deal should not go ahead if the impact studies concluded that the risk of pollution would be increased.

"The National Iranian Oil Company is aware that implementation of the agreement is subject to the impact studies."

Mr Botha said reports on the increase in shipping traffic created confusion as well as unsubstantiated fears. — Sapa, Staff Reporter

Who should own the profits of knowledge?

(183) WM 25-31/8/95

Saliem Fakir

SOUTH AFRICA, because of its rich biodiversity, is now attracting international companies in search of plant material that has horticultural or medicinal value.

Traditional healers in this country have used various plants — about 3 000 different species — for the cure or remediation of various ailments. With new developments in chemical analysis, this knowledge can generate millions for pharmaceutical companies. This international trend has become known as "bioprospecting".

We also have a rich farming history that has not yet been incorporated into modern agriculture. Now agricultural scientists are beginning to record this knowledge and search for ways to prevent it from being lost.

The use of Nguni cattle provides a good example. This species was once perceived to be inferior to breeds imported from overseas, their motley colours seen by white settlers as a sign of impurity. Only today are agriculturists and extension workers recognising that these indigenous breeds, developed through generations of farming practice, are finely suited to the climatic and ecological conditions of South Africa.

But ethical questions are raised by this new contact between local culture and modern science. Who really benefits? Who ultimately owns the intellectual property that has been developed by local people over the centuries? Can a formal system of intellectual rights, dominated by modern legislative frameworks, create mechanisms that will protect an informal, collective body of knowledge that now has commercial value?

These are some of the issues that pervade a fierce international debate around biodiversity and the use of genetic resources that is now beginning to be heard in South Africa.

Most people in this country still take our rich store of wild resources for granted. Our biodiversity has for many decades been perceived to be a "free resource" even though it has several values. We rely on plants and animals to provide food, material for construction, medicines, and ingredients for cultural and religious ceremonies.

Yet there is a worlwide and local threat to biodiversity because of the expansion of cities and industries and the destruction of indigenous forests and wildlife areas for agriculture. This is accompanied by a threat to traditional life and knowledge.

It is in this context that the International Convention on Biodiversity arose — an attempt to ensure the protection of natural resources and to share the benefits that these can produce between developed and developing countries.

The convention recognises the need to find mechanisms that will support and protect intellectual innovation by local people. The North has the technological ability to exploit global genetic resources and can also protect them through patents and a sophisticated regime of intellectual property rights.

Southern countries where this knowledge often originates then have to pay huge amounts to access knowledge and products that have been patented in this way. The convention attempts to shift this imbalance by giving all nations a sovereign right over their genetic resources — a substantial shift from an earlier paradigm which considered biological resources to be a common heritage.

South Africa has always had an open access system and there are no laws or regulations in force at present that govern the way in which our genetic resources are researched and used. This is in contrast to developments in other parts of the South.

The Philippines, for instance, has set up a statutory body that oversees all aspects of research and utilisation of that country's natural species. This body keeps an inventory of all species that are taken out of the country and grants both research and commercial rights for the exploitation of the country's biological resources.

The Philippines government also attempts to ensure long-term benefits for the host country through joint ventures between local and overseas companies involved in developing and patenting new products that derive from bioprospecting initiatives.

South Africans now have an onus to ensure that the vast riches that lie hidden in our natural resources, and in the way they have been used by local people for centuries, are protected. Academic insitutions and commercial companies must negotiate equitable contracts with traditional healers before using their skills. We should move away from a temptation to sell our raw material and intellectual heritage for easy and quick profit.

We have the expertise and resource base to add maximum value to the products we derive from our biological riches. The Department of Environment Affairs is presently engaged in discussions about the International Convention on Biodiversity and this can be used to generate a concrete strategy to protect South Africa's genetic resources and the country's traditional store of knowledge about how these can be used.

Ultimately a legal and regulatory system that can protect our country from exploitative forms of genetic engineering can only grow if we abandon age-old prejudices fostered by modern science and education. In this sense, the preservation of our country's natural riches — the ability to prevent the prospecting of our biological resources from becoming stripmining — relies on a willingness to accept the right of people to practise alternative cultures and forms of knowledge.