

MANUFACTURING — CHEMICAL PRODUCTS

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Afrox parent may expand Iscor deals

(183) 188

By James Lamont

CT (82) 118/96
Johannesburg — British Oxygen, the industrial gas company and the parent company of the local Afrox group, is investigating further opportunities with Iscor to supply gases to its iron-producing Corex plants and mining operations.

Danny Rosencrantz, British Oxygen's chief executive and deputy chairman, said yesterday the group was investigating additional projects with Iscor after Afrox, the gas, welding and health-care group, yesterday opened the valves on a R700 million contract to supply argon, nitrogen and oxygen to Iscor's stainless steel works in Pretoria.

David John, British Oxygen's chairman, said the group would continue to support its South African business and take advantage of new opportunities within the country. He said the group was negotiating new contracts in South Africa, but he declined to elaborate.

Afrox inaugurated its boosted gas supply to Iscor's stainless steel operations yesterday. Its upgraded air-separation plant in Pretoria is supplying increased volumes of argon, nitrogen and oxygen for use in Iscor's nearby works. The additional supply for the production of stainless steel will be worth between R20 million and R30 million a year to Afrox.

Under the terms of the 24-year contract, Afrox began supplying increased volumes of gas from the beginning of July comprising 180 extra tons of oxygen, 100 tons of nitrogen and 35 tons of argon. An original 20-year contract was signed in 1987.

"Even by world standards, this is the supply of a substantial amount of argon to Iscor's stainless steel operations," said Royden Vice, the managing director of Afrox.

Iscor's Pretoria plant has undergone a R130 million conversion from carbon steel to stainless steel production, which it hopes to sell on export markets.

FEATURE
PETROCHEMICALS

TIME TO GET CRACKING

AM 2/8/96

(183)

SA's looming shortage of ethylene (*Business* July 26), a basic building block for the plastics industry, is highlighted by the fact that polyethylene polymers to the value of R320m were imported last year — at an effective 10% tariff rate. Polyethylene exports totalled a mere R22,2m.

And, says Dave Walwyn, Department of Trade & Industry director, chemical and allied industries, in the same year PVCs to the value of R60,6m were imported, while exports were valued at only R32,4m. Also in 1995, polystyrene to the value of R28,9m was imported — but there were no exports as SA does not manufacture the material.

So, with import demand growing steadily, Polifin is now investigating a new R6bn petro-chemical complex — probably to be built at Secunda. Sasol is also looking at three alternatives for the building of a naphtha or chemical cracker to meet the looming feedstock shortage in SA. The two major areas where local feedstock supplies are under pressure are ethylene and aromatics.

Apart from Sasol's traditional coal-based route, the synfuel giant is also looking at the possibility of building a coastal cracker complex, based on imported (crude oil) feedstock. And, sources say, it is even considering a partnership with one (or more) coastal refiners.

Confirms Durban-based Sapref — jointly owned by Shell and BP — process development manager Doug Bell. "Though we have no specific plans at this stage to manufacture additional petrochemical feedstocks, we may instal a catalytic cracker later — but this major expansion won't be undertaken within the next five years."

So it seems quite possible that Sasol's plans might link up with either the Polifin proposal, or with the future cracker plans at Sapref — or both. Sapref already sells propylene feedstock to Safripol, the Sasol-burg-sited joint venture between Sentrachem and Hoechst, which manufactures polypropylene.

Plastomark MD Wolfgang Raffalsky says while growing polyethylene demand has produced a supply bottleneck that necessitates imports, there is no such problem with propylene. "Sapref and Polifin together produce about 250 000 t/year of propylene, while the local market demand for polypropylene is only about 120 000 t/year," he says.

But ethylene — and aromatics — remain the feedstock problem areas.

Adds Polifin group planning manager Derek Lake. "While we now manufacture ethylene by cracking gas and propylene by purifying certain of Sasol's Secunda streams, our proposed plant will not only increase production of these two streams,

but could also produce butadiene and benzene. Butadiene is imported for use in the synthetic rubber industry and benzene is one of the building blocks of polystyrene."

Sources in the downstream petrochemical industry say the Sasol coal-based route has so far precluded the manufacture of sufficient aromatics locally. So the Polifin plant may relieve the bottleneck.

Adds Walwyn. "The level of investment required for a fully integrated greenfields petrochemical complex cannot be justified on the basis of the present demand. But, with ethylene capacity now around 450 000 t/year, demand will exceed capacity in 1997/1998 if growth continues."

"In the light of the above, it would make sense to invest in either a naphtha cracker adjacent to an existing refinery at the coast, or a coal-naphtha cracker at Secunda," he says.

But a government-sponsored "cluster" study is also looking at the longer-term aspects of the petrochemical industry. This includes possible supply-side incentives, which will be more fully discussed at an October plenary session.

And, with the private sector already planning to invest in the multibillion upstream feedstock facilities, Walwyn says "government's role should be to focus on downstream expansion. This means fully exploiting the downstream job creation potential, and further expanding the market for upstream products."

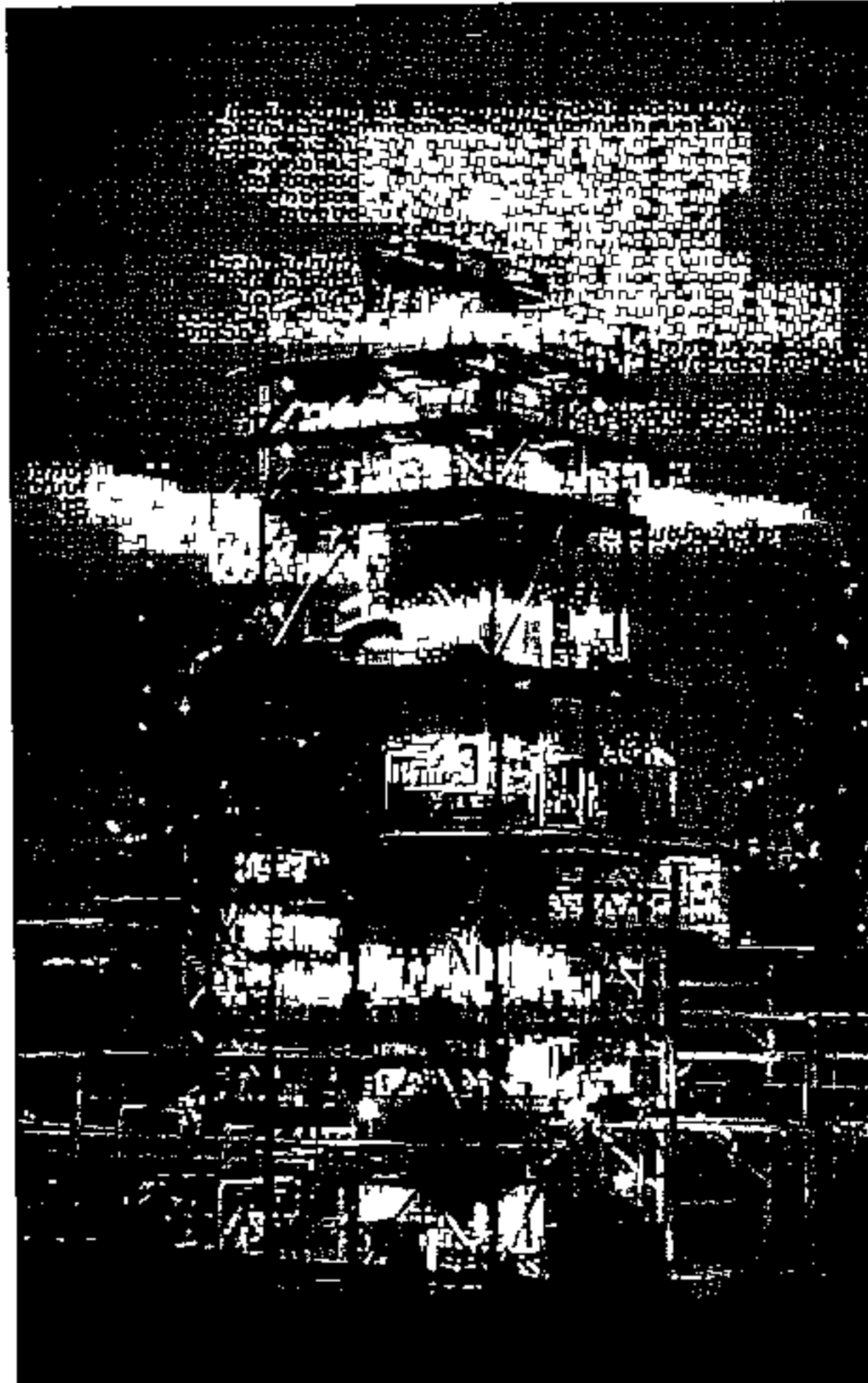
"This does not mean a private-sector enterprise should not invest if it sees an opportunity, and thereby qualify for the newly announced incentives of tax holidays and accelerated depreciation."

President of the Plastics Federation of SA Ray Crewe-Brown says with both the global monomer and polymer petrochemical sectors undergoing rapid change, it is essential to include state-of-the-art and "new-generation" technologies in new up-

stream industry investments in SA.

"We should also learn one important lesson from the Republic of China's booming petrochemical industry — if you really want to become a serious global player, focus your plant investment on export market demand, rather than aiming at the domestic market. In SA, we usually tend to look at local demand first and make only the surplus production available for export."

He adds that SA's upstream industry tends to target domestic prices at just below import parity — which makes it difficult for fabricators to compete globally with countries where manufacturers get their domestic raw material inputs at far lower world price levels. ■



Sasol light the end of the tunnel for local industry?

SPOONFUL OF SUGAR

FM 2/8/96
Consumers could soon be swallowing higher drug prices and low-quality drugs if the Department of Health implements draft legislation to track medicines, regulate packaging, force generic prescribing and substitution, and close down dispensing doctors

The latest regulations — promulgated in the *Government Gazette* of July 12 for a 45-day comment period — show the department's determination to implement a multidimensional digital mark (*Business* July 12) that will colour-code every drug sold and regulate sales through a central database. The regulation aims to eradicate the estimated R1bn/year theft from State facilities. But the cost of the system, as yet untested, could reach R500m in its first year — a cost that would be built into prices

"There's no guarantee the system will work. Added bureaucracy — permission from a centralised database for each sale — could hamper productivity and efficacy," says Pharmaceutical Manufacturers' Association CE Mirryéna Deeb. "The finest technical tracking systems will be useless in curbing a problem that centres on poor management and inadequate stock control. The department needs to privatise distribution and management nationally."

Costs will be increased by a regulation that warns that "No person shall sell any medicine on prescription to a patient who has young children at home unless the medicine is packaged in child-resistant containers." It's a regulation that could force manufacturers to repackage or change production lines when Health Minister Nkosazana Zuma is threatening industry with price controls, parallel imports and international tenders for the State's bulk purchases. The State is alleged to have awarded a major tender to an Indian-based company.

While consumers foot the bill for the State's poor management, they could soon be deprived of modern, effective drugs. The draft regulations order doctors to write all prescriptions in the international nonproprietary name, diluting trademark protection. Whether doctors will be able to include brand names on prescriptions is not clear.

This proposal could place pharmacists in a potentially abusive position since they would hold a virtual monopoly over the choice of medicine dispensed. The extent of the abuse could be indeterminate if government enacts a proposal to bar doctors from dispensing, while refusing to allow nonpharmacists to own retail outlets. Put simply, pharmacists now operating low turnover, high mark-up operations are likely to punt the cheapest drugs.

The gazetted proposal has far-reaching consequences if read with a proposal in the draft Pharmacy Amendment Bill that allows the pharmacist to dispense a therapeutic alternative to the one prescribed by the doctor. This would override the clinical decision of the doctor and would have serious implications for professional liability.

Pharmacological experts warn that once a patient is stabilised on a drug, whether a branded innovative or a branded generic, it is therapeutically desirable that the patient is not switched or forced to change drugs. ■

(153) File 1/5/76

PIPE-DREAM?

State-owned Soekor has given fresh impetus to the building of a R1bn gas pipeline from Mossel Bay to Cape Town

The offshore oil and gas exploration company is trying to secure "participation partners" after discovering further gas and oil deposits in Blocks 9 and 11A in the Bredasdorp Basin, says CE Joggie Heuser

The gas deposits are separate from the Moss gas synfuel operation and from the current development of the E-BT oil field — in partnership with Engen subsidiary Energy Africa — which should come into production early in 1997

"International oil industry operators have shown interest in partnering Soekor. These opportunities will be carefully considered and pursued," says Heuser. But, he adds, as the discussions are being conducted confidentially, he cannot divulge details of those concerned

"Soekor has completed sufficient market research to support a pre-feasibility study. Preliminary studies by Petronet for the pipeline have established that the

FINANCIAL MAIL AUGUST 2 1996

project is a real possibility and not a pipedream," says Heuser

Petronet new projects manager John Morgan says Petronet is "not playing an active role until Soekor can prove sufficient reserves to make it economically feasible." Its role will be as transporter of the gas and operator of the pipeline — marketing in the Western Cape will be the prerogative of another party. "But we remain interested and will become active once the gas is available," he adds

Heuser says he is confident that some of the discoveries have the potential to be developed economically and could sustain a significant market in the Western Cape for up to 20 years

He adds that the proposed pipeline project has major economic implications for the Cape. Not only does it promise employment, but the potential for development spin-offs along the route of a pipeline from Mossel Bay to Cape Town and Saldanha are numerous. "The provision of natural gas as an affordable and environmentally friendly source of energy was the catalyst for economic prosperity around the world," he says.

Meanwhile, Soekor will continue its exploration programme "to ensure continuity of supply," should continuing studies and enough reserves prove the feasibility of the scheme

"The development of the Western Cape

can benefit from an energy source alternative to coal. Also, Soekor is helping to develop Mozambique's Pande gas fields," says Heuser.

With the E-BT oil field coming into production early next year and the prospect of a commercial gas business soon, Soekor hopes to commercialise from 1998 ■

Petrol to fall 8c

(183) (247) M+G (BM) 2-8/8/96

Mungo Soggot

THE petrol price is expected to drop 8c/litre from Wednesday in the wake of a stable rand for most of last month and a softening in international fuel prices.

Motorists would have enjoyed a 9,5c a litre decrease, but it is understood Transport Minister Mac Maharaj has taken advantage of the favourable fall and secured a 1,5c/l increase in the levy on the fuel price which feeds the state accident insurance fund, the Multilateral Motor Vehicle Finance Fund (MMF).

South Africa's regulated fuel price includes various fuel levies, fixed margins for retailers and wholesalers — the rest of it is based on movements in international fuel prices and the fate of the rand.

The MMF levy on the diesel price is expected to go up 1c/l, while the diesel price itself will drop 4c/l in line with currency and price movements.

The Transport Department could not be reached for comment, but it is

understood the decision took place after consultation with the Minerals and Energy Affairs and Finance ministries.

The department has complained that the MMF is heavily in need of cash to meet outstanding claims. Maharaj is planning a controversial revamp to the way the state accident insurance scheme works. He is proposing a "no-fault" scheme, which the MMF will administer as there will no longer be a need to prove negligence. For actuarial reasons, the scheme is expected to cost much more, and will require several increases in the levy. In the draft White Paper, Maharaj works on the assumption the levy will stand at 12c/l from May. The latest increase has brought the levy to 10,5c/l.

It is understood the fuel companies were hoping the government would take advantage of the drop to increase their wholesale margin, which has remained static for 18 months.

Transnet economist Mike Schussler said the collapse of the rand should rule out a decrease next month.

Anti-dumping duties slapped on polymer

Nicola Jenvey

(183) (183)
BD 5/8/96

DURBAN — Government has slapped anti-dumping duties on polymer imports following complaints from SA's dominant producer Polifin.

The Board on Tariffs and Trade said at the weekend that the duties — on polymer imports from the UK, US, France and Brazil — would remain in place until December 27, pending further investigation and responses from the industry. The closing date for responses is today.

The move follows an application by Polifin — jointly owned by Sasol and AECI — claiming imports had "suppressed and undercut its margins"

But industry players slammed the decision, claiming Polifin was "bullying" the market. Such imports are estimated to account for less than 2,5% of 130 000 tons of local demand

The provisional duties pin a R1 050/ton burden on UK imports, R670/ton on Brazilian imports, R550/ton on US imports, and France a R230 duty — on top of the normal 10% ad valorem tax the imports face. Polymer prices currently range between R3 500 and R4 500 a ton.

Polifin, which reports its year-end figures today, lifted prices of plastics raw materials 12%-15% in May, arguing that local prices were closely tied to international price movements. Prices slumped 30%-50% last year following the withdrawal of Chinese demand

SA Polymer Importers Association chairman Ian McMorran said Polifin was already protected by the weaker rand and the ad valorem duty. Further duties were "only high-handed measures to reduce competition"

Dancor MD Greg Daniel said Polifin's application to the board had as-

Continued on Page 2

Duties

Continued from Page 1

sumed extreme import prices and ignored domestic taxes

Other sources said Polifin was also exporting polymer to neighbouring countries at "very aggressive prices"

But Polifin defended the measure, claiming the volume of polymer entering SA was "not the issue" It said im-

porters had forced price cuts of up to 20% since the early 1990s "Polifin expects protection against disruptive pricing structures," a spokesman said. "Importers can source from countries not dumping in our market"

Board anti-dumping committee deputy director Leora Blumberg said the onus was on the industry to provide information to refute the dumping claims She said the board had reacted to Polifin's application on "the best information available"

(183) (183)
BD 5/8/96

Polifin rides tough trade conditions to lift income

Reinie Booysen

POLIFIN lifted attributable income 28% to R454m for the year to June, as lower financing charges and reduced tax offset the affect of tough trading conditions.

The group — which two weeks ago received government protection against PVC imports on grounds that they were causing "material injury" — posted share earnings at 83c (64c). The final dividend of 17c boosts the year payout to 27c. The share closed 6c down at 780c yesterday, against a 12-month April high of 864c.

MD Trevor Munday said prices had dropped sharply last year and had only begun to stabilise in the latter part of the reporting period.

But the group, whose major shareholders are Sasol and AECL, expected to post real earnings growth this year, underpinned by the gains from its capital expenditure efforts.

Turnover rose 7% to R3,2bn, and operating profit only 2% higher, at R742m, but finance charges fell 57% to R63m.

Long-term liabilities dropped from R374m to R179m, although some of this was shifted to the short-term book in the expectation that strong cash flow in the first half of this financial year would

(183) BD 6/8/96

cover a large portion of this debt. Current liabilities rose from R896m to R976m. Tax dropped 2% to R223m.

Munday said the decline in the operating profit margin, from 24% to 23%, was due to decommissioning costs of plants at Polifin's Midland site, and poor margins on a 20 000 parcel of imported polyethylene, the bulk of which had to be re-exported when domestic demand proved insufficient.

Return on equity was down slightly from 34% to 32%.

Annual cash cost savings of R150m, envisaged when the Midland restructuring project was originally sanctioned, would probably be exceeded in the future.

International polymer prices

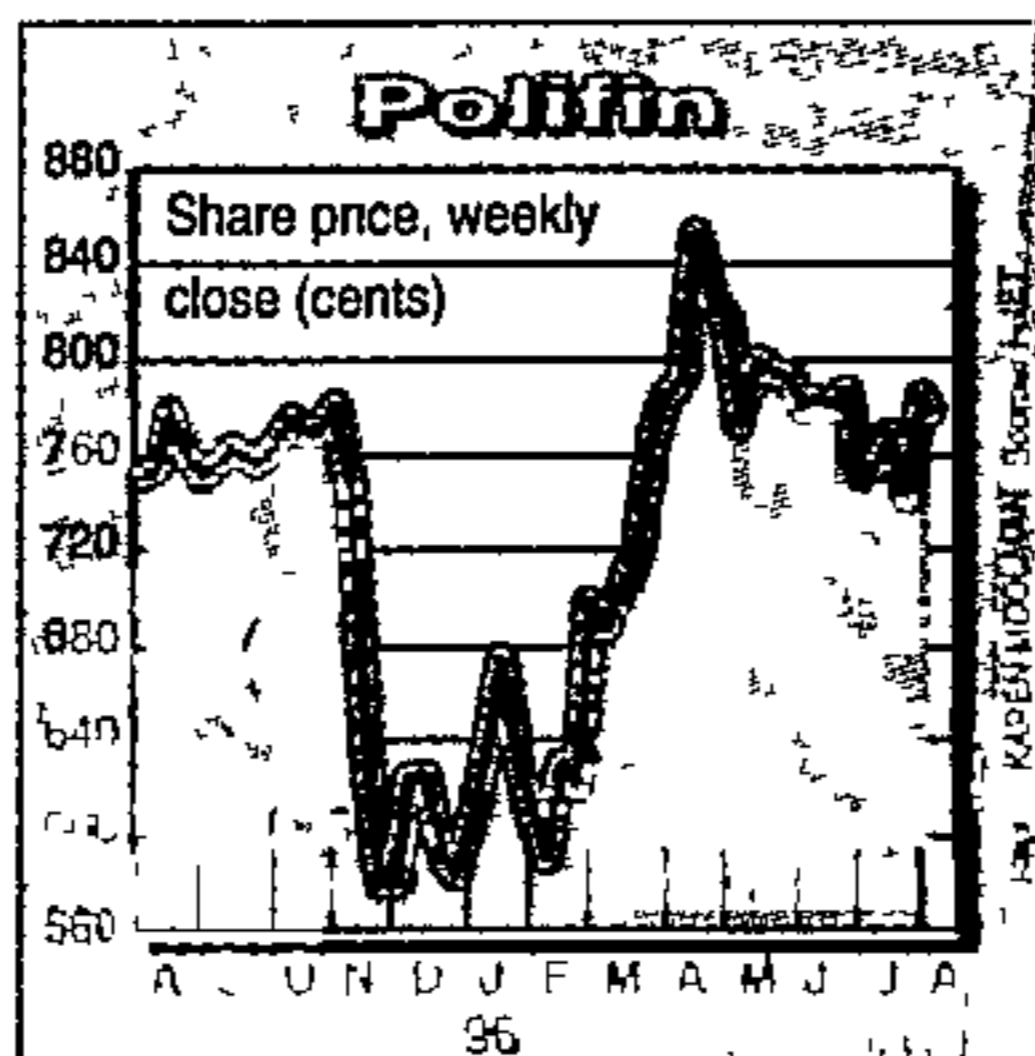
declined during the first half of the financial year due to worldwide inventory destocking and a temporary withdrawal from off-shore purchasing by China — although it resumed purchasing in the second half. Prices then rose and began to stabilise towards the end of April.

Domestic SA prices were about 2% to 3% higher year-on-year, in spite of a 12% decline in average international contract prices.

Capital expenditure on fixed assets totalled R452m during the year. The board had in principle approved capital expenditure of R1bn over the next three years, of which R353m would be spent in the current year.

In his review, chairman Paul Kruger welcomed the Board on Tariffs and Trade's "willingness to enforce World Trade Organisation rules which prohibit dumping and other disruptive trade practices." He said SA's 10% ad valorem tariff protection for polymer manufacturers was among the lowest in the world, and "certainly lower than that of the USA and Europe".

The board recently slapped additional antidumping penalties on PVC imports from the UK, Brazil, the US and France following complaints from Polifin.



... in ... attributed this to



PRETTY PROSPECTS Trevor Munday, Polifin's managing director, predicts further real earnings growth next year PHOTO JOHN WOODROOF

Turnover value rises on higher prices

Polifin returns strong growth

By Jonathan Rosenthal

(183)CT(BR) 6/8/96
next three years

Johannesburg — Polifin, the petrochemicals and polymer company, overcame a weaker polymer market and higher oil prices to increase attributable earnings by 28 percent to R454 million on the back of a 7 percent increase in turnover to R3,2 billion for the year to June 25

Polifin, which has AECI and Sasol as majority shareholders, reported a 2 percent increase in operating profit to R742 million. Substantially lower finance charges, which fell to R63 million from last year's R148 million, and a R4 million lower tax charge at 223 million, accounted for the strong growth in attributable earnings.

Although turnover climbed 7 percent to R3,2 billion, most of this was driven by increased selling prices, with volumes showing little growth.

Polifin said it was predicting "further real earnings growth in the 1997 financial year." International contract polymer prices during the year were an average 12 percent lower than comparable prices in the previous 12 months, largely due to the withdrawal by Chinese customers from the market in anticipation of a drop in import tariffs by China.

In the early part of this year prices began to recover and stabilised in April, showing a year on year average increase of between 2 and 3 percent. But the company was still expecting polymer prices to show a gradual decline over the

"Our view was that prices would ease over the next few years as the capacity gap — between production and demand — widened," said Trevor Munday, the managing director.

Polifin's ratio of operating profit to turnover dropped to about 23 percent from 24 percent last year. This was despite attempts to contain costs and absorb inflationary increases.

Pressure on margins came from the import and re-export of large quantities of polythene, because of an unrealised increase in demand.

The company incurred unspecified costs for the closure and decommissioning of the outmoded Midland plants.

The company did not disclose its earnings from the sale of two calcium-carbide furnaces to ferro-alloy producer Samancor, but said that the proceeds were used to partially offset closure costs, all of which "would have been brought to account in this year's results."

Capital projects amounting to R452 million were funded out of cash flow while R194 million was repaid on long-term borrowings, bringing them down to R179 million. Short-term debt was increased but this should be liquidated within the next six months, Munday said. "The continuing strong cash flows are expected to reduce borrowings to nil within two years," the company said.

□ See Business Watch, Page 2

Sasol's petrochemical arm must face crucial decisions

(183) BD 7/8/96
CRUCIAL investment decisions face SA's petrochemical industry over the next few years as it considers various options to meet the looming shortage of ethylene

An essential feedstock for the fast-growing plastics industry, ethylene is a volatile gas at present produced by Polfin from feedstocks extracted as a by-product by Sasol — which, with AECI, jointly controls Polfin — in its fuel-from-coal process at its Secunda plant.

SA can produce 400 000 tons of ethylene a year, but demand is growing rapidly and a shortage is looming over the next year or so

The options open to the industry include an inland cracker based on coal-derived feedstock, which will further entrench Sasol's coal-based technology, and a coastal naphtha cracker based on imported oil

The naphtha option will widen the slate of available inputs for the chemical and plastics industries and improve the competitiveness of the industry in terms of quality and costings

But the choice is not an easy or obvious one. A naphtha cracker would cost in the region of R4bn-R5bn and would double the ethylene feedstocks available on the market without there being any guarantee that this would be matched by downstream development

"The timing of such an investment is going to have to be carefully based so we do not have to export all the product," Sasol GM John Marriot said.

Engen strategic planning manager Dave Wright said he did not believe a

naphtha-based cracker was an immediate priority although it would be needed at some point in the future

"If we are looking at local consumption only then a Secunda-based cracker, provided that it is cheaper, would make sense," he said.

The trade and industry department has initiated several "cluster" studies to examine critical choices facing sectors like the petrochemical industry.

A cluster study group is examining, among other things, supply-side measures to promote and develop the kind of export-led downstream industries needed to justify further investment in ethylene production.

Polfin MD Trevor Munday said the cluster studies were aimed at expanding the downstream industries "into a whole new league altogether" He announced recently that Polfin was examining also the ethylene options and the possibility of investing about R6bn in a new petrochemical complex

"It is early days yet. The team that we have put together is evaluating all aspects of the project, including where the most suitable site is."

Some researchers have argued that although coal-based technology has played an important role in developing the petrochemical industry, it has isolated SA from developments elsewhere in the world where oil-based technology has dominated. Coal-based feedstock is more expensive, even though it saves foreign exchange, and puts plastics and chemicals manufacturers at a price disadvantage. — Reuter.

AECI reports 14% drop in net earnings to R134m

Reinie Booysen

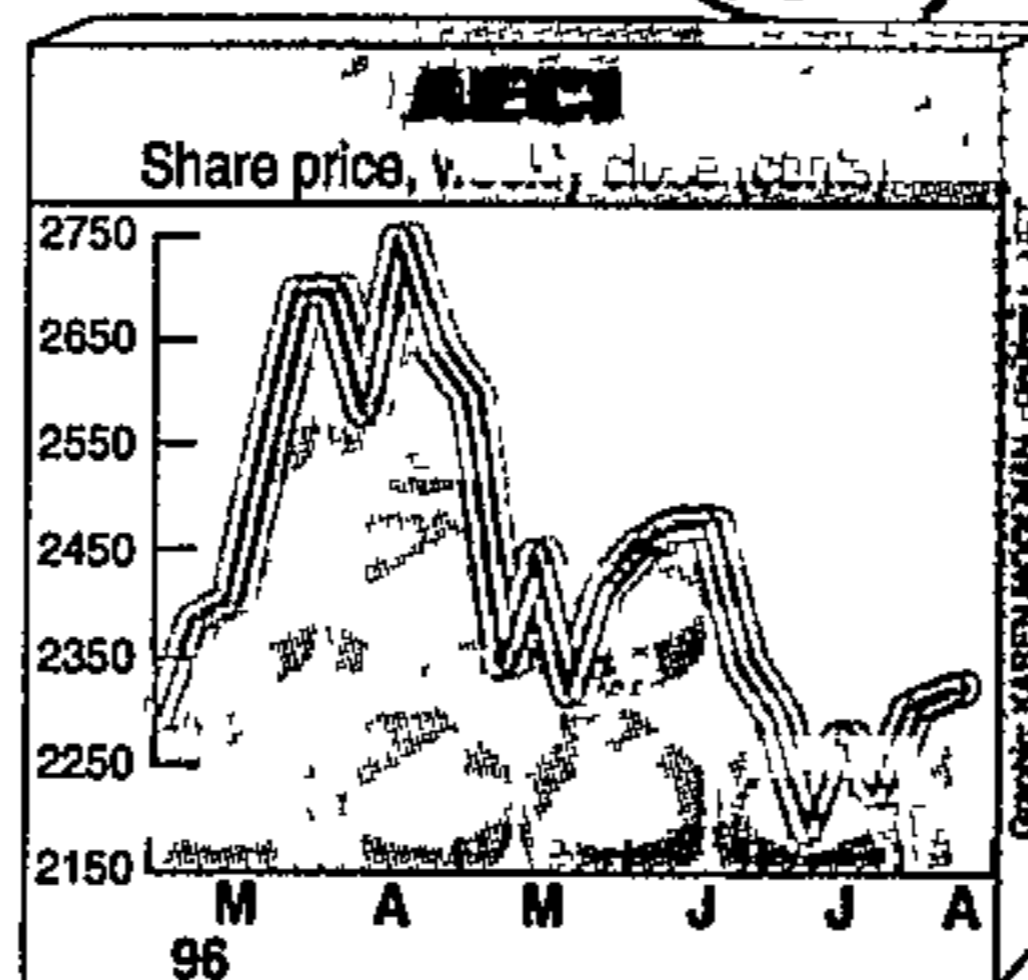
AECI posted a 14% drop in net earnings to R134m in the half year to June, after sharply lower first-quarter demand in most sectors subdued trading income, with increased interest charges taking a further toll.

The explosives-to-chemicals company controlled by Anglo American said trading conditions had improved considerably in the second quarter, and this continued through July. Full-year earnings were expected to show further improvements after the previous year's resurgent earnings growth. AECI said second-half earnings should be higher than last year's, "barring serious disruptions to the economy".

Earnings were 79c a share (94c), and the dividend of 25c was unchanged. The share price closed unchanged yesterday at R23,20.

With net interest-bearing debt rising R312m to R1 714m, MD Mike Smith said efforts to dispose of AECI's effective 25% stake in AECI's own shares, via an international placing, were continuing.

Since the share peaked at R28,45 in April, the value of this



stake had dropped R203m, to about R899m yesterday. Some analysts doubt whether the second half could bring about a large enough improvement in the share price to recover this notional loss.

AECI said the key factors behind the interim results were inventory reductions in customer industries, higher levels of illegal imports in some areas and protracted late summer rainfall which hit the beverage and construction sectors in particular.

The second-quarter improvement boosted margins as local demand revived and international prices for certain key raw materials dropped. But continued

weakness in the building and construction industry constrained performance in businesses such as acrylic products, industrial urethanes and paints.

"With Kynoch recording strong growth, group trading profit rebounded in the quarter and substantially exceeded that achieved in 1995," the company said.

The second-quarter improvement was insufficient to prevent total group trading income shedding R6m to R254m. As financing costs rose R51m to R133m, and tax dropped by R36m to R27m, group earnings, before accounting for investments and associates, shed 18% to R94m.

Net trading profit from AECI's agricultural businesses rose sharply from R5m to R51m, with improvements also recorded by the explosives, specialty chemicals and property sectors. Setbacks affected the "fibres" sector, including Nylon Spinners, which shed R42m to R24m; "other businesses", including Dulux, which shed R20m to R2m; and monomers, polymers and related products, largely representing AECI's 40% share in Polfin, which shed R33m to R145m.

Engen could face environmental damages claim

Samantha Sharpe

CAPE TOWN — Oil company Engen could face an expensive damages claim following allegations in the Cape Town Supreme Court yesterday that the company had failed to complete a thorough environmental clean-up at a former petrol storage site in Knysna.

Legal sources said that the case could have far-reaching implications for the closure of other petrol storage sites and for the owners of land which were formerly used as garages.

Property developers Berns Knysna Holdings claimed that Engen had been negligent in its responsibility to rehabilitate land

previously used to house petrol storage tanks.

Also at issue was the removal of soil contaminated by petroleum products at the site — adjacent to a water concourse leading into the Knysna lagoon — Berns Knysna said.

The matter continues in the Cape Town Supreme Court today.

AECI's net earnings slide to R122m

By James Lamont

INDUSTRIAL EDITOR

Johannesburg — AECI, the diversified chemicals conglomerate, recorded a slide in total net earnings to R122 million in the first six months of the year from R145 million in the same period last year, the group said yesterday.

AECI was hit by a sharp decline in local demand in the first quarter.

Turnover increased to R3,48 billion in the first six months of this year from R3,16 billion previously, but net trading profit slipped to R254 million from R260 million.

Financing costs rose to R133 million from R82 million and net interest-bearing debt rose to R1,7 billion

from R1,4 billion.

Earnings a share fell to 79c from 94c. The group declared a dividend of 25c a share, unchanged from last year.

The group's export sales surged to R641 million, representing 18,4 percent of turnover compared with 15,5 percent in the first half of last year.

AECI's four main operating companies are Chemical Services (66 percent), Dulux, Kynoch Fertilizer and South African Nylon Spinners. It also has a 40 percent interest in Polfin and a 49 percent stake in AECI Explosives.

Mike Smith, AECI's managing director, said that the company's trading levels were similar to last

year, but its interest bills were much higher. This reflected gross expenditure on fixed assets and investments of R294 million and higher interest rates on local borrowings.

Smith said that AECI had experienced a "dull period" until the end of March, but had bounced back in the second quarter with strong growth from Kynoch. He said the group would remain at that buoyant level for the rest of the year.

"My hope is that we will beat last year's second-half and last year's full-year results," he said.

"I feel we will do reasonably well in the second half."

He said good rainfall had boosted sugar and maize yields. The weaker rand, which favoured

exports, would benefit the industries the group serviced.

Smith said the unexpected slowdown in the first quarter of this year could not be attributed to a single factor beyond the heavy late-summer rainfall and last year's explosion of credit.

"The trading environment in the first quarter was a real problem," he said. "But I am not unhappy where we finished."

Destocking in customer industries and higher levels of illegal imports were also negative factors, and sales to the beverage and construction sectors were adversely affected by the rainfall.

□ See Business Watch

(183) LT (DR) 7/8/96

Prempharm merger is closer

Amanda Vermeulen

PREMIER Pharmaceuticals and Adcock Ingram are poised to tell shareholders that long-running merger talks have reached an agreement in principle

It is understood that the deal, creating a company worth R5,5bn, will be concluded by the end of this month. Several obstacles, including problems relating to outside shareholders, and certain contractual agreements, have still to be overcome, but these were not expected to scupper the tie-up.

Analysts suggested that the Krok brothers, who own a large chunk of Prempharm, had not been enthusiastic

Premier Group CEO and chairman Doug Band refused to comment on developments. Analysts said the contractual issues could relate to the licensing agreements each company had.

Institutional sources said the structure of the merger was unlikely to be a new company, which prompted speculation that the deal was effectively an acquisition of Prempharm by Adcock Ingram.

Talks between the two listed groups started earlier this year, sparking controversy over future leadership. Analysts said that of the two candidates — Adcock CE Don Bodley and Prempharm CE Phil Nortier — the latter appeared to be the front runner.

Band said this week the leadership debate had been resolved, and was not one of the issues holding up the completion of the deal. Adcock financial director Daryl Kronson said the groups were confident the deal would go ahead.

Analysts and unions sources said yesterday that the transaction would see large scale rationalisation across both companies, which could see more than 1 000 jobs lost.

Adcock was capitalised at R2,68bn on the JSE yesterday, as the counter shed 20c or 1% to close the day at R19,30.

Prempharm, which has a market capitalisation of R2,645bn, ended 10c or 0,4% stronger at R24

(183) 20 8/8/96

Plastics industry counts the cost of protection (83)

Mt G (Bm) 8-15/8/96

The misguided choice of coal-based technology is limiting a potentially booming sector, reports **Lynda Loxton**

PLASTICS and chemicals giant Polfin upset many manufacturers when it managed to persuade the Board on Tariffs and Trade to slap anti-dumping duties on polymer (plastic raw materials) imports

But while many ranted and raved about "high-handed measures to reduce competition", the incident once again underscored the folly of the decision taken during the 1973 oil crisis to "go it alone" and take the coal-based petrochemicals route

Billions of rands have been poured into that route since then in the form of Sasol II and III, as well as Mossgas, to ensure South Africa's self-sufficiency. At the same time, companies such as AECI and Sentrachem have abandoned plans for coastal petrochemical complexes and have moved instead to the "coalplex" near Sasolburg.

But the basic inputs for the chemical and plastics industries have, because of the coal-based route, turned out more expensive than if they were oil-based, as they are in the rest of the world.

Simultaneously, transport costs for export products have been higher, further eating into competitiveness.

According to researcher Rod Crompton, who undertook a major study into the sector for the Cape Town-based Industrial Strategy Project, this approach might be attractive from the point of view of adding value to relatively low-grade domestic resources, but it really only worked from an import-substitution perspective.

The cost structures are therefore different from those in international oil-based competitors and tariff protection is needed, while the prospects of exporting PVC of any kind are limited.

With the economy opening up and many manufacturers eager to move into export markets, such constraints are irritating and obstructive. Hence the fury of the polymer importers.

But one cannot wipe out billions of rands of investment and intensive technological development overnight, no matter how desirable in the short term. So what to do?

This is one of the many issues being examined by "cluster groups" organised by the Department of Trade and Industry to examine the structural weaknesses inherited from years of apartheid-inspired import substitution and how to right them given the globalisation of the world economy.

A case in point is the fact that the

South African petrochemical industry faces crucial investment decisions over the next few years as it considers various options to meet the looming shortage of ethylene.

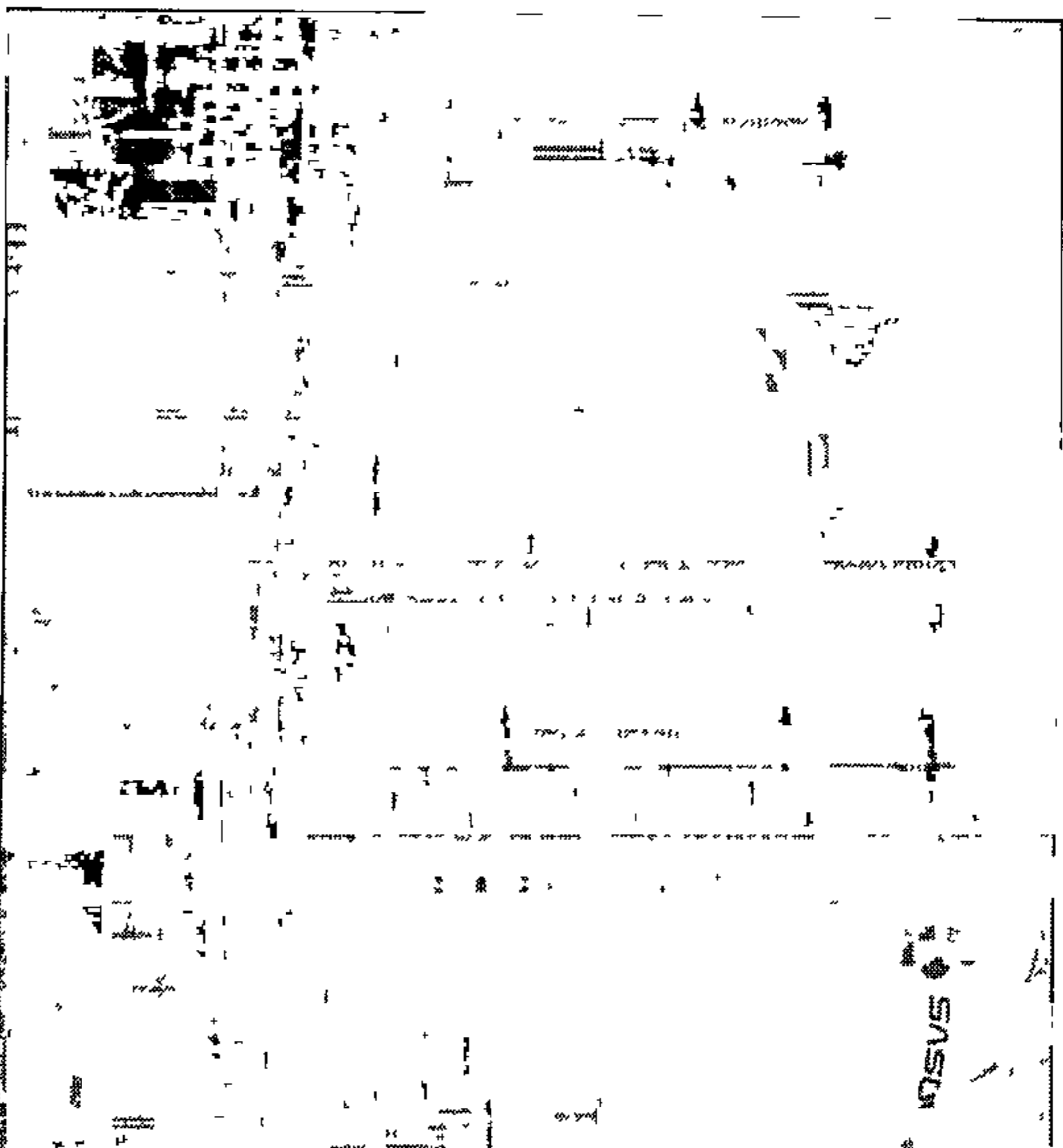
An essential feedstock for the fast-growing plastics industry, ethylene is a volatile gas presently produced by Polfin from feedstocks extracted as a by-product by Sasol in its fuel-from-coal process at its Secunda plant.

Sasol can produce 400 000 tons of ethylene a year, but demand is growing rapidly and a shortage is looming within two years.

The options open to the industry include an inland cracker based on coal-derived feedstock, which will further entrench Sasol's coal-based technology, and a coastal naphtha cracker based on imported feedstock that will fill in the "missing link" that has characterised the petrochemical industry for so long.

The naphtha option will widen the slate of inputs for the chemical and plastics industries more than is presently possible with coal-based technologies. This will improve the competitiveness of the industry, both in terms of quality and costings.

But the choice is not an easy or obvious one. A naphtha cracker would cost R4-billion to R5-billion and double the ethylene feedstocks available on the market, without any guarantee that the kind of export-led



Sasol: Can produce 400 000 tons of ethylene a year, but shortage looms within two years

PHOTOGRAPH SASOL ANNUAL REPORT 1995

downstream development would take place at the same time.

"The timing of such an investment is going to have to be very carefully based so that we do not have to export all the product," says Sasol general manager John Marriot.

Engen strategic planning manager Dave Wright does not believe a naphtha-based cracker is an immediate priority although it would be needed "at some point in the future."

Says Wright "If we are looking at local consumption only, then a Secunda-based cracker makes economic sense," he said. The DTI's "cluster" study groups

are examining supply-side measures to develop the kind of downstream industries needed to justify further investment in ethylene production.

Polfin chief executive Trevor Munday says the cluster studies were aimed at expanding the downstream industries "into a whole new league altogether." He recently announced that Polfin was also examining the ethylene options and the possibility of investing about R6-billion in a new petrochemical complex.

"It is early days yet the team that we have put together is evaluating all aspects of the project including where is the most suitable site," Munday said.

COMPANIES

Sasol Gas has large buyer in the pipeline

8/8/96 (183)

Reinie Booysen

SASOL Gas could have a 15-million gigajoules-a-year gas buyer lined up in Richards Bay to add to its growing KwaZulu-Natal customer list, if a "hot briquetted iron" plant, proposed by Murray & Roberts Contractors, gets off the ground.

Sasol already has about 6-million gigajoules of sales — equal to about 162-million cubic metres of gas or 160-million litres of diesel — virtually tied up with signed letters of intent in the province. The 150 potential gas customers in Richards Bay and Durban range from small businesses to large-scale industrial operations like the Alusaf aluminium smelter and Mondi.

Sasol is spending R120m over the next five years to add distribution spurs to a disused Petronet oil pipeline from Secunda in the Transvaal to Richards Bay and Durban. The pipeline is being commissioned and the first gas will start flowing to Mondi later this week. Mondi, one of the largest signed-up customers, is due to take nearly 1-million gigajoules a year.

Sasol's long-term plan for its KwaZulu-Natal gas supply project is to sign up annual sales of at least 20-million gigajoules. The proposed hot briquetted iron plant will go a long way towards that objective. Apart from converting the Richards Bay-Durban portion of the pipeline, Sasol is planning to build a new spur from Durban North to Durban South, and is considering another spur to Maritzburg.

Sasol Gas GM Willie Rossouw says Sasol has the capacity to produce sub-

stantially more than 20-million gigajoules of gas — on top of its fuel and petrochemical needs — annually.

"Over the years the Secunda gasification works has become increasingly efficient, and we now have substantial additional gas capacity — if we can find buyers at the right price."

Although there is a possibility that Sasol may face competition from Mozambique's Pande gas project, Rossouw believes this is unlikely. There will not be sufficient large base load customers in Richards Bay to warrant the construction of a pipeline from Mozambique to the port.

The Pande project "doesn't yet exist", and the Industrial Development Corporation and US Enron "appear to be well down the road" in their project to use Pande gas to smelt magnetite in Mpumalanga or the Northern Province. This would provide Enron with its base load consumer, he said.

Murray & Roberts Contractors CE of mining and industrial business Mike Wilde said the pre-feasibility study on the Richards Bay iron plant should be completed by the end of this month. "Then we must go out and find investors." He said Murray & Roberts Contractors were merely promoting the project, and was "not in the business of owning iron or steel plants".

As reported in Financial Mail this week, one local and three foreign investors have expressed interest in the project. The rough estimate of project costs is R1 344m.

The project will be linked to a steel mill in Port Elizabeth "or the greater Eastern Province", Wilde said.

POLIFIN (83)

FLEXIBLE PERFORMANCE

Now in its second year as a public company, Polifin is forging ahead. The 1996 EPS of 83c was slightly ahead of the 80c

AM 9/8/96

predicted last December, observes CE Trevor Munday

"Considering that Polifin has been through a year of enormous change, with the acquisition of SA Cyanamid and the Midland Restructuring Project (MRP) being commissioned — plus some big cyclical shifts in the international markets — we feel reasonably pleased," he says

Turnover grew only 7% to R3,2bn and operating margins softened to 23% in the wake of lower product prices (down 30%-50%) and decreasing sales in the first half. A stronger second half, with China back in the market after a temporary withdrawal and prices creeping back up, kept operating income growth positive

A drop in the effective tax rate to 32%, plus significantly lower finance charges resulted in a 28% gain in attributable income to R454m

Strong cash generation allowed the repayment of R194m in long-term borrowings. Munday says short-term debt, which stood at R135m at year-end, should be retired out of cash flow by the interim stage

The net effect on the balance sheet is to reduce net borrowings by R60m and cut the gearing to 26%

Completion of the R646m MRP project (three months ahead of schedule and within budget) should see an estimated annual cash cost savings of R150m kick in for the first time in 1997

After deducting a higher depreciation charge, this should contribute as much

Munday

Phase one of the new polypropylene plant at Secunda is under way and the next two years will also see the group concentrate on polyethylene upgrading projects

Munday says international polymer prices are stable but are expected to ease off along with world oil prices

The Board on Tariffs & Trade has responded to Polifin's complaint of dumping by raising tariffs on the offending countries' products

Munday dismisses accusations of bullying the market. "Anyone who gets involved in antidumping can be accused of bullying. SA is an attractive country for dumping and when this happens, it undoubtedly hurts us"

A lack of market confidence saw the Polifin share drop precipitately to 500c

late last year, though it has since recovered to 786c.

Assuming earnings for next year of about 25%, a forward p/e of 7,6 makes it look inexpensive — a worthwhile risk. Margaret-Anne Halse



Trevor Munday

DELIVERING THE GOODS		
Year to June 25	1995	1996
Operating income (Rm)	730	742
Attributable (Rm)		454
Earn. per share (c)		83
Dividend (c)	N/A	27

as 12c to EPS next year

Other major capex projects included the purchase of SA Cyanamid and the upgrading of business information systems to run SAP R3 software

With another R1bn earmarked for upgrading existing facilities and developing new ones over the next few years, "the process of change will continue," says

deep offshore natural gas field

Windhoek-based Ger Kegge, MD of Shell Exploration and Production BV, says the results of the test should provide the basis for "a more accurate cost estimate of the gas to support continuing marketing efforts"

Reserves have to be proven and data gathered for the development of the field for further appraisal planning "We expect that the well will prove reserves towards 3 trillion cubic feet, with a significant further expectation Additional

Cape west coast for at least 25 years

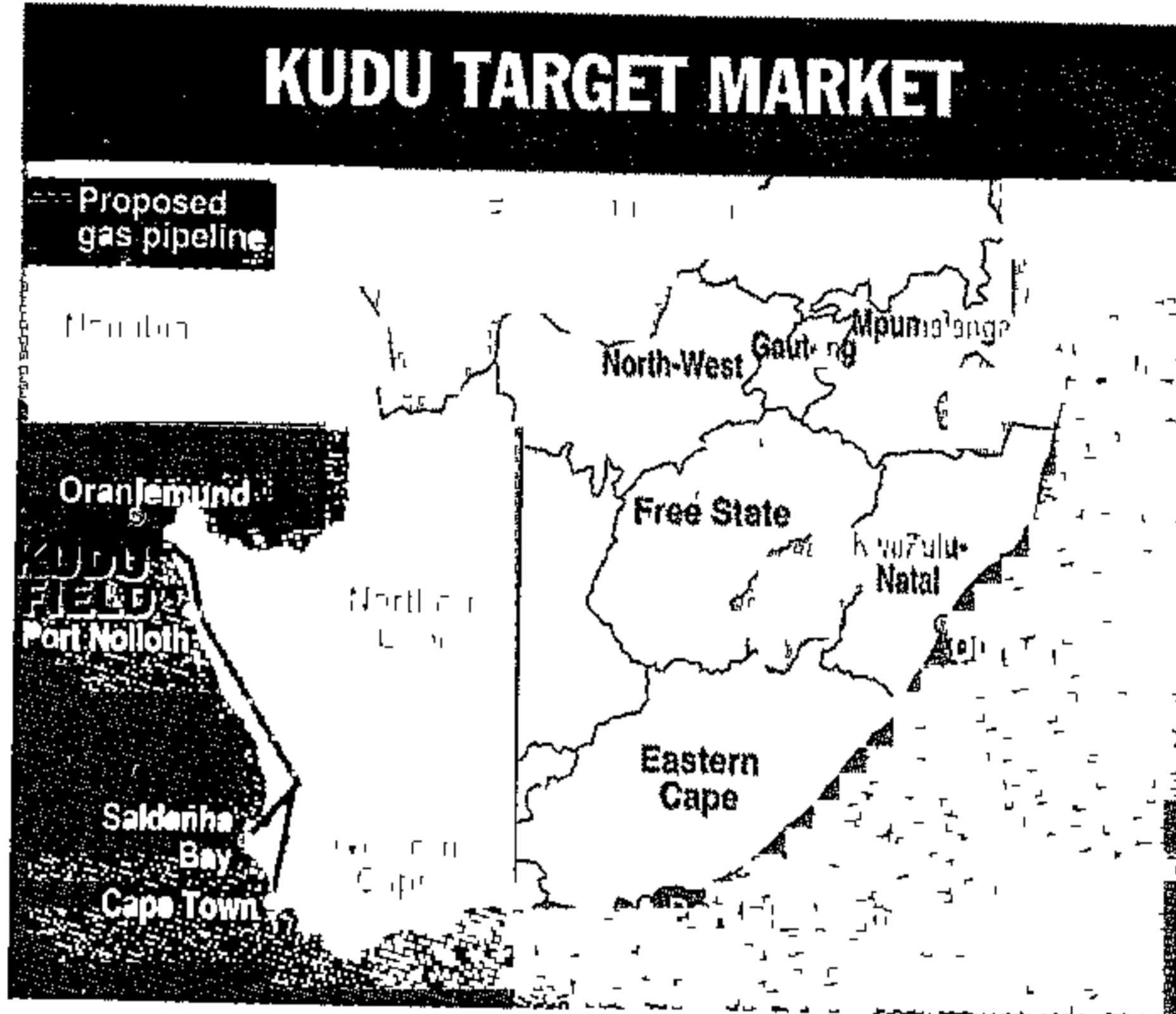
Eskom energy manager Brian Statham says though a gas-fuelled power station "is one of the options on our list," present indications are that this might not be possible in the next 10 years

He says "While Eskom still has substantial generation over-capacity, price, quality and available gas volumes are the other primary considerations that first need to be determined"

Lead time for a new gas-fuelled power station will be about three years But,

says Kegge, no firm gas price can be quoted without Kudu-4 well results and the development plan completed "Depending on the project size and market development, first gas could be onshore soon after the year 2000"

Statham says SA's substantial, cheap coal reserves create a major cost hurdle to the gas power station option but gas has important economic and cost benefits These include



reserves will require further drilling and/or seismic surveys"

But a sales agreement will have to be in place before development can be undertaken "Indications are that the gas price necessary for the project to be viable is in the range of the current gas prices in mature markets such as Western Europe," says Kegge

The feasibility of the development of Kudu gas depends on minimising development costs, using leading-edge experience gained in the North Sea and elsewhere

Having the facts should therefore enable Shell — and partners Energy Africa (10%) and Texaco (15%) — to discuss possible future sales with potential customers such as Eskom and Iscor/Saldanha Steel with greater authority

"We've had various discussions with potential customers in the Cape, including Eskom and Iscor, but are not yet considering a pipeline," says Kegge

Cost is the most vital factor in finding a base load customer for the massive field, which is now conservatively estimated to have sufficient reserves to feed a 1 750 MW Eskom power station on the

- Load following and quick-start capabilities,
- Environmentally easier to handle, with lower pollutant emissions,
- Greater energy efficiency, and
- A long pipeline, from Oranjemund or Port Nolloth, would provide substantial compression storage facilities, obviating the need for gas storage tanks

Statham says Eskom will meet Shell and its Namibian power utility counterpart Nampower "by the end of the year"

Kegge adds that Shell is confident it will find base load customers — either in SA or in Namibia ■

A QUESTION OF PRICE

(153)
PM 9/8/96

Development costs for a "base case project" able to deliver 250m standard cubic feet of gas a day, through a 170 km pipeline to Oranjemund for 30 years, have been estimated at about US\$700m

Last week's drilling — and subsequent flow testing — of Shell's Kudu-4 well, about 150 km west of Oranjemund, is part of a "comprehensive appraisal and development plan" for the huge, 4,7 km-

Airlines to resist 'high' fuel prices

Reinie Booysen

AIRLINES operating in and out of SA are to present Mineral and Energy Affairs Minister Penuell Maduna with evidence that they pay about 30% more for fuel in SA than at typical airports abroad — boosting oil company profits at the expense of air ticket prices

A meeting with previous minister, Pik Botha, produced a commitment to take action against the oil companies, provided airlines could substantiate their case. Botha resigned in June, and the airlines will have to start afresh

The airlines, represented by the Airlines Association of SA — which will also represent the International Air Transport Association — will argue that the higher ticket prices are inhibiting tourism, undermining its ability to generate foreign exchange for SA

Fuel prices represent about a third of most airlines' operating expenses

Airline officials said at the weekend the root cause of the high price structure at Johannesburg International Airport was Sasol's tight grip on that market. In terms of the secret supply agreement between Sasol and the rest of the oil industry, at least 80% of the 850-million litres of fuel supplied at

the airport has to be bought from the Natref refinery — in which Sasol has a 64% and Total a 36% interest — unless Natref cannot supply the full 80%.

In practice, because of the phenomenal growth in demand in recent years, Natref is now able to supply only about 60% of the airport's needs. The rest is railed up from refineries in Durban by other oil companies

Sasol sets the price for its fuel at "in bond landed cost" (IBLC), based on the assumption that finished jet fuel is imported from Singapore and the Middle East. However, oil companies rarely import fuel from Singapore, the world's most expensive market.

After averaging a mix of posted and spot prices from three Singapore refineries and the Bahrain-Caltex refinery, the notional costs of moving the material to Durban are added, including shipping, insurance, wharfage and other fees. This produces the IBLC, to which Sasol adds an 11,695c/l pipeline charge to pump the fuel from Durban to Johannesburg. In truth, no jet fuel passes through state pipeline operator Petronet's pipeline from the coast

The toll on fuel prices is heavy, es-

Continued on Page 2

Fuel prices

Continued from Page 1

pecially as the other oil companies — Total, BP, Shell, Caltex and Engen — use the same pricing structure for the fuel they rail up from Durban.

Johannesburg prices are now 25c/l to 30c/l above the levels at large European airports, with SAA near the bottom of this range in view of its immense volumes (it buys about 350-million litres a year at Johannesburg and 600-million litres nationwide).

According to one foreign airline fuel buyer, the average visiting airline paid about 100c/l to 105c/l at Johannesburg International last week, against 75c/l to 80c/l at London's Heathrow. While he acknowledged that Johannesburg prices were unlikely to drop as low as Heathrow's, he said the disparity was excessive. "We feel that import parity

pricing is outdated and retrogressive," the official said at the weekend

A Sasol spokesman said Durban prices were "very much in line with international prices, confirming that the import parity pricing system gives fair wholesale market prices." Johannesburg International prices were higher than the international average for two reasons. "Firstly its location 600km from the coast necessitates, in the case of Natref, the cost of crude transportation from Durban and the further cost of transporting products from Natref to the airport. The pipeline charge is in fact a very real charge."

Johannesburg International did not enjoy the economies of scale Heathrow did. High quality requirements for jet fuel demanded dedicated and expensive logistical infrastructure. In addition, Sasol's "commercial, not secret, agreement with the other oil companies does not specify the prices they should charge the airlines"

BD 12/8/96

Decline hits Hoechst as market slows down

Reinie Booysen

HOECHST SA suffered a 27% decline in attributable earnings in the six months through June, to R15,6m, as economic activity slowed and the international market for polyester fibres hit turbulence.

Anticipating the bad news, Hoechst shares settled 50c lower, at a 12-month low of R45 on Thursday, down from the high of R63,20 on 15 March.

Headline earnings were down 25% at 11,5c a share (15,3c), and an interim dividend of 3c was declared (nil).

MD Steffen Beuthner said he did not expect a material improvement for the balance of the year, but that he was positive about next year. Although a reversal of adverse trends was anticipated by year-end, the turbulent conditions in the international market for polyester staple fibres also affected the SA market.

"Far Eastern fibres producers significantly depressed international selling prices at a time when key raw material prices were at historic high levels. The impact which this had on gross profitability was exacerbated by stagnant local demand for textile fibres."

This led to "a marked decline in the contribution from the fibres business which is clearly reflected in the group's performance as a whole".

While turnover increased marginally to R876m (R853m), operating profit fell 33% to R26,5m (R39,3m). An ab-

(183) 2012/8/96
normal deduction of R2,075m (nil), dividend receipts of R2,87m (R2,447m), and net financing costs of R19,845m (R23,458m) left pre-tax income of R7,427m — 60% below last year's R18,325m. Notably, the tax situation turned sharply from a R4,688m credit to a R946 000 liability, leaving taxed income of R8,373m (R13,637m).

Beuthner said the performance of the plastics and films businesses was satisfactory. While benefits were expected next year, the restructuring and rationalisation of the Noristan non-core activities affected healthcare earnings, while favourable conditions in the animal health sector had contributed to the improved performance of Hoechst Roussel Vet.

Poor chemicals results reflected the sale of the graphics and dyes businesses, a softening in international chemical prices and the underperformance of the SA textile market.

The consolidation of chemicals activities into a single business unit, coupled with site and production rationalisation, would improve the competitiveness of this sector.

The R200m Himont technology-based polypropylene plant at Safripol would position the plastics business to fully exploit the growing polyolefin market. Hoechst's commissioning of a R205m polyester polymer plant in Natal late next year would reduce manufacturing costs and make the fibres business almost self-sufficient.

Lower prices of fibres hit Hoechst

CT (MR) 12/8/96
(183)

By James Lamont

INDUSTRIAL EDITOR

Johannesburg — The attributable earnings of Hoechst South Africa, the pharmaceutical and chemicals group, dropped 27 percent to R15,6 million in the first six months of this year

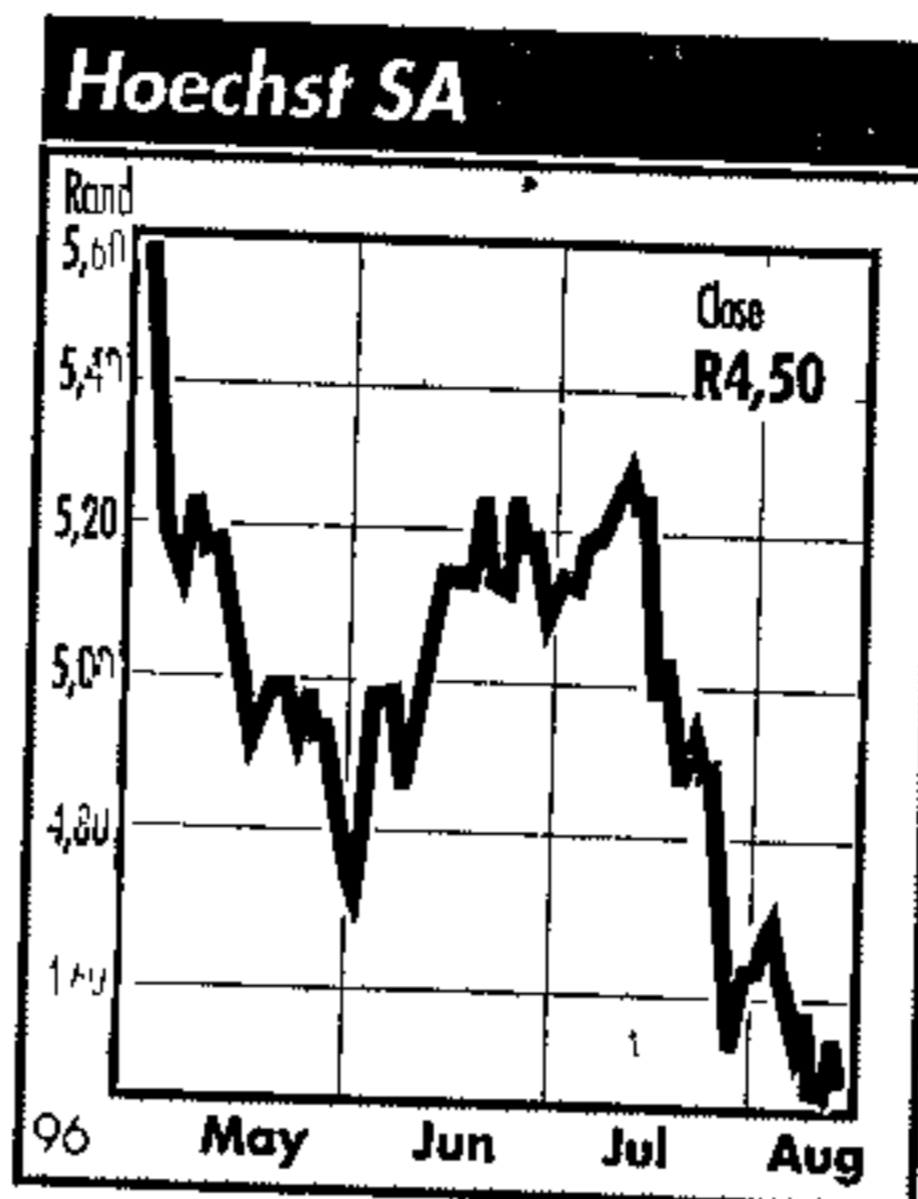
The decline in polyester fibres prices on the world market and a slowdown in local economic activity dragged down the earnings

The company, which operates in healthcare, polymers and their derivatives and chemicals, said in a statement of interim results that headline earnings a share fell 25 percent to 11,5c for the first six months of the year from 15,3c in the same period last year.

A sharp decline in Hoechst's fibres business lay behind the dent in profitability

Far Eastern fibres producers depressed international selling prices at a time when key raw material prices were at historic high levels. This was exacerbated by stagnant local demand for textile fibres.

Steffen Beuthner, Hoechst's managing director, said he expect-



ed the company's performance this year to be worse than last year's, in spite of a forecast reversal of adverse international trends. He predicted no significant improvement in the second half of the year.

But he expected a strong upswing next year from new investments, cost reductions and the launch of new products.

These include a R210 million polyester polymer plant in KwaZulu Natal and the R200 million polypropylene plant at the Safripol plant in Sasolburg.

Group turnover increased marginally to R876 million in the first

six months of this year from R853 million. However, operating profit fell 33 percent to R26,5 million from R39,3 million the previous period.

The directors declared a dividend of 3c for the interim period.

Beuthner said they were making many investments and cost reductions in anticipation of an excellent year ahead and 1998.

"Industrial growth in South Africa this year has been zero. What growth there has been has come from agriculture," he said.

He said Hoechst had moved in the half year to sell and rationalise its non-core businesses. The healthcare division's Norstan activities were restructured and the company sold off its graphics and dyes businesses from its chemical division.

Hoechst, which is controlled by its German parent of the same name, was listed in the chemicals and oils sector in July last year.

The share price was little changed until it posted sharp gains early this year. But these were gradually eroded as concerns about the commodity cycle pulled the share price lower. The share closed unchanged at R4,50 on Thursday.

'Suspensions' put a blot on Revlon's local beauty business

By James Lamont & Heather Dugmore

Johannesburg — Revlon, the international beauty products company, has suspended its two top executives in South Africa over suspected irregularities concerning their wives' business interests, sources close to the company said yesterday.

Malcolm Kemp, the managing director of Revlon South Africa, and Steve de Villiers, the local company's general manager, had been suspended some months ago pending the results of an internal audit.

Allyn Simon, Revlon's media liaison manager at Revlon's head office in New York, declined to comment on the allegations. "It is not our policy to comment on personnel matters," she said.

George Fellows, the group's chief executive, was unavailable for comment.

De Villiers said neither he nor Kemp could comment because they "were employed by the company." The company's human resources department also said it was not in a position to talk. Kemp, however, dismissed the allegations as industry rumour.

"It's all rumour I've been away

for seven weeks in Atlanta with my family and I know nothing of this audit, but it is a regular thing. There is no suspicion of embezzlement," he said.

A source said Kemp and De Villiers' suspension concerned issues relating to their wives' fringe and parthouse businesses. Both men were involved in those businesses without disclosing this

information to Revlon. "Their wives were involved in businesses contrary to Revlon's practices," the source said.

The source added that the two executives had not been at work for the past few months and had travelled to New York two weeks ago, during which time they took the opportunity to discuss possible severance packages.

Neither executive could be con-

tacted at Revlon's head office in Johannesburg yesterday, but Kemp is believed to be taking counter legal action against Revlon.

Kemp previously held the position of chief executive for Revlon's Europe and Africa operations before being posted to South Africa as managing director.

Staff at Revlon said they were in the dark as to what the internal audit had yielded.

CT (PR) 13/8/96

(183)

Petronas rules out any link with Sasol

(183)
By Françoise Botha

15/8/96

Kuala Lumpur — Petroleum Nasional (Petronas), the Malaysian petrol company, would not tie up with Sasol in any way Dato Hassan Marican, the chief executive of Petronas, said last week.

He said that its expansion plans into Africa did not include using Sasol or Mossgas, the controversial state-owned fuel-from-gas producer, as a vehicle.

He denied that the South African government rejected Petronas's bid for the privatisation of Mossgas earlier this year.

There has also been speculation that Petronas would seek to tie up with Sasol, the state-owned synthetic fuel producer, since Petronas's R1.9 billion purchase of a 30 percent stake in Engen in June

Sasol is precluded from operating its own retail petrol stations. It would benefit from a link with Engen, which has about 25 percent of the South African retail market.

Sasol may seek a link with another oil company present in South Africa to enter the retail market before it is deregulated.

Marican said he believed that the 35 percent premium Petronas paid for its stake in Engen was fair, in view of the company's strategy for Africa.

"The deal gives the opportunity for both Engen and Petronas to pursue our objectives in a more synergistic manner. The company will expand as and when the market presents itself with the opportunities. As for our plans, you will just have to wait and see," he said.

Marican dispelled speculation that Petronas invested in Engen because it expected the South African fuel industry to be deregulated.

He said that the market was over-regulated and that deregulation was likely in the future.

However, he emphasised that the company invested in Engen because it intended to use its investment "as a springboard into the rest of Africa".

THE WEEK AHEAD

DIAGONAL STREET

Afrox is cooking on an attractive p-e multiple

(183) CT (BR) 19/8/96

John Spira says that now is a good time to buy those rare, expensive investments that show unerring growth every year

The shares of companies which unerringly grow their earnings year after year are bound to command a premium

That is, after all, the prime criterion for institutions which want to create solid growth for their core portfolios

Such investments are rare and they are therefore expensive

Investors who wish to include counters of this ilk in their portfolios, and it is certainly prudent to carry at least one such counter in any growth-orientated portfolio, are faced with the quandary of just how big a premium they are prepared to pay to get a foot into this exclusive door

Now is a good time to embark on the quest because shares which slot into this category have, by and large, performed in desultory fashion this year

Some, in fact, have actually been losing ground. The market reasons that the economic slowdown is likely to have a negative effect on earnings in the year ahead. The trick is to ferret out one share among the few commonly termed royal-blue stocks whose price has failed to progress and whose earnings will continue to climb in the face of the market's musgivings about such growth.

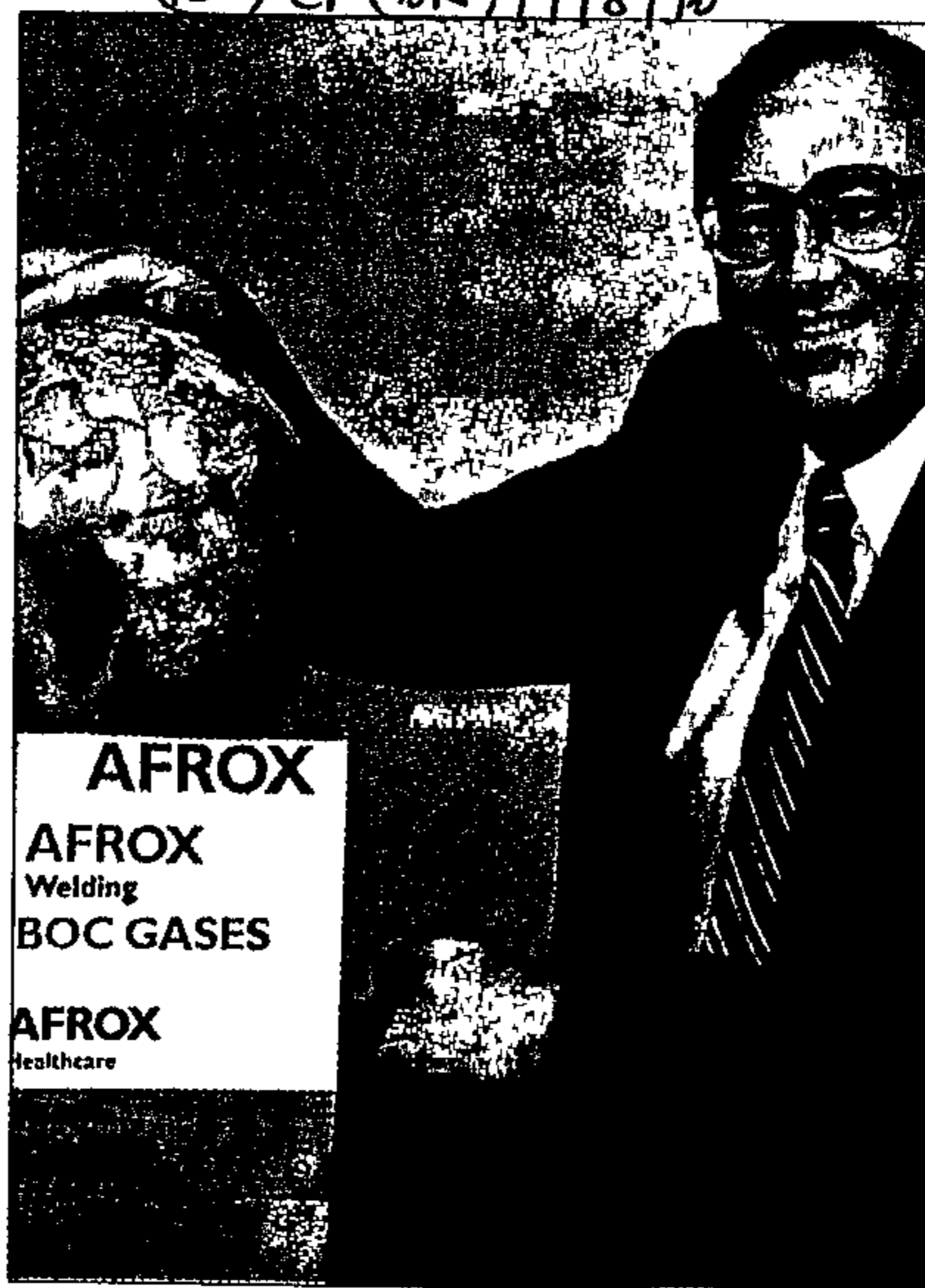
Stringent requirements they might be, but Afrox comfortably meets all the terms of this most demanding of checklists

The group's earnings pedigree is beyond reproach. Growth at the share level has been positive for the past umpteen years, furthermore, it approached 30 percent last year. That is a remarkable achievement for a company of considerable size. At R15,10, the share price is almost identical to the level ruling at the start of the year.

The remaining unanswered question is whether or not Afrox is able to maintain its forward momentum in the face of an inclement economic climate.

In December last year, when Afrox released its annual report, Royden Vice, the chairman and managing director, was confident that earnings would improve in the year to September 30.

In May this year, when Afrox released interim current cost earn-



CONFIDENT Royden Vice, the chairman and managing director of Afrox, is confident that the company's earnings will improve for the year to September 30. He says the weak rand has helped the group.

ings 20 percent ahead of the comparable period last year, Vice pointed to continuous progress.

Clearly, when this year's results see the light of day, they will tell of positive earnings growth.

But we have little indication of how positive they will be.

Severe reservations are rearing their head, because earnings for the present six months must shape up against earnings which grew 38 percent in the six months to September 30 last year.

Now that is a daunting prospect which probably accounts for the share's lacklustre behaviour in recent months.

My boxing coach used to tell me "When in doubt, stick a left out." My investment coach used to tell me "When in doubt, give the boss a shout."

On this occasion, I discarded the former and opted for the latter.

Vice was, predictably, cagey. But he was happy to scotch fears that last year's second-half performance would detract meaningfully from this year's rate of earnings growth.

"Yes, it is a high base. Yet we

haven't felt the economic slowdown and I do not expect the improvement in earnings a share for the full 12 months to be far off the 20 percent reported at the interim stage."

And thereafter?

Vice remained upbeat, pointing to the downside benefits of several substantial contracts Afrox had clinched in recent months.

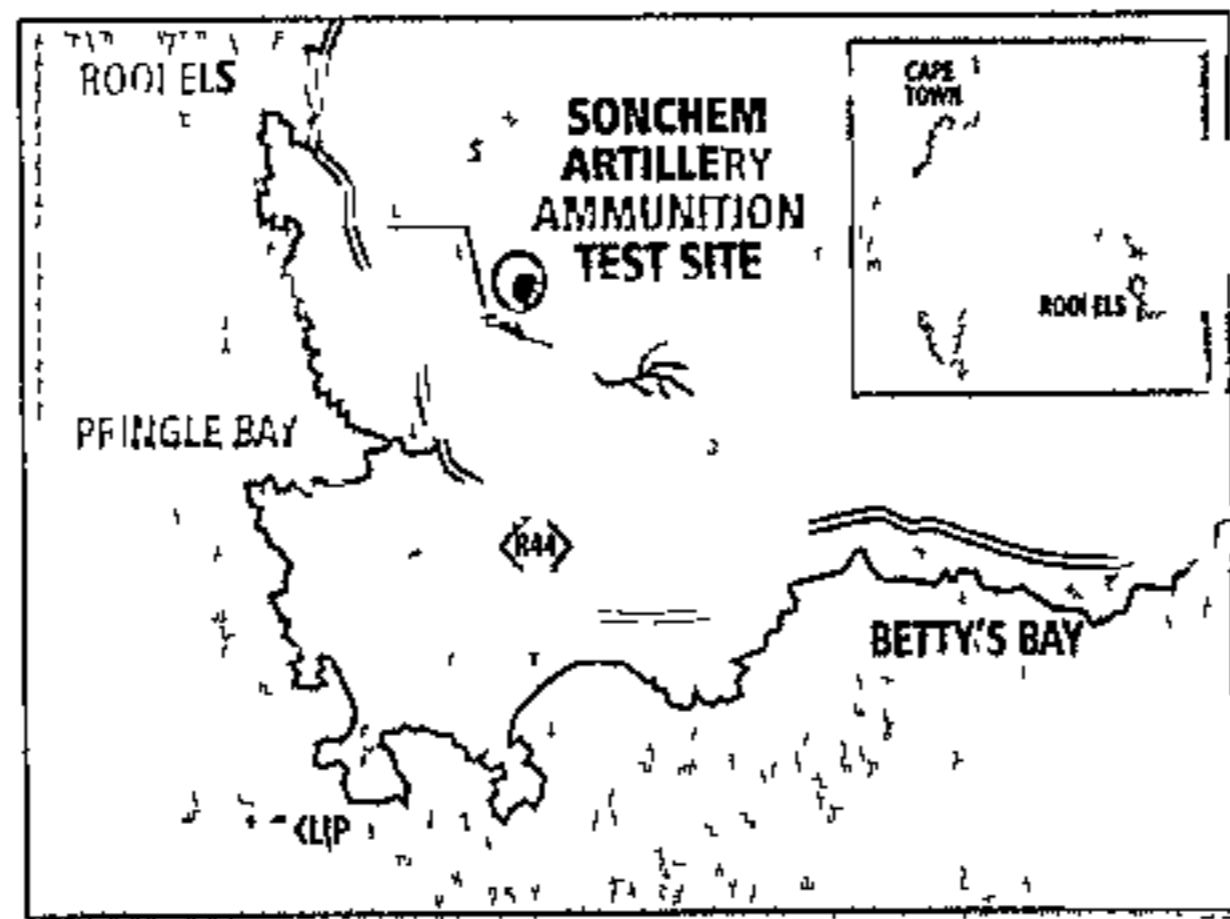
He also referred to the strong growth of the group's healthcare business and the increasing uses to which Afrox's gases were being put in the mining industry.

He also noted that the weakness of the currency had been beneficial to Afrox.

"It's helped our exports and kept foreign competition at bay. Importantly, we don't import anything to speak of."

Enough said. Afrox complies with every criterion.

Given its high pass mark, the forward price-earnings multiple of 25, which is derived from a conservative 20 percent earnings gain assumption, is by no means demanding.



Poison fears as chemical giant pollutes vital river

ARG 20/8/96

PIETER MALAN
Staff Reporter

TESTS show chemical giant Somchem is slowly poisoning the Buffels River at its controversial ammunition test facility near Hangklip

The Buffels River dam - sole water supply source for Pringle Bay and Rooi Els - is about 200m downstream from Somchem's facility, where artillery ammunition is tested.

Traces of the toxic elements beryllium and antimony have already been found in samples from streams flowing into Buffels River and experts fear other toxins, including cyanide, may also be washing down the river from the test site.

Beryllium and antimony are metallic elements believed to be present in the hardened copper used during tests of artillery ammunition.

Antimony is highly toxic and, if taken, give rise to symptoms similar to those produced by arsenic

In 1993, after a marathon court battle with the Rooi Els council, Somchem agreed in an order of court that it would cease all testing should it be found it had polluted water supplies to a degree making them unfit for human consumption

A statement yesterday by Somchem and six other organisations, which include local municipalities and pressure groups, conceded that lead in the soil around the test site exceeded official guideline limits.

Somchem, for the first time last week, also acknowledged that two cyanide compounds were among the ingredients of the artillery propellants tested on the site.

Somchem directed queries to Charlie Boucher, chairman of the test range working group, but he was unavailable.

SA plans to decrease oil dependence on Iran

Tim Cohen

CAPE TOWN — SA intended to decrease its oil dependence on Iran and was in wide-ranging talks with Saudi Arabia in negotiations which extended beyond the future of Mossgas, Mineral and Energy Affairs Minister Penuell Maduna said yesterday.

Maduna indicated that SA's oil storage capacity, the future of Mossgas and the likely sale of more of SA's strategic fuel fund were interlinked.

An "interesting" offer had been received from a Saudi Arabian group to acquire an interest in Mossgas, but it had been received after the expiry date of the Cabinet's "test-the-market" mandate for Mossgas. Contrary to reports that the offer was rejected, Maduna said it was being considered in the context of wider discussions about future trade relations between Saudi Arabia and SA.

He said 65% of SA's imports came from Iran. He acknowledged it was unwise for SA to depend on a single country for the bulk of its supplies.

Maduna would not comment on the future of Mossgas, saying only that a report would be presented to the Cabinet this week.

He suggested further cuts to SA's strategic oil stock would take place soon, but did not mention the amounts involved. It is understood the decision on how much of the stocks would be cashed depended on whether SA's oil storage facilities were utilised. SA has four months' supply in the strategic fund.

If SA did manage to rent space in the oil storage facilities, the strategic oil fund could be reduced substantially because reserve stocks would exist in the country even though they were not owned by SA.

Maduna said SA was keen to buy oil from Iraq if the price was right and the sale was within UN regulations. The foreign affairs department was registering SA as a buyer of Iraqi oil.

Country would supply oil in return

SA might sell Mossgas to Saudi Arabia

By Christo Volschenk

ECONOMICS EDITOR

(183) CT (POR) 20/8/96

Cape Town — Mossgas, the state-owned synthetic-fuel producer in Mossel Bay, could be sold to Saudi Arabia in part payment for oil imports under a comprehensive trade deal that South Africa and Saudi Arabia are negotiating.

Penuell Maduna, the minister of mineral and energy affairs, said yesterday that Saudi Arabia's offer to buy Mossgas last month could form part of a bigger trade deal being negotiated with the country. Saudi Arabia is the largest oil producer in the world.

It was reported recently that Saudi Arabia's offer to buy Mossgas for R1,5 billion was summarily rejected by the government because the offer had been received late.

The government announced recently that all other offers to buy Mossgas had also been rejected.

Maduna confirmed that the Saudi offer had been received a few weeks after the June deadline had expired, but he denied that it had been swept from the table because it was received late.

He said he would submit a report to the cabinet on Mossgas's future this week. Maduna said he expected the cabinet to make a final

decision on the synthetic-fuel producer in two weeks.

He said in a press briefing in parliament that the deal might result in South Africa buying crude oil from Saudi Arabia.

Maduna would not say how Mossgas would be included in the trade deal, but he said the Saudi offer would be "revisited" when the deal was negotiated.

An oil deal with Saudi Arabia would significantly reduce South Africa's dependence on Iran, which supplies about 65 percent of the country's crude imports.

"It is inappropriate for a country to be so heavily dependant on a single supplier," Maduna said.

He said South Africa consumed about 450 000 barrels of oil a day and that the country would buy oil from any source if the price was right.

South Africa would also register to buy Iraqi oil under the recently approved United Nations oil-for-food deal.

The cabinet still had to ratify a deal with Iran for storage space in underground bunkers close to Saldanha on the west coast, he said.

"The deal is still up in the air. Nothing has been signed. We are still waiting for the results of the environmental impact study," Maduna said.

SA's crude may supply neighbours

(183) CT(BR) 26/8/96
By James Lamont

INDUSTRIAL EDITOR

Maseru — The South African government's trade in crude oil, worth \$16 million (about R75 million) a month, could play a beneficial role in supplying sub-Saharan Africa's energy requirements, Penuell Maduna, the mineral and energy affairs minister, said last week.

Reiterating his view that South Africa should diversify its oil supply arrangements, Maduna said the crude trading undertaken by the Strategic Fuel Fund, a subsidiary of the state-owned Central Energy Fund, was a good source of hard currency and stretched to Kenya.

He said that South Africa's vast oil storage facilities, developed during the apartheid era to counter the oil embargo, could be used as a platform to supply the region.

The Strategic Fuel Fund, which used to co-ordinate all crude imports during sanctions, manages the strategic storage facilities and controls the state's oil purchases.

South Africa has been selling off its stockpiles. During the apartheid era South Africa maintained two years' supplies in the stockpiles. These are being reduced to four months. Stockpiles at the end of last year were about 45 million barrels, according to the International Energy Agency. That would cover imports for six months. The international norm is 90 days.

An audit by Inspectorate M&L, commissioned by the mineral and energy affairs ministry and released in February, recommended that the strategic fund become more suited to liberalised trade. It said it presented the state with commercial opportunities in oil terminalling and storage. It suggested the Strategic Fuel Fund be separated from the Central Energy Fund and possibly privatised.

Other oil trading opportunities could emerge from deals with Iran to store 15 million barrels in the facilities and one under negotiation with Saudi Arabia.

Unionists to act

(183)

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PETROLEUM sector workers of the Chemical Workers' Industrial Union would today embark on industrial action after mediation failed to break a deadlock with management.

The union said it would not compromise on demands for a 40-hour week without loss of pay, a 14% wage increase, and a R1 800 minimum salary.

BD 27/8/96
REPORTS Business Day Reporter, Sapa, Reuter

Medicine theft blamed on lax security

(183) (R) CT(BR) 27/8/96

By Shirley Jones

KWAZULU-NATAL EDITOR

Durban — Bad management and the government's inability to control stock are behind the theft of astronomical amounts of medicine from state warehouses and medicine depots, Miryena Deeb, a spokesman for the Pharmaceutical Manufacturers Association said yesterday.

State merchandise with a retail value of between R600 million and R1 billion was stolen because of antiquated stock controls and security systems, she said.

The antiquated stock control caused great losses from the main state warehouse before medicines were dispatched to state hospitals, where stock control and security systems were even worse.

According to a document supplied by Captain Daan Davis, the national co-ordinator of pharmaceutical investigations in the South African Police Services Narcotics Bureau, the state had no accurate data about which medicines were bought, what they were used for, and how effective they were. The bureau is the government-appointed committee that investigated the proposed healthcare plan last year.

The document said that the South African Police Services' prosecutions were often thwarted because the rightful owners of the medicines could seldom provide proof of ownership or even confirm the loss of confiscated stolen medicines.

Davis said that it was impossible to trace medicines, so it was difficult to say what proportion of stolen goods came from the state and what percentage from pharmaceutical manufacturers.

"Medicines can be filched at



RECOVERED GOODS Inspector Rocko Nel with stolen medicine seized last week. PHOTO JOHN WOODROOF

any time during the manufacturing or distribution process. During manufacturing, buckets full of pills may be spirited from the production line.

"It is also during this stage that a 2 percent margin is allowed by the industry for this, as is the case during the packaging stage. This 4 percent loss could amount to millions of rands worth of pharmaceutical products," he said.

"Medicines with expired shelf lives are also often lost on their way back to the manufacturers," Davis said.

He believed that the only way to control the spiralling theft of medicines would be to mark them before distribution, a sys-

tem that the department of health intends to adopt despite protests from pharmaceutical manufacturers.

Deeb said the sophisticated digital marking of medicines, black for medicines distributed to the private sector, blue for exports and green for medicines sold to the state, would add at least R500 million to manufacturers' costs. That would ultimately be passed on to the consumer.

The system would make it a criminal offence to be in possession of medicines with green markings. When the state failed to take up a full order, which happened often, manufacturers would not be able to dispose of excess stock through alternative

channels, Deeb said.

She said this would result in massive losses, which would put local drug manufacturers out of business at a time when they faced the threat of parallel imports and price controls.

Davis said the pharmaceutical industry had failed to come up with a suitable alternative to the marking option.

Deeb said the state should first get its house in order. Manufacturers wanted the state to privatise its warehousing, distribution and security systems nationally, as had been done in the North West province and Mpumalanga. That had already substantially cut the state's bills in those areas, she said.

LABOUR NEWS

One-day action could be forerunner to longer stayaway

Petroleum workers strike

By Guy Oliver

LABOUR EDITOR

Johannesburg — A one-day strike by petroleum-sector workers today could be a curtain-raiser to more protracted industrial action by the Chemical Workers Industrial Union

The action was announced yesterday, after mediation talks last week had failed to break the deadlock between the union and the employers, said Abraham Agulhas, the union's president

Simon Drysdale, the petroleum employers' co-ordinator and chief negotiator, said the action was unlawful and a breach of agreements signed

"It's the wrong thing to do and will probably harden attitudes"

Drysdale said the cost of the strike to the industry could not yet be assessed

Agulhas said all 15 000 union members within the sector would back the industrial action and he expected all production to grind to a halt

The protest would affect all South Africa's refineries, distribution sites and depots, he said

The aim of the action was to put pressure on the management to accede to the union's demands ahead of Thursday's scheduled dispute hearing between the two parties, he said

"We are not confident the dispute will be resolved, but it (the one-day strike) will put pressure on employers, given the possibility of a longer strike. A longer strike would affect every sector of the econo-

my," Agulhas said.

The union has demanded a 40-hour week without loss of pay, a 14 percent wage increase and an R1 800 minimum monthly salary

Agulhas said managements had made no commitment to a 40-hour working week. Only Caltex and Sasol had offered one-hour reductions in the working week. The average working week in the sector is 43 hours

Management had, however, offered a 9 percent pay increase and accepted the R1 800 minimum salary requirement

Agulhas said the day of industrial action was precipitated when "management would not move on hours of work. If they had moved, we could have taken something to our members"

CT 27/8/96

(183) (183)

Maduna says petrol price will fall without state support

By James Lamont

INDUSTRIAL EDITOR

Maseru — The petrol price in South Africa will fall if the state withdraws its sanction of the pricing arrangements among refiners and marketers, Penuell Maduna, the minister of mineral and energy affairs, said at the weekend.

This is the first time a South African energy minister has openly criticised the prevailing pricing wisdom in the local oil industry. These controls have been in place

since the late 1980s

Maduna said that according to his ministry's calculations, petrol products would be cheaper for the consumer and bring about greater efficiencies in the economy, if the pricing mechanism, based on in-bond landed cost and fixed margins set for wholesalers by the state, were abolished.

The maintenance of the retail petrol price is the central pillar of government intervention in the sector. The government sets wholesale

margins, which benefit the oil companies, and retail prices

Wholesale margins are 14c a litre, but oil companies want this raised to 17c.

Petrol prices include state financial support for the production of synthetic fuels from coal and natural gas.

In addition, oil companies are also obliged to use locally produced synthetic fuels.

In South Africa, refinery output is sold to wholesale marketers at a price based on a monthly average

of a basket of prices for products refined in Singapore and Bahrain, as if they were delivered to South Africa.

The government has previously argued that this derived price formula is an incentive to efficiency.

But experts have said that petrol and diesel prices in Singapore have little to do with South Africa. Now that the apartheid-era distortions are a thing of the past, prices should reflect the market-based product import parity prices paid by oil companies.

Maduna said these complex pricing arrangements and competition restrictions were developed under apartheid to guarantee oil companies good returns and lower competition.

He said he believed deregulation of the petrol industry was inevitable.

It would bring new oil companies and new products. But he said the state would have to scale down its synthetic-fuel subsidies for the international oil companies to accept deregulation.

Though Sasol's tariff protection is being progressively wound down towards 1999, Mossgas, the gas-to-fuel producer, remains dependent on state support.

Colin McClelland, the director of the South African Petroleum Industry Association, a representative body of international oil companies, said the association wanted market-determined prices. He said deregulation would probably lower petrol prices in urban centres, but push them up in rural areas.

(183) ET(02)2718196

Petroleum strike contravenes deal

(183) (102)
Reneé Grawitzky

DD 28/8/96

PETROLEUM employers warned, in the wake of the one-day strike by the Chemical Workers' Industrial Union, that their participation in the new chemical industry bargaining council could be up for review if illegal action continued. Union members embarked on a one-day strike yesterday to put pressure on employers to change their position on wages and hours of work prior to the dispute meeting tomorrow.

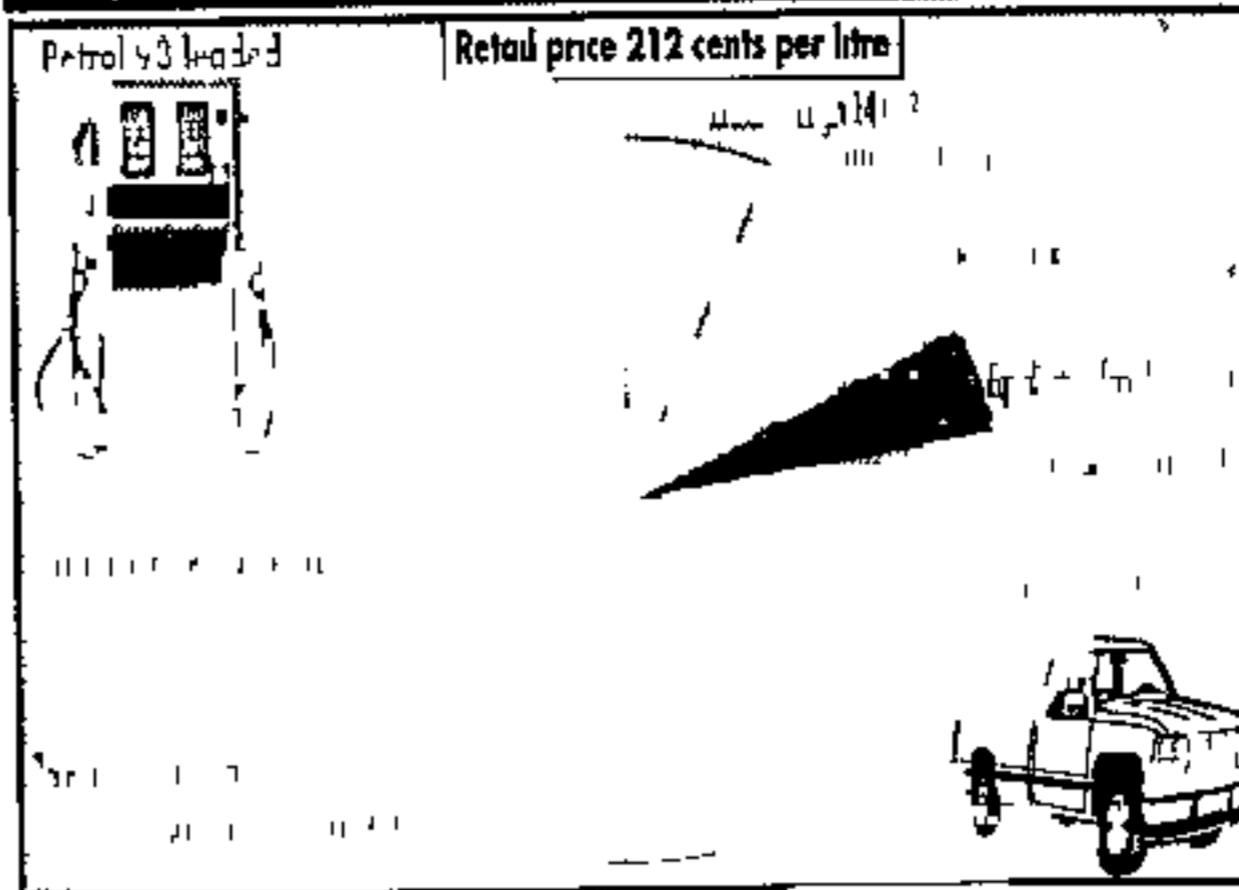
Union president Abraham Agulhas said 5 000 workers in Cape Town, Port Elizabeth, East London and Durban had participated in action yesterday which included the blockading of the Caltex refinery in Cape Town.

He said the main focus of the dispute revolved around the demand for a 40-hour week.

If employers agreed to phase in a 40-hour week over a number of years, agreement could be reached on wages, Agulhas said.

Employer spokesman Simon Drysdale — who said that only 1 500 workers participated in yesterday's strike — said the action contravened the dispute procedure outlined in the interim agreement reached between the parties which provided for sectoral bargaining on wages for the first time.

Composition of fuel price in the Gauteng region



Petrol attendants 'threatened by oil deregulation'

(183) (182)

By James Lamont

INDUSTRIAL EDITOR
ET(BR) 28/8/96

Maseru — One of the biggest challenges facing the government's deregulation of the oil industry in South Africa is the fate of petrol pump attendants if self-service becomes the norm at fuel stations, Penuell Maduna, the minister of energy affairs, said at the weekend.

Maduna said he would have to convince the unions that represent the 45 000 forecourt workers in South Africa that the deregulation of the state-sanctioned oil industry would benefit the wider economy.

The government regulates the retail price of petrol and oil. Maduna argued that this was a hangover from when South Africa maintained a siege economy against international sanctions.

The minister said deregulation would bring new suppliers and new products into South Africa, which could include self-service pumps.

Self-service pumps are forbidden on the nation's forecourts under the service station rationalisation plan, which controls the number of service stations in the country.

He said he would urge the unions and their oil industry members not to profit from the incentives given to international oil companies to participate in the South African industry during the apartheid era.

Maduna said oil companies had invested heavily in the petrol stations and the introduction of labour-saving technology could take years.

Last week, Maduna said that the abolition of the pricing mechanism for petrol would make petrol cheaper in South Africa and bring about greater economic efficiency.

The pricing mechanism is based on a basket of refined products from Bahrain and Singapore and includes fixed margins for wholesalers, which have little significance in the post-apartheid market.

Strike upsets fuel industry

(183)

Centralised bargaining put at risk

CT (ML) 28/8/96

By Guy Oliver

LABOUR EDITOR

Johannesburg — The petroleum industry will reconsider its position towards centralised bargaining because of the Chemical Workers' Industrial Union's illegal strike yesterday

The union called the industrywide strike after a deadlock in mediation talks last week about wages and working conditions and before tomorrow's scheduled dispute hearing between the two parties

The strike may have put the dispute meeting in jeopardy, said Simon Drysdale, the national coordinator for the petroleum industry. The industry was considering suing the unions for damages for the illegal and unprocedural strike, Drysdale said yesterday.

"It (the strike) was also a material breach of the interim bargaining agreement signed in June by the union's general secretary Muzi Buthelezi," he said.

Furthermore, the industry would "consider the continued participation in centralised bargaining. This (the strike) is particularly disturbing as this was the first attempt at industry-wide centralised bargaining", Drysdale said.

The union hoped to paralyse the sector as a show of strength and use that lever at tomorrow's meeting with promises of wider action if union demands were not met. But the industry said that only about 1 500 of 8 000 unionised workers heeded the call for a national strike.

Drysdale said the strike had not halted production at depots and refineries.

The strike was precipitated after mediation talks failed to resolve the workers' hours. The union wants a standard 40-hour week. The industry standard is about 43 hours, the union said.

Drysdale said the union was offered a 10 percent wage rise, against the union's demand for 14 percent and would have "brought hours of work closer to the union demand for a 40-hour week". He said some industry members were already working a 40-hour week.

Drysdale also countered the union demand for a R1 800 minimum wage. He said if the union had accepted the 10 percent rise the average minimum would have been R2 198 a month. He said most of the oil companies also paid an additional R1 000 a month in contributions to provident and pension funds, medical aid funds, housing subsidies and educational allowances.

Reuter reports that in Cape Town about 70 workers blockaded the gates of the Caltex refinery, but production was not halted.

Abraham Agulhas, the president of Chemical Workers' Industrial Union, said most workers at Durban's Island View Holdings had joined the strike. He rejected employer claims that the strike was illegal.

"We workers have the right to take action. We were supposed to get our increases in July."

Polifin to sell its refrigerant branch

CT(BR) 28/8/96 (183)

By James Lamont

INDUSTRIAL EDITOR

Johannesburg — A-Gas International, the British-based gases and chemical group, announced yesterday that it would buy Polifin's refrigerant business to expand the supply of replacements for chlorofluorocarbon (CFC) products to the South African market. Polifin is a plastics and chemicals manufacturer listed on the JSE.

Though A-Gas, a new-comer to the South African market, took over the business of Polifin Refrigerant Gases on Monday, the deal will only be concluded by the end of March next year.

Both companies refused to disclose the value of the deal.

A Polifin spokesman said after the company stopped manufacturing CFCs at its Midland plant at Sasolburg in December last year, its refrigerant distribution activities no longer formed a core part of its business. The development was in line with the Montreal Protocol to stop CFC production.

Polifin, once the dominant company in the business, is no longer involved in manufacturing refrigerant gases.

John Cooper, the chairman of A-Gas, said the CFC products replacement business in South Africa was in turmoil because of adherence to the protocol and the demand for imported products.

A-Gas intends to merge the Polifin refrigerant gas business

with its wholly owned A-Gas South Africa to become an important supplier of Solkane products to the local market. Solkane products are environmentally acceptable alternatives to CFCs.

A-Gas will continue to operate the Midland re-packaging unit until its new bulk storage and repackaging facility, under construction in Cape Town at present, is completed.

A-Gas also intends to strengthen facilities in Gauteng to service Polifin's substantial market presence in the area.

Cooper said that A-Gas was better suited to the trading environment of CFC alternatives because Polifin was primarily a manufacturing company.

Sasol to convert Secunda reformers

Business Day Reporter

SASOL is planning to spend R96m converting 16 ignition catalyst reformers at its synthetic fuel complex in Secunda to an open-flame type.

The fuel-from-coal producer said it would confirm the design basis of the project by converting one ignition catalyst reformer initially, starting in February.

This will be followed by conversion of the remaining reformers by October next year, after the

successful evaluation of the first stage," the company said.

The technology for the conversion had been developed by Haldor-Topsoe of Denmark.

It incorporated a new type of burner that produced an open flame to burn off the methane-rich gas generated by the process, as opposed to the existing ignition catalyst system.

Sasol said benefits of the new technology included improved efficiency in the conversion of gas to liquid products, extended reactor

run times, reduced operating and maintenance costs and greater operational flexibility.

The improved burner was also expected to result in a more stable operating environment and longer catalyst life.

Sasol and Haldor-Topsoe signed a technology co-operation agreement earlier this year with the intention of promoting Sasol's slurry phase distillate technology, with Haldor-Topsoe's natural gas conversion technology for the production of high quality diesel.

Union threatens national strike after workers fired

LT (PR) 29/8/96

(183)

By Stuart Rutherford

Durban — The 63 000-strong Paper, Printing, Wood and Allied Workers' Union is threatening to strike over the dismissal of 380 workers at Lion Match's factory in Durban last week

Lucky Mhlongo, the secretary of the union's southern Natal branch, said the union's leaders had resolved to embark on a national strike if the workers were not reinstated unconditionally. He said the union was approaching Cosatu to find out if it could involve all of the federation's members.

The workers were dismissed last Thursday after employees picketed the company's offices to protest against disciplinary hearings against three staff members. The trio had allegedly intimidated and harassed management officials during a three-week strike that started on July 30. They were demanding that workers be allowed to transfer funds from the company's pension fund into the union's national provident fund.

Terry Turner, Lion Match's managing director, said the company fired the workers because of their unlawful and aggressive behaviour during the strike, and their defiance of management warnings and a court interdict barring them from coming within 50m of the factory.

Turner said the company was employing new workers. It was not reinstating the dismissed workers, but they could apply for re-employment.

He would not quantify the losses Lion Match incurred because of the two strikes that jointly prevented more than three weeks of production, but said its other factories had not made up the losses. Production was resumed at the Durban plant yesterday.

Mhlongo said the company dismissed the workers because it did not want to transfer the R22 million from its pension fund into the union's provident fund. He said the dismissals could not be justified, because 196 workers had been arrested last Wednesday and were in jail when they were fired.

Petroleum industry out of wage talks

CT (M) 29/8/96 (183)

By Guy Oliver

Johannesburg — The petroleum industry has broken off wage negotiations and has cancelled today's scheduled dispute hearing with the Chemical Workers' Industrial Union

The industry had warned on Monday that, should the strike called by the union for Tuesday take place, there would be a hardening of attitudes between itself and the union

The union's one-day strike on Tuesday was part of its strategy to force the industry to accede to demands of an industry-wide, 40-hour standardised working week, the main stumbling block in wage and working condition negotiations

Abraham Agulhas, the union's president, said employers had cancelled the dispute hearing by letter and telephone. He said "This will further antagonise the workers on the ground"

Simon Drysdale, the industry's national co-ordinator, condemned the illegal strike and said "Until such good-faith commitment is received from the union, industry is not prepared to continue with wage negotiations"

Drysdale said companies were investigating actions by individual workers

and reserved the right to take disciplinary action

The industry was also considering seeking financial compensation for the losses incurred by the strike

The strike call was heeded by 5 000 workers in Cape Town, Port Elizabeth, East London and Durban, the union claimed

Drysdale said only about 1 500 workers of the 8 000 unionised workers in the industry were absent

Agulhas said union officials would meet in Johannesburg today as scheduled even if employers did not attend

He stated that further industrial action would depend on the outcome of the union meeting

Agulhas said centralised bargaining, which was being employed by the industry for the first time, was creating divisions within the employers' ranks

Drysdale said this week much of the petroleum industry was abiding by a 40-hour week and others were close to it

Agulhas said this was the problem as the union was seeking standardisation of working hours

Agulhas said that though there was consent at plant levels for a standardised 40-hour week, this was not carried through at national level and was not backed in the central bargaining process

Oil and gas taxes hit 71% mark, says Soekor chief

Investors 'chased away'

LEWELLYN JONES
BUSINESS REPORTER

(183)

ARL 20/9/96

Oil exploration and production companies in South Africa are being unfairly taxed, says Joggie Heuser, the chief executive of Soekor – and this is chasing away potential investors.

Speaking at the Africa Upstream Conference at the Waterfront, Mr Heuser said that if one were to add all the taxes due on oil and gas production, it would amount to an effective tax rate of 71 percent

"I believe that this is enough to chase any potential investor away," Mr Heuser said.

He said the fiscal conditions of any country was an integral part of the economics of prospecting for oil and gas. Therefore the challenge facing South Africa was to attract international investment and participation in a very competitive market

"This I consider Soekor's – and my – greatest challenge – the creation of a more investor friendly environment with regard to the upstream oil industry."

Another significant constraint was regulations with regard to oil production. Current legislation was intermingled with minerals law and was considered unclear and unacceptable by potential investors

To overcome these obstacles, Mr Heuser said Soekor had made recommendations to the government which he

believed were being seriously considered.

Proposals included a drastic reduction in taxes on oil and gas production, the abolition of the 12,5 percent secondary tax on companies and the scrapping of the additional normal tax, which is a 40 percent tax over and above the corporate tax of 35 percent

"We have recommended that the tax on oil and gas production be fixed at either 30 percent or 35 percent," Mr Heuser said.

The recommendations go even further, suggesting that incentives should also be offered, particularly for gas exploration and production

He said it was vital to implement these proposals if South Africa was to make a significant dent in trying to reduce its R1,2 billion oil bill.

■ Soekor this week continued an international tradition among oil companies, renaming the E-BT oilfield 140km off Mossel Bay the Oribi

Mr Heuser said that choosing the name of the small antelope, which is found in the Cape, signified the company's commitment to environmental protection.

Discovered in 1990, the Oribi oilfield will start producing in February next year

"We believe that with Oribi coming on stream next year, and other discoveries we have made in the area, we can start production at a rate of 20 000 barrels of oil a day and continue for the next six to 10 years," Mr Heuser said

Tax incentives needed for gas, argues Soekor

(183) CT (BR) 20/9/96
By Christo Volschenk

ECONOMICS EDITOR

Cape Town — Soekor, the state-owned oil exploration authority, has requested the government to consider tax incentives to entice international oil companies to explore and produce gas in South Africa's deeper waters.

Joggie Heuser, the chief executive of Soekor, made the announcement yesterday to delegates at the Africa-Upstream '96 oil conference.

To date, Soekor has searched for reserves to a depth of 200m. Geological evidence points to significant gas reserves deeper than that, he said.

New technology has made the exploitation of the reserves possible but international expertise and finance would be necessary.

"We requested the government to abolish secondary tax on companies and drop company tax rates to

30 percent. We also asked the government to revise the regulations of the upstream oil industry, which are unclear and unacceptable to potential investors.

"All legislation pertaining to the upstream oil industry should further be consolidated in a new standalone oil and gas act," said Heuser.

Independent consultants have confirmed "the potential for significant discoveries in eight geological basins".

Heuser also said the Bredasdorp Basin, South Africa's first commercial oil-producing region, would be named the Oribi oilfield.

Earlier, Penuell Maduna, the mineral and energy affairs minister, said oil imports were costing \$1,2 billion a year, a figure which the government hoped to bring down by exploiting the huge deep-sea gas reserves.

AECI/AFEX

(183)

REALISING CASH

FM 20/19/96

A markedly stronger balance sheet and enhanced financial flexibility are among the benefits that should immediately ensue from AECI's plan to unbundle holding company Afex (Pty) by way of its voluntary liquidation

Afex was acquired from UK company ICI a few years ago in exchange for a 51% share of AECI's explosives business. Afex owns one share less than 50% of AECI's equity and Afex in turn is held in equal proportions by AECI and Amic. With its further direct stake, Amic owns an effective 52,6% in AECI.

When the 1995 year-end results were released, AECI said it was exploring the option of a global placement of shares as a means of realising its investment in Afex. When the June interims were published early last month, it was noted that the rand's volatility during the second quarter had hindered progress but work was continuing.

The plan now is that the liquidator of Afex will mandate Goldman Sachs International and Cazenove, as joint lead managers, to place about 12% of the issued shares of AECI. This will be done through a combined domestic and international placement.

Amic will then buy about 13% of the company from the liquidator, at the price achieved in the placement, roughly to maintain its holding. Net proceeds of the placement and the sale to Amic will be distributed by the liquidator to AECI as a liquidation dividend. Afex's remaining shares in AECI — a 25% stake — will be distributed to Amic as a liquidation dividend in specie.

AECI financial director Neale Axelson says this process is expected to take about two weeks. The amount of funds

raised will depend on share price movements over this period. However, at AECI's price of R24 on Tuesday, net proceeds could total around R900m.

This would greatly strengthen a balance sheet that has been showing strain after hefty capital spending in 1994 and 1995. At June 30 net interest-bearing debt totalled R1,7bn, giving a gearing ratio of about 63%.

Axelson says the Afex unbundling would initially cut gearing to the 20%-30% range. He says the funds raised would not be used simply to retire debt but also to create funding capacity for planned capital spending and for investment opportunities that may arise. "It will improve financial flexibility," he adds. Spending is likely to rise again after 1996, though probably not to the levels of the past few years.

Gearing aside, there should be an immediate benefit in a lower interest cover (a thin 1,9 times at the March interim), and the effects will be "usefully cash flow positive" in that the saving in after-tax interest charges would exceed the dividend received from the Afex holding.

AECI should also gain a wider and more tradeable shareholding spread. In 1993, only 22% of its shareholding capital was not held by Amic and the other major shareholder at the time, ICI.

After the Afex unbundling, about 48% of the issued capital would be in the public float and tradeable in the market. Institutions in SA, Europe, North America and the Far East will be invited to bid.

Andrew McNulty

MIRRYÉNA DEEB



IN MY OPINION

ZUMA'S FLAWED SCRIPT

Pharmaceutical Manufacturers' Association CE Mirryéna Deeb says the pharmaceutical multinationals form no monopoly and have no interest in *Sarafina 2*.

President Nelson Mandela's attack on the multinational pharmaceutical industry is unfair and unfounded. The publicity which Health Minister Nkosazana Zuma brought on herself and government relates to issues of bad governance, not health policy.

When we are unhappy with draft legislation or regulations, we approach the Minister or her department or use the legal system to enforce our civil rights. We have no interest in denigrating the Minister in any clandestine fashion. This does not preclude us from answering queries from the media or voicing our opposition to policies which we believe cannot be implemented. That is our democratic right to freedom of speech. People may need reminding that the *Sarafina 2* investigation started in February, when the ANC-led parliamentary committee on health called for a probe.

We also reject the President's assertion that the medicine market is monopolised by "big foreign conglomerates reluctant to face competition."

About 200 drug companies operate in SA. Of these, only 45 are multinationals — none of which enjoys a market share greater than 6%. Independent market analysis by Data Survey International shows that of the top 16 drug companies, the largest market share is held by SA Druggists (10,3%), a local and largely generic-based company, followed by another local firm, Prempharm (7,8%), and Roche with 5,1%.

The figures show that at manufacturer level, the market is highly competitive. It is ready to take on competition from new players. What we won't tolerate is a system that allows different registration requirements on bureaucratic whim — for example, a three-month registration period for an imported generic where the identical drug made here is registered only after a year. Such a dispensation is now being considered by the Department of Health even though it would amount to a violation of competition law and policy.

The President cannot be aware that the Competition Board in February warned the department that most of its drug policy was in danger of contravening competition law and policy or could negate competition in the pharmaceutical market.

The industry is not fighting competition, especially the version accepted in free-market economies.

The Department of Health is clearly unaware of the contents of government's macro-economic plan, endorsed recently by the President as "non-negotiable." The plan is geared specifically to attract foreign investors. But the department seems determined to destroy an industry worth R7bn/year to the economy (about R500m/year is spent on research and development and RDP projects) and an employer of 17 000 skilled workers by introducing laws that would violate the basic tenets of protec-

tion of intellectual property rights

Imagine asking investors to come to SA but telling them people ordering their wares are prevented by law from using their brand names? Would Shell or Sasol be happy with a label that read simply "petrol?" Such a scenario is envisaged for pharmaceutical companies with the department's draft regulations of July 12 that would prohibit doctors from using brand names on scripts. Since it is internationally accepted that branding fosters commercial competition, can industry's rejection of these proposals be seen as an attempt to hamper competition?

Is it fair to expect industry to pay about R500m/year to try to halt a R100m theft problem from State warehouses and hospitals? This is another proposal contained in the same *Government Gazette* of July 12.

The proposed multidimensional digital marking system is untried and untested for pharmaceutical firms elsewhere in the world and could push up costs. Could industry's opposition to this proposal in its present form reasonably be said to amount to an attempt to frustrate efforts to bring prices down?

The President is right when he says industry is rejecting some of Zuma's initiatives but these are impractical, unreasonable and will lead to price rises and bureaucratic abuse.

Ironically, the Pharmaceutical Manufacturers' Association unreservedly supports government's objectives of ensuring affordable and accessible health care and medicine to all. It has conveyed this message to Zuma and her department in words and actions. In April, the association voluntarily ended off-invoice bonusing to ensure greater transparency and price competition. The industry has tightened its marketing code and self-regulatory mechanisms to try to give effect to the sentiments contained in the National Drug Policy.

The Pharmaceutical Manufacturers' Association has told Zuma it accepts the need to encourage greater use of generics provided this is not mandatory. The doctor's clinical judgment should not be overridden, nor should the paying patient's right to choose be ignored.

The industry accepts that prices paid by consumers are unacceptably high but stresses this is the result of an over-regulated, inefficient retail distribution system that precludes big business, medical insurers and schemes from selling directly to the patient and using bulk buying power to effect savings.

Such a dispensation keeps mark-ups in the US at no more than 25% on manufacturers' exit prices. In SA, the mark-up can reach 100% — a situation that is allowed by the ban on non-pharmacy ownership of retail drug outlets.

This single reform would introduce competition and remove the need for many of the department's proposed regulations. It is the recommendation of four independent commissions of inquiry over the past 20 years, including the one into a national health insurance system for primary health care, convened last year by Zuma. The commission's final report was submitted to Cabinet earlier this year, regrettably after Zuma chose to ignore or alter the recommendation of her own commission. ■

POLIFIN

MARKETS STABILISING

(183)

Fm 20/9/96

- **ACTIVITIES** Manufacture and marketing of plastics and chemicals
- **CONTROL.** Sasol 42%, AECI 40%
- **CHAIRMAN.** P du P Kruger MD T S Munday
- **CAPITAL STRUCTURE.** 550m ords Market capitalisation R4bn
- **SHARE MARKET** Price 726c Yields 3,7% on dividend, 11,4% on earnings, p e ratio, 8,7, cover, 3,1 12-month high, 864c, low, 500c Trading volume last quarter, 6,3m shares

Year to June 25	'95	'96
ST debt (Rm)	53	190
LT debt (Rm)	374	179
Debt equity ratio	0,41	0,26
Shareholders' interest	0,73	0,85
Int & leasing cover	4,9	11,8
Return on capital (%)	31,4	29,0
Turnover (Rm)	2 994	3 209
Pre-int profit (Rm)	730	742
Pre-int margin (%)	24,4	23,1
Earnings (c)	64	83
Dividends (c)	nil	27
Tangible NAV (c)	188	253

A low percentage of business mergers succeed Polymer and chemicals group Polifin appear to fall in this select group

Now in its third year of operation and second as a listed company, Polifin has achieved solid results in tough circumstances The 1996 annual report conveys a picture of a well organised group with a clear focus and the nerve to spend a lot of money to become a global business

Turnover in the first half of financial 1996 was hit by the Chinese withdrawal from the offshore market and inventory destocking But a reversal in the second half, with China buying again, saw inventories rise along with prices Annual turnover recovered to R3,2bn — up 7% on 1995, 1% on volumes and 6% on average prices

Trading income grew only 2%, constrained partly by the Midland Restructuring Programme (MRP) costs and more

expensive feedstock Operating margins slipped 1% to 23% but group financial manager Roger Crosby predicts they will rise again in 1997, boosted by cash fixed-cost savings from the MRP and better sales volumes A weaker rand will also help exports These now generate about 12% of turnover, or R384m

Attributable earnings grew 28% to R454m, boosted by a 57% drop in net financing costs and a lower tax rate EPS also rose 28%

One of the group's primary strengths is the ability to generate strong operational cash flows These, says group MD Trevor Munday, allowed the repayment of R195m in long-term loans last year, and Crosby says the group should be cash-positive from mid-1998, with all debt paid off

Capital expenditure for upgrading all divisions to world standard, as well as expanding some manufacturing lines, is expected to total R1bn in the next three years, to be funded from cash flow Added to the R380m sanctioned in 1996 and capex spent in the previous two years, the outlay will be almost R2bn

This year, about R100m of the planned capex will fund the polypropylene expansion at Secunda

Cash flow should rise steadily as debt is repaid "We need to look for a place to anchor the millions in cash which will build up then," says Crosby

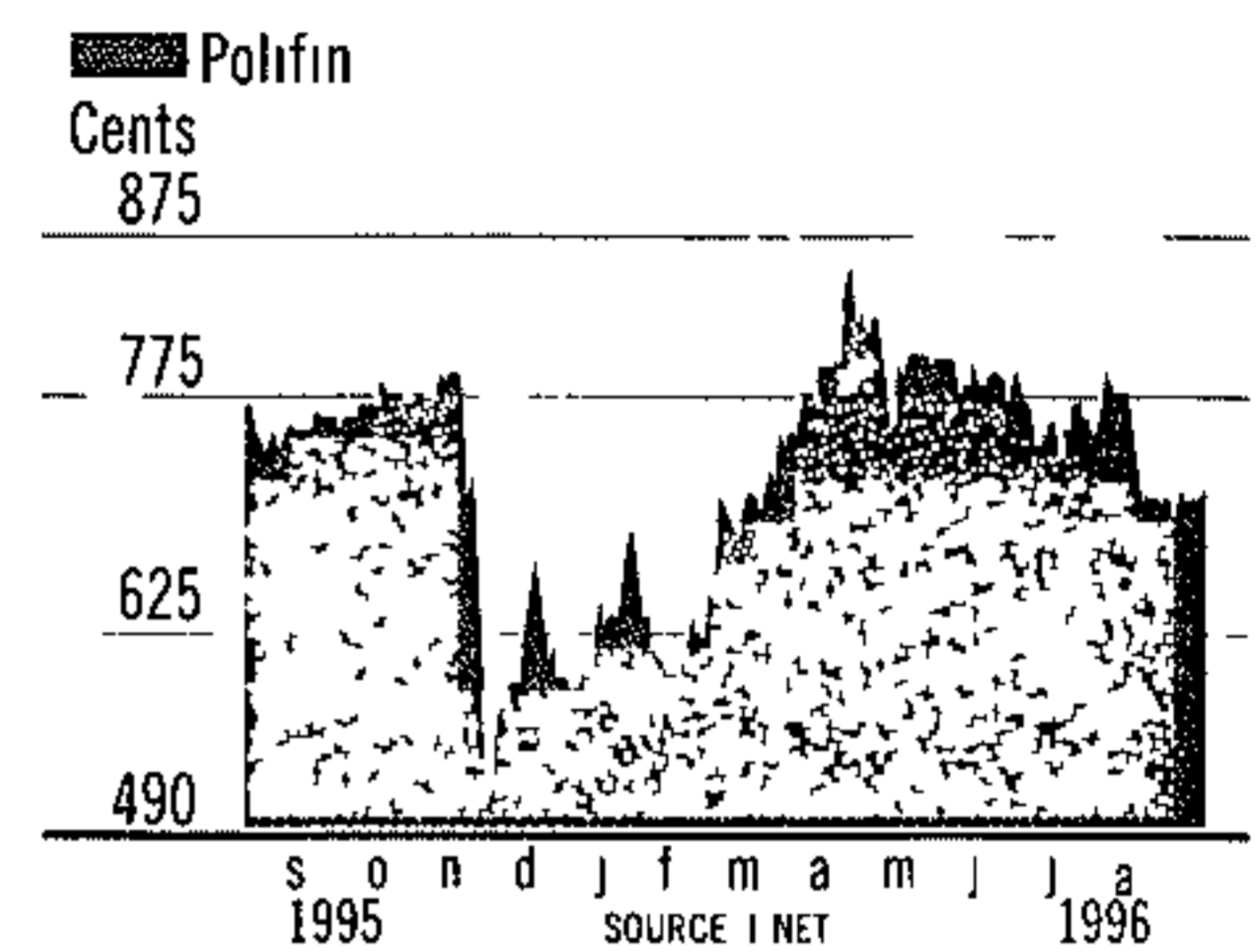
Polifin's asset management is tight, as evidenced by the return on equity of 32% "This is about as high as it can go, since we were coming off a low equity base," says Crosby As the equity

base rises, that return will become harder to sustain

Return on total assets shows a pleasing trend upward to 17,6% The ratio of working capital to sales is about 17%, which Crosby says is slightly higher than the target of about 15% One reason was

the importation of polyethylene as a service to customers when local supplies ran out "That pushed out our average stockholding period," says Crosby

"We are encouraged by the effort that has gone into managing working capital,"



he adds The fixed-cost savings expected from the MRP (about R150m a year) are now being seen monthly and the plant is operating at targeted efficiency Teething problems have been manageable

Each of the six trading divisions delivered forecast profits The polythene division spent R40m automating packing lines The chemical division invested about R143m in new plant and upgraded equipment to reduce its cost base

The share price has reflected the sharp cyclical swings that bedevil commodities businesses Last November, pessimism in the market sent it plummeting to a R5 low But it recovered well to peak at 864c in April Since then it has softened with the general weakness in the market to 726c Crosby says product markets look more stable this year The prediction of steadily declining international polyethylene and PVC prices has not been borne out The polypropylene price is falling gently, in line with expectations

In the first six months, real earnings growth is expected At 8,7, the historical p e ratio is at a discount to other chemical companies It seems the market is still worried about the risk inherent in the polymer industry

The group has a short track record, though it has proved sound so far — but investors tend to like pedigrees Earnings



Trevor Munday

SASOL

LIFE AFTER PROTECTION

In future years, Sasol's management may look back and conclude that government's decision to phase out its tariff protection (over a four-and-a-half year period ending early in 2000) was the best thing to happen to the share

Executive chairman Paul Kruger regards Cabinet's decision as "unduly harsh," considering the extent and rapidity of the phasing-out process

And it does hurt financially Pieter Cox, chief operating officer and incoming MD (from the beginning of next year) says every US\$1 reduction in the floor price at which Sasol receives protection knocks R200m out of operating profit

Yet results for financial 1996, the first year reduced protection kicked in, show that Sasol can counter lower protection — and it is still performing better than most of SA's large industrial groups

Huge share transaction volumes on Monday, when Sasol announced bottom-line growth of 25,5%, and a share price which, at R52, was a touch off its yearly high (up 65% over the past year), show that investors have noted this

From January, the floor price was reduced from \$21 to \$19 a barrel, and further reduced to \$18 a barrel in July. But Sasol's answer to lower protection, which comes in at the turnover and operating profit level, was to grow these by 13,3% and 12,9% respectively

Though it's too early to gauge the effects of the full removal of protection by the turn of the century — Sasol remains partly dependent on cyclical factors like world oil and chemical prices and refining margins — the diversified commodities group is coping well so far

Investor interest is turning increasingly to the strong rand hedge element of the share and the future potential of world-class, technology-led benefits from synfuel and chemical operations

(183) FM 20/9/96
expansion This has been backed by a heavy — and so far well planned — capital spending programme

Sasol's protection amounted to R803m in the past financial year, about R47m less than it expected as the world oil price firmed

Yet the synfuel division grew operating profit 23,4% to R1,51bn (see table), entrenching its position as Sasol's dominant source of turnover as well as operating and after-tax profit

Main factors were record production, higher conversion efficiencies and, in particular, containment of fixed operating costs. Synfuel volumes grew 8,1% but operating costs increased by only 5,7%, resulting in lower costs per unit

Though the floor price is measured against a derived crude price — a complex formula based on the Dubai price but a few dollars lower than actual, quoted world prices — Sasol received no protection in June and July

Protection for the first three months of this year will be about R45m. It would be simplistic, given present tensions between the US and Iraq, to extend this to the full financial year, but Sasol's level of protection will certainly be a lot lower

To counter this, it is transforming the synfuel division by developing human resources and using new technology which will raise production and reduce operating costs by 25% at the end of the century. Central to this is an R860m project to replace existing reactors with six new generation SAS reactors — more efficient technology which will halve catalyst costs, the major expense

Cox also hints at taking technology out of SA and forming joint ventures (rather than licensing agreements) with international partners who have access to the right resources

The disappointment in the results

STILL SYNFUEL DRIVEN

Contribution to operating profit

	1996	
	(Rm)	(%)
Mining	303	9,6
Synfuels	1 510	47,7
Chemicals	897	28,3
Oil	492	15,5
Other	(34)	(1,1)
Total.	3 168	100,0

came from mining, though much of that is beyond Sasol's control. Heavy summer rains meant lost production — 35 days at Syferfontein — and the 43-year-old Sigma Colliery, Sasol's original mine, is all but economically dead. Results from Sasol Mining are not expected to improve this year, though the first megaton of export coal is to be shipped out of Richards Bay this year

Chemicals' 2,3% increase in operating profit belies what was a sound result. The increase would have been more than 20% but for the unbundling of 18,1% of Sasol Chemical Industries' stake in Polifin to Sasol shareholders

Though all Sasol's divisions contribute to exports — which nearly doubled to R3,09bn and account for 22,8% of turnover — the chemicals division is the driving factor, helped by the first full-year inclusion of Schumann Sasol, a joint venture with the German company

Sasol Oil had an outstanding year, particularly over the second half as international refining margins improved. Margins are expected to tighten this year but the weaker rand will benefit Sasol Oil

Overall, the declining currency should provide much impetus to Sasol's financial performance this year. With nearly all the costs in rand and most of the pricing in dollars, the hard currency component of the share is estimated to be as high as 80%. An analyst estimates every 10c decline in the rand is worth 25c to Sasol's EPS

EPS growth this year is expected to outpace financial 1996's 21,7%. Some



Paul Kruger

COMPANIES

Oil industry seeks production alliance

Samantha Sharpe

CAPE TOWN — The oil industry would have to pursue a new spirit of co-operation and create partners out of rivals if it wanted to exploit Africa's oil and gas production potential, industry spokesmen said yesterday.

Speaking at the Global Pacific & Africa-Upstream conference, BP Exploration GM David Bamford said significantly higher oil production and revenues in the deeper water around western and southern Africa were achievable, "with the need for little other than incremental progress to deliver developments out to 2 000m water depth".

Much would depend on speeding up the "very risky" exploration process and seeking relationships, activities and projects "that have at their heart the mutual advantage of all sides — especially national and major exploration and production companies".

Texaco Latin America and West Africa Exploration and Production vice-president Janet Stoner said the use of alliances, partnerships and inter-company teams was clearly the wave of the future.

"Today's competitive environment, higher risks and more difficult operating conditions call for a new approach with operators, service companies and governments . . . one of collaboration to

create partners out of potential competitors."

Sasol Petroleum International (SPI) GM Peet Steyn said the company wanted to develop links in Africa.

"Lead times for bringing exploration ventures into production are long and cash flow projections are such long periods excite neither management nor shareholders and SPI is therefore looking at acquisition opportunities (in Africa).

"SPI wishes to develop closer ties with state-owned oil and gas companies and with the major oil and gas companies operating in Africa . . . Our stated intention is to be a partner of choice of both host governments and

(83) ^{BD} 20/9/96

companies in our area of operation." Soekor CE Joggie Heuser said the challenge in SA was to attract international investment and participation in the search for further discoveries.

"With regard to current tax, fiscal and legislative constraints, we have taken steps to address these by proposing to and advising our government that tax on income from oil and gas should be reduced."

SA's taxation was too high compared with other countries offering areas of lower risk. Heuser said more incentives should be offered, particularly for gas exploration and production and that legislation should be consolidated in a new stand-alone oil and gas Act.

RESTATING THE OBVIOUS

PM 20/9/96

A little-publicised think tank, the Institute for Policy & Social Research, has published a document criticising current liquid fuel policies

Titled "Restructuring the Liquid Fuel Industry, critical policies, critical choices," the report restates old issues but is notable for a strong attack on Sasol — on protection and labour relations

The report complains that Sasol's protection is unjustified and that it has treated its labour force badly

On the contentious protection issue, Sasol communications manager Alfonso Niemand says government took a major decision in December 1995, following a "long, participative and transparent" process involving business and labour

Cabinet accepted the proposition that tariff protection for synthetic fuels should be phased down rapidly. Against Sasol's strong protests, a period of three-and-a-half years was determined for eliminating protection within the likely range of international fuel prices. This is being done through a progressive reduction in the notional ("derived") international oil price at which protection kicks in

Government's move will end protection, in most circumstances, in mid-1999. The protection has already been reduced to US\$18/barrel, reflecting a reduction of almost 22% over three years

For a brief period, mid-1996, no assistance was payable to Sasol, though it is now payable again through a decline in actual and derived oil prices. As the protection takes the form of a guaranteed floor price, even after 1999 a sharp fall in international oil prices could lead to its temporary reinstatement

Sasol considers the schedule onerous but accepts it as settled public policy and has instituted measures to mitigate the loss of income and improve its international competitiveness

These steps include the replacement of synthol reactors at the Secunda synthetic fuel plant by advanced synthol reactors — a project which should cut the cost of fuel synthesis substantially over time

Sasol acknowledges that the earlier years of interaction between management and emerging trades unions were marked by "conflict, mistrust and open confrontation" and says this applied for most SA companies

Despite the complaints in the report,

the picture has changed for the better. Sasol says it has taken a leading role in negotiations with unions on centralised bargaining. The transformation process at synthetic fuels to meet the challenge of reducing protection has been transparent. Union members have served on the steering committee formed to handle the process

Sasol adds that it has shown a commitment towards paying market-related wages. Its minimum wage is above the target set by the unions for 1996. At Sasol mines, earnings are on average about 20% higher than those paid by members of the Chamber of Mines at collieries run by its member companies. The counterpart of all this, of course, is that employment has shrunk

It notes that employment in the coal mining industry has shrunk to less than a third of the level of 15 years ago

Sasol's competitors, the oil majors, have their own view, expressed by their collective voice, Sapia, which notes that the institute, from its own description, has its roots in the liberation struggle and the UDF. It first signalled its presence in 1995, when it was the only "non-establishment" body to make a submission to the Nedlac evaluation committee on the industry. Sapia says the institute represents an important constituency

However, rather than comment on the report, Sapia advises interested parties to read it and reach their own conclusions. Perhaps with a little irony, Sapia adds that the result "may be a new way of looking forward". The work of the institute adds value to the debate

It is significant that Sapia has stopped short of endorsing any specific findings or recommendations in the report. Perhaps this signals that the oil majors implicitly acknowledge that the phasing-down schedule now in place is reasonable in all the complex circumstances of the fuel industry, historical and current

To this one might add that the report has a hectoring tone in places, reflective of past radical rhetoric against business in general. This detracts from its credibility in the context of government's commitment to partnership with the private sector as the only route to growth ■

Gas industry 'faces stiff competition' from Europe

(183)
Samantha Sharpe
23/9/96
CAPE TOWN

CAPE TOWN — Africa's gas exploration and production could take a knock from limited demand and stiff competition characterising the world market, British Gas development director Adnan Webb said at the weekend. Speaking at the Global Pacific & Partners Africa-Upstream conference, Webb said Africa's gas output had increased 10% over the past year following several major developments in gas production. However, much of the continent's output, which was targeted at southern Europe, was being undermined by competition from Norway, Russia and other European countries, he said. Italy's ability to switch from power generators to fuel gas demand, Webb said, but its power generators could boost gas demand, Webb said, but producers should also be aware of a possible slump in produce a near fuel oil prices, to which gas prices in many countries are linked — so gas prices to upstream producers will fall too," he said.

Webb warned that southern Africa's substantial gas reserves in Namibia and Mozambique faced further marketing challenges, which included the large available supply of coal in SA. Meanwhile, Shell International Production vice-president Erik van Scheepenzeel said significant oil and gas reserves remained untapped in SA. However, continued exploration and production activity would depend on political stability and healthy legislative and environmental frameworks in individual countries. Shell estimated that about 50-billion barrels of oil and 350-trillion cubic feet of gas could still be discovered in Africa, which would increase the continent's share of total world oil reserves from 7% to about 13%, he said.

Fuel industry to make Taiwan deal decision

Reinie Booysen

A GROUP of SA petrochemical and oil companies are poised to make a decision this week on whether to pursue a Taiwanese proposal for a \$3,5bn greenfields petrochemical complex to be built somewhere on the SA coast

The SA companies considering the proposal include Polfin, the AECI/Sasol-controlled petrochemical manufacturer, Engen, the local oil company now controlled by Malaysian Petronas, the Central Energy Fund and the Industrial Development Corporation. Sentrachem is also believed to be involved in the investigation, while Sasol and AECI may also take part in their own right

The trade and industry department is also promoting the proposal, industry sources said.

A detailed written proposal — entailing a 50/50 joint venture between Taiwanese and SA consortiums — was submitted to the SA companies during the recent visit to SA by a Taiwanese delegation, which included senior business and political figures, led by Deputy Premier Hsu Li-Teh

Polfin is believed to be taking a leading role in the investigation. Polfin MD Trevor Munday declined to

name the other SA participants, but confirmed that a meeting had been scheduled "later this week" for a discussion on the proposal

"We agreed to consider the proposal during September, and then give our feedback to the Taiwanese," said Munday at the weekend

An Engen spokesman confirmed that Engen, whose refinery products include petrochemical feedstocks, was involved

Some SA politicians — such as the acting head of parliament's trade and industry committee, Rob Davis — have expressed scepticism about the sincerity of Taiwan's stated plan to invest in the project

Taiwanese sources involved in the proposal insist, however, that the proposal is genuine. On top of that, they say lethargy on the part of the SA government and the petrochemical companies had already discouraged one major Taiwanese company — believed to be Formosa Plastics — from investing in SA. Formosa had in the meantime decided to invest in Thailand

SA petrochemical executives said the Taiwanese proposal was being considered, but that it was facing major hurdles

"Without any natural competitive

BD 23/9/96 (183)

advantages, such as local feedstocks in the form of crude oil, or a large local market for the product to be manufactured, the project's only possible competitive advantage is government support," said AECI chairman Mike Sander. He said government had to consider the potential pitfalls in supporting such a large investment, in particular the World Trade Organisation's rules on government support

"The danger is that large potential markets for the petrochemicals could be cut off suddenly on the grounds that the SA government would be subsidising the manufacturing of products for exports — that is, dumping"

He said SA must begin to plan next generation of petrochemical facilities. But these would be needed only around 2005 or beyond. "The project must be economically viable in a normal investment environment, and not require special government support"

"At present, the SA market takes about two-thirds of petrochemical output, and a similar level of demand for new petrochemical capacity would provide a strong base for expansion"

It is understood the Taiwanese partners would be willing to guarantee the purchase of a large proportion of the complex's output

New licence areas acquired in Algeria and Congo

Sasol seeks partners in quest for African oil

CT(BR) 24/9/96 (183)

By Jonathan Rosenthal

Johannesburg — Sasol, the petrochemicals and synthetic fuel producer, is interested in two licence areas in Algeria and the Congo, the company said yesterday.

Alfonso Niemand, the company's communications manager, said Sasol Petroleum International (SPI), a new petroleum exploration and production subsidiary, had acquired a 26 percent interest in block Marine-VI and a 36 percent interest in Marine-X, about 60km offshore from Congo.

Sasol is in partnership with Agip Recherches Congo, the big French oil company in Congo and Hydro Congo, the national oil producer in Congo, in both blocks. Block Marine-X is adjacent to the oil-rich Cabinda province in

Angola and the exploration risk is considered low, the company said.

Seismic surveys in both blocks are already complete, and the first well would be drilled towards the end of this year.

In Algeria, Sasol has a 20 percent interest in Block 237/246a in partnership with Pluspetrol and YPF of Argentina. Seismic surveys have already been completed and drilling should start next January.

"High-quality oil has already been discovered around both areas, but it is too early to speculate on the potential outcome of our exploration activities," Niemand said.

He was unwilling to indicate what Sasol's future plans would be, saying these depended on the outcome of exploration activities. He also declined to say what Sasol had invested in its exploration interests.

"Since Sasol Petroleum International holds a shared interest in Algeria and Congo, we are not at liberty to disclose costs," Niemand said.

Last week Peet Steyn, the general manager of Sasol, said SPI wanted to develop closer links with state-owned or multinational oil and gas companies operating in Africa. The subsidiary preferred to participate in new ventures as a minority equity partner.

The company said preference would be given to areas with low exploration risk and the potential of creating cash flow over the shorter term.

SPI has also been active in Namibia, where it participated in a deep-water well in Block 2012, but said no exploitable oil or gas was found.

NEWS

Drug companies seek deregulation of pharmacy ownership

SHIRLEY JONES

KWAZULU NATAL EDITOR

Durban — Pharmaceutical manufacturers are driving for the deregulation of pharmacy ownership in the wake of the health department's decision to withdraw doctors' dispensing rights

Mirvena Deeb, a spokesman for the Pharmaceutical Manufacturers' Association, said yesterday that the concentration of dispensing rights in the hands of community-owned pharmacies would reinforce an already disturbing retail cartel

She said the pharmaceutical sector comprised a host of small businesses (2 500 countrywide) with small turnovers and high mark-ups. The retail pharmaceu-

tical industry was grossly over-traded, she said, pointing out that without dispensing doctors, the industry would be in a similar position to the early 1980s when there was little competition

In terms of the Pharmacy Act, only qualified pharmacists may own pharmacies. Big business has lobbied for more than 20 years for a foothold in this R4 billion-a-year industry

Deeb said though the association agreed that medicines should only be dispensed by qualified pharmacists, keeping retailers like Pick 'n Pay and Clicks out of the pharmaceutical retail sector, prevented them from using their bulk-buying power to secure better margins

Deeb said that, as things stand, mark-ups on pharmaceuticals can be as high as 200 percent

She said the 200 pharmaceutical manufacturers in South Africa gave large discounts to pharmacies which never reached the public

Deeb said that if the health department introduced the writing of generic prescriptions, this would add to the myriad of abuses evident within the retail pharmaceutical industry

Some pharmacists could be tempted to dispense the drug on which they were receiving the most favourable discount that week, rather than the most appropriate medication, she said

Claude Ambler, the national president of the Association of Community Pharmacists, denied the existence of any retail cartel

"This is a free-market system. We are in direct competition with other pharmacies and people do shop around," he said

Ambler said that up until 10 years ago, there had been a blue-book price for medicines. However, this no longer applied as fixing medicine prices had been outlawed by the Competition Board

That had stepped up competition. Ambler said with the existing discount situation, profit on medicines was negligible and many pharmacies were struggling. He said that many of the pharmacies facing financial trouble had chosen to amalgamate rather than close down

He said though pharmacies traditionally added a 50 percent mark-up on medicines, the discount provided to medical aids negated this. Prescriptions submitted to medical aids for payment necessitated discounts of at least 30 percent. Direct sales meant similar discounts

Ambler questioned whether a drive to deregulate the industry was not profit seeking

He said his association supported Nkosazana Zuma, the health minister, in her efforts to lower medicine prices and had urged its members to co-operate. Ambler said Zuma's intention to force drug manufacturers to declare their selling prices would do away with discriminatory pricing, enabling customers to check prices against local and international benchmarks

Best-selling drug now sold without prescription

(183)

Star 26/9/96

Trend to over-the-counter sales
has many benefits for consumer
and medical profession, say marketers

The world's best-selling prescription drug, the antacid Zantac, is now available in a lower dosage from pharmacies, without a prescription from a doctor

The drug was deregulated yesterday in the latest example of the pharmaceutical industry's shift from prescriptions to over-the-counter (OTC) sales

Bill Collier, chief executive of manufacturers Glaxo-Wellcome, said descheduling was an international trend driven by the need for consumers to take control of their health and for governments to reduce health expenditure.

Latest figures reveal that Zantac, used largely to treat ulcers and stomach erosions, is a R17-billion-a-year market worldwide. Although available in 300mg and 150mg dosages at present, only the 75mg dosage will be available direct from pharmacies

Collier said the OTC format gave individuals a wider choice of product, particularly in remote areas; freed doctors to concentrate on more serious diseases; and allowed pharmacists to use their

professional skills to greater advantage.

It also allowed health insurance institutions and governments to make best use of limited resources, and manufacturers to make long-term plans, he said.

In the United Kingdom, according to the British Medical Journal, more drugs have changed from prescription to OTC status in the past two years than over the previous decade, and 65% of doctors say they feel comfortable with the OTC concept.

Policy for medicine licensing worldwide is for drugs to be made more easily available to patients unless a case can be made for restrictions.

The World Health Organisation supports self-medication as providing quick, effective relief for symptoms which don't need a medical consultation, Collier said.

To be descheduled, a product has to have a proven safety profile, and efficiency in self-limiting, easy-to-diagnose conditions, packaging and product information, and a pharmacist to supervise the sale. Medical Correspondent.

GENERIC PRESCRIPTIONS

DRUG COMPANY SUES ZUMA

SA pharmaceutical giant SmithKline Beecham has been threatened with being put out of business if it does not drop legal action against Health Minister Nkosazana Zuma, according to reliable industry sources

SmithKline is trying to stop Zuma forcing through rules to make generic name prescription mandatory and to impose limitations on dispensing medicines

Zuma admitted recently that she was being taken to court by a pharmaceutical company over her controversial proposals, contained in regulations gazetted on July 12. But in her customary style, Zuma refused to name the company

In Case No 17573/96, SmithKline is asking the Supreme Court's Transvaal Division to have Regulation R1150 declared *ultra vires* and void. Its application was filed on August 28.

Zuma is said to be livid at this challenge to her authority. It's claimed that an adviser has threatened SmithKline with expulsion from SA if it proceeds. The adviser has reputedly warned another multinational pharmaceutical company that it would be a "tragedy" for any company to join in the SmithKline action.

Health Ministry spokesman Vincent Hlongwane denies anyone in the ministry has issued threats. But the Pharmaceutical Manufacturers' Association confirms "Complaints have been lodged. They allege threats of being put out of business."

SmithKline, formerly under the Beecham Group name, has been established in SA since the last century. Its turnover and profits are not published, but the UK parent — SmithKline Beecham Plc — turns over £7bn/year.

Local CE Gunter Faber declines to comment on SmithKline's action against Zuma. A SmithKline Beecham Plc spokesman says from the UK "We have a policy not to make any comments whilst legal proceedings are pending."

However, a week before launching the court proceedings, Faber detailed his concerns in a 33-page letter to Zuma. He describes his communication as a "letter

of demand" for her to withdraw the offending Regulation R1150.

Faber calls on Zuma and government to reconsider their attitude to the trademark rights and the trading needs of pharmaceutical product manufacturers. "The apparent disregard for intellectual property rights, including the trademark rights acquired by my company and other members of the SmithKline Beecham group of companies with which it is associated, lies at the very heart of the steps we shall be taking," Faber adds. "We cannot allow these rights to be ignored or diluted."

He says SmithKline "had truly hoped that the pharmaceutical trade environment in SA would remain one in which research-based multinational original drug manufacturers who invested a great deal of money will be allowed to continue to operate effectively."

Publication of Regulation R1150 — "to the extent that it can be understood" — clearly conveys a different message, Faber claims.

Zuma is seeking to introduce the World Health Organisation's international nonproprietary names (INN) system of generic name prescribing. The system, in development since the Fifties, has never been successfully implemented, claims Faber. "In the Seventies, Pakistan attempted to introduce a generic name prescription base. I am told that it was abandoned due to large-scale counterfeiting and substandard medication reaching the patient." The system was introduced in the Philippines, where in practice it was ignored "as it has been found to be unworkable."

Faber says SA's present statutory, regulatory and administrative environment would make its effective implementation here impossible. In his letter he asks Zuma "Can SA afford to be the guinea-pig

to carry out an experiment in this regard?"

He says "Most doctors trust the products of certain manufacturers, if only by brand name, and will not willingly expose their clients to the products of unknown manufacturers. The right of a doctor to practise on that basis should be acknowledged and guarded. It is well known that generic equivalents are simply not therapeutically equivalent, despite their chemical composition equivalence."

Under Zuma's plan, only as-yet undefined "licensed" individuals will be empowered to dispense medicines. Faber points out that parliament has given medical practitioners and dentists the right to compound or dispense medicines to their patients.

He warns Zuma "You may not use whatever authority you have under the Medicines Control Act to make a regulation which runs against the provisions of an Act of parliament."

"Surely it cannot be your intention by this regulation to relegate the general

practitioner to a mere diagnoser and prescriber unless he has passed the 'dispensing examination'?"

"Would my (unlicensed) GP not be authorised to apply an antiseptic cream to my child who fell off his bicycle? May my dentist now no longer give me a local anaesthetic before he gets to work on my tooth unless he has passed that examination? Would all anaesthetists be called up to sit for the examination?"

"The effect of the proposed regulation is so unreasonable that one may only conclude that it stems from considerations not involving safety and efficacy of medicines, but some ulterior motive."

Zuma's spokesman, Hlongwane, says the Minister won't reply. "You can print what you like," he says. ■



Nkosazana Zuma

(183)

FM 27/9/96

SASOL (183)

RAND BONANZA

FM 27/9/96

Further appreciation of Sasol's share price in the short term seems a safe bet after last week's results showed the diversified fuel and chemical producer could outperform the industrial market (earnings up 25,5%) and counter the early effects of declining tariff protection (Fox September 20)

- **ACTIVITIES** Production from coal and crude oil, and marketing of liquid fuels, pipeline gas, waxes, petrochemicals, plastics, fertilisers and mining explosives Also operates coal mines
- **CONTROL:** IDC 11,5%, Old Mutual 11%, Sanlam 11%
- **CHAIRMAN.** P Kruger MD P V Cox
- **CAPITAL STRUCTURE.** 603m ords Market capitalisation R32bn
- **SHARE MARKET.** Price R53 Yields 2,3% on dividend, 7,4% on earnings, p e ratio, 13,5, cover, 3,2 12-month high, R53,25, low, R26,25 Trading volume last quarter, 32m shares

Year to June 25	'93	'94	'95	'96
ST debt (Rm)	578	536	785	296
LT debt (Rm)	1 492	1 326	1 151	1 021
Debt equity ratio	0,16	0,06	n/a	n/a
Shareholders' interest	0,56	0,57	0,60	0,65
Int & leasing cover	9,7	15,8	n/a	n/a
Return on cap (%)	15,3	17,5	15,8	17,6
Turnover (Rbn)	8,25	9,84	11,96	13,55
Pre-int profit (Rbn)	2,05	2,61	2,69	3,17
Pre-int margin (%)	24,8	26,5	22,5	23,4
Earnings (c)	230	264	323	393
Dividends (c)	86	90	102	122,5
Tangible NAV (c)	1 124	1 296	1 540	1 762

Longer-term, the share should remain a growth stock despite its gain of almost 70% over the past year — though the reduction of protection to final phase-out early in 2000 raises risk and could make performance more volatile

Sustainability, even acceleration, of earnings growth is likely this year as the benefits of the past five years' R7bn capital spending programme come through and additional capex of R4,25bn is invested over the next few years (R2,5bn

planned for this financial year)

The aggressive spending programme will raise production across a number of businesses but, more important, improve efficiencies and bring down or maintain costs of production

With Sasol basically a commodities group which is partly at the mercy of unpredictable world oil and chemical prices and refining margins, management is focusing on cost containment to bring stability to future growth

That stability should be apparent this year and profits will get a boost from the weaker rand Assuming the dollar-rand exchange rate remains stable or weakens to an average of about US\$/R4,60 over the financial year, R1bn-R1,3bn will be added to pre-tax profit On that basis, many analysts see EPS growth this year exceeding the 21,7% achieved in 1996

Further out, though, the effect of reducing protection becomes more difficult to call and could alter the nature of the business as less capital is available for investment, despite a programme to reduce synfuel operating costs by 25% at the end of the century

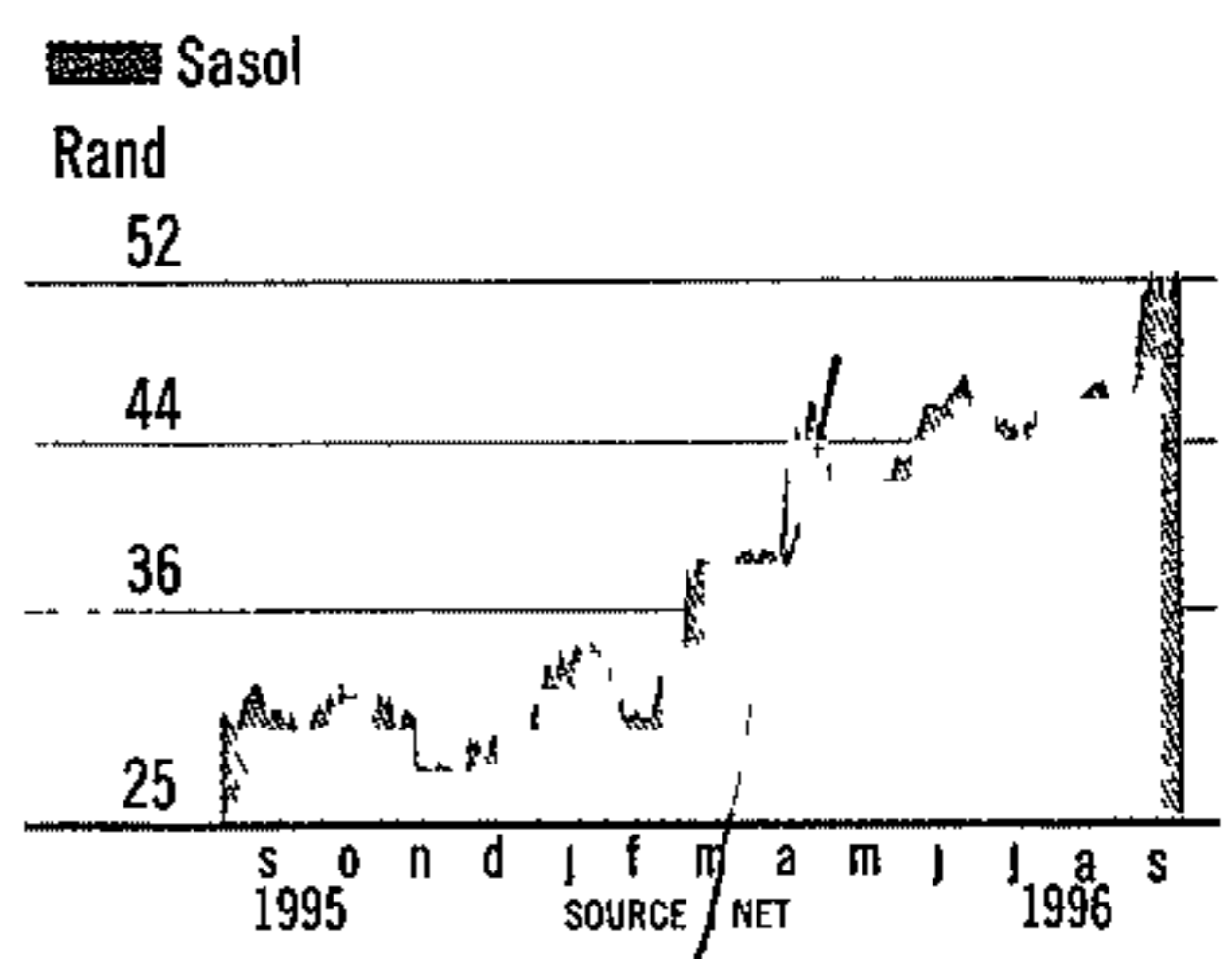
Much could depend on the performance of the growing chemical interests, which have received the lion's share of capex over the past five years Chief operating officer and incoming MD (from January) Pieter Cox believes chemicals will account for half of operating profit by 2000

Past capex, and Sasol's strong balance sheet, had a significant effect on the income statement in financial 1996, allowing the 13,3% increase in turnover (including a 77% rise in foreign sales to R3,1bn, 23% of group turnover) to translate into earnings growth of 25,5%

Interest received nearly doubled to R281m, from higher interest rates and cash holdings, net of debt, which grew from R201m to R1,14bn, aided by a 15% increase in cash generation to R4,5bn

The second factor was a marginally lower tax charge of R924m, despite increased profitability, as Sasol's effective tax rate declined from 33% to 26,8% Cox says this is largely from tax allowances relating to capital projects

With the likelihood these tax benefits could reduce, he says, the directors "deemed it prudent" to transfer R100m to a tax equalisation reserve This is a contentious accounting practice which is frowned on by the profession and could be seen as a tool for smoothing earnings Without the transfer, earnings would



have grown 31% Shareholders, though, probably like the idea of R100m tucked away in a good year which can be brought back on to the income statement at a future date

Beyond this year, future performance will be carried by projects approved or already under way at a capital cost of about R3,1bn, including R1,8bn aimed at synfuels to offset declining protection

These are being managed by Sastech, Sasol's research and development arm which has produced and is working on world-leading technology Among the largest are the R860m programme to replace the 16 synthol reactors with eight new SAS reactors, R350m on a new air separation plant at Sasolburg, and R140m for acetic acid and propionic acid plants to be commissioned in January

Sasol expects increased volume production from chemicals this year and continuing stable performance from synfuel plants Predicted weaker refining margins could temper the strong performance of Sasol Oil last year And mining is in consolidation and not expected to improve operating profit, though initial coal exports will start this year

Negatives are likely to be eclipsed by the benefits of the weaker rand The rand hedge element still provides a strong incentive to buy the share But in the longer term, the probability that earnings growth can be sustained, despite more volatility, makes Sasol undervalued

Shaun Harris

ST(BT)29/9/96 (183)

Drugs giant presses ahead with challenge to Zuma

MULTINATIONAL drugs firm SmithKline Beecham is continuing with legal action against proposed government health-care reforms despite alleged threats that it will be put out of business if it does

SmithKline has filed a submission asking the Transvaal division of the Supreme Court to overturn Health Minister Nkosazana Zuma's proposed regulation R1150, part of her overall health-care reform programme.

The group's SA chief executive, Gunter Faber, declined to comment, but company sources confirmed it would continue with its submission. SmithKline wants to overturn reforms which would make prescribing generic drugs mandatory and limit the dispensing of medicines.

Generic drugs are off-patent versions of branded products and are usually much cheaper. But the industry says limiting the use of branded drugs denies doc-

tors choice and could force them to change patient regimens.

Zuma also plans to allow only licensed persons (as yet undefined) to dispense medicine. The industry fears this may rule out many medical practitioners who currently dispense drugs.

The pharmaceutical industry puts great store on its money-spinning branded drugs and firms fiercely defend their patents from all challengers.

The source said SmithKline had the full support of other SA companies and that it was prepared to fight the proposed plans through the courts. "We have the backing of other companies, not only multinationals, but local ones too."

The SmithKline source alleged the group had received a threat to drop its action. "That did happen. But I don't think it came from the minister (Zuma). It must have come from someone else in the ministry" — *Reuter*

The drugs industry 'is crazy'

(183)

SHIRLEY JONES

CT (BR) KZN AZULU NATAL EDITOR
30/9/96

Durban — Pharmaceutical retailers are in serious trouble and wholesalers' profits are ridiculous. The manufacturing side of the industry is neither transparent nor measurable and has a lot to answer for.

So says Carl Schnell, the chief executive of Alpha Pharm, a national pharmaceutical distributor, who believes that all in 'all pharmaceuticals is a crazy industry to be in

On Friday, he said the feuding pharmaceutical industry was very sick and had a lot of cleaning up to do. He said recent calls for ownership deregulation and the intense criticism of distributors and retailers by manufacturers were irresponsible, and warned that nothing would be gained through the various stakeholders pointing fingers at each other.

He said the facts spoke for themselves. A presentation being prepared for the government by South African Druggists' distribution company, United Pharmaceutical Distributors, the distribution arm of Alpha Pharm and Adcock Ingram, the country's big four pharmaceutical wholesalers and distributors, would probably highlight some startling facts, said Schnell.

He said that of every R100 paid for medication, the manufacturer ended up with R70, the wholesaler R6 and the retailer R24. Retailers' overheads, however, were often greater than the 24 percent they earned.

He said the wholesale-cum-distribution fraternity supported the health minister's initiatives concerning cost controls, as long as these started at manufacturing level and did not focus solely on the end supplier.

He said many pharmacies were buckling under pressure from medical-aid societies.

Other companies may join SmithKline action

B0 30/9/96 (183)

Jacqueline Zaina

MAJOR SA pharmaceutical manufacturers could join SmithKline Beecham's legal action against Health Minister Nkosazana Zuma, despite threats that they would be put out of busi-

ness, Pharmaceutical Manufacturers Association CE Mirryena Deeb said at the weekend

PMA members, representing most major local and multinational drug manufacturers, would back SmithKline if regulations gazetted in July

under the Medicines Control Act were promulgated in their present form, she said

The contested regulations would make prescribing generic medicines mandatory, prohibit the use of brand names and impose limitations on dispensing doctors and dentists

Deeb said a number of multinationals had been threatened with being put out of business or "blacklisted" if they took legal action. Industry sources said the warnings came from an adviser to Zuma.

SmithKline SA CE Gunter Faber declined to comment and no health department spokesmen were available from Wednesday last week.

Deeb said the dispute came at a time when

many multinationals were considering whether to replace, upgrade or expand production facilities and could result in planned investment being put on ice

The industry felt it was "grossly unfair and irregular" to expect comment on the regulations as they were incomplete. Zuma intended promulgating the regulations in October, having allowed only 45 days for comment rather than the usual 90 days, she said.

Manufacturers were against Zuma's proposals to make the prescription of generics mandatory to the exclusion of brand names, as this impinged on their intellectual property rights, Deeb said. Generics are cheaper off-patent versions of branded drugs.

Such legislation would also negate the paying patient's right to freedom of choice and undermine the doctor's role in prescribing the most appropriate medicine, she said

Deeb said proposals for the introduction of a digital marking system to control the theft of drugs, which amounted to R100m a year at state level — with a retail value of R1bn — were considered unworkable and unaffordable.

While manufacturers would be forced to implement the marking system at the production level at a cost of R500m, government would not be required to implement the system in its warehouses, which was where 80% of theft occurred, she said

Drug merger proves a huge headache

By Ann Crotty

CONSUMER INDUSTRIES EDITOR

Johannesburg — There is growing disquiet among analysts on the JSE about the lack of progress with the merger between Premier Pharmaceutical (Prempharm) and Adcock Ingram

growing speculation

the overseas principals may be using the merger as an opportunity to review their position in the South African market. Analysts said that if some of Prempharm's or Adcock Ingram's overseas principals were not involved in the merger, the deal and its pricing would be significantly affected.

A number of international pharmaceutical companies tied up marketing deals with Prempharm and Adcock Ingram in the 1980s when the parent companies faced pressure to boycott South Africa because of the apartheid regime.

Some of those deals have already been undone. Merck Sharpe and Dome (MSD) withdrew from direct involvement in South Africa in the 1980s and sold its local operations to Tiger, which ran them through Logos its subsidiary. Earlier this year the deal was reversed when MSD bought back its operations.

Mike Norris, the chief executive of Logos, has since returned to the Tiger camp and taken up a senior position at Adcock Ingram. He is expected to play an important role

(183) ET(BR) 3/9/96
in the merged entity, possibly as second-in-command to Prempharm's Phil Nortier.

Baxter and Mer-National are two international partners that have relationships with Tiger and Prempharm. They were frequently named as responsible for the delays

Care) Division remains in the forefront of technology through its agreement with leading international healthcare company Baxter." The exclusion of Baxter would thus affect Adcock Ingram's valuation in a merger. Similarly, excluding Mer-National and its important over-the-counter products, including Syndol, from Prempharm would be significant in the value of the deal.

Foreign principals may be concerned that their products will not get the same sort of management attention in the merged entity.

When many international companies are considering investing in South Africa, the change could have a significant effect on the international players' decision on whether or not to increase their exposure to the local market. Deciding to go for increased exposure could see them wanting to part company with the local partner.

Much will depend on the terms of the agreements between the players and the perceptions of the merged entity's strength.

— See Business Watch

Prempharm principal wants new deal

Foreign firm may delay drug merger

By Ann Crotty *CT (MK) 3/9/96 (183)*

CONSUMER INDUSTRIES EDITOR

Johannesburg — The planned multibillion rand merger between Premier Pharmaceutical (Prempharm) and Adcock Ingram, two of South Africa's biggest drug companies, is being held up by difficulties in concluding a new agreement between Prempharm and Mer-National, one of its most important foreign principals.

Industry sources said yesterday that the outcome of the negotiations could significantly alter the final form of the merger.

The difficulties in putting together the deal, which was first announced in early March, have been compounded by the recent purchase of Mer-National by Hoechst, especially because Hoechst executives handling the matter were on holiday last month.

Industry sources said the R5 billion-plus merger was being delayed to give the parties time to hammer out a new agreement that would satisfy Mer-National that its interests would be protected in the enlarged operation.

Mer-National is apparently worried because Adcock Ingram will be the controlling shareholder in the merged entity and Prempharm will be the junior partner.

When Mer-National divested from South Africa in the late 1980s under growing sanctions pressure, Prempharm acquired its South African operations and continued to manufacture its products under licence.

Because the merger deal involves a change of control of

Prempharm, the conditions of that licence will have to be renegotiated.

Analysts said all of the licence agreements at Adcock Ingram and Prempharm would have to be renegotiated because the merger would substantially change the conditions under which they were agreed.

"Many overseas principals would have tied up a licence agreement on the understanding that their product would be aggressively pushed by the management team in one or other company. Now those companies are merging and their product may be just one of two or three similar products," one analyst said.

Analysts also said some of the products in the merged company would probably be made by international competitors. This too would be worrying to the international licence holders.

There has been some speculation about difficulties with Baxter, one of Adcock Ingram's international principals, but market analysts and industry sources said the delay was mainly because of Mer-National.

"If things could not be resolved, it would be the cause of much concern in the share market, as Mer-National brings some attractive (over-the-counter) products to Prempharm," said one analyst.

Another said it should be possible to hammer out a new deal because Hoechst's thrust into South Africa was not in the over-the-counter market, which constitutes most of Mer-National's products.

□ See Business Watch, Page 14 and Merger is a headache, Page 15

Entrenched privatisation dangerous, says Manuel

Nicola Jenvey

DURBAN — Privatisation should be motivated by a constitutionally entrenched mandate, IFP leader and Home Affairs Minister Mangosuthu Buthelezi said yesterday.

He told the National African Federated Chamber of Commerce that privatisation policy lacked direction and SA had not "found the strength and determination" for a clear course of economic growth.

Finance Minister Trevor Manuel described Buthelezi's plan as "very dangerous"

It was dangerous to entrench policy instruments because management and leadership styles could change. Downsizing was an example — it had been fashionable until recently but was currently inappropriate, he said.

Government was considering a range of restructuring options which would "guarantee" the best value in the long term. Contemporary examples such as Mexico, where corruption had been rampant, and Zambia, where, despite 102 entities being privatised last year, the people were worse off — were not viable, said Manuel.

Buthelezi argued that should privatisation and deregulation principles appear in the national constitution — as in the KwaZulu-Natal provincial constitution —

many uncertainties undermining government's macroeconomic strategies would be removed.

He said liberalising the economy through antitrust legislation would stimulate small, medium- and micro-sized enterprise development. Competition would be promoted and effectiveness in world markets strengthened.

Nafcoc president Joe Hlongwane said small business development had created employment opportunities worldwide, but realising the same in SA demanded more vigorous competition policy.

This included forcing big business to procure goods and services from small, predominantly black businesses and to encourage higher productivity among the workforce. Tax rates which inhibited growth of smaller businesses also needed reviewing, he said.

Effective black economic empowerment required that 30% of board seats in quoted companies, 40% of equity, 50% of inputs and 60% of managerial posts be held by blacks by 2000.

Government also needed to review business regulations.

Nafcoc demanded action to stop escalating crime and called for "investor-friendly" taxation.

Hlongwane called on government to introduce affirmative action legislation and to facilitate

the creation of a black economic empowerment investment fund through private investors.

Public Works Minister Jeff Radebe said government would waive the sureties requirement on any public works building and civil contracts — the single largest entry barrier to the building industry — to facilitate the immediate entry of emerging small-scale entrepreneurs.

Public works contracts would be broken into as many parts as possible without negatively affecting quality, time and costs to increase the share of procurements.

The principle had already been applied to the R150m Malmesbury prison.

He said future contracts would be awarded to the lowest "responsible and responsive" bidder with price being only one consideration. Large-scale construction projects would demand joint ventures, subcontracting or employer-employee relationships.

Radebe said the state had also reconsidered its roster system to widen the consultancy network to black-owned practices.

SA currently faced a R170bn infrastructural backlog and Radebe said innovative financial strategies, careful prioritisation and private sector investment were essential for progress.

17 chasing casino permits

Amanda Vermeulen

THE Mpumalanga Gaming Board has received 17 casino resort proposals competing for the province's four gambling licences, which will be issued by March next year.

The board said yesterday it had amended its original request-for-proposal document, and would not call on bidders to submit a confidential exclusivity fee until the licences had been issued, taking the fee out of the evaluation process.

In addition, Gaming Board CE Andre Wilsenach said the board would be willing to negotiate with the successful applicants on the length of the exclusivity period, previously set at 10 years in the request document.

The board said in July that it would ask applicants to volunteer a fee to ensure that no new licence was issued for 10 years in the region in which the licence winner had been granted permission to

open a casino.

However, Wilsenach said yesterday there had been some confusion among applicants who believed that the size of the fee would determine which company would get a licence.

"We amended the legislation to prevent the exclusivity fee from interfering with the board's evaluation. We have told the applicants that the best proposal will win the licence, not the size of the exclusivity fee."

In addition, although the fee was originally planned to secure an exclusive licence for 10 years, Wilsenach said the board would be willing to negotiate the exclusivity period with the eventual licensee.

The board received 35 submissions from potential casino operators last month expressing their intention to bid for a licence in Mpumalanga.

The board is expected to announce the successful bidders by March 27 next year.

Wage talks for 18 000 deadlock

Renee Grawitzky

WAGE talks covering 18 000 workers deadlocked on Friday as employers and the Chemical Workers Industrial Union (CWIU) were unable to resolve differences on across-the-board increases and hours of work.

The union intended applying for a conciliation board. At the meeting both parties revised their positions with employers offering 10% across the board and a maximum 43-hour week. The union revised its demand from 14% to 12% and demanded a reduction in hours of work to 40 over two years.

CWIU president Abraham Agulhas said countrywide report-back meetings were taking place. Future action would depend on the outcome of the conciliation board meeting.

Engen workers continue stayaway (183)

CT(BE) 5/9/96

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Workers went on strike illegally

KILEY Baker Plastics points out that workers it dismissed took part in an illegal strike in Jul. This dispute had nothing to do with Sustain Timbers and an industrial court ruling last year that it should reinstate dismissed workers, a ruling it failed to honour. Business Day regrets the error.

BD 5/9/96 (183)

REPORTS Business Day Reporters, Sapa-AR

183

Labour

ET (E2) 6/0/96

Engen strike 'has not affected production'

A strike by 120 of the 520 workers at Engen's Durban refinery has not affected production because the refinery is undergoing maintenance. Peter Dent, the general manager, said that the refinery's output is unaffected by the strike. He said that there is plenty in tank age and also that the refinery received imports from other refineries.

183

He said the management and union representatives were locked in negotiations. We are talking on the phone. The refinery is trying desperately to get the guys to go back to work.

The workers walked out from the refinery on Monday after the management reprimanded them for an illness. Dent did not say whether the workers were to support the strike. He said that the refinery would be taken against the workers if any action would be taken against the workers.

He said that he expected nothing to happen in the refinery. Peter Durban

SARAFINA DONOR

SUSPICIOUS DRUG TENDER

FM 6/9/96

(183)

Is Indian pharmaceutical giant Ranbaxy the mystery donor of R10,5m to bail out *Sarafina 2*? It says emphatically no. But the circumstances surrounding its receipt of a large drug tender curiously deviate from established procedure and are to the company's advantage.

Ranbaxy's multimillion rand awards in Tender No RT 301/96 — government's antibiotics tender — has caused an uproar in the SA pharmaceutical industry.

The total value of the tender is estimated at R121m and Ranbaxy's slice is R12m to date.

While registration of a new supplier's drug normally takes more than a year, in Ranbaxy's case the Medicines Control Council apparently approved the registration of two of its products, amoxicillin and ampicillin (generic antibiotics) in about a third of the time.

Zuma returned from India in November, enthusiastic about its ability to supply medicines to the public sector at prices much lower than producer prices here, where higher wages inflate costs. The Health Department, she said, would consider buying these drugs from India.

The fast track registration of Ranbaxy's drugs occurred in February, coincidentally with the breaking of the *Sarafina* financing scandal.

SA's current prescription market at R2,37bn could soar to R4bn next year.

Democratic Party MP Mike Ellis says speculation is rife that the donor "is a company involved in generic medicine and that payment has been delayed because regulations have not yet been finalised in view of the public outcry."

Ranbaxy's presentation of its dossier to register its generics with the Medicines

Control Council coincided with Zuma's Indian visit. Invitations to tender for RT 301/96 were due to close at 11 am on March 14. Ranbaxy's amoxicillin and ampicillin registrations came through just 15 days before the deadline — on the very day (February 28) that the Democratic Party called for Zuma's suspension for failing to account for the costs of the controversial Aids musical. The tender awards were made on June 10, just days after the news that a mystery donor was to provide R10,5m for the *Sarafina* bail-out.

Amoxicillin, a widely used antibiotic, was developed by Beecham — now SmithKline Beecham — and after its patent expired most of the major drugs companies started producing their own generics. There are about 27 varieties on the SA market. An SAD factory in Port Elizabeth, the largest independent penicillin facility in the country, makes amoxicillin under the brand name Moxypem. Its future, says Nel, is threatened, with the likely loss of 150 jobs, because of this tender allocation.

The company's concern was raised with the DTI during a meeting aimed at improving relations between government and the pharmaceutical industry. Also there were representatives of the Department of Health, labour unions and manufacturers.

Dr David Walwyn, who heads the DTI chemicals section, says of the Ranbaxy awards "This is a very delicate matter. The Department of Health can do what it wants in the case of how it awards its tenders."

"The particular conditions around the award of the Ranbaxy tender were quite contentious, in that there were certain procedures followed which were unusual."

"They were not unethical or unlawful, just unusual."

"The main problem was that the registration was fast-tracked through the Medicines Control Council."

When the Health Department's representatives were called to a meeting on August 21 to justify the award, they did not turn up.

Pharmaceutical Manufacturers' Association's Mirryena Deeb claims "We are unaware of any legal mechanism to fast-track the registration procedure and therefore we would question its legality."

Ranbaxy's chairman and MD is Dr Parvinder Singh. The company's turn-



Nkosazana Zuma



Parvinder Singh generic guru

By arrangement with The Times of India Group

On August 24, Cape Town attorney Malcolm Sermon was identified as the donor's representative. Refusing to reveal his client's name, Sermon said that the terms had not been finalised.

South African Druggists (SAD) says it has asked the Department of Trade & Industry to question the tender price. Korbus Nel, CE of Pharmicare, SAD's pharmaceutical arm, says "We are unhappy about the allocation of this tender and the onslaught from Indian companies. If they import cheap products they could put local companies out of business."

P.T.O.

Soekor halves its cost to government

(183) CT (BR) 10/9/96
 By James Lamont

INDUSTRIAL EDITOR

Johannesburg — Soekor, the state-owned exploration and production arm of the Central Energy Fund, halved its cost to the government in the financial year to March 31 this year. It brought its net cost down to R20,4 million, the fund said in its yearly report, released yesterday.

Soekor's costs were reduced by more than half of the R53 million incurred last year after a restructuring process that reduced staff from 260 to 160.

Gross exploration costs fell to R105 million this year from R130 million the previous year, during which time it was decided to develop South Africa's first oil field, the E-BT field.

Joggie Heuser, Soekor's chief executive, said the company wanted to commercialise further to reduce its financial dependence on the fund. He said the development of nearby oil reservoirs and the acceleration of investment by foreign oil companies searching for offshore hydrocarbons would extend the E-BT field's production

Will Schoeman, Soekor's administrative manager, said that the development of fields around the E-BT field, which will begin production in February next year, could extend the life of the operation to between 10 and 12 years.

The report also said that a planned reduction of the strategic stockpile of crude reserves, administered by the Strategic Fuel Fund,

to the equivalent of 90 days of oil consumption (about 39 million barrels), would be achieved by August next year. The stock was 53 million barrels at the end of the financial year.

The Strategic Fuel Fund's crude oil trading activities recorded

a gross trading profit of R41,8 million. The operating surplus from commercial activities was R72,5 million this year.

Mossgas, the state-owned synthetic fuel producer, recorded a net surplus of R351 million for the year, including its tariff protection, the fund said. Mossgas's net surplus before tariff protection was R160,5 million. Voluntary retrenchments were estimated to save R35 million a year.

'The company wants to commercialise to reduce its dependence'

Sasol could save R4m from second desalination plant

Business Day Reporter

SASOL Synthetic Fuels is to build a R73m desalination plant to recover and purify 6-million litres of waste water a day from its Secunda coal mines, the second such plant to be commissioned this year, the company said yesterday. Purified water from the new plant would be used in Sasol's fuel-from-coal facilities at Se-

MD 10/9/96
cunda, saving the company at least R1,9m a year by reducing its raw water consumption.

Another possibility would be to use water from the desalination plant to replace the 6-million litres drinking-quality water purchased by Sasol every day, which could save R4m a year.

The company said the project is necessary to reduce harmful effects on the environment.

(183)
The volume of water to be pumped from Sasol's mines had risen dramatically since December last year as a result of an abnormally high rainfall.

The desalination plant would use proven electro-dialysis and osmosis technology and would be due for commissioning next year.

The first plant with a capacity of 6-million litres a day was commissioned earlier in the year.

By William Moll...

Sasol at odds

By James Lamont

INDUSTRIAL EDITOR

Johannesburg — Sasol, the synthetic fuel producer, denied yesterday that it had entered a joint marketing venture with its state-owned partner to sell the Mossel Bay plant's alcohol products overseas.

Sasol and Mossogas over assertions by the government's Central Energy Fund (CEF) that the two companies are jointly marketing of alcohol products worth R125 million a year from Mossogas's synthetic fuel operations.

Alfonso Niemann, a spokesman for Mossogas, said Sasol talks with Mossogas over the sale of alcohol, a co-product of the synthesis process, but that no agreement had been concluded. In a CEF report Dave Day, the CEF's chief executive, said Mossogas was exporting alcohol principally to European and Far Eastern markets.

Day said yesterday that the exports were worth R125 million a year or 10 percent of the value of Sasol's yearly petrol sales. The venture, first considered two years ago, was agreed on in August last year and secured better terms of a joint venture with Sasol.

Mossogas said in a joint venture with Sasol, Day said yesterday that the exports were worth R125 million a year or 10 percent of the value of Sasol's yearly petrol sales. The venture, first considered two years ago, was agreed on in August last year and secured better terms of a joint venture with Sasol.

prices for the products. Day said Mossogas was exporting alcohol principally to European and Far Eastern markets. Day said yesterday that the exports were worth R125 million a year or 10 percent of the value of Sasol's yearly petrol sales. The venture, first considered two years ago, was agreed on in August last year and secured better terms of a joint venture with Sasol.

(183) Mossogas over joint alcohol venture

that the two companies are jointly marketing of alcohol products worth R125 million a year from Mossogas's synthetic fuel operations. Alfonso Niemann, a spokesman for Mossogas, said Sasol talks with Mossogas over the sale of alcohol, a co-product of the synthesis process, but that no agreement had been concluded. In a CEF report Dave Day, the CEF's chief executive, said Mossogas was exporting alcohol principally to European and Far Eastern markets. Day said yesterday that the exports were worth R125 million a year or 10 percent of the value of Sasol's yearly petrol sales. The venture, first considered two years ago, was agreed on in August last year and secured better terms of a joint venture with Sasol. Mossogas said in a joint venture with Sasol, Day said yesterday that the exports were worth R125 million a year or 10 percent of the value of Sasol's yearly petrol sales. The venture, first considered two years ago, was agreed on in August last year and secured better terms of a joint venture with Sasol.

Local industry 'highly competitive'

Drug firms (183) deny Mandela accusations

CT(BR) 13/9/96

By James Lamont & Janine Simon

Johannesburg — The Pharmaceutical Manufacturers' Association rebuffed charges by President Nelson Mandela yesterday that the local drug market was in the monopolistic grip of multinational companies

On Wednesday, Mandela attacked international firms with a presence in South Africa following the withdrawal of a mystery donor who was to rescue the controversial Sarafina 2 play

Mandela claimed that Nkosazana Zuma, the health minister, who was responsible for the play's funding, was being victimised by a coalition of political and "white business" interests over the R14 million play because she had challenged the monopolistic hold of multinationals on the drugs market

Mike Norris, the president of the association, which represents multinational drug companies in South Africa, said Mandela's criticism was misinformed

He said Mandela was not well advised about the nature of the "very competitive" local drug market

"The biggest market share of individual multinationals in the local market is no more than 5 to 6 percent," he said

There are 207 drug companies operating in the local market. Half of them are international and only 45 are multinationals, including Glaxo-Wellcome, Hoechst, Ciba-Geigy, SmithKline Beecham and Roche.

Norris said Roche, with 5,1 percent, had the largest market share of the multinationals, but the recent merger between Sandos and Ciba-

Geigy could give the new company a 6 percent share. The pharmaceutical industry accounts for R7 billion in investment each year

He said multinationals accounted for 70 percent of the drug market, but three of the top nine drug companies were South African

In March, SA Druggists had 10,3 percent of the market, Premier Pharmaceuticals had 7,5 percent and Adcock-Ingram had 5,1 percent.

Zuma has taken steps to make health services more affordable, including breaking up the drug market and sourcing medical supplies from countries such as India

Norris said the association opposed some of Zuma's reforms, but agreed with her goal of a more affordable and accessible health-care system

He said the association opposed her advocacy of the prescription of generic rather than patented drugs and the introduction of a Vericode batch-tracking system to trace the theft and recycling of drugs, which he said would increase their cost.

He said ex-manufacturer drug prices in South Africa were comparable to those in other parts of the world, but the mark-up system made them more expensive to the patient

"I don't believe multinationals are ripping people off, but the private sector could be made more efficient," he said

"The association has no interest whatsoever in Sarafina or discrediting the (health) minister," Norris said.

Officials at the health department could not be contacted for comment

□ See Business Watch, Page 18

CEF downgrades Mossgas valuation

(183)

SD 13/9/96

Reinie Booysen

THE Central Energy Fund has opted to leave the value of Mossgas in its books at R1,3bn, despite valuing its projected cash flow in nominal terms at R3,6bn up to 2005.

GM Kobus van Zyl said in the annual report an attempt last year to put a commercial value on Mossgas — the fund has a 70% stake, the major asset on its balance sheet — had been affected by uncertainties such as the prices Mossgas would receive for its products and whether government would approve further investments to extend its life.

In December last year government approved a new framework

for tariff protection, whereby the floor price for Mossgas's products, on a crude oil-equivalent basis, was reduced from \$21,70 a barrel of crude to \$19 from January 1 this year. This price will decline steadily to \$16 by July 1 1999.

Van Zyl said government agreed in March 1996 that the fund should proceed with the development of the F-A satellite gas fields and firm up the compression alternative, which would result in a future cash flow in nominal terms of R3,6bn up to 2005.

"Should the carrying value of the CEF's investment in Mossgas on 31 March 1996 be adjusted to this value, R2 664m of the provision created in previous years could be written back," he said.

Van Zyl said that R352m of the R8,9bn balance sheet provision for Mossgas's R9,9bn loan from the fund had been written back.

"The R352m represents the repayment on the loan out of the cash flow generated by Mossgas for the year under review," he said.

Several other uncertainties clouded any valuation of Mossgas: its "future profitability and long-term economic viability depend essentially on the future (rand-dollar) exchange rate, future levels of international petroleum product prices, the level of tariff protection, the actual extent of Mossgas gas reserves and future investment required to exploit the gas reserves," Van Zyl said.

Pharmaceutical industry defends itself

THE PHARMACEUTICAL industry yesterday hit back at President Nelson Mandela for blaming multinational companies for the Sarafina 2 debacle, saying the criticism was unfounded and unfair.

The chief executive of the Pharmaceutical Manufacturers Association, Mirryena Deeb, rejected allegations that the industry was in any way involved in the Sarafina 2 issue or attempts to discredit Health Minister Dr Nkosazana Zuma.

"It is both unfair and unfounded to blame the multinational pharmaceutical companies for an issue that has only to do with bad governance and nothing to do with issues of health policy," Deeb said.

She was responding to statements made this week by Mandela, who said the outcry over Sarafina 2 was a smokescreen for a campaign by multinational pharmaceutical companies against Zuma. Mandela

claimed the companies were opposed to Zuma's plans to reduce the price of medicines.

Deeb said the PMA, which represented "research and development based" multinational drug companies, rejected the allegations that the industry had any interest in the Sarafina debacle.

She said the industry also had no interest in demigrating Zuma in a clandestine fashion.

Deeb said it had been the ANC-led parliamentary portfolio standing committee that had first raised doubts about Sarafina 2.

She said the PMA rejected "with dismay" Mandela's assertion that the medicines market was monopolised by big foreign conglomerates reluctant to face competition.

"Some 200 companies operate in South Africa. Of these only around 45 are multinationals and of these no one company enjoys a mar-

ket share greater than six percent," she said.

Deeb said when the PMA was unhappy about draft legislation or regulations it approached Zuma or her department directly or made use of the legal system.

When necessary the PMA voiced its opposition to certain policies it believed were "unimplementable".

Referring to criticism of the high cost of drugs in South Africa, Deeb said the industry agreed that the prices paid by consumers were unacceptably high.

She said that this was the result of cross-subsidisation of state drugs by the private sector and an over-regulated and inefficient distribution retail system that precluded big business, medical insurers and medical schemes from selling directly to the patient - Sapa

CP 15/9/96
183

Saldanha storage pact subject to 'commercial and diplomatic acceptability', says CEF

Back to square one on Iran oil deal

By James Lamont

INDUSTRIAL EDITOR

Johannesburg — Iran's high-profile visit to South Africa last week failed to break the impasse over a stalled agreement between Pretoria and its main oil supplier over storage of 15 million barrels of Iranian crude at Saldanha Bay.

The state-owned Central Energy Fund (CEF) said at the weekend no final decision had been taken to store crude oil from Iran or any other oil-producing country and any deal remained subject to "commercial and diplomatic acceptability".

The statement is further evidence that the deal struck in July last year to allow the Iranian National Oil Company to store and jointly market its oil at the 45 million-barrel facility on the west coast is far from settled and is sensitive to US political opposition to trade with Iran.

The storage deal would allow South Africa to reduce its strategic reserves, freeing R750 million a year in state funds. In addition to tank rental, a joint marketing agreement would earn South Africa an estimated R50 million a year.

Roy Pithey, the CEF's chairman, said any deal with Iran, or any other oil

producer, would "only be finalised once the results of an environmental impact study have been released and the CEF board and government are satisfied with the commercial and diplomatic acceptability of the deal".

Speculation that South Africa could store and trade Iranian oil within six months was "premature", he said.

"The CEF has given no single country exclusive rights to use the 45 million-barrel storage facility and is, in fact, still interested in talking with other oil-producing countries as well as oil companies wishing to store crude," Pithey said.

Pithey's comments about the CEF's strategic fuel fund-managed facilities, which were built to withstand a global oil embargo during the apartheid era, came after Akbar Hashemi Rafsanjani, the Iranian president, left South Africa at the weekend, after an official visit.

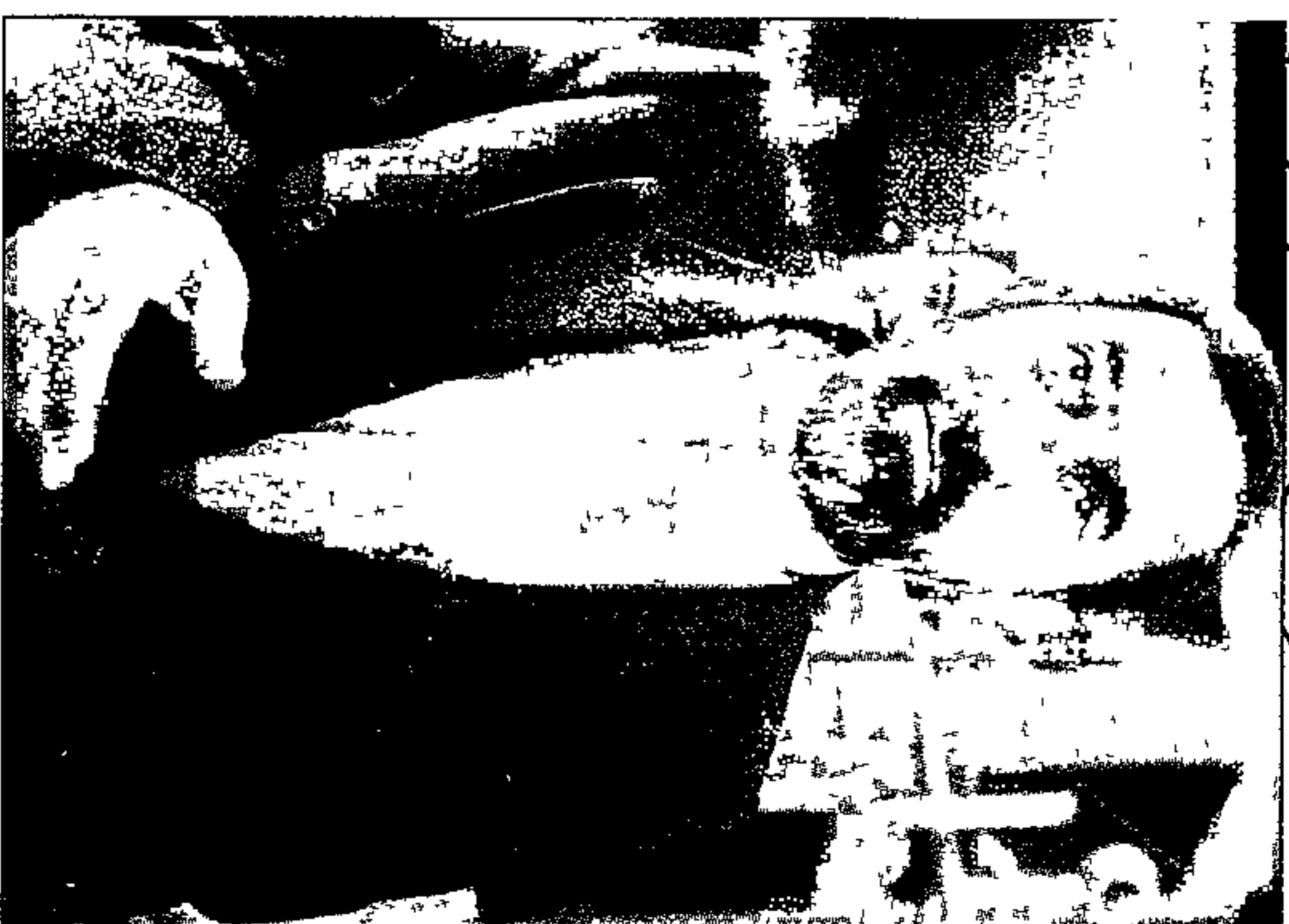
During the visit Iranian officials, who were not joined by the Iranian oil minister, declined to commit themselves to the deal. Ali Akbar Velayati, the Iranian foreign minister, said on Friday his government had yet to agree on a price for oil storage with South African authorities.

Though he believed the deal would still go ahead "when South Africa is ready to permit us", Velayati said Iran had no reserves to store in Saldanha because of forward sales of production. "We don't need such storage at the moment because we have sold our oil in advance," he said.

Penuell Maduna, the minister of mineral and energy affairs, said trade between the two countries had not grown around long-standing oil supply that continued in the sanctions era. South Africa depends on Iran for 65 percent of its 450 000 barrel a day crude requirements for which it pays R5 billion a year. Iran imported R146 million worth of South African goods last year.

Maduna said Saudi Arabia was also considering storing oil at Saldanha.

However, sources in the local oil industry believed the deal — criticised by the US, which regards Iran as a sponsor of terrorism — was long dead. The deal has faltered over pricing and trading terms which, one source said, would have led to South Africa "paying Iran to store its crude". He said the environmental study was a political device to delay a final decision.



IMPASSE Ali Akbar Velayati, Iran's foreign minister, who left South Africa last week. PHOTO JOHN WOODROOF

CT (PR) 16/9/96 (183)

About-turn on protection for fibres⁽¹⁸³⁾

CT(BR)16/9/96
By Christo Volschenk

Cape Town — Sasol Fibres decided it did not need tariffs to protect its products from international competition. Instead, said the Sasol subsidiary and the only local manufacturer of filament tow and staple fibres, anti-dumping duties would do the trick.

Sources said yesterday that Sasol Fibres had indicated it would withdraw its application to the Board of Tariffs and Trade for tariffs to be slapped on products sourced from abroad.

Yesterday Mike Hankinson, the president of the Textile Federation, said: "Import tariffs would have had the effect of raising prices throughout the whole textile and clothing pipeline.

Anti-dumping duties, on the other hand, will only have a limited inflationary impact."

Alec Erwin, the trade and industry minister, said on Friday that the textile and clothing industries had complained to the board of slack service, unreliable deliveries and quality problems encountered by them in their dealings with Sasol Fibres.

Sasol expected to report strong set of results today

From Reuter ⁽¹⁸³⁾ ET(BR)16/9/96

Johannesburg — Sasol was set to report a sharp increase in its profit for the year today after receiving a boost from the weak rand and strong product prices, analysts said on Friday.

"They will be a pretty healthy set of results. They have really had a year when everything has gone right for them," one analyst said.

Analysts forecast earnings a share before exceptional items to be in a range of R3,85 to R4,00, with a consensus figure of R3,90 against R3,23 previously.

The dividend was expected to be raised to R1,20 a share from last year's R1,02.

Sasol, which produces chemicals as well as fuel from coal, benefits from a weak rand against the dollar because its costs are mostly rand-based and its prices largely dollar-based.

Analysts said the weakness of the rand, which had lost a quarter of its value against the dollar since the middle of February, would reap rewards for the group, though they

said Sasol operated with a relatively strong rand for more than half the financial year.

"The main benefit from the currency weakness is going to come through into 1997," said Mark Ingham, an oils analyst at Frankel Pollak.

Even without benefits from the international currency markets, Sasol impressed the market, analysts said. The company enjoyed a good pricing environment for its products, such as petrol and diesel.

"It's a mixture of currency and product prices," one analyst said.

**Chemicals
perform well
as inroads are
made into
traditional
markets**

The group's chemical operations have also performed well with the division having made big inroads into traditional markets and netting a high profit.

Tariff protection for its fuels operation was being phased out

and the company put much of its energy into expanding its chemicals businesses.

"The chemicals operations are really starting to come through," one analyst said.

No pressure to steer clear of Iranian oil

(183)

Reinie Booysen

BD 16/9/96

THERE has been no political pressure on the Central Energy Fund to avoid dealings with Iran, GM Kobus van Zyl said at the weekend.

A planned deal to store Iranian crude oil at the fund's 45-million barrel storage site at Saldanha Bay on the West Coast would probably be implemented if an environmental impact assessment is positive, he said.

"Clearly we must obey government instructions to avoid dealings with any particular country, but so far there has not been any pressure at all as far as Iran is concerned," said Van Zyl. "In fact, based on what President Mandela said during the week, it seems as if the government has no problems with Iran."

CEF chairman Roy Pithey said at the weekend no final decision had been made to store crude from Iran — or any other oil producing country.

"The matter will only be finalised once the results of an environmental impact study have been released and the CEF board and government are satisfied with the commercial and diplomatic acceptability of the deal," he said.

"The CEF has given no single country exclusive rights to use the storage facility and is, in fact, still interested in talking with other oil producing countries as well as oil companies wishing to store crude."

He said speculation SA would be storing and trading Iranian oil within six months was "premature". The fund manages the state's strategic oil stockpile and facilities through its subsidiary SFF Association.

Govt challenged on Mossgas prices

Reinie Booysen

OIL companies are challenging a government order that they pay premium prices for petrol and diesel supplied by fuel-from-gas producer Mossgas

Sources said at the weekend a directive issued in June that companies pay import-parity prices — the price paid as if the fuel had been imported — for the Mossgas fuel had been defied

The industry, questioning government's right to intervene in commercial negotiations, was paying lower export-parity prices — the price it could achieve in the best export market

The import-parity premium would have added about R35m to Mossgas's revenues in the three months to August — based on average import- and export-parity prices — and around R170m a year. Mossgas's revenues were R823,3m for the year to March

The Mossel Bay plant produces about 30 000 barrels a day of liquid fu-

els — just more than 8% of SA's production — of which about half is petrol and a quarter diesel

Minerals and energy affairs director-general Gert Venter said government wanted a negotiated settlement with the companies which was in SA's best interests, but insisted Mossgas's sales outlets and prices should be secured. "I would prefer a negotiated settlement, but there are alternatives."

The oil companies have an unwritten "goodwill" understanding with Mossgas to buy output which is surplus to local needs at export-parity prices;

The companies have mainly paid export-parity prices as they maintain Mossgas's products are mostly surplus to their local requirements. They will pay import-parity prices only if the local market is short of that product, and if they would otherwise have to import the product.

Continued on Page 2

Mossgas

Continued from Page 1

Mossgas, in its latest annual report, said growth in local consumption of fuels, particularly petrol, had resulted in SA becoming a net importer. "The department of minerals and energy directed oil companies to pay IBLC (in bond landed cost, or import-parity) prices for Mossgas products and claim compensation for any proven 'hardship' attributable to Mossgas's entry to the market from the equalisation fund," the report said

The difficulty at the crux of negotiations is how to measure the supply-demand balance. Mossgas apparently believes the supply side should be taken as production, as it was in 1986, when the decision to develop Mossgas

was taken. The oil companies counter that this would be unreasonable — and too low — as the conventional oil refineries then had substantial mothballed capacity as a result of government's decision in the 1970s to expand Sasol's oil-from-coal facilities. Including the mothballed capacity would increase the notional ability of conventional oil refiners and Sasol to meet local demand.

Industry sources accepted that a net import situation for petrol was close — if Mossgas was excluded — and that import parity would then be a reasonable value for the Mossgas petrol.

The industry argues that diesel exports could continue until 2004.

The dispute between Mossgas and the oil companies resurfaced when it emerged that potential buyers of Mossgas were concerned about the insecurity of its customer base and pricing

Share earnings pump up Sasol

(183) CT(BR) 17/9/96

By Jonathan Rosenthal

Johannesburg — Sasol, the chemical and fuel-from-coal producer, lifted earnings a share 21,7 percent to 393,1c for the year to June 25 on turnover 13,3 percent up at R13,5 billion

Operating profit rose 12,9 percent to R3,1 billion while a lower tax bill than last year left shareholders with attributable profit of R2,3 billion

The lower taxation was largely as a result of increased capital expenditure on plant and mines

A final dividend of 69,5c was declared, bringing the total dividend for the year to 122,5c a share

Pieter Cox, the chief operating officer of Sasol, said yesterday that foreign sales of fuel alcohols, fertilisers and explosives rose 78 percent to R3 billion

During its last financial year Sasol received R803 million in tariff protection, lower than an expected R850 million the company was banking on

Higher international oil prices and a lower oil reference price at which tariff protection kicked in have slashed Sasol's tariff protection to R45 million for the last three months.

In spite of this, Sasol Synthetic Fuels was the star performer in the group in the year under review, with a 23 percent increase in attributable profit to



PERFORMANCE Sasol's Pieter Cox, chief operating officer, and Paul Kruger, executive chairman

PHOTO JOHN WOODROOF

R1,5 billion

Production volumes rose 8 percent to 6,7 million tons while operating costs increased by 5,7 percent, mainly because of stable operating conditions, higher crude oil prices and the weakening of the rand against the dollar

From January the government phased down the reference price for tariff protection from \$21,40 to \$19 a barrel

The floor price at which tariff protection became effective was reduced to \$18 from \$19 a barrel on July 1, and will continue

falling to \$16 a barrel by July 1999

Cox said each \$1 reduction in the tariff protection-floor cost Sasol R200 million in operating profit a year

Sasol Mining saw its operating profit drop from R324 million to R303 million because of deteriorating geological conditions at Sigma colliery and the heavy rains earlier this year Sasol is conducting an environmental impact assessment on a new strip mine to replace Sigma

Despite softer international chemical prices and the distribu-

tion of an 18 percent shareholding in Polifin to Sasol shareholders, Sasol Chemical Industries lifted operating profit by 2,3 percent to 897 million

Polifin's contribution to Sasol Chemicals decreased by R134 million, but this was countered by volume increases achieved by Solvents, Carbo tar, Fertilisers and Alpha olefins

Paul Kruger, Sasol's executive chairman and chief executive, said profits would continue to increase this financial year

□ See Business Watch, Page 18

'Row may drive away drug multinationals'

By Paul Harris

Johannesburg — A war of words between the pharmaceuticals industry and the government may cause multinational firms to cut their operations in the country, a top industry personality warned yesterday

Knut Seifert, the chief executive of the South African unit of Boehringer Mannheim, a German drug multinational, said recent verbal attacks could make international pharmaceutical firms feel unwanted in South Africa.

"If an industry is not welcome in a country, then companies have to think about down-sizing of operations and moving into a more friendly environment," he said.

Seifert was referring to accusations that the industry charged high prices for its medicines. He said the average unit price in South Africa was below European levels

But Seifert's remarks will add further fire to a debate already raging about the role of the industry in South Africa.

They follow President Nelson Mandela's comments that the local industry is in the grip of multinational companies trying to undermine Nkosazana Zuma, the health minister

Mandela said her efforts to challenge the multinationals' grip on the market frightened some firms. In a thinly disguised reference to the drugs industry, he said "white business" interests played a role in a funding scandal over the Sarafina 2 Aids play that has prompted calls for Zuma's resignation

Mirryena Deeb, the chief executive of the Pharmaceutical Manufacturers Association, said pharmaceutical firms played no part in the Sarafina scandal.

The industry also denies it is a monopoly and says there are more than 200 players in the market

Multinationals like Roche Holding and Glaxo Wellcome cover about 70 percent of the R4,5 billion sector, but local firms are well represented. South African Drug-gists is the biggest, with 10,3 percent of the market — Reuter

(96) (183) CT (BR) 17/9/96

Improved margins, weak rand aid Sasol

(183) BD 17/9/96

Reinie Booysen

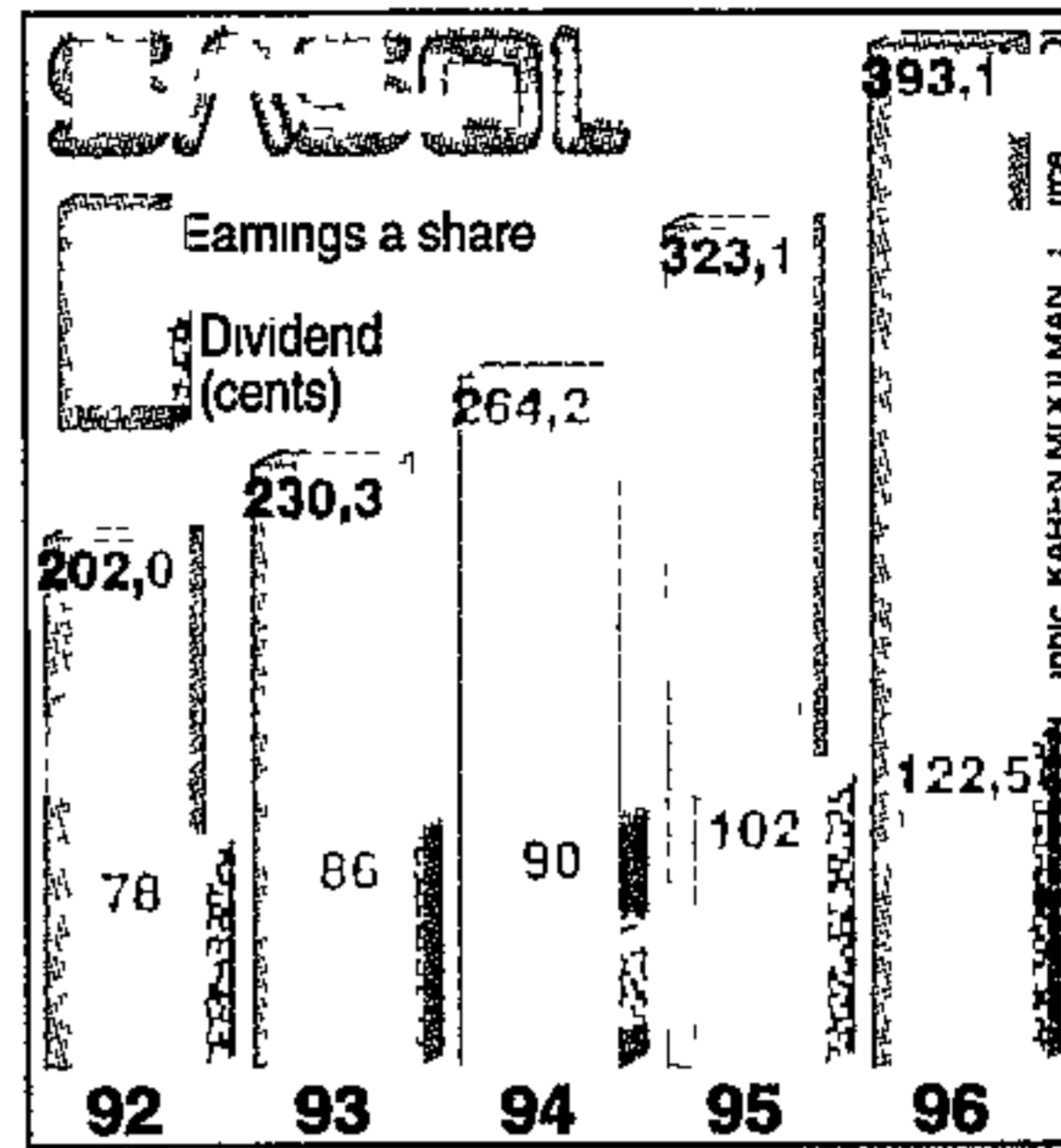
OIL and petrochemical producer Sasol lifted attributable earnings 25,5% to R2,33bn in the year to June, as oil profits benefited from improved refining margins, the weaker rand and lower unit costs

Earnings of 393,1c a share (323,1c) were 21,7% higher and largely in line with analysts' expectations

A 69,5c final dividend was declared, taking the year's total to 122,5c — 20,1% more than the 1995 payout. The share settled at R52,25 yesterday, just below the R53,25 peak of September 3.

Group turnover rose 13,3% to R13,55bn, and operating income by 12,9% to R3,17bn, but a substantial increase in interest income, to R281m (R144m), and the absence of abnormal charges this year, helped boost pre-tax income 21,9% to R3,45bn. With the tax rate declining to 27% (33%), income after tax was 33,2% higher at R2,53bn.

Sasol Synthetic Fuels saw turnover rise 14,9% to R6,51bn — in spite of a R201m decline in Sasol's government



subsidy, to R803m — as production increased 8,1% to 6,7-million tons.

Operating profit from this division was 23,4% higher, at R1,51bn, thanks to lower unit costs, higher international oil prices and the weaker rand

Sasol Oil, which incorporates the

Continued on Page 2

Sasol

Continued from Page 1

group's 64% share in the Natref conventional crude oil refinery, boosted turnover 12,4% to R2,47bn. With international refining margins — to which all SA refiners' profit margins are linked — sharply higher, and the weaker rand boosting rand-denominated product prices, operating profit was up 26,2% to R492m.

With synthetic fuel, the group's total liquid fuel sales rose 8,4% to 9,65-billion litres, of which 800-million were exported to countries like Zambia and Zimbabwe, more than double last year's exports of 350-million litres.

Sasol Chemical Industries (SCI) increased operating profit 2,3% to R897m, as international chemical prices softened. The unbundling of 18% of SCI's interest in Polfin early in the year dampened the chemical division's performance. Operating profit would have been 20% higher had the unbundling been effective in the previous year.

Polfin, the Sasol-AECI joint venture, saw its contribution to SCI's operating profit decrease by R134m.

Sasol Mining's turnover rose 18,8% to R2,07bn as coal sales climbed 5,9%

to 45,2-million tons. The average coal price was 11% higher. The company had to buy in 2,1-million tons from other collieries to augment supply as high rainfall caused 35 days of lost production at the Syferfontein strip mine. This also contributed to the 16,3% rise in unit production costs, and 6,5% decline in operating profit to R303m.

The company said it expected another earnings increase in the current financial year as the fall in the value of the rand, increased production and lower operating costs countered the lower level of protection for synthetic fuels. Since July 1, the reference price for Sasol's subsidy declined to \$18 a barrel from \$19. The effect on revenue had been substantial: in June and July, international oil prices were so high that no subsidy was received, and the July to September quarter brought in a total of only R45m against last year's quarterly average of about R200m.

Chief operating officer Pieter Cox said he expected a "continued good performance from synfuels", while conventional refining margins would probably be lower this year. "Chemical prices should be steady on average," he said. The mining division was experiencing a year of consolidation and no increase in profits was anticipated.

Picture: Page 4

Western Cape in Gauteng gas firm freeze-out

(183)
ARG 18/9/96

Relocation to cost R4-m

ALIDE DASNOIS
BUSINESS EDITOR

The refrigerant business bought from Johannesburg Stock Exchange-listed Polfin by A-Gas South Africa is to be moved from Gauteng to Cape Town next year.

John Cooper, chairman of A-Gas International, the R105 million-a-year holding company based in the United Kingdom, said he had chosen Cape Town as the headquarters for the South African subsidiary "because of the high level of violence in Johannesburg"

The move to state-of-the-art premises in Milnerton would cost between R4 million and R5 million, he said

"We will keep a distribution depot in Gauteng. But everything else will be in the Cape"

The move, said Mr Cooper, involved transporting 14 storage tanks, some of

them with a capacity of 100 tons. He expected the shift to be completed by April next year.

The merger with Polfin would make A-Gas the market leader in the supply of environmentally acceptable refrigerants.

Traditional refrigerants, CFCs (chloro-fluoro-carbons), had been banned by international convention since the beginning of last year.

But South Africa did not have the capacity to manufacture alternative gases, Mr Cooper said.

These were made in Europe, in Japan and in the United States.

A-Gas International had a strategic alliance with Solvay of Germany, the fourth largest producer of gases in the world, and would be able to supply the South African market with alternatives to CFCs.

"We are expecting a lot from our South African business," Mr Cooper said.

Mozambique fields possible contenders

Sasol hopes to land gas supply

CT(BR) 18/9/96 (183)
By Jonathan Rosenthal

Johannesburg — Sasol is still engaged in talks aimed at securing natural gas supplies as an alternative feedstock for the production of synthetic fuel. Mozambican gas fields other than the Pande field were possible contenders for the gas supply, the petrochemical and fuel-from-coal producer said yesterday.

Alfonso Niemand, a Sasol spokesman, said the company was investigating replacing about 20 percent of coal feedstock to Secunda with methane gas. That could generate substantial cost-savings in the production of synthetic fuels as it would eliminate the gasification and gas purification stages of Secunda's oil-from-coal process.

Niemand would not say where the natural gas would be sourced but said that gas from Mozambique fields and coal-bed methane were options.

He explained that gas from Mozambique need not necessarily come from the Pande field but could be sourced from "other gas fields under the jurisdiction of the

Mozambican government"

"We are in constant talks with the Mozambican government to look at further options for developing the gas field, but nothing has come out of the talks so far," he said.

In terms of the planned project, gas could be fed directly into the new Sasol advanced synthol reactors.

Enron, a US-based oil exploration company, holds the rights to develop the Pande gas field and has been attempting to strike a deal with the Industrial Development Corporation (IDC) to secure an industrial customer for the gas.

The IDC could serve as an anchor client with its proposed iron plant at Phalaborwa. Industry sources said recently that it would be unlikely for Sasol to use Pande gas if Enron developed the field.

Niemand said another possibility was coal-bed methane, a gas extracted from coal seams.

However, at the presentation of Sasol's results on Monday, directors said that investigations into coal-bed methane were still at an early stage and were "not very promising".

Plastics company shrugs off industry slowdown (183)

CT (PR) 18/9/96

Harwill wraps up with profit rise

By Marc Hasenfuss

CAPE EDITOR

Cape Town — Harwill Investments, the diversified packaging company, shrugged off increased competition and an industry slowdown to notch up a 14 percent increase in net profit to R1,94 million in the year to June 30

Earnings a share were static at 15c after an increase in the number of shares in issue. The dividend payout was maintained at 7,5c.

Jorrie Jordaan, the company's recently appointed managing director, said Harwill felt the pinch of the economic slowdown, particularly in its mainstay Metpak division, which manufactures printed plastic bags and shrinkwrap. Another division, Bichler Industries, which manufactures shampoo and vinegar bottles, was also hampered by the downturn in consumer spending.

Jordaan said that a number of new players in the market had resulted in prices being markedly reduced. Turnover from continued operations was 7 percent higher at R39 million (previously R36,4 million). Last year's total turnover was R48 million, but this figure included Signum and Intec,



READY FOR ACTION Jorrie Jordaan, the managing director of Harwill Investments, has announced exciting expansion plans. PHOTO: ANDREW BROWN

the plastic products manufacturers which have since been sold.

Operating profit from ordinary activities increased 11 percent to R5,2 million, with the trading margin edging up to 13,24 percent from 12,86 percent

previously.

Jordaan was excited about Harwill's future plans, which included expanding manufacturing facilities to include medical supplies, plastic wine bottles and toys. These new plans resulted in Harwill's interest-bearing debt increasing to R7,3 million, but this additional financial strain will be relieved by a R10,75 million rights issue later this month.

"We are very excited about starting up these new ventures. Our bottling plant opens tomorrow (today), while our toy factory will be up and running in October. Our medical supplies plant will be working by January-February, and we expect 80 percent of production to be in exports," he said.

However, Jordaan said that the effect of the new businesses would only be felt in the 1998 financial year. "We're running on a three-year plan. At the moment we are still at phase two," he said.

□ See Business Watch

Probe into ⁽¹⁸³⁾ payments to oil industry

BD 18/9/96

Reinie Booysen

THE auditor-general is investigating government payments totalling R1,2bn to the oil industry — paid as compensation for market share lost to synthetic fuel production — amid claims that the industry overstated its opportunity costs.

The investigation, thought to have been requested by the minerals and energy department, centres on payments made between 1986 and 1994 for market share lost to Sasol's synthetic fuel output. The payments were funded by consumer levies.

The auditor-general is also investigating a dispute between the industry and Mossgas over prices the synthetic fuel producer receives for its fuel products. The industry's recent difficulties in satisfying local demand, leading to imports, have raised doubts about its claimed capacity in the early 1980s when the major surge in Sasol output occurred.

The auditor-general has written to the SA Petroleum Industry Association requesting data on oil product imports and exports since 1980, and requesting the industry's co-operation in its investigations. Industry sources said the companies were mystified by the request, as the Mossgas dispute dates back only to 1986.

The Equalisation Fund, administered by the Central Energy Fund, paid the oil companies to compensate them for their refining margins fore-

gone as a result of the new volumes from Sasol II and III. The oil companies were forced to buy the volumes, which came on stream in the early 1980s. The Equalisation Fund derives its revenue from petrol and diesel levies paid by motorists.

In the base year, 1984, the industry's refining margin was 4,75c/l, and the market share volume displaced by Sasol totalled 4 564 megalitres, producing a payout of R217,84m. The first payout was made in 1986.

The annual payments from 1984 were calculated by subtracting the growth in the market from the base-year synfuel figure (4 564 megalitres), and multiplying the balance by the refining margin, which remained fixed at 4,75c/l.

Industry executives confirmed the auditor-general's request for information. "It seems that there are some people who are fairly determined to harass the international majors, SA's largest foreign investors," one source said.

Another source said the industry could argue that the payments were far lower than they should have been, as the 1984 refining margin, stated in SA cents/litre, remained fixed in spite of the rand's steady decline against the US dollar, in which most international refining margins are calculated.

"By the end of the period when synlevy payments ended, the actual refining margin was about 10c/l, and we were still getting only 4,75c," one executive said.

Pharmaceutical groups 'will push up prices'

Jacqueline Zaina

(183)
BO 18/9/96

PHARMACEUTICAL groups cannot maintain current price levels for much longer, with pressure on margins compelling major manufacturers to resort to above-average price hikes, analysts say.

They said yesterday pharmaceutical groups started to feel the pinch in July when they had to renegotiate forward cover at the lower rand value

Prices had been raised an average 6%-9% over the past two years, but the current increases were expected to be between 10% and 12%, said one analyst.

Adcock Ingram group financial director Daryl Kronson said the increased import costs of raw materials, resulting from the devaluation of the rand, had put pressure on margins. Although the group had raised the selling price of some of its products, resistance from the retail trade meant that it was more difficult to pass on price increases to this sector.

Analysts said retailers often refused to stock products at higher prices — using their ability to delist products to keep down price increases.

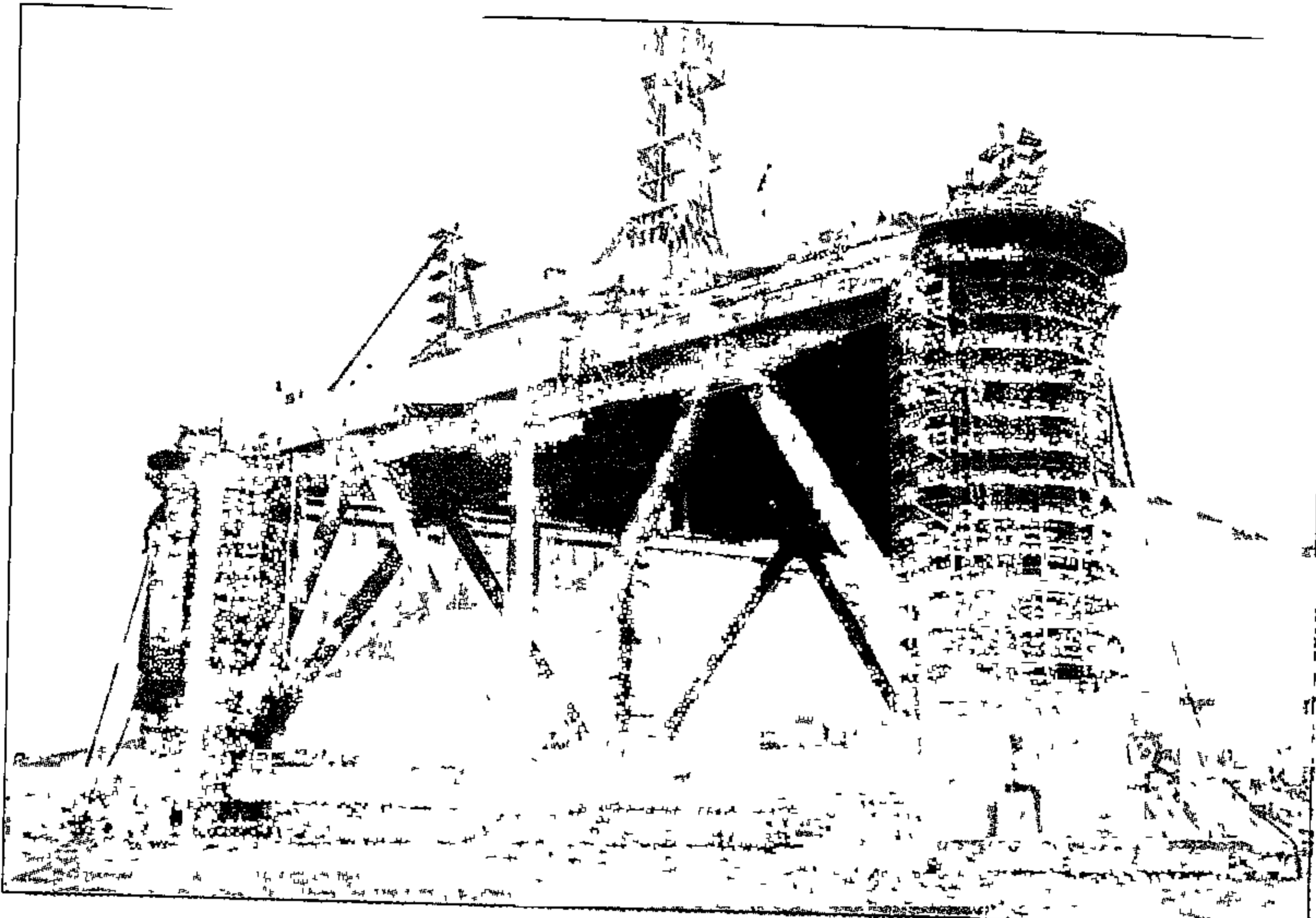
Total raw material costs had increased about 13%

following the rand's recent decline. This had pushed up prices of the imported component of pharmaceuticals 25%, an industry source said.

Adcock Ingram had taken full forward cover as a hedge against fluctuations in the rand, but this had just delayed the effect of the weaker currency on operating margins, Kronson said.

SA Druggists CE Peter Benningfield said manufacturers could not continue to absorb cost increases indefinitely.

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Standing start: the Sedco 1 platform straddles Simon's Town harbour as it is prepared for sea in its new production role BRENTON GEACH

All hands on deck in race to turn rig into pocket platform for new oilfield



Clean-up: sandblasting and grinding are the order of the day

HENRI DU PLESSIS

SHIPPING REPORTER

(183)

ARG 19/9/96

Contractors are crawling all over the Sedco 1 oil rig in Simon's Town to reach a November 15 deadline to have the vessel ready for sea.

The rig is being prepared to act as a production platform for Soekor's E-BT oilfield, about 140km south-west of Mossel Bay. Soekor spokesmen said it would probably be the smallest production platform in the world.

Work is on schedule and the rig should be ready for sea trials on time, Soekor says.

Adaptations to the rig had been designed for a 10-year life, with the potential lifespan of the field it was to serve plotted at three to seven years, said Kevin Stallbom, divisional manager of production.

To act as a production platform, the rig had to have a considerable infrastructure change on deck, especially with regard to the drilling equipment and oil storage capacities, he said.

"She will have to be put through stringent sea trials, including a buoyancy and inclination test, because her weight distribution would have changed considerably once this job is done."

When used as an exploration rig, the vessel had to carry a crew of 50 to 60, but as a production platform, only between 20 and 30 were needed. This could allow for greater comfort in crew quarters.

While painting continued on the rig's rusty frame, new modules for the platform deck were being made, to house machines and activities needed by a production platform.

Soekor chose to convert the smaller exploration rig for the job rather than have a formal production unit built for the field, as it worked out cheaper considering the limited production capabilities of the field.

Mossgas payouts investigated

(183) CT(BR) 19/9/96
By Christo Volschenk

ECONOMICS EDITOR

Cape Town — Henri Kluever, the auditor-general, has launched an investigation into the payment of R256 million to Mossgas from the equalisation fund, he said yesterday.

He denied an investigation had been launched into the payment of about R1,4 billion to oil companies from the same fund since 1985 to compensate them for loss of refinery throughput after the commissioning of Sasol 2 and Sasol 3.

"No decision has been taken to investigate the Sasol-linked payments to the oil companies, but we are not discounting the possibility," Bertie Loots, the deputy auditor-general, said yesterday.

At times in the past, the oil companies paid Mossgas a so-called export parity price for its product — a lower price than the "in bond landed cost" that should have been paid — and left it to Mossgas to recover the difference between the two prices from the fund.

The fund is administered by the Central Energy Fund and is used to smooth out fuel price fluctuations.

"These payments to Mossgas are being audited in the interest of the motorist to see whether the oil companies paid what they should have," Loots said.

The auditor-general's office was alerted to the payments when the oil companies first offered in 1994 to pay Mossgas an additional R5,2 million for product bought earlier, and later retracted the offer.

The South African Petroleum Industry Association said yesterday that the oil companies were assisting the auditor-general in his investigation over the Mossgas payments.

After reports yesterday that the mineral and energy affairs department was behind the investigation into the Sasol-related payments of R1,4 billion, Gert Venter, the department's director-general, telephoned the association to assure oil companies that no such investigation had been launched.

SA Druggists in new drugs deal

Jacqueline Zaina

SA DRUGGISTS (SAD) is to sell drugs it has produced under licence from US-based Wyeth-Ayerst/Whitehall, which disinvested from SA in 1989, back to the principal company for an undisclosed sum

SAD CE Peter Benningfield said yesterday the company would be compensated for the revenue it would lose now that the previous licensing agreement, valid until 1999, was defunct. The transaction would have no effect on earnings, he said

Wyeth-Ayerst International, a subsidiary of multibillion-dollar pharmaceutical and healthcare group American Home Products

(183) BD 19/9/96
 Corporation, would buy back six products, female hormone replacement therapies Premarin and Prem-pak, the anti-depressant Efexor and self-medication products Anadin, Advil and Preparation H

It is understood the products account for less than 12% of SAD's sales, which were R2,5bn for the year to August last year.

But analysts said such products generally attracted a higher margin, given the value of their trademarks

Benningfield said SAD would continue to manufacture the products for the international group's new local operation. The new SA company included Lederle Laboratories, in which American Home Products in-

vested in 1994.

Benningfield said SAD's manufacturing and marketing rights to the remaining products — accounting for two-thirds of turnover in SAD's Wyeth-Ayerst/Whitehall range — was extended to 2006.

The products included the oral contraceptives Minulet, Tri-Minulet, Triphasil, Nordette and Biphasil, and Ativan and Dristan.

The trademarks were well-known, which was a significant advantage in generating sales, he said

BoE Natwest Securities senior analyst Syd Vianello said the return of multinational drug companies was damaging local companies' margins

Sasol in drive to export surplus as output

Reinie Booysen

(183)
20 19/9/96

SASOL, the oil and chemicals producer, is expanding its export drive as production rises sharply above local demand.

The group's foreign sales increased 77% from R1 740m to R3 080m, as cross-border shipments of chemicals and fuels expanded rapidly in the financial year to June. Fuel shipments rose from 350 megalitres to 800ML, valued at more than R630m.

Sasol's fuel production has increased to such an

extent that its capacity is now substantially above the volume — 7 740ML — which the conventional refiners are obliged to lift in terms of their commercial agreement with Sasol.

Although the oil companies have first call on the excess production, above the contracted volume of 7 740ML, purchases are in practice not much higher than this figure, say oil industry analysts.

In the year to June, according to Sasol's 1995/96 annual report, "liquid fuel" sales totalled 9 650ML, up 8,4% against the figure for previous year

Sasol has declined to break this figure down into individual products or sales categories, but oil company analysts estimate that production of the three major "clean" products — petrol, diesel and kerosene — totalled about 8 800ML. The rest consists of fuel alcohol (about 350ML, liquified petroleum gas (about 250ML) and lubricants and heavy fuel oil (about 250ML).

In the year to June, Sasol exported about 800ML of fuel: petrol, diesel and kerosene went to Zambia, Zimbabwe and Mozambique, while Brazil took Sa-

sol's fuel alcohol.

Apart from the volumes lifted by the oil companies in terms of the commercial agreement, Sasol itself markets about 610ML of petrol and diesel directly into SA consumer and retail markets, analysts say.

In terms of its commercial agreement with the other oil companies, Sasol is permitted to sell about 9,23% of national petrol demand through its Blue Pumps, situated on other oil companies' branded forecourts.

If Sasol had fully utilised this opportunity, it

would have sold about 937ML in the 1995 calendar year. In reality it has never exploited this opening, say analysts. On top of these Blue Pump sales of petrol, Sasol is also allowed by the commercial agreement to sell 22,5ML a year of diesel into the wholesale market, although its actual sales volumes are believed to be somewhat higher.

According to the annual report, petrol sales through the Blue Pumps increased 1,1% and market share in the area in which the product is marketed decreased 0,3 percentage points to 11,8% in 1995/96.

exceeds local demand

Image makeover boosts Shell market share

Reinie Booysen

AN INTENSIVE re-imaging and repositioning exercise has propelled Shell SA from third to joint second in terms of market share with 18,5%-19% of the 10,4-billion litre a year petrol market.

Although the figures fluctuate from month to month, current sales postings indicate Shell's neck-and-neck with Caltex Both, however, remain well behind Engen, which has 24,5%-25%. The two other major retailers are BP, with about 16%-16,5% of the market, and Total, with 12%-12,5%. According to Shell's latest Busi-

ness Report, the Anglo-Dutch multinational's SA subsidiary grew retail petrol sales 10,76% at December last year, as opposed to industry growth of only 5,98%. The net result was a 0,8 percentage point increase in Shell's market share, to 18,61% in December.

Retail GM Tony Kallis said there were several factors behind the improvement in sales: the new international Shell livery being introduced throughout the country; the company's new Shell Ultra De-tergent petrol, and a new promotional and advertising strategy with a strong emphasis on sports broadcast sponsorship.

(183) Pb 2/10/96

Shell's convenience stores were "proving extremely popular", attracting new fuel customers and a new category of foot customers.

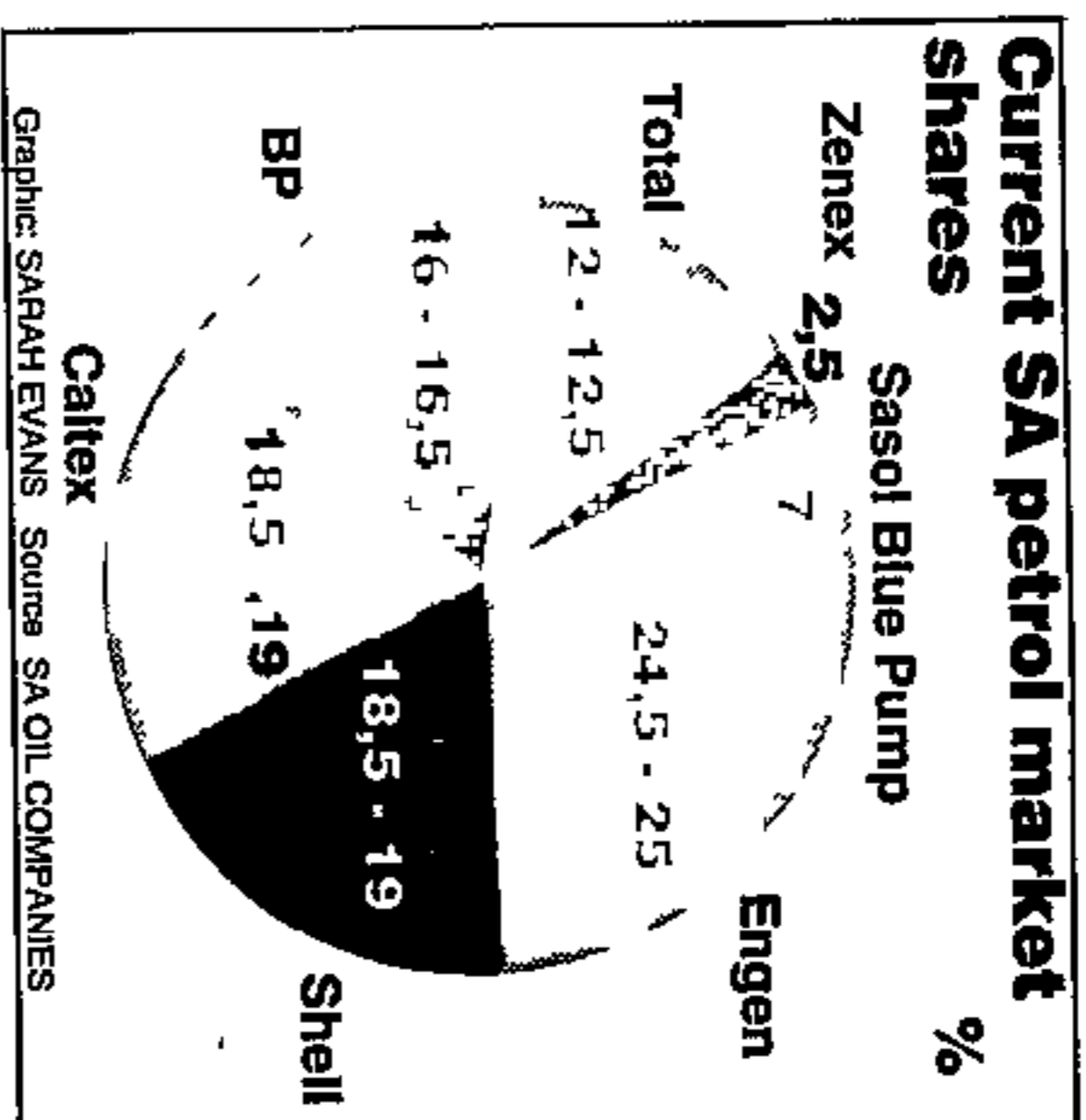
Kallis said within a few years Shell SA would have spent "over R200m" replacing the livery at its stations to conform to specifications of the Shell Group worldwide.

Shell SA's broadcast sponsorship of the Rugby World Cup last year "had a notable impact on the SA public's positive perceptions of the company and its products", Kallis said. "We're trying to promote our products with a more SA flavour, placing the company's products in a local context"

He accepted that unseating Engen would not be easy: "To do that we'd have to buy a share of some existing network." The target was to be the "clear second-placed" retailer, with 20% market share.

In addition, Shell intended maintaining its status as the most efficient retailer with the highest average throughput level per site, currently at about 181 000l of petrol a month.

Kallis said one reason for Shell sites' high throughput figure was dominance of the national route service station concept, offering food, fuel and comfort to travellers. Shell has 20 Ultra City stations.



MEETING OBSTACLES

Fm 4/10/96

Finance Minister Trevor Manuel's bold plan to boost the chemicals industry and create 400 000 new jobs appears to be lagging

In January, Manuel, then Trade & Industry Minister, launched a petrochemicals, plastics and synthetic fibres cluster initiative, with a steering committee formed from representatives of industry, labour and government

Its aim to find ways to create jobs and help form industrial policy to activate competition within the industry. A steering committee was set up under David Walwyn, director of chemical and allied industries at the Department of Trade. Walwyn set seven working groups to address problems in areas including marketing practice, government and regulatory environment and the thorny issue of import and export parity pricing

The groups, which have been meeting monthly since April, were asked to report back in August. But so far all they have offered is a handful of interim proposals. Their final reports are now not expected until February 6 next year

Says one cluster member "When the thing was initiated there were certain tasks set for the working groups. But once we started digging we realised it wasn't so simple. There's a lot more that has to be done. It's being tackled"

The chemical industry's problem is one of converting ambition into action. However genuine the desire, nothing can be achieved without investor-friendly policies. Foreign observers are quick to pick up adverse signals — notably labour wrangles, the loose cannon in any SA investment drive

Department of Trade DG Zav Rustomjee wants the chemicals industry to become internationally competitive by creating a co-ordinated approach among its disparate sectors. He particularly dislikes the lack of formal links between the capital-intensive upstream petrochemical sector and the labour-intensive downstream processing one

Perceived high-risk financing of downstream chemicals processing could be-

86 BUSINESS

come worthwhile once the industry is better understood

London-based consultant Terry Roux, author of a study on possible future co-operation between the petrochemicals and plastics industries of SA and Taiwan, says that SA ranks as one of the world's least attractive destinations for foreign investment in the petrochemicals sector ■

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er than the same period last year. But expected annual rate of inflation is expected to be 10%.

Sasol accord is under pressure

DD 7/10/96

(183)

Reinie Booysen

THE SA oil companies grouped in the SA Petroleum Industry Association (SAPIA) were determined to renegotiate their "commercial" agreement with Sasol before the end of the year, industry sources said at the weekend.

This comes amid signs that the current accord — which obliges oil companies to buy a set volume of Sasol's produc-

tion — is under increasing pressure. An initial meeting, attended by "a handful of CEOs from industry" has been held to agree on the process for the coming negotiations.

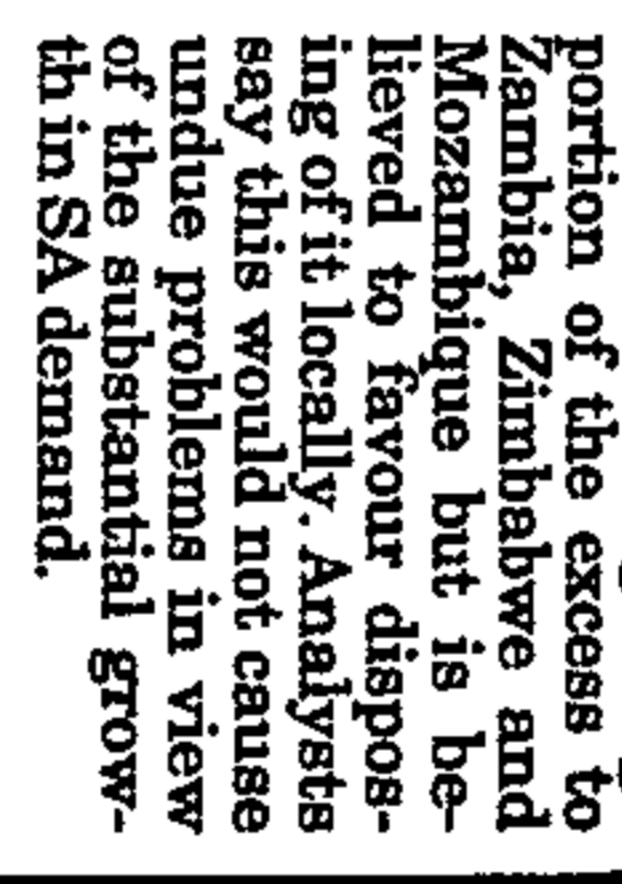
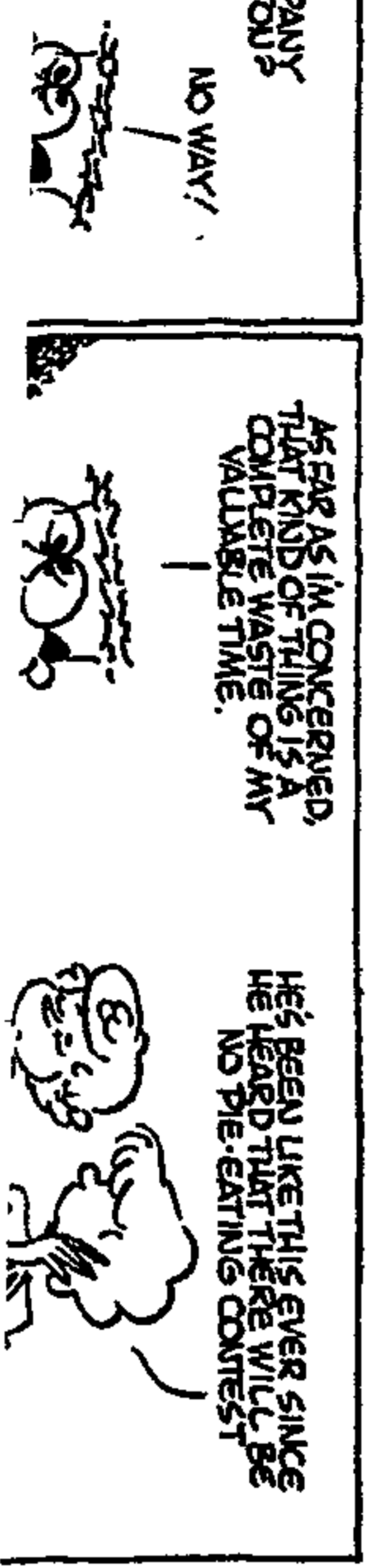
Among the key issues to be resolved are industry accusations that Sasol is "white-anting" the existing secret agreement — apparently a reference to industry claims that Sasol is pushing the limits of the

agreement and probing loopholes at every opportunity. Specifically, Sasol's definition of "own use", or the amount of fuel it is permitted to sell wholesale and to its own affiliates under the agreement, is being questioned.

"I think many companies feel it is time to stop buckering with Sasol," a senior oil executive said. "While I do not think relations will ever be friendly, we have to find a way to take the hostility out of the situation."

Industry sources say another key issue to be resolved is the disposal of the increased synthetic fuel production expected from Sasol's oil-from-coal facilities at Secunda over the next few years.

By William Wells and Jack Lindstrom



Sasol is selling a large portion of the excess to Zambia, Zimbabwe and Mozambique but is believed to favour disposing of it locally. Analysts say this would not cause undue problems in view of the substantial growth in SA demand.

Bid to make Rainbow profitable

DD 7/10/96

Nicola Jenvey

DURBAN — Hunt Leuchars & Hepburn (HL&H) had never expected the minorities of its ailing subsidiary Rainbow Chicken to take up their rights in a R750m recapitalisation, said HL&H CEO and acting Rainbow MD Neil Morris.

He said it was "very pleasing" to note that the HL&H offer — called to meet the demands of the Rainbow issue — had been almost fully subscribed.

Rainbow forecast a R165m loss in the six months to September. Morris would not be drawn on possible losses facing the group for the year.

Interim results were expected in November. However, he believed HL&H was still on track to turn the chicken group into a profit-making venture by the year to end-March 1998.

Delisting Rainbow remained a medium-term option, considering that HL&H would hold about 82% of the company after the rights issue, from 41%.

In the Supreme Court of South Africa (Witwatersrand Local Division)

OF

Pick 'n Pay on fuel price warpath

(183) BD 8/10/96
Samantha Sharpe

CAPE TOWN — Retail group Pick 'n Pay could solicit the help of the Constitutional Court in its attempt to end government regulation of SA's liquid fuels industry, group director Nicky Bicket said yesterday.

He told an Africa Oil '96 conference that industry deregulation could result in a 20c/l reduction in the petrol price — a move which was being frustrated by prolonged government inactivity.

"Our challenging of price controls on petrol will continue through the Constitutional Court if need be, until we are able to offer SA a competitive fuel pricing system free of government control," Bicket said.

Pick 'n Pay envisaged the introduction of a number of smaller petrol outlets attached to retail shops.

This followed trends in the UK and Europe, where petrol was frequently a retailer's branded product. "Supermarkets in Britain have captured 21% of the petrol

market from oil companies and in France they have about 50%," he said.

Hamzah Bakar, the senior vice-president refining and marketing for Malaysian-based oil company Petronas, said Africa was destined to become the next major target market for energy. He said the continent presented a tremendous growth opportunity for the oil and gas industry.

"Growing economies will boost demand for fertilisers, petrochemical intermediates and petroleum products, with an increase in energy consumption expected, especially in oil used to fuel the industrial and electricity generation sector."

Petronas saw strong potential in gas deposits in southern and western Africa, which could benefit the region in the same way such deposits had benefited Malaysia, which exported gas to Singapore, he said.

Meanwhile, Reuter reports that BP Africa MD John Greensmith has warned a sharply rising demand could see SA importing petrol this year.

PETROCHEMICAL *Petrol imports may start flowing before the year's end*

Refineries 'cannot keep up'

BEN HIRSCHLER

(183) CT (BR) 8/10/96

Cape Town — South Africa could run out of petrol refining capacity this year, forcing the country to import the refined product, John Greensmith, the managing director of BP Africa, said yesterday.

"Petrol is effectively starting to run out this year we do see, because of the very rapid growth, the start of importation this year even, and certainly next year," he told the Africa Oil Conference

Greensmith could not predict how much would have to be imported this year or next, but said

scheduled shutdowns pointed to an extremely tight position by the end of the year

South Africa's three oil refineries — in Cape Town, Durban and in the interior — process between 400 000 and 450 000 barrels a day. The country's oil industry has long debated the need for additional capacity, but oil companies have been reluctant to commit themselves pending clarification of plans to liberalise the domestic oil market.

Greensmith said BP figures showed South African oil consumption rose 8.7 percent last year, far outstripping overall

growth in GDP of 3.3 percent

A similar picture of accelerating growth for oil — albeit off a low base — was being experienced elsewhere in sub-Saharan Africa, he said.

Africa accounted for a meagre 3 percent of global petrol consumption, but this was increasing sharply in several southern and eastern African countries.

In Uganda, for example, demand increased between 10 and 12 percent last year. In other countries, demand was up by more than 5 percent as the use of cars increased.

Outside South Africa, the re-

gion has three significant refineries in Tanzania, Kenya and Zambia. Of these, Greensmith said, Kenya's might have the potential to be expanded and developed as a regional supply centre located halfway between South Africa and the Gulf.

African countries had to get away from the idea of oil refineries as prestige enterprises similar to a national airline and focus instead on the economics of processing oil, Greensmith said.

In the past, the World Bank has voiced concern about the inefficiency of regional African oil refineries — Reuter

Mossgas' mystery ventures

CT (MAN) 8/10/96 (1.83)

MARC HASENFUSS

CAPE EDITOR

Cape Town — Mossgas, the much-maligned fuel-from-gas producer, is negotiating several joint ventures, including offshore gas exploration and an onshore chemical plant, David Day, its chief executive, said yesterday

Speaking at the African Oil Conference, Day said there were some promising joint ventures on the cards, but declined to name the parties with which the company was negotiating

Possible ventures could include offshore gas exploration and an onshore chemical plant, he said "There are some very exciting prospects. Watch this space"

Day said it was encouraging that 128 international compa-

nies had expressed an interest in Mossgas when the state-owned company was offered for privatisation earlier this year

Referring to Mossgas' privatisation process, which was terminated at the end of June, he said the exercise had added to the taxpayers' burden

"When the direct and indirect costs of the monitoring panel and the advisers appointed to the process are taken into account, it has cost about R150 million to find out what was really a foregone conclusion"

Mossgas, which has been labelled a "white elephant", cost R11,4 billion to build

Day said Mossgas' research had showed that synfuels were the optimum alternative in the medium term. He said the initial recommendation by Mossgas to invest in developing additional

gas resources had triggered calls for privatisation.

However, he said no company other than a South African oil company could have purchased Mossgas' assets

"Synfuel production was the best option for the medium term. Plans to convert Mossgas to a methane producer or a petrochemical plant couldn't work as it would take too long to get these projects up and running"

Day said the six-month-long privatisation bid had added about R130 million to the R800 million needed at first for developing new gas fields off Mossel Bay, mainly because of the drop in the rand's value

He said that the project, which was scheduled to take 18 months, had to be crammed into 11 months with the risk of a cost overrun and late completion

Pick 'n Pay threatens state with court action over petrol policy

AUDREY D'ANGELO

Cape Town — Pick 'n Pay will appeal to the Constitutional Court if the government continues to drag its feet over the deregulation of the oil industry. Nicholas Bicket, the director of strategic and manpower planning at the company, said yesterday.

He told the Africa Oil '96 conference in Cape Town that if the government continued to delay the deregulation of the oil industry "we may well be compelled to approach the Constitutional Court early next year for relief from the state's continuing privatisation in the matter of deregulation."

"We are serious about this. What causes us particular concern is, that neither us nor any other major retailer has been consulted or involved in any discussion about this matter."

Deregulation will allow petrol to be sold at discounted prices. Pick 'n Pay was negotiating with a group of convenience stores and several large oil groups to accelerate its drive into petrol retailing, he said.

He said the oil industry was "the only remaining consumer sector in South Africa, represented by some of the world's most powerful multinational companies, that still suffered government-determined price fixing."

Supermarket chains in Europe imported fuel directly and sold it under their house brand names as one method of ensuring petrol was supplied by domestic refineries at a competitive price, he said.

"Our long-running campaign for a deregulated petrol industry is inordinately frustrated by the government's protracted process of consultation and investigation, which has now stretched over many years and shows no sign of reaching finality in the near future."

Bicket said it was three years since the National Economic Development and Labour Council (Nedlac) established its liquid fuels industry task force.

"In spite of extensive discussions between the government, labour and business, no significant progress has been made in respect either of the restructuring of the industry or the reduction of the government's involvement in it."

The Competition Board had recommended two years ago that price-control measures and the prohibition of credit sales should be phased out over a reasonable period, but no decision had yet been made by the trade and industry minister, said Bicket.

Refineries can't cope, Page 16

(183) 25 (per) 8/10/96

Fertiliser industry stages strong recovery

Global supply and demand may keep fertiliser prices on the upturn until 2000, writes **Rod Humphris**

AFTER 20 years in the doldrums, the global fertiliser industry has staged a strong recovery, with prices reaching historical peaks at the beginning of this year. In SA, where the totally deregulated market mirrors international trends, the local industry is also set for a long-awaited period of relative stability and growth.

This is the result of a combination of circumstances. Firstly, the rationalisation of the worldwide fertiliser industry since the beginning of the 1990s has eliminated the surplus production capacity which long plagued the market. At the same time, the dumping of massive quantities of fertiliser from eastern bloc countries after the collapse of the Soviet Union has eased off as these states have gradually adopted market-related economic policies.

The other major factor has been the need to provide food for expanding populations, notably in the Far East, where demand for fertiliser has been growing steadily. Finally, as part of its general restructuring, control of the industry has passed into private-sector hands, which means that investment decisions are now based on rational business criteria and are no longer driven by social or political considerations.

Against this background, global demand for fertiliser has moved into balance with supply for the first time in decades. This, in turn, has led to a strong rise in prices, which more than doubled between 1993 and last year. Prospects for the SA industry have improved in line with the international upturn, and have been enhanced further by

an agricultural market buoyed by a very good summer season in 1995/96 after sustained period of below-average rainfall.

International prices for the main fertiliser commodities — urea and DAP — peaked at about \$230/ton and \$250/ton respectively, then dipped earlier this year, mainly in response to the harsh US winter and lower than expected imports by China and India. Since May, they have risen again to about \$200 and \$215. The urea price is expected to continue climbing, fuelled in particular by higher demand from China. The phosphate market is also likely to move upward, but not to the same level as before.

Devaluation

SA fertiliser price movements lag behind international trends by six months to a year, but net prices nevertheless improved by an average of about 21% in rand terms last year. This upward trend has continued this year, with second-quarter prices about 10% higher than last year.

With the recent devaluation of the rand more than compensating for the slight slip in international prices, local price levels should remain steady — particularly as the discounting which has been a feature of the market is now being contained by the fact that major producers all have fully laden plants. The opening up of fertiliser export markets, notably in Africa, is also contributing to price stability by mopping up surplus capacity the local plants still had.

Despite social and political concerns, the

mood of SA's agricultural sector is very bullish after good rains have restored the country's water resources, and local demand for fertiliser may increase by about 6% this year. If there is a longer-term return to a normal rainfall pattern, it is expected that annual growth in fertiliser demand will be sustained around 3% to 4%.

Internationally, fertiliser demand will be supported by the increasingly critical need to optimise the efficiency of the world's food production resources. Food production is growing at only 1% a year, while the population increases at double that rate. The increasingly precarious balance between supply and demand is illustrated by the fact that global grain stocks are currently at their lowest ebb in more than 20 years, well below what is generally accepted as the safety level. In these circumstances, no country can afford to be dependent on food imports and every effort will have to be made to encourage local food production.

Although the industry remains cyclical, most observers expect that the tight supply/demand situations for both fertiliser and goods will keep fertiliser prices at or above present levels until at least the turn of the century. However, the good returns now being earned by producers — particularly those who produce the basic fertiliser commodities — will inevitably attract new investment in the global industry. Beyond 2000, prices may start dropping off again as new capacity comes on stream.

□ *Humphris is MD of Omnia Fertiliser*

BO 9/10/96

(183)

Oil industry 'needs more clarity' on refining investments

FROM REUTER

Cape Town — It was becoming increasingly urgent that decisions be taken on the future of the South African oil industry, South African Petroleum Industry Association (Sapia) director Colin McClelland told the Africa Oil 1996 conference yesterday.

He said important investment decisions hung on the need for greater certainty about the future.

"It is becoming urgent that there be

clarity on the rules of the game' for the future as important decisions are required on refining investments to meet growing demand," McClelland said.

"Policy issues are at stake as well. Should the needed capacity be provided by synfuels, by imports or by expansions of the conventional refineries?"

Sapia favoured the latter option provided there was a climate that encouraged investment in South Africa.

"You will appreciate the importance to the nation of making the correct poli-

1833 et Cee Palio 1996

cy choices. These could include additional synthetic fuel production as long as the investments are economic and do not rely on subsidies to pay their way."

He had earlier said that the demand for petrol was about to outstrip national refining capacity.

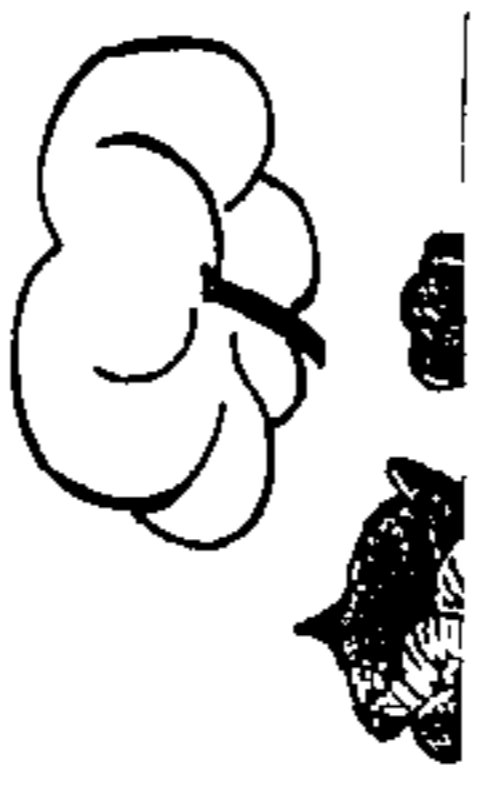
One of the greatest uncertainties faced by oil companies in recent years had been the failure of government to adjust marketing margins in line with laid-down agreements.

McClelland said that an increase in

the margin had become due on January 1 this year but had not yet been approved. "We hope for approval of this increase, the first since 1993, in the November price adjustment which is due on Wednesday, November 6," he said.

Despite the squeeze on margins, oil companies had continued to invest about R1.5 billion a year in marketing and refining to meet demand.

"It is now crucial that the regulatory rules be consistently applied by government," he said.



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COMPANY NEWS

Placement by subsidiary Seetrade will refinance offshore purchase

Sentrachem in \$85m issue

(183) ET(BR) 9/10/96

JOHN SPIRA

DEPUTY EDITOR

Johannesburg — Seetrade, a wholly owned Sentrachem subsidiary, has issued \$85 million in compulsory convertible preference shares, fully underwritten by Societe Generale.

The shares, issued with effect from August 30, will be convertible into Sentrachem global depository receipts (GDRs) over three years at Sentrachem's option, or over a longer period by mutual agreement.

Norman Kennelly, the financial director of Sentrachem, said yesterday that the GDRs would be issued at market-related prices at the time of conversion.

He said the equity placement had been arranged to refinance the 12-month bridging loan raised at the time of Sentra-

chem's acquisition last year of Hampshire Chemical, a US speciality chemicals company.

"The issue enables Sentrachem to secure long-term equity finance at improved rates, and improves the capital structure of the balance sheet while significantly reducing gearing," he said.

Sentrachem paid \$236,5 million for Hampshire Chemicals in July last year in one of the largest offshore purchases by a South African company. The deal was pitched at a price-earnings multiple of 14, slightly below Sentrachem's 15 at the time.

The acquisition added almost R1 billion to Sentrachem's annual turnover of more than R3 billion and infused a strong rand-hedge element into the company.

In the six months to February 29, Sentrachem's earnings

rose 4 percent to 55c a share. The increase was restricted by a R42 million increase in finance charges to R70 million because of the Hampshire acquisition.

Earnings for the year to August 31 will again reflect the interest burden, which will be reduced thereafter because of the convertible preference share issue.

This year's figures will also reflect the rand-hedge benefits accruing from Hampshire, because the second six months of the financial year will cover the period of steep rand depreciation.

The market has begun anticipating those benefits, the share price has recovered about 130c from its year low of R11,80, recorded two months ago. Even so, the share is well below its year high of R17,40, recorded in May.

Adcock Ingram buys Prempharm

BD 11/10/96

(183)

Amanda Vermeulen

ADCOCK Ingram and Premier Pharmaceuticals will merge to create SA's largest quoted pharmaceutical group with a market capitalisation of R5,3bn.

Adcock will acquire 100% of Prempharm in a transaction valued at R2,9bn, after which Prempharm shares will be delisted following an offer to minorities.

Adcock chairman Robbie Williams and Premier Group chairman Doug Band said yesterday the merger followed an international pattern of consolidation in the pharmaceutical industry and was designed to create "the necessary critical mass to compete against international players active in the SA market".

In terms of the deal, Adcock would acquire Prempharm issued ordinary shares for 13,5 new Adcock consolidated ordinary shares, 121,5 new Adcock N shares and a cash payment of R41 for every 100 Prempharm ordinary shares. This scheme had been selected over a pyramid to give the main shareholders greater flexibility in the control structure of the merged company.

Before this, and in a move that alters voting rights attached to existing ordinaries, Adcock will restructure its share capital by consolidating its ordinary shares on a one-for-10 basis. The group would then have a nine-for-one capitalisation issue in which shareholders would receive nine N shares for

Continued on Page 2

Adcock

(183)

BD 11/10/96

Continued from Page 1

each new consolidated ordinary share held. These moves would not affect voting rights of individual shareholders.

Each new consolidated ordinary share would carry 100 votes and each N share one vote. Every Adcock shareholder would have one new consolidated ordinary share and nine N ordinary shares for every 10 ordinary shares currently held.

Williams said the deal had been based on the relative market capitalisations of the two companies and not their net asset values. Adcock's diluted net asset value reflected the fact that pharmaceutical companies traded at a significant premium to their underlying net asset values.

Adcock's net asset value at the end of March was 375,5c a share. The counter finished at R19,20 on the JSE yesterday, bringing the group's market capitalisation to R2,7bn.

Prempharm's net asset value at the April year end was 596c a share, while the closing price on Tuesday was R24 a share, giving the group a market capitalisation of R2,6bn.

After the merger, CG Smith subsidiary Tiger Oats would be the largest shareholder with a 35,3% stake, while

Premier would hold 29,7% in the new group. Tiger would control 55% of the voting rights through a voting pool agreement with Premier and would have the right to appoint the majority of the board of the new company.

Premier would be entitled to board representation and agreed shareholder protection such as approval on major acquisitions. Williams would be chairman of the merged company while Adcock group CE Don Bodley would be appointed deputy chairman. Prempharm CEO Phil Nortier would be CE of the new company.

Williams said benefits would arise from a wider product range and the resultant economies of scale, while the research and development capabilities of the new group would be enhanced.

"The wide range of self-medication, generic, prescription and consumer products distributed through pharmacy, retail outlets, hospitals and clinics, together with our critical care division, ensures that the group has a well balanced and diversified income source."

The merged entity would also have a significant presence in animal healthcare through its investment in Sanvet, a joint venture with Sentra-chem, and vision care through Standard-Vista. Nortier said one of the first tasks of the new management team was to implement the strategy and direction of the group.

Adcock and Prempharm seal \$5bn merger

ANN CROTTY

CONSUMER INDUSTRIES EDITOR

Johannesburg — The \$5 billion merger between pharmaceutical groups Adcock Ingram and Premier Pharmaceutical has been signed, six months after the first cautionary announcement.

The details of the deal, which were announced yesterday, were in line with market expectations. In terms of the deal Adcock will acquire 100 percent of Premier, and Adcock's parent company Tiger will take con-

trol of the merged entity.

Only one of the four senior executive appointments will be taken by a Premier executive. As expected, Phil Nortier, who is the chief executive of Premier, will be appointed chief executive of the new company.

Mike Norris will be chief operating officer. He previously headed Logos Pharmaceuticals, a Tiger subsidiary. Robbie Williams, the chairman of Adcock, has been appointed as the chairman and Don Bodley, who is Adcock's chief executive, will be-

come the deputy chairman.

In terms of the agreement Tiger will be the largest shareholder, with an interest of about 35.3 percent. Premier, will hold about 29.7 percent.

Analysts said a significant aspect of the deal was that Tiger will control 55 percent of the voting rights through a voting pool agreement with Premier. Tiger will also have the right to appoint the majority of the new company's board. Premier will be entitled to board representation and

agreed shareholder protection.

Analysts said yesterday that it was essential that Tiger emerged as the controlling partner in the deal because of a contract that existed between Tiger and one of its overseas principles, Baxter, a US-based healthcare company.

Adcock's latest annual report said that its highly profitable critical care division "remains at the forefront of technology through its agreement with leading international healthcare company, Baxter."

Analysts believe that Baxter

had the right to revoke the contract with Adcock if Tiger ceased to be Adcock's controlling shareholder. The structure of this deal and the creation of a voting pool agreement ensures that Tiger remains Adcock's controlling shareholder.

The deal involves the one-for-ten consolidation of Adcock's existing share base and the subsequent nine-for-one capitalisation issue in terms of which shareholders will receive nine "N" ordinary shares for each new consolidated ordinary share held.

(183) CT (OR) 11/10/196

DECISION TIME LOOMS

FM 11/10/96

A sharp increase in demand for petrol suggests that a decision on the future shape of the retail fuel market can't be delayed much longer. In question are the present marketing arrangements between Sasol and other oil companies.

BP Southern Africa MD John Green-smith says SA could run out of petrol refining capacity as early as this year and require imports in 1997. BP figures show petrol consumption grew 7,5% last year.

SA operates four crude oil refineries: Caltex at Cape Town, Engen and Shell-BP at Durban and Total (with a Sasol shareholding) at Sasolburg. These process up to 450 000 BPD into petrol, diesel and aviation kerosene. Also, Sasol produces 150 000 BPD and Mossgas 45 000.

Sasol sells most of its synthetic petrol output to oil companies, but a long-standing agreement entitles Sasol to retail 9,23% of its output at its own pumps.

Sasol's output of its basic product stream will increase through the replacement of its existing Synthol reactors with the Advanced Synthol Reactor, but co-product chemicals will pre-empt some or all of the additional output.

The issue of which companies should provide the next increase in output of refined products remains sensitive, and could involve renegotiation of the agreement between Sasol and the oil companies. Also under discussion will be entry to retailing and retail price maintenance. The oil companies remain aggrieved that State assistance both to Sasol and Mossgas was not ended summarily.

SA's oil industry has long debated the need for additional capacity, says Green-smith, but oil companies have been reluctant to commit themselves pending clarification of plans to liberalise the do-

TOU BUSINESS

mestic oil market. Now Pick 'n Pay has thrown a large stone into the pond by threatening to challenge the constitutionality of retail price fixing. If the Constitutional Court upholds this view, the implications for liquid fuel retailing will be fundamental. ■

Committee to review profits on fuel sales

(183) Star 12/10/96
Cape Town - A cabinet committee has been set up to urgently review the Government's role in the mechanism that governs the profits oil companies make from fuel sales.

The cabinet secretariat said in a statement on Wednesday that the committee, consisting of the ministers of mineral and energy affairs, transport, finance, and trade and industry, would also consider proposals on changing the oil price formula.

An oil industry request for an increase in their wholesale margin was discussed by the Cabinet this week. However, it had not indicated whether any decision was in the offing.

SA Petroleum Industry Association director Colin McLelland said the request, for a 3c/litre hike, had been made in April in line with the Marketing of Petroleum Activities Returns (MPAR) mechanism.

"We still want to hear the outcome," he said.

At this stage the industry was not seeking any change in the MPAR system, under which the fuel price is reviewed annually to keep oil company profits at a specific level.

National Party mineral and energy spokesman Maans Nel called for a rapid decision on restructuring and deregulation of the liquid fuel industry.

Mineral and Energy Affairs Minister Penuell Maduna should indicate whether he was serious about this matter or was delaying it for ideological reasons.

"The uncertainty being created in the industry in this way is not to the benefit of the industry or economy," Nel said. "Urgent decisions that must be made are being delayed." - Sapa

Drug merger makes biggest group in SA

(103)
PHARMACEUTICALS

By THABO KOBOKOANE

THE merger of Adcock Ingram and Premier Pharmaceuticals will create South Africa's largest pharmaceutical group with a combined annual turnover of R1,6-billion

ST(97)13/10/96
It is estimated that the merged group will have a third of the market share of the local pharmaceutical industry, worth R4,5-billion. The local industry is dominated by foreign multinationals

The tie-up mirrors recent international trends towards major mergers in the pharmaceutical industry, driven largely by attempts to cut costs. In the past two years, at least 43 major mergers took place in the industry across the world.

In terms of the deal, Adcock will acquire 100% of Prempharm. Adcock's parent company, Tiger Oats, will take control of the merged group. Once the transaction is complete, Prempharm will be delisted.

Tiger Oats will become the largest shareholder, via its subsidiary C G Smith, which will have a 35,3% equity interest. Premier will hold a 29,7% interest.

Phil Nortier, the present chief executive of Prempharm, will become chief executive of the company, while Mike Norris will be the chief operating officer.

ROCKETING oil prices have relieved the state of its obligation to subsidize Sasol and Moss-gas for the first time since 1990

Crude oil prices have leapt from \$18 to \$24 a barrel since June, and further rises may trigger an obligation on Sasol to start repaying the billions of rands in "tariff protection" it has received since 1979

Meanwhile, Moss-gas is on the hunt for an equity or joint-venture partner to extend the shelf-life of the oil-from-gas plant, after government's attempts to sell it failed

Several of the 128 initial bidders for Moss-gas — none of whom are understood to have been willing to pay the R1,5-billion the state wanted for the on-shore plant and offshore gas fields — are continuing negotiations over possible joint ventures with both Soekor, the state-owned exploration company, and Moss-gas

The plant, which came on stream in 1991, cost R11,4-billion in the dying years of apartheid. The government decided to terminate the proposed sale of Moss-gas because, it is thought, none of the cash offers exceeded what Moss-gas would make by continuing synthetic fuel production

David Day, chief executive of Moss-gas, says "Unlike Telkom's search for a strategic equity partner, Moss-gas is seeking suitable partners for new ventures in the speciality fuels and chemicals arenas

"The plant can be used to manufacture a range of downstream chemicals using the offshore gas stream," Day says

Moss-gas forecasts turnover of R1,3-billion in the current financial year, from which it expects to generate a net surplus of about R500-million, excluding subsidies and the synthetic fuel levy it receives from the government

A dispute is brewing between Sasol and the govern-

Oil boom

forces

Sasol to

pay its

(183)

OWN way

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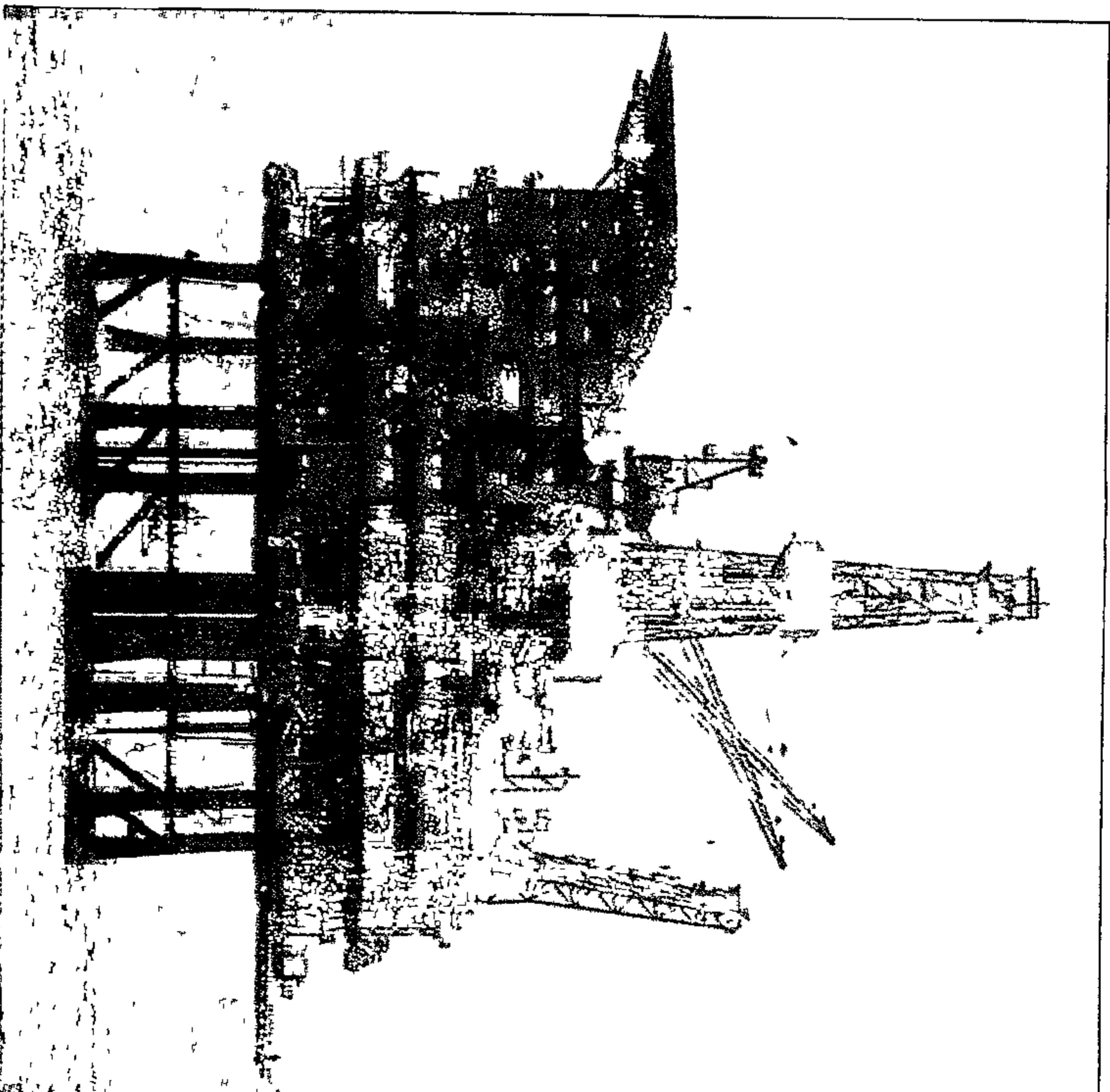
An improved market may help Moss-gas find a private equity partner, writes CIARAN RYAN

ment over the interpretation of Sasol's 1995 tariff phase-down requirement. In terms of this agreement, Sasol receives protection when oil prices fall below an oil equivalent of \$18 a barrel. Under the previous arrangement, based on a reference price of \$23 a barrel, Sasol Synthetic Fuels was obliged to forego 25% of the income above \$28,70 a barrel

Although no ceiling was written into the 1995 agreement, many in the government and the oil industry say this implied and the pre-1995 differential of \$5,70 between the floor

and ceiling price pertains. Sasol is disputing this, arguing that it is under no obligation to repay tariff protection on the grounds that no ceiling was written into last year's tariff phase-down agreement, and that it was forced to sacrifice protection by accepting a lower floor.

Because Sasol converts locally-mined coal into petroleum products, its cost base is not linked to international fuel prices, although its resale prices are. This gives it a wider margin in times of rising oil prices, reducing the need for



COURTING . . . None of the initial bidders for Moss-gas offered what the state wanted

state protection "I was part of the negotiating process over the phase-down of Sasol's tariffs, and I never agreed there was no ceiling," says Gert Venter, director-general at the Department of Mineral and Energy Affairs

Venter says no ceiling was written into the agreement because of the difficulties in reaching consensus on the tar-

iff phase-down. Other oil industry sources say it was always the intention that Sasol would have to start repaying its controversial tariff protection — which at its peak topped R600-million a year — when oil prices exceeded the \$23,70 a barrel ceiling

Although Moss-gas was not mentioned in the 1995 tariff agreement, it too may be

obliged to repay the subsidy it has received since it started refining offshore gas in 1991

Moss-gas's David Day confirms that it will receive no tariff protection in October following the sharp rise in international oil prices.

Moss-gas has received R32-million in tariff protection so far this year and R18-million in synthetic fuel levies

AECI could face further claims from fire

Samantha Sharpe

CAPE TOWN — AECI could face significant new agriculture-related claims arising from the sulphur fire at its compound near Somerset West in December, following indications that livestock in the area might be suffering long-term harmful effects.

The Anglo American-controlled chemical company has already paid out R12m to fruit and vegetable farmers. Now several livestock farm-

ers in the area say they might be forced to lodge new claims after indications that breeding stock — ranging from pigs to crayfish — have been affected by the fire.

AECI group communications manager Mike Blizzard said the chemical group had received about 100 claims from the agricultural community in Somerset West, of which about 70 had already been serviced.

Of the 8 200 claims submitted about 7 800 had been settled, repre-

senting total payouts of about R6m.

A commission of inquiry into the sulphur fire incident is scheduled to start at the end of this month

(183) (38) 60.11/10/96

Streamlining for Adcock Ingram

(183) BO 14/10/96

Amanda Vermeulen

THE new pharmaceutical group created by the R5,3bn merger of Adcock Ingram and Premier Pharmaceuticals will streamline a variety of its operations, leading to possible job losses and product rationalisation.

Adcock Ingram chief operating officer Mike Norris said at the weekend that although it was too early to quantify the degree of group rationalisation, the planned closure of the Mobein production facility would be speeded up and up to 290 of 350 jobs would be lost.

Further rationalisation was expected in other divisions, including management, but Norris said it was premature to say how many workers could be retrenched.

Analysts speculated that up to 20% of staff or 800 people employed by the new group could lose their positions. Job cuts were expected in the manufacturing, marketing and sales divisions.

Some rationalisation was also envisaged in certain product categories, because of overlapping between the two companies.

The structure and costs related to this streamlining exercise were

expected to be finalised within a few weeks, Norris said.

The new group, to trade under the name Adcock Ingram, would have the size to compete against the best pharmaceutical companies in the world, Norris said.

"The merger has given us critical mass in certain product categories, providing the group with a competitive advantage on a price basis. But, although Adcock will be SA's largest quoted pharmaceutical company, its combined market share will still only be about 12% of the total market."

However, there was bound to be concern from competitors over the newly merged entities, he

said. Its main competitor would be Malbak-held SA Druggists.

Adcock's chairman Robbie Williams said last week at the announcement of the deal that the merger was designed to create the necessary critical mass to compete against international players active in the SA market.

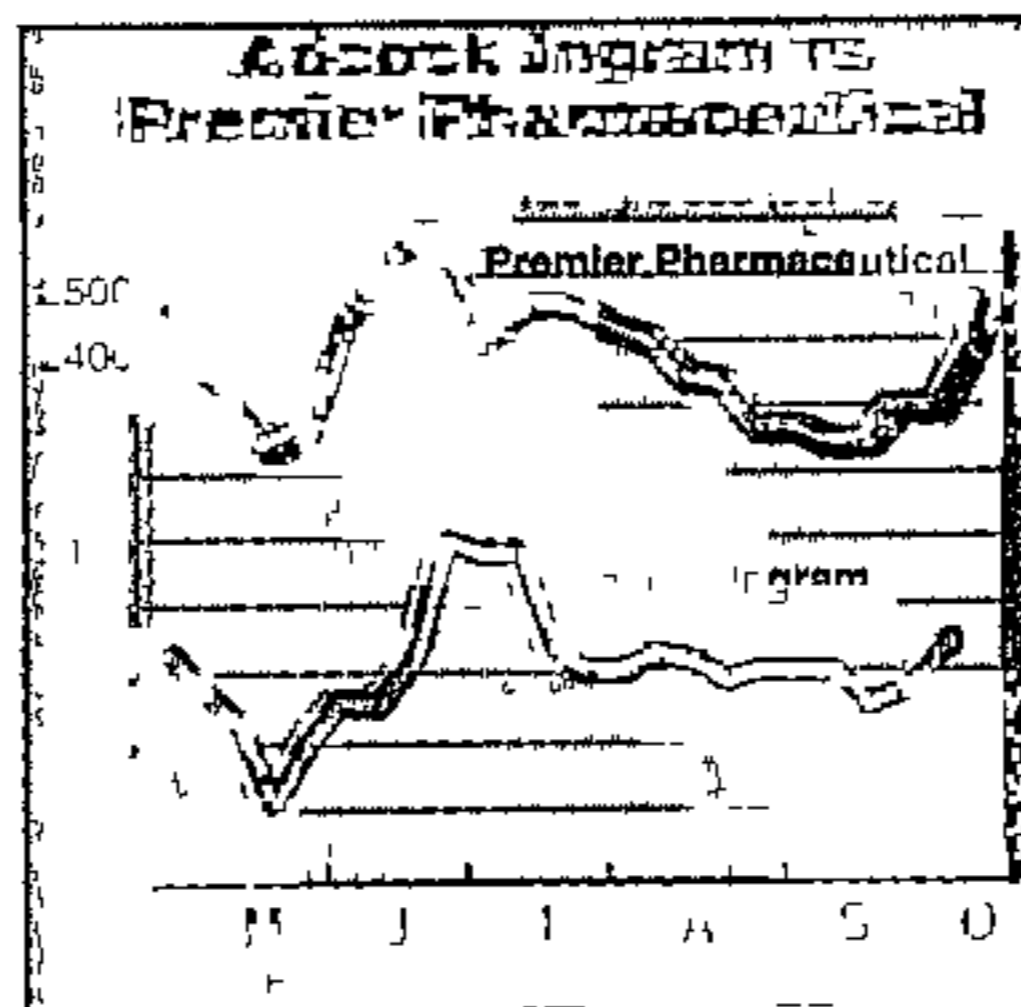
The new group would continue its push into sub-Saharan Africa, but Norris said growth potential was restricted by the limited financial resources of countries in the subcontinent.

However, the group believed it had an advantage over its foreign competitors, who found it logistically more difficult to supply African countries from offshore than SA companies, which had a better infrastructure.

Norris said that the group was also considering exports to New Zealand, Australia, South Korea and the UK, with a long-term view to seeking local partners in those countries.

Adcock shares closed at R19,40 on Friday, gaining only 20c on news of the merger.

Prempharm ended the day at R24,80, adding 80c or 3,3% to its previous close of R24.





KNOWLEDGE IS POWER Dr. M. J. Ramphete, the vice-chancellor of the University of Cape Town, with Robert Tiger, chairman of Merck Pharmaceuticals, and a representative of a \$1 million grant for the expansion of the university's library. The new wing will be built to meet the needs of the university.

Move to protect Adcock minorities

(183) CT (PR) 14/10/96
ANN CROTTY

CONSUMER INDUSTRIES EDITOR

Johannesburg — In what is seen as a bid to provide some security to holders of low-voting N shares, the controlling shareholders involved in the R5,3 billion merger between Adcock Ingram and Premier Pharmaceutical have agreed not to accept any future offer for control from a third party "unless an identical offer is extended to the holders of the 'N' shares"

It is the first time parties involved in the issuing of N shares have agreed to make provision for the longer-term protection of N shareholders. JSE sources say it could represent a precedent for similar N share schemes. A leading opponent of such schemes explained that this was an attempt to address the relatively weak position of these shareholders in the event of a takeover. But he said that it did not address the grim implications N shares had in the area of corporate governance.

Tiger, which controls Adcock, and Premier, which controls Prempharm, have undertaken that if a third party makes an offer for control of the enlarged Adcock group, the identical offer has to be made to all the share-

holders. This is a tougher requirement than the one that prevails in terms of the Securities Regulation Code.

The code only requires that a predator makes a "similar offer" to all shareholders. Opponents of N shares say a similar offer could be interpreted by a predator, who is primarily interested in voting shares, as a lower payment for the N shareholders.

JSE analysts who are concerned about the growing use of N shares were dissatisfied with Adcock's plans to consolidate its ordinary share base and issue low-voting N shares. This equity rearrangement means that non-voting shares are replacing ordinary shares. And despite the fact that they trade at a discount on the JSE, the minority shareholders are not being offered any compensation. In addition, remarked one analyst: "They have no right to a cash offer if they don't like the 'N' shares."

The controlling shareholders ensure that Tiger remains in control of the enlarged Adcock, by creating N shares. In the absence of this control, analysts say Adcock could lose some lucrative licensing arrangements, notably one with US-based Baxter. There was no disclosure of this fact in the merger document.

Northam warning fuels merger speculation

René Grawitzky
and David McKay

GOLD Fields' Northam platinum mine management has warned workers of impending retrenchments if they strike — fueling analyst speculation that the mine is poised to close or merge.

Thousands of National Union of Mineworkers (NUM) members yesterday voted overwhelmingly in favour of a strike in support of wage demands. NUM indicated that mine management had issued workers

with a number of communiques, by-passing union structures, calling on workers to vote against strike action in view of the mine's parlous financial position.

Workers were informed of the recent losses in the wake of the mine violence and warned that further production losses due to labour unrest could worsen the mine's "already critical financial position" and lead to the mine's closure.

Industry analysts said a two-week strike could cripple the mine, depleting its cash resources and

leading to possible closure. Northam's cash resources slipped from R45m to about R25m in the September quarter.

Another option for the mine was the long-standing suggestion that it merge with neighbours Rustenburg Platinum, managed by Anglo American Platinum Corporation (Amplats), one analyst said.

But Amplats MD Barry Davison has been quoted in the past as saying the group did not want to move up the cost curve, an inevitable consequence of taking Northam on

board, and that there seemed no way to merge with Northam and benefit from the potential tax break.

Another analyst suggested a merger with Rustenburg was once again "on the cards" as another twist in the mine's unreliable history had developed.

Northam chairman Peter Janisch could not be contacted for comment yesterday.

The National Union of Mineworkers' Rustenburg co-ordinator Machlakang Machlakang said the union intended giving manage-

ment 48-hour notice of their intention to embark on strike action, but hoped that the parties would be able to meet to resolve the dispute.

Machlakang said the parties were not too far apart from agreement around management's offer of 10%. He said workers' opposition was not around management's 10% offer, but rather management's additional 1% increase per quarter based on profitability.

Machlakang said workers were not prepared to accept the 1% as being conditional.

(R33) BD 17/10 796

End to rates | Woman learn how to find

mega-project is an example of "chequebook diplomacy," cash-flush Taiwan seems serious in its endeavour to invest billions of dollars in SA

Options included in the Taiwanese proposal include downstream plant for the manufacture of fibre polymers, synthetic fibres, textile cloth and even labour-intensive clothing factories

Sentriachem CE John Job says the proposed aromatics feedstock stream — xylene, tolyene and benzene — could be produced from a number of possible combinations,

chemical crackers or oil-based refineries and would probably involve local oil refiners "This would also provide the opportunity for manufacturing styrene-based products"

But Job warns that the Taiwanese proposal should be evaluated against the possibility of a glut developing in the global synthetic fibre market

The Eastern Cape may be mooted as a potential plant site, he adds, but "economics is a hard mistress and will have the final say The appropriate place to evaluate the joint venture is in the cluster study A clearer picture should emerge by the first quarter of next year"

Sectoral participants should be able to send out firmer signals about their future intentions at the petrochemical industry's second plenary session on February 2, says Lauraine Lotter, executive director of the Chemical & Allied Industries' Association "The plenary at CSIR's Pretoria offices will look at petrochemicals, polymers and synthetic fibres and should include all players from the local sectors interested in future developments in their industries"

Lotter says petrochemical-related exports of about R6bn/year and imports of R9bn/year — by an industry which contributes 3%-4% to GDP — could grow substantially should the cluster investigation, coupled with the Taiwanese proposal, yield the results sought by the Department of Trade & Industry (DTI)

DTI director for chemical and allied industries David Walwyn says his interim report on the cluster study should be available by the end of the month

Spokesman Alfonso Niemand says Sa-



John Job

sol is committed to the cluster initiative "and will continue to play an active role to grow an internationally competitive petrochemical, plastics and synthetic fibre industry

"Our technology gives us an international cost advantage in certain feedstocks, which can be exported despite the high transport costs involved But if local downstream markets are grown — by adding value to the feedstocks — Sasol will no longer have to incur these high transport costs The economy will also benefit

through greater value adding and job creation"

International experts have been commissioned by Sasol to identify and rank the opportunities in terms of priority, says Niemand "Our primary role is to provide competitively priced feedstocks to the downstream industry We have already made major investments in this area and will continue to invest annually to expand this capability," he says ■

PETROCHEMICALS (183)

CHINESE CRACKER

FM 18/10/96

Taiwan is understood to be pushing for a quick response to its proposal for a US\$3,5bn coastal petrochemical complex

Howard Roberts, deputy GM of the Central Energy Fund and project co-ordinator on the SA side, confirms that though no project deadline has been set, the Taiwanese "are keen to proceed as soon as possible"

A highly placed Taiwanese official says "We hope to get the SA response soon" He adds that though the plant site needs to be finalised, the integrated project will find a ready market for its output in Taiwan in view of "our insatiable appetite for petrochemical products"

The proposal is being looked at by the same local companies which are participating in a government-sponsored cluster investigation into the R45bn petrochemical industry (*Business* October 4)

What has not been divulged until now is that the proposed crude oil-based joint venture will create an aromatics-based chemical stream — currently not available from Sasol's coal-based processes — which would open the door for a much broader-based, export-focused chemical feedstocks industry

The Eastern Cape and Richards Bay have already been mooted as possible sites for the massive complex And notwithstanding comments that the

Diesel scam costs tax service R100m

BD 18/10/96

(183) (220)

Reinie Booysen

THE SA Revenue Service (SARS) is losing at least R100m a year through a growing tax-evasion scam in which diesel is spiked with paraffin and jet fuel — oil products which attract little or no customs and tax.

SARS officials say the scam has reached alarming proportions. It started several years ago in KwaZuluNatal, but has now spread countrywide. It appears most prevalent in the Durban-Maritzburg and Gauteng regions.

Black-market operators are evading levies of about 70c/l on an estimated 140-million litres of "diesel" sales annually. The SARS estimates "at least 5%" of the 5 673-million litres of diesel sold in SA annually contains an illegal proportion — ranging from 30% to as much as 70% — of paraffin or jet fuel. Illuminating paraffin and jet fuel are chemically identical products, known as kerosene internationally — although kerosene sold as jet fuel is subject to stringent international quality controls, for safety reasons.

Diesel engines can also burn kerosene, although a pure kerosene "diet" would eventually damage an engine, owing to kerosene's poor lubricating qualities.

Exasperated SARS officials say it is very difficult to prove cases against black-market blenders. A major problem is that the legitimate diesel from the oil companies also sometimes contains some kerosene — usually in winter, to lower the diesel's freezing point.

It is accepted practice throughout the world for oil companies to add kerosene to diesel — although there are limits, due to the "lubricity" required in diesel. The blending is done for various reasons. Apart from lowering diesel's freezing point, Scandinavian oil companies add kerosene to lower their diesel's sulphur content, for environmental reasons. Sometimes blending is also a way of disposing of surplus kerosene.

Adding colourants to paraffin to facilitate proof against tax evaders.

Continued on Page 2

Diesel

Continued from Page 1

BD 18/10/96
common practice in Europe — has been rejected by the SARS. "We are scared of colourants," said SARS excise director Chris Barnard. "The problem is that many people store paraffin in cold-drink bottles, and dying the paraffin would pose a serious danger to children, who would be more tempted to drink the coloured liquid."

International Civil Aviation Organisation rules do not permit colourants in jet fuel.

The SARS investigation is focusing on the activities of so-called "routers", who distribute oil products to small service stations or industrial and farming end-users. Although the penalties for customs evasion are severe, prosecutors face evidential obstacles.

Barnard said the growing scale of the scam was evident from the alarming increase in complaints from legitimate diesel retailers who claimed

their prices were being undercut by black-market operators retailing illegitimate blended material. "We have also had a growing number of complaints from people whose engines have been damaged by diesel with too much blended paraffin," said Barnard. "There's nothing we can do for them."

Some oil company sources also find the latest growth figures for sales of paraffin (13,5%) and jet fuel (21,3%) just a bit too good to be true. Oil company sources say there has also been a growth in "suspect" requests for jet fuel clearly not intended for use on aircraft.

While it is illegal to sell paraffin blended with a "lubricity" agent, for automotive use, without paying the diesel taxes and levies, there is a loophole in the law which permits diesel to be spiked with jet fuel.

Oil company sources say they cannot refuse requests for jet fuel, although the SARS has written to the oil companies indicating that it finds the sale of jet fuel for non-aviation uses unacceptable, and that the legal loophole will be closed shortly.

Government backs down on drugs, dispensing issues

BT (2) 5D 15/10/96 (183)
THE SA government backed down yesterday over proposed health care reforms by withdrawing a key regulation after drugs firm SmithKline Beecham challenged it in court.

The Anglo American drugs firm took legal action to scrap plans by Health Minister Nkosazana Zuma which would make prescribing generic drugs mandatory and limit the dispensing of medicines.

The firm filed a submission asking the Supreme Court's Transvaal Division to fight regulation R1150, a part of Zuma's health care reforms.

The health ministry said the regulation had been withdrawn after an overwhelming response from industry and the public. "As a result of that response I have directed the department to withdraw regulation R1150 and to prepare new draft regulations which will take into account some of the comments received," Zuma said.

SmithKline said moves to limit the use of branded drugs denied doctors choice and could force them to change established patient regimens.

Generic drugs are versions of branded products that have come off patent and are usually cheaper.

The regulation also wanted to authorise (as yet undefined) licensed persons only to dispense medicine. The industry feared this could rule out many currently dispensing medical practitioners, such as dentists.

Despite the retreat, the ministry

still plans to act tough with the sector "The principles in those (withdrawn) regulations will still stand," it said

Health department spokesman Vincent Hlongwane, who earlier yesterday had indicated a court battle appeared likely, said it was important to establish good relations with drug firms

Hlongwane said the ministry had not yet decided what form the new recommendations would take.

The drug industry welcomed the news and struck a conciliatory tone.

SmithKline SA CE Gunter Faber said yesterday "The industry and private health care sector look forward to working in a constructive dialogue and true partnership with government."

Meanwhile, Sapa reports that Zuma, in a reply to a question in the Senate, said all tobacco advertising would be banned if tobacco companies did not comply with existing regulations on health warnings

She said the Rembrandt group, United Tobacco, RJ Reynolds and Imperial Tobacco were all evading the regulations. They were importing cigarettes that did not have the prescribed warnings, displaying billboard advertisements on which the warnings were invisible at night or did not show tar or nicotine content, or placed newspaper advertisements where the warnings were too small

The health department had submitted charges laid by individuals to the police. — Reuter.

Zuma in last-minute settlement

CT (BR) 18/10/96

(193)

JANINE SIMON

Johannesburg — The health department has instructed the state attorney's office to settle its legal dispute with SmithKline Beecham, the pharmaceutical group, just hours before the court deadline expired yesterday.

The department then said it would redraft its controversial regulations on generic prescribing and dispensing doctors.

Sam Venter of the state attorney's office confirmed that he had been instructed by the department's legal department to

settle the SmithKline Beecham matter on the grounds that the regulations had been withdrawn.

The pharmaceutical group had applied to have the regulations declared ultra vires because they had to be read in conjunction with regulations which had yet to be promulgated.

Nkosazana Zuma, the health minister, initially indicated she would oppose the application, and had until close of business yesterday to file her reply.

The instruction to settle was followed within hours by a health ministry statement announcing

that the regulations which were gazetted for comment in July would be withdrawn and redrafted to take into account some of the more than 300 submissions received.

Zuma said the principles in the original regulations would still stand and the department would soon publish revised regulations, new regulations, and proposed amendments to relevant acts.

Publication of these regulations would be part of the implementation of the National Drug Policy published in February.

hannesburg branch.

On closer inspection, it turns out to be an innovative arrangement for reducing the chemicals company's high gearing and cutting finance costs while getting the best price for its shares. The rand amount realised is R381m, using Sentrachem's year-end exchange rate of US\$/R4,49

The deal was signed at end-August, but not made public until last week. Sentrachem's offshore financing arm — Seetrade — placed \$85m of compulsorily convertible shares with Société Générale, who have fully underwritten the offer, effectively swapping the equivalent amount of debt for equity on Seetrade's balance sheet. Since it financed part of the group's Hampshire Chemicals acquisition in the US, Seetrade was carrying \$85m of the debt.

In the next three years, Sentrachem will issue \$85m of global depository receipts (GDRs) and redeem Seetrade's shares, which by then will have been converted to ords. Sentrachem finance GM Mark Pavitt claims it's the first of its kind

This deal follows last year's GDR issue, which raised about \$60m.

Pavitt says the group had to meet a number of terms and conditions to have the shares recognised as equity, including a clause that allows the conversion to take place at Sentrachem's behest. The advantage of the equity status, compared with convertible loans, is that "Sentrachem gets the upside of the stock if the price changes, not the bank"

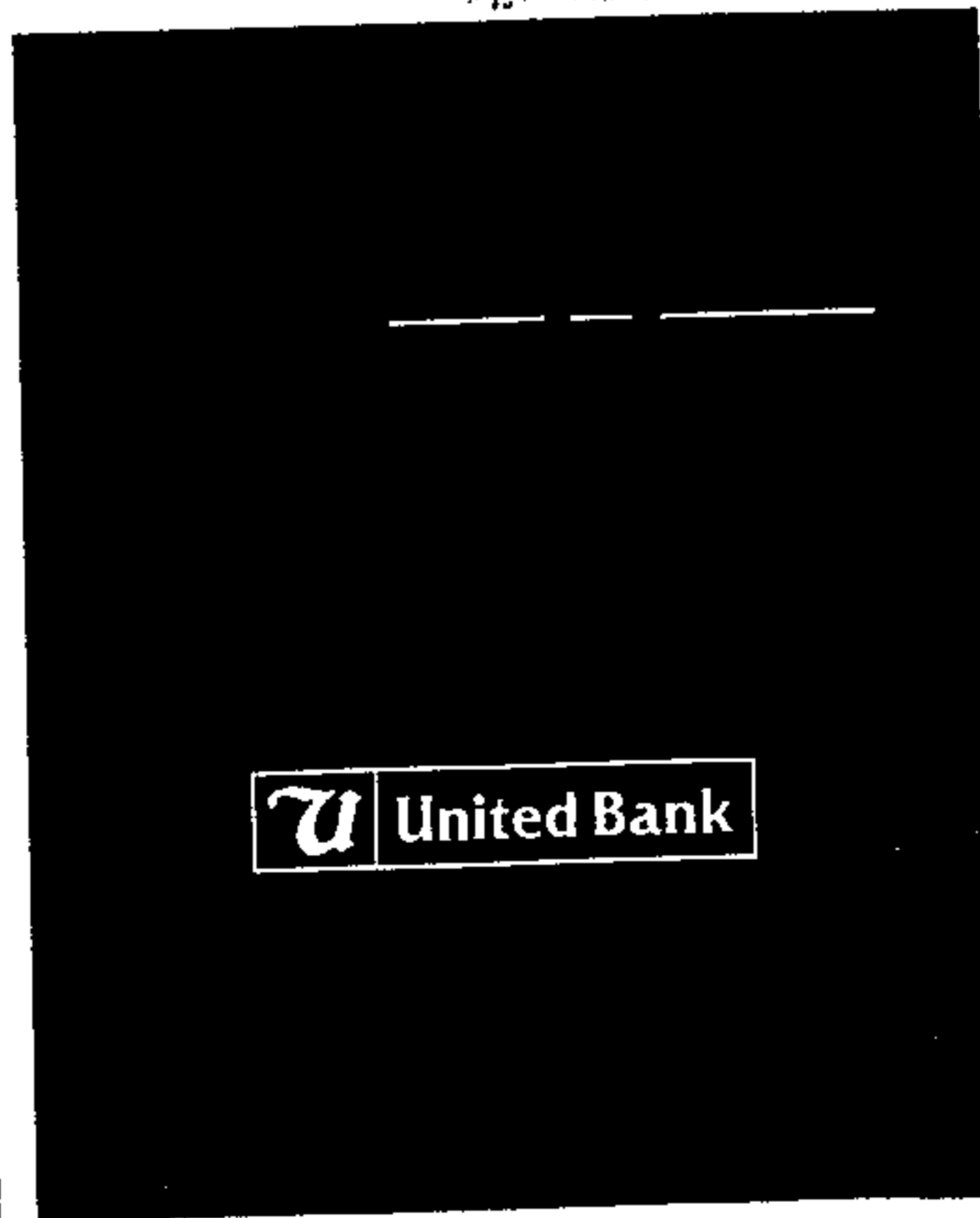
Sentrachem's financial statements will

SENTRACHEM (783)

FOREIGN FUNDING

FM 18/10/96

At first glance, the announcement of Sentrachem's US\$85m convertible preference share issue looked like an advertisement for Société Générale's new Jo-



136 Fox

benefit. The interest paid on the original debt was Libor + 2%, and Pavitt says the dividend on the prefs is "substantially below that" — though the exact rate will not be disclosed.

Gearing should drop substantially; with annual results due soon, Pavitt was reluctant to give hard figures.

EPS are unlikely to be affected. Pavitt estimates that about 20m Sentrachem shares will be issued in the form of GDRs — a small dilution over three years. Analysts generally welcome the greater foreign exposure, seeing the deal as a feather in Sentrachem's cap.

The market has boosted the share slightly, but at R14,05 it looks fairly valued. Margaret-Anne Halse

NO MARGIN FOR ERROR

FM 18/10/96

The oil industry is angling for an increase in the wholesale margin for petrol ahead of any possible commitments to build more refining capacity to meet strong demand

Speaking at an oil conference in Cape Town, SA Petroleum Industry Association director Colin McLelland said the impending shortage of refined products locally could be met in three ways — by further extending oil refining capacity, through imports or through additional quantities of synfuel

However, Sasol CEO Pieter Cox says the construction of additional coal-based synfuel plants remains uneconomic within the current and anticipated range of international crude oil prices. Shell SA CEO John Drake regards even the present oil price (around US\$24/barrel for Brent crude) as "an aberration" caused by special factors and not sustainable in the long term



Pieter Cox

as "an aberration" caused by special factors and not sustainable in the long term

Cox says engineers are still enhancing the efficiency of the Secunda synfuels plant through debottlenecking procedures, enabling the company to produce additional petrol and diesel

even while diverting significant amounts of the intermediate product stream to make high value-added chemicals

Could appropriately priced natural gas from Pande in Mozambique provide an economic input for making additional synfuels? Cox is noncommittal, though the latest Sasol annual report says the prospects of using natural gas for synfuels are being studied. But this will be "highly sensitive" to the cost of the gas

If additional synfuel can play no more than a marginal role, we are left with an ultimate choice between imports and more coastal refining capacity (inland refining in the post-strategic world is

much less efficient) Drake says Shell is engaged in a "master planning exercise" in conjunction with Sapref (the Durban refinery jointly owned by Shell and BP) refinery partner BP Southern Africa, looking forward to 2010

Sapref staff, along with Shell International consultants, are evaluating the best technologies for long-term expansion. He doubts whether Sapref will bring further major expansion on stream before the turn of the century but planning and design are needed now. Unsatisfactory levels of profitability in the oil industry may cause further delays

Drake regards imports of refined products — even at present low refining margins — as a temporary expedient, because of high transport costs per unit of final product relative to crude oil imports. He concedes SA will need some new refinery output around 2001 for various products, especially petrol. Existing capacity for diesel means no imports will be needed except during shutdown periods until early next century, but petrol will be in tighter supply

So Sapref is likely to import petrol and export diesel until perhaps 2002, when additional capacity will be brought in. But any planning exercise will have to include all SA refiners, as all cannot expand at the same time

Engen director Peter Dent says there is no immediate intention of increasing refinery capacity, but this will be done in the long term according to increases in demand. Engen shares with the rest of the oil industry the concerns about the need for a margin increase. Failure to provide this would hamper any future plans to increase capacity

Government has now set up a special Cabinet committee to examine the oil industry's request for an extra 3c/l on wholesale margins as well as possible future amendment to the oil price formula. Whether it will find it easier than various predecessors to resolve the conflicts between various vested interests in this key industry remains to be seen ■

RESPONDING TO CHALLENGE OF MULTINATIONAL COMPANIES

(183) FM 18/10/96

Mutual benefits in uncertain times

Some form of major rationalisation in SA's pharmaceutical industry was inevitable. Last week it took concrete form in the long-awaited confirmation that Adcock Ingram (AI) and Premier Pharmaceutical (Prempharm) — the two largest players in the local industry in terms of market capitalisation — are to merge.

The R5,3bn deal, the largest ever in the SA industry, follows international trends of megamergers between multinational pharmaceutical groups. More specifically, in the SA context, it was necessary to remove uncertainty from the still unclear governmental changes to health care policy, to counter competition from multinationals — increasingly active in post-sanctions SA — and to forestall further fragmentation of an already dissipated market.

The business fit between Prempharm and AI — long the market leader and blue-chip pharmaceutical share before competition in the wholesale business and the return of Swedish multinationals slashed turnover growth — looks nearly perfect.

Most businesses complement each other and significant cost-savings, mainly on the AI side, can be achieved. Basically, the merger offers AI protection from its once lucrative, but now more risky, exposure to ethical or patented pharmaceutical products (accounting for nearly a third of earnings).

Prempharm, widely regarded as the most favourably placed of SA's listed groups to weather changes in the industry, gets necessary critical mass and depth of products from the merger. The new group will have around 15% (according to DSI figures) of the pharmaceutical market — the largest in SA.

Major shareholders Tiger Oats, a CG Smith subsidiary, and Premier Group should benefit from an enhanced and more secure stream of earnings, though there could be an immediate knock to

earnings from dip in consumer spending and the devalued rand.

And despite recent controversy around the issue of N shares, which carry significantly lower voting rights, it looks as though minority shareholders will not be prejudiced in this deal.

While a major restructuring of the new, merged AI's share capital base will result in 90% of issued shares being made up of N shares, minorities' pre- and post-merger voting rights remain the same, unless they elect to accept an offer from Tiger to exchange ordinary shares for N shares.

Significantly, this means that minorities still have the power (more than 25% of voting rights) of vetoing any special resolutions.

What could be a precedent-setting undertaking to N shareholders has also been effected by Tiger agreeing not to accept any future third party offer (which could change control) unless an identical offer is extended to N share holders.

Briefly, the deal is struc-

payment of R41 for every 100 Prempharm shares held.

Premier, which now holds an effective 57% of Prempharm, will receive about R26m in cash from the R45m payout to shareholders and nearly 30% of the merged company.

But in terms of a voting pool agreement to ensure full control is retained by Tiger, Premier will cede nearly 66% of its voting rights to Tiger (see diagram).

The result will be that Tiger, with a 35,4% equity holding in the new AI, holds voting rights of 55%, Premier 10% and minorities 35%, in line with their combined 35% equity stake.

Clive Vaux, financial director of CG Smith (Tiger's holding company), says that minority protection rights are in place for Premier, including its approval for any material acquisition outside the normal course of business.

"If, for instance, we wanted to buy a coal mine we would need Premier's okay," for new share issues or for major borrowings above a certain level.

For minorities, one analyst calculates the deal to be worth R25,16 a Prempharm share, including the cash component (which makes it worth R26,33), but assuming the N shares will trade at a 5% discount.

At R24,80 on Tuesday, Prempharm was still trading at a small discount to the implied value of the deal.

For potential investors, Prempharm shares are therefore the cheaper entry into the merged operation as long as the discount holds.

Overall, the price paid by AI for Prempharm represents a premium of about 8% over market value.



Robbie Williams



tured around AI first consolidating its share capital on a 1-for-10 basis. A cap issue will then result in shareholders receiving nine N shares (carry one vote each) for each consolidated share held (100 votes).

To acquire 100% of Prempharm's share capital, AI will issue 13,5 new consolidated shares, 121,5 N shares and a cash

But why the use of N shares, which appear to have returned to favour (and attracted controversy) since the JSE allowed their reintroduction — ostensibly for black economic empowerment?

Robbie Williams, chairman of Tiger and AI (a position he retains after the merger) says that the main reason was to retain control

"There were two ways for Tiger to secure control," Williams says "Through a pyramid structure or through N shares. After speaking to our merchant bankers, we decided on the latter."

Vaux elaborates "A voting pool with Premier was chosen ahead of a pyramid, because it's a simpler structure, it's more flexible and is less costly, compared with both a listed and an unlisted pyramid

"Pyramids also tend to trade at discounts to the underlying assets"

But historically, so do N shares

Vaux argues, however, that in terms of this deal — where 90% of the merged AI's share capital will be N shares — tradability will be improved

"The greater number of N shares in issue than ordinary shares, together with the added protection given to the holders of N shares (the identical offer referred to above), should result in the discount that N shares usually trade at being kept to a minimum.

"It may even result in the N shares trading at a small premium to the ordinary shares over time," Vaux says

Retaining control was a priority for Tiger from the outset

Williams says that one party has to manage the new company and keep control, and it was decided that Tiger should fulfil that role

Tiger also has a pre-emptive right over Premier's ordinary shares in the event that it wants to break the voting pool or sell its ordinary shares. If this happened, Tiger would exchange N shares for Premier's shares on a one-for-one basis

Accounting for the new AI will remain the same for Tiger — that is, full consolidation — though its equity stake drops from 73% to 35%. It can do this because it remains in a control situation, both through the voting pool agreement and its right to appoint the majority of directors to the board of the merged company

Premier, however, will in future have to equity account its interest in Prempharm, treating it as an associate

Over recent years, Prempharm had become an increasingly important contributor to Premier's earnings. In financial 1995, it contributed 32% of total earnings and in 1996 33% — in both cases the largest contribution

Why, then, did Premier relinquish control of this profitable business, apparently well placed in what are considered the pharmaceutical industry's growth markets (mainly over-the-counter medicines and consumer products, with a strong focus on the black market)?

Phil Nortier, CE of Prempharm and incoming CE of the new AI, says that, after a hard look at the future of the industry and changes to health care policy, it was

decided that Prempharm needed a partner "to widen our product range and give us a better business mix"

Initially, it did not consider AI. But then while it was considering possible synergy between the two companies, AI approached Prempharm and merger discussions began

"Management of the two companies

taken up front

This could dampen upcoming results, though much of the cost will probably be written off against the share premium

In a year's time (the merged company will retain AI's September year-end), benefits of the merger will start flowing

Sales growth will probably remain static through the effect of product rationalisation, but the bottom line should show strong growth

Pre-merger EPS forecasts were around 17% for AI and 18% for Prempharm. Analysts believe that earnings growth in the merged operation will be geared up between 8%-13% — so the increase in EPS when results for the merged AI are released next October should not be lower than 25%

This obviously lends more medium- to longer-term attraction to the new share. Also important is that the risk profile should be lowered and the ability to protect margins increased in the merged operation than in the separate, pre-merger companies

SA's other major listed pharmaceutical group — SA Druggists — does not appear overly concerned at the merger. The new company does not materially increase competition in any of Druggists' major markets, and it recently has been focusing future growth on managed health care, where AI does not compete. Druggist's CE Peter Benningfield says that while there

will be a powerful, larger competitor in the industry "we're not, for the present, refocusing any strategies as a result of the merger"

Nortier believes that minorities have been offered a good deal "I'm a minority, too — a lot of my net worth is tied up in this merged com-

pany and I'm positive it will increase"

But while the deal seems favourable to minorities, should they accept Tiger's offer of exchanging consolidated shares for N shares? At this stage, a cautious approach might be most prudent. There will probably not be fireworks once the merger is finalised next month, at least until early next year. Thereafter, movements in the N share price should be closely watched to see if the discount to ordinary shares can in fact be closed

Shaun Harris

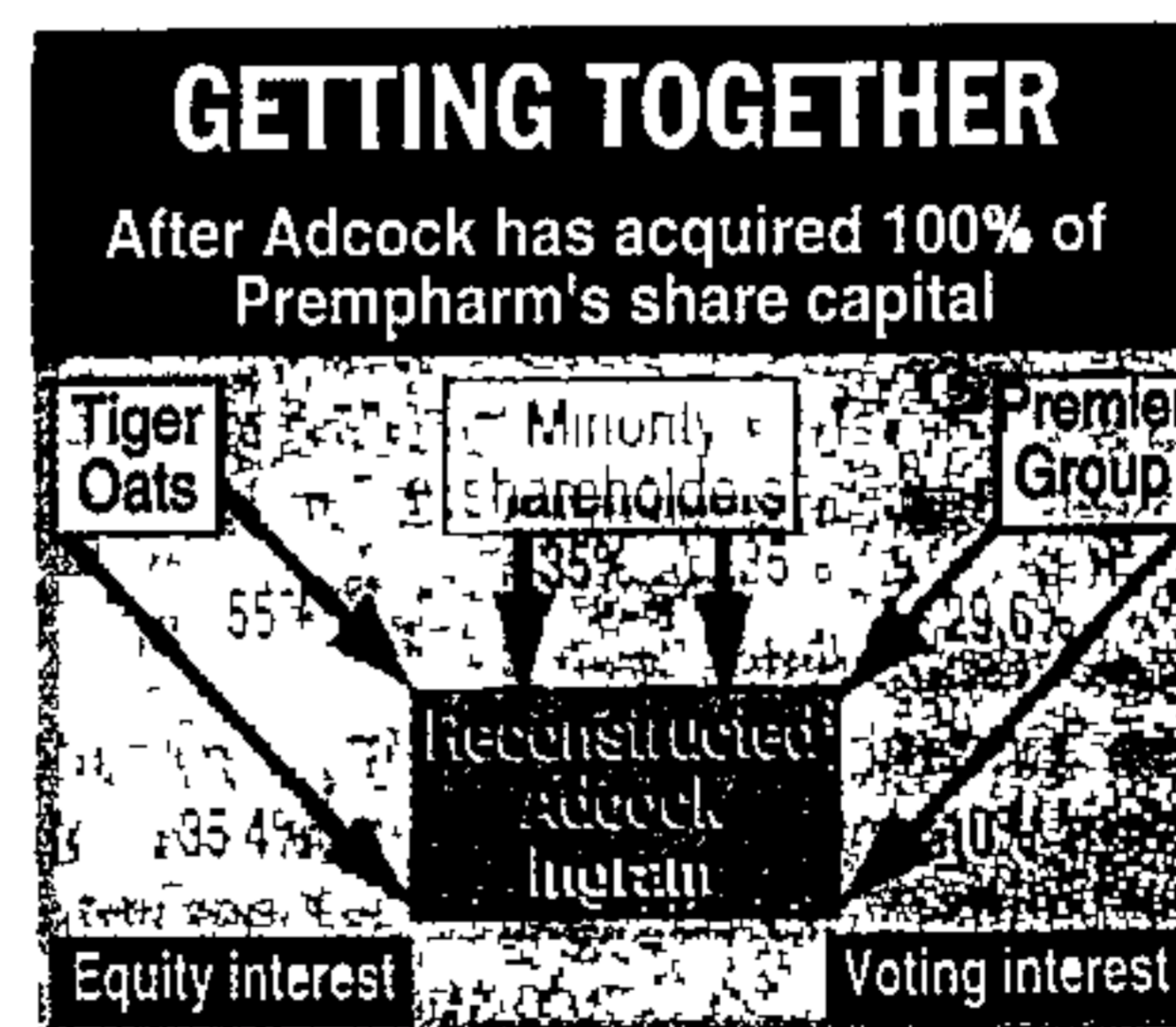


Phil Nortier

soon saw great interaction between our respective businesses and lots of opportunities. We (at Prempharm) were fully behind the merger — we had certain weaknesses, which we realised would be removed if we merged with AI," Nortier says

The immediate advantage will be cost savings, possibly R75m or more a year. Much of this will come from the AI side (one factory at Mobeni, Durban, is to be closed and relocated to Johannesburg, though this decision was apparently taken by AI before the merger)

Rationalisation and retrenchment costs (there will be significant retrenchments, though Nortier says the speculated figure of 20% of the workforce, about 800 people, is too high) will be



OVER A BARREL?

Sasol and government are discussing the status of the provision for repayment of State assistance at high oil prices, contained in the original protection mechanism for synfuel production

When the US\$23 floor price was instituted in 1989, there was an undertaking by government to keep this floor price in place until January 1996. Sasol, says communication manager Alfonso Niemand, considers this provision to have been abrogated by the decision taken in 1993 by former Mineral & Energy Affairs Minister Pik Botha to reduce the floor price below \$23. The Cabinet decision in December 1995, which detailed the future protection framework for the synfuel industry was unambiguous, says Niemand, and excluded any mention of future repayment of past assistance. Notwithstanding, Sasol is "perfectly willing" to discuss the issue with government.

Mineral & Energy Affairs DG Gert Venter considers the position to be more complicated, but denies there was any decision to abrogate the pay-back arrangements. He maintains there was no intention to amend the pay-back provision for profits earned by Sasol (Sasol Synthetic Fuels) up to the end of 1995. This means that whenever the "derived" oil price exceeds \$28,70 per barrel, Sasol must surrender 25% of the income above

that reference price until assistance from July 1989 has been covered in full.

The derived price is a form of net-back calculated in a complicated way from several factors, starting from international refined product prices, and taking into account a normal refining margin. The calculation was devised by the Central Energy Fund.

And, maintains Venter, no decision was taken at the time to amend — still less remove — the pay-back provision for post-1995 synfuel profits. According to Sasol, the repayment requirement was deliberately omitted by Cabinet.

To the contrary, Venter maintains that government still has all options open in relation to post-1995 repayments. He adds these could conceivably include a reduction in the pay-back reference price in line with the reduction in the cut-in price for giving Sasol assistance. At the present floor price of \$18, adds Venter, it might be reasonable to reduce the pay-back price to, say, \$24.

The 1993 floor price of \$21,40 was further reduced to \$19 by government in December 1995 for the six months January to June 1996 and to \$18 per barrel for the rest of the current year. Thereafter further reductions — as yet undecided — would ensure that there would effectively be no protection for synfuels by July 1999, based on Arthur Andersen's 1995 projections for the international crude oil price.

Oil prices are strong, with Brent North Sea crude trading above \$24, though this could prove temporary. However, product prices have not yet caught up with the dramatic rise in crude oil prices from earlier levels of \$18 or less. Even the (lower) price for Dubai heavy crude, used as the Sasol reference price, is around \$22. Sasol CEO Pieter Cox says that even at product prices prevailing during July to September 1996, Sasol enjoyed less than R50m in assistance for the third quarter of 1996.

It would be a great pity if future negotiations over the further phasing down of assistance to Sasol and other related issues were to be conducted in an atmosphere contaminated by disagreements on an important issue of fact. All parties should therefore refrain from making provocative statements and attempt to reconcile their conflicting perceptions of decisions taken earlier. In the last resort, government must decide.

In any event, the argument is academic in relation to pre-1996 income, as

no-one in the oil industry seriously expects to see oil prices sustainably — or even briefly — above \$28,70 for many years to come ■

Stockpile sparks sulphur time-bomb fear

ANDREA WEISS

METRO CORRESPONDENT

Thousands of tons of stockpiled sulphur at the AECI plant in Somerset West are to be put out on tender for sale amid mounting concern over a potential repeat of last year's disastrous fire near Macassar as the fire season approaches.

In the meantime, a commission of inquiry into the December 16 fire is to be headed by Judge Siraj Desai.

Its first hearing will be in the community hall in Macassar on the evening of October 28 to allow as many community members as possible to attend. Other members of the commission are Professor Colin Jones, dean of the chemistry faculty at the

University of the Western Cape, Farreda Kahn of the Environmental Advisory Unit at the University of Cape Town and Barney de Villiers of the medical faculty at the University of Stellenbosch.

The presidential commission is to investigate the origin and establishment of the sulphur stockpile at the Somerset West site; the events leading up to and the cause of the fire; the adequacy of the emergency response to the disaster, and the impact of the fire on surrounding communities and the environment.

Two asthmatics lost their lives and the entire community of Macassar was evacuated during the disaster - which saw the smouldering sulphur send up clouds of toxic fumes when it was set alight by a runaway grass fire.

REC 21110196
The sulphur is owned by the Department of Trade and Industry, which has issued a statement saying the stockpile is to be put out on tender with the view to its eventual sale soon.

"We hope this will be completed before the peak of summer, when the likelihood of wild veld fires may well arise again," said department spokesman Ismail Lagardien.

But AECI, which is storing the sulphur on behalf of the Department of Trade and Industry, has expressed its concern that the 10 000 tons of uncontaminated sulphur are at the plant as summer approaches.

General manager Bertie Humphries said AECI was "apprehensive about it being here".

He said that negotiations for the removal of the sulphur had started several

years ago. Since the fire, these had intensified, but he did not fully understand why it had taken so long for the department to dispose of the stockpile.

"If it is still here when the fire season comes we will invoke stringent precautions for the whole summer," he said.

Mr Lagardien said the tender process had started after "many months of consultation" with victims and the community affected by the fire.

Mr Lagardien said an important aspect of the process had been consultation with the Macassar Crisis Committee. He said the committee had wanted to ensure that the tender, sale and transportation of the stockpile was handled "in a transparent manner and with safety as a priority".

SA Druggists expected to post modest growth

CT (BR) 2/10/96
NICOLE MORDANT

Johannesburg — South African Druggists is expected to report a rise in annual earnings, but at a much slower rate than last year, because of a higher interest bill and falling consumer demand, analysts said on Friday.

The company is scheduled to report its results for the year to August 31 on Wednesday.

Analysts forecast attributable earnings rising to between 212c and 213c a share, with a consensus of 212,5c, from 191,4c a year ago. This represents an 11 percent increase, down from the 20 percent growth achieved the previous year.

Analysts said they expected the dividend to climb to 69c a share, from 62c a year ago.

"We had to downgrade our forecast as the financing side is up quite a bit," said Melanie da Costa, an analyst at Investec Securities. "They put a lot of money into their medical side and it has not come to fruition."

Analysts said volumes had slipped in the second half of the year amid a fall in demand as consumers became more cost conscious, resulting in the squeezing of margins.

"Their volumes were not as positive in winter as they had hoped," said another analyst.

Da Costa said, however, that thin volumes had prevailed across the pharmaceutical and medical industry.

The company said this week that it had consolidated all its pharmaceutical businesses in a single company, Pharmacare, to make medicines more affordable.

But analysts remained sceptical of the benefits of the restructure. "It is an absolute non-event. They have done this before and I don't see it changing the prognosis for them," one said — Reuter.

Engen pumped up to increase earnings

Reinie Booysen

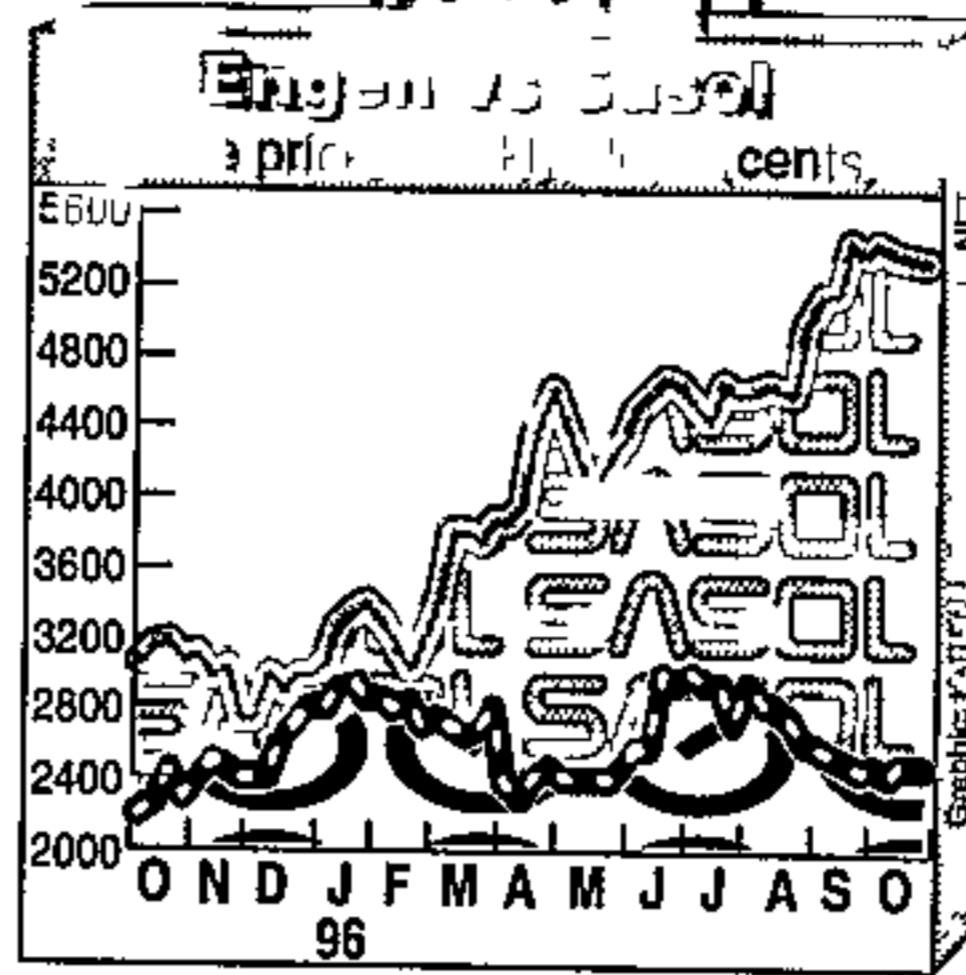
ENGEN is expected to announce a substantial increase in earnings for the year to August after a happier year for its 104 000 b/d Durban refinery as well as greater stability in the company's downstream retail division

Analysts' estimates for Engen's 1995/6 earnings, due for release on Monday, are mostly pitched at around 200c a share, although some suspect the figure could be a little higher

Last year the figure was 128c a share before accounting for abnormal items. The major factors behind the expected improvement are better refinery margins and a less troubled year at Enref, the Durban refinery, which suffered severe disruptions during the 1994/5 year.

Apart from a four-week shutdown in October 1994 to bring the upgrades and expansions on stream, the refinery was hit by 17 major power outages and other "post-commissioning difficulties" at its refinery.

The net result should be a substantial increase in crude oil throughput at the refinery. Although



they have recently narrowed, international margins have been firmer than expected this year. One analyst estimates that the average gross international margin may be about \$1 higher than the average, during Engen's last financial year, of \$3,87 a barrel

Another positive factor is improved domestic sales, with SA oil product demand rising by about 6,4% this year. Engen is the clear market leader in SA, with 24,5% of the retail sector

Despite the improved expectations for Engen's earnings, the share price has remained subdued, settling at R24,50 yesterday, well below the R34,50 paid earlier this year by the Malaysian state oil company, Petronas, for a 30% stake in the company. The one-year high was R35,50, on June 18, soon after Petronas took control

"The most important thing, as far as the market is concerned, is not the refinery's performance, but the prospect of a deal with Sasol," one leading analyst said. "Investors want to see Engen team up with Sasol, because they do not think it is strong enough to prosper alone."

The analyst said investors were concerned that the benefits of Engen's recent restructuring — called Project Discovery — were taking too long to feed through to its bottom-line results.

Analysts agree that next year is likely to see another improvement in Engen's earnings, with forecasts ranging more widely from about 230c to 270c a share, provided refinery throughput volumes improve and current international margins remain stable

Offshore interests boost SA Druggists

BD 23/10/96

MALBAK Group's SA Druggists raised attributable earnings before exceptional items 28,2% to R150m in the year to August, boosted by the first-time inclusion of offshore interests Lagap, a UK generics company, and Pharmatec, which is based in Italy

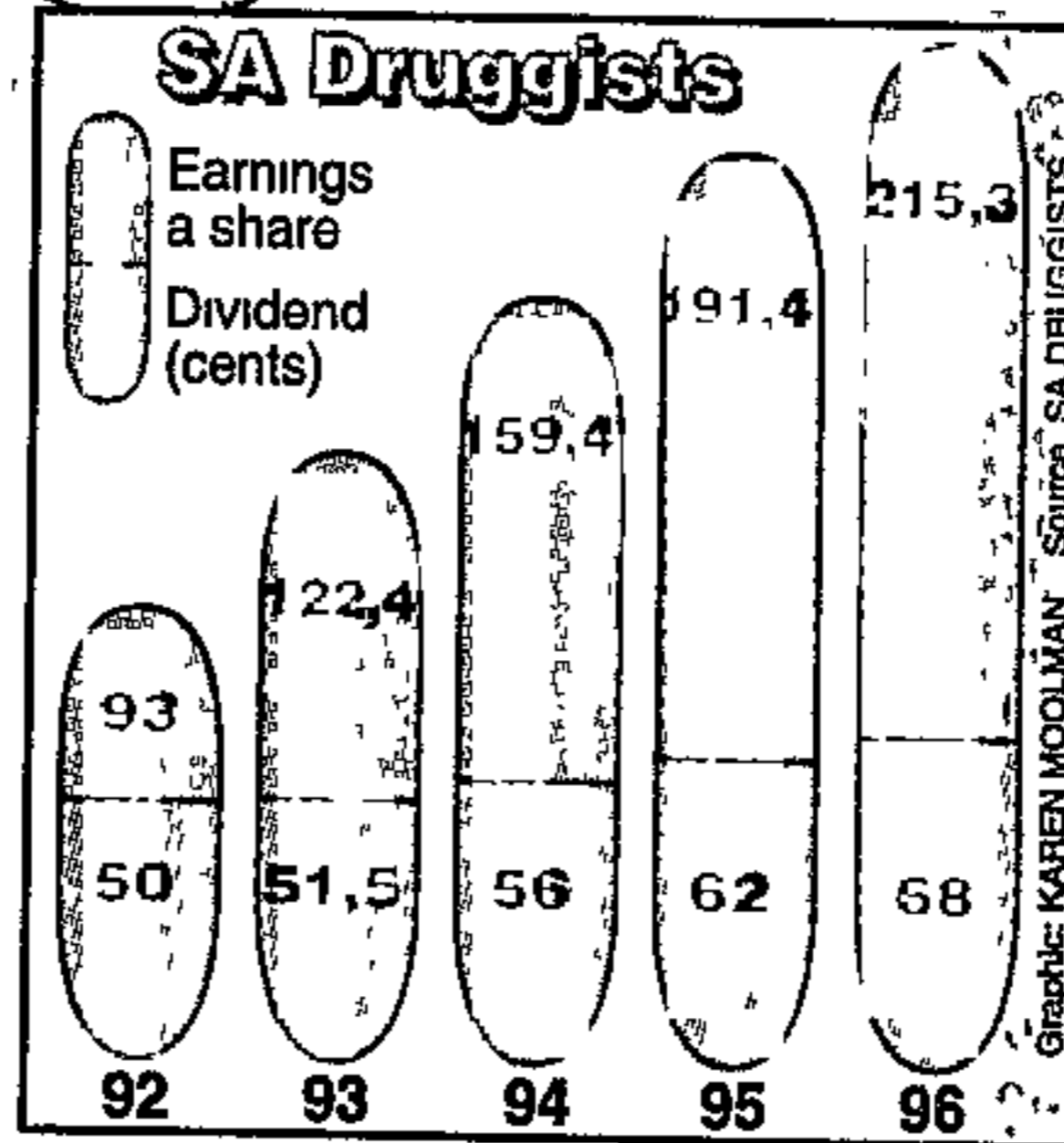
The group, which warned last year that its expansion into managed health care would limit share earnings growth to 15% over the next two years, posted an increase (before exceptional items) of 12,5% to 215,3c. This was due partly to the 6% increase in ordinary shares to 71,4-million, issued to fund the purchase of Lagap and Pharmatec

The directors declared a final dividend of 40c (36c) a share, bringing the annual dividend to 68c (62c).

CE Peter Benningfield said share earnings were satisfactory considering the poor winter season and delays in implementing new government policies. The legislated shift to generics had failed to materialise and the granting of operating theatre licences for Medicross clinics had been delayed

Operating profit jumped 36% to

(183)



R233m on turnover growth of 21,7% to R3bn. Benningfield said the group's local operations had kept pace with industry value growth of 15%, but had increased their share in volume terms.

Exceptional items of R20m (R11m) related to the R16m losses attributable

Continued on Page 2

SA Druggists

Continued from Page 1

BD 23/10/96

to minority shareholders in Medicross clinics, other new ventures which were still in a development phase, and the group's UK arm, Trinity Pharmaceuticals. Costs of R4m were incurred in mothballing of an intravenous plant.

Interest charges surged 95% to R37m as a direct result of the increase in interest bearing debt to R185m (R137m), the bulk of which was incurred in the Medicross expansion

Pre-tax income was 24% higher at R176m. However, the effective tax rate increased to 42,1% (37,3%) resulting in a tax bill of R74m (R53m) owing to the inability of the group to offset the losses in new ventures and clinics against taxable profits. Taxed profits were up 15% at R102m and income from associates in the pathology services business amounted to R12m.

Benningfield said development costs

incurred in setting up the Medicross clinics, which amounted to R15m (R12m), were charged against previously created provisions. The completion of 36 Medicross clinics — with two more opened in October — signalled the end of the first development phase.

The clinics had contributed to operating profit in the fourth quarter of the review period and he expected the division to increase its revenue as patient volumes picked up during 1997.

The group had invested R350m in its managed health care division — including the Medicross clinics and computer systems — over the past three years and it was ultimately expected to contribute 30% of group earnings

Benningfield said current assets had been tightly controlled, resulting in an increase of 7,1% to R1,1bn limiting gearing to 24,1%, against an expected peak of 34% during the clinic-building programme

The group was on track to achieve 15% growth in share earnings during its 1997 financial year, he said

PHARMACEUTICALS *Tough trading conditions dash group's expectations*

SA Druggist falls a little short

CT (BR) 23/10/96 (183)

ANN CROTTY

CONSUMER INDUSTRIES EDITOR

Johannesburg — Earnings at SA Druggist (SAD), the diversified pharmaceutical group fell a little short of management's earnings forecast, with a 12,5 percent increase to 215,3c a share for the year to August 31.

A final dividend of 40c a share was declared for a full-year payout of 68c a share which was 10 percent ahead of the previous year's payout.

The management had said at the beginning of the year that an earnings a share growth of 15 percent was on the cards. At the halfway stage it had notched up an increase of 11 percent.

Peter Beningfield, the group's chief executive said he was disappointed the 15 percent increase had not been attained but said he was pleased with the performance in view of the tough trading conditions.

Helped by the first-time inclusion of UK-based Lagap and Italy-based Pharmatec, turnover rose 22 percent to just over R3 billion. Operating income rose 35,5 percent to R233 million from R172 million, reflecting an increase in operating margin from 7 percent to 7,8 percent.

Beningfield said this increase was attributable to the more attractive margins in the acquired businesses. Margins in the group's local pharmaceutical operations were squeezed by the difficult trading conditions which kept a tight lid on prices.



STILL SMILING Peter Beningfield, chief executive of SA Druggist, is pleased with the company's performance, despite earnings missing the 15% mark.

Interest payments nearly doubled to R37 million from R19 million after a 35 percent increase in interest-bearing debt. The bulk of the increased debt was attributable to the Medicross clinic expansion programme, the full burden of which was offset by tighter cash flow management.

Beningfield said the management had expected gearing to reach 34 percent but had succeeded in holding it at 24 percent. In December SAD would receive a \$25 million cash payment from US-based American

Home Products for the repurchase of marketing rights on six products that SAD had produced under licence. This payment would considerably reduce debt levels, he said, and take gearing down to 8,5 percent.

The rise in the tax rate from 37,3 percent to 42 percent was partly attributable to the company's inability to offset accumulated losses in Medicross because of the existence of minority shareholders.

Subsequent to year end, the minorities had been bought out, and in future the company

should be able to benefit from the assessed losses.

Attributable income before R20 million of exceptional costs was up 28,2 percent to R150 million from R117 million. The increase at share level was reduced to 12,5 percent because of the increase in shares in issue.

Beningfield said management was again targeting a 15 percent increase in earnings a share for this financial year, assuming "no significant market changes".

□ Business Watch

Shah of Ogies and his field of black gold

(183) M+G 25-31/10/96

Mungo Soggot went to Ogies to visit the man who looks after the world's largest oil storage facility, apartheid's oil stash

It is difficult to believe Frikkie Cloete when he points across a bleak meele field in the middle of Mpumalanga and says "all this is oil — for 6km that way"

But Cloete, manager of the Strategic Fuel Fund's mammoth underground oil storage facility at Ogies about 100km east of Johannesburg, is not bluffing. Beneath the rows of meele husks in the disused Klippoortjie coal mine are millions of barrels of oil.

The oil covers an area roughly the size of the Knysna lagoon but the only things that give away its presence are the exceptional shiny metal turrets which to the agriculturally ignorant could be mistaken for fancy watering devices. The turrets, one of which is just a few metres from the road linking Ogies and Bethal, are there to allow natural gas to escape from the oil stash below.

Klippoortjie is one of four mines in the Ogies area bought by the apartheid government from 1967 onwards and converted into the world's largest oil storage operation. It is a project which stands as a brilliant exposition of the saying 'n Boer maak 'n plan."

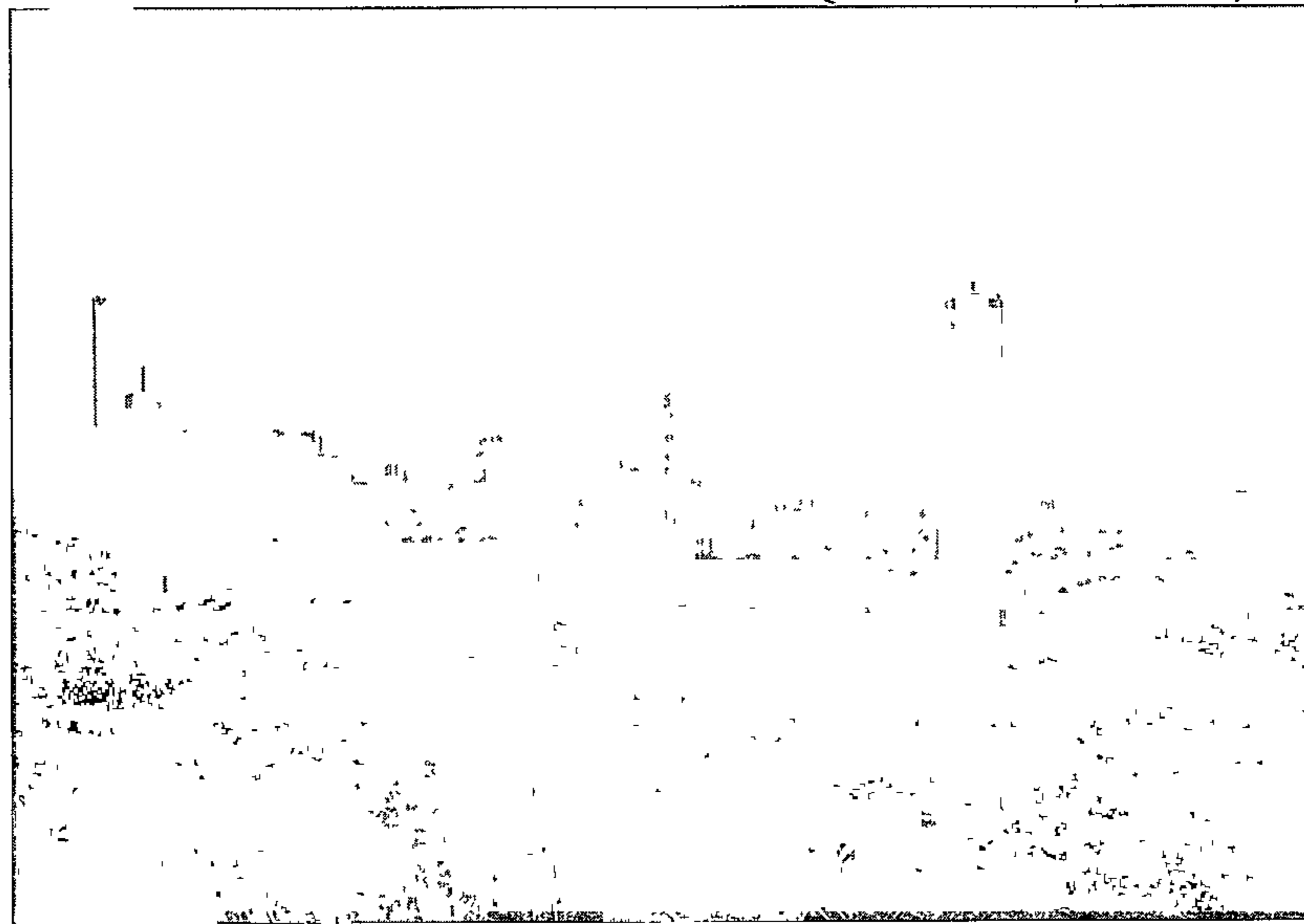
The operation — at which Cloete, who endearingly refers to himself as the "Shah of Ogies" has worked since its inception — was the lynchpin of the "total onslaught" oil strategy. With its better-known sister tanks at Saldanha Bay north of Cape Town, South Africa had an 18-month supply of oil that boycott-busting businessmen helped navigate through the sanctions maze.

The Saldanha tanks, which cover an area equivalent to 48 rugby pitches, can house about half the oil Ogies can. While they cost about R110-million to build in 1987, the Ogies operation, which costs the government just under R1-million a year to run, came much cheaper. It was literally a case of pouring oil down four old mines.

The notion that the government had an oil stash down a mine was one of the more exotic urban legends that circulated during the apartheid years. But it never graduated from urban legend status thanks to tight security legislation that accompanied government oil procurement.

Although, since the secrecy legislation was removed two years ago, the lid has been lifted on Ogies, the staggering scale and nature of the operations are largely unknown.

In its heyday the Ogies mines housed 118-million barrels of oil — enough to keep South Africa moving



Field of dreams: Under an unassuming field (above) lies the apartheid government's emergency stash of oil. The Shah, Frikkie Cloete next to a pumping station above Klippoortjie mine

PHOTOGRAPHS MUNGO SOGGOT

for a year. The enormous reserves are linked by a pipeline to a fenced-in building on a dirt road just outside Ogies, the nerve centre of the operation.

The security at this four-room building and at the three mines themselves is surprisingly low-key. There is no surveillance equipment to monitor ambitious cadres inserting matches down the gas escape turrets above each of the mines — only high unelectrified fences.

The most striking reminders of the paranoia that sustained apartheid fuel policies are the bulletproof glass windows of the control room at the back of the main building. The windows do actually have bullet craters in them. But they are on the inside, serving not as a reminder of a battle between Umkhonto weSizwe cadres and defenders of apartheid's total onslaught oil policies, but rather of a technician's efforts to relieve the boredom of a lazy afternoon by firing at the glass from his swivel chair.

Apart from a personal computer in the control room the entire operation is notably antiquated and spotlessly clean. Cloete proudly presented a stack of accountants' books which showed when each oil stash had been poured in — right back to the first entry in 1968.

Pieter Coetzee, a deputy general manager at the Strategic Fuel Fund



(SFF) who monitors Ogies and Saldanha, worked on one of the mines in the area until 1990. He used to drive past the control centre every day. He said that as late as 1989 he had no idea of the building's function or that most of the roads leading from Ogies ran over South Africa's only oil fields.

Everyone who worked there had to have top-level security clearance and

the only civilians let in on the secret were the farmers who agreed to give the SFF access over their land to the holes into which oil was poured.

Cloete explains that the oil was poured straight into the mines after being piped up from Durban. The first three mines, Alpha, Beta, and Ogies were disused. Thirty kilometres away, Klippoortjie, the fourth and

largest, was still operating when SFF bought it from Transnata, the coal mining company that is now part of mining giant Gencor.

He says the oil is kept within the mine walls by the water in the earth, which means the only requirement for an oil-bearing mine is an adequate water table. Cloete says the United States pioneered the idea when they stored oil in salt mines. Contractors from the United States, which led the oil boycott against South Africa, helped set up the Ogies operation in the late 1960s.

Cloete says the mines were not thoroughly cleared of equipment before the oil was poured in, so there is still some machinery down there coated in crude oil. He insists the environmental impact has been minimal — there has been only a little seepage at Klippoortjie.

Over the past few years the SFF has been winding down the Ogies stock and now both Alpha and Beta are almost empty. The last remaining 27-million barrels are all in Klippoortjie, where the stock will be reduced to 10-million barrels over the next year. The oil, most of which is from Iran, will be sold to Natref, an oil refinery in Sasolburg, jointly owned by local synthetic fuel company Sasol and French oil company Total.

Cloete says that because the mine floors are uneven, about 5.5-million barrels of oil remain in Alpha and Beta. He suspects improvements in pumping technology will allow SFF to pump out the oil which will prevent it from becoming a monument to the wastefulness of apartheid.

With the winding down to 10-million barrels — the strategic stockpile recommended by the International Energy Agency — the 41-strong staff at Ogies will be reduced.

The role of the SFF itself has become increasingly controversial with the passing of its sanctions-busting days. Some argue it should be sold off. Others, like general manager Kobus van Zyl, dismiss such an idea. He says SFF's oil trading operations, that developed parallel to its sanctions busting, can be a valuable cash generator for the government. He has a point — last year the SFF handed a R2-billion cheque to the treasury, R275-million of which was from trading profits, and the rest from the sale of strategic stocks. Critics, however, ask what would happen if it were to make a loss.

In Ogies, the Shah, who is very proud of the immaculate roses which surround his headquarters, appears accepting of his diminishing role. He has a meele and dairy farm nearby.

It is nevertheless impossible not to detect a note of nostalgia in the air as he and his colleagues treat the first journalist ever to visit them to a lunchtime braai.

Sentrachem, Bayer in big chrome deal

(189)

JOHN SPIRA

DEPUTY EDITOR

CT (BR) 25/10/96
Johannesburg — South Africa's Sentrachem and Bayer, the German chemical group, yesterday announced a R510 million joint venture to build one of the world's largest chrome chemicals facilities in South Africa

John Job, Sentrachem's managing director, said the deal represented a significant foreign investment in South Africa and would earn significant foreign exchange because 95 percent of production would be exported

The plant would employ 1 200 people during construction, and 100 full-time positions would be created

Job said a CSIR environmental impact assessment had found the scheme would "contribute significantly towards an increase in real economic growth and to the government's proposed growth, employment and redistribution strategy"

The facility will be built at the site of Sentrachem's Karbochem plant in Newcastle and is scheduled to come on stream in August 1998

It will produce 70 000 tons a year of sodium dichromate and 10 000 tons a year of chromic acid, essential materials used in leather tanning, pigments, metal treatment and associated industries

Job said the process would enhance the value of the chrome material more than twentyfold

"The venture is one of several among the group's subsidiaries which underpin Sentrachem's emergence as a global player," he said.

The announcement of the 50-50 joint venture follows Bayer's announcement in January that it would shift chrome chemical production away from its German operation to a location closer to the source of the raw materials

HIT BY A BENIGN WINTER

fm 25/10/96

SA Druggists (SAD), usually a second-half group, did not receive its traditional boost towards the end of its financial year. The absence of winter flu viruses and government's vacillation on the anticipated move towards greater use of generic medicines slowed sales, and filtered down to the bottom line.

Headline EPS growth of 12,5% (11% at the interim) fell short of SAD's targeted

WINTER BLUES

Year to August 31	1995	1996
Turnover (Rbn)	2,47	3,00
Operating income (Rm)	172	233
Attributable (Rm)†	117	150
Earnings (c)†	191	215
Dividends (c)	62	68

† Before exceptional items of R20m

15%, though the increase was not far out of line with some analysts' forecasts. Overall, the result is satisfactory considering the company is halfway through a major development strategy, and that the factors which depressed results are largely beyond its control.

The 15% target seems realistic this



Peter Beningfield this marks the end of the building phase

year, barring unforeseen shake-ups in the industry, and if expected increased contributions come through from the health-care and chemical divisions.

A good winter for consumers — fewer sniffles and visits to the doctor and chemist — meant a bad winter for the industry. CE Peter Beningfield says it's been one of the weakest winters experienced in years. It had an impact on the pharmaceutical business, particularly self-medication products in a market already soft from pressure on consumer spending.

Delays in government health policies meant the expected swing towards generics — in which SAD is the leading player — failed to arrive. Beningfield says government is still committed to lower-

ing costs, what's uncertain is the timing. Considering how slow procedural policy changes can be, he does not expect to see much movement this year.

But it's not all bad news for the company. Beningfield points out that SAD supplies generics accounting for 62%, by volume, of the private doctor prescription market and 49% by value. This in turn accounts for about 16% of the R6,4bn private market — far larger than the R1,6bn public-sector market.

This could underpin growth in a pharmaceutical industry where pricing is clearly under pressure. SAD had to increase market share in terms of dose units consumed to maintain its rand value of the market, effectively increasing volume sales to get the same economic value.

Turnover, up 22%, and the 35,5% increase in operating profits were boosted (and year-on-year comparisons distorted) by the first-time consolidation of offshore acquisitions Lagap (a UK generics distributor) and Pharmatec, the Italian novel dosage company.

Pharmatec was largely responsible for the R164m write-off of goodwill and intangibles (about R110m), the balance coming from SAD's increased investment in pathology services and acquiring the minorities in health-care companies Medicross and Medical Services Organisation.

Expansion of Medicross, now comprising 38 clinics (two opened after year-end) is largely behind the 35% increase in borrowings, to R185m, and near doubling of interest payments to R37m. This is one avenue of future growth targeted by SAD, which like generics should benefit as consumers seek to reduce medical costs and accept the concept of managed health care.

Beningfield says the clinics, overall, were profitable at the operating level in the last quarter of the financial year. "This marks the end of the building phase. Our aim now is to get patient volumes up. We are expecting a contribution from the clinics towards the end of this financial year."

Increased contributions could also come from chemicals, where the company recently received renewal of the US Food & Drug Administration rating (standards for which were raised significantly during the sanctions years) and is now expecting increased sales, including export inquiries.

US\$25m is coming to SAD after rene-

gotiating its marketing contract with American Home Products Corp. SAD gets the cash for the early surrender of marketing rights on six products (also a post-sanctions development), but has gained extended marketing rights on other products up to 2006.

Assuming SAD achieves its expected 15% EPS growth this year, the forward P/E ratio (before exceptionals) reduces to about 15, more reasonable than the demanding historical P/E of 17,3.

Investors will probably remain cautious of the sector in the short term, owing to concern about changes to government policy and the possible effect of international competitors, but there seems to be clear longer-term growth prospects in SAD. *Shaun Harris*

Sapref refinery expansion on the cards

Nicola Jenvey (183) BA 28/10/96

DURBAN — Shell and BP are considering a R1,5bn expansion of their jointly-owned Sapref refinery — already the biggest on the continent — in a bid to meet growing southern African demand, Sapref MD Peter Fransen said.

Detailed viability studies had been approved, based on the recently completed year-long master plan detailing where the company should be positioned in 2015.

This had indicated Sapref should expand its distilling and catalytic reforming units, followed later by a conversion phase when longer-term product demand and prices justified the investment.

Phase one would generate and consume low-sulphur fuel gas, minimising the environmental im-

pact Sulphur dioxide emissions would be constant or decrease, and the application of special burner technology would further limit emissions.

“However, capital cost for cogeneration is relatively high and demands cheap fuel to become competitive with coal-generated power, especially in SA. This is only the case if refinery fuel gases coproduced in the refining of crude oil exceed other refinery fuel requirements, which is not applicable to phase one,” Fransen said.

Sapref had also approved a R200m investment for the replacement of the process instrumentation system for the remainder of the plant following last year’s R39m modernisation of the lubricants plant.

This involved replacing pneumatic controls with electronic controls, introducing state-of-the-art advanced processing control capabilities and moving unit controls to the refinery central control room.

The project would increase the yield of high-value refined products from imported crude oil, lift energy efficiencies and improve environmental performance, reducing the quantity of imported petroleum products.

It was based on Honeywell technology and would be managed by the refinery with SA instrument engineering and construction company Ultimate Instrument Contractors as the main contractor.

Fransen also said that Sapref last week had achieved 5-million hours worked without a lost-time injury, a first for SA industry.

Latest fuel figures tell mixed story about

Reinle Booysen

AT FIRRST sight the latest fuel demand figures from the SA Petroleum Industry Association (Sapia) suggest the economy is increasing speed, but analysts say the truth may not be that positive.

Total SA oil product demand grew 6,2% in the first nine months of the year to just under 15-billion litres. Growth for the major products was also, reasonably strong,

at least by the standards of the developed world; petrol rose 4,2% to 7,84-billion litres, while diesel was 6,1% higher at 4,2-billion litres.

The third-quarter figures tell a slightly different story: petrol deliveries were up less, at only 2,8%, compared to the third quarter last year, while diesel deliveries rose 7,7%. Sapia noted that overall demand exceeded 6% for the third consecutive quarter in a row.

Chris Cooper of the Institute for Energy Studies at Rand Afrikaans University said growth in diesel demand might not be an indication that the economy was beginning to hum, attributing most of the increase to agriculture. "Farmers are hoping for a bumper season," he said.

Sapia said it "hoped these growth figures, when compared to reported GDP growth of some 3%, reflect underlying strength in the

SA economy".

The substantial price increases earlier in the year are apparently having an affect on demand for petrol, where a certain portion of demand is discretionary, and may be linked to the disposable income and expenditure of individuals.

Spectacular growth in jet fuel demand — 17,7% up in the first nine months to 1,17-billion litres — showed no sign of abating, as international airlines streamed in

and out of SA.

Industry sources said the 19,6% rise in demand for fuel oil — the residue when the high-value products have been distilled — to 532-million litres was intriguing.

Fuel oil is mostly used in industry and can be substituted for coal. A possible explanation, analysts said, was strong growth of fuel oil demand in Western Cape, where the coal market had been decimated by exorbitant Spoornet charges

for transporting coal from the Transvaal coalfields.

An encouraging figure for those concerned about SA's deteriorating road infrastructure was a 10,1% rise in bitumen sales to 207-million litres, suggesting that road builders were busy.

However, industry sources emphasised that a lot of the work was being done on newly built roads and too little was being done to repair and maintain existing roads.

COMPANIES

FOOTNOTES

Hilary Joffe

SAD Druggists leads the pack in 'dose units'

(183) B228/10/96

HOW do the pharmaceuticals manufacturers stack up after the Adcock-Prempfarm merger?

Calculations by SA Druggists show it has been displaced from number one position in the total market by value, but still leads in volume terms on its own measure of "dose units".

In the more lucrative private market, the new Adcock's market share is about 4% ahead on both value and volume, but SAD leads in supplying the public sector.

The two local groups are by far the largest players, followed by a variety of multinationals, none of which has a market share of more than 5%. The new Adcock's share of the R6,4bn pharmaceutical market is put at 13.2% to SAD's 10.7%, and of the R4,8bn private market at 14.2% to SAD's 10%.

In the public sector, Malbak-owned SA Druggists estimates its market share (excluding critical care products) at 16%.

It has a dominant position in the supply of generics, coming in as lowest-cost producer overall (at 24c a dose, against an industry average of 41c).

With government policy moving to affordable and accessible health care, SAD argues its pharmaceuticals division is well positioned. However, as Investec Equities analyst Melanie da Costa points out, SAD's dominant market shares in generics and in the public sector, and its status as lowest-cost producer are not necessarily a good thing.

They make the group particularly vulnerable to competition from ultra-low-cost manufacturers from Asian countries, particularly India.

A key strength of the new Adcock, by contrast, is in brand name self-medication drugs (Panado, Syn-dol), which are unlikely to be affected by policy changes.

Da Costa views SA Druggists' move into managed health care as, in part, an acknowledgement of the vulnerability of its pharmaceuticals division, which accounted for three quarters of operating profit in the year to August.

CE Peter Benningfield says the group would like to derive about 30% of earnings from pharmaceuticals, a further 30% from health care and 20% from chemicals, with around a quarter of earnings

sourced internationally.

The shift will come as managed health care takes off — so far it has not. The health care division contributed 9% of operating profit in the year to August but this came from the group's distribution interests: the managed health care operations lost R5m (R1m in 1995) but are expected to contribute this year.

The group has been investing in several grassroots health care operations.

□ □ □ □

WITH the advent of managed health care, new alliances are being formed among the smaller private hospitals and new groups are entering the JSE.

In deals announced last week, PresMed has agreed in principle to merge with the "acute care" private hospital interests of the unlisted Lifecare Group, while HospitalPlan entered the JSE with a reverse takeover of property and hospital equipment and surgical instruments group Auckland Investments. PresMed, Lifecare and HospitalPlan are all members of the Nation-

al Hospital Network, an association of about 100 independent hospitals and clinics which does not include the big three listed groups — Clinch Holdings, Mediclinic and Afrox.

NHN was formed to negotiate "preferred provider" contracts with medical schemes and employers. However, an analyst says the problem is that it cannot sign for all its members. The idea now is to offer a network of hospitals with sufficient geographic spread to entice the large private health care funders. Increasingly employers, or managed care organisations, are signing "preferred provider" arrangements with hospitals, replacing the system in which patients' costs were paid for by medical and societies.

PresMed's merger with Lifecare's interests will give it the critical mass and geographic distribution of facilities to win contracts.

Lifecare is the largest private medical organisation in SA, with about 16 000 beds countrywide. But the 10-clinic, 1 000-bed "acute care" division involved in the merger is not a major portion of its business, says MD Graham Somerville. Its main operation manages 30 hospi-

tals on contract to local authority or provincial bodies. It also has a fledgling international division.

In terms of the proposed deal, PresMed will acquire the Lifecare interests in return for shares at R7 (a discount of about 20% on the price at which the PresMed share was trading last week).

Lifecare may become the largest single shareholder in the merged group. Since the unbundling of holding company PresHold last year, PresMed's shares have been spread between financial institutions, directors, management and public.

Somerville says Lifecare is a long-term player in this industry it will be keeping "a very strategic holding" in PresMed, with a heavy presence on the board and strong policy influence. Management teams at clinics will be unchanged.

Real Africa Holdings bought 30% of Lifecare last year and has an option until June to increase this to 45%: it has said it will apply part of the proceeds of the R300m rights offer announced recently to exercise the option. Real Africa's share of Lifecare's profits suggest the group made about R50m in financial 1996

Sentrachem expected to show modest profit rise

(183) ET(BR) 28/10/96

FROM REUTER

Sentrachem is likely to show only a slim 6 percent improvement in its annual attributable earnings as a high interest bill cuts into its bottom line when it reports on Thursday.

Analysts said last week that the group's finance costs had hurred up following the acquisition last September of the US-based Hampshire Chemical for more than R800 million. "The finance costs last year were about R55 million. This year I am looking for about 157 million — a

300 percent increase in interest paid," Them Themistocleous, an analyst at SBC Warburg, said.

The acquisition was funded partly by a bridging loan and partly through an offshore equity issue which would dilute share earnings, analysts said.

Sentrachem issued 4.2 million global depository receipts to raise \$55 million last November.

At the time of the Hampshire acquisition John Job, Sentrachem's managing director, said the new company would add R800 million or almost 20 percent to Sentrachem's turnover.

Community backlash could derail Sappref expansion

SHIRLEY JONES

KWAZULU NATAL EDITOR

Durban — The R200 million expansion to Durban's Sappref Refinery, which is jointly owned by Shell and BP, could be derailed or delayed by a backlash from the surrounding communities

Community representatives from the densely populated areas of Isipingo, Wentworth and the Bluff, which surround the second-largest petrochemical industrial area in South Africa, allege that they were barred from

a press conference on Friday announcing an initial R200 million upgrade and say they were told a week ago by Sappref there were no expansion plans

On Friday, Sappref, the largest oil refinery in Africa, not only announced plans to upgrade technology at the nerve centre of the refinery significantly, but also said it planned future studies in conjunction with its shareholders which could yield a large expansion by 1998

Sappref executives were not available for comment on what is

clearly a breakdown in communication with community organisations, who are concerned not only about environmental damage, but also about the effect on health in an area which is already polluted by over 150 smokestacks

An angry Bobby Peek, who heads the Wentworth Development Forum, said political blackmail on the part of industry would no longer wash with the surrounding communities

"Going to the press first and advertising how much money is

(182) CT (BR) 28/10/96

being invested has become a common tactic employed by industry. This puts pressure on councillors and the community to accept these proposals rather than appear to be obstructing development

"This is a dirty tactic and we are disgusted with Sappref, Shell and BP, who claim to be transparent

"We're calling for more transparency from government and industry in the area. Sappref is a signatory to the Responsible Care Charter and a member of the

Chemical and Allied Industrial Association which calls for transparent and responsible management. However, it is operating contrary to its commitments"

Sappref says the immediate upgrade would yield high-value refined products from imported crude oil, improve energy efficiencies and environmental performance, thereby reducing the quantity of imported petroleum products

Sappref maintains this will have a minimal environmental effect

Engen notches up 201% jump in profits

(183) ARG 29/10/96

LLEWELLYN JONES
BUSINESS REPORTER

Cape Town-based oil company Engen crowned an eventful year with a 201 percent jump in net profits to R349-million in the year to August, helped by better international refining margins, higher oil prices and the sharp fall in the rand.

"Apart from the better financial and operational performance, major achievements included the successful conclusion of the purchase by Petronas of 30 percent of Engen, and the listing of Energy Africa on the Johannesburg Stock Exchange together with its associated capital raising exercise," said chief executive Rob Angel.

But Mr Angel warned that the increase in net profits came off a very low base and the company's return on capital was still well below budget.

However, shareholders will still be pleased with the results after a devastating year last year as the company struggled to come to terms with a major restructuring and cultural repositioning.

The company's operating profits jumped 55 percent to R559 million on a 21 percent increase in sales as it focused on improved performance and increasing profitability.

Mr Angel said that while Engen's market share for most of its products had sta-

bilised, the profitability of its marketing division (service stations) had been eroded due to the static regulated wholesale margin in the face of rising costs.

To correct this, the oil industry was lobbying the Ministry of Mineral and Energy for a three cent increase in the marketing margin to bring it in line with the 15 percent return on assets as laid down in current regulations.

Engen had nevertheless been able to contain cost increases to less than the inflation rate and was progressing to being the lowest-cost oil marketing business in the country with the best profitability.

The company's lubricants, chemicals and bitumen divisions turned in a mixed performance as margins in lubricants remained under pressure, chemicals experienced a downturn in the price cycle and bitumen margins and sales improved.

Mr Angel said forecasting for the current year was difficult due to the volatility of the company's key external factors.

"Should the main external factors which drive the company's profitability (namely international refining margins and crude prices, and the rand-dollar exchange rate) not change significantly from their 1996 levels, and ignoring the beneficial impact of any increase in the regulated wholesale margin, an increase in Engen's net income in the 1997 financial year should be achievable."

ENERGY All indicators turn the right way for oil refiner

Engen trebles its income

CT(BR) 29/10/96 (183)

JAMES LAMONT

INDUSTRIAL EDITOR

Johannesburg — Engen, the oil company, improved substantially on last year's dismal performance, posting a 201 percent rise in net income for the year to August 31 at R349 million from R116 million last year, the company said yesterday.

Boosted by higher crude oil and petroleum product prices, improved international refining margins and the sharp devaluation of the rand, earnings a share were 198 percent higher at 218c a share, from 73c a share. The dividend rose 60 percent to 96c, from 60c.

The company, which is undergoing major restructuring, increased turnover by 21 percent to R10,87 billion. The rise in costs was held to 7,5 percent. Operating income excluding exceptional items rose 55 percent to R559 million, from R360 million.

Rob Angel, Engen's managing director, said the company had turned its operations around after "really disappointing financial results 12 months ago. There has not been one part of our business that has not been turned upside down in the last 18 months."

If external factors remain the same as this year and dis-



TURNAROUND Rob Angel, Engen's managing director, celebrates the oil company's return to profitability

PHOTO JOHN WOODROOF

counting an expected 3c rise in wholesale margins set by the government, Angel said, the company expected an increase in income next year.

But he warned of continued regulatory uncertainty and a fall in international refining margins.

He said the industry remained highly competitive, with return-on capital a "meagre" 6,6 percent, up on last year's 2,6 percent.

Important events in the year included the purchase by Petronas, the national

Malaysian oil and gas company, of 30 percent of Engen and the listing of Energy Africa, Engen's upstream exploration and production division, on the JSE in March.

Strong cash flow from operations, a limited increase in net working capital, lower capital expenditure and a cash inflow of R603 million from the new shares issued at the time of the Petronas investment, brought Engen's gearing down to 4 percent.

□ Business Watch, Page 20

500 jeer in disbelief as AECl lawyer addresses sulphur fire

NORMAN JOSEPH
STAFF REPORTER

APR 29/10/96
(183)

About 500 Macassar residents jeered in disbelief when they heard that management of the AECl plant at Somerset West did not want stockpiled sulphur on the premises - and that the Department of Trade and Industry did not know what to do with it. The residents were listening to submis-

sions by AECl legal representative Gerrit van Schalkwyk at the first session of the commission of inquiry into a fire at AECl last December.

The blaze led to the deaths of two asthmatic residents and the evacuation of the entire Macassar community.

Ten thousand tons of stockpiled sulphur sent toxic fumes into the air when the stockpile was set alight by a bush fire in the

area that had gone out of control

The sulphur is owned by the Department of Trade and Industry and stored at AECl

The inquiry is being headed by Mr Justice Sraaj Desai, who will hear residents' evidence from tomorrow

The commission will investigate the origin and establishment of the sulphur stockpile at AECl, the events leading up to - and

the cause of - the fire, the adequacy of the emergency response to the disaster and the impact of the fire on surrounding communities and the environment

Mr Van Schalkwyk, who presented the chemical company's case, read a letter from the Department of Trade and Industry addressed to AECl which stated: "We have no use for it (the sulphur)"

Mr Van Schalkwyk said neither the old

nor the new government had attended to the issue of how to remove the sulphur from the premises

He would call witnesses to testify on various issues about the fire.

A recent department statement said tenders were to be invited for the purchase of the sulphur

The commission was to inspect the site today

COMMISSION

NEWS

Sulphur fire inquiry told of 'flash of light'

Grass blaze after electricity cutout

ARG 30/10/96

(183)

NORMAN JOSEPH
STAFF REPORTER

Two farmworkers have said an unusual flash of light near the fence at the AECI plant in Somerset West disturbed their tea-break a few days before a sulphur stockpile caught fire on December 16 last year.

They were addressing the inquiry headed by Mr Justice Siraj Desai and appointed by President Mandela to investigate the fire that killed two asthmatics and led to the evacuation of Macassar near the Strand

The commission is investigating the sulphur stockpile at African Explosives and Chemical Industries, the cause of the fire, the adequacy of emergency response to the disaster and the impact of the fire

AECI advocate Gerrit van



Judicial view: Mr Justice Siraj Desai inspects the sulphur dump

Schalkwyk said at an inspection in loco at AECI yesterday that the commission would investigate "the flash" seen by farmworkers Chris Andries and Boy Booyse at Paardevlei next to the plant

They said they saw the flash at

10am on Wednesday, December 13, the day a grassfire started and three days before the AECI fire.

Mr Van Schalkwyk told commission officials that an AECI electrical line had cut out at the same time the flash was seen by the farmworkers.

He said AECI power station officials had made an entry about the incident in a daily occurrence book and they would testify later

Asked what safety measures were now in place at the plant, AECI group communications manager Michael Blizzard told the commission the entire area affected by the fire had been cleared

The sulphur had been divided into sections to separate pure sulphur and the sulphur contaminated by the fire. Fire-fighters were on standby 24 hours a day

The inquiry continues today

Misfire slows talks between Engen and Sasol

(183) 30/10/196

Reinie Booysen

THE long-awaited talks between Engen and Sasol on a possible alliance are unlikely to recommence soon, says Engen CE Rob Angel.

Angel said the talks were unlikely to recommence until Sasol had renegotiated its "commercial agreement" with the oil industry, which defines the terms on which the oil companies belonging to the SA Petroleum Industry Association (Sapia) are obliged to purchase oil products from Sasol

Crucial areas of the agreement to be renegotiated included the volume and price of oil products to be purchased by the Sapia members

"Our talks are being constrained, but I have no doubt that Sasol will come back to the table at a suitable time," said Angel "Engen will do something if it adds value for our shareholders"

Angel indicated that there were definitely areas of possible co-operation, revolving around the refineries owned by Sasol and Engen

"They are effectively connected by pipeline, and there are several ways in which we could optimise flows by exchange feedstocks and products between the two areas in Durban and the interior"

Engen's GM for SA sales and marketing, Howard Fairbank, said Sasol had recently completed an internal review, and concluded that "their business is not to try to market fuel and lubricants"

He said it was therefore unlikely that Sasol would launch a major retailing drive

He said Engen was Sasol's "most favoured partner" among the SA conventional oil refining companies In this vein, Engen and Sasol had agreed to a venture to develop retailing sites owned by Sasol

The 14 sites would be owned by Sasol and leased to Engen on normal industry terms over an agreed period of 25 years, when Sasol would regain the right to operate the sites

The deal was similar to another deal which Sasol has with Zenex, in terms of which Sasol leases about 10 sites to Zenex

Probe told of 'hot spots' before fire

NORMAN JOSEPH
STAFF REPORTER

(183)

ART 3/110/96

AECI chemical plant fire chief Bill Guthrie has told the commission of inquiry into the Somerset West sulphur dump fire that fire-fighters found three underground "hot spots" near the dump before the disaster.

Mr Guthrie told the commission that a "hot spot" was an area where a fire burnt underground, unseen. Fire could burn underground and spread without anybody knowing it was there even after it was put out above ground.

There were four fires in the area at the time - grass fires, apparently started by sparks from an electrical cable, on December 13, 14 and 15, and the blaze at the sulphur dump on December 16 which led to the death of two brothers in Macassar who were overcome by fumes. Macassar was evacuated during the sulphur fire.

About 300 Macassar residents were at the town's community centre yesterday to hear evidence at the inquiry, led by Mr Justice Siraj Desai and appointed by President Mandela.

The commission is investigating the sulphur stockpile at African Explosives and Chemical Industries (AECI), the cause of the fire, the adequacy of emergency response to the disaster and the impact of the fire.

Mr Guthrie said that after the second fire on December 14 firemen saw small amounts of smoke on the ground, dug out "hot spots" and sprayed them with water.

On the night of December 16, Mr Guthrie said, he saw a blue haze in the air "and knew it was the sulphur dump".

Cross-examined by the Macassar community's legal representative, Wim Trengove, Mr Guthrie said an emergency plan known as the Somerset West Emergency Action Plan had not been implemented, but it might have been "without my knowledge".

Mr Guthrie said the plan had not been implemented because "we thought it was only a grass fire".

Mr Trengove read extracts from the plan and asked Mr Guthrie which members of the command centre group were assigned to the action plan. Mr Guthrie said he did not know and also was not sure if a duty officer was appointed in accordance with the plan.

The inquiry continues today.

Sentrachem beats poor local season

Reinie Booysen

BO 31/10/96
(183)
CHEMICALS manufacturer Sentrachem boosted earnings 17% to R249m for the year to August as a sharply higher interest bill countered a 30% rise in sales — achieved despite lacklustre summer trading in SA.

Earnings before exceptional items were 131,2c a share (1995: 123,4c), and the final dividend of 25c took the yearly payout to 39c, 11% up on last year's 35c distribution.

MD John Job said forecasting prospects for the current financial year was difficult in view of the uncertain economic climate in SA, but the weaker rand would probably have a "substantial" impact on the next set of figures.

The major export markets, which accounted for about 45% of group sales, were "relatively stable". Sentrachem

traded at an average exchange rate of R3,98 to the dollar during the year, compared with yesterday's rate of around R4,73.

The company's exposure to the cyclical nature of the chemical industry had been overcome by good growth into non-cyclic, high-value products.

Turnover rose 31% to R4,89bn (R3,75bn), and net operating profit was 30% higher at R433m (R334m). The deduction for net interest rose sharply to R161m (R54m last year), largely due to the debt of \$85m incurred to acquire US-based Hampshire Chemical Corporation, which also increased working capital.

The R7m deduction for exceptional items was unchanged, but tax dropped sharply to R8m (R32m), leaving taxed

Continued on Page 2

Sentrachem

(183) BO 31/10/96
Continued from Page 1

profit of R257m (R240m).

Job said that some of the company's businesses were badly affected by the "major gear change in the SA economy" from October last year through to January, when demand for many group products fell substantially.

"Demand picked up again in April, May and June when business was steady, but not strong."

Sentrachem's reliance on the local market declined and exports from SA exceeded R1,1bn (total sales: R4,89bn). Exports were expected to rise further as a large proportion of the production from new capital projects was destined for export.

In its first year in the Sentrachem

group, Hampshire lifted earnings before depreciation, interest and taxation by 32%, with revenues up 12%, and Job said its growth prospects were good. Goodwill of R568m, mainly arising from the Hampshire acquisition, had been written off against reserves, increasing the debt-fixed capital ratio from 37% to 50%.

By sector, Job said Karbochem finished the year strongly with improved margins on higher volumes. NCP's earnings performance was good after an outstanding performance last year. Petrochemicals producer Safripol suffered weak international polymer prices in the first half, and operating profits declined in spite of increased volumes.

Production problems were partly to blame for the 30% decline in operating profit at the agrichemicals producer Sanachem, he said.

RESULTS *Chemical group is now 45% rand hedged*

Sentrachem has a head start

(183) ET 31/10/96



GLOBAL PLAYERS *Norman Kennelly, Sentrachem's financial director and John Job, the managing director*

PHOTO JOHN ROBINSON

JOHN SPIRA

DEPUTY EDITOR

Johannesburg — Sentrachem, the chemical group, has lifted earnings before exceptional items 6,3 percent to 131,2c a share in the year to August 31.

More significantly, the group is now 45 percent rand hedged. That implies that the new financial year kicks off with a head start. Sentrachem traded at an average rate of R3,98 to the dollar in its last financial year.

Net operating profit was 30 percent higher at R433 million on a turnover of R4,9 billion, up 31 percent on last year. However, a higher interest burden, occasioned by increased debt to finance Sentrachem's acquisition of US-based Hampshire Chemical Corporation, pulled down the growth at attributable level to 17 percent.

A 10,5 percent rise in the weighted number of shares in issue after the group's international equity placement last year further trimmed growth

at the share level.

A final dividend of 25c lifted the year's total dividend to 39c a share, 11 percent higher than the previous year's distribution.

Hampshire Chemical's results were included for the first time and their effect was considerable, with a 20 percent contribution to turnover and operating income and a positive contribution to earnings. Further solid growth is budgeted for the coming year.

John Job, the company's managing director, said yesterday that Sentrachem's emergence as a global player was clearly evident in the results.

"International sales reached 45 percent of the group's total and exports from South Africa exceeded R1,1 billion. Capital investment was R458 million. Export sales will rise further in the future as a large proportion of the anticipated production from these projects is destined for foreign markets," Job said.

He said that Sentrachem had overcome the chemical industry's traditional cyclicality by good growth into non-cyclical, high value products.

□ **Business Watch, Page 22**

(2) In respect of the pricing of unleaded fuel, Cabinet agreed to

a fuel tax structure which will allow an initial pump price differential of four cents per litre in favour of unleaded petrol to ensure a market penetration for unleaded petrol of 20 per cent ± five per cent within the first year after its introduction, and that the tax on leaded petrol not be increased in order to make up the tax lost on unleaded petrol.

— that the Departments of Minerals and Energy and of Finance, in conjunction with the liquid fuels industry, continually monitor the rate of market penetration of unleaded petrol, and should it be evident that market penetration at the desired rate is not taking place, appropriate adjustments to the relevant tax rates be effected (subject to the condition that no additional tax will be added to the price of leaded petrol),

— that once a 20 per cent ± five per cent market penetration for unleaded petrol is achieved, the tax differential between

leaded and unleaded petrol be adjusted to bring the price of unleaded petrol closer to that of leaded petrol, provided that penetration does not drop below 20 per cent, and

— that once a market penetration of 30 per cent has been achieved the different in the fuel tax as between leaded and unleaded petrol be terminated.

Sasol/Mossagas: profit/loss (183)

916 Mr J A JORDAAN asked the Minister of Mineral and Energy Affairs.

(a) What profit or loss was made by (i) Sasol and (ii) Mossagas in each of the latest specified five financial years and (b) what would these figures be after the exclusion of state subsidiaries? N1715E

The MINISTER OF MINERAL AND ENERGY AFFAIRS

(a) (i) The following information pertains to Sasol Synthetic Fuels as the entity receiving protection

	1992/92*	1992/93*	1993/94*	1994/95	1995/96
Operating profit	236,7	265,3	212,2	135,4	642,2
Protection	520,9	608,0	979,6	1 060,3	803,5
Net operating profit	757,6	873,3	191,8	1 195,7	2 445,7

*Reconstructed on the basis of the Arthur Anderson study as Sasol Synthetic Fuels did not exist as an entity at that time

(ii) Mossagas production commenced in 1993, and the information for the available period is as follows

	1993/94	1994/95	1995/96
Revenue at selling price	562	730	702
Synthetic fuel levy	124	118	121
Revenue at IBLC	686	848	823
Operating expenditure	(628)	(616)	(662)
Protection	111	285	191
Net surplus	169	517	352

(b) Sasol Synthetic Fuels

1991/92*	1992/93*	1993/94*	1994/95	1995/96
		R million		
236,7	265,3	212,2	135,4	642,2

* Reconstructed on the basis of the Arthur Anderson study as Sasol Synthetic Fuels did not exist as an entity at that time

Mossagas (Protection and synthetic fuels levy are excluded)

1993/94	1994/95	1995/96
R million		
(66)	114	40

Mineral and Energy Affairs: retirements transfers

922 Mr J J NIEMANN asked the Minister of Mineral and Energy Affairs †

(a) How many employees in his Ministry left the service of his Ministry during the period 1 May 1995 up to 30 June 1996 as a result of (i) voluntary retirement, (ii) retirement packages and (iii) transfers to his Department and (b) what position did each of these persons hold? N1721E

The MINISTER OF MINERAL AND ENERGY AFFAIRS

(a) (i) 0

(ii) 0

(iii) 1

(b) Ministerial typist

Retail/production cost of 97 octane petrol

997 Mr J A JORDAAN asked the Minister of Mineral and Energy Affairs

(a) What was the (i) retail and (ii) production cost per litre of 97 octane petrol as at the latest specified date for which information is available, (b) of what components is the manufacturing cost composed and (c) what portion of the retail cost is attributable to tax? N1844E

The MINISTER OF MINERAL AND ENERGY AFFAIRS

(a) (i) Retail price of 97 octane petrol at the coast (zone 1A) as at 25 September 1996 203 c/l

(ii) In-bond-landed cost (deemed ex-refinery price) per litre of 97 octane petrol (zone 1A) as at 25 September 1996 74,866c/l

(b) Components of the in-bond-landed-cost

F O B (Free-on-board)	c/l
Freight	68,681
Insurance 0,1009% of FOB + Freight	4,668
C I F (Cost, Insurance & Freight) cost	0,074
Ocean leakage 0,3% of C I F	73,423
Landing and wharfage 1,78% of F O B	0,220
	1,223
In-Bond-Landed-Cost	74,866
(c) 37,24% (75,6 c/l on a retail price of 203 c/l)	

Prosecutors/state attorneys: salaries increased 1000 Mrs S M CAMERER asked the Minister of Justice

(1) Whether he or his Department intends increasing the salaries of (a) prosecutors, (b) state attorneys and/or (c) state advocates, if not, why not, if so, by what amount in each category,

(2) whether he will make a statement on the matter? N1847E

The MINISTER OF JUSTICE

(1) (a) (b) (c) and (2) Unlike the case with the salaries of magistrates the salaries of public servants (i.e. prosecutors, state attorneys and state advocates) are determined by the Public Service Commission

I am continuously exploring various possibilities to improve the conditions of service of the legal personnel in the Department. During last year I have at various occasions raised the problem at Cabinet level. I am in constant contact with the Public Service Commission in

COMPANIES

Afrox finds a way to climb off last year's high base

Edward West

(183)
BD 1/11/96

GASES, welding and health care group Afrox lifted earnings 19% to R181m in the year to September off last year's high base, despite the absence of major industrial projects which usually boost turnover

Inflation adjusted earnings — the group charges earnings with additional depreciation — increased 18% to 60c. A capitalisation award of 1,35 shares for every 100 was made, with the option of a final cash dividend of 20,5c (17,5c)

Chairman and MD Royden Vice said the results were pleasing, thanks to a customer-oriented approach in all businesses, a stringent cost containment programme and benefits flowing from an intensive investment programme during the weak economic cycles of 1993 and 1994.

Sales climbed to R2bn from R1,7bn and trading profit was higher at R363,7m (R313,2m). Interest was marginally higher (R69,6m) and tax increased by 15% to R104,6m from R90,9m. Taxed profit was up 20% to R189,5m and attributable earnings increased by 19% to R181,5m. Borrowings at R402m (R422m) had been contained and the ratio of borrowings to capital employed fell to 24,9% this year, from 29,8% last year and 31,4% in 1994.

New investment accounted for only R18m as the main focus was directed at "growing existing businesses". Total capital expenditure of R162m (R177m) was used to replace fixed assets, expand capacity and the initial financing for the new Mpumalanga plant for Highveld Steel and Columbus Stainless Steel.

All Afrox's businesses performed well during the year. Gases showed strong profit. The welding business performed above expectation, considering the lack of major projects.

The health care business performed well as a result of high occupancy levels in hospitals, increased efficiencies and the growing health care services business portfolio. The joint venture with Medi Clinic should ensure increased occupancy levels, Vice said.

COMPANY NEWS

Welding, gas and healthcare group lifts earnings 19%

Afrox expansion pays off

JONATHAN ROSENTHAL

Johannesburg — Afrox, the JSE-listed gas, welding and healthcare group, lifted attributable earnings 9 percent to R181,5 million on a 17 percent increase in turnover of over R2 billion for the year to 30 September.

Inflation-adjusted earnings a share rose 18 percent to 60c. A final dividend of 20,5c was declared, up from last year's 17,5c a share, bringing the total dividend to 32,1c, from 27,7c for last year.

Royden Vice, the chairman of Afrox, said the group was reaping the benefits of an expansion programme in 1993 and 1994.

Capital expenditure was R162 million, slightly down from last year's R177 million, and was mainly for the replacement of fixed assets, expansion of capacity and the initial financing of a new Mpumalanga plant. New investment accounted for R18 million.

The group's gases division performed well, winning new business through an increased

sales effort. It also started construction of the Mpumalanga oxygen, nitrogen and argon plant near Witbank, which will cost R270 million.

The plant will be commissioned in July next year and will supply Highveld steel, Columbus Stainless Steel and the general merchant market.

Vice said the Healthcare division had started building a new hospital in Empangeni and had reorganised its three Hillbrow hospitals. But hospital tariff in-

creases below the rate of inflation remained a concern and all units had to focus on internal efficiencies and cost containment.

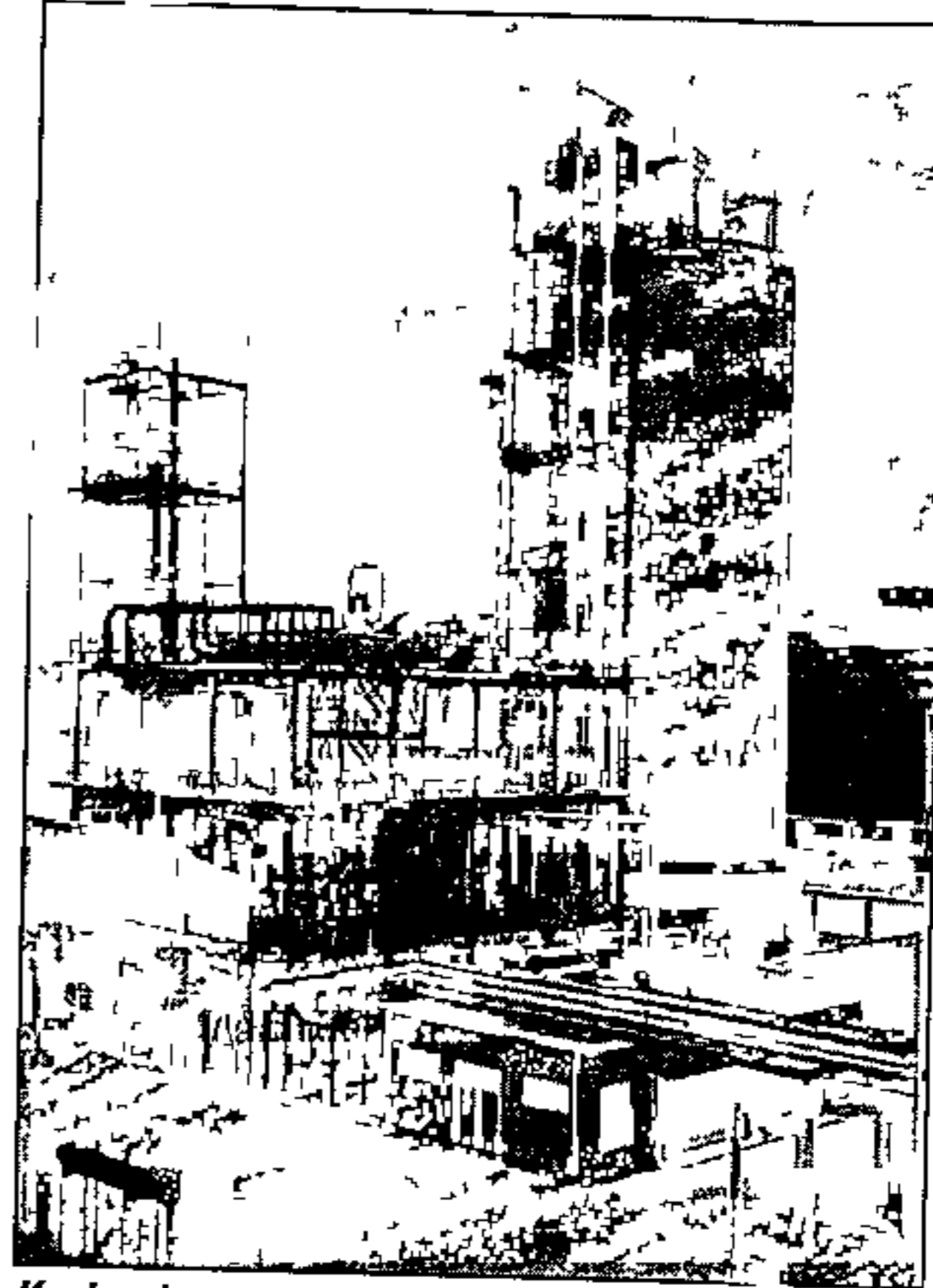
He said the welding business performed above expectation considering the lack of large capital projects which normally boosted the welding business's profit.

"All businesses can be expected to perform better in the forthcoming year given no meaningful deterioration in economic conditions, another year of growth is expected," Vice said.

CT (BR) 1/11/96

(183)

we must not



Karbochem existing infrastructure swayed Bayer decision

CHROME CHEMICALS (153)

KARBO-LOADING AM 1/11/96

German conglomerate Bayer is to enter a joint venture with Sentrachem to build one of the world's largest base chrome chemicals plants in KwaZulu-Natal. The project, which will cost R510m, will be set up at Sentrachem subsidiary Karbochem's facility in Newcastle. Bayer representatives in SA say construction will start immediately. Production is planned to start in 1998.

The head of Bayer's chrome business unit, Gerhard Franz, says the firm intends to relocate its chrome chemical production from Leverkusen, Germany, to the new site, which is closer to raw material sources.

Bayer, he says, already has its own chrome ore mine in Rustenburg and

chrome tanning agent production facilities in Merebank. Franz adds that several factors played a part in the decision to produce in SA.

"The tanning of leather has moved out of much of Europe over the last two decades. It made less sense to ship chemical-grade chromite from Bayer's mine in SA to Germany, and then have to ship the sodium dichromate, chromic acid and chrome tanning salts worldwide. It made sense to have production near our Rustenburg chrome mine."

The Newcastle plant will produce 70 000 tons a year of sodium dichromate and 11 000 tons of chromic acid. More than 90% of production, including chrome tanning salts from Merebank, will be exported.

Sodium dichromate and chromic acid are starting products for a variety of speciality products for the leather and metal treatment industries.

Franz says the new plant offers the advantage of good existing infrastructure, which will help to reduce capital costs. He adds that Newcastle is well placed for exports through Durban and that "SA's low electricity price is also a positive factor." *Mick Collins*

ENGEN (1993)
11/11/1996

STEADY PROGRESS

In June this year Engen tied up a deal which brought Malaysian company Petronas in as a major shareholder and resulted in an equity injection of R603m

ON THE REBOUND

	1995	1996
Turnover (Rbn)	9,00	10,87
Pre-tax profit (Rm)	142	436
Net income (Rm)	116	349
Earnings (c)†	118	202
Dividends (c)	60	96

† Before exceptional items

Now results for the year to end-August show greatly improved profitability and a far stronger balance sheet

Turnover rose 21%, operating income before exceptionals 55,3% and headline EPS are in line with market expectations, rising 71,2% to 202c Net borrowings have been slashed by R896m, to R144m, reducing the debt equity ratio to just 4%

The gains — off the low base set in 1995 — were achieved through operational improvements by Engen, as well as favourable movements in key external factors such as a buoyant domestic demand for fuels, which helped lift Engen's local sales volumes by 10,2%, firmer international refining margins and the weak rand/\$ exchange rate

It's plain though that there is still a long road to travel before the company has returned to attractive profitability While pleased with the progress, MD Rob Angel cites continuing difficulties

These include a margin at the refinery that remains "well below potential," renewed pressure on international refining margins, intense competition in the domestic market for petroleum products, where Engen has by far the largest market share at more than 24%, a controlled wholesale margin unchanged for three years and regulatory uncertainty

Returns evidently need to improve further Return on capital employed, for example, rose from the 2,5% of 1995, but only to 6,6%, well below the 9,3% of 1994 and 13,1% of 1993 In 1993, EPS before exceptionals were 298c

Given the uncertainties in markets and the broader operating environment, management is emphasising what Angel calls "self help" This will include a continuing drive on costs In the 1996 year, expenses rose only 7,5% on 1995, despite the increase in volumes

At the Durban refinery, reliability and output has improved, with throughput rising by 24% to 32m barrels, but both the average white oil yield and, consequently, the margin, were still below expectations However, Angel says the design throughput has been achieved for extended periods, white oil yields have

improved substantially since a planned shutdown in May and progress is being made in addressing power blackouts

On the distribution side, there has been some recovery in market share after earlier losses More significant is that an agreement has been struck with Sasol which appears to indicate Sasol no longer wants to compete aggressively in the retail market Engen has taken over a number of sites Sasol had established

Angel still contends rationalisation in the industry is inevitable, and says Engen would welcome this He notes that the talks which the group had previously held with Sasol are "constrained but will come back on the table eventually"

Despite being circumscribed in the home market, Angel says Engen will continue to seek avenues for growth In international marketing, it has established "beachheads" in various parts of sub-Saharan Africa, including Kenya, Tanzania, Zaire and Mozambique

The listing of subsidiary Energy Africa in March ensured this company, now capitalised at R1,28bn, can pursue its exploration activities with reduced financial risk exposure for Engen Among medium- and long-term positives, Angel notes the potential for asset value enhancement of Energy Africa, as well as the growth orientation of Petronas

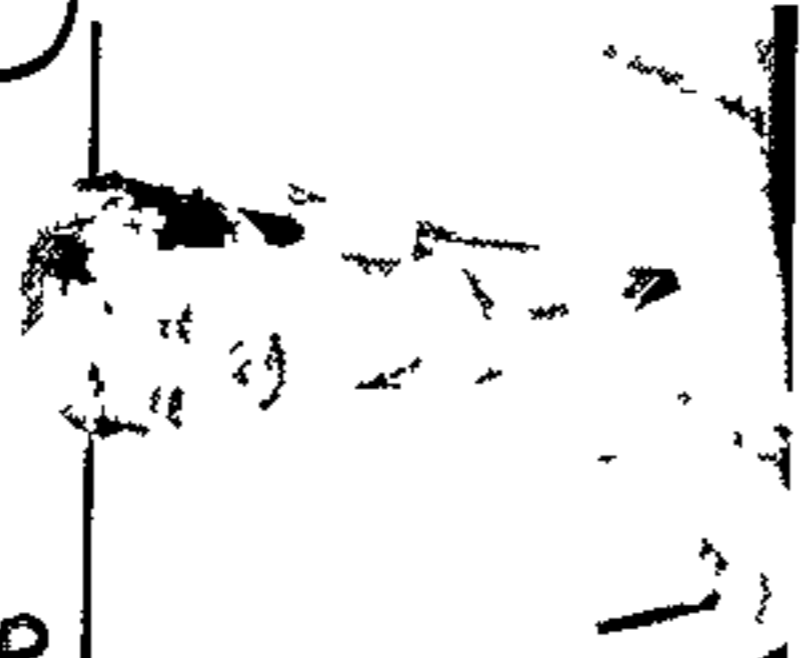
When looking at the current year, Angel simply says an increase in net income is achievable, helped by further improvement in operational performance and lower finance charges Clearly, much will still depend on international refining margins and the local wholesale margin, which is controlled by government

On latest results the share is looking more attractive, with the historical p e ratio at 13 and the dividend yield 3,7% However, Sasol (p e 14,8) remains the sector leader, offering less risk and more assured growth *Andrew McNulty*

Engen trebles earnings and stills a few nay-sayers

ST (BT) 3/11/96 (183)

JULIE WALKER
DIAGONAL STREET



Engen silenced a few critics with a near-trebling in earnings a share to 218c in the year to August 1996. It tipped the share in January when the price was R28. By April, it was R22.20, but dashed briefly to R35.50 in June when Malaysian giant Petronas bought 30% of the company at a premium to the market price. The position of controlling shareholder Sanlam made this deal possible. Sanlam intends to reduce its stakes in companies in which it holds large percentages. After this week's results, the price shed 50c to R26.70.

While acknowledging the support given by Sanlam, Engen chief executive Rob Angel says it is nice to have a shareholder who really understands the oil business.

The Petronas deal introduced R1.9-billion to the company and strengthened the Engen balance sheet by R603-million. The deal was effected through a 12 for 100 rights offer at R34.50 in Engen underwritten by Petronas, which also offered to buy 21.6% of members' holdings at the same price.

This week's results vindicate Sanlam's asking price. Angel adds that Petronas is here for the long run, not for the short term. "We share the same cultural values both Engen and Petronas believe South Africa needs to look east and not north in developing markets. Malaysia itself has been through a period of political change and affirmative action and understands the process we are undergoing here."

In March, Engen listed its upstream subsidiary Energy Africa on the JSE, retaining 60.5%. Energy Africa raised R345-million in new capital after a tender which determined a pitch price of 950c a share, now R14.

Angel recalls the tough time he had a year ago when Engen's restructuring and slender margins led to disappointing results. The kindest among much negative comment came from a New York analyst who told Angel Engen had grasped the nettle but remained a "show me" stock, not a buy.

A year on, he believes Engen has done that.

A 21% rise in turnover to R10.87-billion led to a 55% climb in operating income to R559-million. After depreciation, inventory effects, exceptional items and finance costs, pre-tax profit was 207% up at R436-million. Engen's R80-million tax included a R63-million transfer to the equalisation reserve.

The balance sheet now reflects a long-term provision of R208-million, the cumulative effect of prior years.

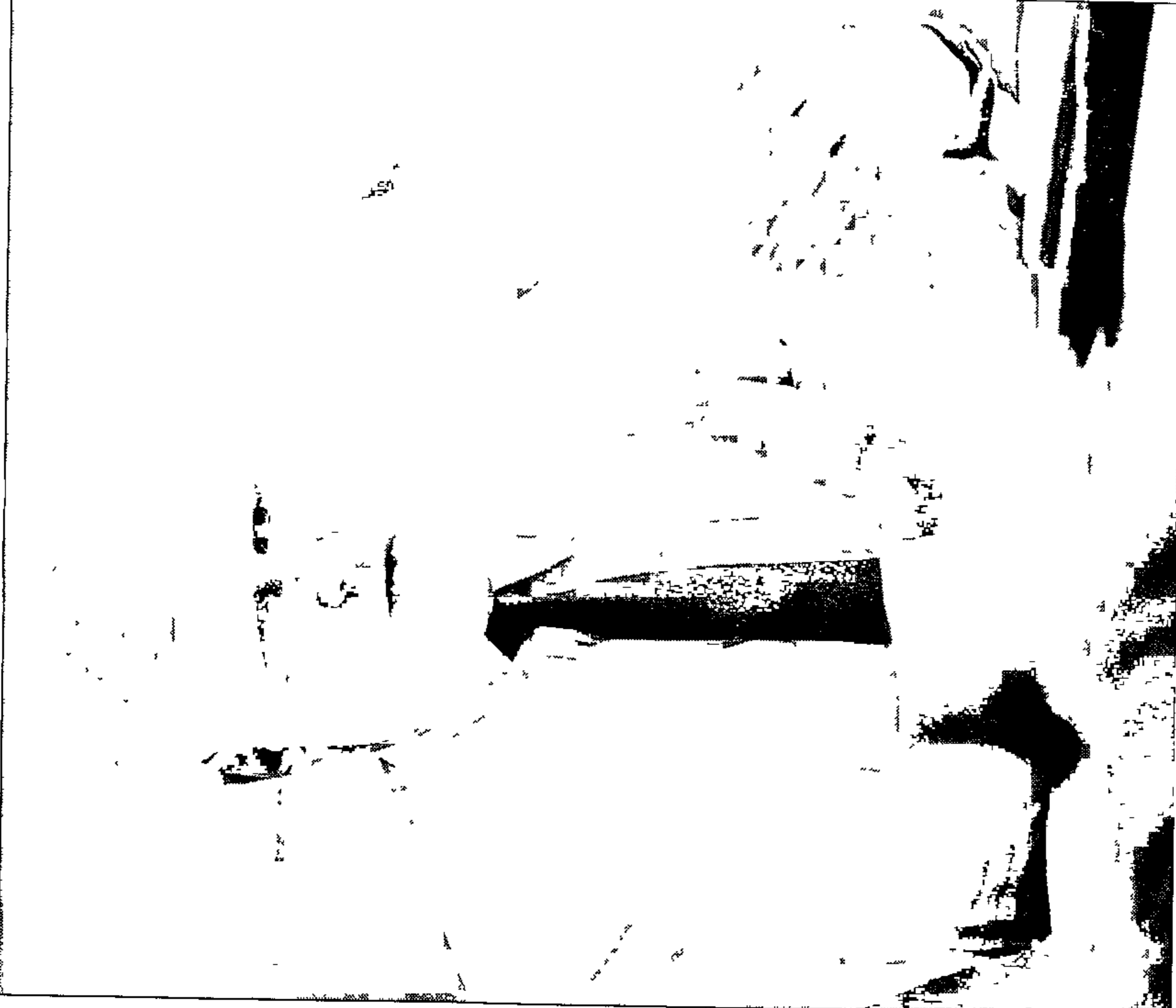
Angel reports improved refinery yields, an arrest of the market-share decline — now 24.3% — and growth initiatives among the year's highlights. Stronger crude prices, a narrow light/heavy crude price differential, improved international refining margins, the decline of the rand (each 10c down against the dollar results in R20-million more for Engen), firm product demand, regulatory uncertainty and a competitive business environment influenced Engen's year.

The Quickshops at Engen service stations became important profit contributors.

Internationally, Engen was courted by the Tanzanian government and encouraged to invest R100-million in Tanzania for one coastal and two inland distribution centres. Other "beach-head" investments will be made in Africa.

The much improved earnings come off a low base and return on capital is only 6.6%. The oil industry has applied to the Minister of Mineral and Energy Affairs for a 3c/l margin increase as it cannot attain the specified 15% return at the current level. So far, there is no response from government, but Angel says he does not blame new minister Penuele Maduna. "He has been in the job only since July and he wants to have a good look at it before making any decisions."

Angel notes that the removal of uncertainty is good for a company's share price. "Look how Sasol has moved since defaults on the scaling down of tariff protection were clarified."



RIISING TIDE ... Rob Angel of Engen, who sees millions wash in when the rand drops

Angel believes oil-industry rationalisation is inevitable. Sasol no longer intends to develop a petrol retailing business and has concluded a deal where some of its sites will operate under the Engen livery. The two could get even closer. Looking ahead, the crude oil price looks uncertain and could retreat, dollar refining margins are again under pressure

and the rand will likely not decline as quickly as this year. Nevertheless, even ignoring a possible wholesale margin increase (each 1c is worth R34-million to Engen), improvement in operational performance and reduced finance charges will result in an increase in net income. In the longer run, positive regional demand growth, the Petronas

partnership and Energy Africa's potential will help Engen's cause. Management's challenge is to deliver.

The results were not enough to embarrass the market, and Engen shed 50c to R26.70, barely 12 times historic earnings. With the market in this kind of mood, it is difficult to call Engen right, but my view is that it won't get much better.

'Condition of sulphur victims deteriorating'

NORTON JOSEPH
STAFF REPORTER

(183)

ARL 5/11/96

The condition of Macassar asthmatics and residents with chest problems is deteriorating 11 months after the sulphur fire at the AECI plant, the commission of inquiry into the fire has heard.

It was told that four months after the disastrous chemical fire last December, residents were still getting treatment at clinics.

The condition of these people - now under medication from their private doctors - had since deteriorated.

This was among the findings of a study compiled by Groote Schuur Hospital respiratory clinic head Neil White. His report was handed to the presidential commission of inquiry which held its sixth session in the Macassar community centre yesterday.

The commission, headed by Mr Justice Siraj Desai, is probing the impact of the sulphur fire on the Macassar community.

Answering questions from the commission's advocate, Jeff Immerman, Dr White said most of the 1 141 people treated and evaluated by him and a panel of doctors had asthma or chest problems.

Their condition got worse soon after the fire, which claimed the lives of two asthmatics and led to the temporary evacuation of Macassar.

Dr White said he would do follow up examinations of residents who were under medication.

Lion Match lifts income to R18,8m

Nicola Jenvey

5/11/96

(183)

DURBAN — Industrial holdings group Lion Match lifted attributable income to R18,8m from R16,7m for the six months to September, after a 32% growth in investment income offset disruptions to its Durban factory and a slackening of trade purchases during the first quarter.

Earnings a share for the SA Breweries subsidiary grew to 41,4c (36,7c), and a 12,5c (11c) interim dividend was declared

Turnover rose to R88m (R84,5m) as trade purchases characteristically slackened in the first quarter following increased activity ahead of price increases at the end of the previous year

Chairman Lawrence van der Walt said the second quarter reflected a recovery in demand and comparable product sales grew 3% to R79,3m for the period under review. Trading profit remained virtually un-

changed at R14,7m (R15m) despite the production disruptions caused by illegal strikes in Durban

Investment income stood at R11,1m (R8,4m) by September and the group's liquid resources increased to R215m (R205,7m)

Profit before tax rose 10% to R25,8m and the group paid R7m (R6,8m) in tax.

Following a decrease in working capital needs, cash flow from operations increased 64% to R17,7m and coupled with the R215m liquid resources on hand Van der Walt said the group remained in a sound financial position. Despite the recent inflationary pressure, further modest growth in private consumption expenditure should continue to support consumer demand for Lion Match's products.

"This, together with the actions taken to normalise production at the Durban match factory, should enable a satisfactory increase in earnings for the full year," Van der Walt said

183

Police corruption 'part of culture'

Stephané Bothma

PRETORIA — Police corruption could not be isolated from the pervasive culture of corruption now taking root in almost all levels of SA society, national police commissioner George Fivaz said yesterday.

Reacting to a weekend statement by President Nelson Mandela that police corruption was undermining government efforts to halt crime and violence, Fivaz said it highlighted the urgency of creating a comprehensive and co-ordinated anti-corruption drive including all sectors of the society.

"I share the president's concern about the cancer of corruption in the public service as a whole, including the criminal justice system," Fivaz said.

He said Mandela's concerns would give impetus to further efforts to fight corruption throughout the public service, including the SAPS.

Addressing lawyers in Umtata in the Eastern Cape, Mandela said instead of helping to eliminate crime and violence, a good number of policemen were known to be undermining the effort by associating with criminals.

Mandela said cases of police involvement with crime syndicates had been uncovered.

Fivaz said the culture of corruption in almost all levels of society was shown by the reluctance of the business sector to take action in all cases of corruption — in some cases also undermining actions to identify and act against corrupt police officials.

Delay in decision on plant 'not undue'

Rainie Booysse

SA COMPANIES investigating a Taiwanese proposal to build a \$3.5bn petrochemical plant in SA have rejected accusations that they are taking unduly long to reach a decision on the project.

The consortium of SA firms is deciding whether to support a feasibility study on the project, involving building an integrated petrochemical-based industrial node somewhere along the coast.

"The parties are all taking the matter seriously, and they are all involved," said one source.

The proposal is for the SA companies to take a 50% stake, while

the other 50% will be taken up by a consortium of Taiwanese companies. These include the state oil and petrochemical company, Chinese Petroleum Corporation, and Tuntex, a major Taiwanese petrochemical company.

One participant said he had received a letter from the Taiwanese delegation expressing sympathy for the scale of the investigation, by the SA companies.

Taiwan's ambassador, I-Cheng Loh, reportedly told the SA Republic of China trade conference in Johannesburg last week that the Taiwanese investors might lose patience with the cautious approach adopted by the SA

companies

However, SA industry sources said it was no surprise that the investigation was taking so long. "This is not an easy, quick decision," said one source. "The project cuts across three major sectors, and it will take time to get through the process."

He said the three sectors were oil refining, which generated the feedstocks which would be needed by the petrochemical plant; petrochemical manufacturing itself; and the fibres sector, which would use petrochemicals to manufacture textiles and garments.

The project also involves a range of other SA companies

BP 5/11/96

(183)

AECI probe - woman tells of fire trauma

'I became asthmatic after blaze'

NORMAN JOSEPH
STAFF REPORTER

A Macassar housewife has told the commission of inquiry investigating the AECI sulphur dump fire that she became an asthmatic soon after the blaze last December.

Maria Booysen of Soekmekaar Road was emotional at times while giving evidence at the Macassar community centre

About 150 people attended yesterday's hearing of the commission, headed by Mr Justice Siraj Desai, which is probing the impact of the fire on the Macassar community and on the environment.

The fire claimed the lives of two asthmatics and led to the temporary evacuation of Macassar

Mrs Booysen said that during the fire the eyes of her two foster children were smarting, they did not eat and their nappies were not changed

Answering a question from commissioner Farieda Khan, Mrs Booysen said her condition had deteriorated and, if she became anxious, she had trouble breathing.

Mrs Booysen said that on the evening of the fire her nose, throat and eyes smarted and while walking to a school for treatment she got dizzy and collapsed in the school grounds

Ambulancemen gave her oxygen and she was

taken to hospital. She said doctors had diagnosed her as asthmatic. "Now, after this fire, I am an asthmatic under daily medication. I always pray that there will not be another fire," she said

Mrs Booysen said AECI gave her R600 and told her she was not to ask for more money.

Another witness, Toyhirah Davids, said farmers had been paid out large amounts of money, which did not compare to what some residents had received. She said people's lives were worth more than farmers' crops

The hearing continues today

■ AECI's insurers may fork out more than R30-million to people who suffered losses during the fire

Mike Cotton of CWB Adjusters told the commission yesterday this was a "gross estimate figure"

He said his company had spent R200 000 employing temporary staff and on a building and administration facilities to process claims. He said his company had already paid out R17-million in claims.

Under cross-examination by Macassar Crisis Committee legal representative Wim Trengove, Mr Cotton said he had received about 8 000 claim forms. The insurance company could not agree with some of the claims submitted in February and May

The firm's legal representative, Ben Griesel, told the commission some agricultural claims were still outstanding

(183)
AECI 6/11/96

SA to develop gas-based industries, says Maduna

ARG 7/11/96 (183)

Cape Town – South Africa was committed to the development of regional gas-based industries and was finalising a new gas law, Mineral and Energy Affairs Minister Penuell Maduna said yesterday.

Addressing a news briefing, he said he expected a gas trade agreement to be concluded with Mozambique early next year and one with Namibia soon afterwards.

Mozambique and Namibia have huge offshore gas fields but have been unable to develop them because of a lack of anchor clients in South Africa to make commercial exploitation viable.

"We are developing a gas policy and gas law.

"The gas industry in the whole of the sub-region of southern Africa is developing because there is a lot of natural gas and a lot of coal-bed methane that we want to tap."

He said South Africa had already concluded negotiations on a draft gas trade agreement with Mozambique.

Mr Maduna said details were being circulated to various Government departments and should be finalised next year.

"We think that we, together with (other regional) member states, should begin to use those resources," he said. – Reuter



OBED ZILWA

Attentive: Audrey Williams, widow of sulphur fire victim Ronald Williams, and her son Bronwyn

Sulphur widow paid R15 000

NORMAN JOSEPH
STAFF REPORTER

183
ARG 7/11/96

The widow of a Strand asthmatic who died during the chemical fire at the AECI plant told the commission probing the disaster that soon after her husband's death the company paid her R15 000 for immediate expenses.

Audrey Williams, in the witness box with her son, Bronwyn, was called by their attorney, Peter Mopp, to testify in the Macassar community centre before about 250 residents last night.

The sulphur fire led to the the deaths of two people and the temporary evacuation

of Macassar Mrs Williams, wife of taxi operator Ronald Williams, relived the traumatic experience when her husband died after inhaling toxic sulphur dioxide fumes

Andrew Williams, brother of Ronald Williams, on his way to a wedding reception at the Somchem plant recreation hall in Macassar, slumped over the wheel of his car and also died the same night Andrew was 54 and Ronald 47 Mrs Williams told the commission, appointed by President Nelson Mandela and headed by Mr Justice Siraj Desai, that AECI officials visited her two days after the fire

She was paid R15 000 before the funeral to cover her immediate costs.

Oil firms 'will not help' with fuel probe

Reinie Booysen

THE battle between government and SA oil companies over the prices they pay for petrol and diesel from Mossgas has intensified, with the oil companies refusing to provide the auditor-general with information about their facilities and operations

In a report to Parliament this week, the auditor-general noted that attempts to investigate the dispute in a co-operative manner had failed, and that the auditor-general "may be compelled to consider alternatives to the preferred approach to the investigation envisaged at the outset"

The dispute revolves around the method used to calculate the price paid for Mossgas's products. The oil companies say they should pay only export parity prices, but Mossgas and government believe the oil companies should

(183) BD 8/11/96
pay much higher import parity prices — a difference of about R170m a year

The auditor-general has launched its own investigation on the grounds that state funds, generated via petrol and diesel levies and held in the equalisation fund, are being used to make up the difference between export and import parity prices. Last year the equalisation fund paid R122m to Mossgas. The figure would have been higher if Mossgas had not been closed for lengthy maintenance.

Deputy auditor-general Bertie Loots said his office preferred to conduct its investigation with the co-operation of the oil companies in the SA Petroleum Industry Association. Failing that, "we will do the sums".

The crux of the dispute is the oil companies' claim that they have surplus production capacity, forcing them to be net exporters of at least every

litre of all diesel and petrol purchased from Mossgas. For that reason, they say they are only prepared to pay the lower export parity price, essentially the best price obtainable in nearby markets — as opposed to the inflated import parity price, known as the in bond landed cost, upon which the oil companies' pump prices are based.

Government disputes the extent to which the oil companies have been net exporters in recent years. It was to get to the bottom of this that the auditor-general requested information from the oil companies about their refinery capacities and throughputs — but the oil companies have refused.

The oil companies acknowledge that they will soon become net importers of petrol (before accounting for Mossgas's production), but they insist that they will remain net exporters of diesel beyond 2000.

'Children ill after Macassar blaze'

183
NORMAN JOSEPH

STAFF REPORTER

ARG 8/11/96
The commission of inquiry investigating the sulphur fire at AECl in Somerset West has been told two Macassar children developed breathing problems afterwards.

The commission, headed by Mr Justice Siraj Desai, was appointed by President Mandela to investigate the sulphur stockpile at African Explosives and Chemical Industries, the

cause of the fire last December, the adequacy of emergency response to the disaster and its impact

Two asthmatics died and Macassar was evacuated during the fire

Macassar resident Dorothy Cupido, a mother of three, yesterday told the commission that her son Kurt, 7, had been diagnosed as an asthmatic and had a damaged lung as a result of the fire

Another resident, Cornelia Hickley, said her daughter Tracy-Lee, 6, had developed a bronchial ailment

Energy Africa picks up a head of steam on the puffing rand

(183) ST(BT) 10/11/96

HIGH world oil prices and the strength of the dollar against the depreciating rand are giving a strong cash flow boost to Energy Africa, the independent oil producer and exploration company, whose oil production is set to double in the next 18 months

These factors should give Energy Africa dynamic growth over the next few years, and managing director John Bentley hopes Energy Africa will become "a major independent oil producer in southern Africa" Most analysts view Energy Africa as an exploration company only, but its growing oil production makes it worth a second look as an oil producer

"Most people view us as an exploration company not really affected by the oil price. But we are becoming more important as a producer as our oil production increases," says Bentley

Currently, Energy Africa produces 3,5-million barrels of oil a year and this is set to increase "significantly"

"We are benefiting from the double whammy of high world oil prices and a depreciating rand. These are giving us strong cash flows to buy more oil production cash flows, making growth prospects very exciting," Bentley comments

Last year Energy Africa produced 6 700 barrels a day and realised \$16,60 a barrel for it. The company is currently producing 10 000 barrels a day with oil prices now up in the \$22,50 region

Every \$1 rise in the oil price benefits Energy Africa's cash flow by about R17-million. It costs Energy Africa about \$3,50 to produce a barrel of oil, so it has

OIL PRODUCTION

By JEREMY WOODS

big margins on production

Next March when the company's Oribi oil field comes into production, Energy will be producing 15 000 barrels a day

"Our strong cash flows give us the ability to buy producing assets and I am hopeful that Energy's oil production should double in the next two years," says Bentley

He plans to grow the company both on the exploration side and by increasing oil production. The company is participating in some of the most promising oil wells along the West African coast

"In the year to August 31 Energy Africa was involved in the drilling of ten exploration and appraisal wells, of which five encountered potentially commercial hydrocarbon accumulations"

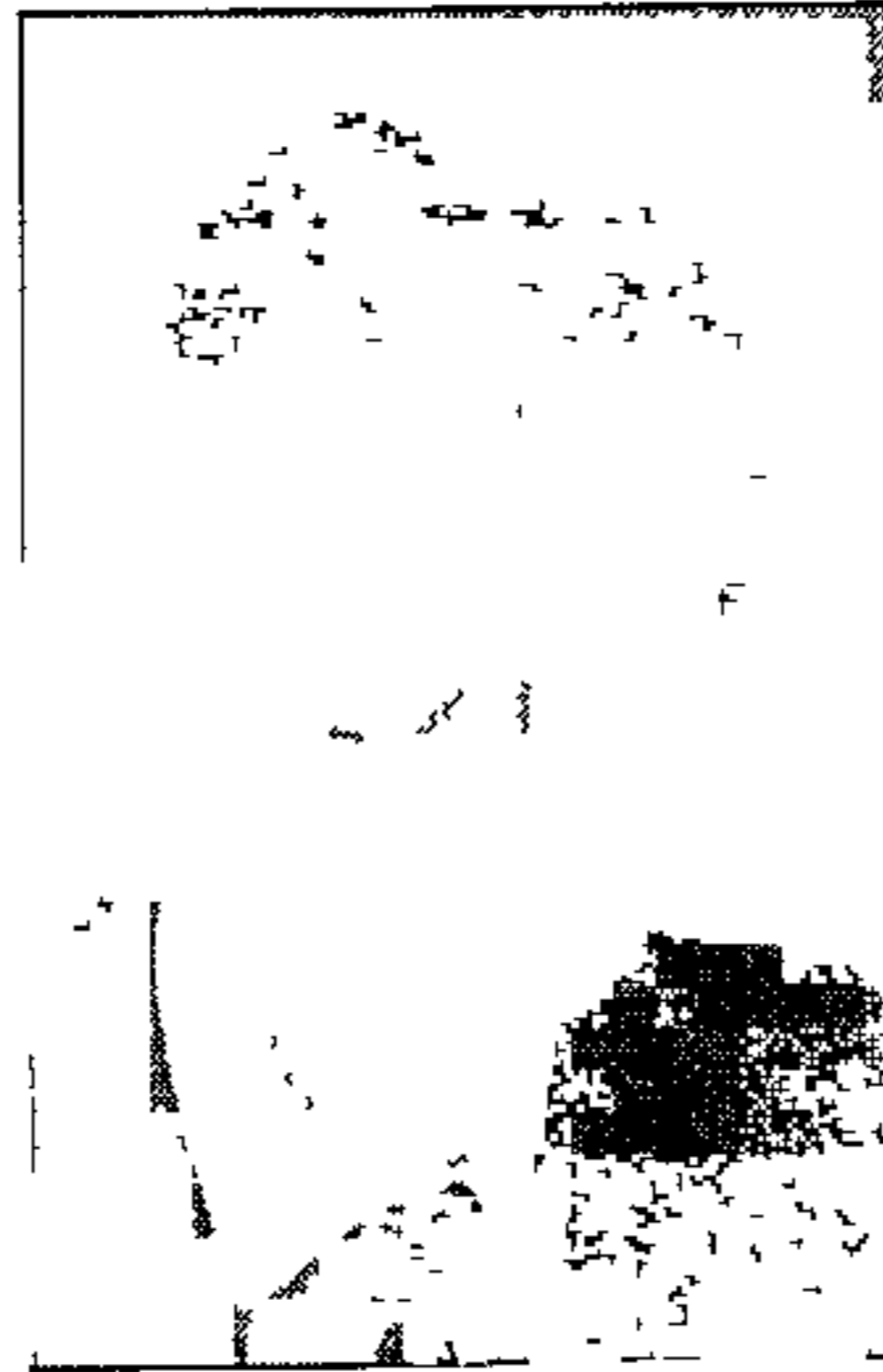
News this week that the massive Kudu gas field off the coast of Namibia may be twice the size it was originally estimated should also have an impact on Energy Africa as it has a

10% interest in the Kudu venture

Shell, the operator of the Kudu group, was tight-lipped this week but said details of the results on block 2814A would be released shortly

Energy has also released details of a new oil find in Angola on Block 2/92 which tested light oil at a rate of 6 400 barrels per day

Two other wells were tested, and a third intersected an oil column but was not tested. Energy Africa has a 10% interest in the block



JOHN BENTLEY

the program for the six months to September, helped by a sound recovery in plan. However, the provided as input into systems

COMPANIES

Boost for oil deregulation lobby

Reinie Booyen

SA OIL companies' campaign for the deregulation of the industry is likely to pick up momentum in the months ahead as international oil prices move against them following a reversal of global supply and demand patterns

Analysts say demand has been rising in the Western hemisphere and cooling down in the East, the net effect being a squeeze on local oil refining margins

SA oil companies' crude acquisition costs are more closely associated with the firmer Western trend, while their product sales prices relate more directly to the weaker Eastern trend

Deregulation would abolish the link between SA oil product prices and Eastern trends

"We have seen a squeeze since the beginning of the year," the supply and refining manager of a local multinational said. "There are signs that it's easing, but it could happen again as we have seen a structural change in global balances."

Engen CE Rob Angel said last week there were signs that margins were easing in Asia, and he confirmed that SA's refining

economics were even worse due to the fact that crude and product prices were based on two different markets

Engen's average gross refining margin, on a historical cost basis, was slightly higher in the year to August at \$4,48 a barrel (\$4,09 in 1995), but there had been a downward trend in recent months, he said.

The current numbers vary from one refinery to the next. An oil industry analyst said they had been less than \$2 a barrel in recent months

The oil companies have watched with increasing dismay this year as Asian oil product prices — on which their own product prices are based — declined relative to the crude prices that SA oil companies pay.

The reasons are complex, but largely relate to the increasing amount of refining capacity coming on stream in Asia

This year, for example, Thailand alone has had two major new refineries, built by Caltex and the Royal Dutch-Shell group, coming on stream. There have also been several others in southeast Asia.

The outcome has been that Asia has moved from being a region with a net shortage of finished oil product to a region which is sometimes oversupplied

(183) 20 11/11/96
Traders said the change might result in oil products being shifted from Asia to the Mediterranean and Europe for the first time in decades, rather than the traditional West-to-East flow

Local oil companies' crude pricing formulas are largely based on the major Western benchmarks — North Sea Brent Blend and US West Texas Intermediate — which have strengthened considerably in the past few months in relation to oil prices in Asia, including those for finished products.

Middle East crude oil marketers such as Iran, Kuwait and Saudi Arabia have separate formulas for Western and Eastern buyers, but they consider SA to be a hybrid between the two, and a large portion (50% to 75%) of their prices for SA buyers is based on the Western formulas.

In previous years this mostly favoured SA buyers, but recent trends have gone distinctly against them as the Atlantic basin markets heated up.

The strength of the Atlantic basin oil markets has been linked to low inventories caused by a shift towards "just-in-time" delivery policies, the growth in the US economy, and a number of cold winters in succession.

Refinery upgrade 'big challenge for Engen'

(183) NOV 96
Reinie Booysen

OIL company Engen's greatest short-term challenge remains in its Durban refinery, chairman Bernard Smith said in the latest annual report.

He said the focus on operational efficiency at the 104 000 barrel a day unit began to bear fruit in the second half of the year ending in August, as crude throughputs rose to attain and exceed the design capacity of the most recent expansion.

Smith said the performance of the unit during the first half of the year "was below expectations while the programme to improve reliability was in its early stages".

"White oil yields also improved steadily throughout the year, but some work remains to be done to consistently achieve, and then improve on, the design yields," said Smith.

In his report CE Rob Angel said the main focus of the refinery has been on operational efficiency at lowest cost.

Improved refinery operational efficiency was expected to "produce significantly better financial results this year", with refining margins expected at current levels in the year ahead.

The programme to improve plant integrity and reliability — launched

the previous year to address the disappointing refinery operational performance — had resulted in progressive improvements in refinery throughput and, more recently, in higher white oil yields.

Refinery throughput for the year rose by 24% to reach 32-million barrels, "in line with our plan". However the average white-oil yield fell short of expectations, and at 64,6% on a constant gravity basis was slightly lower than last year, he said.

Three major steps forward had been taken to reach the design targets of the upgraded refinery.

Firstly, the design throughput had been reached and exceeded for extended periods. Secondly, yields of higher value white oils had improved substantially since May because of a recently developed, technologically advanced catalyst, along with several process capability improvements with respect to the visbreaker performance.

Thirdly, progress was being made in addressing the power-interruption problems which had plagued the refinery and the greater Durban area for some time. Capital spending of about R60m would be directed mainly at improving reliability to improve operational efficiencies and white-oil yields.

Chemical unions, business set for national bargaining forum

Reneé Grawitzky

BD 13/11/96

(183)

MAJOR unions and employers signed a framework agreement this week which lays the foundation for the establishment of a national bargaining council in the chemical industry.

The signing, on Monday night, followed protracted and at times acrimonious negotiations.

The labour and employer caucus convenors said in a statement yesterday that the agreement, signed on the day the new Labour Relations Act came into force, would herald a new era in collective bargaining.

Despite such claims, a number of smaller employers and unions have yet to sign the agreement.

The agreement outlines the powers of the national bargaining council, the relationship between the national council and sectoral chambers and the levels of bargaining.

After negotiations, agreement was reached on the establishment of seven chambers which would fall under the

national bargaining council.

The seven chambers cover industrial chemicals, petroleum, pharmaceuticals, plastic converters, glass, rubber and consumer chemicals.

Employer convenor Fame Ernest said employers hoped the agreement would establish a generation of bargaining councils to serve the members of labour and employers alike.

Labour convenor Muzi Buthelezi said he hoped the constitution would be finalised before the end of the year although problems could arise because of the overlap in the plastics sector.

A number of plastics employers fell under the jurisdiction of the metal industry industrial council, who appeared unprepared to move to the new chemical council.

Buthelezi said discussions were being held with the National Union of Metalworkers of SA who represented members in the plastics sector.

If the parties could not resolve this issue it would be referred to either Nedlac or the Labour Court, he said.

New products help to lift Adcock Ingram's income

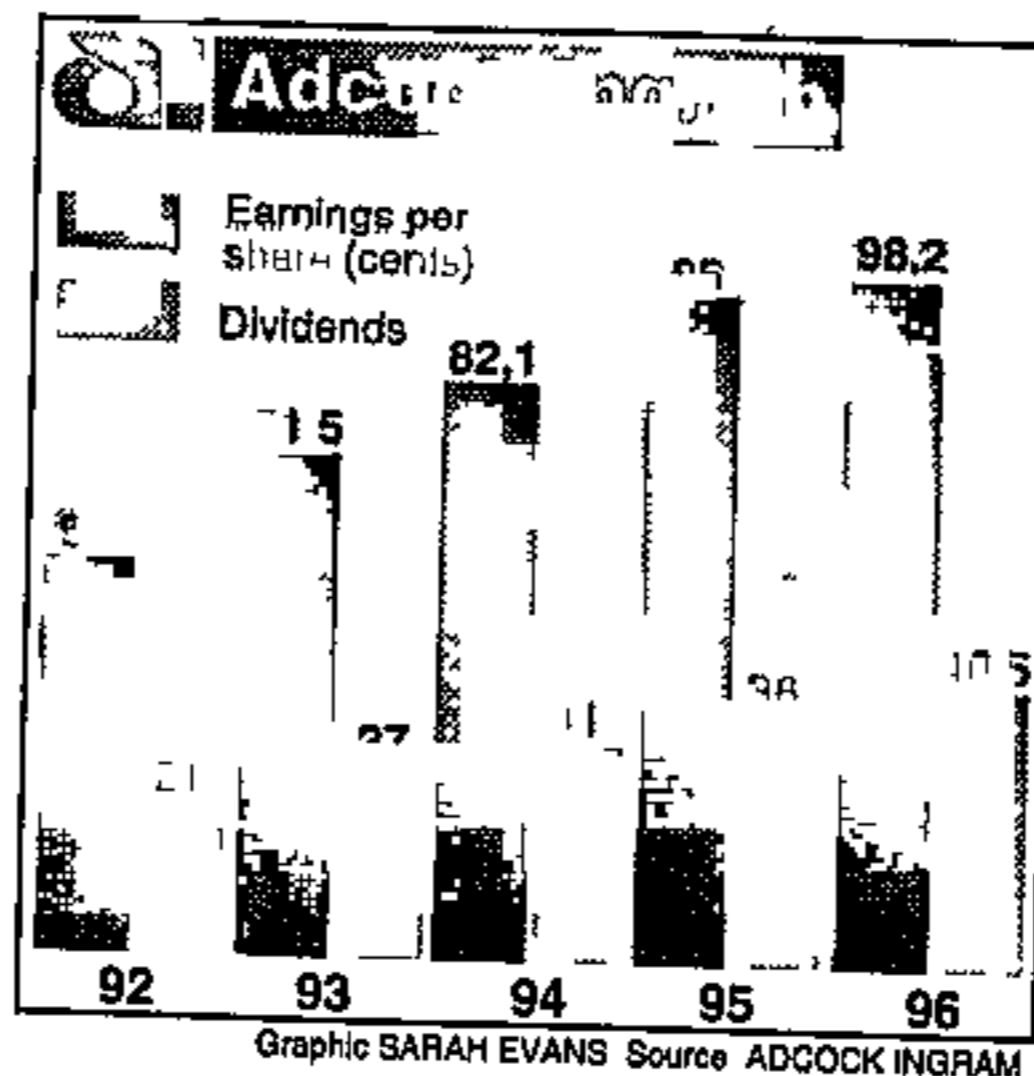
Lukanyo Mnyanda

INCREASED sales resulting from the launch of new products helped pharmaceutical group Adcock Ingram lift attributable income 42,4% to R203m for the year to September.

Headline share earnings increased 3,4% to 98,2c after a 107% increase in the company's share base to 287 651, following the implementation of its merger with Premier Pharmaceuticals (Prem-pharm). The group decided to discount the dilution caused by the enlarged share base and declared a final dividend of 27,9c, pushing the total up 12,5% to 40,5c.

Adcock Ingram's turnover was 28,8% higher at R1,5bn (1995: R1,2bn) while operating income shot up 36,5% to R257,6m compared with R188,7m last year. The tax bill rose to R87m (R69,6m), leaving post-tax profit at R203,5m from R142,6m last year.

CE Phil Nortier described the successful merger with Prem-pharm as the highlight of the financial year which had created a broad-based company with a di-



versified income source — putting it in a strong position to improve performance further.

"The wider product portfolio, increased critical mass (and) significant synergistic benefits, are expected to lead to strong earnings growth in 1997 and beyond."

The company was in an "extremely strong" position and had cash at year-end amounting to R326m, with a further R200m in short- and medium-term redeemable preference shares issued by financial institutions.

Pharmaceuticals experienced

(183) 20/19/11/96
good growth across the private and public sectors, particularly with the generics range. The critical care division had managed to maintain its dominant position in the intravenous solutions, blood and renal markets, increasing sales 8%. Private-sector sales grew 11%, while public-sector business was constrained by budget transfers to primary health care, inadequate infrastructure and distribution facilities, he said.

"The focus on primary health care will lead to an increasing number of patients, especially if the proposed hospital insurance package is implemented. Therefore, growth prospects in the hospital market are promising," Nortier said.

He said the group was working at speeding up its restructuring activities to achieve a flatter structure and the centralisation of support functions such as finance and administration.

The envisaged structure, coupled with the optimum use of manufacturing facilities, would lead to substantial savings over the next two years, Nortier said.

Adcock posts higher earnings after merger

ANN CROTTY

CONSUMER INDUSTRIES EDITOR

Johannesburg — Adcock Ingram, the pharmaceutical group which recently merged with Premier Pharmaceutical, has reported earnings for the year to September 30 of 98,2c a share, a 3,4 percent increase on the previous year's 95c a share.

A final dividend of 27,9c a share was declared for a total payout of 40,5c a share, compared with last year's 36c a share.

Adcock's financial 1996 figures include five months of results from Prempharm because the effective date of the merger was May 1. The figures for financial 1995 therefore relate only to Adcock's operations and are not comparable with the 1996 figures. The financial 1996 results do not include any effects from restructuring the merged entity, because that began last month.

Turnover rose 29 percent to R1,5 billion from R1,2 billion. Analysts said much of the financial 1996 turnover was attributable to former Adcock operations because Adcock

had the larger turnover base.

Operating income grew 36,5 percent to R257,6 million. That reflected an increase in operating margin from 16,2 percent to 17,2 percent.

The tax charge dropped to 30 percent from 34 percent. That reduction helped attributable income rise 42 percent to R203 million. The return on equity was squeezed to 30,2 percent from 31,9 percent and the return on assets fell to 28,4 percent from 31,1 percent.

The balance sheet after the merger shows that cash and deposits surged to R326,2 million from R116,5 million. This, and an additional R200 million in preference share investments, will help finance future growth and expansion.

Phil Nortier, the group chief executive, said the company was rightsizing and moving towards a flatter structure.

Support functions such as finance, administration, research and development, distribution and information systems would be centralised, he said. "Substantial savings are anticipated over two years as a result of the flatter structure."

CT(BE) 19/11/96 (183)

NEWS

Find sulphur blaze tapes, fire chief told

Weak communications blamed

(183) ARG 20/11/96

NORMAN JOSEPH
STAFF REPORTER

The commission investigating the AECI sulphur fire has ordered the fire chief of the Cape Metropolitan Council to produce records of telephone calls made to his control depot on the night of the blaze.

The commission of inquiry, headed by Mr Justice Siraj Desai, is probing the response of council firefighters to the fire, in Somerset West last December, which caused the death of two asthmatic

ics and the evacuation of the Macassar area

Fire chief William Munnik was told by Mr Justice Desai to produce, on January 20, telephone tape recordings and the occurrence book entries made on the night of the disaster

Mr Munnik told the commission the tape recordings of calls for help were erased by recordings of new calls

He was uncertain of the whereabouts of the occurrence book, but agreed to search all transcripts in his department.

The AECI sulphur dump fire fell within the jurisdiction of the council fire department in Ottery.

Earlier, Somerset West fire chief Gert Cilliers told the commission that he and his colleagues had been unaware of the sulphur dump at the AECI plant

This remark drew jeers from spectators

Mr Cilliers said there had been a serious communication problem between fire depots that attended to the fire.

The commission hearing continues today

Dithering on oil policy 'may scuttle

Reinie Booysen

CAPE TOWN — Billions of rands of investment in the SA oil industry are hanging in the balance because of government's inability to formulate and implement a coherent policy on the industry's future. Industry sources said at least two oil companies had suspended capital investments in their refinery and retail networks as a result of government's failure to award a

3c a litre margin increase—worth more than R500m a year to the industry — which the oil companies said they were entitled to in January this year.

In addition, a major refinery expansion in Durban could be scuttled if government's dithering on oil industry policy continued.

Feeding SA's rapidly expanding oil product market beyond 2000 would require hundreds of millions of dollars in new refinery

(183) BD 21/11/96

capacity over the next few years.

Investment decisions would have to be made soon if the country was to avoid prolonged reliance on imported oil products, but industry sources said the overseas head offices of local multinationals might decide to invest the money elsewhere, where growth and capital returns were less risky than in SA.

"The multinationals' boards look at the world on an ongoing ba-

sis, and they may decide Asia or even Latin America is more prospective, and less risky," says one source.

In its latest annual report, local oil company Engen said it was "crucial to all industry stakeholders that the 'rules of the game' be clarified and that they be applied equitably to all participants."

Chairman Bernard Smith continued: "Should the wholesale marketing margin increase, not

be forthcoming, the serious but perhaps inevitable impact will be a dearth of investment in an industry that is a prime engine for growth in SA and the region." He noted that SA would reach a shortfall in locally manufactured petrol and diesel "in the next few years."

Approval of the oil industry's request for a 3c a litre increase in the marketing margin has been held up for 11 months by repeated questioning from several quarters

of government, including the finance, transport, minerals and energy departments and the related parliamentary committees.

"At the moment we have the worst possible situation a regulated market in which regulations are not being observed," said one industry executive. "We are not saying we want a regulated market. But if the market is not going to be deregulated, then the regulations must be implemented."

expansion

PHARMACEUTICALS Main leadership positions in the merged company go to incoming executives

Prempharm axes Adcock management

(183) CT(DR) 25 111196

ANN CROTTY

CONSUMER INDUSTRIES EDITOR

Reshuffling leaves top personnel with an uncertain future

Johannesburg — Just weeks after the announcement of the R5 billion merger between pharmaceutical groups Adcock Ingram and Premier Pharmaceutical, the Adcock executive team has been replaced and virtually all the main executive positions are now occupied by Prempharm personnel.

Former Adcock executives say that throughout the prolonged negotiation process that led up to the merger they were told there would be some rationalisation but the best executives and systems from the two organisations would be kept.

However, within days of last month's announcement, Adcock executives were being informed of their retrenchment. "There was no sign of any appraisal system being used to assess the needs of the merged group, it was simply a matter of Adcock guys getting the bullet and their responsibilities being assumed by Prempharm people," a former Adcock executive said.

The most extensive cutbacks have been executed in Adcock's pharmaceutical division, which has won awards for distribution

The Adcock Ingram 1995/96 group executive committee face an uncertain future after the R5 billion merger with Premier Pharmaceuticals



Chief Executive, Consumer Health Care
Chris Rose



Group Human Resources Manager
Penny Abbott



Group Corporate Director
Arthur Bennett



Chief Executive, Wholesale
Sandy Jones



Group Financial Director
Daryl Kronson



Chief Executive, Consumer Health Care
Chris Rose



Chief Executive, Pharmaceutical
Richard Rushton



Chief Executive, Pharmaceutical
John Spence



Chief Executive, Pharmaceutical
Ian Strachan

The only senior executive left in the marketing director. That division's distribution facilities will be closed and replaced by Prempharm operations which some industry sources say are less efficient than Adcock's.

Within the top level of management in the merged group, the only position that is held by a former Adcock executive is that of Daryl Kronson who remains financial director and company secretary in the enlarged group.

Mike Norris, who is regarded as an Adcock appointee, did in fact come from Logos Pharmaceutical. Phil Norrier, who was chief executive at Prempharm, is now the chief executive of the enlarged Adcock.

Responding to queries about the retrenchments, Norrier said "Adcock's policy in the past was the total decentralisation of its divisions, including all the support services. As a result of this policy there was costly duplication in many areas, such as information technology, finance and administration and human resources. The policy of the newly merged company is to leave sales and marketing decentralised and to centralise all support services. As a result of this policy, a large number of senior and middle managers are being made redundant or are being retrenched."

He said the process was taking place in Prempharm and Adcock. "But the majority of the retrenchments are coming from Adcock where most of the duplication is to be found." JSE analysts support Norrier's attempts to remove costs from the system but question why greater efforts have not been made to identify and retain the better of the two companies' executives and systems.

As one analyst said, there were dramatic differences in the culture of the two groups. "There's no doubt that there was a lot of fat in Adcock that needed to be trimmed, but the company has a very good reputation in a number of fields and the short-term cost savings are likely to have adverse long-term consequences," the analyst said.

An independent industry source said there were two main areas of concern. One was that the imposition of the Prempharm culture at the expense of the Adcock culture was not necessarily efficient. "In the short term, it is more difficult to establish a compromise, but longer term it is more efficient," said the source.

The second was the likelihood that where Adcock had cheaper products that competed with Prempharm, the prices were likely to move up to the higher level.

Retrenchments below executive level are under discussion. "We're at a very delicate stage at the moment," said Kronson.

Union members at Adcock are nervous because of the cutbacks at executive level. In a recent placard demonstration at one of the plants, they demanded to know why only Prempharm management was at the top of the new group.

Unleaded petrol fails to spark interest at the pump

Reinie Booysen

BD 26/11/96

(183)

GOVERNMENT and the oil industry are considering a fresh bid to promote the use of unleaded petrol amid signs that its share of the 10,2-billion litres a year petrol market has stagnated well below the target level of about 20%

Industry sources said the strategies being considered included increasing the discount for unleaded petrol and a nationwide awareness campaign

Oil industry sources said they had been surprised by the low demand for unleaded petrol.

Recent sales figures suggest there is little chance, at current pricing differentials, that unleaded petrol use will rise much above the current market share of 9%-10%

At present, unleaded is 4c a litre cheaper than leaded petrol. In Gauteng 91-octane unleaded costs 209c a litre, while 93-octane leaded is 213c a litre. At these prices a 60-litre tank of unleaded would cost R125,40, while a 60-litre tank of leaded is R127,80 — 2% more expensive

"I am not sure whether petrol users generally do not think about the price, but it seems that there must be many people out there who could be using unleaded but, for some or other reason, do not want to benefit from the lower price," said one oil company official.

The official said about 90% of the SA car pool could use unleaded petrol with little or no adjustment to the engine

The National Association of Automobile Manufacturers of SA says only 10% of cars cannot use unleaded petrol at all, either due to their age or the fact that they are high-performance vehicles requiring a higher octane. About 65% of cars can use unleaded without any adjustments whatsoever, and another 15% can use unleaded after minor engine adjustments to account for the change in octane. The other 10% can use unleaded, provided leaded is used from time to time to mitigate valve-seat wear

When the grade was launched in February, the oil industry and govern-

Continued on Page 2

Petrol

Continued from Page 1

ment aimed to convert about 20% of the petrol market to unleaded by May next year. To promote the use of unleaded fuel — considered less harmful to human health than leaded petrol — government agreed to lower the fuel tax by 6,2c a litre for unleaded

The oil industry agreed to make investments totalling R300m in their refineries and distribution networks in order to meet the projected growth in unleaded petrol demand.

At the time, the industry expected to receive a slightly higher price for unleaded petrol, based on trends in the international markets. Since then, however, international prices for leaded and unleaded fuel have been roughly similar.

Plastall flexes its share earnings

ET(BR) 27/11/96 (183)

JONATHAN ROSENTHAL

Johannesburg — Plastall, the flexible plastic manufacturer, reported yesterday a 46 percent increase in earnings a share to 30,7c for the year to September 30

Turnover rose 14,4 percent to R84,7 million and operating income increased to R6,7 million from R4,5 million the previous year.

The directors decided to issue capitalisation shares at a rate of 5 shares for 100 ordinary shares held, or shareholders can elect to receive a cash dividend of 10c a share.

Bob Wenteler, the chairman of Plastall, said trading conditions during the year were extremely competitive, but a focus on cost control and productivity improvements had led to the increased profitability.

The results reflected strong performance in all divisions, with the company's market share increasing

in the agricultural, construction, industrial, and packaging markets, Wenteler said.

The group had concentrated on its Grundle range of branded products, which had been well received by the market and gave it greater exposure to sales of higher-margin products

Wenteler said the group's national manufacturing and distribution infrastructure would enable it to develop its packaging interests through acquisitions and construction of new manufacturing facilities.

"This should result in further market penetration for both local and export markets," he said.

Group capital expenditure rose to about R4 million from R1,9 million the previous year. Interest-bearing borrowings increased by R300 000 to R9,1 million.

This is the third consecutive year in which the group has reported a profit after losses in 1992 and 1993.

The company's focus on cost control and productivity led to the increased profitability

SA oil industry voices concern about minister's lack of availability

Reinie Booysen

THE SA oil industry has appealed for an urgent meeting with Mineral and Energy Affairs Minister Pennell Maduna amid mounting concern about the industry's prospects.

Sources said industry representatives had been seeking a meeting since Maduna took office in July, hoping to discuss key issues affecting the future structure of the industry, including price rises for diesel and petrol.

A meeting scheduled for Monday this week was cancelled by Maduna at the last minute — despite the fact that most of the heads of SA's major oil companies had made special arrangements to attend the gathering.

The sources said Maduna had indicated that he might be able to meet the industry representatives only in January next year at the earliest.

Maduna's excuse for cancelling was a heavy work schedule due to a special project for President Nelson Mandela. Sources said that Maduna had been closely involved in attempting to re-

Oil industry (183)

Continued from Page 1

SA, an industry source said "In spite of that we have yet, after five months, to meet the minister as an industry."

The source pointed out that BP was the largest British investor in SA, Caltex the largest US investor, in SA, Anglo-Dutch Shell the largest Dutch investor, Total the largest French investor and, Engen's controlling shareholder, Petronas, the largest Malaysian investor.

Sources said while the SA market was growing fairly strongly, there were many less risky opportunities in other parts of the world, with stable, development-orientated governments.

Continued on Page 2

internal African National Congress squabbles in the Free State and Eastern Cape. Maduna's office said he would be out of SA for most of the rest of this year on trips to Saudi Arabia and India.

High on the industry's list is a 3 c/l increase in both diesel and petrol, which the oil companies say should have been implemented last January.

They complain that government is ignoring regulations intended to ensure an industry-wide return on marketing assets of 15%. The industry's re-

turn on these assets was 8,7% last year, and confidential figures made available to Business Day showed that some multinationals' returns were well below this level.

The oil companies claim they were entitled to a marketing margin increase of 3c/l in January, worth more than R500m a year, to help meet the target rate of return, but appeals to government have been unsuccessful.

At least two multinationals have frozen capital investment in their SA subsidiaries until there is greater clarity on government policy.

183 PD 28/11/96

Nat government 'kept stockpiled sulphur a secret'

183

NORMAN JOSEPH
STAFF REPORTER

ARC 28/11/96

The previous government kept details of its stockpiling of large amounts of sulphur a closely-guarded secret, the commission of inquiry into the sulphur fire at African Explosives and Chemical Industries in Somerset West has been told

The fire on December 16 caused the deaths of two asthmatics and the temporary evacuation of Macassar

Cross-examining Alexander Weir, AECL group safety and environmental officer, Macassar Crisis Committee counsel Lee Bozalek said the former government's secret sulphur stockpiling coincided with widespread political instability of the 1960s.

Mr Bozalek quoted part of a letter from an official in the Department of Industry, Commerce and Tourism. "The government stocks of sulphur at Somerset West are to be increased by 15 000 tons. As in the past you will buy at the most advantageous prices as if for your own account and the name of this department or the government must not be disclosed in any transaction."

Sentrachem warns of drop in earnings

(183)
Reinie Booysen

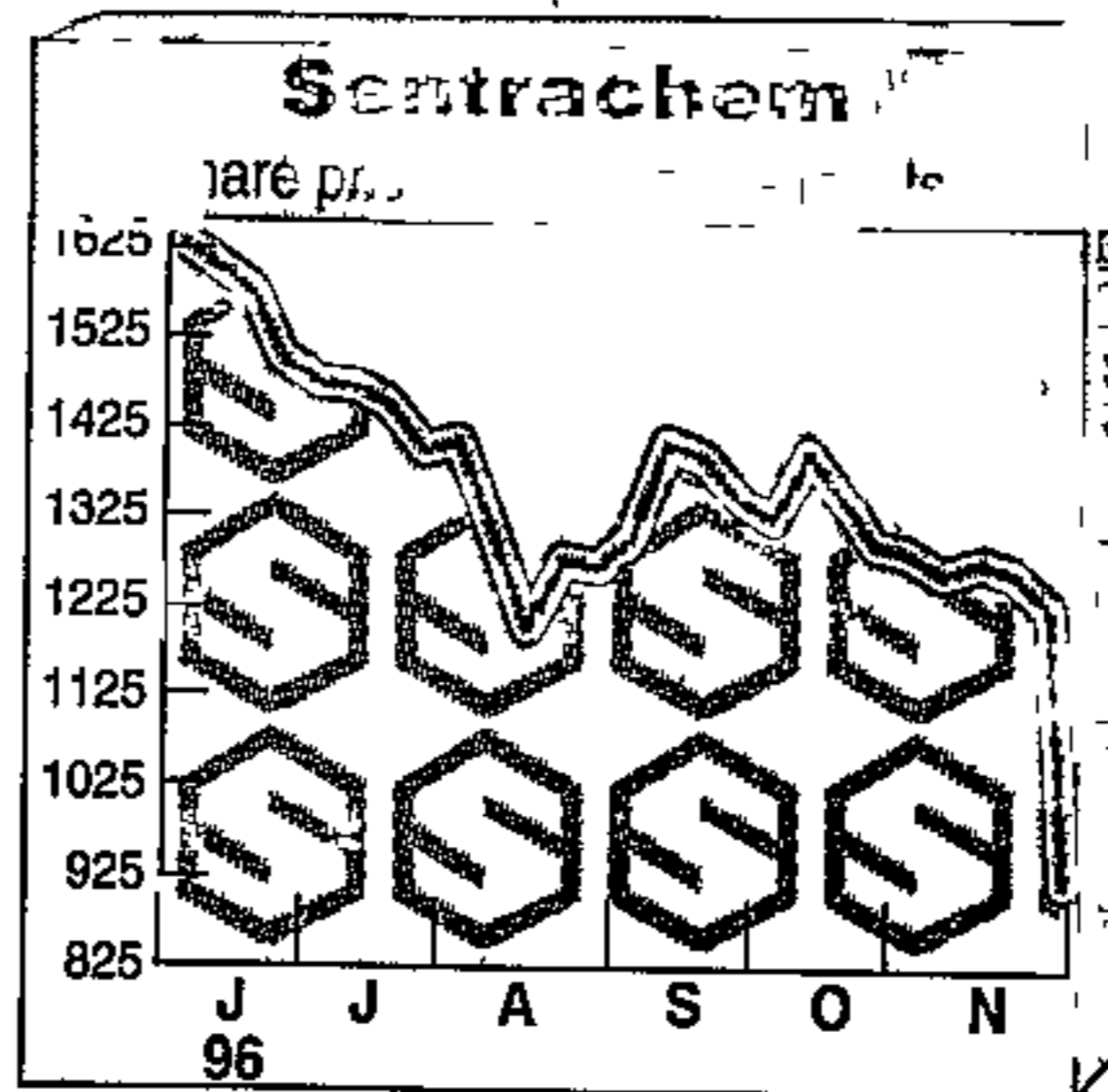
BD 29/11/96
CHEMICALS manufacturer Sentrachem shed 25% to 920c on the Johannesburg Stock Exchange yesterday — its lowest level since 1994 — after management cautioned that earnings would be severely dented by a R120m post-tax charge to offset ill-judged foreign exchange contracts.

The share dipped to an intraday low of 800c before settling at the 920c closing level — 310c below the previous day's close of 1 230c.

A cautionary announcement published yesterday and preceded by the resignation of a senior Sentrachem executive on Monday, warned that the cost of hedging the foreign exchange exposure would lop 60c a share off earnings for the current year.

One analyst said he had predicted full-year earnings of 160c a share before the announcement, compared with 131,2c in the previous year to August. "Now I expect the figure to be below 100c."

The foreign exchange contracts



were all related to wholly owned subsidiary Sanachem, from which CE Robert Mangard resigned on Monday to be replaced by executive chairman Ralph Oxenham.

Sentrachem MD John Job declined to comment on the reasons for Mangard's departure.

Financial director Norman Kennel-

Continued on Page 2

Sentrachem

(183)

Continued from Page 1

ly said Sanachem had agreed to "forward exchange contracts" for sales of about \$287m — for a forward period of 18 months — at exchange rates which had turned out to be well below the spot rates for most of this year and those expected for next year.

The forward exchange contracts were taken out over several months until February this year. Since then the rand has weakened considerably against the dollar.

Kennelly said the 18-month forward export cover period was well beyond Sentrachem policy. "I do not think export cover should be taken beyond six months, if at all."

Forward exchange cover contracts had also been taken on future sales, and not just invoiced sales as prescribed by Sentrachem policy.

After discovering the true extent of the company's exposure, Sentrachem had decided to nullify most of the risk by hedging a large portion of the forward dollar sales.

The opportunity cost of the forward exchange contracts totalled R180m before tax, and R120m after tax.

BD 29/11/96

"We decided to take our medicine now, and start with a clean slate by effectively nullifying those forward contracts," Kennelly said. "Instead of Sanachem getting the poor exchange rate agreed to in the forward contracts, it will now get the actual spot exchange rate, which pays many more rands for dollar sales."

Job said the exchange rate exposure had been compounded by a revaluation of Sanachem's physical export prospects. "It started becoming clear to me last month that the export prospects were not as good as Sanachem's budget indicated," he said. "We realised we would not be able to trade our way through this poor exchange rate position."

Yesterday's news followed the loss of R80m last year related to unofficial loans made by a former CE of Sentrachem International, Wilham Bergh, to an overseas shipping company, Adriatic Tankers.

Sentrachem came under scathing criticism from analysts yesterday. "At the end of the day, the question must be asked whether Sentrachem has the necessary controls," said one. "The Adriatic Tankers debacle was more understandable, but this foreign exchange situation was entirely within their control."

Forward losses jolt Sentrachem

CT(BR) 29/11/96 (183)

JOHN SPIRA

DEPUTY EDITOR

Johannesburg — Sentrachem, one of South Africa's largest chemical groups, shed R630 million of its value on the JSE yesterday after an announcement from the company that its Senachem subsidiary had incurred substantial forward foreign exchange losses.

After closing at R12,30 on Wednesday, the share price plunged to R8 yesterday morning but recovered to close at R9,20. At yesterday's R8 low, Sentrachem's market capitalisation had slumped by nearly R1 billion to R1,8 billion. Six months ago the shares had changed hands at R17,50.

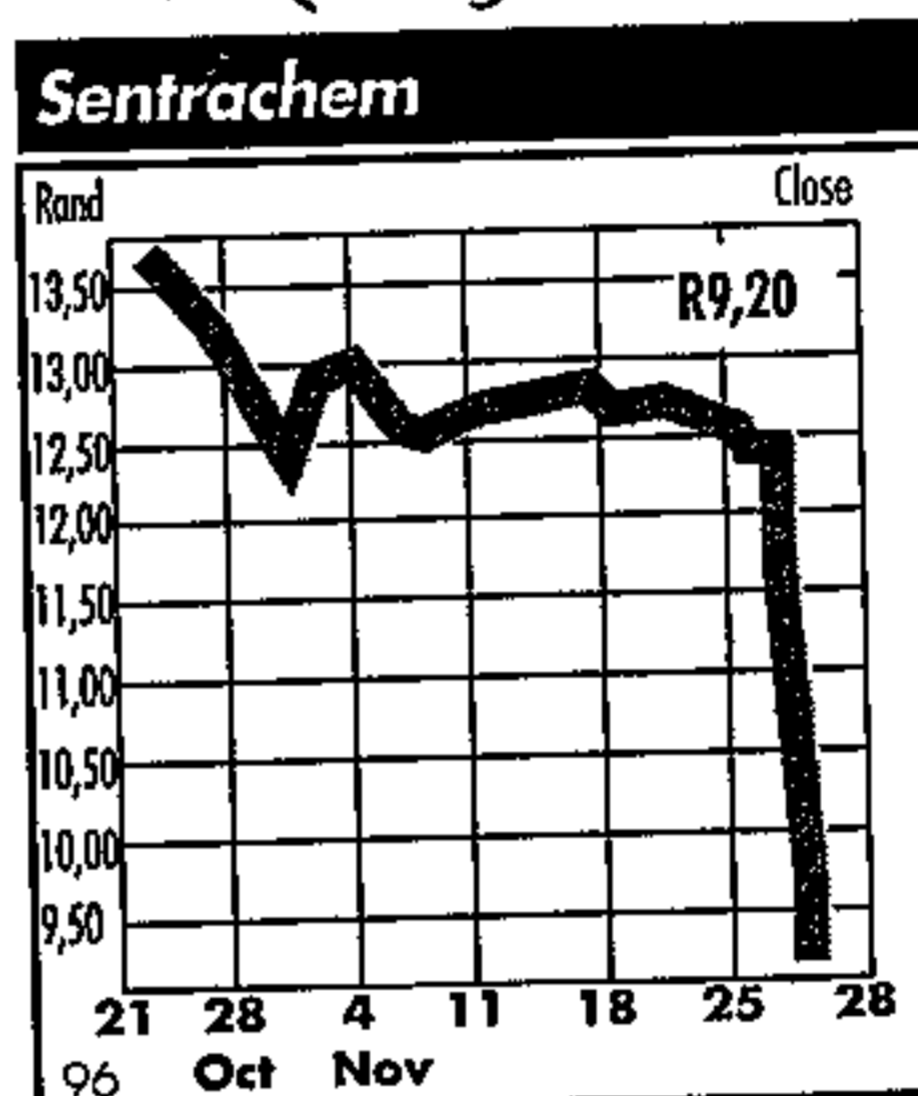
The company also said yesterday that Ralph Oxenham had become Senachem's executive chairman with effect from November 25. Senachem was formerly headed by Robert Maingard, who market sources accordingly speculated might have been implicated in the forward exchange losses.

They expected Sentrachem to release information on Maingard's position in the near future. Norman Kennelly, Sentrachem's financial director, declined to comment.

The announcement said the profitability of Senachem, which accounted for 10 percent of Sentrachem's operating profit last year, had been severely compromised because it was burdened with forward exchange contracts representing 18 months of export trade.

Sentrachem said the effect of the contracts on group profitability next year would be in the region of a "substantial", though non-recurring, 60c a share. In the year to August 31, Sentrachem earned 131,2c a share.

The announcement said Sen-



trachem's other four companies were continuing to show improved operating performance. It said Senachem's operating performance was expected to be well below last year's and the company was "urgently and rigorously" reviewing its profit forecast for this financial year.

Though Sentrachem's earnings this year were a disappointing 6,3 percent higher than the previous year's, its five-year annual earnings a share compound growth rate was 20 percent.

When the results were released, John Job, the chairman, said the group was 45 percent rand-hedged. The rand had traded at an average of R3,98 to the dollar during the financial year, providing Sentrachem with an ideal platform with which to kick off this financial year. He gave no hint of forward exchange problems.

Yesterday's news came as a shock to the market. However, Louis Venter, an EW Balderson analyst, pointing to the share price's 30 percent decline in the last six months, believed perceptive investors had partially anticipated the forward exchange losses. He said the losses were non-recurring and the shares were very good value at yesterday's sharply lower levels.

□ Business Watch, Page 20



READY TO TAKE THE PUNCH... John Job, managing director of Sentrachem, is expecting a drop in earnings

Sentrachem rides forward cover blow

ST(BT) 1/12/96 (183)

COMPANIES
By ZILLA EFRAT

THIS week's shock announcement that forward exchange losses will wipe 60c off Sentrachem's earnings a share in the current year to August sent the chemical group's share price tumbling to levels last seen in 1994

On Thursday, the price slumped to a low of 800c before closing at 920c — a 25% fall. The share was trading at 954c on Friday afternoon. The group will reportedly be knocked by an R120-million after-tax charge — R180-million before tax — related to poor management of forward cover contracts at agricultural chemicals subsidiary Sanachem.

On Monday, Sanachem's deputy chairman, Robert Maingard, resigned. Ralph Oxenham has taken over and is "rigorously" reviewing Sanachem's profit

forecasts for the current year.

He is also examining all aspects of Sanachem's business, including its markets and products, says Norman Kennelly, Sentrachem's financial director.

Kennelly declines to comment on Sanachem's problems and whether it is likely to incur a loss for the year. But Sentrachem managing director John Job does expect it to show a drop in earnings. "The foreign exchange issue is limited to 60c a share, but for operational reasons there could be a further way to go," he said.

The company accounted for 10% of Sentrachem's profit in the year to August. Sentrachem's earnings for the year were 131.2c

a share. After a solid first half, Sanachem came off in the second and its earnings for the year dipped despite a 18% rise in sales.

In the annual report, Maingard says Sanachem was hurt by high interest charges, increased working capital requirements, production interruptions and raw material shortages. Sanachem apparently took on forward exchange cover contracts for sales of about \$287-million for a period of 18 months. However, most companies have been hedging for periods of three to six months, the maximum usually being a year.

Sanachem's contracts were at exchange rates that turned out to be well below the spot rates for this year and those expected for next. A banking source said Sanachem might not have in-

currred losses of this extent if the exports it had covered forward over the 18-month period had materialised. Its potential income would instead have been reduced by the opportunity cost of not benefiting from a weaker rand.

Kennelly says it appears export budgets are unlikely to be achieved. Sentrachem has taken the knock up-front, sparing Sanachem from having to sell at rates below spot. Observers say it could have hidden the forward losses and allowed for a poor performance over time. Sentrachem's four other businesses — US-based Hampshire Chemical Corp, Karbochem, NCP and Safripol — continue to show improved operating performances against last year and none appear to have experienced problems.

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Uncertainties surround petrochemical project

Reinie Booysen

TAIWAN's proposed \$3bn petrochemical project had been heading for dire straits before the decision by the SA government to shift diplomatic recognition from the island to China

A consortium of Taiwanese companies — including the state-owned Chinese Petroleum Corporation and a major private operator, Tuntex — proposed the project earlier this year, on a joint-venture basis with the major SA petrochemical companies, including AECI, Polifin, Sasol, Sentrachem and the SA oil refiners

Sources close to the consortium of SA petrochemical companies considering Taiwan's proposal for the project indicated that they were becoming increasingly frustrated by Taiwanese responses to the SA companies' concerns about the weaknesses of the project.

"Their responses to some of our concerns about the project were a bit too quick and superficial," said a source. "We needed a more in-depth response to our concerns, and it seemed as if they were just brushing them aside."

One major concern about the project related to the timing of the venture

"The Taiwanese proposed coming on stream in 2001 or 2002," said the source. "At that time it looks as if in-

ternational demand for the major petrochemical products is only going to be about 60% of installed global capacity. So we would be coming on stream just when international prices are likely to be under serious pressure."

The source said the Taiwanese response to this issue appeared to suggest an unwillingness to tailor the project's parameters in accordance with the SA consortium's worries.

Local companies have been considering the Taiwanese proposal to commence a feasibility study on the plant's prospects for several months. The plant, if it receives the go-ahead, was likely to be situated on the SA coast, probably in the Eastern Cape.

Senior sources in the minerals and energy department said last week it was logical to assume the project would be scuttled following President Nelson Mandela's decision to shift diplomatic recognition to mainland China

In an official comment, however, the Central Energy Fund, which reports to the minerals and energy department, and which has co-ordinated the SA study on the petrochemical project, said there were a number of issues which had been put to the Taiwanese for clarification. "No decision to proceed with a feasibility study has been taken," said CEF's Howard Roberts

BO 2/12/96 (183)

Swedish firm buys half of Paperkem

(183) CT(9A)5/12/96

STUART RUTHERFORD

Durban — Prochem, a wholly owned subsidiary of South African Druggists, has sold a 50 percent stake in Paperkem, a Durban chemicals producer, to BIM Kemi, a Swedish specialist paper company, for several million rands, Tom Pinkney, the general manager of Paperkem, said yesterday

Paperkem has a turnover of

about R30 million a year. It is the largest supplier of sizing and paper-strength chemicals to the South African paper and pulp industry.

Pinkney said the deal would broaden the company's product range and was expected to double the size of its business within three years.

He said to accommodate this increase, Paperkem would invest about R1,5 million in the next two

years to increase capacity by 30 percent at its factory in Jacobs, Durban.

The deal provides Paperkem with access to BIM Kemi's technology and gives it exclusive rights to manufacture and sell the company's products in sub-Saharan Africa.

Paperkem also has a technology agreement with Arakawa of Japan, one of the world's largest suppliers of dry

strength resins.

Pinkney said though the agreement between the two parties was only completed last month, it had taken effect from September 1.

Mike Struwig, the chemical director of SA Druggists, said though Paperkem was quite a small member of the group, the move was part of a drive to bring world class technology into the group.

SENTRACHEM

(183)

FOREX NIGHTMARE

KMB/12/96

Market reaction to Sentrachem's profit warning on forward exchange contract losses from subsidiary Sanachem — they will wipe 60c off EPS this year — has been swift and harsh. The share price dropped from last Wednesday's R12,30 to just below R9 earlier this week.

For MD John Job, explaining the impact of the nonrecurring loss this week, the episode has been nightmarish.

He accepts the market may not easily forgive Sentrachem, particularly after last year's loss of R80m from unofficial loans granted by an offshore subsidiary, but says this was considered in the decision "to come clean and take the knock now."

Job's position, and that of financial director Norman Kennelly, were debated by Sentrachem's board when details and the extent of Sanachem's forward losses were discovered just over two weeks ago. The decision was to support the two senior directors as the company takes the full knock this year and sets about restoring its earnings record in 1998.

"Everyone asks why we woke up so late. Until Monday, November 11, when I met Ralph Oxenham (the Sentrachem director appointed chairman of Sanachem last week to sort out the mess) in Boston, I was not aware of the true position Sanachem was in.

"Until then, I believed it could trade through the forward exchange contracts built up. After speaking to Ralph, I realised the position was very different."

Job would not comment on the resignation, last Monday, of Sanachem CE Robert Maingard. He was acquired, along with full control of Sanachem, in 1994, when Sentrachem bought the KwaZulu-Natal based agricultural exporter for R239m.

Job admits that as a previous joint venture, Sanachem had more autonomy than other group divisions, mainly because it had been successful. "It may be that after the joint venture days, Sanachem's management tried to accelerate growth, perhaps with some compromise to the bottom line," Job says.

Still, he accepts responsibility lies with head office. "Forward contracts on 18 months' export trade are unacceptably long — it became a gambling position — totally contrary to group policy.

"We've decided to put the mess in a box, have closed the position and will

trade at spot prices, or certainly not longer than a few months," Job says.

While Job can be credited for taking the knock upfront — and accepting the market's downrating of the share — the issue again raises the question of Sentrachem's financial controls. Job says these will be subject to a broader review throughout the group.

The loss will probably see EPS fall about 30% this year. Thereafter, Sentrachem should resume real earnings growth off a lower base. It could take some time for the market to forgive Sentrachem and rerate the share. *Shaun Harris*

Oil industry waiting for ⁽¹⁸³⁾ state decision

ARG 11/12/96
BUSINESS REPORTER

The South African oil industry is still waiting to hear from the Government whether its request for a 3c a litre increase in the wholesale marketing margin currently paid to companies will be granted.

So said Bernard Smith the chairman of Cape-based oil company Engen in his address to shareholders at Engen's annual general meeting yesterday.

The industry has seen its return on marketing assets fall to 8,7 percent since 1995, compared to the 15 percent target level as specified in current regulations.

Mr Smith said he also hoped that progress would be made over the next few months towards deregulating the industry.

"Engen remains willing and able to work with Government and other stakeholders to address the issues facing the oil industry. They are complex and it will take a substantial amount of goodwill to ensure a successful outcome."

Mr Smith remained confident that Engen would show a rise in net income in the current financial year, ignoring the beneficial impact of any increase in the wholesale margin, and so long as international refining margins, crude oil prices, and the rand-dollar exchange rate did not vary significantly from 1996 levels.

"By way of an update, during the first quarter of this financial year, international refining margins have, in fact, narrowed relative to the average margins in 1996. Crude prices are currently well above the 1996 year-end level, although there is general sentiment that these prices will not be sustainable through 1997," Mr Smith said.

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OIL INDUSTRY *Benefits from the Petronas agreement should be realised*

Engen powers towards further profit

MARC HASENFUSS

CAPE EDITOR

Cape Town. — Engen, buoyed by its strategic partnership with Malaysian-based Petronas, appears on track for further profit growth in the financial year to August 31 next year, Bernard Smith, the chairman, said at the company's annual meeting yesterday.

Smith said strong relationships were being built with Petronas, the national oil and gas company of Malaysia, which acquired a 30 percent stake in Engen in August.

He said the benefits from the co-operation agreement with Petronas should start to be realised this financial year, particularly in the areas of logistics and business ventures.

He said progress had been made in the past financial year in establishing Engen on a path to improved performance and increased profitability. An increase in net income should be achievable, if international refining

margins, crude prices and the rand-dollar exchange rate did not change significantly from the past year's levels.

He said international refining margins in the first quarter of the new financial year had narrowed relative to the average for the year and crude prices, higher since Engen's year-end, would not be sustainable through next year.

Smith said improving the performance of Engen's 104 000 barrels-a-day Durban refinery was one of the primary challenges in the year ahead. He said Engen was confident the plans in progress would achieve the desired result.

He hoped progress would be made in the deregulation of the South African oil industry because the uncertainty was placing local oil companies in a difficult position. He said the industry was waiting for a response from the government on the application for a 3c a litre rise to the wholesale marketing margin paid to oil companies.



BETTER DAYS? Bernard Smith, the chairman of Engen, believes benefits from closer co-operation with Petronas, its Malaysian partner, will flow through next year. PHOTO: ANDREW BROWN

EXPANDING IN HEALTH CARE

FM 13/12/96

The restructuring and repositioning of SA Druggists from its origins as a pharmaceutical manufacturer to a composite

ACTIVITIES Health-care products and services, including the manufacture of pharmaceuticals and operation of primary clinics

- **CONTROL** Malbak 77,9%
- **CHAIRMAN** D C Brink CEO PJJ Beningfield
- **CAPITAL STRUCTURE** 74,4m ords Market capitalisation R3,13bn
- **SHARE MARKET** Price 4 210c Yields 1,6% on dividend, 4,4% on earnings, p e ratio, 22,5, cover, 2,8 12-month high, 4 500c, low, 3 350c Trading volume last quarter, 1,5m shares

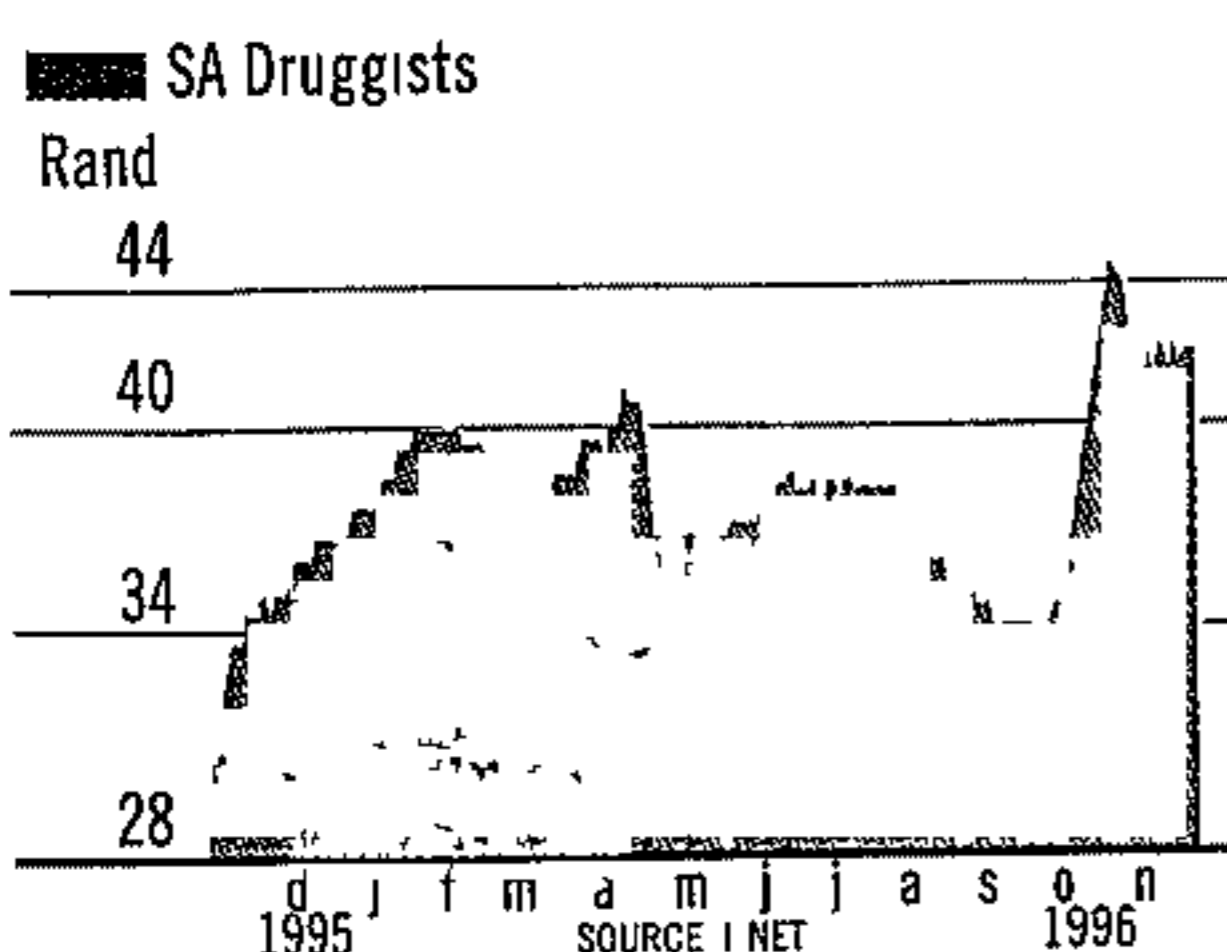
Year to August 31	'93	'94	'95	'96
ST debt (Rm)	9	8	39	82
LT debt (Rm)	20	17	9	103
Debt equity ratio	n/a	(0,10)	0,03	0,14
Shareholders' interest	0,53	0,53	0,45	0,45
Int & leasing cover	4,8	23,2	8,5	5,8
Return on cap (%)	10,1	11,5	10,0	11,6
Turnover (Rm)	1 836	2 150	2 468	3 004
Pre-int profit (Rm)	110	139	161	213
Pre-int margin (%)	6,0	6,5	6,5	7,1
Earnings (c)	97,9	144,4	172,8	187,1
Dividends (c)	51,5	56,0	62,0	68,0
Tangible NAV (c)	971	1 048	1 084	1 151

provider of health-care products and services unquestionably ranks as one of Malbak's major successes

Acquired in 1991 with the break-up of FedVolks and merged with Malbak's own health-care interests, SAD shares at the time were trading on a p e of 8,5. Since then, this ratio has consistently remained between 15 and 20 (currently 19,6, based on headline EPS) which, coupled with a virtual doubling of earnings over the five-year period, underscores the value that has been created for shareholders — including, of course, Malbak itself.

Interestingly, if one looks simply at profitability it is clear that the enhanced market rating has so far been based more on perceptions of future growth potential rather than actual delivery.

Comparing the group now with what it was in 1991, and using its own profitabil-



ity measures (the definitions of which, in some cases, differ from the FM's standard calculations), the trading margin of 7,8% before exceptional items is the same as five years ago, while the gross

return on average funds employed, at 23,6%, is two percentage points lower. The only ratio to have improved is ROE which, seemingly because of lower gearing, has advanced from 16,3% to 20,4%.

What this simplistic approach overlooks, however, is that the 1996 ratios include the impact of the vastly expanded health-care division, where funds employed have increased from R97m two years ago to R384m now.

In the process, Healthcare has become SAD's largest division in terms of turnover (42% of the total) and second largest (after Pharmaceutical) in terms of funds employed (38,4%), but with a minimal contribution to operating profit of only R22m (9%).

The raw numbers consequently understate the major productivity, efficiency and profitability gains achieved in the Pharmaceutical and Chemical divisions which have allowed SAD to absorb the short-term negative impact of the expanded Healthcare without undue effect on its globular performance figures.

The impact is far more visible in the balance sheet where, since 1994, there has been a R180m turnaround from a net cash position of R67m to net borrowing of R113m. This was mainly because of capex associated with the establishment of what is now a chain of 28 Medicross health clinics.

Not that the balance sheet is in any way strained — the debt equity ratio is still a modest 14% and interest cover remains healthy at almost six times.

But the group has nevertheless taken steps since the year-end to beef up its finances. In total, it has raised about R220m, first through the issue of 3m shares at R36 each (R108m in total) and, second, as a result of the re-acquisition by American Home Products of the marketing rights to six AHP products which up to now have been manufactured and marketed by SAD. This brought in another US\$25m (roughly R112m).

With net borrowings of R113m at year-end, the group goes into 1997 with

R107m in the kitty in addition to its normal cash flow to fund remaining capex commitments (R83m) and acquisitions, including the recently announced takeover of NMA Administrators.

Accepting that SAD is still in transition, the picture that emerges is of a group well-positioned to participate in the growth of the health care industry — when government finalises and implements its health-care delivery system.

Delays here were one of the reasons why management's EPS growth forecast of 15%-20% for 1996 was not met (the actual increase in headline EPS was 12,5%), and continuing uncertainties in this regard

are reflected in CEO Peter Beningfield's rather muted target of a 15% improvement for the current year. He adds, however, that "growth on a more generous scale" is likely in 1998 and beyond as the current development phase is completed and the group is able to reap the benefits of its expansion and restructuring initiatives.

It is this potential that is reflected in the market's enhanced rating of the share. If the group delivers as expected, SAD should continue to out-perform the Pharmaceutical sector. *Brian Thompson*



Peter Beningfield

SENTRACHEM

THE CUBA CONNECTION

Chemical giant Sentrachem, recently hit by R180m forex-related losses, now faces massive exposure over secret deals with Cuba

A Havana source says the Cuban government's central buying organisation failed to pay US\$8m for goods supplied by pesticides subsidiary Sanachem. Payment was due last September, after 360 days' extended credit expired. A question mark now hangs over further invoices totalling \$12m, which fall due by next April.

The Cuba connection focuses the spotlight on Robert Maingard, former CE of Sanachem, who supplied the goods through an offshore front company registered in Jersey. Maingard's activities could attract the attention of the SA authorities. For while he collected export incentives under Geis of up to 19.5% on invoices, it is claimed that goods were shipped to Cuba on consignment where they remained unsold, often for months.

It was in March 1989 that Maingard's Durban-based Farm-Ag company started trading with Cuba. In the apartheid years few Latin American countries could be seen to be dealing with SA, so Maingard took steps to invoice these markets through an offshore company in Jersey and claimed the Geis incentives.

By 1992 sales — mainly to Cuba — had reached more than \$5m. But that year Farm-Ag concluded an agreement to sell its 50% stake in Sanachem to Sentrachem three years hence, in 1995. Crucially, the price was to be set on Sanachem's final value, the criteria being related to factors including share value and profits over the three-year period.

Thanks in part to the Cuba connection, Sanachem's pre-tax profits leapt from R5m in 1990 to R58m in 1993. This placed the price for Farm-Ag's 50% of the company at R238m. Maingard, a substantial shareholder in Farm-Ag, is said to have made a fortune from the deal.

In the second quarter of 1992 Maingard took one of his many off-the-shelf companies, Lawnclean, to be the new front for the secret trade with Cuba.

Selling to cash-strapped Cuba is not

difficult. The problem is collecting the money. European and Japanese companies are owed hundreds of millions of dollars from the mid-Eighties, when Cuba reneged on all its foreign debts. Japan has more than \$900m unpaid.

Cuba is dependent on its sugar crop, which in turn depends on agrochemical weedkillers to achieve high yields.

Initially, Lawnclean offered the Cubans



what was effectively open credit, but over the past few years most of the business has been on 360 days' credit, "guaranteed" by sugar contracts. "The goods were being sent on consignment or supplied under guarantee of payment," the source says. "Where the guarantee is a piece of paper promising delivery of sugar it works well — provided there is sugar to honour the payment."

In all, Lawnclean has invoiced about \$40m worth of agrochemicals to Cuba. But so far Sanachem has only received about \$20m in payment.

"Last September Maingard was extremely upset, because he had to go back and tell John Job (MD of Sentrachem) that there wasn't money to honour the debt. The sugar contract was a promissory note to the value of \$8m, which failed. It has been rolled over with interest for a further 360 days, which adds to the exposure of further invoices totalling about \$12m, which are coming up for settle-

ment between now and April 1997."

Sentrachem's Job was not available for comment. Group finance director Norman Kennelly admits that Sentrachem has been trading with Cuba for a few years. "It's not something we publicise, but we do supply herbicides for their sugar crop. Lawnclean is a wholly owned subsidiary of Sentrachem International. As far as I'm aware we have never done consignment stock with Cuba."

Regarding the \$8m shortfall, Kennelly says: "That's not a loss. That might be an outstanding amount. We have never — and this came from Maingard at our last board meeting — not been paid by Cuba. So we've never suffered a bad debt. Occasionally their payments will be delayed."

From November 25 Maingard was replaced as head of Sanachem by Ralph Oxenham. Says Oxenham: "We've had extended terms with Cuba, with security in some instances on sugar contracts. It's like a pledge, you might say, rather than a means of

settling the debt.

"They are a bit overdue on some money, certainly. It's a cause of some concern, but it's not a big amount. It's not as much as \$8m, but I don't really want to go into the number."

And the additional \$12m said to be due next April? "They come in tranches, so there's no doubt that if they didn't pay us it would build up to \$8m and then to \$12m and so on. But they've never run to that level before and I don't anticipate it. We've not rolled anything over, as far as I know. I'm trying to get my money, there's no argument about that. I've not said you can take another 360 days."

In a cautionary announcement on November 29 Sentrachem announced R180m pre-tax losses on ill-judged foreign exchange contracts by Sanachem. Maingard resigned four days before the announcement. The situation in Cuba has nothing to do with the forex affair, says Oxenham. *Jack Lundin*

PEIROCHEMICALS

(183)

TAKING THE LEAD

PM 13/12/96

Plastics giant Polifin has announced that it will lead manage R6bn ethylene and downstream polymer plants in association with a consortium of local petrochemical groups. It could also be joined by Sentrachem and a "major foreign player."

Polifin MD Trevor Munday says that the proposed project could be linked to a coastal oil refinery and be followed by an aromatics complex.

Meanwhile, a proposal by Taiwan to build a US\$3.5bn coastal aromatics complex is still on the table. But with many outstanding questions — plus political uncertainty — clouding the Taiwanese proposal, the Polifin project appears to be inching ahead in the feedstock stakes.

Munday says that various proposals on the location and preferred feedstock route — oil or coal — for the new ethylene plant complex are being prepared and will be evaluated during the second quarter of next year. Mossgas is also preparing a proposal, as its R12bn "historical" assets could be used for the complex, depending on final evaluations.

"At a meeting held in October and attended by representatives from leading oil and petrochemical companies in SA, as well as the Central Energy Fund and the Industrial Development Corp, it was acknowledged that Polifin will assume the lead role in the project," says Munday. "It was also agreed that, by the end of the first quarter of 1997, the coastal refineries group (Sapref and Engen) and Sasol will each prepare proposals for the project and Mossgas a site proposal."

Munday says "The country's ethylene and aromatics needs could be met in an expansion which would be tightly integrated with the developing plans of either Sasol or the coastal refineries."

While the Taiwanese proposal still seems alive, its narrower focus on aromatics — plus many unanswered questions about cost, equity and, especially, a market for a product which is seen heading for global oversupply — might well sideline this option.

On the inland side, "Sasol and AECI will pursue their monomer and polymer expansion plans through their respective shareholdings in Polifin," says Munday. It's likely that Sentrachem will also be involved as a partner.

"The commercial viability of a new

ethylene plant, together with downstream polymer plants, will be optimised through integration with a refinery," says Munday. "An aromatics complex will also be studied and could follow the olefins project."

But the wind seems to be blowing against the Taiwanese option. Munday says that SA petrochemical companies will decide by next April whether they will take part in a detailed feasibility study following the evaluation of Taiwanese responses to various questions. It's important to note, he says, that, irrespective of the merits of the Taiwanese proposal, Polifin's planned projects "will be progressed."

"If there are any naphtha or other feedstock constraints in SA, it's generally agreed that priority will be accorded to olefins rather than the manufacture of aromatics. The SA petrochemical industry is committed to strengthening a vibrant, value-adding downstream plastic converter industry in support of the cluster initiative announced earlier in the year by the Department of Trade & Industry," Munday says.

And with Taiwan now no longer diplomatically able to effectively lobby the benefits of its own coastal complex proposal, it seems clear that Polifin is in the driving seat. "In terms of forecasting," says Munday, "Polifin is confirming its ability to financially take lead position."

No doubt all the relevant issues will be discussed at the February 6 plenary meeting of the petrochemical and plastics industry cluster initiative. ■

Structural changes benefit Afrox

(183) BD 24/12/96

Lukanyo Mnyanda

STRUCTURAL changes had helped gases, welding and health care group Afrox overcome the economy's lack of capital infrastructural projects and "frustratingly slow" progress on implementation of the RDP, chairman and MD Royden Vice said in this year's report

Crime and sluggish industrial investment were a major concern for the group, but Vice said he was optimistic that Afrox would be able to continue providing investors with acceptable growth and returns

The group lifted earnings 19% to R181m in the year to September, while turnover reached R2bn for the first time, up on the R1,7bn sales achieved the previous financial year

"In 1991, we reached R1bn in turnover and it has taken a short

five years to double this," he said

Afrox had given detailed attention to its structure over the past three years and thus it had remained an innovative and solid performer in all three core businesses

Vice said the fabrication division, comprising cylinder gases and welding products, had adopted a complete process selling approach to the industry and this had resulted in increased market share and an "exceptional" performance

The group had a healthy balance sheet and was well positioned to tackle any economic downturn. Its industrial business portfolio of gases and welding had won several important tenders against strong international competition, enabling it to increase market share and volumes

Vice said the health care portfolio, including private hospitals and

health care services, had been the group's outstanding performer, with the relatively new health care services starting to lay a solid platform for future niche market growth

An agreement to manage Nigeria's BOC Gases had increased the company's presence in Africa. It was now operating in seven countries, including managing BOC operations in Kenya, Nigeria and Zimbabwe

Afrox's export drive — focused on niche products in niche markets — had yielded good results, with the company increasing its presence in west European and sub-Saharan African countries

"Competing in these global markets ensures that the company remains globally competitive. It has also had the spinoff of benefiting local customers as a result of experience in the international arena," he said

MANUFACTURING - CHEMICALS~~EST~~ PRODUCTS

1997 - JULY

Petro giants study export possibilities

(183)

ARG 11/1/97

Pretoria - After a year of intense discussion about the future of South Africa's upstream petrochemical industry, attention will switch next month to developing an export-driven downstream industry.

Representatives of government, business and labour in the Department of Trade and Industry's petrochemicals, plastics and synthetic fibres "cluster group" will meet in Pretoria for their second plenary session to outline priorities for the future.

Government is also expected to finalise the appointment of a consultant to undertake a nine-month study into the petrochemicals sector.

David Walwyn of the DTI said various working groups, examining different aspects of the industry, would report back at the February 6 plenary.

Their recommendations will include the need for a central bureau to provide information to exporters on issues such as the cheapest way of moving materials and marketing.

Trevor Munday, chief executive of chemicals group Polifin, said this kind of support was essential.

The future direction of downstream petrochemical industries is also a key factor in determining how and when upstream producers cope with a looming shortage of ethylene, an essential feedstock for the plastics industry.

Mr Munday said Polifin - a pivotal player in the debate - was evaluating various proposals by the coastal refineries, Mosses and Sasol. It would make its decision by the end of March, he said, adding that an investment of about R6 billion was envisaged.

All the major oil and petrochemical companies have agreed that Polifin should take the lead in any consortium, he added. Emphasis would be on olefins (the generic term for ethylene and propylene) rather than aromatics (benzene, toluene and xylenes).

"Hopefully the plenary will see a significant move into a more beneficial chapter two of this process," Mr Munday said. -
Reuter

SASOL

DIGGING DEEP FOR EXPORTS

(183)
fm 24/1/97

Supported by a massive R7bn capex budget, new Sasol MD and CE Pieter Cox has set a target to push Sasol Chemical Industries' contribution to future group operating profit to 50% by 2000

Cox says the capex programme will be sustained over the next few years, particularly in the field of chemicals for export

Already R4bn has been committed and will be followed by other new projects totalling more than R3bn which are now at the feasibility stage

Divisional capex projects — many of which will start coming on stream soon — will help boost petrochemical exports. These include about R2bn in continuing capex to upgrade and increase synfuel and feedstock capabilities at Sasol Synthetic Fuels in Secunda

Here about R1bn will be spent on seven new-generation advanced synthol reactors, R136m for a medium-term gas expansion project, an R86m, two-phase oil refineries de-bottlenecking project and R70m to install an advanced process control system at the refineries. A further

R189m will be spent on plant for unleaded petrol additives and R400m will go towards the renewal of the 12 oxygen units and R73m for a water desalination plant

At Sasol Chemical Industries, projects totalling R618m include the Secunda-based construction of a R140m plant to extract and purify acetic acid and propionic acid from acidic waste-streams, and an R85m expansion to the hexene feed preparation unit at the Sasol olefins plant, allowing for additional output of 50 000 t/year. Later in the decade, hexene production will be boosted to 160 000 t/year. At Sasolburg, R350m will

go towards a new air separation plant and a R43m de-bottlenecking operation at its ammonia plant

Sasol Mining projects at Secunda include new R635m coal export facilities, with an eventual capacity to process up to 8 Mt/year of export-grade coal, and a R654m project to expand coal production at Twistdraai mine to an additional 8 Mt/year — mainly targeted for increased gasification at the synfuel division, leaving about 3 Mt for export

Apart from the export kick expected from the new projects, Sasol's newly commissioned 450 000 t/year n-propanol plant at Secunda has already started shipping to global markets

Sasol spokesman Alfonso Niemand says the huge R4bn capex plan will be followed by other new projects which are now at the feasibility stage. These include a second acetic acid unit for R120m, a propylene and polypropylene expansion project (R175m), the manufacture of new synthetic lubricants (R370m), a methanol world-scale plant (R450m), manufacture

of detergent alcohols (R450m) and of oxo-alcohols (R500m), acrylic acid or acrylates (R500m), two projects for the manufacture of styrene and polystyrene and one for propylene oxide (total cost R500m)

Cox says other key areas of Sasol's business, notably coal mining, synfuel production, oil refining, liquid fuel marketing, industrial gas and heating fuel production will also be targeted for "achieving appreciable growth"

Sasol's dynamic new global expansion drive also looks poised to permanently change the image of a group historically

perceived as a State-created, heavily subsidised synfuel producer. Subsidies have now effectively fallen away, based on a new formula and much higher global crude oil prices

"Other future projects which have not reached their feasibility stages include plans by Sasol Solvents to manufacture and export acetates, glycol ethers and acrylates. All current and future plants will be world-scale — and all projects are being financed from Sasol's cash flows," says Niemand

Cox says Sasol also plans to continue looking for joint ventures and strategic alliances as these present "exciting opportunities to achieve growth and stability in the highly competitive global market." Sasol "does not want to license its technology to offshore countries but would rather form equity partnerships"

Sasol is also involved, with various partners, in exploring for gas and oil in two African countries — it has a 20% shareholding, together with Argentina's Pluspetrol and YPFSA, in an exploration project in Algeria, it also owns 26% and 36% shares in two exploration blocks in the Congo, together with Agip Recherches Congo

Sasol Chemicals contributed R897m to group operating profit — or about 28% of total earnings of R3,2bn — in the financial year to June 1996

Achieving Cox's investment-led vision will not only push Sasol synthetic fuel off the group's earnings leadership pedestal but should add impetus to the petrochemical giant's export growth

Foreign sales — which leapt 80% to R3,1bn in the past financial year — have soared by almost 250% over the past two financial years. Says Cox "Including import savings, the group's total forex earnings to June 1996 exceeded R8bn"

With steam coal exports from Sasol Mining targeted to reach 1 Mt this financial year and 3 Mt by 1998-1999, the petrochemical and synthetic fuel giant looks likely to achieve Cox's vision for Sasol to become "a superior global enterprise" *Arnold van Huyssteen*



Pieter Cox looking for joint ventures

Naschem strikers stick to their guns

CP 9/2/97
By DAN DHLAMINI

(183)

THERE IS no end in sight to the week-old strike by members of the Chemical and Industrial Workers Union (Chiwu) at Denel's Naschem ammunition factory near Potchefstroom.

Not even the newly established Commission for Conciliation, Mediation and Arbitration could resolve the bitter labour dispute at the Naschem plant where about 240 workers have been locked out.

Commission registrar Mthethwa Vilakazi confirmed the commission had mediated in the matter.

But it had remained unresolved – and was now out of the commission's jurisdiction, he said.

According to the union, wage negotiations with the ammunition manufacturer date back to last year.

Chiwu shopsteward Andries Maarmans told City Press that the workers demanded a 10 percent salary increase – while the management offered only 8 percent.

"We tried to solve this problem amicably but management's intransigence derailed our talks. They did not negotiate in good faith as they threatened to get scab labour to fill our posts," said Maarman.

While City Press was talking to the locked-out workers, two minibuses full of temporary workers from Promosa township sped into the Naschem premises.

Maarman said the strike was effective and some contract workers and temporary workers had joined it in solidarity with the locked-out workers.

□ Naschem's human resources manager, Alexander de Wet, said the strike had not yet affected production because only 180 permanent employees of the 800-strong workforce were on strike.

De Wet said Naschem's permanent staff were on a "protected strike" and could not be dismissed at this stage.

He said if the company suffered financial losses, it would consider taking serious actions such as suspensions and dismissals.

"But we made it clear to contract and temporary workers who were on strike in solidarity with Chiwu members that they were engaged in an unlawful or 'unprotected' strike which could lead to their dismissal."

De Wet said about a hundred of those who had initially been on strike had accepted his company's offer and were back at work.

★ ADULT SEX SHOP ★ Key to H

Soekor's Oribi oil field comes on stream soon

ET (BR) 8/1/97

(183)

CHRISTO VOLSCHENK

ECONOMICS EDITOR

Cape Town — The first commercial production by Soekor of oil from the Oribi oil field, 140km south-west of Mossel Bay, is due to start next month

Soekor expects the field to yield 20 000 barrels of light crude a day. With proven reserves of 32 million barrels, Soekor's management says Oribi will boost the company's profitability for at least the next six years

Oribi is 80 percent owned by Soekor and 20 percent by Engen. With a total development cost of only \$75 million and a projected revenue flow of about \$210 million over the lifetime of the field, Soekor's management believes Oribi will enhance the company's chances of finding a foreign company with expertise and capital to buy a strategic share in it

Soekor's management is eager to locate a strategic partner and has taken pains over the past few years to make the company more attractive to potential partners

After South Africa's return to the global arena, oil became more freely available and the strategic importance of Soekor's search for oil and gas around South Africa's coast diminished. The new government also had new budget priorities

Soekor realised it had to become independent of state funding as soon as possible

A business plan was formulated, committing Soekor to the development of the Oribi oil field. The goal was to generate enough revenue from Oribi for Soekor to sustain a modest exploration programme without state funding

and with significant foreign exchange savings

The business plan also committed Soekor to acquiring exploration rights in oil and gas fields outside South Africa

By 1992 Soekor had substantially reduced its budget and started a process of rationalisation and commercialisation

The company was streamlined to concentrate on its chief objectives, the exploration for and production of oil and gas. Non-core activities were shed by outsourcing work, the company was reorganised and the workforce was reduced from 830 in 1993 to 160 early last year.

Soekor P&E was established as a wholly owned subsidiary responsible for exploration and production in restricted offshore areas, and the petroleum licensing unit was established as a division of Soekor to sublease most explorable areas in the sea around South Africa

For this purpose the area was subdivided into 18 manageable blocks

Soekor was created in 1965 and was financed by the state until recently, when it started making a profit from its operations

"In the coming year, Soekor will continue on the road to commercialisation with the objective of achieving full independence from state funding," says Joggie Heuser, chief executive of Soekor

He says Soekor will continue to seek foreign participation and investment in South Africa's offshore areas

Soekor's management believes there are still commercially exploitable discoveries to be

made in the waters around South Africa. "Substantial petroleum resources still remain to be discovered offshore," believes Heuser

Over the years, the company's exploration programme came under many pressures which rendered it less effective, he freely admits

First, there was strong pressure to look for oil rather than gas, which meant that sizeable gas prospects were disregarded.

Second, there was pressure to establish commercial production, which resulted in Soekor spending much of the past 10 years appraising oil and gas discoveries in the Bredasdorp basin to prove reserves. This kept Soekor from properly exploring other areas

A single company with a vast licence area — such as Soekor's — rarely explores it as effectively as competing groups of international companies each focusing on a small part of the licence area

"We hope the government will give explorers tax incentives. This will increase foreign interest and ensure that the area is effectively explored by other companies," says Heuser

Explorers pay a basic tax of 35 percent and a so-called "additional normal tax" calculated on revenue less operating costs

If costs are bigger than the revenue in a given year, the additional tax rate is 20 percent

If the revenue is between 100 and 200 percent of the costs, the tax rate is 30 percent. If it is more, the tax rate is 40 percent

"The government is considering a request by Soekor for the additional tax rate to be set at zero percent," says Heuser.

Fund mooted for small petrochemical ventures

(183) 50 4/2/97

Ingrid Salgado

A GOVERNMENT-appointed task team to look into the petrochemicals, plastics and synthetic fibres industry has proposed that a venture capital fund be established to insure the risk of banks lending to small downstream converters of petrochemical products.

The recommendation forms part of several suggestions to improve the export potential of small and medium downstream companies

The fund is being mooted as a mechanism to prevent small ventures from being locked out of bank finance, according to a report by the petrochemicals, plastics and synthetic fibres cluster initiative, which is one of several studies into SA industries co-ordinated by the trade and industry department

Industry stakeholders are to meet on Thursday to thrash out these and other proposals — including the creation of a logistics information bureau and an export clearing house geared to the plastics industry's needs

Cluster initiative steering commit-

tee head David Walwyn said yesterday global experience showed that venture capital funds had played "an important role" when there were market failures to finance new ventures.

Funding for the local scheme could be provided either through upstream companies or the cluster initiative

Walwyn, a director in charge of chemical and allied industries at the trade and industry department, said a key proposal was the possibility of an agreement on workplace change between labour and business to improve productivity and competitiveness.

A meeting could be convened — possibly as part of the workplace challenge programme under the National Economic, Development and Labour Council — for stakeholders to look at shop floor relations in the industry

Also on the cards was a network of expertise and technology for the plastics industry. This forum would set up a technology and human resource base for SA's upstream and downstream plastics sector to strengthen the industry's ability to compete internationally

SPARE a thought for Johannesburg Stock Exchange (JSE) gold analysts, who are frantically redoing their models to take account of new accounting methods at some mines, but not others

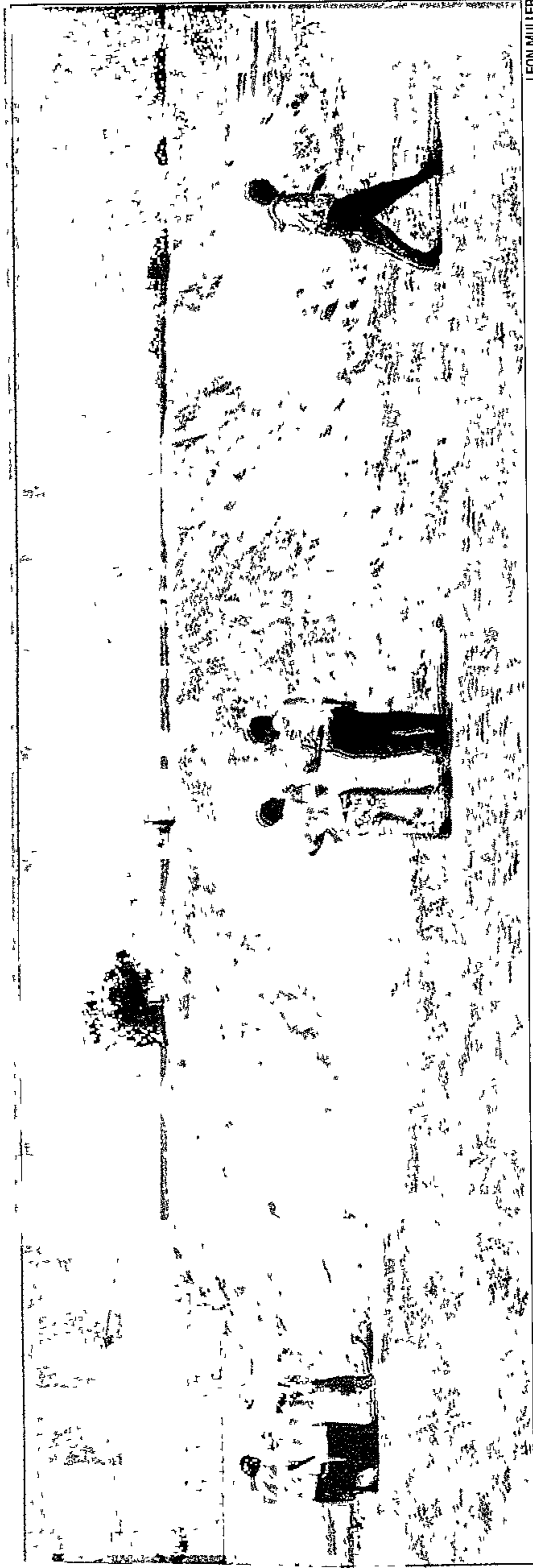
In the latest round of gold quarterlies Gengold, JCI and Gold Fields' mines stuck with previous methods, with capital expenditure reported using the "appropriation method" — that is, it is deducted in full from profits when it is spent rather than being amortised (depreciated), as it would be by industrial companies or non-SA gold mines.

But Randgold used amortisation in reporting on its five Nasdaq-listed mines and appropriation for the rest. AngloGold introduced "dual reporting", and amortisation was used at Avgold, the new company which brought together Anglovaal's three mines and its exploration activities.

Anglo, which has introduced also International Accounting Standards, is not causing analysts too many problems: with both sets of figures, comparisons can be made with other SA mines and those of Australia and North America.

Randgold, which led the pack in dual reporting, provided a reconciliation of amortisation and appropriation in its 1996 annual reports

But Avgold has some perplexed. The shift is the least of it, more com-



LEON MULLER

Dump inspection commission members inspect the AECI sulphur dump in Somerset West, site of the December 1995 fire in which two asthmatics lost their lives

R200 000 for AECI fire probe

Hearings investigating cause, impact of disaster

NORMAN JOSEPH
STAFF REPORTER

The Department of Environmental Affairs and Tourism is forking out about R200 000 to finance the commission investigating the 1995 sulphur fire at AECI in Somerset West

President Mandela appointed the commission, which is headed by Mr

Justice Sraraj Desai

Commission secretary Bruce Fenn said the department was funding the hearings in the Macassar Civic Centre "in the interest of the community" and to help the Macassar Crisis Committee

The commission is probing the origin and establishment of the sulphur stockpile at the AECI site, the events leading up to fire and its cause, its

impact on neighbouring communities and the environment, and the adequacy of the emergency response to the disaster

Yesterday Judge Desai, commissioners Colin Johnstone and Barney de Villiers, commission advocate Jeff Immerman, crisis committee attorneys Lee Bozalek and Vincent Saldanah and Department of Trade and Industry attorneys Donald Jacobs and

Anthony Duminy inspected the site of the fire before adjourning until February 24

Mr Fenn said final argument would be heard on March 5 and 6 before a final report was made and submitted to the Department of Environmental Affairs and Tourism and Mr Mandela.

Two asthmatics lost their lives during the fire in December 1995 and Macassar was evacuated

(183)

New board for CEF

MHG(BM)7-13/2/97

(183)
~~(25)~~

Mungo Soggot

THE Central Energy Fund (CEF), which holds the state's fuel assets, has quietly limped into the new South Africa with the appointment of a new, far more representative board.

The new players on a board that until recently was synonymous with the CEF's sanctions-busting past, include what chairman Roy Pithey describes as a fair cross-section of academic, private and state sectors.

His new board includes black empowerment guru Don Mkhwanazi, Kayo Ngqula of Norwich Union Trust, Mojalefa Ralekhetho and Johan Basson of the Department of Mineral and Energy Affairs, black empowerment Coca-Cola bottler Keith Kunene, Professor Renosi Mokate of Pretoria University, and

Coen Kruger of the Department of Finance.

CEF repeatedly pushed for a new board during the reign of former mineral and energy affairs minister Pik Botha. It and Botha failed, despite the efforts of parliamentary committee chairman Marcel Golding. The changes are one of the more obvious achievements of Penuell Maduna, who took over from Botha last year, giving the portfolio more political clout.

Maduna has chosen to appoint the same board for all of the CEF group of companies, which includes Mossgas and the Strategic Fuel Fund, oil trader and manager of South Africa's strategic stockpile. Insiders say this could signal Maduna's intention to rationalise the group, perhaps preparing parts of it for a sell-off.

Switch to high-value petrochemicals proposed

Mossgas to crack its own future

(183)
CT (DR) 10/2/97

JONATHAN ROSENTHAL

Johannesburg — Mossgas, the troubled R12 billion synthetics fuel producer, has proposed in the feasibility studies of the petrochemical initiative that it be turned into a gas-based petrochemicals feedstock producer.

This is a change for the company, which has been considered an oil-from-gas producer. The state-owned complex has faced an uncertain future after the government failed to find a buyer willing to offer more than R2 billion in a "market testing" effort last year.

Last week Kobus Terblanche, Mossgas' technical and business development manager, suggested to delegates at a government-sponsored petrochemicals and plastics summit that the state-owned asset could be used more effectively by producing higher-value petrochemicals from gas and reducing the plant's synthetic fuel output.

The domestic petrochemicals industry, which is facing a shortage of olefins, the basic building blocks for plastic, will have to decide this year on a new source to support further expansion of the downstream plastics industry.

Proposals on the table have been limited to expanding Sasol's coal-based process or looking at using oil, particularly naphtha, as a feedstock for ethylene production. Mossgas has tabled a plan

for its site to be considered for the next naphtha cracker, which would use imported naphtha to produce downstream chemicals of the olefin and aromatic family.

Though reticent to disclose details of the new gas-to-olefins plan, Terblanche said Mossgas already produced 300 000 tons of olefins in the C2 to C4 range a year, which are converted into transport fuels.

Terblanche declined to disclose the capital expenditure required as the studies were at a pre-feasibility stage and Mossgas had yet to present the proposal to its new board. A smaller plan, to produce 100 000 tons of propylene a year, would reportedly cost about R220 million.

The Mossgas plan looks similar to some of those put forward in the abortive privatisation drive last year when SMK Securities and RBC Dominion Securities suggested that Mossgas presented a "unique opportunity for the domestic petrochemical companies to enter the world league."

The SMK report suggested converting Mossgas into a 600 000 ton-a-year methanol plant at a capital expenditure of between \$100 million and \$125 million. Similarly, a consortium of Sasol, Sentrachem and AECI submitted a proposal to use the Mossgas gas-stream for the production of plastic feedstocks. The consortium inexplicably withdrew its bid during the process.

Oil industry curbs must go — Maduna

BD 11/2/97

(183)

Reinie Booysen

OIL companies operating in SA should be prepared to relinquish their "tie agreements" — which prevent petrol station owners from switching readily from one brand to another — if the oil market is freed in terms of proposed industry regulations, says Minerals and Energy Minister Penuell Maduna.

In an interview yesterday Maduna said he hoped to achieve a "common vision" among industry interest groups, including labour, on a new regulatory system for SA this year.

Although the oil companies had appealed for action in deregulating the oil industry, they had to realise that "it's not only government that has got to act here", as some of their practices were inhibiting free competition.

As an example, Maduna said the practice of "tying" petrol station owners to one brand was "a restrictive practice" which had to be terminated in a free market.

"Why should petrol station owners not be free to do business without the restrictions that these 'tie' agreements impose on them?" said Maduna. "If they are selling one brand of petrol and another oil company comes along and makes a better offer on pricing or other terms, why should they not be free to accept that counteroffer?"

Maduna said the oil industry would inevitably have to be freed. "You can't avoid a free market in this industry. Stripped to its bare bones, petrol and diesel are ordinary commodities, although there are obviously some strategic considerations."

About 60% of the 4 800 petrol stations in SA are owned by independent operators which enter tie agreements with one of the six oil refining and marketing companies that retail fuel under their own brands: BP, Caltex, Engen,

Shell, Total and Zenex.

The other 40% of stations are owned by the oil companies. Although they are not allowed to operate petrol stations themselves, the oil companies lease these properties to operators and secure sales of their own fuel by incorporating appropriate undertakings in their lease agreements.

Colin McClelland, director of the SA Petroleum Industry Association (Sapia), said tie agreements were not unique to SA.

In SA the agreements commonly involved the payment of a sum of money by a petrol company to a petrol station owner in exchange for an undertaking not to retail any other brand of petrol for a specified period of time, he said.

In some cases the agreement expires only after a specified volume of fuel had been sold from the petrol station concerned.

"The money is a commercially negotiated quid pro quo in exchange for the undertaking not to sell any other petrol," said McClelland.

The tie agreements could also be defended on grounds that oil companies often paid for the investments in new livery and upgrading stations, and deserved to get a return on that investment, he said.

The precise terms and conditions of the restraint of trade agreements varied from one oil company to the next, he said. Some were very similar to franchise agreements.

The agreements have in the past come under attack from motor industry and fuel retailing groups — including the Motor Industry Federation, the National Black Fuel Retailers' Association and the Service Station Association — on the grounds that their terms were too onerous.

See Page 4

COMPANIES

Engen 'pulls off strategic coup'

(183) BD 13/2/97

Reinie Booysen

ENGEN, the local oil company controlled by Malaysian Petronas, has achieved a strategic coup by becoming the first SA oil refiner to secure a direct, long-term crude oil supply contract with the kingdom of Saudi Arabia, sources say.

Engen declined to comment on the deal, but impeccable sources said the company signed the contract recently with the kingdom's state oil company, Saudi Aramco.

Strategically, oil traders said, the contract placed Engen on an equal footing with SA refiners controlled by foreign multinationals. Although none of the other refiners have direct contractual relations with Saudi Arabia, they do mostly have the backing of substantial crude contracts between their head offices and the kingdom.

Term contracts with Saudi Arabia — the world's largest exporter of crude oil — are highly valued by refiners, as they offer long-term supplies at reasonable prices.

Oil traders said most of Saudi Aramco's

50-odd crude buyers, scattered all over the globe, tended to maintain steady commercial relationships with the kingdom over many years. Saudi Arabia produces about 8-million barrels a day of crude oil, of which it exports about 5,5-million to 6-million barrels a day.

The traders said oil supply contracts with Saudi Aramco could be secured only with the backing of a senior "sponsor" within the royal family, which rules Saudi Arabia with an iron hand. Aramco enforces a strict policy of selling only to end-users (refiners) and these cargoes can be resold to other entities only with Aramco's approval. The result is a very small spot market for Saudi crude.

Although there had been some sales of Saudi crude to SA in recent years, these had all been crude cargoes bought from the kingdom by overseas multinationals with operations in SA, and diverted to their SA subsidiaries, traders said.

To date the other SA refiners have been reluctant to commit themselves to long-

term contracts with Saudi Aramco, largely because of the ready availability on the spot market of Iranian crude oil at relatively attractive prices.

SA's geographical location has been the cause of disagreement about the most appropriate pricing formula and benchmark to use for Saudi crude. SA refiners feel an SA pricing formula should reflect market fundamentals in the western oil markets, while the Saudis want a 50-50 split, with half the price determined by western benchmarks (either North Sea Brent Blend crude or West Texas Intermediate), and the other half by eastern benchmark prices (Dubai and Oman crude). For several decades oil prices in the eastern hemisphere, where economic growth has been spectacular, have mostly been substantially higher than in the western hemisphere.

Whether Engen has accepted the Saudi 50-50 formula is unclear. Like the other Durban refiners, Engen buys substantial volumes of crude also from a range of other Middle East producers.

City Lodge earnings growth slows down

(183) BD 13/2/97

Janet Parker

HOTEL group City Lodge reported a slowdown in earnings growth in the six months to December, with the group posting a smaller-than-usual increase of 25,2% to R19m as it felt the effects of a weaker trading environment and sharper competition

Share earnings increased 18,9% to 71c and fully diluted share earnings rose 17,2% to 53,2c. The interim dividend improved 14,7% to 19,5c compared with 17c in the six months to December 1995.

Turnover was 14,3% higher at R60,6m as a result of increased room nights sold, and operating profit grew 13,7% to R32,5m.

Pretax profit rose 19,6% to R25m and tax for the interim period was R7,2m compared with R6,5m previously.

The group said the results were "satisfactory" despite a softening in demand in the hotel industry and increased capacity as various new hotels came on stream. In the six months to December 1995, earnings increased 47% to R15,2m, compared with the same period in 1994.

City Lodge executive chairman Hans Enderle said the main factors negatively influencing the hotel industry were continued high

levels of crime and Satour's minimal international marketing after budget cutbacks.

He said although occupancy rates for the group's four brands — The Courtyard, City Lodge, Town Lodge and Road Lodge — decreased two percentage points to 79%, it was in line with industry trends and the group had room for expansion.

"The hospitality industry is becoming more competitive ... and the supply of alternative accommodation continues to increase," he said. The group would counter this by innovative marketing, and continuing its service excellence programme.

This strategy — added to the recent opening of two new hotels Road Lodge N1 City, Western Cape and Town Lodge Grayston Drive, Sandton — would result in "acceptable earnings growth for the full year to June 1997".

The group has three hotels under construction — in Durban, Germiston and Pretoria — to open in the third quarter of this year. They would contribute to earnings in the second half of the 1998 financial year.

1 DECEMBER 1996

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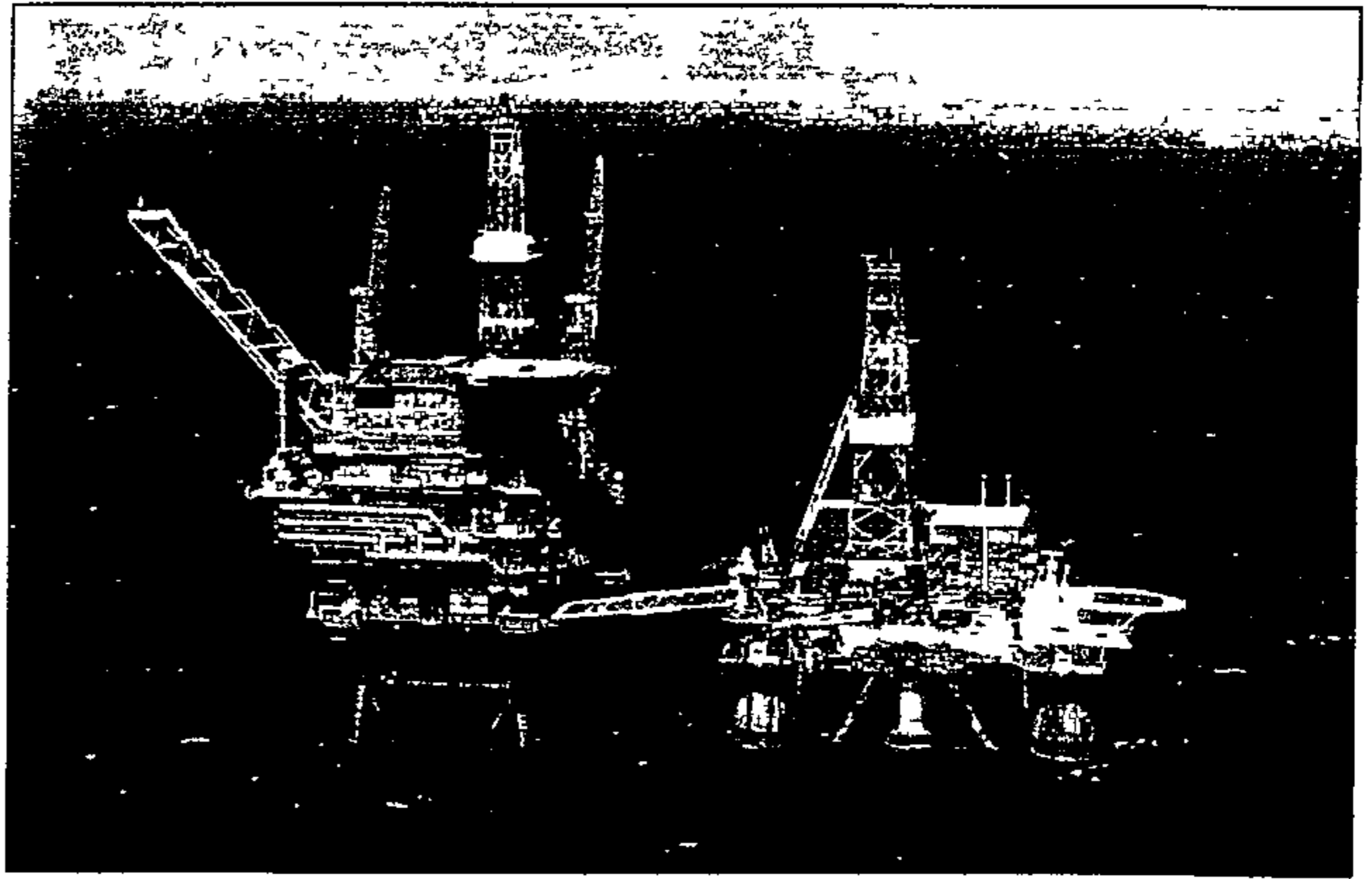
KM 14/2/97

Exploration company Soekor has gone head to head with Mossgas over the future direction of the Mossel Bay-based synfuel producer

Mossgas is advocating a switch to petrochemicals. Soekor says a R1bn gas network for the Western Cape should be set up using gas from Mossel Bay and from the Bredasdorp basin.

Soekor has drawn up a 78-page proposal suggesting Bredasdorp gas fields could be used more effectively as a direct fuel source for a R670m-R1,04bn industrial gas development plan for the Western Cape. Included in the proposal are new Petronet gas pipelines linking Mossel Bay with the Cape Peninsula — and going as far north as Saldanha Bay.

Soekor says its Western Cape gas development option will slot in with a proposed future gas pipeline linking Namibia's Kudu gas field with the Western Cape. And Kudu gas could start flowing in once Mossel Bay reserves start



Mossgas changing horses in midstream

running low, it suggests

It says other promising gas fields in the Bredasdorp basin could be explored when the life of the Mossgas F-A, E-M and satellite fields are extended through more economic exploitation.

Forming part of the suggested Saldanha linkup is a scaled down Industrial Development Corp iron carbide facility at Saldanha Bay, with hematite supplied from the Sishen mine over a contractual period of 15-20 years serving as anchor customer.

The Soekor proposal has dropped like a lead balloon on a Mossgas feasibility proposal to switch current 300 000 t/year output of olefin feedstock — now being refined into 30 000 BPD of synfuel — into petrochemical feedstock.

Fighting for its continued existence, the move would allow Mossgas to increase its profits as returns on propylene alone could be about 60% higher than on equivalent synfuel production.

Should existing gas reserves be extended, the Mossgas onshore refinery facilities could also be economically "fused" into a new gas-based chemical cracker. Such a development would effectively double olefin output to 600 000 t/year within the eight years. The gas cracker would also help meet SA's growing demand for plastic feedstock olefins like ethylene.

"The capital already invested in the R11bn Mossgas plant includes up to 40% of the capital requirements for such a 600 000 t/year gas cracker," says Mossgas technical and development manager Kobus Terblanche.

Should the new Mossgas board approve the switch to petrochemicals, Mossgas could phase in annualised out-

put of 50 000 t/year ethylene, 120 000 t/year propylene and 130 000 t/year butylenes, says Terblanche. "And within the next five or eight years, total olefin production could be doubled."

The Mossgas proposal could also challenge Polifin's "Project 2004," an investigation into the building of a multibillion-rand naphtha cracker to meet growing local demand for olefin feedstock. The cracker could be either inland — near the Sasol complexes at Secunda or Polifin's Sasolburg plant — or at the coast, linked to a new crude oil refinery that would yield the naphtha stream for cracking into olefin feedstock.

The latest conundrum can be solved only by Mineral & Energy Affairs Minister Penuell Maduna, who controls Mossgas and Soekor through the Central Energy Fund. *Arnold van Huyssteen*

Prescription drug prices to drop by 20%

New cost structure, initiated by the ANC, is expected to cut costs to consumers, and has the support of medical aids and the pharmaceutical society

By JANINE SIMON
Medical Correspondent

The price of prescription drugs will drop by 20% from April 1 because of a new pricing structure

The new structure is regarded as a world first, paralleled only partially by Canadian systems

It will replace profit markups on prescription drugs with a fixed-fee professional fee for dispensing, and aims to cut costs to consumers and medical aids by transparency at every point of the drug-pricing chain.

Consumers will feel the change most keenly on high-priced, new-generation drugs. For example, an oral antifungal now selling at around R150 will drop to R110, and an antibiotic selling for R182 will sell for R135

But the total cost for a low-priced generic drug may rise by between R3 and R5, says Keith Johnson, chairman of the tariff committee of the Pharmaceutical Society of South Africa (PSA), which helped to formulate the new system

The change will not affect over-the-counter drugs, unless they are dispensed according to a prescribed schedule.

The medical aid industry, which currently forks out 30% of its payments on drugs, is leading the cost-cutting process, says Representative Association of Medical

Schemes (Rams) policy director Dr Aslam Dasoo.

Rams' first scale-of-benefits policy for medicines takes effect on April 1 and will recommend that member funds calculate the rate of reimbursements to pharmacists and dispensing doctors according to the new price structure and not the current "blue book" of prices

The professional-fee concept originated in ANC policy, and has been thrashed out by the PSA, Rams, the Interim Pharmacy Council and the Association of

SA paying much more than its neighbours

Community Pharmacists, with the Health Department's support

It is understood that local manufacturers are supportive but multinational pharmaceuticals oppose it because the system requires manufacturers to reveal their ex-factory prices

Township pharmacists who depend on expensive prescriptions to keep afloat, and who are in competition with dispensing doctors who trade in medicines, are also uneasy about the effect of its immediate introduction.

The new pricing structure

means payment for pharmacists is no longer based on product, but on the delivery of a professional service based on specified procedures, says Johnson

It works by adding a dispensing fee per item - figures of R15 for an acute original prescription, and R10 for a repeat prescription are suggested - on to the "reimbursement cost"

This reimbursement cost is lower than the present cost price of drugs, Johnson says. It is made up of a net acquisition price to pharmacists, to which is added a flat R3 for practice costs, and 5% to cover the cost of holding the drugs (2%), obsolescence (1%), and delayed payments and rejections by medical aids (2%).

The 2% charge will be waived if medical aids are able to pay claims within 30 days - a further substantial saving to the industry.

Dasoo says SA prices are much higher than in neighbouring countries that import their drugs

Johnson says pharmacists, who have been battling with medical aids over discounts and late payments, are "panting" to have the system introduced

Bada Pharasi, chief director registration, regulation and procurement, said the Health Department was mostly satisfied but would be "surprised" if Rams and the PSA did not take the situation of township pharmacies into account.

Mar 17/2/97

(183)

Fisheries white paper seeks to strike a balance, Jordan says

Linda Ensor

CAPE TOWN — The white paper on a fisheries policy, due to be tabled in Parliament next month, had attempted to achieve a balance between redistribution and a recognition of the existence and role of the large fishing groups in the economy, Environment, Tourism and Fisheries Minister Pallo Jordan said at the weekend.

He hoped that the sea fisheries legislation, which addressed many of the "burning issues" of the industry, would be passed this year.

While stressing that the inequities of the past had to be addressed, Jordan said it would not be possible to dismantle the fishing industry callously without regard for the future of the country. The large fishing groups employed large numbers of people and had the capacity to make the industry internationally competitive.

"The inequalities of the past have to be weighed up against economic real-

ities," Jordan told a parliamentary news briefing.

The white paper was the product of broad consultation between all stakeholders which, among other things, addressed the question of to whom the marine resources belonged and how people could gain access to it.

Jordan said an accessible version of the document would be made available in six languages, for distribution to fishing communities.

He expressed concern over the alarming escalation in poaching, especially of perlemoen which would be completely wiped out within five years if poaching continued. It seemed crime syndicates were involved, especially in the Hermanus and Hawston areas.

"We see the need to engage in some lateral thinking to address some of the problems in the fishing industry. My ministry is investigating solutions like use of mariculture in certain secure areas, to give dwindling perlemoen resources a much needed boost," he said.

Pick 'n Pay in deregulation bid

Business Day Reporter

BD 17/2/97
RETAILER Pick 'n Pay submitted a memorandum concerning the deregulation of the oil industry and current price disparities to Minerals and Energy Minister Penuell Maduna on Friday, the group said at the weekend.

Pick 'n Pay has been advocating the relaxation of the current regulations governing the oil industry in a bid to bring down petrol prices at the retail level.

(183) (222)

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New pricing structure for drugs under attack

Star 18/2/97 (183)

Expensive drugs will drop, cheap ones rise, pharmacists warn

By JANINE SIMON
Medical Correspondent

The Pharmacy Manufacturers' Association (PMA) has launched a scathing attack on the new drug-pricing structure, saying that although the price of more expensive drugs would drop, the cost of cheaper drugs - which it says make up most prescriptions - will rise.

The new structure replaces profit markup on prescription drugs with a fixed professional fee for dispensing.

Pharmacies and medical aid schemes say the change will bring down the price of drugs over R37 by 20%, as was reported in The Star yesterday, but will increase the cost of cheaper drugs by between R3 and R5 per item.

According to PMA executive director Mirryena Deeb, the most frequently used prescription drugs are of the cheaper nature and that,

overall, medicine bills will therefore rise. She welcomed any moves to cut the high margins in SA's drug distribution chain but said the professional fee system was "a grandiose, convoluted and potentially cost-inflationary device".

The switch from a profit markup for prescription drugs to a professional fee was thrashed out by the medical aid and pharmaceutical industries, and will be introduced from April 1.

Manufacturers, who have been accused of not wishing to reveal their ex-factory prices, were now considering publishing these prices and average discount policies in the press to allow consumers to judge for themselves whether the new system dropped prices, Deeb said. They were also considering how to make drugs directly available to patients.

Deeb added she had given an undertaking to provide all price lists and discount and settlement

policies to Director-General of Health Dr Olive Shusana. The fee formula was vague and could potentially lead to abuse, she claimed. It would affect the quality of care because pharmacists would be tempted to stock and dispense the cheapest drug, she said.

Given the medical aid industry's poor track record of containing medical inflation in the 1980s, the cost of the Representative Association of Medical Schemes (Rams) setting up the administrative network for the new system could outweigh any savings. The professional fee structure also amounted to price-fixing.

Rams' new medicines benefit policy, which recommends the rate of reimbursements by medical aids, could not take into account lawful price differentiation for factors such as transport and credit-worthiness. Overall, Deeb said, the system might bring short-term gains but was not sustainable.

COMPANIES

Durban's oil firms braced for Sasol gas

(183) BP 18/2/97

Reinie Booysen

DURBAN-based oil refining companies are bracing themselves for imminent competition after the imminent arrival of pipeline gas originating at Sasol's Secunda-based coal gasification works in Mpumalanga, oil companies say.

Sasol started its first gas sales to KwaZulu-Natal in August last year, when Mondi — the Anglo American Corporation pulp and paper manufacturer — became the first client to take gas via a pipeline spur built by Sasol from Empangeni to Richards Bay

Since then supplies under two other major contracts — to Alusaf's Bayside smelter and Sappi's Mandim paper mill — have also commenced.

The next step is to hook up the industrial nodes around Durban, in particular the area south of the city, and the local oil companies fear that they will lose substantial sales of liquefied petroleum gas (LPG) and fuel oil once Sasol's "methane-rich gas" starts flowing to Durban.

"It's impossible to say exactly how much we will lose," said a oil company source. "What's clear is that our LPG sales will be under severe threat."

The source said the refiners' sales of fuel oil — a heavy residual fuel left behind after recovery of higher-value oil products like petrol, diesel and kerosene/paraffin — were also at risk, although it was more price-competitive than LPG, which was distributed in bottled form to the industrial, agricultural, residential and leisure sectors.

"But fuel oil is dirtier than gas, and it is less convenient than getting gas on tap from a pipeline," said the source.

Sasol's gas is transported to KwaZulu-Natal via a converted Petronet oil pipeline, which extends to Empangeni north of Durban, and then

southwards to Bay Head near the port of Durban.

Sasol divisional manager Wikus Kritzinger said Petronet undertook to reconfigure their three oil pipelines to the interior to allow transportation of gas from Secunda to the coast.

He said he expected sales to the key industrial area south of Durban to commence within the first half of this year, once Petronet had final authorisation from the relevant local authorities for the gas to be transported into the Durban metropolitan area. The gas would compete with coal and electricity, as well as LPG and fuel oil.

New drug pricing scheme under attack

(183) (86)

Nov 21/2/97

Attempt to bring down prices slammed by manufacturers

By JANINE SIMON
Medical Correspondent

A drug fight is looming in the pharmaceutical industry as manufacturers face efforts by medical aids, pharmacists and the Government to bring down the cost of medication.

The launch of a new retail drug pricing structure on April 1 by pharmacists and medical aids is seen as a way to cut down the medicines bill of consumers and medical aids, and to encourage the use of cheaper medications.

According to the organisations involved, the effect on drug prices would depend on whether a drug was chronic or acute medication and its acquisition price, but savings to patients could be more than 20%.

But the new structure, which is based on replacing a profit mark-up on drugs with a professional fee for pharmacists, was dismissed as a clumsy attempt to avoid de-

regulation by the Pharmaceutical Manufacturers' Association (PMA). The PMA represents the interests of research-based pharmaceutical manufacturers, many of which are multinationals.

United South African Pharmacies (Usap) chairman Julian Solomon said yesterday the attack from manufacturers "had come as no surprise" as manufacturers' interests would be compromised if medical aid, pharmacy and government bodies were determined to reduce the cost of medication.

PMA executive director Mirryena Deeb's claim that the medical aid industry had a poor track record of containing inflation was a gross distortion, he said. Usap, which represented 1 400 community pharmacists, challenged her to publish true information on factory exit prices of drugs and the profit made on each item.

The formula that set the end price of drugs to the consumer was based on a starting price set by the

manufacturer, and had not altered over the past decade.

"How can Deeb state that the lack of containment of prices was due to any player other than the manufacturers?" Solomon asked.

He said Deeb's reference to the fee formula as open to abuse ignored the fact that the current system offered dispensing doctors bonuses far in excess of, and discounts far lower than, those offered to pharmacists.

Solomon said Usap fully supported Health Minister Nkosazana Zuma's efforts to keep down drug prices.

Deeb's assertion that 60 to 70% of medications dispensed were of cheaper medicines has also been questioned. "The PSA tried to get exact figures on numbers of generic line items versus branded drugs dispensed from two of the biggest databases in the country. Both could only give figures with a 13% variance," said Ivan Kotze, executive director of the PSA.



Trevor Munday project must prove ability to handle exports

include a single buoy mooring facility to bring in crude oil, a new harbour to ship out refined fuel product and petrochemical product — and downstream chemical plants to produce polymers such as polypropylene and polyethylene

The complex will partly use the Moss-gas plant and remove the risk of gas resources running out. It will also meet the growing local shortages of liquid fuels and olefins while simultaneously producing aromatics feedstock.

Industry sources say capex costs for the proposed complex could be reduced by at least 20%, using existing Moss-gas plant. This saving could be "balanced out" by the need for new harbour facilities to accommodate 50 000 t-100 000 t chemical tankers that would ship out product.

Sentrachem CE John Job says the CEF proposal was included in a previous private-sector proposal for Moss-gas.

"Our original idea was to produce methanol, later expanding the complex into a crude oil or gas condensate-based refinery, coupled with a naphtha cracker. But the CEF proposal would involve a huge investment and would require local and possibly offshore joint venture partners to make the complex float," says Job.

"But if the CEF can prove that its proposal is competitive and viable, we would be interested in coming in as appropriate partners."

Roberts says "We will need strategic partners for such a project. Moss-gas will not do this alone. We will be happy to cooperate with other companies."

SA Petroleum Industry Association spokesman Colin McClelland says government should ensure the economics of the CEF proposal are carefully evaluated by independent "third parties" because the CEF will be using public money to develop the proposal. "The danger exists that more billions could be poured into a black hole — especially in an area far from existing markets."

McClelland says the Durban/Richards

Bay area would be a better location for the complex.

Polifin CE Trevor Munday says "it's no secret that Moss-gas is one of the three possible locations for a new petrochemical complex. Others include the Natal coastline or inland at Secunda or Sasolburg."

"Moss-gas will have to prove its ability to handle significant quantities of exports of polymers."

Industrial Development Corp deputy GM Vernon Harvey says the IDC will assist in finding overseas investors as soon as the project gets the green light.

Arnold van Huyssteen

18 183
HUGE PLANS AFOOT

FM 21/2/97

Government is investigating building a R6bn conventional oil refinery coupled with a vast petrochemical complex at Mossel Bay.

The latest development involving the controversial oil-from-gas facility follows this week's announcement that companies in the petrochemical sector would not pursue a Taiwanese proposal for a US\$3,5bn aromatics complex at Port Elizabeth.

The study is being conducted by the Central Energy Fund (CEF) — the State-owned company falling under the Department of Minerals & Energy. A world-scale 150 000 BPD oil refinery, linked to a petrochemical cracker facility that will produce about 500 000 t of olefins and 350 000 t of aromatics product, is envisaged.

Olefins — such as ethylene and propylene — are the basic building blocks for the manufacture of plastics. Aromatics are used in the manufacture of synthetic fibres for the textile industry.

CEF technical deputy GM Howard Roberts says the proposed complex will

DEBT OF A SALESMAN

(183)
 KM 2/12/97

Troubled chemical giant Sentrachem, which two months ago denied it faced massive exposure over secret deals with Cuba, is apparently now looking for US\$21m from the island, say sources in Havana.

The *FM* (*Business* December 13) said the Cuban's central buying organisation had failed to pay \$8m for pesticides, supplied by Sentrachem subsidiary Sanachem, when payment became due last September. This was denied in December by Sanachem head Ralph Oxenham, who said the Cubans were "a bit overdue on some money, certainly, but it's not a big amount. It's not as much as \$8m, but I don't really want to go into the number."

Apparently the \$8m, which had been rolled over for 360 days from 1995, was rolled over again last September for another year. A further \$13m falls due from contracts worth \$14m signed in November 1995.

The debt might have reached \$22m, but the Havana source says the Cubans paid back a token \$1m following a visit by Oxenham last month.

Cuba is dependent on its sugar crop, which in turn depends on agrochemical weedkillers to achieve high yields.

Sanachem's discreet trade with Cuba

FINANCIAL MAIL FEBRUARY 21 · 1997



John Job

has been through an off-the-shelf company called Lawnclean Inc, which has an address in Jersey. Sanachem invoiced Lawnclean, which, in turn, invoiced the Cubans. Though Lawnclean is not listed as a subsidiary in Sentrachem's 1996 annual report, group finance director Norman Kennelly says the offshore company is a wholly-owned subsidiary of Sentrachem International.

It appears the Cubans now have Sanachem in a stranglehold. They have invited the company to continue supplying its goods, on the basis that future shipments will be rewarded by equivalent payments to Lawnclean. As commentators point out, this would merely "refresh" the debt.

Oxenham was in the US this week and unavailable for comment. However, Sentrachem MD John Job denies the debt has risen to \$21m. "The debt has not changed," he insists. "It's slightly down. The reason it has not changed is because we have sold no more to them."

He adds "We do not discuss customer details with the press. Our arrangements with any customer, including Cuba, are between them and us. And we have arrangements with Cuba that are now satisfactory."

Last December Kennelly said "We have never not been paid by Cuba. So we've never suffered a bad debt."

In a cautionary announcement last November, Sentrachem announced R180m pre-tax losses on foreign exchange contracts by Sanachem.

Jack Lundin

BEATING EXPECTATIONS

Thanks to a much better second half, Chemsolve, the speciality chemicals subsidiary of AECI, has lifted EPS 21% to 81,5c, which was ahead of analysts' forecasts of 75c-78,5c

At the halfway stage, Chemsolve showed only 13% growth but for the second half this had increased to 27% MD Lex van Vught says the weaker rand gave the group more protection from imports Chemsolve's raw material prices also increased but it passed the increases on to customers, though not overnight The operating margin remained at 9,8%

The low rand also helped the group expand its exports, which were less than 2% of turnover four years ago, to about 6,5% or R68m in 1996

Other factors which helped the bottom line were the acquisition of Hickson Performance Chemicals from April, and an improvement in many of Chemsolve's markets Detergent raw materials, now its biggest market, produced above-average growth, as did perlite derivatives (for refrigeration), engineering plastics, water treatment and oleochemicals

The Hickson acquisition for R20m cash contributed to gearing of 42%, up from 35% Finance costs jumped 44% to R15m Van Vught, however, says Chemsolve aims to have gearing of 40%-80% as it is an acquisitive company which does not believe in issuing paper for acquisitions "If our borrowings dwindle too low it means we have run out of ideas"

The latest plan is to set up a joint venture in construction chemicals with Murray & Roberts, which should become the leading supplier of construction chemical specialities in southern Africa This may mean an injection of assets such as SA Silicones rather than of cash, so if there are no further new ventures Chemsolve's gearing and finance charges should fall in 1997

Van Vught is one of the few executives who is prepared to forecast earnings He predicts 98c a share for 1997, a 20% increase This figure looks attainable in

94 Fox

view of the group's 26% compound growth over the past five years

Chemsolve's share price of R10 is below its November high of R10,40 but well ahead of the 820c low in August After underperforming the JSE Chemical index for most of last year, it has outpaced its peers since early September

Chemsolve has the most consistent profit history in the chemical sector but on a p/e of 12,3 it is much in line with the sector's 12 multiple

In view of its more dependable bottom line, the share looks a rand or two underpriced *Stephen Cranston*

Sasol fails to impress the market

(183) CT(BR) 26/2/97

JONATHAN ROSENTHAL

Johannesburg — A weak rand and strong oil prices boosted earnings at Sasol, the petrochemicals-from-coal producer, but analysts had expected stronger earnings and the share price lost 250c to close at R51,50 yesterday

Sasol, which derives most of its income and profit from sales of synthetic fuel, shrugged off a lower tariff protection floor and reported a 22 percent rise in attributable earnings to R1,25 billion for the six months ended December 25

Earnings a share rose 29 percent to 208c, which was well below reported analysts' expectations of 237c a share

The group declared an interim dividend of 65c a share. Operating profit rose 26 percent to R1,99 billion. The lion's share of this was generated in the synthetic fuel division which bene-



COST CUTTING Pieter Cox, Sasol's managing director

PHOTO JOHN WOODROOF

fit from stronger oil prices during part of the period as well as an average rand to dollar exchange rate of R4,51 during the period under review, compared with R3,66 the previous year

Sasol's controversial tariff protection, described by many

as a subsidy, was negligible during the period. The floor price at which protection kicks in was dropped to \$18 a barrel, which resulted in R74 million worth of protection accruing to Sasol.

Pieter Cox, the managing director of Sasol, said the synthetic fuels division had improved its operating efficiencies and cut costs out of its Secunda operation. Further savings from new-generation synthol reactors could add R400 million to operating profit when they start coming on stream between next year and 1999, he said. Output of synthetic fuel from Secunda could be improved by a further 20 percent by the new reactors.

Sasol Chemical Industries, which accounted for about 33 percent of the group's operating profit through the production of more than 120 chemical products from coal, raised its profit 30 percent to R648 million for the half-year.

Sasol lifts earnings off price, volume increase

Samantha Sharpe

CAPE TOWN — Oil and petrochemical producer Sasol lifted attributable earnings 22% to R1,3bn in the six months to December, buoyed by the weaker rand and improved rand refining margins.

Earnings growth was reflected in a 19% increase in share earnings to 207,7c and a 23% hike in dividend declaration to 65c — both coming in below market expectations. Sasol's share price closed at R51,50 yesterday after losing close to 4% in intraday trade.

However, Sasol MD Peter Cox said yesterday all comparative figures had been restated to reflect a change in the group's accounting method for the valuation of crude oil, raw materials and manufactured goods, and its method for providing for deferred tax. The move was to bring accounting policy in line with international standards.

"These accounting changes had the effect of understating our profit growth

(183) 80 26/2/97
and had they not occurred, Sasol's attributable earnings would have shown a 25,5% increase with earnings a share 24,5% higher."

He said price and volume increases and the weaker rand were the main factors in the period "Barring major fluctuations in the rand and international petroleum and chemical prices, profit in the second half should be similar to that of the first."

Group turnover rose 17% to R7,9bn, with export and foreign sales strengthening 31% to R1,9bn. Operating profit rose to R1,99bn compared with a previous R1,58bn, with dividend and net interest receipts virtually unchanged at R2m and R148m respectively

Pretax income strengthened to R2,14bn from R1,7bn, with a higher provision for taxation — R842m (1995: R609m) — bringing income after tax to R1,3bn from R1,1bn. About R1,28bn to permanent capital holders and net debenture interest of R29m left the attributable earnings figure at R1,25bn.

market capitalisation

its by R130m for the past six months and by R79m in the same period in 1995

This was partly offset by a change in stock valuation from the Fifo (first in, first out) method to Lifo (last in, first out), being the last major corporation in SA to make this change

The change had a significant effect on Sasol Oil, which operates the Natref crude oil refinery. It also enjoyed higher refining margins. Its contribution was up 28% to R341m

Sasol still plans to expand in the retail

SASOL SOUND			
Six months to	Dec 25	Jun 25	Dec 25
	1995	1996	1996
Turnover (Rm)	6 756	6 789	7 895
Operating profit (Rm)	1 579	1 635	1 989
Attributable (Rm)	1 054	1 097	1 283
Earnings (c)	174,1	178,6	207,7
Dividends (c)	53,0	57,5	65,0

market beyond its blue pumps at limited petrol stations. Talks with Engen on a possible merger did not get far and look unlikely now that Malaysia's Petronas has taken a strategic stake in Engen

Chemicals, which includes explosives, fertiliser and a 42% interest in Polifin, increased profits by 30% thanks to volume increases and new plants

Cox says Sasol still aims to earn 50% of operating profit from chemicals by the year 2000 but this is a moving target as synfuel production continues to grow

International polymer markets were steady during the six months to December. **Polifin's** fixed costs were well controlled and increased by just 2%, which contributed to an increase in the operating margin from 23,7% to 25,6%

The margin improved in spite of an increase in local feedstock costs, not matched by the increase in monomer and polymer prices. In mid-February, Polifin announced increases of between 7%-12% in polyethylene and PVC prices. In future, pricing will be even more closely aligned to international trends

Operations generated R549m in cash, 30% up on the same period last year. Polifin repaid R125m of its long-term loan from Sasol Chemical Industries and cut gearing from 26% to 13%

Polifin MD Trevor Munday believes international polymer prices will start to fall in sympathy with oil prices before the June year-end and gradually decline before taking off at the turn of the century

SASOL/POLIFIN (183)

LIVING WITHOUT PROTECTION

KM 28/2/97

Sasol has proved that it can produce good returns without tariff protection on its synthetic fuel. Its core synfuel division reports a 25% increase in operating profits to R866m, even though it received minimal protection before December and none after that

Sasol MD Pieter Cox says Sasol could not have foreseen the currency fluctuations, which have made an US\$18/barrel reference price more palatable than it seemed when government started to wind down protection at end-1995

The synfuel division has also gone through a re-engineering exercise which has reduced its cost base considerably

Sasol's 19% increase in EPS to 207,7c in the six months to December 25 was below market expectations only because of a change in accounting procedure. Sasol has moved from the partial to the comprehensive method of providing for deferred tax, which cut attributable prof-

POLIFIN PEAKS?

Six months to	Dec 25	Jun 25	Dec 25
	1995	1996	1996
Turnover (Rm)	1 598	1 611	1 782
Operating income (Rm)	379	363	456
Attributable (Rm)	218	236	263
Earnings (c)	40	43	48
Dividends (c)	10	17	12

He is more optimistic than some analysts. Nonetheless, even if revenue and costs show only marginal gains, lower borrowings will keep finance costs down and allow real earnings growth

Unfortunately, there are no such signs of improvement at Sasol Mining, which increased operating profit by 6% to R157m. Its profitability should be transformed, however, by coal exports, unless the weak trend in export prices continues. A nominal 100 000 t was exported in the first half, which Cox expects to increase to 1 Mt for the full year and then reach the 3,2 Mt Richards Bay allocation

Sasol's p/e after the results based on the new accounting practices is still 13,7. This is modest now that Sasol has shown its product is competitive. It should be on at least the same rating as the Industrial index, which is now 15,8

At 830c, Polifin is even cheaper on a low p/e of 9,1, a discount of more than 25% on the Chemical index. Polifin is the most closely aligned share to chemical commodity cycles, so you might expect the added risk to be reflected in the price

Polifin has come off a recent peak of 925c and Sasol from R60. In both cases, the correction has been overdone

Stephen Cranston

ers to growth and development
 "At the February 6 meeting, progress of the initiative will be reviewed and key interventions sought from downstream plastic converters as to the future direction of the cluster process," he says

The Department of Trade & Industry's directorate of chemical and allied industries sketches major issues, challenges and opportunities so far investigated by eight industry working groups since February, 1996. These looked at the industry's financial aspects, feedstock pricing, marketing, manufacturing, the regulatory environment, infrastructure and technology innovation

"A study of domestic consumption and exports revealed that of the four main polymers (raw plastics) produced, 78% is consumed locally, 18% is exported as raw material and only 4% is exported as converted material

"This indicates the converting industry does not have an export focus," reports the marketing working group

And, underlining the need to convert more, it adds "Availability of raw material at export related prices is clearly the key issue which could be addressed by creating an investment climate through fiscal and financial measures which encourage the production of raw materials for sale at low prices"

Though government's tax holiday and accelerated depreciation allowance incentives have already been announced, meeting fast-growing feedstock demand is still a crucial issue. Providing sufficient raw material, at the right price, to a (hopefully) growing future band of plastics converters is also crucial ■

PETROCHEMICAL INDUSTRY (25)

MEETING OF MINDS

PM 3/1/97
How can SA grow its R60bn/year petrochemical industry? This and other questions hanging over the future of the industry will be addressed at a joint government/private-sector conference to be held in Pretoria early next month

Those attending the second plenary session of the petrochemicals, plastics and synfibres cluster initiative, hope to come up with a formula to integrate the industry's upstream capabilities with its downstream potential

This in turn will hopefully lead to growing feedstock beneficiation, higher forex revenues through added-value exports — and increased job creation

Trade & Industry Minister Alec Erwin says the cluster process is designed to bring in all stakeholders to get an understanding of problems and remove bari-

SOEKOR (183)

WELL DONE

KM 7/2/97

Apart from the Oribi field now on the brink of start-up, State-owned oil and gas company Soekor believes it will be able to develop "one or two" additional oil fields of the same scope in the Bredasdorp basin

Soekor CE Joggie Heuser expects the Oribi field — with volumes of between 11m and 29m barrels of oil — to yield a gross revenue of at least US\$380m over the next three to six years. This depends on developments after pumping of about 20 000 BPD starts in April

"Net revenues from the venture will allow us to explore — and exploit — more gas and oil finds in future," he says. Oribi will yield high-quality, Brent-style crude oil for local refineries, pumped directly into a shuttle oil tanker. Soekor holds 80% of the Oribi venture, with Engen subsidiary Energy Africa controlling the balance

Soekor has discovered 20 gas and nine oil reservoirs with total hydrocarbons

conservatively estimated at 2 trillion standard cubic feet of gas and 120m barrels of oil

A feasibility study now underway should indicate, by midyear, what further feasible exploration areas could be next. Soekor also discovered the FA and satellite Mossgas gas fields, which are being exploited by Mossgas

Energy Africa's London-based MD John Bentley says "We believe that Oribi should deliver about 15m barrels of oil, on a base case scenario, which will show

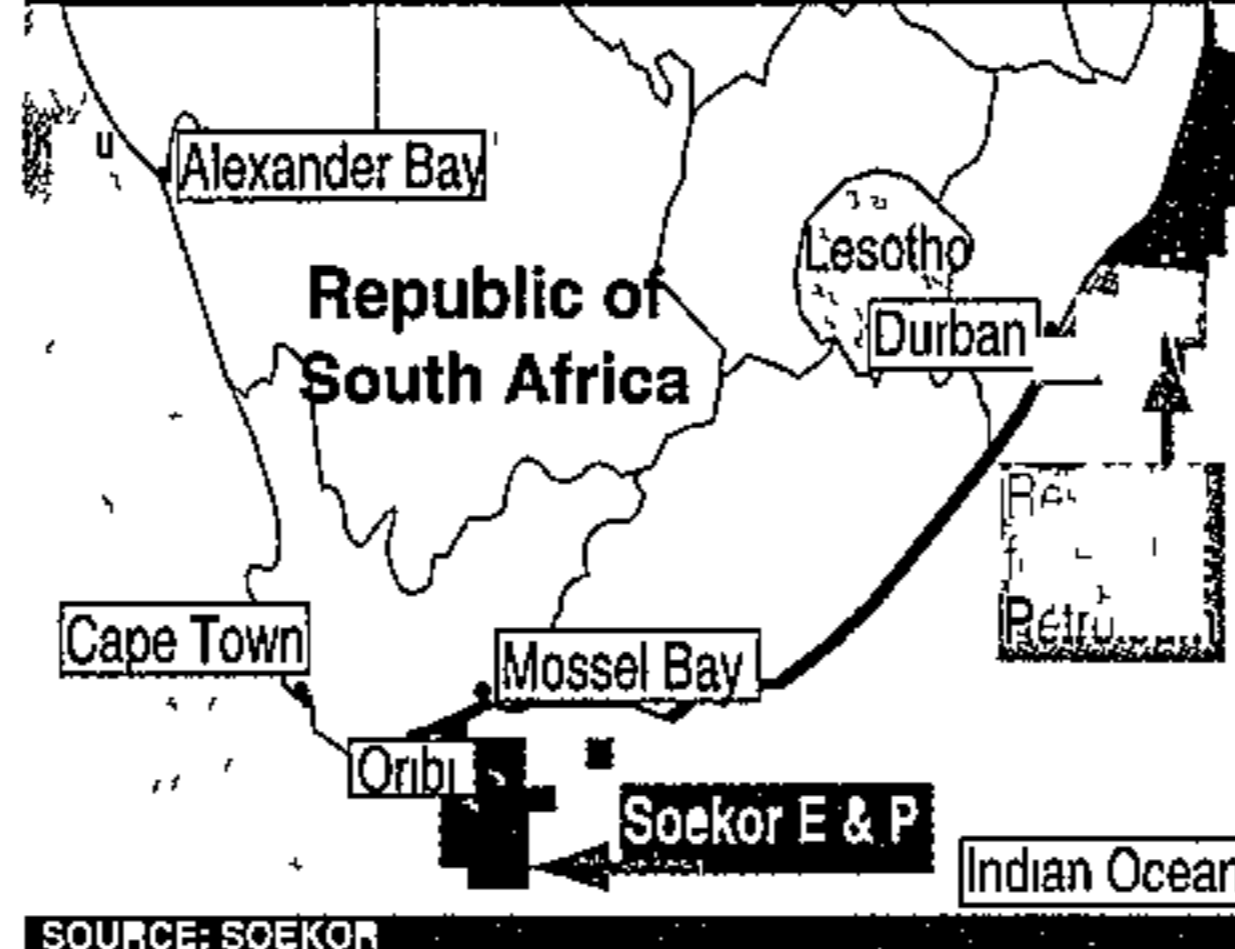
a gross yield of about \$300m, before operating costs"

Soekor and Energy Africa also share the \$75m development costs for the Oribi oil field on the ratio of their respective shareholdings, with Soekor doing the operating work. Heuser says Oribi's

development costs should be recovered "within the first year"

Bentley says Soekor's other oil fields are mostly smaller than Oribi and that successful commercial exploitation will obviously depend on oil prices, cost and crude oil revenue factors. "We have an

COMBING THE DEPTHS



SOURCE: SOEKOR

54 BUSINESS

interest in some of the other discovered fields," he adds

Energy Africa also holds a 10% share in the Kudu gas field off Namibia's southern coast and has an interest in three Angolan licences. It recently also obtained an exploration right over large parts of Gabon, a country which produces 300 000 BPD

Meanwhile, Heuser expects US-based Phillips Petroleum to be ready to sign a sublease agreement for blocks 17 and 18 on the northern KwaZulu-Natal coastline "within the next two months," once the technical co-operation agreement with Soekor expires by end-March. "This will bind Phillips to an agreed working programme involving seismic work and possible future drilling"

Arnold van Huyssteen

(183)

THE STOLEN DRUGS TRAIL

FM 7/2/97

In a major breakthrough in the war against plundered pharmaceuticals, investigators have traced part of a stolen consignment of the dangerous drug Roaccutane to a Cape Town warehouse belonging to a division of blue-chip Premier Group

The Roaccutane, used in the treatment of acne, was stolen from the Johannesburg warehouse of International Healthcare Distributors

Investigators on the trail of 12 stolen cartons of the drug, with a retail value of R1m, have recovered 70 packs from the Cape warehouse of United Pharmaceutical Distributors (UPD)

UPD is part of United Pharmaceutical Holdings, a division of Premier

Last year Holdings sold R970m worth

The warehouse contains R400m worth of stock. None of Batch 1914 had been shipped out, so the company knew that any part of it that they could trace must have been stolen

Roaccutane has alarming side effects. Taken by pregnant women it can cause foetal malformations. Its makers, Roche, warn that its use is contra-indicated not only for pregnant women but "also in all women of childbearing potential"

It is also expensive. A pack — one month's supply of 60 20 mg capsules — is normally bought by wholesalers from the dis-

trace 70 packs to the UPD warehouse through its own unique batch-tracking system, which it has offered to the Department of Health to aid its crackdown on stolen pharmaceuticals, estimated to have cost the State R1,2bn over the past three years

International Healthcare is a specialist distributor whose shareholders are seven multinational pharmaceuticals, including Roche. The company was started in 1993 to fight the theft of pharmaceuticals with its unique batch-

tracking system, which uses member manufactur-

ers' batch numbers to keep track of products

"We're the only distributor in pharmaceuticals who has this system operating," says MD Bobby Hamman

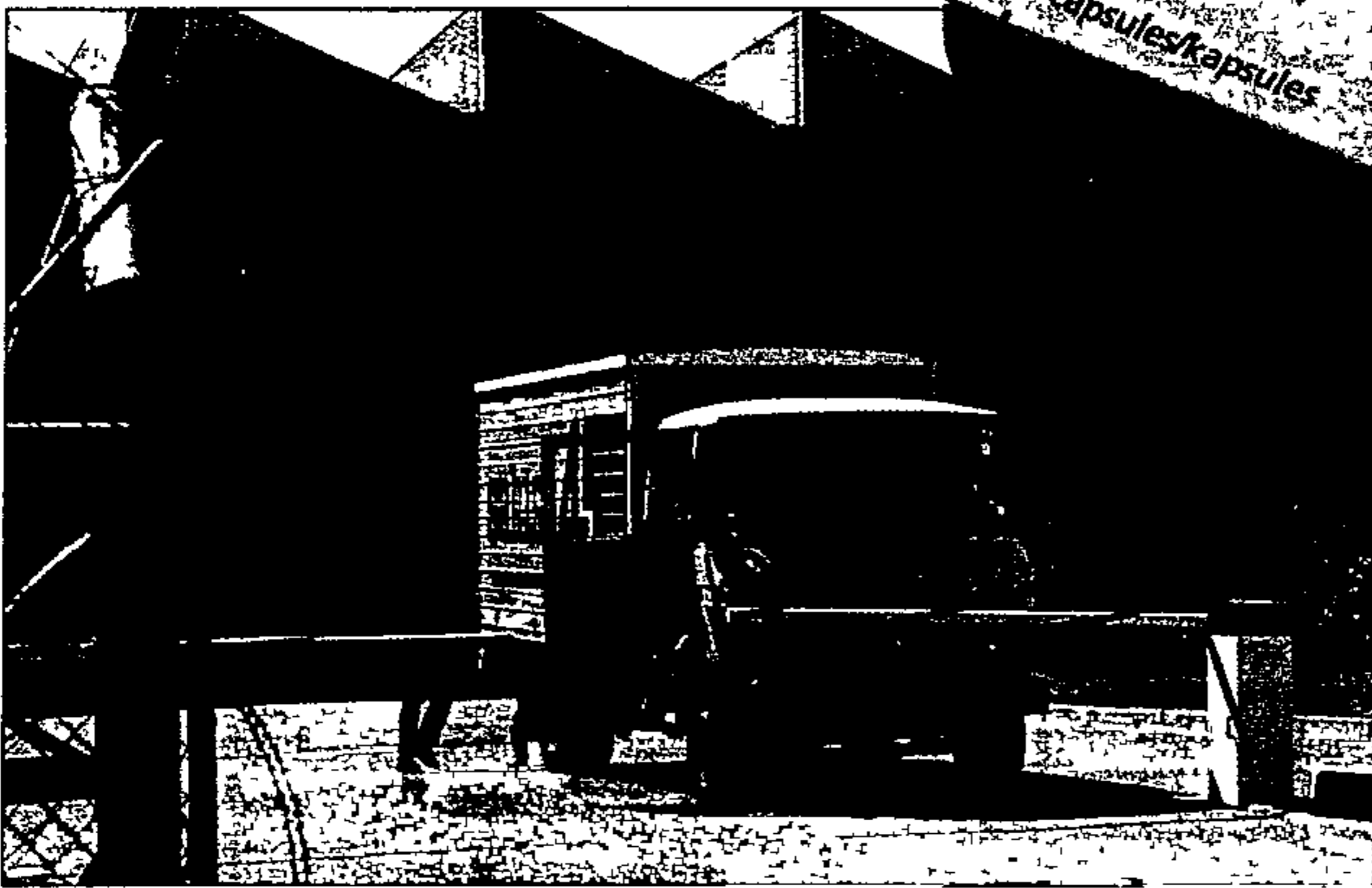
The batch-tracking trail led to UPD's Cape Town factory, where inspectors approved by government's Medicines

Control Council confiscated 70 packs of Roaccutane

Hamman says the operation is a breakthrough. However, the balance of 938 packs of the drug is still unaccounted for. "We are certain that a large amount has been sold to pharmacies"

On January 20 he opened a docket at Kempton Park police station in regard to the missing Roaccutane

International Healthcare's probe is being handled by loss-control consultants Hamilton Whitton. Its investigator Johan Koch, who is a Medicines Control Council-approved inspector, confirms he is holding the 70 stolen packs of Roaccutane found at UPD and says "UPD now needs to present us with an invoice proving where they bought the stock. UPD has quoted two people who they say they



International Healthcare's warehouse where the Roaccutane went missing

of pharmaceutical and allied products through its nationwide wholesaler network

At an International Healthcare stocktake last November 29 everything was in order. But a second stocktake on January 16 revealed that the 12 cartons — 1 008 packs of 60 mg capsules — from Batch No 1914 (expiry date June 1998), had disappeared

tributors for R547. Wholesalers add their mark-up of between 6%-17,5% and sell to retailers at between R579-R642. Retailers then add their mark-up to sell it at a recommended price of R1 012

The FM is in possession of a UPD invoice which shows the sale on January 13 this year of one pack of Batch 1914 to a Cape Town pharmacist, for R530,03

International Healthcare was able to

Soekor lands in deep water with fishermen

Edward West (183)
 SOEKOR has landed in deep water with commercial fishermen over the oil production and exploration parastatal's alleged failure to remove abandoned drill heads from the seabed off Mossel Bay, and a general lack of consideration for the well-being of the environment.

Deep Sea Trawling Industry Association secretary Roy Bross said yesterday that some fishing industry representatives were taking legal advice on the matter, but he did

not name them. Formal channels for such complaints did not exist, Bross said.

Soekor's first oil production facility — oil is scheduled to be produced in the first quarter of this year — is situated in the middle of the southeast coast's finest hake fishing grounds, known as The Blues.

According to SA Commercial Marine magazine, fishermen have already been forced to learn how to navigate around about 150 exploration drill heads abandoned by Soekor, and Bross said there had

been reports of fishing gear snagging on Soekor equipment.

But the impact of production wells, connecting pipes and loading facilities for tankers could exclude the entire area to fishing operations," the publication noted.

Apart from the apparent lack of clean-up operations — in terms of the Mineral's Act Soekor must not interfere with navigation, fishing and the environment — the publication questioned why an environmental management plan had not been produced for the E-AR mining

area, which is specified in Soekor's mining lease area.

An environmental management plan had only been conducted on the E-BT field, a 5km² "no go" zone for fishermen where the first oil is scheduled to be produced. Soekor's mining lease in the mining titles office contained seven wells and covered 80km².

Bross said all offshore fishing areas were environmentally sensitive, and he believed oil production had affected fishing stocks in other parts of the world, such as those stocks in

the North Sea.

Soekor said it was unable to respond yesterday, but a statement could be released today.

After nearly 30 years of exploration, SA is scheduled to start its first oil production in March in a venture funded by Soekor and local oil company Engen.

Production from the E-BT field, which has a lifespan of three years, is estimated to be about 20 000 barrels a day, and could yield about 6% of SA's crude oil requirements over that period.

W...

Adcock Ingram to lay off 600 workers

(183) BD 14/1/97

Reinie Booysen

ADCOCK Ingram would soon complete the first phase of its rationalisation — after merging with Premier Pharmaceuticals — with the retrenchment of more than 600 workers, CE Phil Nortier said yesterday.

He declined to comment on the resulting cost savings, but analysts have estimated this could total R75m a year for the company, called Adcock Ingram after the merger.

Nortier said he had been encouraged by the results of the first quarter, ending in December, with earnings showing "double-digit growth". He expected strong earnings growth for the full year, although comparable sales growth would be restrained.

The first phase of the retrenchment process — mostly felt by the old Adcock Ingram — would be completed by the end of next month.

Nortier said the reduction had affected every level of employment. At board level, two directors of the old Adcock Ingram lost their jobs. Finance di-

rector Daryl Kronson said more than half of the retrenched employees were white-collar workers.

Apart from Nortier and Kronson, two other executive directors — chief operating officer Mike Norris and MD Linda Philip — were appointed to the merged companies' board. "We have a relatively young team, with a wealth of experience in the pharmaceutical industry," said Nortier.

The next phase of restructuring would entail rationalising the manufacturing facilities. Nortier hoped this would be completed by the year-end.

Analysts said additional factory closures were likely.

Nortier, CE of Premier Pharmaceuticals before the merger, said, "Adcock Ingram has always been a strong company but had become a little bit complacent in recent years", while Prempharm had grown so rapidly that it was "a little too lean and mean".

Kronson, who was finance director of the old Adcock Ingram, said the ra-

Continued on Page 2

Adcock Ingram

Continued from Page 1

(183)
BD 14/1/97
rationalisation was inevitable. "We realised that we needed to cut costs well before the merger. We would have had to go down the same path anyway."

The high number of retrenchments among employees of the old Adcock Ingram was partly a result of the closure

of the Mobeni factory in Durban, which accounted for 250 retrenchments. Adcock had already initiated the Mobeni closure before the merger.

The restructuring entailed centralising most of the support structures, including human resources, information technology, finance, and research and development, distribution and technical services.

Only sales and marketing would remain decentralised, he said.

Weak rand and high oil price should drive growth

Chemicals sector looks to Sasol again

(183) CT(BR) 15/1/97

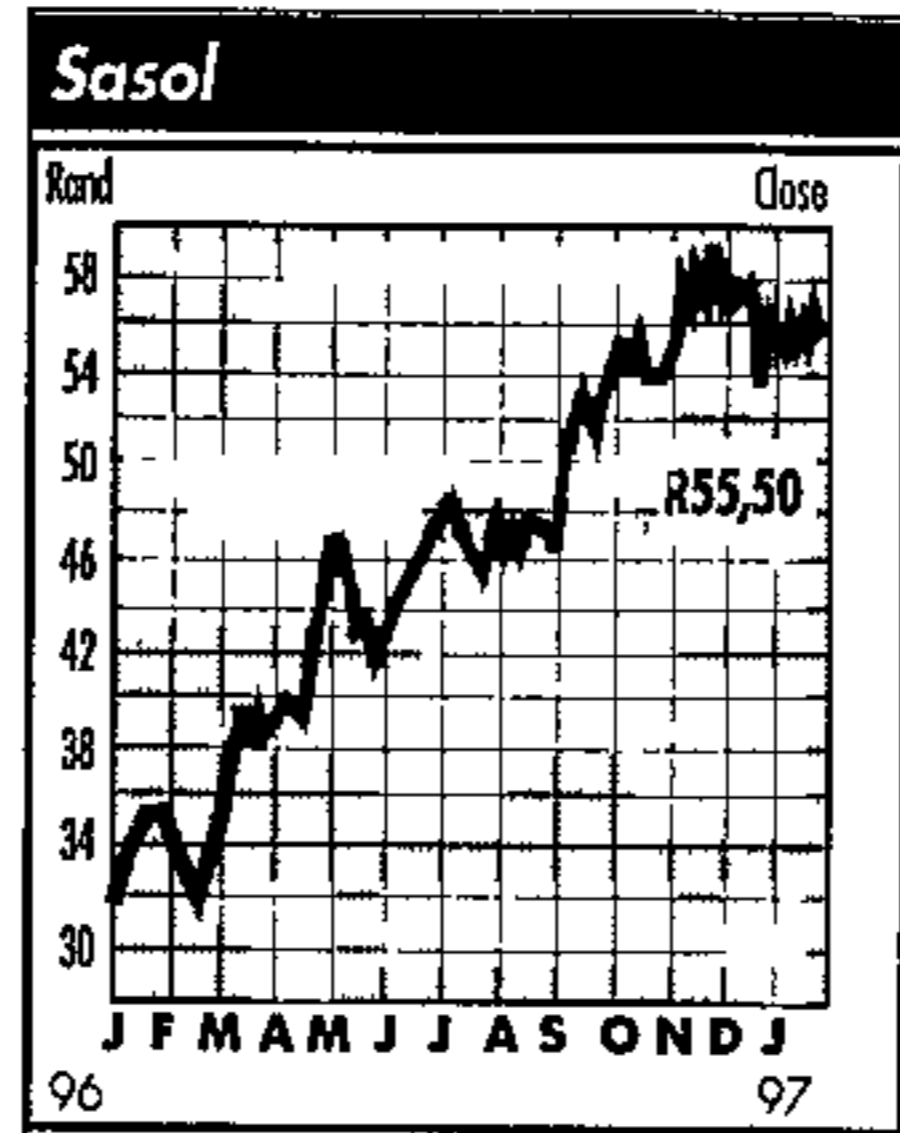
JONATHAN ROSENTHAL

Johannesburg — The chemicals, oils and plastics sector, which grew 47 percent last year, should see continued earnings growth driven by a low rand exchange rate and a high oil price, analysts said yesterday.

Last year the sector's growth was led by Sasol, which climbed to a high of R59,27 from an early year low of R30,25 in February.

Jennifer Ramsden, an analyst at SA Value Analysis, an equities research company, said yesterday that Sasol's strong results for the year had shifted sentiment for the entire sector. The results augured well for Sasol's ability to overcome falling tariff protection in its synthetic fuels business, and the share still offered value at its present price levels, she said.

Another analyst, who declined to be named, said Sasol would achieve strong earnings performance when it reports interim results for the six months to December 31 because of a high



oil price and a weak rand-to-dollar exchange rate. But he said the rand-hedge value in Sasol had already been priced into the share, and the oil price would fall back to between \$16 and \$18 a barrel at the end of the European winter. Sasol reported a 12 percent increase in operating profit to R3,17 billion for the year to June 30 last year.

Both analysts expected a recovery in the price of Sentrachem shares, which fell heavily late last year in reaction to the company's forward cover losses

on the currency market. Currency losses were expected to cost about R185 million and would lower earnings a share by about 60c for the year to August 31.

"The share price was hit far too hard and it is worth more than it is trading for at the moment," Ramsden said.

Analysts were upbeat on Polifin's prospects, despite continuing weakness in the plastics commodity markets it supplies. "It is a cyclical stock but can hold its head above water at the bottom of the cycle," Ramsden said.

The group is expected to see substantial benefits to its bottom line as the effects of a plant modernisation programme begin to feed through. Some analysts predicted a short slump in the plastics commodity price, with prices picking up as early as next year. But some have also warned that a further slip in plastics prices could still occur.

Polifin's share price has climbed rapidly in the past few days, gaining 34c to 864c.

Another 'oldie' out of Adcock Ingram

(183) CT (P2) 15/1/97
ANN CROTTY

CONSUMER INDUSTRIES EDITOR

Johannesburg — The number of executives from the pre-merger Adcock Ingram management team continues to be depleted with the recent departure of John Finlayson from a senior executive management position in the pharmaceutical division.

The 1996 Adcock Ingram annual report, which has just been released, includes Finlayson as a member of the executive of the pharmaceuticals division.

With Finlayson's departure, however, there is very little left of the former Adcock Ingram Pharmaceutical senior management team in the enlarged group which, from May last year, includes Premier Pharmaceutical (Prempharm)

The annual report gave no details about recent reports that the soon-to-be completed phase one of the post-merger rationalisation involves the retrenchment of 600 workers, but analysts speculate that the majority are from the old Adcock Ingram group

The closure of the plant in Moberi accounted for about 250 retrenchments, and about 100 employees lost their jobs with the closure of the wholesale operation in Germiston. Analysts say, however, that plans for these closures were well in play before the merger

It is not clear from the annual report how the costs of the retrenchments have been accounted for, but one leading pharmaceutical analyst said it was likely that provision had been made at the time of the merger. This

means the hefty once-off cost of retrenchments will not be reflected on the income statement but the savings from the reduced payroll will be, and will help to lift profitability

The new chief executive Phil Nortier, who was previously chief executive of Prempharm, refers in the report to the group's healthy cash situation and notes that it puts the company in a strong position for further expansion through local and international acquisitions

At the end of September the group had R326 million in cash and a further R200 million in preference share investments. According to Nortier, "the disposal of excess manufacturing and administrative facilities of the merged group will realise additional cash which will enhance opportunities for future acquisitions"

Nortier reports that research and development activities will be enhanced because of the larger base created by the merger and through centralisation of the functions "which will improve focus and synergy"

He also states: "We have taken the decision to discontinue our own research into chemical entities. This form of research, in addition to being costly and high-risk, also requires an appropriate infrastructure in main international markets so that the required return on investment can be achieved during the patent life of a new chemical entity"

The share closed yesterday at R20,40, down 10c. The N shares closed unchanged at R19,50, a discount to the ordinary shares of 4,4 percent.

Oil from SA's first well expected

By WILLEM STEENKAMP

It's all systems go for South Africa's first oilfield, situated in the Bredasdorp basin off the Cape South Coast, and the first high-quality crude is expected to flow from the field by March.

Soekor spokesman Guy Courtin said the Orca, a floating production platform, had undergone a major refit at Simon's Town naval dockyard and was set to sail for the Oribi oilfield by the end of next week.

The *Saturday Star* first broke the story about South Africa's oil discovery at the end of 1994 but the news was initially met with much scepticism, particularly in the light of the much-criticised Mossgas scheme.

Soekor has, on more than one occasion, stressed that its oilfields have nothing to do with the Mossgas project, and that it is a totally independent venture which involves Soekor and private shareholders.

The field is expected to produce about 20 000 barrels of high-quality crude a day for up to three to six years

The field is expected to produce about 20 000 barrels of high-quality crude a day.

Oil tankers will moor at a delivery buoy near the produc-

tion platform and will take on crude. Depending on weather conditions it will take between 30 and 40 days to fill a tanker with crude.

At this stage Soekor intends selling the crude to refineries in Cape Town and Durban.

Courtin said the crude was of an exceptionally high quality, with a very low concentration of sulphur and other toxic substances.

The lifespan of the Oribi field is estimated at anything be-

tween three and six years, but there are several other satellite fields which may be brought on line and these could extend the lifespan of the field to at least 10 years.

Soekor also intends injecting water into the fields, which will force the oil upwards and which may also extend the life of the fields.

Courtin said that with production set to start by March, profits from the venture would be used to fully assess the other

Soekor expects that the R400-million capital outlay will be recovered within the first year of production

satellite fields and investigate other potential fields.

The oilfield was discovered in 1990 and is located about 140km south-west of Mossel

in March

(183) Star 18/1/96

field is expected to deliver about 6% of the daily fuel needs of the country.

Oil production will be from a depth of 2 300m below the sea floor through two production wells.

Crude will be processed on board the floating platform and then pumped into a waiting shuttle tanker.

Soekor estimates that the capital cost to develop the field will be recovered within the first year of production.

Bay. It has proven oil reserves of about 32 million barrel, but this figure could increase as satellite fields are brought on line.

The Oribi field is being developed at a cost of more than R400-million, is expected to create about 150 new jobs and has a projected revenue of nearly R1-billion.

The field is co-owned by Soekor E and P (80%) and Energy Africa Bredasdorp (20%).

Once in full production, the

Motorists paying R140m a year extra because of oil companies

(183) PD 23/1/97

Reinie Booysen

SA motorists are paying Mossgas about R140m a year to make up for the pricing shortfall resulting from the oil industry's refusal to pay Mossgas the prices their members get for their own fuel

Ever since Mossgas came into production in 1995, the oil companies have refused to pay it the import parity or in-bond landed cost price for petrol, diesel and illuminating paraffin — the prices they get from consumers for their fuel.

Instead, oil companies pay the lower export parity or so-called Africa netback prices, based on the argument they can supply the SA market fully, and what they buy from Mossgas is surplus to requirements.

They say this product has to be exported, and argue they should be obliged to pay only export parity prices, which are significantly lower than import parity prices.

The difference between import and export parity prices amounts to about R140m a year. To compensate Mossgas for this lost income, the Central Energy Fund pays Mossgas the difference from

funds generated through the equalisation fund levy on petrol and diesel prices.

In June last year, the department of minerals and energy instructed the oil companies to pay Mossgas import parity prices and to claim compensation from government if this arrangement forced the oil companies to export more product than they would otherwise have to

The oil companies have ignored the department's directive and still refuse to pay import parity prices, although these are the prices Mossgas invoices them for

Mossgas CE Dave Day disagrees that the oil companies are able to supply the SA market fully. "As far as we can ascertain, SA has been a net importer of petrol since the latter half of 1995," said Day. "From time to time diesel is also imported."

Day said evidence from shippers and other sources suggested that SA — including all domestic production of the oil companies, Sasol and Mossgas — had been a net importer of petrol since late 1995. If one excluded Mossgas, SA had probably also become a net

importer of diesel, Day said.

The original argument that the oil companies should be compensated for the effect of the entry of a government-financed fuel producer by only having to pay lower export parity prices for fuel from Mossgas no longer held, said Day. No one apart from the oil companies knew exactly how much finished oil product was imported or exported from SA.

"Despite repeated efforts we have not been able to verify our estimates on net imports quantitatively, and we have not been able to get any fuel import and export balances," Day said.

Government sources said the auditor-general had also attempted to establish the truth about imports and exports, but without any success.

Day said fair pricing was essential to Mossgas's feasibility. "If we are paid fairly for our products on the same basis as the (oil) companies are paid by the motorist for the products they produce, we would probably achieve a cash surplus of R600m in the financial year to March without any assistance from government."

ENRON ALL FIRED UP

(183) FM 24/11/97

The go-ahead for the US\$2bn Pande gas field project in Mozambique will be given later this year, believes Tony Way, senior vice-president of Houston-based Enron Corp, the prospective developer

"We have had talks with the Industrial Development Corp (IDC), Iscor and the Mozambican government and are on target with our programme for 1997. We are extending our rights in Mozambique and, as soon as a number of milestones on a complex route are crossed, one can expect a final announcement after mid-year," says Way

The total project will consist of the \$1bn development of the gas field, including the building of a pipeline to SA by Enron, and a \$1bn iron reduction plant to be developed by IDC, probably in co-operation with Iscor

"This is an attractive and economic project — the global market for directly reduced iron is good and project costs are low, with SA's vast iron ore reserves close to the gas field. But, with plans to export about 4 Mt/year of product over a 30-year period, a lot will depend on the transport and export facilities of the Maputo Corridor and harbour. Much still needs to be done to allow for a smooth, continuous export operation," he adds

Meanwhile, with the IDC preparing to announce its engineering feasibility study for a proposed gas-fired iron reduction plant in Northern Province, Way expects yet another Mozambique-linked mega-project to go ahead

IDC project development manager Gerrit Kruyswijk says the engineering feasibility study, which has taken about nine months to complete, will be made

public next month

Adds Iscor Mining GM iron ore Johan Deetlefs "We have been working with the IDC to determine whether we could develop a beneficiation project involving iron ore, gas and coal to produce iron or iron-related products. Opportunities have been identified which we want to jointly investigate. The IDC is undertaking the study and Iscor supports the project with technical inputs"

Responding to suggestions that Iscor has an option to take over the project from the IDC, Deetlefs says "Iscor has no interest now as there is no proven project which is economically feasible. Such considerations would become prevalent only when an economically feasible project is proven"

Way says Enron is proceeding with its feasibility study into the pipeline project and concluding production agreements with Mozambique, which should also be finalised by midyear

The economies of the proposed reduction plant are enhanced by the fact that the product, being a 95%-99% iron concentrate, reduces transport costs, compared with much bulkier export ore, with its 50%-60% iron content ■

Saiccor vows to get its house in order

SHIRLEY JONES

KWAZULU NATAL EDITOR

Durban — Saiccor, the producer of dissolving pulp used mainly in the international textile industry, will get its house in order, Alan Tubb, the new managing director of the Sappi subsidiary, said on Friday

He said a decision on whether to extend the pipeline carrying effluent from the plant in Umkomaas into the sea along the KwaZulu Natal south coast could be expected by June. This, together with the building of a ligno-sulphonate extraction plant, is expected to carry a price tag of R150 million

Tubb was at the forefront of a pollution controversy when he took over Saiccor and Sappi's Usutu mill in Swaziland in October last year after heading Sappi's flagship Ngodwana mill in Mpumalanga since 1989. He also took on a massive strike and had to deal with a protracted downturn in world pulp prices

He stepped into the shoes of Roland Mazery, the controversial author of letters to international leaders asking for pressure to be put on the South African government to correct problems such as crime and violence

(183) CT (BR) 27/1/97
Tubb said the Mazery issue was between Mazery and local political leaders, so further comment was unnecessary

As far as the continuing pollution furore was concerned, Tubb said there had been a complete change of heart at Saiccor as far back as November. Managers whose aloofness had earned the company many a sensational headline were being encouraged to be more sensitive and open to the needs of the surrounding community

He said it was time to address the technicalities of handling the effluent, rather than emotionally charged issues such as the credibility of the company

The first meeting between Saiccor management, various stakeholders and Crowther, Campbell and Associates, the Cape-based company appointed to steer the environmental impact assessment into the extension of the company's pipeline into the sea, took place last week

According to Tubb, while the CSIR would continue to steer the technical side of the assessment, the Cape company had been appointed to address the social aspects and ensure that all stakeholders' needs were addressed transparently

Tubb said addressing the pollution problem made sound business sense. He also welcomed the diversification into the beneficiation of chemicals through the ligno-sulphonate plant, which he said was likely to come on stream by the middle of next year

"It could be very exciting, although it is still early days as far as this initiative is concerned"

Tubb said it was no secret that Saiccor's product and pulp prices had recently been under severe pressure. However, Saiccor was not alone. Pulp, as a commodity, was inherently cyclical

He said that the northern bleached softwood kraft pulp, the benchmark within the industry, had come off from \$850 per ton in January last year to \$550 in May last year

"The interesting thing is the volatility of the market. The previous price cycle in 1989 took 14 months from base to peak. Between 1994 and 1995, it took just 14 weeks to peak. Then the price fell off a cliff just as rapidly. My view is that because there is a lot of tension building up, there will be a rapid rise in price. It's just a question of when," he said

Tubb said that in the short

term Saiccor had to look at how it could upgrade its products and move into areas in which it had previously not competed

"By increasing the purity of our product, we can move into new niche markets, secure our volumes and improve the price mix of our product," he said

The R1 billion Umkomazi expansion, commissioned in 1993, pushed Saiccor's percentage of the world market for dissolving pulp from 14 to 18 per cent. Tubb said there were no plans to increase output at this time

Instead the company would consolidate its position in the new markets it had entered as a result of the expansion. The plant was capable of producing 94 alpha pulp, a purer pulp which commanded a higher price. In addition, Saiccor could produce reeled as well as baled pulp, which opened the doors to, among others, the acetate market

Tubb said Saiccor was also increasing its supply into the dynamic and still developing market for a new fibre known as lyocell

In 1994, world consumption of lyocell was about 20 000 tons. International consumption could reach 250 000 tons by 2000, he said

ADCOCK INGRAM

(183) AM 31/1/97

MERGER PLAN UNFOLDS

With the merger of Adcock Ingram and Premier Pharmaceuticals (Prempharm) still being bedded down, the latest annual report, which consolidates five months' results for Prempharm, is not that useful for comparative purposes

- **ACTIVITIES.** Makes, markets and distributes health care, hospital, animal health and consumer products
- **CONTROL** Tiger Oats 35% Ultimate holding company is CG Smith
- **CHAIRMAN.** R A Williams MD P S Nortier
- **CAPITAL STRUCTURE** 28,8m ords Market capitalisation R5,8bn
- **SHARE MARKET.** Price 259m N shares, R20,50 Yields 2,0% on dividend, 4,9% on earnings, p e ratio, 20,3, cover, 2,4 12-month high, R23, low, R16,30 Trading volume last quarter, 1,3m shares

Year to September 30	'93	'94	'95	†'96
LT debt (Rm)	nil	nil	nil	32,1
Debt equity ratio	n/a	n/a	n/a	n/a
Shareholders' interest	0,57	0,60	0,66	0,62
Int & leasing cover	n/a	n/a	n/a	n/a
Return on cap (%)	27,5	28,2	27,7	15,9
Turnover (Rbn)	0,97	1,01	1,17	1,50
Pre-int profit (Rm)	160	171	202	273
Pre-int margin (%)	16,5	16,9	17,2	17,5
Earnings (c)†	70	82	95	98
Dividends (c)	27,0	31,0	36,0	40,5
Tangible NAV (c)	242	263	337	296

† Headline ‡ Includes results of Prempharm for five months to September 30

It does, however, give some indication of the potential of this enlarged group (market capitalisation has more than doubled over the past year to R5,8bn) Given the uncertainties of possible changes to government health-care policy and the effect of multinational competition, the new-look Adcock appears well placed to grow strongly in the local market

Basically, the plan is this cost savings from merger-related rationalisation and better efficiencies will flow through the accounts over the next two financial years, underpinning earnings growth

Thereafter, new CE Phil Nortier expects increased focus and spending on

research and development to produce a large range of new products by 1999, which he says will "maintain earnings growth momentum after the effects of the merger savings have been realised"

Like most large mergers, this has been a painful exercise By the end of February, it would have cost about 620 jobs Durban's Mobeni plant has been closed, with operations relocated to Gauteng (at a cost of about 250 jobs) Manufacturing is likely to undergo further rationalisation by the end of this year

Recent accusations have been that retrenchments have been mostly old Adcock staff Financial director Daryl Kronson (one of the few remaining Adcock executives) confirms about 85% of the retrenchments have been from the Adcock side, saying it was always envisaged that there would be centralisation of support functions

It seems inevitable that the axe should fall mainly on Adcock people, the company which, pre-merger, was completely decentralised Prempharm was largely centralised

Cost savings from rationalisation are just starting to come through and will accelerate in the second half of the financial year Savings of about R75m-R100m should be made over the next two years

This will support earnings growth in the short term, forecast by some analysts to be around 25% or more for the next two years

Kronson says, however, there are several other merger benefits to be realised "As a far larger group, we have considerably more buying power We've already negotiated some favourable supplier contracts, resulting in significant savings"

He adds that the efficiencies of factory

rationalisation will extend beyond the initial merger cost savings and the merged group's broader over-the-counter (OTC) product range offers substantial marketing opportunities

"For instance, Adcock's OTC products are well represented in the retail stores, Prempharm's in the pharmacies We're

now looking at increasing our market share by capitalising on our strengths in these markets," he says

The OTC market, less regulated and usually offering better margins, is where much future growth will come from

But much depends on Adcock's increased focus on research and development to produce new products to meet local market needs Nortier says a decision has been taken to discontinue re-

search into new chemical entities, a costly form of research which does not necessarily result in new products

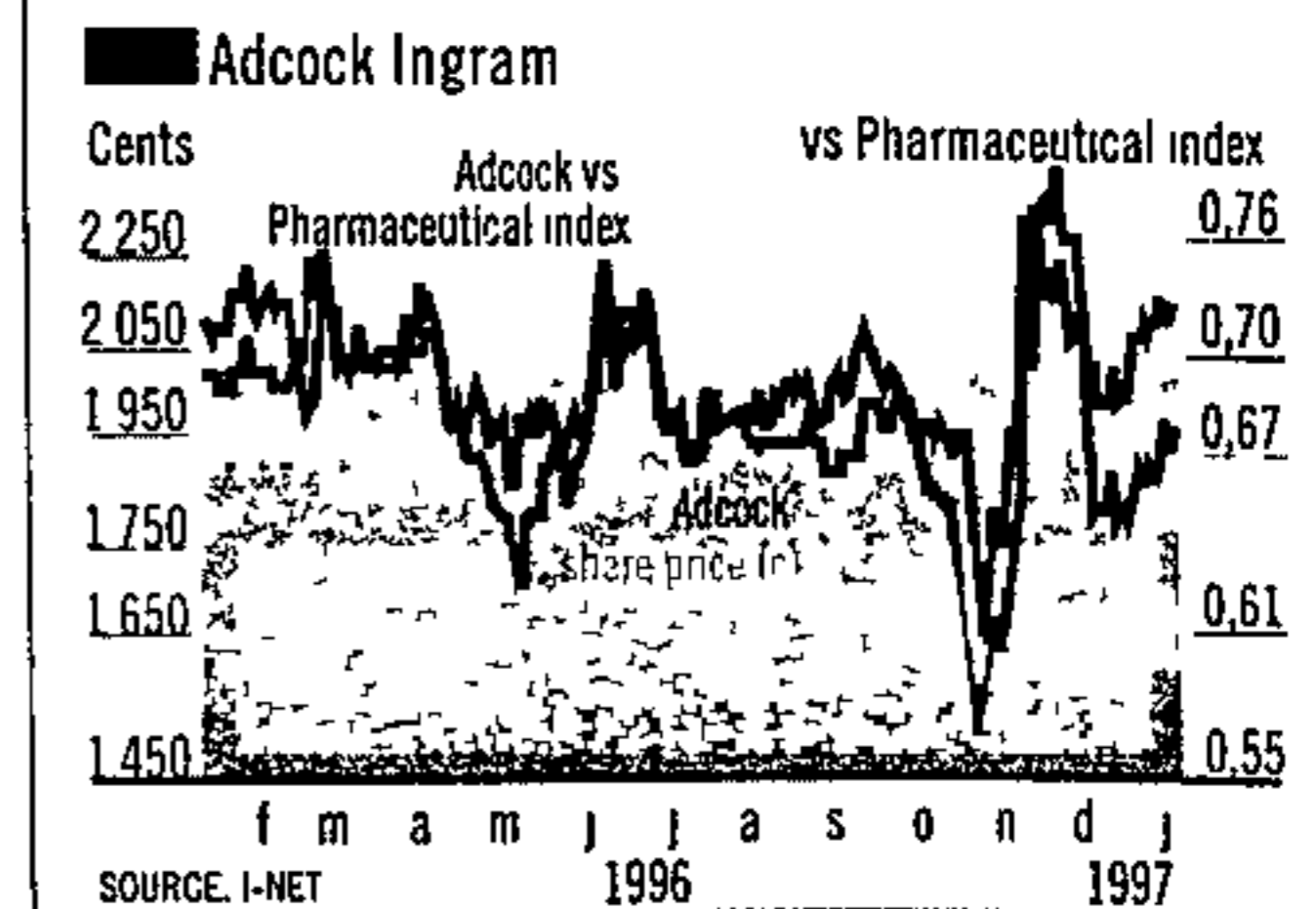
"This decision also enables the group to concentrate its resources on local development and an active licensing programme," he says

With net cash of R294m, plus R200m in preference shares, Adcock has the balance sheet strength to take advantage of acquisitions

Kronson says a few acquisitions are being looked at — one could be con-



Phil Nortier



cluded soon — but adds these are of a smaller, more strategic nature

Strong earnings growth, mainly on the back of merger cost savings, already appears to be in the share price. Medium-term, there is value

Investors prepared to look through some of the uncertainties hanging over the industry will probably find that Adcock is the first choice in the sector

Shaun Harris

FEATURE
PETROCHEMICAL STUDY REPORT

JUST A SPOONFUL OF SUGAR

(183) FM 31/1/97

If Trade & Industry Minister Alec Erwin enacts some of the measures disclosed in an interim report on the petrochemical industry, players in the sector can pat themselves on the back

As Erwin battles to define a new industrial growth strategy, some of the policy challenges facing government are laid bare. Hard to swallow as they may be, they will eventually have to be faced and dealt with.

Apart from constraints facing domestic industry, a list of stumbling blocks which keep foreign investors off SA's doorstep has been identified by the report.

Some of the snags encountered by foreign investors fall mainly in the financial realm but many other minuses exist — especially that of labour.

Identified in the report are onerous borrowing limits imposed on foreign-owned companies — not applicable to locally owned companies — which limit debt to 50% of equity.

Another complaint is the paucity of information available on tax issues with the SA Revenue Service being reticent to give clear rulings.

Section 38 of the Companies Act also comes in for a hammering in that it prevents potential foreign buyers from using money within cash-rich companies to assist a takeover of such companies.

And the long-standing bugbear — secondary tax on companies — is found to discriminate against new investors, particularly foreign investors, resulting in their paying higher taxes than existing local players.

Other financial constraints facing the domestic petrochemical industry — and, by inference, the rest of SA industry — include the lack of flexible financing from banks and a lack of understanding of the downstream industry by the financial sector. The working group finds that exchange controls discourage foreign banks from entering the local market. It feels their presence would increase the competitiveness of the banking industry.

Another possible reason for lack of funding is the too low Usury Act limits on the maximum interest rates that banks can charge to perceived high-risk ventures. The group recommends creating a special fund to insure the risk.

Some of the more innovative recommendations will see much hand wringing among free-market purists. Sceptics will have a field day in that the report says there is a lack of supply-side measures to encourage capital investment. It also attacks

high effective tax rates.

"STC is a major contributor to high tax rates experienced by foreign companies and new start-ups. And many of the Asian economies promoted new industries by making use of capital grants and tax holidays, which make those countries more attractive for investment."

Though the new tax holiday and accelerated depreciation allowance schemes go a considerable way towards rectifying the problem this advantage is partially offset by STC in the case of new investors and local entrepreneurs.

The working group says the existence of STC creates the impression of discriminating against new business and foreign investors entering the country for the first time, in short those who do not have an existing tax base.

High interest rates, both in nominal and real terms are also highlighted.

The fundamental cause is excessive money-supply growth which is mainly the result of government dissaving. The solutions are clear — increase domestic savings, decrease government dissaving and encourage increased capital inflows.

The recent example of Mexico suggests that capital inflows should be encouraged as direct investment in productive assets rather than short-term portfolio investment which can leave rapidly and disastrously.

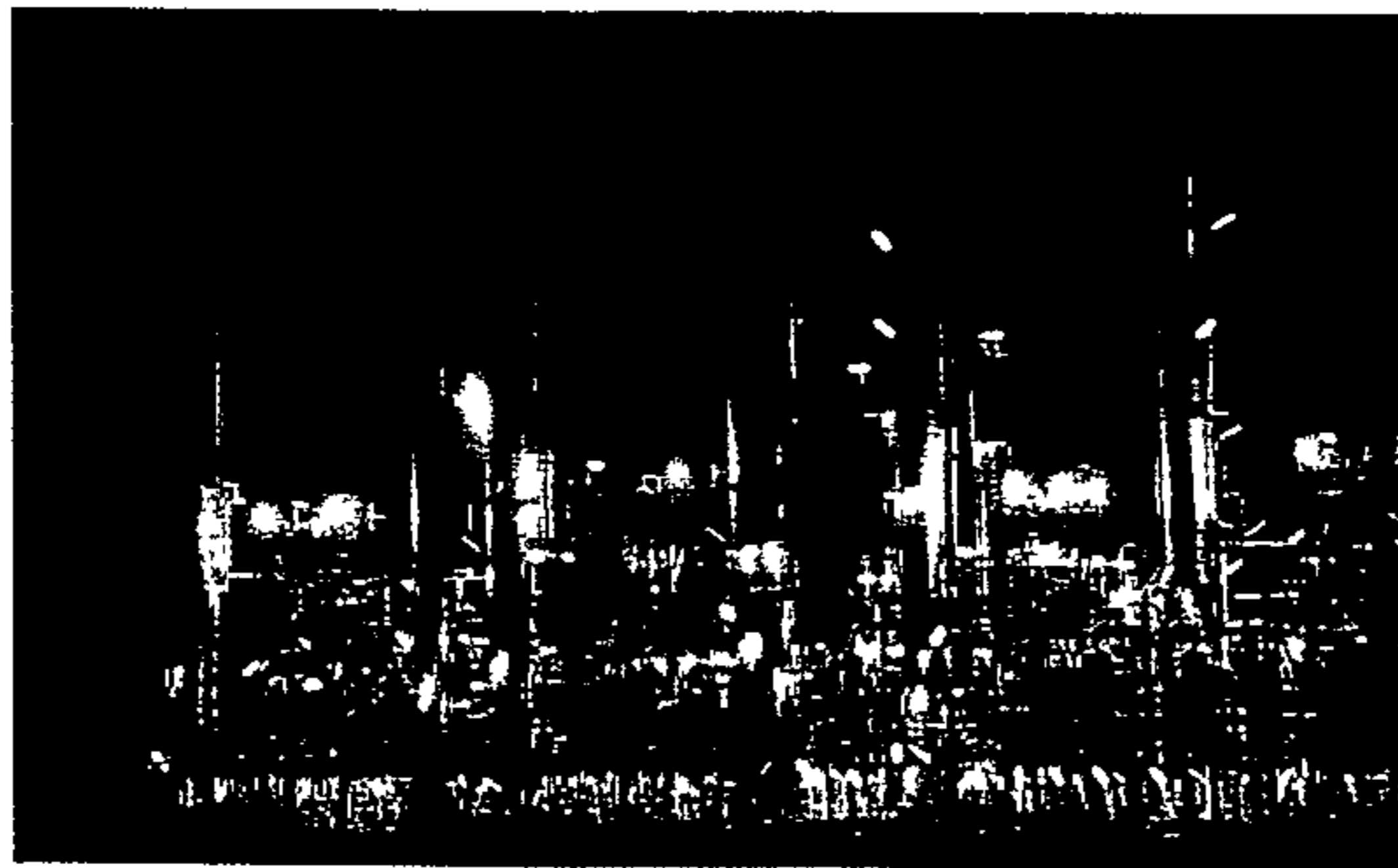
This is where government may find the report indigestible in that if it is to avoid the Mexican situation, exchange controls must be removed. Other factors discouraging foreign investment, such as STC, must also be eliminated. While the removal of exchange controls could lead to higher interest rates — and government dissaving due to its higher debt-service costs — the negative effect of exchange control on foreign investment more than outweighs this benefit.

The widespread conversion of pension funds to provident funds also tends to reduce contractual sav-

ings, fuelling money supply growth. But, adds the working group, "government's commitment to reducing the budget deficit was consistent with solving the problems leading to the constraint of high real and nominal interest rates."

Another thorny issue is that of labour. The report finds that despite the low level of skills — resulting in a need for extensive training — there are no training incentives for companies.

The report is due to come up for discussion at the second plenary session of the Petrochemicals, Plastics & Synfibres cluster initiative on February 6 in Pretoria. *Arnold van Huyssteen*



Sasol's alpha olefins plant ray of light in the dark?

Spunchem curbs group profit

(183) ACT(BR) 3/2/97

STUART RUTHERFORD

Durban — Strand's spunbond manufacturing facility, Spunchem Africa, was expected to contribute only modestly to earnings in the second half of the financial year, and meaningful profit growth for the group would only occur in the 1998 financial year, Robert Maingard, the chairman of Strand, said in the annual report last week.

Maingard remained bullish about Spunchem Africa's prospects, and said indications were that local and international demand for spunbond merited the establishment of a second production line.

"A decision on this matter will be taken towards the end of the 1997 financial year. It is anticipated that such expansion would be financed via a rights offer.

"It is the company's intention to establish itself as a world-class manufacturer with its existing plant prior to committing to ex-

pansion," he said. He said the contributions from its two other divisions, Glenmore Textiles and property, were expected to be in line with those of the 1996 financial year.

Glenmore Textiles, a 40 per cent-owned associated company involved in the manufacture of hosiery and textured yarns, provided a 14 per cent improvement in profit contributions over the previous year.

The property division recorded a small profit, but with earnings substantially down on the previous financial year.

Maingard said the group had still not disposed of Sunburst Holdings, its groundnut operation, because market conditions were not favourable to realise fair value for the investment, but the group intended to sell it this year.

The scope of Sunburst's activities had meanwhile been significantly curtailed and the subsidiary had continued to let out its equipment and warehouse facilities.

"The significant losses from the Sunburst operation (R4,8 million) will not be repeated in the forthcoming financial year, and the proceeds from its sale will be used to improve the current gearing," Maingard said.

Strand's share price has taken a pounding following its announcement of a net attributable loss to ordinary shareholders for the year to August 31 of R4,9 million, and a loss of 16,6c a share.

On Friday, the share closed at 60c after hovering around 350c during the 1995/1996 Christmas period.

The company first intends to establish itself as a manufacturer of world class

Zenex, Sasol fuel empowerment in SA oil industry (183)

Patrick Wadula
and Edward West

BA 4/3/97
BLACK empowerment in the SA oil industry gained momentum yesterday with the announcement of two separate deals involving a total of almost 200 service stations.

SA oil company and service station operator Zenex, which commands a 2,5% share of SA's annual petroleum sales, said it was negotiating the sale of the concern to black empowerment grouping, Worldwide Africa Investment Holdings.

And, Naledi Investment Holdings and Sasol Oil announced the formation of Naledi Petroleum. The new company would be controlled by Naledi Petroleum Industries, with Sasol holding a 22,5% stake.

Naledi Petroleum Industries has among its shareholders the investment arms of the National Black Fuel Retailers' Association, National Hostel Residents' Association, SA National Civics Organisation, African Renaissance and Kusile Investment.

Worldwide Africa MD Phuthuma Nhleko said the deal with Zenex would involve the purchase of 140 service stations, almost three times the stations Worldwide has franchised to independent service station operators.

Worldwide acquired 55 service stations in a joint venture with Caltex in September 1995, operating them under the Afric Oil banner. Nhleko said he was satisfied with the performance of these sites.

"The successful conclusion of the negotiations will result in Zenex being disposed of as a going concern. The company will continue operating on substantially the same basis as currently under the Zenex name," a statement said.

Naledi MD Dominic Sewela said the new company planned to focus on the marketing of automotive fuels and lubricants in the industrial and commercial markets in Gauteng.

"There will also be phased service station development, with the first station opening in the second half of the year," Sewela said. Naledi planned to

Continued on Page 2

Zenex

Continued from Page 1

establish about 40 high-volume service stations, pumping more than 275 000 litres a month on average, within three years. The operation of a refinery was also mooted for the longer term.

Of the 25 privately run Sasol stations, 18 would be acquired by Naledi

In addition, some commercial fuel installations owned by large Sasol clients would be serviced by Naledi in the future. Naledi Petroleum chairman Geoffrey Hlabangane said the purchase of 12 Engen service stations was also being pursued.

The formation of Naledi Petroleum and the launch of operations in June was conditional on the fulfilment of funding requirements and a due diligence investigation, he said.

FUEL INDUSTRY *Black empowerment shareholders launch Naledi Petroleum*

Asset swap with Sasol strikes oil

(183) CT(BR) 4/3/97



ON STREAM Dominic Sewela, managing director of Naledi Petroleum, plans to put oil into black hands PHOTO JOHN WOODROOF

JONATHAN ROSENTHAL

Johannesburg — An agreement has been reached in principle to launch a new black-owned oil company called Naledi Petroleum, the newly established company said yesterday. The main shareholders include the National Black Fuel Retailer Association and a consortium of black empowerment companies.

Sources close to the new company valued the deal at between R50 million and R100 million. It has been about three years in the making and remains subject to a due diligence study by Absa.

The new group, which counts Sasol Oil, Sanco Investment Holdings, the National Hostel Residents Association investment arm and African Renaissance as its shareholders, plans to enter the highly regulated oil industry by establishing 40 high-volume service stations over the next three years.

Eighteen service stations as well as commercial fuel contracts will be acquired from Sasol in a swap for 22,5 percent share of Naledi Petroleum. The group says it is negotiating with Engen to acquire a further 12 service stations. The company's programme would entail upgrading existing stations as well

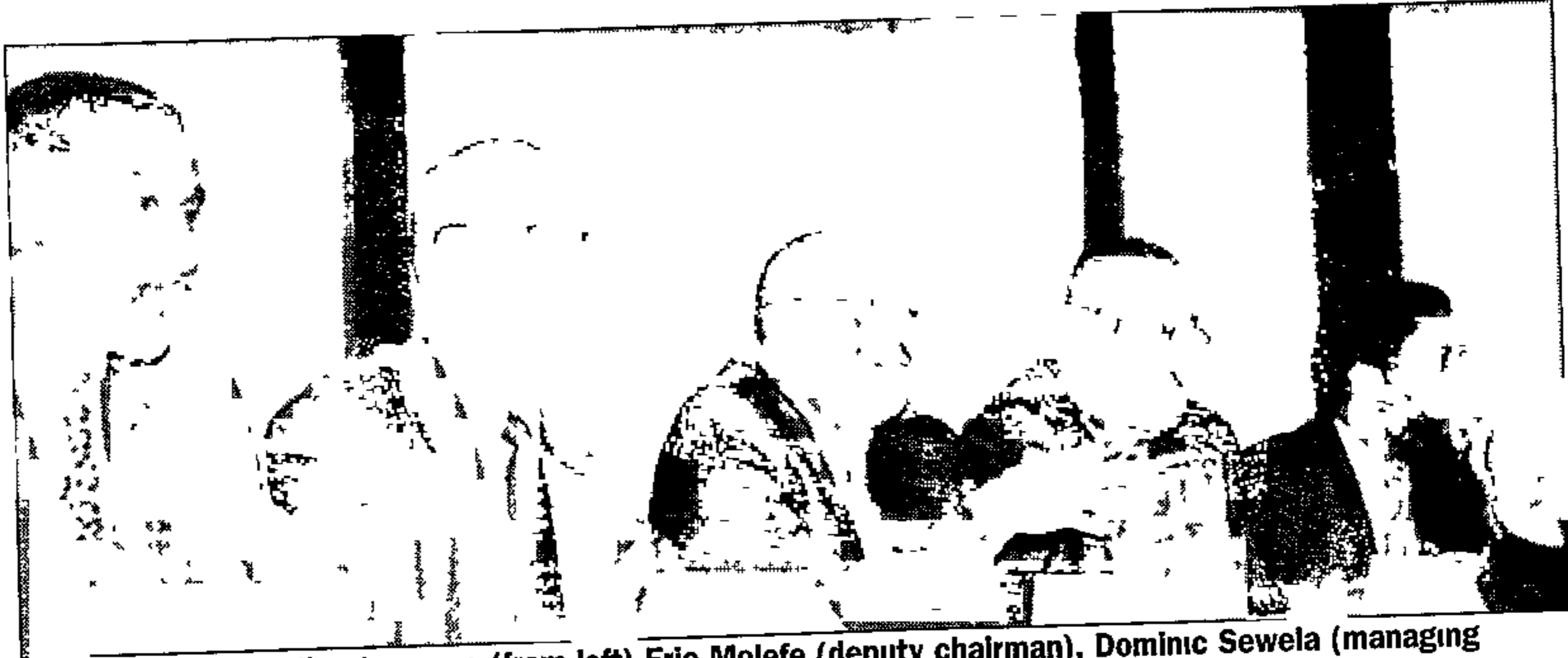
as building new stations from scratch.

"We will only be concentrating on high-volume stations. Anything less than 200 000 litres (a month) would be a waste of time," said Geoffery-Mabule Hlabangane, the chairman of Naledi Petroleum.

Dominic Sewela, the managing director of the new company, said the door was still open to other oil companies. "Most participation would not be in cash but in assets," he said. Sewela said the group would initially concentrate on the Gauteng region.

"It is too early for now to look at refining but we have not ruled it out in the medium term," he said.

The new company has also won the support of the black fuel retailers, who in late 1995 nearly scuppered the launch of Afric Oil, South Africa's first black-owned oil company. Moses Moloele, a director of Naledi Petroleum and the national coordinator of the National Black Fuel Retailer Association, said the new company would strengthen the position of black retailers in a deregulated environment, which is widely expected to lead to massive job losses and the closure of marginal service stations.



Five of the 13 NPI directors are (from left) Eric Molefe (deputy chairman), Dominic Sewela (managing director), Geoff Hlabangane (chairman), Moses Moloole (director) and Moses Mayekiso (director).

PIC SEFAKO MABUYA

New petrol giant about to emerge

(183)
Sowetan 4/3/97

By Isaac Moledi

MACDONALD franchise operator Geoff Hlabangane has been appointed chairman of a newly announced "multi-million rand" black-controlled oil company Naledi Petroleum Industries.

The official announcement by NPI yesterday comes after nearly two years of delays which led people to doubt whether the company would ever get off the ground.

Company directors confirmed yesterday that negotiations, which have been held in near secrecy, had been "long and protracted".

Naledi Petroleum is a wholly-owned subsidiary of Naledi Investment Holdings, a consortium of various black investors consisting of Naledi Oil

Holdings and Eric Molefe's Powerlib. Naledi Oil Holdings is a partnership between the National Black Fuel Retailers Association (Nebfra) Trust and a group of independent investors, while Powerlib is a partnership of various black groups that include the investment arms of the South African Civics Organisation (Sanco) and the National Hostel Residents Association (Nehora), as well as a significant number of black companies.

In terms of the deal the NPI will establish about 40 high-volume service stations pumping more than of 275 000 litres on average a month within three years. About 18 of these service stations will be acquired from Sasol.

Hlabangane said Naledi Petroleum was uniquely positioned in that it represented a broad base of black business

interests.

The vision of NPI is to develop a company that gives blacks a viable foothold in the petroleum industry.

"We regard the formation of Naledi Petroleum as a major step forward in terms of black economic empowerment. Most of our directors feel that we will be able to grow this business to become a significant competitor in the local petroleum market."

Sewela could not mention the value but said NPI was a multimillion rand business. *Sowetan Business* was reliably told that it was worth between R50 million and R100 million.

One of the directors said negotiations with another oil giant, Engen, could see the company negotiating about 150 sites for petrol stations. The official launch is scheduled for April.

Sasol commissioning plant to combat noxious odours

Edward West

BD 6/3/97

(183)

SASOL would commission a R160m sulphur removal plant over the next three years to combat noxious hydrogen sulphide odours from its Sasolburg operations following complaints from the public

The group's first public environmental report details some of the environmental pitfalls which could be associated with a large synthetic fuel producer specialising in the processing of coal to fuels, waxes, fertilisers, explosives and chemicals

The report lists the emission of hydrogen sulphide from its Sasolburg operations as one of the environmental "lowlights" of last year

Other problems addressed include the discharge of contaminated mine water at Secunda due to unusually high rains, and the visual effect and nuisance caused by high levels of fly ash emissions at Sasolburg due to technical inefficiencies and the deterioration of equipment.

Sasol's environmental expenditure in the 1996/97 financial year was expected to amount to R105m. This followed total environment-related expenditure over the past five years of about R409m, the report said. Over the next three to five years the group hoped to be able to monitor, quantify and manage volatile organic compound emissions to reduce low-level ozone formation.

It would evaluate pilot plant studies on processes to further reduce hydrogen sulphide emissions, optimise energy usage at all operating divisions, and quantify measurable targets for emissions, effluents and waste streams at its various sites.

Sentrachem faces loss after restructuring

Ingrid Salgado

(183)

DD 6/3/97

CHEMICALS manufacturer Sentrachem would report a loss in the six months to February as the costs of ill-judged forward exchange contracts by subsidiary Sanachem last year and a major restructuring of the troubled division had eaten into earnings, the group said yesterday.

Sentrachem MD John Job, announcing the restructuring after an internal probe into Sanachem, said a R144m once-off charge would cover the

costs of restructuring the agricultural chemicals division.

An additional R117m would be used to close out forward exchange contracts for Sanachem's future sales.

Sanachem landed in hot water with its parent in November after it emerged that managers took in forward exchange cover contracts for \$287m worth of sales for a period of 18 months. The contracts were taken until last February — when the rand

Continued on Page 2

Sentrachem (183)

Continued from Page 1

DD 6/3/97

started weakening considerably — at an average exchange rate of \$4,32

Job said the group would bear an exceptional charge of R216m after tax to cover the damage of the contracts and restructuring. This would slice 134c off the interim share earnings figure. In the year to August the group posted share earnings of 131,2c.

He expected Sentrachem to return to profit in financial 1998. The group's other major businesses, Hampshire Chemical, Karbochem, NCP and Safripol, would report good operating performances against last year.

Restructuring plans for Sanachem — which has been losing money for a year — included a reduction in its product range to 14 competitive core products, a decline in production activ-

ity and an improved focus on export markets with the greatest potential. Job losses were expected but several options were being considered. Job said the spotlight had been turned on financial controls in the group. Ultimate control of forward cover contracts now rested with head office and the group was seeking solutions with subsidiaries to minimise exposure to risk.

"Two or three" Sanachem employees had lost their jobs as a result of the internal investigation. He would not comment on findings relating to former Sanachem CE Robert Maingard, who resigned last year amid the forward cover contracts controversy.

Sanachem's restructuring would boost the gearing ratio to 63% from 50% last August. The group was implementing a working capital programme to reduce the ratio to an acceptable level of less than 40%.

Picture: Page 5

CHEMICALS *Extraordinary costs of R261m will hit share earnings*

Sentrachem to post first-half losses

(183) CT(BR)6/3/97

JONATHAN ROSENTHAL

Johannesburg — Sentrachem, the R4.9 billion a year industrial and agricultural chemicals group, will post first-half losses this year because of R261 million in extraordinary costs which will lop 134c off earnings a share, Sentrachem said yesterday.

The losses stem almost exclusively from Sanachem, which manufactures and markets agricultural-related chemicals and last year accounted for about 12 percent of Sentrachem's operating profit. In November last year, Sentrachem issued a warning to investors that Sanachem had lost about R120 million on the forward cover market when the rand depreciated about 22 percent against the dollar.

Yesterday John Job, Sentrachem's managing director, said an investigation into Sanachem indicated that it would have to be restructured at a cost of R144 million. About R100 million of this related to bad debt write-offs and a reduction in stock. The balance lay in restructuring plants, closing foreign offices, and trimming back Sanachem's product range and the number of countries in which it has been operating.

He said local reports that Cuba had had debts to Sanachem

of about \$20 million were unfounded. "As of the end of February (Cuban) payments are up to date. We are continuing to sell to them with improved commercial arrangements," he said.

He also reduced the value of Sanachem's foreign exchange losses to R117 million. He said the group would report a loss on first-half earnings, but would not elaborate on the expected loss a share, before a return to profitability in the next financial year. He declined to comment on the departure of Robert Maingard, Sanachem's former chief executive, who was suddenly replaced last November by Ralph Oxenham, shortly before the announcement of forex losses.

Job said the next task would be to reduce Sanachem's interest bearing debt through reducing working capital. This should restore it to profitability within the next 12 to 18 months.

Jennifer Ramsden, a chemical sector analyst at SA Value Analysis, said the restructuring of Sanachem would probably result in a reduction in sales turnover. "I think the rest of the group is doing well based on fundamentals, it is a good buy at the price but there is still weakness on sentiment," she said.

□ Business Watch, Page 16



AT A LOSS John Job, Sentrachem's managing director, says Sanachem's debt will have to be reduced

PHOTO JOHN WOODROOPE

Union plans strategy before wage talks

By Abdul Milazi

THE CHEMICAL Workers Industrial Union (CWIU) is to hold a three-day national bargaining conference next week to formulate a collective bargaining strategy ahead of its annual wage negotiations next month

CWIU spokesman Siphwe Mgcina said the union would also discuss the finalisation of the chemical sector's national bargaining council

The Transport & General Workers Union (TGWU) last year negotiated the formation of the first ever national bargaining council

Mgcina said the national bargaining council would level the playing field

because all employers would pay the same rate for the same job within the industry

Employers in all the sectors of the labour market have rejected centralised bargaining and argued that each plant should have powers to determine and negotiate its own wages.

Forced on to streets

Centralised bargaining also forced organised labour onto the streets, when organised business rejected it during the initial stages of negotiations for a new labour relations act at the National Economic Development and Labour Council in 1995

When the CWIU proposed it in

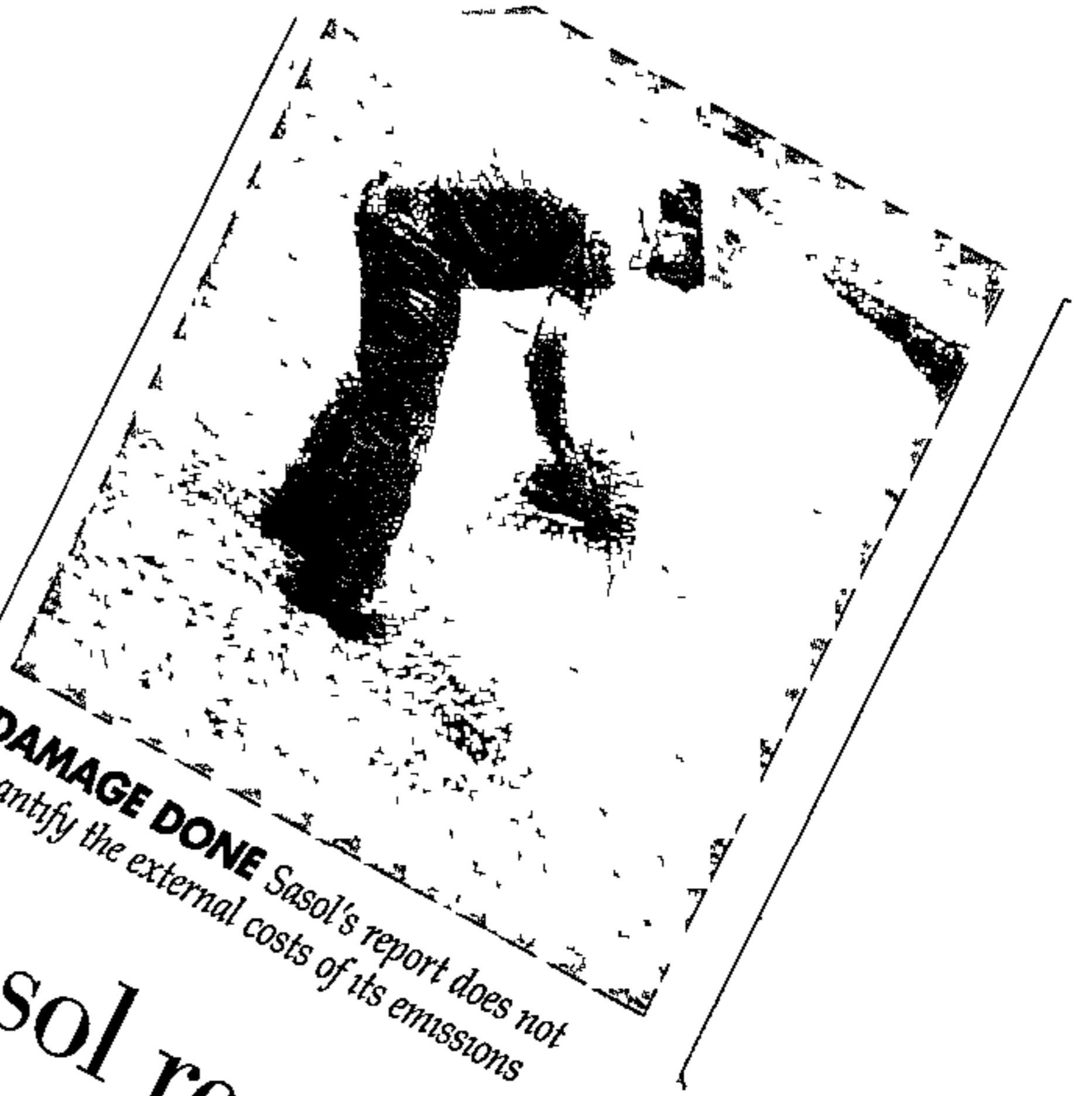
(183) Sewetan 6/3/97
1995, the employers rejected it

In August of the same year, more than 200 companies met with the union at a Conciliation Board meeting, but failed to reach a settlement

In April last year employers and unions met deputy director of the Department of Labour Les Kettledas who agreed to facilitate the establishment of a national bargaining council

Employers finally agreed on the powers of the national bargaining council in August and also agreed that the constitution of the bargaining council needed to be drafted and finalised by the end of February this year.

Another national working group is to meet this week to continue negotiations



DAMAGE DONE Sasol's report does not quantify the external costs of its emissions

Sasol report gets mixed reactions (183)

JONATHAN ROSENTHAL
CJ(BR) 7/3/97

Johannesburg — Sasol, the petrochemicals and oil-from-coal producer, has run up R409 million in environmental expenditure over the past five years, it said in its first external environmental report released this week.

Environment-related expenditure will be about R105 million for this financial year. This includes expenditure aimed at reducing product losses from emissions and the implementation of recommendations from environmental impact assessments.

But the report, which was internally produced as a review rather than full-blown audit, also found shortcomings in environmental performance during the year, including the discharge of contaminated mine water at Secunda and the emission of hydrogen sulphide from Sasolburg.

The report indicated on a site by site basis what inputs and emissions were at each of Sasol's plants as well as the group's short, medium and long-term environmental goals. But the report did not quantify the external costs of Sasol's emissions to surrounding communities or the resource costs for the use of non-sustainable resources. Sasol said it lacked the skills to conduct a full assessment of the social and environmental costs of its activities.

Philip Lloyd, an environmental expert based at the University of the Witwatersrand, welcomed the report but said its value was limited by the little data it contained. "They say they released contaminated water but not how much," Lloyd said. He said the report followed Eskom's environmental reporting, but the Eskom report contained more hard data.

But other environmentalists at the launch said the report was a "greenwash" which glossed over several of Sasol's more serious environmental problems, including fly-ash at Sasolburg and polluting emissions at Secunda.

SA DRUGGISTS (183)

RISING FOREIGN EARNINGS

SA Druggists (SAD)'s interim results, due out next month, will reveal a well-kept secret. The counter is rapidly becoming an attractive rand hedge.

About a quarter of attributable earnings are generated offshore or through exports — a dramatic increase on the previous period. And, says director Kobus Nel, the figure is growing rapidly.

This development fits the strategy SAD announced three years ago, it started with expansion into the UK.



Peter Benningfield R&D can become highly innovative and remain affordable

"We aim to generate as much as possible offshore," says Nel. "SA makes up only 1% of the world health-care market. Though the local market will remain a key area, we are on the threshold of a major thrust into new international markets. We want to take advantage of the most attractive opportunities."

Exports are increasing as a result of SAD's new strategy, it will patent and export unique drugs rather than relying on generics. Ultimately, says management, this is where the margins are. The strategy is also a significant motivation for SAD's research and development facility in Port Elizabeth, newly upgraded at a cost of R10m.

"For SAD to produce more of the same isn't enough," said CE Peter Benningfield at the launch of the PE facility.

"SAD's research and development (R&D) function was traditionally devoted to the internal development of generic formulations. Our strategy is to find a way of re-orientating it so that our R&D can become highly innovative and remain affordable."

ISO 9001 certification should be awarded by the end of the year.

"Obviously, we couldn't justify this infrastructure for SA alone," says Nel. "We don't have the facilities to sell drugs offshore, but will generate markets through alliances, joint ventures and licences. SAD is doing well out of sales into Africa and the Middle East. By 2001, half of sales will come from products not currently on the market."

In the year to end-August, 1996, the pharmaceutical division's operating margin was 15,7% — by far the most profitable of the company's pharmaceutical, chemical and health-care divisions. Its operating profit made up three-quarters of SAD's total. *Michelle Joubert*

ALL PUMPED UP

M7/3/97

The Naledi/Sasol tie-up, which will see the black empowerment group own 40-60 petrol stations, raises the question where will all the outlets come from?

In terms of the so-called rationalisation plan between government and the major oil companies, each petroleum retailer operates within the constraints of a restrictive quota arrangement which effectively reduces retail competition

Naledi first needs to get its own official "Ratplan" quota before it can proceed with its aim of establishing SA's second black-owned retail petrol station chain

The other black chain — Worldwide Africa, operating as Afric Oil — controls about 55 stations in a joint venture with Caltex and is discussing a possible takeover of Zenex. Naledi is still awaiting government approval for its plan

Chairman Geoffrey Hlabangane says "By June 1, we expect to start operating our first service station. By then, we also hope to have government's green light to go ahead with our acquisition of more retail outlets"

He says Naledi is talking to Engen about buying "12 or more" stations. And, in terms of its equity agreement with Sasol (which has a 22,5% stake in Naledi) it owns a few former Sasol-owned petrol stations and has supply agreements with about 15 privately owned stations

It is also talking to other oil companies about possible stakes in Naledi, in exchange for more petrol stations

"Other oil companies are reluctant to co-operate with us, we have had to give them deadlines and if they don't meet these, we will go it alone"

SA Petroleum Industry Association director Colin McClelland says the association welcomes black empowerment in the industry and the Naledi initiative

But there's no answer to the question of where the petrol stations will come from. Perhaps Nedlac's liquid fuels task force has already decided on industry deregulation. *Arnold van Huyssteen*

Sasol buys up stations

(183) M+G (GM) 7-13/3/97

A joint-venture deal with Naledi Petroleum has exposed Sasol's policy of taking over petrol stations ahead of deregulation, writes Mungo Soggot

SASOL has been quietly buying up prime petrol station sites in Gauteng in anticipation of a relaxation of regulations that bar it from retailing fuel: the synthetic fuel giant confirmed this week.

Sasol communications manager Alfonso Niemand said Sasol Oil had bought about 20 sites in the region which it had leased to other oil companies on a "strictly commercial basis".

Sasol has previously not disclosed this strategy, which many of its rivals in the crude oil industry had long suspected.

Sasol's buying spree in Gauteng was exposed this week after the announcement of a fuel retailing deal flagged as a "black empowerment" move. A consortium led by Naledi Petroleum Investments and Sasol, has set up a new fuel retail company — Naledi Petroleum — in which Sasol has the minority 22.5% stake.

Geoffery-Mabule Hlabangane, chair of Naledi Petroleum, said the group would eventually develop a network of 60 retail outlets in Gauteng. He said it would build four or five of its own, while many of the rest would be bought and leased from Sasol.

Hlabangane said Sasol owned several prime sites — including top Engen "one stops" — that were leased to other oil companies. "It is a well-known fact," he said. Naledi would take over stations when the leases had expired. Naledi, which had been poised to strike a deal with Engen, was also talking to other fuel companies.

Sasol is barred from retailing by a contract with the oil companies that is a pivotal part of the sanctions era regulations governing the fuel industry.

The other side to the contract is that the oil companies tolerate the government's hefty subsidy to Sasol's synthetic fuel division — the lynchpin of apartheid's "total onslaught" oil policies. That subsidy will be phased out by 1999.

But although the contract forbids Sasol from retailing, it does not forbid it from owning sites — providing a gap for Sasol to position itself in anticipation of deregulation.

Mineral and Energy Affairs Minister Penuell Maduna has indicated he is in favour of a phased deregulation of the industry.

Sasol is the main supplier of fuel in Gauteng with its synthetic fuel plants and its Natref fuel refinery, which it owns jointly with Total SA, the local arm of the French oil company.

At the Johannesburg press conference announcing the Naledi deal,



Geoffery-Mabule Hlabangane. Naledi Petroleum is a genuine 'black empowerment' deal. PHOTOGRAPH RUTH MOTAU

Charity oil bonanza

Mungo Soggot

THE cash raised from the sale of Zenex Oil to Worldwide Africa Investment Holdings will go to the Zenex Foundation, which funds education projects for the underprivileged, Zenex Oil said this week.

The foundation was started by United States oil giant Esso when it pulled out of South Africa in 1987 and set up Zenex Oil. So far the foundation has been fed with all non-retained income from Zenex Oil's retail operations.

On Monday Zenex announced it was negotiating with Worldwide Africa Investments to sell its opera-

tion as a going concern. It said the business would continue to operate under the Zenex name.

Zenex Oil managing director Paul Richards says the proceeds of the sale will pass to the trust Esso set up to control both Zenex Oil and the Zenex Foundation. After the deal is wrapped up, the trust will only control the Zenex Foundation.

Richards says the deal could boost the fortunes of the foundation instead of being dependent on the oil business, it will have a large lump sum with which to invest in a diverse portfolio. Richards says the amount the company will be sold off for remains confidential.

Sasol executives sat among the journalists while the consortium's black bosses took centre stage.

Sasol, once a Broederbond stronghold, has been itching to participate in an empowerment deal since 1995 and even published a statement two years ago that it was negotiating with

a black-controlled fuel company. It provided no names.

Hlabangane told the *Mall & Guardian* that the new company had secured a R50-million loan from the Amalgamated Banks of South Africa, much of which would be used to buy from Sasol several supply contracts

— deals to provide fuel to individual businesses or, for example, army installations. The rest would go towards building up its network of stations.

He said that within three years the group wanted 40 high-volume stations in the region.

The ownership of fuel stations is governed by the Rationalisation Plan — the other pillar of the boycott-era regulations. The Ratplan divides up the country's stations among the local representatives of the oil majors which also enjoy guaranteed margins — the sweeteners offered to keep them here during the sanctions era.

In the case of less profitable sites, oil companies are reluctant to hand over valuable licences, in which case they are distributed on a roster basis, so that all the big majors, as well as Sasol, take turns in supplying them. Sasol has about 20 of these sites, many of which will be leased to Naledi Petroleum in addition to its other sites.

Hlabangane confirmed that Naledi had yet to be incorporated into the Ratplan — the only stumbling block to the deal. But he was confident it would get the green light by the time Naledi opened its doors in June. He said all that remained was for the South African Petroleum Industry Association (Sapia) to give its plans the nod.

Sapia chairman Colin McLelland said the association was examining Naledi's proposal.

Naledi's consortium boasts the features of a typical empowerment deal. It includes the investment arms of two struggle organisations — the South African National Civics Organisation (Sanco) and the National Hostel Residents Association (Nahora).

It also includes the influential National Black Retailers Association, which has offices close to Sasol's Randburg base. Sanco and the hostel company were brought to the party by a mysterious company called Powerlib, whose flamboyant boss Eric Molefe, has been talking to Sasol for about two years.

Alongside Sasol's efforts to forge ties with black business has been its close relationship with the black taxi industry. At one stage during negotiations at the National Economic Development and Labour Council this relationship was exposed as being excessively close. The taxi industry's statement on the controversial topic of Sasol's subsidy was identical to Sasol's.

Hlabangane — the owner of two McDonald's outlets who has worked at Mobil and then Engen — said he was unconcerned about Sasol's motives for the deal.

Hlabangane insisted this was a genuine "black empowerment" deal, which would not merely enrich him and the other consortium heads as the investment arms of both Sanco and Nahora would feed back to millions of people.

Refining the petrol payout

Shareen Singh (183)

GOVERNMENT moves to phase out the equalisation fund levy, which benefits Sasol and Moss-gas, received a boost in the Budget Review announcement of a further reduction of petrol and diesel levies, balanced by a corresponding increase in the fuel levy.

The equalisation fund levy would drop 4,4c to 0,4c for petrol and 3c on diesel to 0,5c. The fuel levy would increase correspondingly from April 2. These adjustments would not affect the consumer fuel price.

EW Balderson economist Mike Schussler said government would receive at least R600m — money which previously would have gone to Sasol and Mossgas. "Government is levelling the playing field by taking away the unfair protection which Sasol and Mossgas have enjoyed and putting that money into the fiscus."

Oil companies would not feel the impact of the reduction immediately but they would be affected in the long term depending on the fuel price, he said.

Sasol spokesman Alfonso Niemand said his company would not be affected given the timing of the phase-down and the level of reduction.

Oil industry analysts said they had expected the phasing out of the equalisation fund levy to take a few years and oil companies welcomed the move.

Macassar committee to monitor sulphur removal

ANDREA WEISS
METRO CORRESPONDENT

ARLT 14/3/97

(183) (E)

The Macassar Disaster Action Committee has pledged its commitment to ensuring that the sulphur stockpile at the AECI plant near Somerset West is safely moved.

This follows concern by Cape Town health authorities about a plan to ship the stockpile through Cape Town harbour to Namibia following its sale to the Rössing Uranium company

The sulphur dump was the site of a fire in December 1995, following a bush fire in the area, which resulted in two deaths and the emergency evacuation of the entire Macassar community.

Action committee spokesman George Liddle said the committee would like to put

on record that it had made arrangements with the Department of Trade and Industry to ensure the safe passage of the stockpile of sulphur.

Community representatives would be monitoring the removal of the sulphur to safeguard the interests of residents in the Western Cape.

Mr Liddle said he would welcome any support from other interest groups which could help in monitoring the process of the removal of the sulphur.

He said the disaster action committee had been informed of the sale of the stockpile

A meeting with the department was due to take place next week

The community had been asking for the removal of the 8 500 tons of sulphur for some time

AECI

BACK IN EXPANSION MODE

Having rid itself of most of its debt through the disposal of its stake in holding company Afex, chemical group AECI plans to spend about R300m/year over the next few years on expansion and diversification

MD Mike Smith says the total annual average capex bill is forecast at around R500m, of which R200m would be spent on "bits and pieces" to maintain existing operations

The balance is earmarked for an investment programme aimed at expanding operations in sectors such as fertilisers, explosives outside SA, industrial fibres, Polifin and biotechnology — particularly further development of AECI's new lysine production plant set up as a joint venture with the Industrial Development Corp

It's not all systems go on every front, though, as the group intends to rationalise its local explosives division. The development of a penicillin plant at Umbogintwini, suggested in last year's annual report, is on hold. A provision of R44m against planned closures in AECI Explosives has been made with a rationalisation programme expected to be carried out over the next 18 months

"We foresee a point where SA could be producing around 400 t of gold a year compared with the current 500 t. We

want to restructure ahead of that to ensure we have a cost base that will be competitive at the lower business volume base," says Smith

The explosives business will expand in the rest of Africa because of the exploration and mining boom. Whether it will replace the forecast drop in domestic business is not clear



Mike Smith average capex bill is forecast at around R500m

AECI cut its net borrowings to R415m at end-December from R1,4bn a year ago thanks to the disposal of its stake in Afex for R864m

Excluding the effects of the Afex transaction, Smith says AECI's net borrowings were still R120m lower than at end-December 1995 because of better management of working capital, lower capex and higher profits. Gearing is down to 14% from the year-ago 54%

Star performer for AECI over the past year was fertiliser company Kynoch, which benefited from excellent trading conditions on the domestic and international markets

The segmental analysis of AECI's earnings shows trading profit from agricultural products and industrial chemicals jumped 53% to R234m (R153m) on a 19% rise in turnover to R2,2bn (R1,8bn). That compensated for a disappointing performance across much of the rest of the interests, except for speciality chemicals and property transactions

(183) FM14/3/97

Overall, earnings were 7,8% up at R426m (R395m) on a 12% increase in turnover to R7,5bn (R6,7bn). It is not an exciting result but is a welcome improvement on the halfway stage when earnings were 16% down

Earnings this year will be helped by a sharp drop in finance charges, with Smith looking for "real growth" in the bottom line. He expects maintained growth of 2%-3% in the economy unless interest rates are cut sharply — a move he believes is long overdue

Latest results may seem pedestrian but the market does not appear unduly concerned. On release of the figures, the share gained 50c to R25 — up 11,6% this month. It looks inexpensive on the historical p/e ratio of 9,1, which is well below the sector average. Brendan Ryan

HOECHST (183)

MARKETS COLLAPSE

FM 14/3/97

Last year was a dreadful one for chemical company Hoechst SA, though it could have been even worse

At the interim stage the forecast was for attributable earnings of R30m instead of the R41m achieved in the year to December. That's still down 38,6% on the R66,8m for 1995 and is a nightmarish result for a group listed on the JSE only in July 1995

The reason is the collapse in global textile markets which, says Hoechst MD Steffen Beuthner, is unprecedented. Fibre prices fell well below cash cost recovery levels but raw material prices remained at historically high levels. That caused a first-ever operating loss for

SLOW GROWTH		
Year to December 31	1995	1996
Turnover (Rm)	6 705	7 506
Net profit before tax (Rm)*	442	492
Attributable (Rm)	395	426
Earnings (c)	255	275
Dividends (c)	83	90

* Excluding abnormal items

ALL FALL DOWN		
Year to December 31	1995	1996
Turnover (Rm)	1 753	1 857
Operating income (Rm)	88,3	58,3
Attributable (Rm)	66,8	41,0
Earnings (c)	45,6	26,7
Dividends (c)	7,0	8,0

Hoechst's fibre division and was the single largest influence on earnings. While turnover rose 5,9% to R1,9bn, operating profit fell 34% to R58,3m and pre-tax income was 47% down at R31,3m.

Beuthner says this market situation was unpredicted but Hoechst SA has taken steps to ensure it will not be caught like this again. It is investing R205m in a polymer feedstock plant at Durban Fibres which is due for commissioning in August this year.

"That will make us independent when it comes to supplying our raw polymer material requirements. This plant will have direct spinning technology which will eliminate three production steps and greatly reduce production costs."

The new plant will also give Hoechst an entry from about October into the fast-growing market for PET bottle resins when it commissions a 15 000 t/year production line.

Though the plant will start up only in August, Beuthner is looking for material improvements in the fibre business during 1997 because of slight improvements in world market fibre prices. These developed towards the end of 1996 and he expects them to continue.

Hoechst was also affected by restructuring costs as it disposed of three non-core businesses which hit results from the health-care division.

Beuthner predicts "a far better year" in 1997 but offers no specific forecast.

At 335c, the current share price compares with the listing price of 515c in July 1995 and a high of 632c in March last year, before Beuthner revealed the extent of the problems and the price tumbled. If he's right that the worst is over, the share should start recovering.

Brendan Ryan

FEDSURE

FEELING BULLISH

Fedsure Holdings outpaced expectations of a 25% increase in EPS, turning in a 30% rise for the year to end-December and justifying its high market rating.

Attributable income surged 40% to R133,1m, buoyed by a 59% gain in premium income from Fedsure Life, the life assurance division, and strong growth in other financial services activities.

While recurring premiums grew a modest 12%, single premiums jumped 85% to R3,8bn. That was attributed mainly to R2,7bn in premium income

from Fedsure Life's Fortune 2000 product, a single premium policy with a loan facility. Life insurers, including Fedsure Life, agreed last September to stop selling this type of product, though.

Fedsure CE Arnold Basserabie is not unduly concerned by that termination. "We have many other products and during the last part of 1996 we revamped some of them, giving us a competitive range of investment product choices."

Fedsure Life's expenses rose 24% in the year, reflecting higher spending on new technology and training.

It is setting up a client query call-centre and developing a computer document imaging system. That will improve efficiency in handling client and broker needs.



Arnold Basserabie

Fedsure's other financial services, mainly Fedsure Health and including asset management, more than

doubled their contribution to group after-tax income, rising to R20,1m from R8,5m the previous year.

That's largely because of a 166% surge in contributions from members of its health-care company Fedsure Health, in which Fedsure increased its stake from 65% to 82,5% last July, contributed R6,5m to group income.

Fedsure is budgeting for a "sizeable" increase in the contribution from its financial services businesses in the current year. With continued growth in Fedlife, the group should achieve "real significant (after inflation) growth" in earnings, the company says.

That, says Basserabie, means "we're feeling quite bullish." Investors have concurred, rating Fedsure close to energetic competitors like Norwich and Momentum and pushing its share price up by about 30% since the end of January.

While the stock may look expensive on

HIGHLY RATED		
Year ended	1995	1996
Income after tax (Rm)	111	148,7
Attributable income (Rm)	95,4	133,1
Earnings (c)	97,6	126,9
Dividends (c)	69,5	89

a page of above 34, the likely repetition of its fast growth rates makes Fedsure an attractive long-term investment.

Sean Feely

GOLD FIELDS GHANA

SOMETHING OF VALUE

With an estimated resource, so far, of 13m oz, the Tarkwa deposit which Gold Fields (GFS) is developing in Ghana has been revealed as the second largest gold find of the 1990s, after Indonesia's Bussang strike.

Calculation of its effect on Gold Fields' NAV brings analysts and investors face to face with one of the mining industry's conundrums — how do you value a project like this?

There are two routes — a discounted cash flow (DCF) calculation over the expected life of the mine, or an estimate based on the value of ounces of gold in the ground. North American investors prefer the latter method.

GFS executive director Richard Robinson avoided giving a precise answer at last week's presentation. But he indicated what GFS saw as the upper and lower parameters in terms of ounces in the ground.

"We are providing this information so the market can do its own calculations. I haven't put my own mind to precisely how we will value Tarkwa for the GFS financial year-end on June 30," he says. "We may go the DCF route, which would yield a more conservative valuation than the North American approach."

The floor valuation seems to be around US\$29/oz. That is the price Canadian company Golden Knight paid to buy an additional 12,5% stake in Gold Fields Ghana before the announcement that the project was going ahead.

The upper limit is around \$70/oz — the price at which Pioneer Goldfields tried unsuccessfully in 1994 to sell 20% of its stake in the operating Teberebie gold mine, contiguous to Tarkwa.

JSE analysts are still digesting the numbers. One initial assessment is for \$30/oz. It values the resource at \$390m, of which \$273m would be attributable to Gold Fields through its 70% stake in Gold Fields Ghana.

That would add about 9,2% to GFS's NAV of \$2,9bn at December 1996. This is material, as is Robinson's estimate of what the mine could contribute to GFS earnings. He says it could lift GFS's af-

SENTRACHEM

SWITCHING TO SALVAGE MODE

(183) FM 14/3/97

Shareholders in Sentrachem may be excused for feeling they have been kept in the dark over the departure of the flamboyant Robert Maingard — and the R261m price tag for picking up the pieces in the agricultural chemicals division, Sanachem, which Maingard used to run

If Sentrachem MD John Job has his way, their wish for answers is not likely to be granted. For it now emerges that before Maingard resigned on November 25, he and Job signed a confidentiality agreement in which they pledged their silence

Maingard's resignation came four days before losses of R117m from ill-judged foreign exchange contracts were announced. Last week Job announced that R144m had been allocated to patch up the leaking ship Sanachem

Analysts greeted news of the confidentiality agreement with astonishment. "The market has this feeling that group controls were poor," says one. "There's a belief that heads should roll. All right, Maingard's head has already rolled. But for Job to leave himself in a situation where Sentrachem can't take legal action, by signing this confidentiality thing, is remarkable"

Another thinks the confidentiality agreement is an attempt to sweep the scandal under the carpet. "Both parties are trying to protect themselves from public condemnation. Maingard has Job by the balls. He must have or Sentrachem could have taken Maingard to court and sued his pants off"

As news of the secrecy pledge swept through the market, there was speculation that shareholders may go to law to force Sentrachem management to disclose the reason for the agreement

"If it's just a fire wall, they can demand further action," says an analyst

Job is reluctant to discuss the confidentiality pact. He remarked when the interview was set up "I cannot guarantee I can satisfy you on every query"

However, in a late statement on mar-

ket reaction, he says "I think the issue is being exaggerated. The agreement covers discussing in public the events, circumstances and conditions surrounding Maingard's resignation. Ordinary common law rights are not forsaken, Sentrachem would never sign away its rights"

Maingard is a well-known entrepreneur. He and Job put Sanachem together six years ago by merging the production activities of Maingard's Farm-Ag and Sentrachem's Agrihold. Sentrachem agreed to buy out Maingard's 50% after five years. The price for the sellout — earlier than scheduled, in 1994 — was set on Sanachem's final value, including performance

Thanks to a dramatic increase in pre-tax profits, from R5m in 1990 to R58m in 1993, this placed a price of R238m



John Job and Robert Maingard (inset) a confidentiality pact ensures their silence

on Maingard's 50%

He stayed on as Sanachem CE. "It had been growing well, it was extremely profitable and had become more international," says Job. "Robert and the team had done a good job, so when we took over the second half (in 1994) we let them carry on running the business"

Until February 1996, Sanachem ran "profitably and well," says Job. "The com-

bined sales in round figures in the first year of the joint venture were about US\$50m. And it's now \$250m-\$300m. All in the space of six years

"During that period, we expanded into different countries and started to build up an international position. Then it began to show signs of strain because it was getting big

"In the months from March onward last year, things deteriorated rapidly. Among other things was the ill-advised (unapproved) position taking in forward exchange contracts. All that developed quickly

"To cut a long story short, by the third quarter — into the fourth quarter — of 1996, we in Sentrachem were unhappy with developments and had to get a direct grip on all these issues"

When did the unapproved forex dealing start? "What is the beginning?" asks Job. "In late 1995-early 1996 Sentrachem's market share with some products was getting closer to 8%-10% of world markets and competitors were becoming more resistant

"As those pressures grew, the management of Sanachem endeavoured to compensate. And let me say no more — there were activities that were not approved and were wrong

"Sanachem's management believed it could trade the way through without undue pressure on the bottom line. This really became an issue at the start of last year, it was on the table by last March-April"

In its annual report to August 31 1996, Sentrachem put the forex exposure at R49m

When did the full enormity come home? "People say 'When did you know?'" responds Job. "It's one of

those things. How long is a piece of string? Or when is a loss a loss? That is actually a technical question and I'd rather not try to pin it down

"Let's say that had the original Sanachem business plan for financial 1997 been achievable, a substantial quantity of the forward exchange contracts would have been digested in the current financial year

FOX SPECIAL COMMENT
CREDIBILITY GAP

The market is in no mood to forgive Sentrachem for the huge write-offs in its Sanachem subsidiary. The forward cover losses of R117m might have been forgivable as the depreciation of the rand took many by surprise and companies like Sappi and Impala Platinum also made bad forward cover decisions.

But Sentrachem has also reported a R144m after-tax provision on Sanachem. This will cover the restructuring costs as it reduces its product range to cut out products, as well as a re-evaluation of working capital.

The Sanachem write-offs happened about a year after Sentrachem announced it would have to write off R80m on an unauthorised loan by Sentrachem International to Adriatic Containers.

Sentrachem has again had to concede it gave its operating management too much autonomy, and has in effect admitted management controls were inadequate. Some analysts are saying "it's two strikes and you're out."

It is particularly embarrassing as many top firms — and the *FM* — were recommending Sentrachem as a buy at R12,60 right up to when the forex loss was first announced in late November.

Sentrachem MD John Job says certain debts may no longer be recoverable as Sanachem will no longer service more marginal export markets. Stock levels will also be addressed.

Sanachem had tangible assets of R1,595bn at August year-end, mostly in

working capital, 38% of group assets, with which it produced just 10% of group operating profit last year.

It was an aggressively sales-driven company, lifting turnover from R200m to R1bn in five years. It acquired 80 new product registrations in 1996 in 26 countries, bringing its total to 540 in 80 countries. Much of this business was profitable only because of the General Export Incentive Scheme (Geis) and has not been so since Geis was phased out. But it looks as though Sentrachem has not taken any chances and may even have over-provided for write-offs. The 134c loss is more than Sentrachem's entire EPS last year. Job says he expects black ink to flow again at Sanachem in financial 1998 and profits to return to normal by the end of next year.

At the current share price it makes no sense to look at a rights issue to reduce debt. Sentrachem will have to trade its way out of trouble.

SMK Securities analyst Wynand van Zyl says the short-term holders are now out of Sentrachem, but it still has reasonable prospects on a two-year view. Even if there are no more surprises, full-year EPS are unlikely to exceed 20c in 1997, but could recover to 160c in 1998. This puts it on an undemanding two-year forward price of less than five.

At 794c, Sentrachem has probably not yet hit the bottom but patient investors will find it worth accumulating at around 750c or less. *Stephen Cranston*

"It was at the time of the management change (November 25, when Maingard was replaced as Sanachem CE by Ralph Oxenham) that we began to appreciate that the expansive 1997 business plan wasn't going to be achieved. And if it wasn't going to be achieved, what was the consequence of that realisation? Unfortunately, that is what I have had to handle ever since."

Job refuses to comment on Maingard's departure. The two first met in 1988. "I was not involved in agricultural chemicals at all until I came to sit in head office in 1988," says Job. "I had to try to seek ways of creating better value — and Sanachem was one of these."

Maingard's departure was followed by

an internal investigation, though Job prefers to call it a business review. "All these events, particularly with regard to the foreign exchange contract issue, have been investigated thoroughly by the company auditor."

"This has led to a programme, which I have initiated, to review the financial control regime of the entire group. Because part of what we're seeing here is the complexities of being an international company, whereas our policies and procedures were generated when we were a 95% local company."

"Now 40% of our turnover happens outside SA. We have to rebuild our financial control, covering everything — the regime, the good order, the structure of it

all. Shareholders and others are demanding that weaknesses that have caused unacceptable events like we've described are sure not to happen again. That programme is under way."

The R144m restructuring, says Job, will change the size and shape of Sanachem. "What will emerge will be a smaller, more compact business — and it will be profitable. I don't have exact figures, but we were typically exporting to 90 or 100 countries a year. That'll probably come back to about 50 or 60."

"Then we'll rationalise products as well. Those with which we are competitive will remain."

Sanachem's continuing trade with Cuba is a sensitive issue. The *FM* has claimed that the Cubans owe the company \$21m. Job told other publications this report is unfounded. But he refuses to say now whether the *FM* got it right. All he will say is "Technically, you said the debt has gone up, I said it hasn't."

"Sanachem is trading with the Cubans, so, naturally, they owe us some money. It's not like selling to England but the arrangements are satisfactory. The payment schedule is up to date as at February 28."

How will the Sanachem affair affect the rest of the group? "This is a Sanachem-specific problem, a Sanachem-specific restructuring," says Job. "The other companies are in a dynamically healthy condition and there's no need at this time to fiddle with them."

Though the R144m one-off charge will "clear the decks", Job concedes there's a lot of work ahead. "Notwithstanding these write-offs, Sanachem's has a big bulge of working capital which attracts interest and we have to shrink that interest burden. These daily business activities are receiving fair attention and I'm sure we will see the company turn into the black during financial 1998."

In ending, the *FM* returns to Maingard, the 60-year-old whose family had sugar interests in Mauritius and who has been in the agricultural chemicals business since 1956.

Asked whether Maingard used to dispatch product on consignment and worry about selling it later, Job replies "He did sometimes think that the least of the problems was to sell. But he was very successful in creating sales."

From the Durban office of his new flagship, Spunchem, Maingard would not discuss the confidentiality agreement or anything about Sanachem. *Jack Lundin*

ROUSTABOUTS GET WEAVING

FM 14/3/97

State-owned offshore oil and gas exploration company Soekor hopes to strike it rich when it embarks on a new drilling programme at the Oribi oil field south of Mossel Bay later this year

"By October, we will start drilling four more holes. If successful and should our finances allow, another three could be drilled to establish additional reserves at the field," says Soekor CE Joggie Heuser. The company is exploiting the field in conjunction with Energy Africa, its 20% joint venture partner.

Oribi has sufficient proven reserves — "oil-in-place" totals about 32m barrels, from which about 20m barrels of crude could be produced — to allow for a continuous, profitable pumping programme of between two and five years.

But, says Heuser, should the new E-AR drilling programme prove successful, Soekor — and Energy Africa — could be in a position to extend pumping up to 10 years. And, with Soekor planning to recover the US\$75m Oribi capex within the first 12 months of operation, profitability would be enhanced should pumping be extended over the next decade.

"The extra cash flows will also allow us to expand our search for oil and gas reserves in SA's offshore shelf and further afield without seeking State subsidies.

"The development of the Oribi oil field is the critical first phase of a broad plan to develop other oil discoveries in the Bredasdorp basin. It is anticipated that the E-AR discovery adjacent to the Oribi field will be incorporated into the Oribi production infrastructure as soon as the processing capacity permits. Where economically feasible, this will be followed by the sequential incorporation of a further six discoveries," says Soekor.

The drilling programme is expected to yield an additional recoverable volume of 15m-40m barrels of oil, which would represent a further two to six years of extra output at the proposed level of production. *Arnold van Huyssteen*



FEELING STRONGER . . . Mike Smith, managing director of AECl, after a good six months

CHEMICALS group AECl's 8% rise in 1996 earnings to R426-million, equivalent to 275c a share, hides the extent of its recovery in the second half and the fact that it is a far stronger group than it was just six months ago. Borrowings and gearing have been slashed, trading profit levels are much higher and exports are sharply up to roughly 20% of sales.

At the June interim, earnings were 16% lower than the previous year on the back of a sharp decline in demand for the group's products and high interest charges. The final results to December indicate that earnings a share rose a hearty 22% in the second half.

Managing director Mike Smith says that after an awful first quarter trading conditions improved progressively in most of the group's businesses. Subsidiary Kynoch "excelled" with a 53% improvement in profit on the back of improved efficiencies and outputs, increased exports and good agricultural conditions. Chemical Services, Polifin and Dulux all showed marked improvement.

Export sales grew by 34% to R1.46-billion or 20% of the group's R7.5-billion sales, and further

Sizzling AECl rockets out of slump

CHEMICALS
By MARCIA KLEIN

growth is expected. Smith says "I am really pleased with the export performance. We were helped by the weaker rand, but exports were up 15% to 16% in dollar terms."

In October AECl realised its investment in holding company Afex for R864-million. Smith points out, though, that notwithstanding the Afex deal, there were positive cash flows in the businesses themselves. Borrowings were slashed by R1-billion to R415-million, and at that level the balance sheet is good with gearing down to 14% from 1995's high 54%.

Excluding the effect of the Afex transaction, net borrowings were R120-million lower than the previous year and R405-million lower than at the June interim.

Smith says the improvement in cash generation reflects higher

profits and lower capital expenditure "together with markedly better management of working capital across the group. We have rationalised and restructured, brought costs down, closed certain operations and we are now in good shape. In addition, the balance sheet enables us to fund capex as we need to."

He says the group is looking only at small acquisitions, but it has quite a few potential new projects on its plate. These include expansion at Kynoch and a fair amount of capex in Polifin. The new R250-million Lysine plant in KwaZulu-Natal has taken longer than expected to get off the ground, he says. It was running at about two-thirds capacity and should be at full production by mid-year.

At the half-year, management made a bold prediction — and it has delivered. Now it is forecasting real growth in earnings for 1997.

(183) ST(MT) 16/9/97

Good rains help Omnia to return strong results

MATT GETZ

(183)

Johannesburg — Omnia Holdings, the diversified fertiliser producer, lifted net income in the year to December 31 by 60 per cent to R61,329 million, the company said yesterday. Turnover rose to more than R1 billion for the first time.

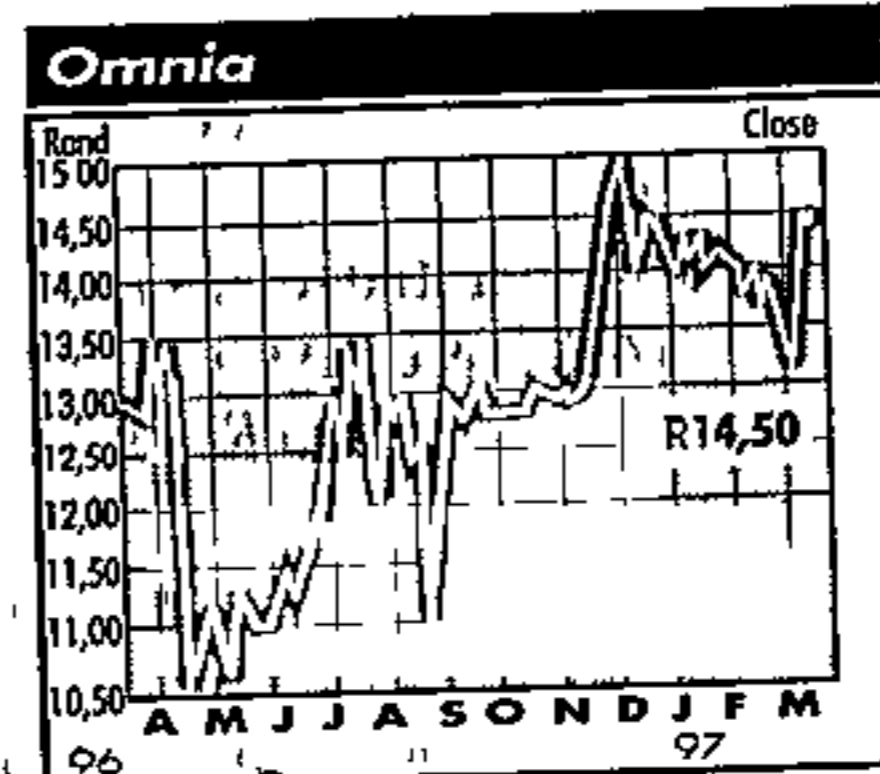
"It's nice to have such good results," said Neville Crosse, the managing director. He said the improvement came as a result of excellent rains, which had led to a cash-flush farming sector and continued diversification.

Operating income rose 54 per cent to R107,834 million. Though finance charges rose 34 per cent, mainly because of higher interest rates, they fell as a proportion of income, so, pretax earnings rose 69 per cent. Tax rose 149 per cent, though the company said taxation of 13 per cent was low.

The dividend was raised from 52c to 62c for a dividend cover of 2,6 times. This was in line with the directors' objective of maintaining a dividend cover of about 2,5 and lifting the dividend by the inflation rate.

The company had long-term liabilities of R56 million. The balance sheet showed interest-bearing debt of R153 million, but Omnia used this month's sale of Carnia, its seed business, to reduce that to R90 million for a debt-equity ratio of 41 per cent.

Crosse said fertilisers made up about 60 per cent of Omnia's



business, but the company wanted to reduce that figure to 50 per cent. To that end, it had actively pursued building its chemicals and explosives businesses.

Last year, it spent R18 million on a potassium sulphate and hydrochloric acid plant for its Intaba Chemicals operation. It also spent R18 million on a cartridge explosive plant for Bulk Metal Explosives.

Crosse said that through Chemical Holdings International, Omnia would be active throughout southern Africa and was hoping to expand to the western part of the continent. It had started a joint venture to supply explosives to Ghana's mining industry and had hoped to enter Mali soon.

Crosse said renewed good rains and the growth of the explosives and chemicals businesses would ensure that the company once

again showed real earnings growth this year.

Sentrachem in a pickle as chemical group sours

STC(BT) 9/3/97

Shareholders can be forgiven for feeling acid about another Sanachem crisis, writes MARCIA KLEIN

SHAREHOLDERS in chemical group Sentrachem can be forgiven for being a bit peeved about this week's announcement that the investment in agricultural chemicals division Sanachem will cost the group R261-million and throw it into the red in the half-year to February.

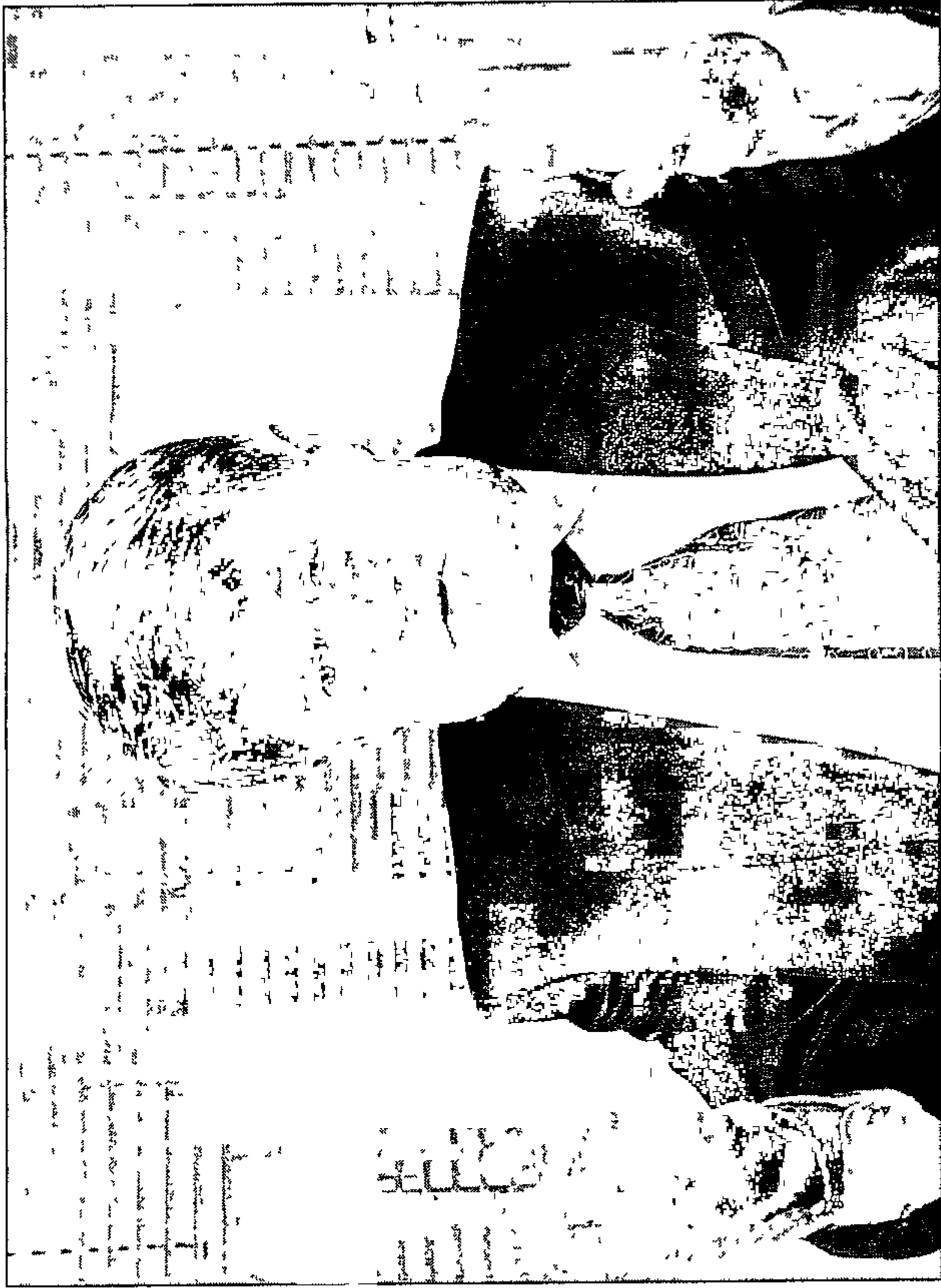
In November managing director John Job warned there would be losses of R117-million as a result of unrealistic forward exchange contracts negotiated for Sentrachem. The announcement coincided with the sudden departure of Sentrachem head Robert Marnard, and his replacement by Ralph Oxenham.

Now a further investigation into Sanachem's operating activities will see the group charge an extra R144-million after-tax exceptional item to cover a reduction in the product range, cancellation of registrations, of uneconomic

products "and a thorough revision of market circumstances and conditions". The share, which was trading over R12 in November, dropped to 900c after the first forex loss announcement. This week's news lopped 12% off the share price early on Thursday, but it has since risen to about 792c. Analysts are shocked at the extent of the second anticipated loss and attribute the share's mild landing to the fact that it is held by many institutional investors who are probably in the process of reviewing their holdings.

"Coming on top of a forex loss of R117-million, I thought the second loss would be quite mild in comparison. The question is how things came to be that bad and why the problems were not detected earlier," an analyst says.

"This indicates the problem of the cost-competitive base of the Sanachem product



BITTER TASTE . . . Sentrachem MD John Job, who says his own job is to extract the profit from an ailing Sanachem

range". He says Sanachem was previously selling outside South Africa at a price lower than cost, subsidised by Geis, and its post-Geis future could have been anticipated.

Despite the criticism, there seems to be much sympathy for Job. One analyst says "Job is one of the visionary managing directors of the chemical industry — he can see where the market is going and has been at the forefront of globalisation but he is perhaps lacking in day-to-day operations and in controlling smaller aspects of the busi-

ness. This will have an impact on his name in the industry, but vision is difficult to acquire while controls are not. He has done well strategically but he has been let down".

Job says the group has had to deal with a major problem in one company in a series of moves, and this has not been ideal. "We have had to tell the tale as it has evolved and I hope that we have been bold and clear in this regard". He says that Sanachem was profitable in the past "and there is the profit in there" which Sentrachem will have

to try hard to extract. He does not expect extra costs in the form of adjustments, but there will be some in the running of Sanachem. There is "a working capital balloon" to take care of, but he adds that "we are noticing an improvement and we hope to bring it down by the end of the calendar year".

"Our other businesses are in good shape and our interim results will demonstrate they are going well, but clearly the whole is not healthy because of the one sick child". Hampshire Chemical, Kar-

bochem and Safrapol are showing substantial growth, while NCP is slightly down, but remains profitable. "With profits in these companies skewed towards the second half, prospects in that period look substantially better than in the first half".

This may be so, but shareholders invest in the entirety. An analyst says that some of the big shareholders will be looking at their holding "with a beady eye" and if any decide not to weather the storm, there will be a further weakening in the price.

Zuma ready for battle to end drug profiteering

Some prices loaded by 4 000% in SA

AGG 21/3/97

CLIVE SAWYER

POLITICAL CORRESPONDENT

Johannesburg - Prompted by shock figures that some medicines sell in South Africa for up to 4 000 percent above the world average, Health Minister Nkosazana Zuma has vowed to bring down the cost of drugs.

Legislation to cut the cost of drugs is being checked by state law advisers and Dr Zuma intends putting it to Parliament this year. She is readying herself for a storm of opposition from vested interests in the South African medical industry.

Statistics kept by the Department of Health show that some medicines sell in this country for up to 4 000 percent above the world average. These include drugs used to treat tapeworm infestations and against hypertension. The price of some malaria prophylactics is 880 percent above the global average, while drugs for bil-

harzia, which is endemic in some parts of South Africa, cost about 1 575 percent more than the world average.

Dr Zuma said South Africa rated in the top five most expensive countries in the world for medicines, while being far from one of the top five richest countries.

She has vowed to find ways to cut costs "addressing the whole chain from manufacturer to retailer". Dispensers should issue the most appropriate medicine - rather than the most expensive.

On her campaign to encourage the prescription of generic medicines, she said there seemed to be a reluctance in this country to do so because of a belief that generics were inferior. But prescription of generic medicine in South Africa, at 16 percent, lagged behind that in countries like the United States, at 48 percent, and Britain, at 54 percent.

She said there should be one "exit price" for medicines, with no differences

between that charged to doctors or pharmacists.

Outlining other initiatives being taken by the Health Department, she said it also supported all steps by other ministries to improve lifestyles. This meant support for steps by the departments of water affairs, housing, and agriculture, to provide clean water, nutrition, food security and generally healthier living conditions.

Steps were being taken specifically to improve women's health care, for instance, by a project to screen for cervical cancer among women in KwaZulu-Natal, where the affliction was rife. The department also intended expanding the programme of immunisation in scale and by adding new immunisations against illnesses like Hepatitis B.

It also planned a new project to hold confidential inquiries into maternal deaths that would require official reporting of each and investigation in detail.

(183)



Earlier work earns Fransaf 'good first quarter'

Janet Parker

(183) 00 25/3/97

PLASTIC products manufacturer Fransaf reported a 14% drop in attributable income to R2,8m in the year to December, largely as a result of slower performances in the school furniture and waste container sectors of the company in the second half

The group said that large orders received at the end of last year, but executed only at the beginning of this year, would "translate into a good first quarter for 1997"

Share earnings — based on the weighted average shares in issue — decreased 20% in the period under review to 6,6c a share, compared with 8,3c for the previous period. A dividend of 3c was declared, unchanged from last year's dividend.

Turnover rose 31% to R20,1m (1995: R15,4m) as a result of the start of the group's automotive operations.

The group said that its expansion into the automotive industry was on schedule and should have a

positive effect on turnover and profit for the 1997 financial year.

Fransaf announced a contract in June last year to supply BMW SA with fuel tanks and other plastic components.

The contract was worth R30m in turnover each year for the next seven years. The group said it had adequate cash flow to cover expansion costs.

Net income before interest and depreciation dropped to R4,5m from R6m for the comparable period.

Net interest earned rose to R1,1m (R496 000) and the tax bill came in slightly lower at R1,4 (R1,5).

SA Druggists' international operation does well

(183) 00 26/3 197

Nicola Jenvey

PHARMACEUTICAL and medical group SA Druggists raised attributable income 24,1% to R67m in the six months to February as higher pharmaceutical sales more than compensated for declining margins, chief executive officer Peter Benningfield said yesterday.

The group's main activities include the manufacture, marketing and distribution of pharmaceuticals, speciality and commodity chemicals and health care management products and services

Earnings a share — excluding R112m received from renegotiating certain product rights with Wyeth and R61m spent on development and restructuring — rose 12% to 89,6c and a 31c (1996: 28c) interim dividend was declared.

Turnover rose 15,1% to R1,67bn, while operating income climbed 33% to R121m.

Benningfield said while trading conditions in the health care industry had been challenging, the pharmaceuticals operation had compensated for declining margins through increased sales.

Strong growth at the group's international operation in its first full reporting period had made a useful contribution, he said. Sales at UK-based Lagap were growing strongly and the Italian subsidiary Pharmatec had shown steady improvement. Synergies existed between Pharmatec and local researchers to develop new niche market products.

Reflecting improved efficiencies and the tight cost controls, operating margins rose to 7,2% (6,3%) while the return on average funds employed increased to

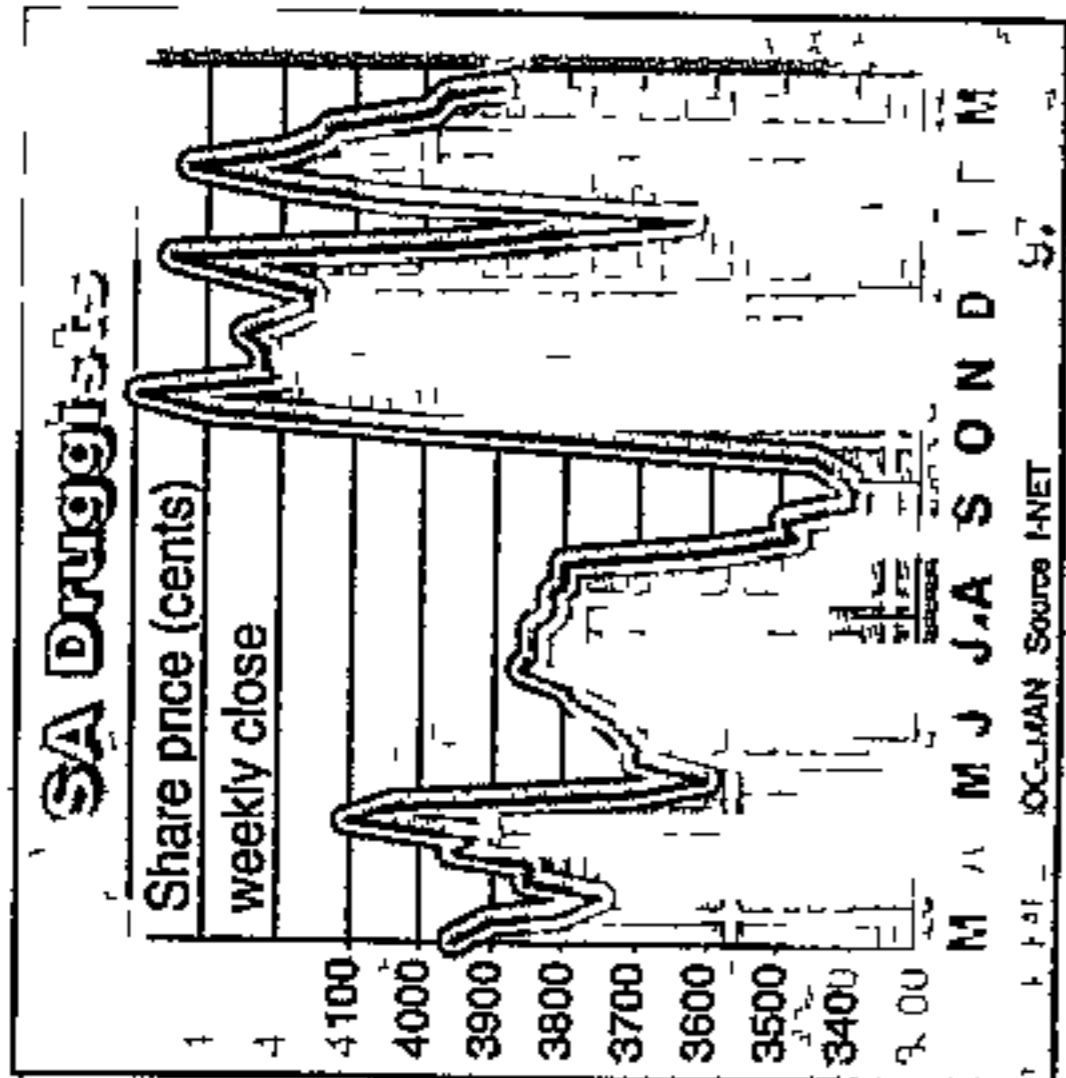
20,7% (19,5%)

"The performance of the pharmaceuticals division, where both the branded and generic products operations reported improved results, was pleasing, given a trading environment characterised by lower demand, intense competition and input price increases caused by the declining rand.

Consolidation of the group's various pharmaceutical businesses under a single management team was sharpening market focus and containing costs. Further improvements were expected as

factories became more internationally competitive

Benningfield said the health care division was still in a development phase and would contribute fully only in the 1998 financial year. Progress had been made in establishing the Medicross clinics, and implementing technology and data-capturing systems. Benningfield was confident SA Druggists would achieve target earnings growth of 15% for the full year, but warned that this depended on continuing progress in the health care division



AECI puts proposed penicillin plant on hold

JONATHAN ROSENTHAL

Johannesburg — AECI, the diversified chemicals and biotechnology group, has put its proposed penicillin plant on the back burner for the next year while it devotes resources to expanding its new lysine fermentation plant, a company spokesman said this week.

The group said in its latest annual report, released earlier this

week, that it was still evaluating the feasibility of building a large-scale fermentation plant to produce penicillin and its derivatives at Umbogintwini, near Durban, where the plant could source competitively priced feedstocks from the sugar industry

But the report said the company was finding it difficult to reach an agreement with an international partner in the penicillin market

(183) A company spokesman said the group would focus on a planned expansion of its lysine fermentation plant, which would double or triple production

The expansion is expected to cost between R300 million and R400 million and will absorb management and technical resources

The spokesman said the group had identified six potential partners and was holding negoti-

ations with one of them

The latest delay of the penicillin plant comes after AECI's previous plans to build the plant in partnership with Smith Kline Beecham fell through when the multinational pulled out

The group also said in its annual report that its explosive company had prioritised the development of electronic detonators with a view to an international launch this year

CT(PR) 27/3/97

Plastall to be called Gundle

CT (DR) 27/3/97
MATT GETZ

(183)
Johannesburg — Plastall, the plastics company, said this week it would change its name to Gundle on April 7.

According to JSE regulations, all Plastall share certificates have to be surrendered for new Gundle certificates.

This should not affect many ordinary shareholders in Plastall's case because the company is 86 percent-owned by Winhold, but the handover could hurt some smaller shareholders, David Sylvester, the chairman of the Shareholders' Association, said yesterday.

Sylvester said some people might not be made aware of the requirement to surrender the certificates. "They'll come back in five or six years and think they have more shares than they do."

Mark Durr, the head of the JSE's listing department, said yesterday that shareholders could exchange their certificates at any time after the name change.

"Their name will always be on the register, so it won't have an impact," he said.

Sylvester said the main problem was when new shares were issued without the old ones being surrendered first. This happened most recently when Hartebeesfontein, ET Cons, Lorraine and Target became Avgold.

"We strongly support the principle that new share certificates should not be sent out before the old certificates are surrendered," Sylvester said.

He added that the problem would eventually disappear when the JSE's central share depository was completed.

"It's a very ambitious programme, but it's working well in Australia and it's doing well in unit trusts."

He said many people would have to adjust to the depository because "they're used to holding (shares) in their hands. Maybe the JSE will allow people to hang on to certificates at a price."

Plastall shares traded unchanged yesterday at R7,90.

Delay in new pricing structure for drugs (183)

Some medicines are going to cost less - and pharmacy groups find that hard to swallow *Star 2/4/97*

BY JANINE SIMON
Medical Correspondent

Consumers will now have to wait until the end of the month to see any change in prescription drug prices

A new retail drug pricing structure, which replaces profit markup on drugs with a professional fee for pharmacists, was due to be implemented on April 1. The new system is expected to cut

prices on some new-generation drugs by up to 20%

Keith Johnson, chairman of the tariff committee of the Pharmaceutical Society of South Africa, said implementation had been postponed to April 28 because wholesalers were unable to set new systems in place before then.

Many medical aids had also been waiting for the Representative Association of Medical Schemes to issue its medicines scale of benefits

These tariffs recommend the rate at which Rams' 185 member schemes pay members and/or pharmacists for prescription drugs, and were circulated to medical aids by fax late last week with a request to implement the new tariff structure by July.

But the rates have been rejected by the Pharmaceutical Society of South Africa, the South African Association of Community Pharmacists, United South Africa Pharmacists, and the South African Pharmacy Council

because Rams had pegged the cost price of drugs at October 1996 levels.

Pharmacists could not absorb price increases since October 1996 and had started negotiations with individual schemes to "resolve the discrepancy and avoid inconvenience" to medical aid members, the pharmaceutical organisations said yesterday.

Most major administrators have already been canvassed and contracts are being prepared. Southern Health-

care JV and Sanlam medical aids were already on board, Johnson said.

"Rams is an irrelevant arbiter of pricing," he added.

Rams policy director Dr Aslam Dasoo said the new tariffs could not be enforced, but that Rams had set prices at levels which medical aids could afford.

"Medical aid members who are confused about the rate at which their funder will reimburse should call the fund to clarify," he said.

Margins among world's highest, says oil giant

Elf Aquitaine chastises SA oil industry

JONATHAN ROSENTHAL

CT(BR)4/4/97 (183)

Johannesburg — Elf Aquitaine, a leading French oil company, this week challenged the continuing calls by the oil industry for an increase in regulated margins, saying South Africa's oil-refining margins were among the highest in the world.

Alan Terrenoire, the executive director of Elf Aquitaine in South Africa, said that South Africa's highly regulated oil market protected the domestic companies from competition and continued to reward them with high profits.

He said Elf Aquitaine, which employs 95 000 people worldwide and reported a turnover of Ff208,3 billion (R163,5 billion) in 1995, had opened a South African office just after the 1994 general elections, expecting the imminent deregulation of Africa's largest petroleum market.

"Almost three years after the election the situation in the oil industry is almost the same. Not one new competitor has come into the market," Terrenoire said.

"South Africa is now an open market for most products. Why is it not an open market for the oil industry?" he asked.

Terrenoire said Elf Aquitaine would have invested in South Africa but for the tight government regulations. He said the highly regulated market protected domestic players from foreign and emerging domestic competition.

But the domestic industry's counter is that it has repeatedly called for deregulation over the past few years.

Colin McClelland, the direc-

tor of the South African Petroleum Industry Association, referred to his 1995 submission to Nedlac calling for deregulation of the industry. The submission, which called for a two-year deregulation of the market, said that prices and refining margins should be determined by free market economics.

But McClelland said that, in the interim, the industry was pushing government to honour prior commitments and to raise the margin by 3c a litre.

Oil price-fixing dates back to the sanctions era during which time oil companies were offered fixed and high margins as an incentive to remain in the country.

McClelland said the margin was determined by a formula which measured the industry's operating profits against its gross assets. The margin would be adjusted to 15 percent if it was higher than 20 percent or lower than 10 percent. In 1993 and 1994, the oil industry's margins were 13 percent and 11 percent.

But in 1995 the industry's operating profits totalled R700 million against assets worth R8 billion. He said the shortfall of R500 million, which would raise the margin to 15 percent, worked out to a fraction over 3c a litre on sales. The domestic industry's return on capital was low by international standards.

More than a year and two Cabinet ministers later, the industry was still trying to hold government to its agreement, McClelland said.

This view is contested by Terrenoire. "The situation is still good. If you look at (oil companies') results, they are much better than in Europe and the US."

Top oil man carries the can

MTG 4-10/4 (97)

(183)

The probe which prompted Van Zyl's suspension is far from complete, raising suspicions of a witch-hunt, reports **Mungo Sogot**

SOUTH AFRICA'S top state oil official, suspended last week, is taking the blame for a sanctions-busting deal cut for the former government. No evidence has yet been found that he personally benefited from the deal.

It also emerged this week that Mineral and Energy Affairs Minister Penuell Maduna selected the auditors — whose preliminary report triggered the suspension of Kobus van Zyl, general manager of the Strategic Fuel Fund (SFF) — because they were formerly "deprived." Maduna's office said "We don't want to bring in establishment people" and criticised the existing auditors.

Maduna's new auditing firm, Ntsaluba Nkonki Sizwe, have refused to comment on whether it has experience investigating international oil deals.

The auditors only started investigating in February and have not questioned the official who was Van Zyl's superior at the time the deals were signed.

Maduna's office said this week that Van Zyl had been suspended on "probable cause", but it did not know when the investigation would be completed. Maduna's adviser, Walter Gcabashe, said the investigators had found no "direct evidence" of personal enrichment and had yet to quantify the losses for which Van Zyl is being blamed.

Van Zyl's suspension follows a series of departures by senior white officials from government agencies working under Maduna. The board of the Central Energy Fund (CEF), which oversees the SFF, has recently been revamped with the appointment of black



Kobus van Zyl: 'If he can do it for the folk, he can do it for us'

directors. Their oil industry background is limited.

It is understood that publication of the CEF's latest annual results, believed to be exceptionally good, has been postponed. Maduna's reasons for this are not known. The SFF, the oil trading business which Van Zyl runs, is thought to have made a profit of more than R200-million.

According to Maduna's office, Ntsaluba Nkonki Sizwe's report, which examines two contracts which SFF signed in 1992 and subsequently renewed to buy oil from Egypt, found South Africa was paying an extra seven US cents a barrel. Gcabashe says the minister called in the auditing team after reviewing the contracts, which are renewed annually, last November.

Van Zyl was suspended 10 days ago at a board meeting in Mossel Bay attended by Maduna. Van

Zyl's wife said this week that Maduna had ordered them not to talk to the press.

But Danie Vorster, CEF chairman and Van Zyl's superior until 1994, was not contacted during the probe. Vorster, currently managing director of the state-owned

phosphate operation Foskor, confirmed this but declined further comment.

CEF, whose other businesses include the synthetic fuel producer Mossgas and oil exploration company Soekor, only completed its transformation into a normal commercial company in 1994.

Until then, its main business was to navigate the maze of fuel sanctions which were in place until the end of 1993. It was empowered to pay anything necessary to bring oil into the country. CEF has frequently been accused of acting in an unaccountable

manner — partly because of the need for secrecy and partly because of the laissez faire attitude of previous energy ministers.

One official, who has seen the report, told the *Mail & Guardian* that he believed that thus far there was insufficient "substance" to warrant Van Zyl's suspension. He said that if Van Zyl had continued paying a commission on the post-sanctions contract renewals, he may have been guilty merely of bad judgment.

One African National Congress oil industry expert said Maduna wanted to flush out the old guard. Only two members of the old white board have survived Maduna's revamp.

Among those who have left Maduna's domain are department director general Gert Venter, who retired earlier this year, and diamond board head Gerhard Bindeman, who was dismissed at the end of last year.

But Gcabashe dismissed suggestions of a witch-hunt. "There is always talk when there are changes, there is lots wrong with the present establishment."

He also criticised the CEF's current auditors — the auditor general and international accounting firm Price Waterhouse.

"If they didn't detect anything, it would be unwise to keep them on," he added. "We don't need them if they can't pick up things like that. They have tried to conceal several things regarding the Egyptian deal and possibly other deals."

There were several "curious and questionable" aspects, in particular payments on the deals to a middleman in Switzerland named in the report as "Sakri".

Van Zyl has been criticised in the past as a creature of the old order, but has won respect in ANC oil industry circles. A senior ANC official said that when he first met Van Zyl he thought he was "the old regime incarnate. But I soon he realised he knew his stuff and that if he could do it [oil trading] for the folk, he could do it for us."

Soekor aims to create 150 fulltime jobs

(183) Sowetan 4/4/97

By Shadrack Mashalaba

MORE than 150 permanent jobs are to be created when Soekor, the Government-owned oil and gas exploration company, starts exploitation of oil at the end of the month

The "Oribi" oilfield project, valued at R335,5-million, is located about 140km from Mossel Bay in the Western Cape

The exploitation is expected to produce 20 000 barrels of oil a day in the short term, a production which is expected to save R1 billion in oil imports a year

Soekor chief executive Joggie Heuser said during the construction phase more than a thousand people were employed in the shipyard and other areas

"We have also started to fill permanent positions. A total of 150 permanent posts will be created," said Heuser

He also said his company was committed to redressing demographic imbalances in the company, adding that they had invested more than R700 000 for training

Soekor had sent three black staff members overseas for capacity development

Heuser added that the company's affirmative action objectives state clearly that talents, skills and capabilities of its employees are utilised to the full

"While we do not have targets, we hope to redress the situation

"This is a highly specialised field where skilled manpower, particularly from blacks, is in shortage," he said

The company was established in 1965 and is responsible for promoting and encouraging the search for oil and gas in South Africa's offshore areas

These exploration rights expire in June 2007

In total, 252 exploration and appraisal boreholes have been drilled by Soekor and other parties on the South African coastline

The establishment is part of the Central Energy Fund Group comprising CEF, Soekor and Mossgas

Soekor recently introduced a process of commercialisation and rationalisation and is now separated into three units: Soekor exploration and production unit, the Agemo Shipping Corporation and the Petroleum Licensing Unit

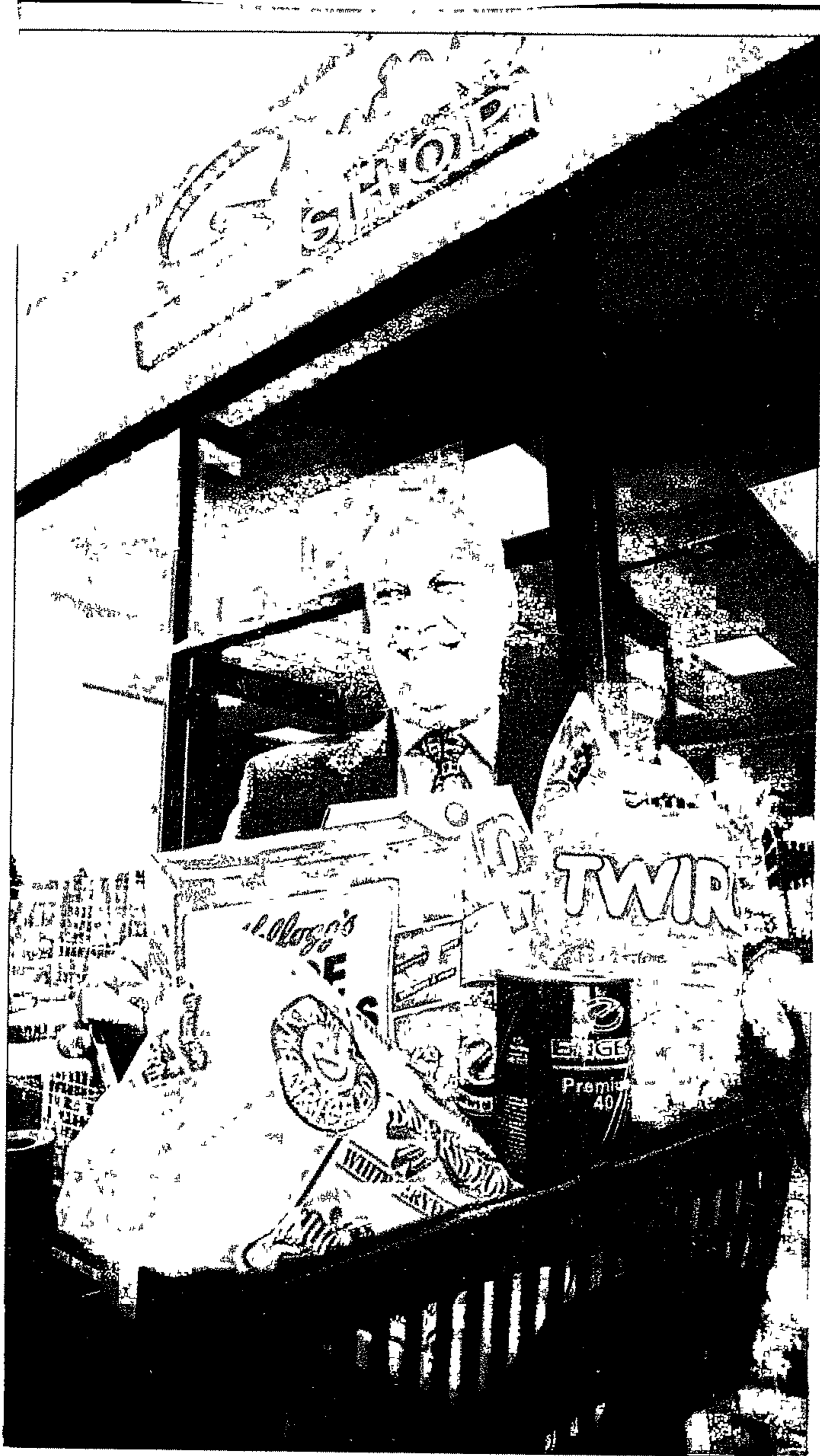
"With this exploration we hope our objective of achieving total independence from Government will become a reality. The company is now on the road that will lead to further commercially exploitable discoveries," said Heuser

He added that all precautions had been taken to protect the environment

"This has been confirmed by independent research conducted by the Council for Scientific and Industrial Research and other stakeholders

"We will then link up everything in preparation for the arrival of the 'Knock Dee' tanker

"When she arrives on site towards the end of this month, she will be coupled to the buoy which is already anchored in position. The necessary pipelines will be connected and after testing, production will commence"



TIME OF PLENTY Rob Angel, Engen's chief executive, stocks up at an Engen garage after strong earnings growth, which benefited from a 33 percent turnover hike

PHOTO JOHN WOODROOF

Oil windfall gives Engen a breather

(183)

JONATHAN ROSENTHAL

CT(BR) 3/4/97

Johannesburg—The long, hard climb to profitability for Engen, the South African- and Malaysian-owned oil company, took a leap forward with yesterday's announcement of stronger-than-expected earnings growth in the first half.

But much of the gain is a paper increase in inventory values from a rise in oil prices. A dip in the oil price could lop nearly R40 million off the second half's operating income.

Earnings for the six months to February 28 rose 21,6 percent to 107c a share on a 33 percent rise in turnover to R6,099 billion, slightly ahead of analysts' forecasts. Dividends were unchanged at 36c.

Rob Angel, Engen's chief executive, described the results as "satisfactory under the circumstances", but warned that a squeeze on regulated refining margins, which had not moved to compensate for inflation in four years, would dampen second-half prospects.

The industry has petitioned the government to increase its regulated refining margins by 3c a litre. Angel said the effects of a 1c a litre increase in the margin would add R40 million to Engen's operating income.

He also said R38 million of the group's R288 million in operating income arose from the effects of rising oil prices on inventory, a windfall that could be reversed in the second half if oil prices continued their present downward trend.

In spite of the tighter refining margins, Engen's half-year balance sheet remained strong. The net interest-bearing debt of R416 million was 9,7 percent of shareholders' equity. Engen closed yesterday at R23,10, up 25c on its opening price.

□ Business Watch, Page 16

Govt aims to oust police chief — claim

Kevin O'Grady

POLICE commissioner George Fivaz was seen by government as "ineffective" and clashes with Safety and Security Minister Sydney Mufamadi were intended to "push him out" of the SA Police Service (SAPS), a senior government source said yesterday.

Fivaz's departure, if he was unwilling to co-operate with Mufamadi, was likely to be followed by more than 25 other senior police officers, including KwaZulu-Natal commissioner Chris Serfontein, who had also been targeted for removal, the source said.

However, Fivaz said after meeting President Nelson Mandela last night that he would continue in his post and that "any suggestion that I will either resign or take a severance package can therefore be laid to rest".

This came after Mufamadi confirmed in Pretoria yesterday that Fi-

ter affairs for that," Mufamadi said. An example was that despite the identification in January last year of an urgent need for a human resource utilisation plan, "it has taken more than a year to make any meaningful progress .. (and) delayed the decision to lift the moratorium on recruitment".

However, the source said the issue went further than last week's disagreement. It appeared Fivaz had "got cold feet" about transforming the SAPS "in the face of marginalisation he's experiencing in the (white) security establishment".

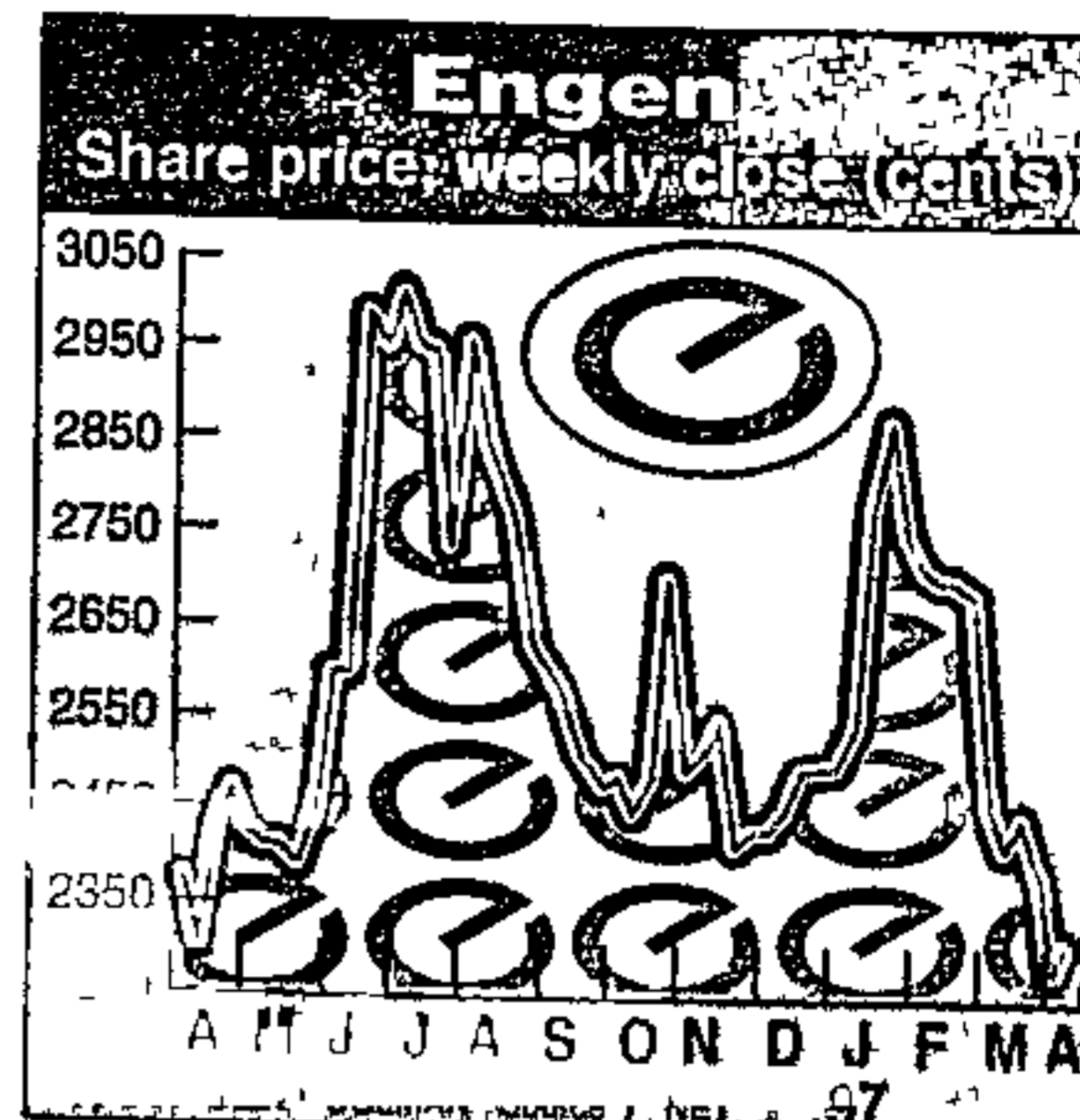
"Sydney (Mufamadi) has no option but to push him out and try to find someone else. That is what is happening at the moment," he said. "It has nothing to do with whether they are on the same side as far as fighting crime goes, it has to do with transformation, change and management in the SAPS".

The perception was that because Fivaz's demand for petroleum products locally, with the group's market share stable.

Despite the lack of an increase in regulated marketing margins — the industry asked government for a 3c/l margin increase in April last year to rectify its return on marketing assets — favourable product sales mixes resulted in a small improvement in overall marketing margins. "The recently formed international marketing division also made good progress, and its operations in Tanzania and Zimbabwe are contributing to the company's objective of investing in selected downstream African markets," he said.

Crude output through the refinery had dropped 2,6% following the optimisation of integrated refinery economics and isolated operational problems, with white oil yields on a constant gravity basis slightly lower than in the comparable period. Efforts to improve the operational performance of the refinery were continuing.

The business ventures division had operated well, although lower base oil margins had resulted in a marginal decrease in its contribution to operating income. Engen sold an interest in road-making business Vialit/Rand Roadtech in February.



Engen, fuelled by strong demand, confounds market

(183) Samantha Sharpe

ED 8/4/97

CAPE TOWN — Oil and fuels group Engen lifted net income 36,4% to R191m in the six months to February after strong local demand and improved inventory profits helped offset flat refining margins and operational problems.

The growth, which outperformed market expectations, was accompanied by a 21,6% increase in earnings before exceptional items to 107c a share — stripped of last year's exceptional item, share earnings were 27,4% higher — and an unchanged 36c a share dividend declaration.

The higher net income figure relative to share earnings resulted from an increase in the number of shares in issue, which followed the purchase by Malaysian state oil company Petronas of a 30% stake in Engen last June.

Engen CEO Rob Angel said that while operating income in the second half was likely to match that of the first six months, uncertainty about crude profits for the rest of the financial year could affect the net income figure.

"Should rand crude and product prices at February 28 1997 continue through to the 1997 financial year-end, and ignoring the beneficial impact of an increase in regulated marketing margins, an inventory loss similar in size to the first-half gain would be re-

Continued on Page 2

Engen

(183) ED 8/4/97

Continued from Page 1

ported for the second half of the financial year," he said.

This had further justified the unchanged dividend declaration, which was "prudent" given the potential dangers of the next few months.

Engen's turnover grew 33% to R6,1bn in the period under review, with operating income before depreciation and inventory effects at R348m from R306m at the same time last year.

A higher oil price helped lift inventory profit to R38m from R29m with a R4m rise in depreciation charges to R98m, lifting operating income before exceptional items 19,5% to R288m.

Net finance expenses slipped to R57m from R79m, a benefit flowing from the 30% sale to Petronas, with pretax income 39,4% higher at R237m.

A R23m increase in the tax bill to R53m, which included a R45m transfer to the tax equalisation reserve, brought after-tax income to R184m, 31,4% up from February last year.

On the marketing side, Angel said Engen had benefited from good de-

Marketing strategy lifts Engen profit to R191-m

ARLT 8/4/97
(183)
BUSINESS REPORTER

Cape-based oil company Engen today showed a 36,4 percent increase in net profits to R191 million for the six months to February.

Commenting on the company's improved performance, chief executive Rob Angel said the marketing division had made steady progress

"The local economy has experienced moderate growth, which resulted in good demand for petroleum products," Mr Angel said

"Sales of the major products showed reasonable growth and Engen's market share has generally been stable, with gasoline sales being very encouraging. The commercial

and wholesale sectors of the market were subject to fierce competition, although favourable product sales mixes resulted in small improvements in overall marketing margins."

He said the international marketing division's operations in Tanzania and Zimbabwe were contributing to the company's objective of investing in selected African markets

In relation to regulatory developments, he reiterated that the oil industry had lodged an application with the Ministry of Minerals and Energy in April 1996 for a three cents a litre margin increase to rectify the industry's return on marketing assets

The effect of a one percent a litre increase on Engen's operating income is approximately R40 million

Oil company spent R30m for 0,6% share.

How Engen cut its huge Mossgas loss

JONATHAN ROSENTHAL

Johannesburg — Engen, the listed oil company, has been left with a tiny stake in Mossgas, the state-owned oil-from-gas producer, after it settled a legal wrangle with the Central Energy Fund, Engen said yesterday.

Engen, which contributed R30 million in seed money to start up Mossgas, has failed to get its money back and is left holding a share of the troubled enterprise.

The bizarre story of how Engen ended up with a 0,6 percent stake in Mossgas began in 1989 when Engen bought a 30 percent stake in Mossgas for an investment of R30 million in Mosshold, the Mossgas holding company. But what may have seemed a steal in 1989 had turned sour by 1993, when the full extent of Mossgas' funding needs became apparent.

Engen informed the Central Energy Fund, which held the state's oil interests, that it would not participate in any further funding of the Mossgas project.

"It did not make economic sense and was not in the interests of our shareholders," said Ernest Boswarva, Engen's group legal adviser.

Engen's agreement with the

Central Energy Fund allowed Engen to withdraw from further funding, but its shareholding would have to be watered down to reflect its contribution relative to the total funding of the project.

By late 1995 Engen had hoped it could get its R30 million out of Mossgas in exchange for the 30 percent stake. "We were of the view that we were entitled to get that R30 million back and not be left with equity in Mossgas representing a totally insignificant amount," Boswarva said.

But the Central Energy Fund demanded that Engen pay the cash to maintain its 30 percent or have its shareholding diluted, tabling a special resolution to dilute Engen's holding at a general meeting in December 1995. The resolution failed and the Central Energy Fund approached the supreme court for resolution.

Cutting its losses, Engen supported the resolution last year and agreed to the dilution of its holding, leaving it with its minuscule stake. Boswarva said that Engen had made a provision for the R30 million.

Ironically, while Engen was struggling to dump its stake in Mossgas last year, foreign buyers were reportedly willing to offer the government R1,5 billion for the plant.

et(BR) 9/4/97

(183)

Dismal first half for Sentrachem

CT (BR) 11/4/97 (183)
JONATHAN ROSENTHAL

Johannesburg — A series of exceptional losses turned a weak first half into a disastrous one for Sentrachem, the diversified chemicals producer, which yesterday posted losses of 111.4c a share for the six months to February 28.

Last year the group posted earnings of 55c a share for its first half, but yesterday figures showed that before exceptional items, earnings fell to 24.4c a share.

Exceptional items, totalling losses of R327 million, threw the company into its first-half loss. The losses were significantly worse than expected.

A Reuter poll of analysts pegged losses at between 60c and 80c a share, with a consensus view at 68.3.

Dividends were slightly lower at 10c.4c down on the comparable period last year.

The exceptional items also make forward-trading losses on the foreign exchange market and restructuring costs in Sanachem much higher than previously disclosed.

Subsidiary drives Sentrachem to a loss

(183) BD 11/4/97

Ingrid Salgado

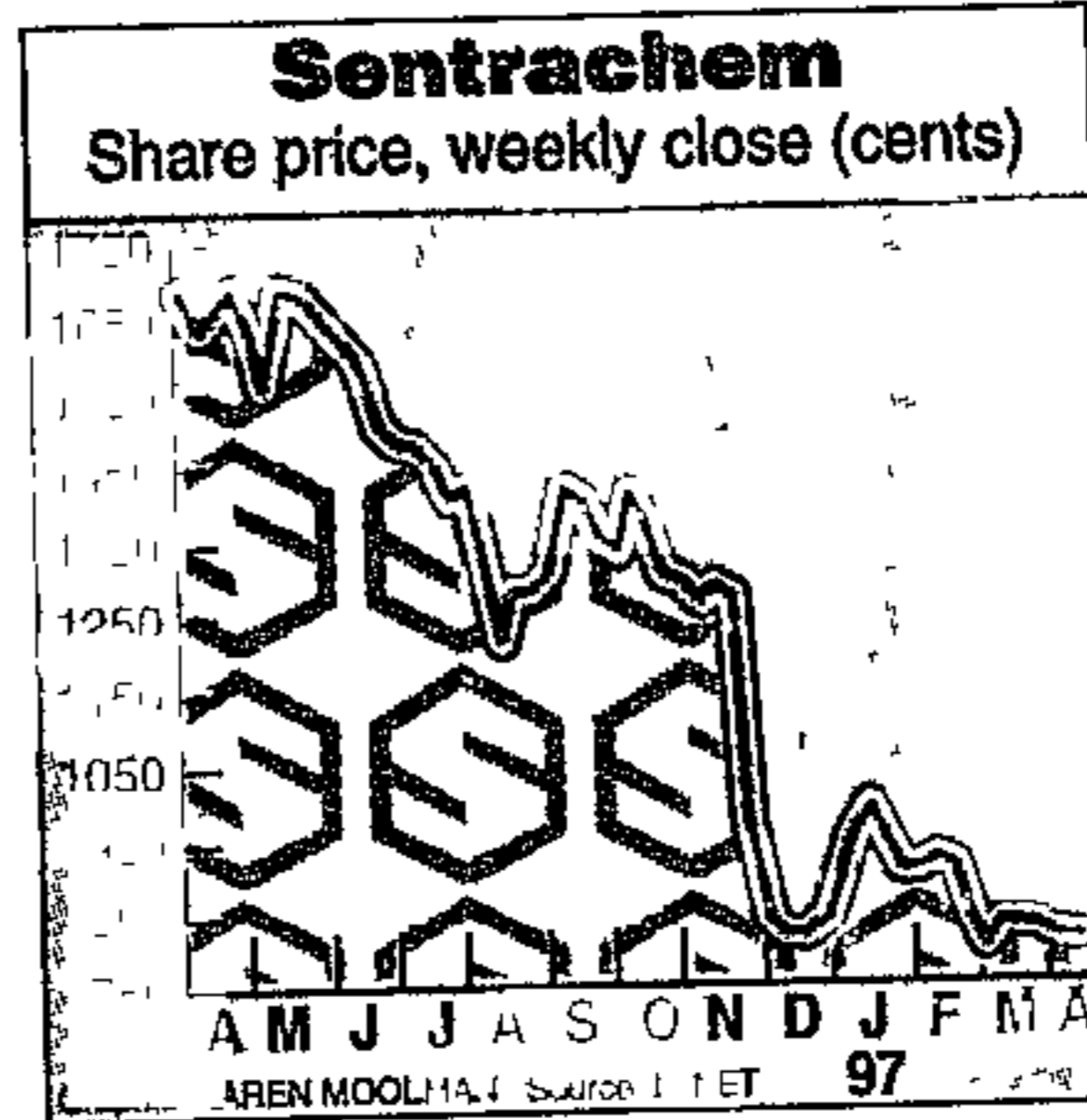
CHEMICALS manufacturer Sentrachem posted a R217m attributable loss for the six months to February, as one-off losses from ill-judged forward exchange contracts at subsidiary Sanachem took effect.

The group also announced last night that Sentrachem financial director Norman Kennelly would take early retirement, and the board reaffirmed its confidence in MD John Job.

No directors were available to comment on whether Kennelly had been asked to leave as a result of the forward cover contracts saga — which cost the group R117m in the first half.

The board decided last November to support both Kennelly and Job after news of the contracts broke.

The group's losses exceeded market forecasts. Share losses after exceptional items amounted to 111,4c against earnings in the comparable period of 55c. Headline share earnings dropped to 24,4c (1996: 55c) and a 10c (14c) interim dividend was declared.



Turnover rose 6,5% to R2,47bn (R2,32bn) but operating profit fell 7,7% to R169m (R183m). Job said that measures to restructure Sanachem had contributed to a rise in working capital.

Sentrachem's four other divisions — Hampshire Chemical, Karbochem, Safripol and NCP — improved operat-

Continued on Page 2

Sentrachem

BD 11/4/97
Continued from Page 1

(183)
ing profit 39% to R187m (R134m), although NCP traded "slightly down" on the previous period.

The interest bill jumped 41% to R99m (R70m), due in part to "excessive" working capital growth at Sanachem and the effects of financing its foreign exchange contract losses.

The debt-equity ratio soared to 106% but Job expected this to improve by year-end owing to seasonal adjustments, tight working capital management and the sale of some noncore assets. He said the group would return to profit next year.

Exceptional items of R265m after

tax relief comprised R117m to close out the forward exchange contracts, R144m to restructure Sanachem and R4m for the disposal of Mega Plastics operation Megahitec.

The decision to restructure the agricultural chemicals division followed the discovery late last year that Sanachem managers took in unrealistic forward exchange cover contracts worth \$287m. Sentrachem warned investors last month that it would post a loss for the first half of financial 1997.

Meanwhile, Sentrachem said that NCP finance director Ian Collier had assumed responsibility for the group's financial management until a new financial director was recruited. Sentrachem said its management code for individual managers was being overhauled and tightened.

SASOL LIMITED

PUMPING UP FUEL PRODUCTION

Sasol Limited is planning to spend over R6bn to increase production of oil from coal and chemical feedstocks by 45% over the next three years, says CE Pieter Cox. About 20% of the planned output hike will be available by 1999, when the company commissions its eight new-generation Advanced Synthol reactors at Secunda, at an estimated cost of R1bn.

Executive director Andre du Toit says the company is also investigating a 25% expansion of its synfuel refinery at Secunda at a cost in excess of R5bn.

"While a 20% output hike might seem impressive, it will only be sufficient to meet one year's increase in domestic demand," says Cox.

Current demand for petroleum products is growing at about 5%-6% a year. Sasol supplies about 32% of local demand for liquid fuels from its coal-based synfuel plant at Secunda, with a further 10% supplied from its crude oil Natref refinery at Sasolburg.

The increased products flow will help meet not only a looming domestic shortage of refined petroleum product, but also the growing demand for ethylene — which may be in short supply by the end of the century. Forecasts are that other petrochemical feedstocks will also fail to meet demand.

Cox says the planned expansions both depend on a successful renegotiation of Sasol's existing fuel supply agreement with the domestic oil industry. "A lot will also depend on the details of government's long-awaited energy White Paper and what is recommended about the deregulation of the industry."

Currently, both wholesale and retail price margins are fixed by government, with Sasol receiving the so-called In-Bond Landed Cost (IBLC) price equivalent for the fuel it sells to the oil industry. The IBLC is based on refined Singapore and Bahrain product prices, with transport costs to SA added on.

Shell's Mike Schnell confirms that the industry is in talks with Sasol, with the synfuel increases topping the agenda.

"In terms of the existing fuel supply

agreement, we take off a specified annual volume of synfuel product from Sasol, on condition that they stay out of the retail market — except for an agreed volume of retail sales in terms of the so-called Blue Pump agreement. Obviously, should Sasol decide to pump up its volumes, we would have to renegotiate the existing contract," says Schnell.

Meanwhile, the oil industry is also eagerly awaiting government's new energy policy — as well as its response to the industry's request (submitted last year) for a 3c/l hike on the

wholesale fuel margin.

"Oil companies are sitting in the blocks, waiting for the right policy signal so they can start planning refinery expansion," says Schnell.

"For example, our 165 000 BPD jointly owned Sapref refinery (with BP) in Durban is getting close to capacity and we need to look at expansion plans."

But Sasol's own expansion plans benefit from the fact that its Secunda synfuel plant and its Sasolburg Natref refinery straddle SA's economic heartland.

"Sasol is in a unique position, due to the location of our refineries," says Cox. "This does not necessarily imply that we will be involved in retailing. But, if it should be in our interests to do so, we will consider this, as we would also consider all our other options."

This statement alone implies that Sasol has the coastal-based oil majors over a barrel in the dominant inland market, as oil companies contractually have to buy their fuel sold inland from either Secunda

or Natref. Last year, Sasol Synthetic Fuels (Secunda) and Sasol Oil (Natref) contributed R1,5bn (47,7%) and R492m (15,5%) respectively to total group operating profit. Should Sasol go into retailing, these results could well be boosted.

But the 45% output increase in synfuels and chemical feedstocks will also allow Sasol — and affiliated company Polifin — to further grow its dominant

position in the export-focused petrochemicals market, where

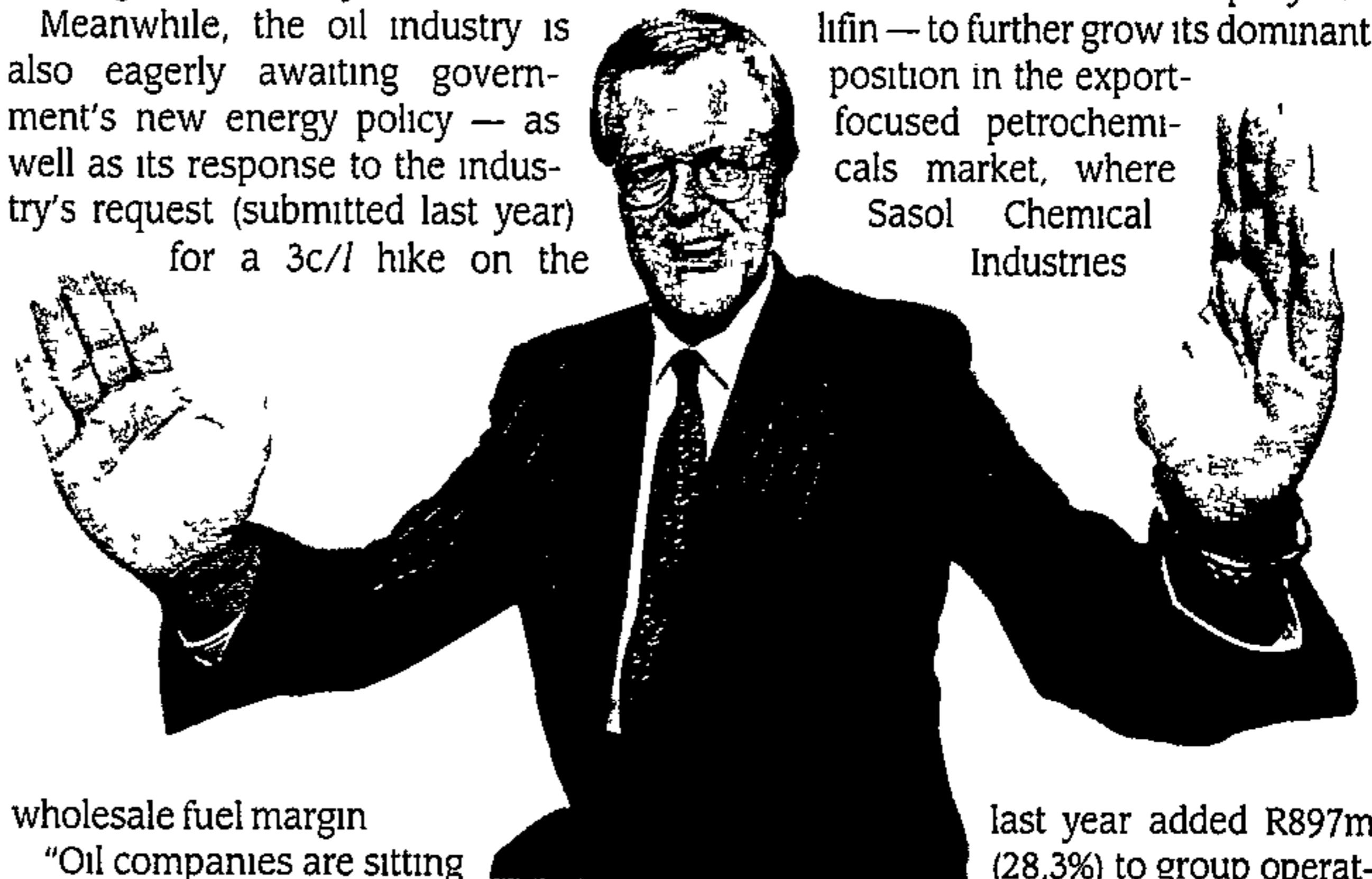
Sasol Chemical Industries

last year added R897m (28,3%) to group operating profits. "Our aim is to grow the contribution of petrochemicals to about 50% of total profits

within the next decade," says Cox.

"And part of our strategy to achieve this," adds Du Toit, "is to expand the beneficiation and export potential of so-called higher olefins — used to manufacture detergents and plasticisers — of which we can still exploit an additional 1 Mt/year from our feedstock streams over the next five to 10 years. We also have the potential to double propylene output to 600 000 t/year."

But will Sasol consider further coal-based plant in future? "No," says Cox. "While we still have sufficient coal reserves for 30 years' production, our future growth is linked to our becoming a global player in the further beneficiation of gas and oil, either from our own finds or in partnership with existing global players." *Arnold van Huyssteen*



Pieter Cox taking gamble on quantum leap in demand

(183)

FM 11/4/97

ENGEN (183)

MARKETS REMAIN STICKY

FM 11/4/97

Engen's recovery from its 1995 trough continued in the six months to February. Its 27,4% increase in headline EPS to 107c exceeded market expectations.

But the integrated oil group has some way to go before its profitability returns to the levels of 1993 and 1994 when return on capital employed was 13,1%.

The return has improved from the year-ago 6,2% to 7,1%. CE Rob Angel says this remains unsatisfactory but Engen cannot achieve the targeted 15% return without a rise in the regulated wholesale margin. A 3c/l increase in the

marketing margin would increase Engen's operating profit by R120m.

The most profitable part of the business remains retailing. This was the main contributor to higher operating income from marketing activities, up to R209m.

Engen's inland market share slipped from 24,7% to 24,5%, but it has a 30% share of the forecourt convenience store market through its Quickshop.

Refining interests had a flat six months, operating profit rising 2% to R89m. Margins at the Durban Refinery fell from US\$4,76/barrel to \$4,41/barrel.

PUSHING THE PEDAL			
Six months to	Feb 29 1996	Aug 31 1996	Feb 28 1997
Turnover (Rm)	4 584	6 201	6 099
Operating income (Rm)	241	318	288
Attributable (Rm)	140	209	191
Earnings (c)	84	118	107
Dividends (c)	36	60	36

but this was more than offset by the rand's fall against the dollar. Refining margins widened even in dollar terms in January and February.

Crude oil throughput fell from 16,3m to 15,8m barrels and white (light) oil yields from 67,6% to 66,9%. Angel says action to improve throughput and quality is under way. Another 300 jobs were cut from the group, which has seen its staff shrink from 3 900 to 2 400 since a plan to reduce costs was launched two years ago.

Angel says Engen could well be reporting a loss if its marketing expenses had risen in line with inflation. Marketing costs are just 5% up on two years ago.

Energy Africa, the 60%-held listed subsidiary (Fox April 4) contributed R8m (year-ago R1m) to Engen's net income. The value of its stake has climbed 70% to R1,2bn since year-end.

Angel says if you deduct Energy Africa from Engen's market share, the market is valuing the rest of Engen on an earnings multiple of 8. This is below its peer group because oil companies can be valued up to 20 times earnings.

As there are no firm refinery expansion plans in SA, he expects a shortage of petrol from 1999 and of diesel from 2002. That could be bullish for refining margins.

The group has worked hard at improving efficiencies, which so far has had



Rob Angel efficiencies showed up in marketing

more impact on its marketing than its refining. Since late January, the share price has fallen from R29 to R23, spurred by weakening crude oil prices.

If the current softer price trend continues, says Angel, Engen will make an inventory loss to offset the inventory profit of R38m in the first half. That would mean lower second-half profits. The Engen share price is inevitably volatile. At current levels, it looks cheap.

Stephen Cranston

Sentrachem's new broom sweeps clean

Predictably, heads have rolled following the Sanachem debacle, but not everyone has been dispatched, writes MARCIA KLEIN

(183)

ST(BT) 13/4/97

AS EXPECTED, heads have rolled at Sentrachem following the debacle at agricultural chemicals division Sanachem which cost the group R261-million in the six months to February

Sanachem head Robert Mangard left late last year, and it was announced this week that group financial director Norman Kennelly has taken early retirement

Sentrachem did not specify how many people had been asked to leave Sanachem, but new executive chairman Ralph Oxenham is "in the process of establishing a new management team"

An analyst said the group's top management should perhaps have "collectively fallen on their swords", but managing director John Job said the appetite for dismissals was exaggerated

Chairman Attie du Plessis rallied behind Job, saying the board had "reaffirmed its confidence in Job and approved of his plans for the company"

In line with profit warnings, earnings for the six months slumped to a R217-million loss from a R101-million profit in the previous year

Job this week outlined a range of corrective actions, including the strengthening of general and financial management

He was confident the problems at Sanachem were adequately provided for and that its results should show some improvement in the second half. By next year, Sentrachem would be profitable

The group's problems mask a good performance by interests other than Sanachem

Group turnover was up 6.5% to R2.5-billion. Job said Hampshire continued to perform well, with revenues growing by 20% in dollar terms and earnings before depreciation, interest and tax up by 24%. The rise was even more substantial

in rand terms

Karbochem doubled operating profit on stronger performances in all its businesses. Despite pressure on margins, it expects a good second half

Safripol had an excellent first half on the back of higher volumes and prices. NCP, however, was affected by weak conditions in the PVC market. It will probably maintain earnings at the full year

Operating profits at these four operations were up by 39% to R187.1-million. But Sanachem's operating profit was just R1.1-million, down from R60-million in 1996. Capital expenditure, a working capital balloon at Sanachem, foreign exchange contract losses, higher interest rates and the issuing of preference shares saw the group's interest charges rise

sharply to R99-million from R70-million and interest cover was down to 1.7 (2.6) times

Gearing grew to 106% from 86%, but a marked improvement in gearing is expected by year-end. Before

the exceptional items — which include a R117-million forward exchange contract loss and restructuring costs of R144-million — attributable profits slumped to R48-million from R101-million, equivalent to earnings of 24.4c (55c) a share

The loss after exceptionals was 111.4c a share. Sanachem aside, the group

should maintain operating profits at last year's level. But financing and preference share costs will be sharply higher, reducing attributable profit. After the exceptional items, the group will incur a loss at year-end, but growth patterns will be resumed in 1998

'The group's top management should perhaps all have fallen on their swords'

Govt 'duty-bound to use generic drugs'

Ingrid Salgado

BD 15/4/97

(123)

HEALTH Minister Nkosazana Zuma issued a strong message to pharmaceutical companies yesterday, saying they needed to accept that government had a duty to use generic medicines to make health care more affordable.

Zuma's comments follow last year's legal challenge by pharmaceutical manufacturer SmithKline Beecham to regulations that would make prescribing generic drugs mandatory. Zuma withdrew the regulations before the matter went to court, and said they would be redrafted to take account of more than 300 submissions received on the matter.

But yesterday Zuma indicated that the health ministry had no intention of backing down from the principles underlying the regulations. At the opening of pharmaceutical group Novartis SA's upgraded factory in Kempton Park, she accused "those who don't like us using generics" of creating the perception that generic medicines were inferior to patents.

Manufacturers should not differentiate between patents and generics in the production process. They were obliged to provide maximum quality, affordable medicines, she said.

Zuma reiterated the ministry's willingness to work with manufacturers and distributors of pharmaceutical products in an apparent effort to mend her rocky relationship with the industry. She urged the industry to work with her "in a complementary, and not in a confrontational, way".

The revamped facility of Novartis SA, formed by the merger of Ciba and Sandoz, cost R40m to upgrade. The plant has the capacity to manufacture one billion capsules and compressed, sugar-coated and film-coated tablets, every two shifts



Health Minister Nkosazana Zuma, left, opened pharmaceutical group Novartis SA's upgraded manufacturing facility in Spartan, Kempton Park yesterday. With her were Novartis SA president Lothar Ehrhardt, right, and Zuma's adviser, Ian Roberts.

Picture: Tyrone Arthur

Sasol in alliance with Statoil

(183)

BD 15/4/97

Edward West

OIL-from-coal producer Sasol moved further along the globalisation path yesterday with the formation of an alliance with Statoil of Norway for the conversion of natural gas to synthetic fuels using Fischer-Tropsch technology developed in SA.

Sasol said the rationale behind the alliance was the mutually complementary technology capabilities of the two companies. Sasol's technology for the conversion of gas to synthetic crude oil and liquid fuels and Statoil's offshore and floating production technology for oil and gas.

Statoil preferred to co-operate with Sasol rather than rely on further development of its own Fischer-Tropsch technology.

The plan was for Sasol and Statoil to make floating gas conversion facilities available on a commercial basis to other oil and gas producers. A spokesman said the value of the alliance in rand terms could not yet be determined.

The groups were already developing a concept for floating the Fischer-Tropsch conversion plant.

These plants would be placed on ships or other offshore production systems used for oil and gas production, and would convert natural gas into synthetic fuel.

The plant allowed natural gas to be synthesised at point of production rather than being piped ashore or reinjected into the reservoir.

Flaring and associated environmental disadvantages could be eliminated, a Sasol statement said.

Sasol and Statoil intended to operate exclusively in developing the floating and offshore applications and, on a non-exclusive, case-by-case basis for other applications.

Both parties intended to be able to hold equity facilities arising from the exploitation of opportunities to convert gas to oil and fuels.

Of particular interest was the possible utilisation of Statoil's large gas reserves in northern Europe, a spokesman said.

Statoil, which is owned by the Norwegian government, claims to be the leading explorer, producer and marketer of oil and gas in northern Europe and has gas reserves of more than 50-trillion cubic feet.

SA Druggists faces suit in High Court

BD 16/4/97

(183)

Ingrid Salgado

PHARMACEUTICAL heavyweight SA Druggists is to appear in the High Court later this year over claims that it failed to pay a former employee millions of rands for his minority stake in its subsidiary, SA Druggists International (SADI)

The company is also embroiled in a Labour Court battle in which former international division MD Peter Hulett alleges he was unfairly dismissed in 1995. He said yesterday he was seeking substantial damages for his dismissal, which he claimed was a direct result of failing to accept SA Druggists' conditions for the purchase of his 30% share in SADI.

His legal representatives had also served papers on SA Druggists to appear in the High Court for failing to pay for the stake.

SA Druggists financial director Tom Hein confirmed that legal action was being taken against the company. He was unsure whether SA Druggists had paid Hulett for his share in SADI.

The group would contest Hulett's claim that SA Druggists executive directors — including CE Peter Benningfield — verbally agreed to pay him \$900 000 for the stake, Hein said.

It was unlikely the matter would affect a possible sale of SA Druggists following the unbundling of parent Malbak, but he stressed that no negotiations were in progress.

Malbak's shares in SA Druggists are due to be distributed to Malbak shareholders in two weeks, giving Sanlam 35%-40% of the health-care group.

The litigation follows allegations that SA Druggists used strong-arm tactics last year when it bought Walter Ward's 25% stake in Medicross, apparently for R25m. Ward was allegedly locked out of his office, and Benningfield admitted at the time that "a little bit of tension" had surrounded the deal.

The latest dispute has its roots in the Saxe Pharmaceuticals deal, in which SA Druggists purchased a 70% stake in 1992.

Continued on Page 2

SA Druggists

Continued from Page 1

Hulett retained 30% of the company, which had secured a deal with the Malawi government to supply essential drugs to that country. In return, Saxe pledged to reinvest a percentage of its profit in a penicillin manufacturing factory near Lilongwe.

Hulett alleged that Druggists reneged on a verbal agreement to pay him \$900 000 for his remaining share in Saxe — which was renamed SADI — by insisting the amount be calculated using a formula based on the proceeds

of the Malawi deal. He claimed the group subsequently agreed he would receive the equivalent of \$900 000 in Druggists shares.

Hulett said he signed a blank transfer of shares form in April 1995, on the understanding he would receive the shares. He alleged that SA Druggists backdated the form to August 1994, and filled in "nil" for the amount he would receive for his stake. At no stage did he sign a sale of share agreement.

But Hein alleged Hulett had signed over the shares in anticipation of a "very modest purchase price", which he declined to disclose.

SADI has since been renamed to Pharmacare Africa & Middle East.

Zuma's drug stance has 'changed little'

SA DRUG companies might return to the courts for a second legal battle against health care reforms proposed by Health Minister Nkosazana Zuma, a leading industry figure said yesterday.

Last October Zuma backed down over plans to make prescribing generic drugs mandatory as Britain's SmithKline Beecham took the issue to court. A consultation process was then launched to look at possible changes to the plans.

Draft legislation put forward this week had changed little, drug makers said, and the legal battle between industry and government could resume. Mirryena Deeb, CE of the Pharmaceutical Manufacturers' Association (PMA), said companies were thinking of action, but no decision had been made.

Health ministry spokesman Vincent Hlongwane said the new proposals were put together after more than 300 consultations with the public, the drug companies and other interested parties.

He said the plans guaranteed a choice to patients between generic drugs or their brand name equivalents "We will legislate that patients should be given the choice," he said.

Deeb said drug manufacturers were worried that the wording of the draft legislation still made the substitution of generic drugs mandatory.

"A pharmacist shall ... dispense a therapeutically equivalent medicine instead of the medicine prescribed ... unless expressly forbidden by the patient to do so," the draft read.

Deeb said the use of the word "shall" was too close to enforcing mandatory substitution of generic medicines and said there were also worries that the legislation's definition of "therapeutically equivalent" was too broad. The act defined it as drugs having the same therapeutic effect from the same pharmaceutically active ingredients and dosages.

Deeb said that definition was loose enough to involve substituting one type of drug for another that was chemically different.

Another area of dispute that could crop up was any attack on the industry's right to promote its brand names. The global pharmaceutical industry jealously guarded its brand names. The draft stated: "No person shall sell any medicine to the state if that medicine contains the brand name in its label."

Deeb said any attack on the industry's intellectual property rights would provoke a legal fight.

The previous dispute with Zuma led to fears that international drug companies may pull out of an SA industry they see as hostile. Chief executive of German drug giant Boehringer Mannheim's SA unit Knut Seifert said: "If an industry is not welcome in a country, then companies have to think about downsizing of operations and moving into a more friendly environment" — Reuter.

Energy industry players decry lack of policy

BD 17/4/97 (1825)

Linda Ensor

CAPE TOWN — Broad consensus emerged in the mineral and energy affairs industry yesterday that the department's R808m budget failed to earmark financial support for an energy, electricity and liquid fuels industries policy.

The main role players noted the department had failed to formulate a policy on key areas vital to the industry's future.

The SA Petroleum Industry Association, the Chamber of Mines and the National Union of Mineworkers raised the issue in briefings to the parliamentary portfolio committee on mineral and energy affairs on this year's budget vote.

The absence of a policy, as well as the lack of capacity to formulate one, had been identified by the International Energy Agency last year as a "major weakness" in

the SA energy sector, the University of Cape Town researcher Hilton Trolip said. He said the energy budget did not show how these issues were being addressed.

"It is now becoming increasingly urgent that action takes place as a huge refinery investment is needed to meet the growing demand for liquid fuels in SA. These are on hold awaiting clarity on policy relating to the future of the liquid fuels industry," association director Colin McClelland said.

The chamber agreed. "A high level of expertise within the department is essential for it to effectively implement the Mine Health and Safety Act, and to regulate the environmental impact of mining."

The chamber said it believed the department's manpower levels and budgets did not place sufficient emphasis on delivering high-

quality performance for the AEC.

"Given the current national emphasis on mine health and safety, it is puzzling and disturbing to see the budget and manpower level decrease," chamber technology adviser Howard Hume said, especially as the amount allocated to pay off Atomic Energy Corporation (AEC) loans increased by R150m.

The chamber proposed an increase in the rate of the reduction of

the budgetary provision for the AEC. The chamber questioned the R28m set aside for energy management of which 60% was tagged for consultants' services. "This implies that a good portion of staff time and effort will be expended managing this money," Hume said.

The NUM agreed with reservations about the cutbacks in health and safety spending



Zuma's drug stance has 'changed little'

(183) 6017/4/97

SA DRUG companies might return to the courts for a second legal battle against health care reforms proposed by Health Minister Nkosazana Zuma, a leading industry figure said yesterday.

Last October Zuma backed down over plans to make prescribing generic drugs mandatory as Britain's SmithKline Beecham took the issue to court. A consultation process was then launched to look at possible changes to the plans.

Draft legislation put forward this week had changed little, drug makers said, and the legal battle between industry and government could resume. Mirryena Deeb, CE of the Pharmaceutical Manufacturers' Association (PMA), said companies were thinking of action, but no decision had been made.

Health ministry spokesman Vincent Hlongwane said the new proposals were put together after more than 300 consultations with the public, the drug companies and other interested parties.

He said the plans guaranteed a choice to patients between generic drugs or their brand name equivalents. "We will legislate that patients should be given the choice," he said.

Deeb said drug manufacturers were worried that the wording of the draft legislation still made the substitution of generic drugs mandatory.

"A pharmacist shall ... dispense a therapeutically equivalent medicine instead of the medicine prescribed ... unless expressly forbidden by the patient to do so," the draft read.

Deeb said the use of the word "shall" was too close to enforcing mandatory substitution of generic medicines and said there were also worries that the legislation's definition of "therapeutically equivalent" was too broad. The act defined it as drugs having the same therapeutic effect from the same pharmaceutically active ingredients and dosages.

Deeb said that definition was loose enough to involve substituting one type of drug for another that was chemically different.

Another area of dispute that could crop up was any attack on the industry's right to promote its brand names. The global pharmaceutical industry jealously guarded its brand names. The draft stated: "No person shall sell any medicine to the state if that medicine contains the brand name in its label."

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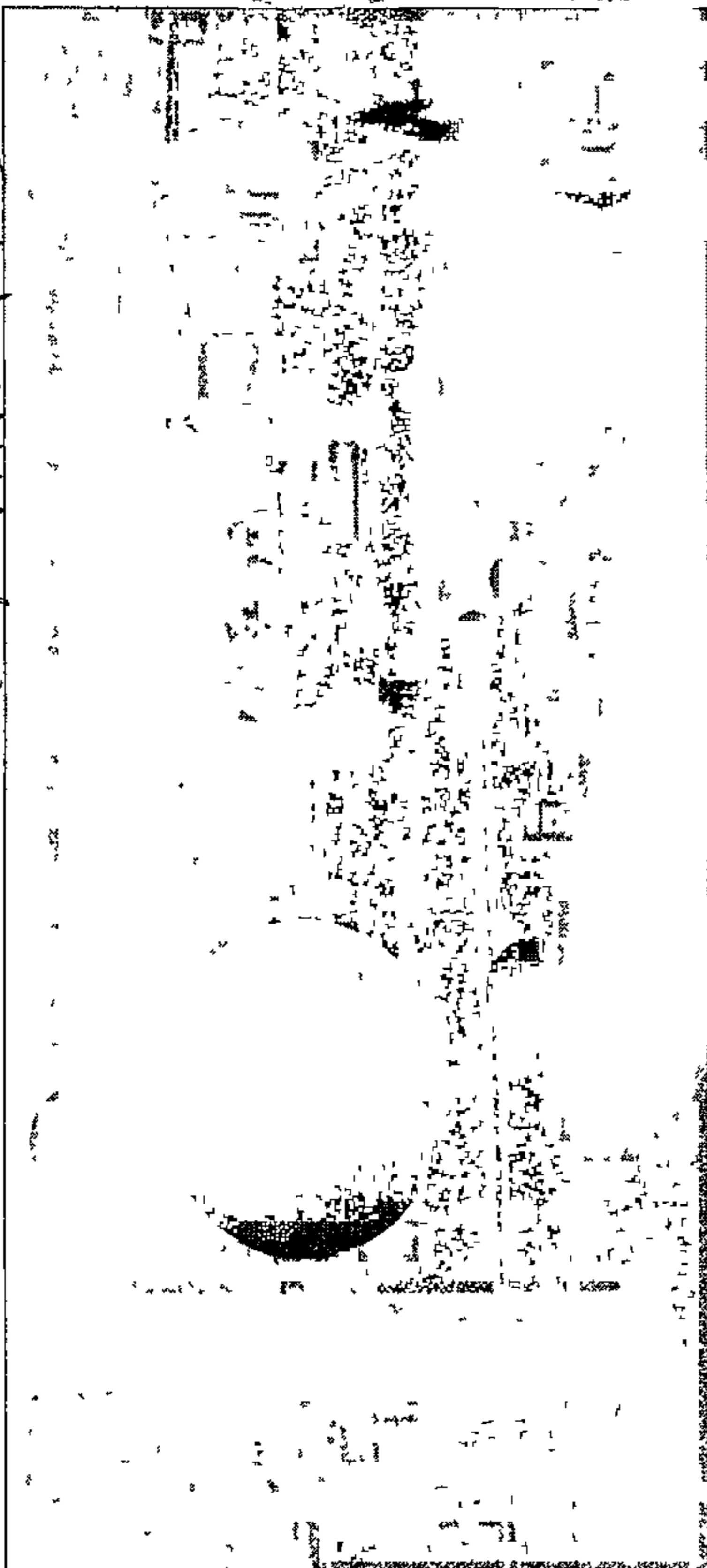
The previous dispute with Zuma led to fears that international drug companies may pull out of an SA industry they see as hostile. Chief executive of German drug giant Boehringer Mannheim's SA unit Knut Seifert said: "If an industry is not welcome in a country, then companies have to think about downsizing of operations and moving into a more friendly environment." — Reuter

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Oil from gas may upset economic balance

CT(OB) 17/4/97 (183)



GRAPHIC: JAMES DE VILLIERS

MICHAEL RANK
LONDON

The economics of the energy industry could be dramatically altered if new technology to convert natural gas into oil proves financially viable. At least three companies — America's Exxon and Syntroleum, and South Africa's Sasol — believe they are able to make gas-into-oil a commercial proposition. James Ball, the managing partner of Gas Strategies in London, said converting gas into oil could be "an exciting alternative route for commercialising natural gas." But he said previous attempts had not proved economic. A report by New York investment bank Salomon Brothers was even more enthusiastic. It said the commercial production of oil from gas would be "truly revolutionary" as it would result in the opening up of vast numbers of gas fields which are now considered too far from consuming centres to be economically viable.

"The implication of this new technology is mind-boggling. It may not only alter the fundamental economic balances of the energy industry, but also has significant implications for global geopolitical alliances and geopolitical conflicts," the bank said.

William Pintz said in a report published by the East-West Center, an institute based in Hawaii, that the technological advances could lead to the exploitation of gas deposits amounting to about half the world's 140m³ trillion of proven reserves that are "stranded" or uneconomic. "It is hard to imagine a development with greater potential impact on supplies and suppliers of clean fossil fuels," Pintz said.

The main advantage of oil over gas is that it is cheaper to transport. Also, oil products created from gas are potentially cleaner than conventional oil as they do not contain sulphur. The end-products are refinery feedstock or so-called middle distillates — kerosene, diesel and gas oil — for which world demand is quickly rising. German scientists invented the Fischer-Tropsch process to convert gas into oil in the 1920s, but until now it has been extremely expensive.

South Africa is the only country which produces "synfuels", or synthetic fuels, on a large scale. It was forced to do so under an international oil embargo during the apartheid era but the process depended on heavy state subsidies. The industry was expected to die a natural death after the end of sanctions. However, after producing synfuels from coal for 40 years Sasol has for the past four years been producing oil from gas commercially, with output now running at 2,500 barrels a day.

Sasol and Exxon say they have made technical advances that make the process economically viable, and both companies have been holding talks with Qatar on

producing oil from gas there. It has some of the world's biggest gas reserves. Sasol envisages output of 20,000 barrels a day in Qatar. A Qatar General Petroleum official said the Exxon project would use 350 million m³ of gas a day to produce about 100,000 barrels of oil a day.

Abdullah bin Hamad al-Attiyah, the Qatar energy minister, said the project would cost \$1.2 billion. In February he said a memorandum of understanding would be signed soon.

An Exxon spokesman declined to comment on the Qatari figures, but said its technology was aimed at producing between 50,000 and 100,000 barrels a day. He said no final agreement with Qatar had been reached, although a feasibility study had been completed.

Exxon said that "given the right technology (gas into oil) can be competitive at recent prevailing oil prices", while Sasol said its process is "commercially proven".

Syntroleum has developed its own technology to produce oil from gas, also based on the Fischer-Tropsch process. It said its version of the process can produce oil from gas at an oil price of below \$20 a barrel and at a capital cost of \$12,000 to \$27,000 a barrel of daily capacity.

Salomon Brothers said that at the lower end of this range, gas-to-oil "would be highly competitive with current grass roots refinery capital costs".

Syntroleum said its process was economical on a small scale, and that only 2 percent of the world's gas fields outside North America are suitable for a large 50,000 barrels a day gas-to-oil plant.

"At plant capacities as small as 5,000 barrels a day, the Syntroleum process offers a potential solution for al-

most 40 percent of the world's gas fields, which hold over 95 percent of the world's natural gas. The minimum economical size is expected to drop to around 2,000 barrels a day in the near future," said Mark Agee, the Syntroleum president, last October.

Syntroleum said it had cut the cost of the most expensive part of the synfuel process, the production of so-called "synthesis gas", an intermediate stage in which the company uses air rather than the pure oxygen normally used. The nitrogen-diluted syngas is produced in an autothermal reformer that uses a nickel-based catalyst. It then passes through Fischer-Tropsch reactors that, unlike in other versions, incorporate nitrogen into the process without impairing performance.

Syntroleum said its aim was to "continue to drive capital costs down until a natural gas refinery can be built for less than a crude oil refinery". It signed a licensing deal with Atlantic Richfield this month, after similar agreements with Texaco and Marathon Oil.

Ball said that "if gas-to-oil happens on an enormous scale, it would be a threat to the oil industry and to oil prices". But there had been false dawns before, he said.

Ball also said gas-into-oil potentially "creates a lot more refined, sellable oil. If those markets are finite, we can't assume we can stuff highly valuable products into them without an effect on the oil price. If the middle distillates market is glutted it may in fact drive itself out of business." But he said he was encouraged by Sasol's plans in particular "as they have more experience in the field than anyone else. I think they might be on to a winner". — Reuter

FEATURE
SASOL LIMITED

SLURRY WITH FRINGE BENEFITS

FM 18/4/97 (183)

Petrochemical giant Sasol blossomed in the Seventies and Eighties, due to a government whose policies made it difficult to secure regular oil supplies. Less obvious, perhaps, is the level of technological expertise that built up in the organisation because of the apartheid regime's paranoia about self-sufficiency.

Cut off from the world, SA scientists were forced to be innovative and one of the most successful examples of their work is the oil-from-coal technology built on the Fischer-Tropsch synthesis process.

Now the spin-offs are coming in the form of further developments in the energy field. Sasol's slurry phase distillate process is fast being recognised as new generation technology.

The process is used to convert natural gas — now being flared off as waste in many isolated conventional oil sites — into diesel fuel.

The latest development has seen Sasol form an alliance with Statoil of Norway. Plans are already well under way for "floating" Fischer-Tropsch conversion plants. The plants will be situated offshore on ships or platforms to convert Norway's huge gas supplies to synthetic crude oil. The facility will allow gas to be utilised at the point of production, rather than being piped ashore.

Both Statoil and Sasol will co-operate exclusively in developing the offshore applications and both parties will hold equity in any future agreements entered into with other oil and gas producers.

Talks have also been held with the Qatar General Petroleum Corp to investigate a Qatar-based joint venture project to convert natural gas into 20 000 BPD of liquid fuels.

Sasol GM John Marriott also says he has had discussions with a Nigerian broker — acting for the Nigerian National Petroleum Company — who is interested in the possible conversion of some of that oil-rich country's massive, unused gas reserves into Sasol's ecologically friendly diesel product.

"Nigeria's proven gas reserves of about six trillion m³ have, since 1957, been largely flared off and I am interested in setting up a possible deal between Nigeria's oil industry and Sasol to find an economic application for a currently wasted resource," says Ike Nwachukwu, former Nigerian Minister of Foreign Affairs and now chairman of Epsilon, a Lagos-based engineering company.

Marriott says once the idea is accepted in global joint ventures, the slurry phase technology could have a major impact on the petrochemical giant's bottom line performance.

"We do not plan to license or earn royalties on the technology but are rather looking for joint venture or alliance partners on a worldwide basis. This way, Sasol will not only be able to pro-

vide its hands-on and proven technology backup services, but will also be in a position to maximise its returns on such investments."

Sasol Group GM Pat Davies recently told delegates to the fifth annual Middle East Petroleum & Gas Conference at Abu Dhabi that commercially situated gas fields are normally exploited through pipelines to the nearest markets or for the production of electrical power. Alternatively, natural gas is transported by conversion into liquefied natural gas (LNG).

Davies says between US\$2bn and \$4bn is required to set up an LNG plant. The \$300m capex required by the modular 10 000 BPD slurry distillate process makes it a far more economic proposition.

About 32% of the world's proven gas reserves — or about 1 600 trillion ft³ — are in the Middle East, often in the form of unutilised or "stranded gas," far from commercial markets. This area could be a ready potential market for the process and the Norway, Qatar and Nigerian deals will do much to kickstart a new global thrust by Sasol.

But while there is evidently growing global interest in the process, both the location of any proposed slurry plant and the marketing of the diesel product will depend on niche market factors, he says.

"As our premium-priced and eco-friendly synthetic diesel product has to compete in the massive global market for crude oil and its derived petroleum products, economic application of this technology will depend on two factors: sourcing so-called stranded gas finds and targeting eco-sensitive markets like Europe and the US."

Gas fields close to existing markets are usually exploited for direct industrial application in the manufacture of petrochemicals, for power generation or for clean-burning industrial fuel. In these cases, the Sasol technology could not compete on pure economic grounds. But substantial gas reserves in areas such as the Middle East, Africa and offshore locations often remain unexploited because of the huge costs of building gas pipelines or the problems involved in transporting LNG to the nearest markets.

Davies says the slurry process — which produces predominantly middle distillate fuels such as gasoil and diesel, as well as a small

amount of naphtha from gas — provides "a promising, commercially attractive proposition" that might become more widely used in the near future.

Time will tell whether Sasol's prediction that "in future, this technology may come to represent a sizeable portion of the world's natural gas consumption" will come to fruition. But the first signs are more than positive. *Arnold van Huyssteen*



John Marriott possible deal with Nigeria

R265m exceptional loss from Sanachem but also a R117m cash loss on the close-out of forward exchange contracts and more than R80m of bad debts written off

It is not surprising Sentrachem financial director Norman Kennelly has taken early retirement. Head office finances are now being managed by NCP division financial director Ian Collier, whom analysts consider to be a solid Sentrachem man, unlikely to be a maverick



John Job

it below 80% by year-end. Job says Sentrachem is not making any more major capex commitments for now

Simpson McKie chemicals analyst Campbell Parry says he is glad Job has survived the Sanachem debacle as he is shrewd and well respected, the performance of other divisions are testimony to his skills. But he says that, though the market has largely discounted the poor performance, the psychological effects of

The group has disclosed each division's contribution to interim operating profit for the first time, revealing some strong performances

Synthetic rubber and carbide producer Karbochem, once the problem child, raised profit 113% to R40,8m. Job says there will be further cost reductions as Karbochem is in the second phase of its re-engineering

US-based subsidiary Hampshire Chemicals advanced revenue by 20% and operating profit by 24% in dollar terms (68% in rand) to R48,2m. There was strong demand for its cyanide precursors and intermediates

NCP was 5% down on the comparable period but it was the biggest contributor at R54,3m. Conditions were particularly weak in the flexible PVC market which uses NCP plasticisers

Safripol, a joint venture with Hoechst, boosted its contribution by 49% to R43,8m as there were improved volumes and prices of polyethylene and polypropylene. A new R235m polypropylene plant was commissioned

Sentrachem's priority is to reduce its debt — it has R1,36bn in borrowings and 106% gearing. Gearing is seasonally higher in February and Job hopes to bring

the loss will take time to wear off

"Only evidence of a resumption in earnings growth momentum and signs that management is more firmly in control will prompt a rerating of the share"

Parry expects a rerating to start in the first half of financial 1998 — after September 1 this year. He and other analysts expect Sentrachem to earn 120c/share in financial 1998. This puts the forward p/e at almost seven, in line with Polifin and AECI which both have stronger balance sheets

Sentrachem is unlikely to recover much this year. *Stephen Cranston*

SENTRACHEM (183)

A LONG JOURNEY BACK

FM 18/4/97

The market had been warned that exceptional items would lead to a heavy loss in Sentrachem's six months to February. The reported attributable loss of R217m or 111,4c/share was in line with the cautionary issued last month

The headline profit of 24,4c was, however, slightly ahead of market expectations. Even troubled Sanachem made a nominal R1,1m operating profit

This raises the question of when a loss can be considered exceptional. Sentrachem MD John Job says he is satisfied no normal operating losses have been included in exceptional items but accountants disagree about exactly when items become exceptional

There were not just write-downs in the

HUGE WRITE-OFFS

Six months to	Feb 29 1996	Aug 31 1996	Feb 28 1997
Turnover (Rm)	2 323	2 571	2 475
Operating profit (Rm)	183	250	169
Attributable (Rm)	101	148	(217)
Headline earnings (c)	55,0	76,2	24,4
Earnings (c)	55,0	76,2	(111,4)
Dividends (c)	14	25	10

Bill 'will drive pharmacists out of work'

Wyndham Hartley

CAPE TOWN — Potentially controversial changes to the Pharmacy Act, which among other things will allow nonpharmacists to own pharmacies, has been tabled in Parliament by Health Minister Nkosazana Zuma.

The Pharmacy Amendment Bill will also change the composition of the Pharmacy Council and give it increased powers to dismiss and appoint registrars of the Pharmaceutical Council and to delegate its powers to com-

mittees and co-opt professional boards. Democratic Party health spokesman Mike Ellis, who has been warning of conflict between Zuma and pharmacists, said there was deep concern in the industry about section 22 of the bill, which would take ownership of pharmacies out of the hands of pharmacists. This would allow large corporations such as Clicks and Pick 'n Pay to dominate the industry and drive retail pharmacists out of business, with a

Continued on Page 2

Pharmacy Act

Continued from Page 1

consequent loss of skills.

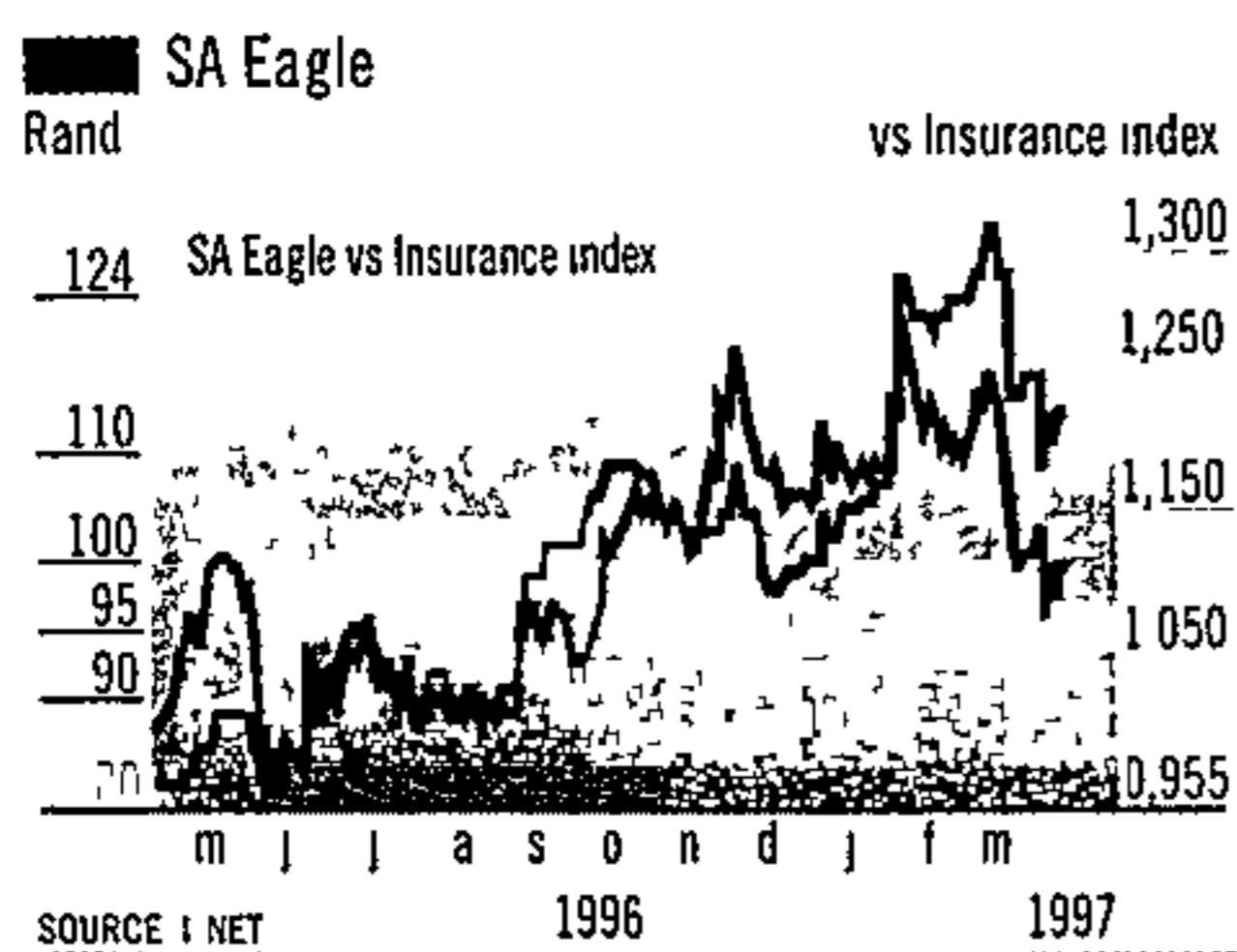
Ellis said he was particularly concerned about the fact that Zuma had not undertaken negotiations with the pharmaceutical industry. Pharmaceutical Association members were at this late stage not sure which of three drafts of the bill had been tabled.

He said the bill also gave increased powers to Zuma. In the past, the min-

ister had been required to follow recommendations of the Pharmaceutical Council, whereas the new legislation provided that she need only consult it.

Ellis said Pharmaceutical Council members would find themselves in a difficult position if the legislation was passed, because they would be trying to make a law work which they had already suggested was unworkable.

He hoped Zuma would not do to the council what she had done to the Nursing Council, whose composition she had changed despite an agreement with nursing unions.



now at around R110. Gains will depend on how long the next downrating cycle can be put off. It's probably not a share to look at for fireworks, though on a p e of 8,8 it looks fairly cheap. *Heather Formby*

HOECHST (183)

FIGHTING FIRES

FM 18/4/97

Commentary on Hoechst's disappointing 1996 results has concentrated on how the collapse of global textile markets affected the polyester fibre operations.

This is understandable in that the first loss incurred there was mainly responsible for the 41% plunge in the operating result of the polymers & derivatives division, which accounts for 73% of group sales revenue and 70% of net assets employed. But closer analysis shows that the other two divisions did not perform much better.

- **ACTIVITIES:** Makes and markets health-care, polymer and chemical products
- **CONTROL:** Hoechst AG (73,7%)
- **CHAIRMAN:** C F Liebenberg MD W S R Beuthner
- **CAPITAL STRUCTURE:** 153,3m ords Market capitalisation R552m
- **SHARE MARKET:** Price 360c Yields 2,2% on dividend, 7,4% on earnings, p e ratio, 13,5, cover, 3,3 12-month high, 610c, low, 278c Trading volume last quarter, 3,8m shares

Year to December 31	'94*	'95	'96
ST dept (Rm)	154,6	134,7	144,4
LT debt (Rm)	50,0	47,8	159,7
Debt equity ratio	0,51	0,27	0,33
Shareholders' interest	0,62	0,47	0,38
Int & leasing cover	2,2	2,5	1,8
Return on cap (%)	11,2	9,7	6,6
Turnover (Rm)	1 513	1 754	1 858
Pre-int profit (Rm)	60,8	99,6	69,5
Pre-int margin (%)	3,8	5,3	3,5
Earnings (c)	30,0	45,6	26,7
Dividends (c)	nil	7,0	8,0
Tangible NAV (c)	228	316	256

*Pre Listing

Excluding polymers, operating profit for the rest of the group fell 23%, underlining that the "deep restructuring and realignment process" which Hoechst is undergoing was necessary anyway.

The transformation process has in part been prompted by factors beyond the local company's control.

In the health-care division, for example, where operating profit fell 22%, a revamp of Hoechst-Noristan (now Hoechst Marion Roussel) occurred because of the worldwide merging of the pharmaceutical interest of Hoechst (Germany), Roussel Uclaf (French) and Marion Merrell Dow (American).

In reshaping the local company along international lines, some noncore activities have ceased and, more recently, there was a withdrawal from generics to focus on the ethical (prescription) drug market.

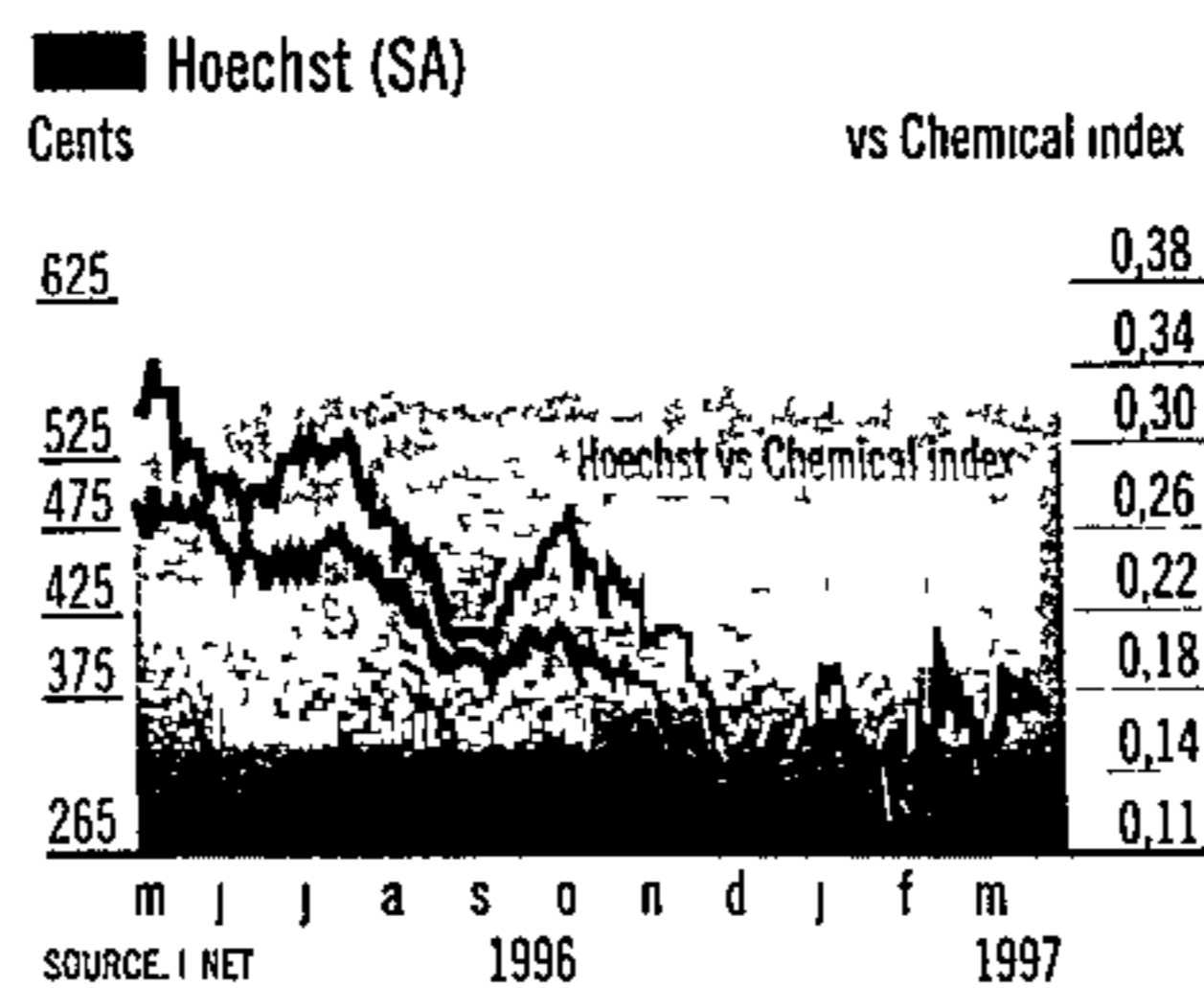
The annual report says "significant retrenchment costs" impaired health-care results last year but adds that, after these changes, the outlook for 1997 is positive. With good results expected from Hoechst Roussel Vet, the division should resume real growth this year.

The reasons for the chemical division's 24% operating profit slide last year are less specific. In some areas, offtake was less than expected a year ago, others felt the effects of consolidation and rationalisation. Since the start of this year, rationalisation has been taken further with the integration of all the activities of this division into a single business unit.

In polymers & derivatives, it seems Hoechst thinks it should spend money to make money. In fibres, it is counting on a R205m feedstock plant, for completion in October this year, to solve problems that contributed to last year's results.

Fibre capacity has quadrupled to a level which, the group hopes, will provide the critical mass necessary to withstand international market pressures.

The film sector is going ahead with a



R6m upgrade of one of its production lines to enhance yields and productivity.

All this sounds promising and backs newly appointed chairman Chris Liebenberg's view that this year's results will reflect progress. Investors might be looking for not simply recovery but also signs that substandard profitability is being addressed.

Even at the 1995 profit peak, gross return on capital employed was only 14,7% and ROE was 14,4% despite a low effective tax rate of 15,5% that year.

The fact that 1996 earnings were better than expected after the interims has helped the share recover from a February low of 278c to 360c. It still shows a net decline of 38% since the FM's review of the 1995 annual report.

Investment merit has two dimensions. Short-term, it depends on improvement in the 1997 results — full recovery to 1995's headline EPS of 41,3c could see a commensurate increase in the price to around 550c.

Longer-term, attractions are linked to developments in the international operations of Hoechst AG.

With Hoechst SA the obvious springboard into Africa, growth potential is considerable but can be exploited fully only after Hoechst SA has progressed from its present fire-fighting phase.

Brian Thompson

GUARDIAN NATIONAL

LIMITING THE PROFIT FALL

The nature of short-term insurance is unpredictable, reflected by the swings in insurers' profits almost annually. Guardian National has not been immune to this.

Underwriting profit plunged by R16m to R6,3m last year, mainly because of four large industrial fires which helped boost total claims by 29%. In 1994, the underwriting loss was R19,7m compared with a meagre profit of R1,2m the previous year.

As the incidence of certain claims have increased, insurers have covered their risks in these areas by raising premiums. That has also helped to restore the underwriting account. Local insurers don't have the luxury of this course of action now in their industrial or major corporate business. That's because of foreign competition.

The high level of claims warrant overall premium increases, says chairman.

proceed with its two-stage R100m Durban South pipeline project. Sasol expects to sign at least R350m worth of new business when the scheme is completed.

The company has also announced plans for a mainline distribution network to Newcastle to serve potential customers such as Iscor and Chrome International.

The first stage of the Durban South scheme, which initially went to the Durban City Council for approval in November 1994, will enable the company to supply on-line methane-rich gas to the heavy industrial Bayhead area just south of the Durban docks as well as to Jacobs, Mobeni and Merebank.

The second phase — yet to be approved by the Sasol board — will spread the network south to embrace the Prospecton, Isipingo and Umbogintwini industrial areas.

Phase one, which is expected to be completed next year and should, according to Sasol, attract about 40 customers, involves the construction of about 25 km of pipeline including low pressure and distribution lines between Bayhead and the Umlaas Canal. The second phase, which should bring another 30 users on board, will extend the pipeline network by 22 km.

Sasol Gas regional sales manager Eric Woods says prospective customers, many of whom have signed letters of intent, include established firms in the confectionery, food and beverage, automotive, chemicals, clothing and textiles, packaging, and general manufacturing sectors.

The expansion into the province began in 1994 with the announcement of a deal with Petronet to use an upgraded fuel pipeline with extensions to feed industrial gas from Secunda to the Richards Bay, Mandini and Verulam industrial areas at a cost of R85m. The first phase of that scheme is now complete and the first big customer, Mondi Richards Bay, went on line in August. Richards Bay aluminium producer Alusaf has also signed a R150m contract to use piped gas, as has Sappi-Kraft, which, by using 900 000 gigajoules of gas a year at its Tugela Mill in Mandini, makes it the gas provider's biggest customer in the province.

The company's main customer base is the Gauteng industrial heartland, where it has 650 customers, but it also believes there is strong potential in KwaZulu-Natal, where it has identified 150 possible users. *Herb Payne*

SASOL GAS (183)

COASTING HOME

FM 18/4/97

Sasol Gas's ambitions to expand its industrial customer base in KwaZulu-Natal have been boosted with the granting of long-awaited planning permission to

Generic drugs firm sets up in Jo'burg

By JANINE SIMON
Medical Correspondent

(183) Jan 21/4/97

Generic drug producer Ranbaxy, which has won the support of Health Minister Nkosazana Zuma for its low-priced antibiotics, has staked bolder territory in the South African market with the official launch in Johannesburg last week of its local offices.

Ranbaxy beat local generic manufacturer South African Druggists to the state's penicillin tender last year and, according to Ranbaxy's commercial and business development director Terry Lee, has already saved the health ministry more than R1-million on the tender.

Local pharmaceutical companies have accused the health ministry of favouritism, citing the rapidity with which Ranbaxy's

applications were processed by the Medicine Control Council and the fact that the company had not been asked to submit documentation on affirmative action programmes in its tender documentation.

Chairman and MD Dr Parvinder Singh said the company's advantage in the drug registration process was its experience with submitting documents to certification authorities around the world, including the UK's Medicines Control Agency and the US Federal Drug Administration. Singh said the company had not been required to submit details of an affirmative action programme in the tender documentation.

Cost savings were made because Ranbaxy manufactured all its own raw materials and achieved significant economies of scale.

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COMMENT & ANALYSIS

Doctors have the right to reject generics

As some pharmaceutical companies lobby against SA legislation to promote generic medicines, Simon Barber in Washington looks at the issue's recent history in the US

BD 22/4/97

THE most commonly prescribed brand-name drug in the US tried for years to suppress research showing cheaper generic equivalents of the same medicine to be equally effective, it was disclosed last week in the authoritative Journal of the American Medical Association (Jama). The result might have been several billion dollars in unnecessary extra costs to patients and taxpayers, the journal said.

The disclosure comes as pharmaceutical companies have mounted an intense lobbying campaign against efforts by SA's health ministry to promote use of generic drugs in favour of more expensive branded products. Executives from at least one US company have hunted darkly — but off the record — that they may even feel obliged to disinvest from SA if the Medicine and Related Substances Control Amendment Bill passes in its current form.

A key purpose of the legislation is to lower the cost of drugs in SA, particularly those purchased and distributed at public expense, by defeating what the authors clearly see as the cartelist tendencies of the industry. On the face of it, the intention is to open the makers of brand-name medicines to greater competition.

One way the bill would do that is to permit "parallel imports" — that is, to allow wholesalers to obtain products from the cheapest sources.

The industry charges different prices to different countries. The differentials are not driven solely by a humanitarian desire to give people access to medicines they

might otherwise not be able to afford.

If a multinational has invested in manufacturing capacity in a country, it will not want goods manufactured more cheaply at its plant in another country to undercut that investment.

Naturally, it will not look kindly on parallel traders or arbitrageurs playing the price differentials by buying a product destined for a low-price market and reselling it competitively in one where prices are set higher to protect local investment.

US companies argue that by permitting such transactions, SA would be violating their World Trade Organisation-recognised rights to control the marketing of their intellectual property.

A second means by which the SA legislation attempts to increase competition within the pharmaceutical markets is to encourage the use of generic medicines with essentially the same active ingredients and pharmacological effects as the brand name varieties, but does not have to reflect developmental, marketing and other such costs in its pricing.

The pros and cons of generics are difficult for the layman to evaluate fully. It is, however, difficult to trust brand-name manufacturers entirely given the case reported in the latest Jama

The case involves Synthroid, a synthetic form of levothyroxine, a hormone produced by the thyroid gland.

It is used to treat thyroid deficiency, a relatively common condition, especially among women. There are more than 8-million users in the US. Symptoms of the deficiency include lethargy, stiffness and low tolerance of cold.

Made by New Jersey-based Knoll Pharmaceutical, a unit of BASF AG, Synthroid commands 80% of the American market for the hormone, which is also available far more cheaply in another brand-name form — Levoxyl or Levoxine — and as a generic.

In 1987, Flint Laboratories, which then owned the Synthroid brand, gave Betty Dong, a pharmacy professor at the University of California in San Francisco, a \$250 000 grant to perform a study which the company, and Dong, believed would confirm Synthroid's superiority over the other varieties.

To her surprise Dong found that in both laboratory and human trials, Synthroid's effectiveness was indistinguishable from the Levoxyl/Levoxine and the two generic varieties that she used in her comparison.

By the time Dong finished her research in 1990, Boots Pharmaceuticals had taken over

Flint and Synthroid. For the next four years, according to an editorial in Jama, "Boots waged an energetic campaign to discredit the study and prevent publication of the draft Dong and her colleagues had sent them for comment, claiming that the study was seriously flawed".

Boots had begun to get nervous about Dong's work in early 1989 when the state of Massachusetts — which has medical policies that are particularly influential — was considering adding a competitor's product to its official formulary. After the company received her results, it tried to get her to reconsider them, and when she refused, took the case to her superiors at the California university, which investigated the matter and concluded that Dong's research had been rigorous and that Boots' complaints were "harassment".

The university agreed that Dong should publish her findings. A paper, by herself and six colleagues, was submitted to Jama in 1994. After sending it out for peer review, the journal decided to publish.

Suddenly the university withdrew its support. In undertaking the research, Dong had signed contractual language binding her to confidentiality. Boots, by now in negotiations to sell out to BASF and clearly terrified that any

threat to the near-monopoly of Synthroid would reduce the company's value substantially, threatened to sue if her research became public.

The university, fearing massive damages, became scared and said it would not back Dong in litigation.

The paper was withdrawn. The sale to BASF went through in 1995 and Boots was folded into BASF's US Knoll subsidiary. In a bid to put a stake through Dong's work, a Knoll scientist, Gilbert Mayor, published an article asserting Synthroid's virtues and trashing Dong's work, even though it had not been published. As Jama noted this week "The article by Mayor was published in a new journal, the American Journal of Therapeutics, of which Mayor was an associate editor".

Meanwhile the US Food and Drug Administration (FDA) had taken notice. It had come to suspect that Mayor was a shill for Synthroid.

In 1994 it wrote to Boots asking it to stop disseminating a 1992 article by Mayor asserting the product's "pharmacokinetic superiority" over rival medicines.

Last November, according to Jama, the FDA turned even tougher. It told Knoll that it was violating the law by "misbranding" Synthroid. That was enough

for Knoll president Carter Eckert, who agreed not to interfere with Jama's publication — finally — of Dong's findings. He submitted also a letter apologising for blocking Dong's manuscript, which Jama published in the issue released on Wednesday, along with a lengthy editorial recounting the sordid saga and asserting confidence in Dong's work. Knoll was given space for a brief rebuttal.

Dong's article included a claim — which Jama thought valid enough to stress in its editorial — that Synthroid's scientifically unwarranted market dominance was causing the public to be overcharged by as much as \$350m a year. Jama published, too, a study citing numerous other instances of drug companies trying to quash unfavourable research findings.

Does this mean that all generics are equal to brand name drugs? Not at all. What it does say is that the claims of the brand name makers have to be treated with a little healthy scepticism — an observation borne out by some of the lobbying against the SA legislation.

Talking points against the bill prepared by the hugely powerful Pharmaceutical Research and Manufacturers of America — Pharma, as the lobby is commonly known — contend that it calls for "mandatory generic substitution" which poses "a potential threat to patient safety if the substituted medicine is of inferior quality".

Whether or not that "threat" is real, the draft itself contains no provision for "mandatory" substitution. It specifically grants both doctor and patient the right to say no to generics.

no to generics

Orca rig will pump 20 000 barrels a day

Oribi's first oil to gush in two weeks

LYNDA LOXTON

REUTERS

Cape Town — Soekor, the state-owned oil exploration company, said yesterday South Africa's first "black" oil would be produced within a fortnight from the Oribi oilfield, about 140km southwest of Mossel Bay.

A Soekor spokesman confirmed the company was hoping to start producing within the next two weeks.

"At the moment they have fitted all the necessary equipment offshore, and we are hoping that towards the end of this week we will be able to start testing and commissioning the whole plant."

The oilfield is expected to produce 20 000 barrels of oil a day. The spokesman said technicians had been able to make up time lost when the Orca oil rig was delayed by technical and contractual hitches in Simon's Town harbour earlier this year.

"Although we left the harbour two months late, we have managed to catch up on a lot of that — probably in the region of three to four weeks. From the time that we start the commissioning and testing, should things run smoothly, it should take about a week to reach full production."

Caltex Oil SA said yesterday that it had agreed to take the first full cargo of 600 000 barrels of crude oil from the Oribi for its Cape Town refinery.

The Soekor spokesman indicated the second cargo would go to a refinery in Durban. "Durban

CT(BR) 22/4/77 (183)

has requested the second tanker, but I cannot confirm yet which refinery will get it," he said.

The two refineries in Durban are the Sapref refinery, which is jointly run by Shell and BP, and the Engen refinery. It is understood that the shipment is likely to go to Sapref.

The Soekor spokesman said he could not divulge how much the oil companies would be paying for the oil. "There are sales contracts being negotiated by Caltex and the Central Energy Fund," he said.

The Oribi oilfield is initially expected to produce 20 000 barrels of oil a day, with this amount tapering off over three to six years. It has probable reserves of 20 million barrels and will form the nucleus of the subsequent development of several other nearby oil discoveries which could extend production life by a further six years.

Marc Hasenfuss reports from Cape Town that Energy Africa, Engen's oil and gas exploration and production arm, will get a production boost when the first oil is drawn from Oribi. Energy Africa holds a 20 percent stake in Oribi.

The company estimated recently that its production would be boosted by another 2 000 to 3 000 barrels of oil a day when Oribi came on stream.

This additional production (depending on the Brent oil price) should markedly benefit the company's cash flow. The Brent price of about \$17 a barrel is already well down on the \$19 a barrel paid at the end of March.

PHARMACEUTICALS

Unsettled stomachs need a pill

CT(BR) 22/4/97

(183)

ANN CROTTY

CONSUMER INDUSTRIES EDITOR

When shareholders are told their company is being restructured to reduce costs and improve customer focus, there is a great temptation to wonder exactly what management was up to previously — building up costs and ignoring customers? Inevitably an excess of management books and MBA-school jargon has resulted in a near-total devaluation of strategic concepts to the point where they have become the business equivalent of the media's sound bites.

That fact does take a little from the degree of enthusiasm with which one listens to plans for the new enlarged Adcock Ingram pharmaceutical group. The new executive team explains that the restructuring that followed the recent merger with Premier Pharmaceutical will be "an ongoing process" aimed at reducing the Adcock cost structure and making it more efficient.

That really is no less than any shareholder should expect to hear from management. Whether it is jargon or has substance will only be known some years down the track when it is possible to measure the success of the merger. At this stage, just six months after the merger between Adcock and Premier, Robbie Williams, the chairman of the new entity, is confident the enlarged group will achieve more than the goals it set through the merger. "To date everything is going according to plan."

A guaranteed short-term boost to earnings performance will come from the recurring costs now taken out of the system, employee numbers that have been trimmed back and a number of operations that have been closed. While the cost removals benefit short-term earnings, as will be evident from the soon-to-be-released interim reports, they will only benefit longer-term performance if they prove to have been appropriate.

Williams explains that ahead of the merger Adcock was restructuring to ensure it could sustain good long-term earnings growth against the backdrop of a significantly changing local pharmaceutical industry. Because a key requirement was to minimise exposure to, and reliance on, the government's changing health regulations, considerable importance had to be placed on over-the-counter (OTC) medicines.

The enlarged Adcock portfolio includes OTC products such as Syndol, Betapyn, Adcodol, Pynstop, Panado, Syndol, Cepacame, Corenza C and Bioplus. Analysts agree this is a formidable portfolio.

Speculation that the number of



competing products within the enlarged group may be cut back is not entirely scotched by Williams. For example, industry sources believe that Adcodol (developed by Adcock to compete with Prempharm's Syndol) will not be as aggressively marketed in the future because as a low-margin generic it threatens to cannibalise high-margin Syndol.

Beyond having a formidable pack of OTC products, Adcock's new strategy focuses on the development of products that are appropriate for the local market; tying up with leading international principals, and sustaining existing products.

Williams says the comparatively limited resources of local companies prohibits them for undertaking research on new chemical entities. "It costs about \$400 million for a new entity to be brought to the market. Only the large multinationals can afford this." Instead Adcock focuses on product development which is much cheaper: "We take an existing chemical entity or a product coming off patent and develop a generic for the local market. As a bigger company we are now better placed to commit more resources to such development."

He is emphatic the new enlarged company represents the best combination of its two components, and says retrenchments were effected on the recommendation of a task force, set up once the merger was announced and comprising executives of the two companies.

The counter-charge was that the process was orchestrated by Prempharm to meet its requirements and did not involve key Adcock executives. Such charges and counter-charges are to be expected in a massive merger in-

volving retrenchments. For an outsider it is impossible to pass judgment, but a few issues are worth bearing in mind.

Adcock's pharmaceutical division, which competed head on with Prempharm, was one of the fastest-growing in the market. Most of the retrenchments were effected here and involved Adcock personnel. At best that must create a lot of uncertainty in the marketplace; at worst, given the importance of relationships in the industry, it must undermine marketing efforts.

Mike Norris, Adcock's chief operating officer, says the same people are calling on customers and the enlarged Adcock has lost no market share. "Sales in the company are going according to expectations."

That view is challenged by industry players who claim the changes in sales and marketing personnel at a senior level will soon be felt in the market.

On product development, assuming Prempharm's cost-conscious culture is now dominant, it is difficult to see how that sort of long-term investment can be supported in the new Adcock. Norris would not be specific about how much was spent in that area.

On international principals, recent mega-mergers between big world players have shown the weak position of South African partners. Norris says the world pharmaceutical industry is so fragmented there are always opportunities for tie-ups. He denies speculation that some of Adcock's long-standing principals are considering leaving because of the merger.

While short-term earnings growth is guaranteed, longer term there are sufficient concerns relating to the merger for a more cautious approach by investors.

SA Druggists dispenses with buyout rumour

(183) CT(CR) 23/4/97

FRANÇOISE BOTHA

Johannesburg — The tightly held South African Druggists' share price lost 5 percent, or 200c, to R40 yesterday on speculation that it was likely to be sold to an Arab consortium for \$600 million, sources close to the pharmaceutical group in the Malbak stable said.

Peter Benningfield, the chief executive of SA Druggists, dismissed the buyout talk "This is

not correct. There have been no formal discussions," he said.

Julphar Pharmaceuticals, based in Abu Dhabi in the United Arab Emirates, was said to be interested in taking up to 70 percent in SA Druggists. Another company said to be interested in SA Druggists was Apotex, a Canadian company, which recently entered the South African market.

The remaining shareholding was expected to be divided

between Malbak shareholders and Sanlam.

The interest by Julphar follows discussions between the two companies over the past three years and SA Druggists' interest in entering the Arab market. Julphar was established and funded by Abu Dhabi investment corporation Adic, which has the backing of Sheik Zahed for the establishment and development of non-petroleum-based investments.

Benningfield has said in the past that there had been some foreign and local interest shown in the company at the time of the announcement of the Malbak unbundling, but that was "the sum total".

An analyst said yesterday that if the investment took place, it would boost SA Druggists, allowing it to replace dated plant and equipment and recoup lost market share.

The speculation comes ahead

of the unbundling of SA Druggists from Malbak on April 29.

Benningfield said the shares in SA Druggists which were owned by Malbak would be unbundled to Malbak shareholders, which meant that SA Druggists would get about 8 000 new shareholders.

"There are a number of large shareholders. What they in turn will decide to do with their holdings is entirely another question," he said.

ET(BR) 24/4/97

Adcock Ingram looks to benefits in second half

JABULANI SIKHAKHANE

BUSINESS EDITOR

Johannesburg — Adcock Ingram, the pharmaceutical group, said yesterday earnings a share for the six months to March 31 rose 15 percent to 54,3c from last year's pro forma figure of 47,2c

The group said growth in earnings a share for the full financial year to September 30 should exceed 20 percent as the benefits of restructuring the merged entity gain momentum during the second half

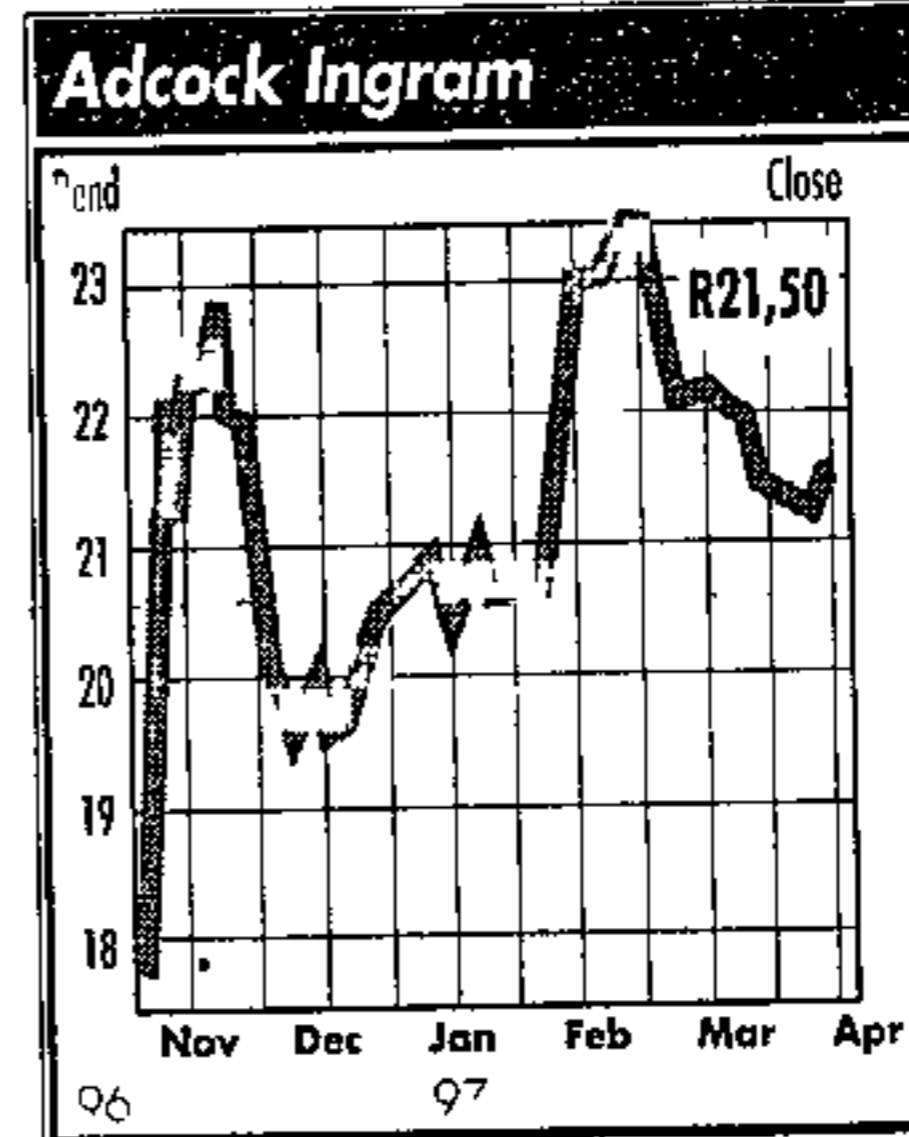
Benefits from the merger with Premier Pharmaceuticals, which was effective from May 1 last year, began to flow during

the second three months of the period under review

In light of better prospects for the full financial year, Adcock declared an interim dividend of 15c a share, 19 percent higher on the pro forma figure of 12,6c.

Sales grew a pedestrian 4 percent to R958,3 million (R920,6 million) That was because of a 5 percent decline in turnover of the group's wholesale division and the rationalisation of certain product lines

Profitability improved, with operating income rising 12 percent to R206,9 million (R184,6 million), as the benefits from the merger and a better sales mix boosted operating mar-



gins to 21,6 percent (19,5 percent)

Phil Nortier, the Adcock chief executive, said the first phase of the merger had been completed

That included the centralisation of financial, human resources and distribution services

"Future manufacturing strategy to maximise benefits of synergy and economies of scale is still being evaluated. We believe that further rationalisation is possible," Nortier said

He said management would also focus on working capital management to improve net cash flow

During the period under review, working capital requirement soared to R97,8 million (R15,2 million) which, coupled with higher tax payments and merger costs of R80,2 million, resulted in net cash outflow of R116 million

SA Druggists petitions trade board on dumping

FRANCOISE BOTHA

Cape Town — South African Druggists, the pharmaceutical group in the Malbak stable, has petitioned the board of tariffs and trade, claiming that industry competitor Ranbaxy had dumped cheap medication on the South African market, industry sources said yesterday.

Based on a petition by SA Druggists, the board initiated an anti-dumping investigation against Ranbaxy over claims that the Indian company had won a state tender to supply medicines at below production cost.

Preliminary findings by the board supported SA Druggists'

claim that Ranbaxy had dumped four product lines on the local market as part of a tender worth more than R14 million

However, Terry Lee, the director of commercial and business development at Ranbaxy, said "We can prove we are not dumping the prices quoted in the tender were above the cost of manufacturing and are higher than selling prices to some of the countries serviced by Ranbaxy worldwide and approximately 20 percent higher than Unicef (WHO)."

Lee said Ranbaxy was able to supply medicines at low cost because it manufactured its own raw materials

ET(BA) 24/4/97 (183)

Meyer Zall looking to expand market

(183)

BD 25/4/97

Ingrid Salgado

SA-OWNED pharmaceutical company Meyer Zall Laboratories is set to expand its export market for a unique product developed to treat psoriasis, a chronic skin condition afflicting about 3% of the population.

Meyer Zall GM Nic Brummer said yesterday that Exorex, which was branded in SA and Australia as Linotar, would be launched soon in New Zealand and the UK, where the product had recently been registered.

The company also hoped to have registered Exorex across Europe before the end of the year. The treatment was currently sold in Canada, parts of the US, Aus-

tralia and Israel, Brummer said.

Meyer Zall, which used a third party to manufacture the drug in Gauteng, held 28% of the SA market, he said.

In the US, the product has reached more than 27 000 customers through distributor IMX Corporation, in which Meyer Zall has a 26% stake. IMX, which is listed on Nasdaq exchange and whose sole product is Exorex, this week reported quarterly earnings of \$123 100 against a \$240 000 loss in the same period last year.

IMX CEO Bill Forster said he expected further earnings growth as the company continued strong sales in existing markets and expanded into new markets.

Linotar was discovered by

Meyer Zall chairman Piet Meyer, a psoriasis sufferer, by using a unique combination of coal tar and fatty acids derived from bananas. It was registered with SA's Medicines Control Council in 1993 and has been on sale since then.

Psoriasis is a noninfectious, permanent skin condition, in which sufferers develop raised lesions which may itch, burn, sting and bleed. The lesions are caused by skin cells that form too quickly and move to the surface of the skin before maturing.

Clinical trials conducted by the Boston Medical Center recently established the safety of Linotar, and found that up to 80% of patients using the product reported significant improvement.

PHARMACEUTICALS

Zuma's favoured drug house accused of dumping

Health Minister's controversial bargain basement deal comes back to haunt her

FM 25/4/97

(183)

(283)

The Board on Tariffs and Trade has slapped provisional duties on Indian pharmaceutical giant Ranbaxy for allegedly dumping medicine in SA

The generic medicine is part of a State tender contract the multinational won in controversial circumstances last year

BTT investigators visited Ranbaxy's New Delhi offices in January. A preliminary investigation found that the tender prices at

financing scandal and Ranbaxy was rumoured to be the mystery donor, an allegation it and the Health Department denied

On April 11, the BTT imposed a provisional duty of 5%-14,7% of the free on board value of four product lines of Ranbaxy's two generics. It has until May 16 to show why the duty should not be made final

Lee says the petition by Pharmacare is against the spirit of Gatt and should not have resulted in an investigation

He says Ranbaxy's prices in the tender are above manufacturing costs and higher than its selling prices to some countries. "Ranbaxy is able to provide medicine at a low cost without compromising quality because it's a backward-integrated enterprise which manufactures its own raw materials"

He says India's top pharmaceutical company is represented in more than 50 countries

Ranbaxy, he adds, will absorb the duties and does not believe there will be any repercussions for the tender contract



Dr Pravinder Singh Ranbaxy chief and generics guru

which Ranbaxy's two generic forms of penicillin, ampicillin and amoxycillin, are being supplied to SA constitute dumping. They are being sold to government below prices they would reach on the tender market in India

The report concludes Ranbaxy is damaging the local pharmaceutical industry and, in particular, a rival for the tender contract, Pharmacare (part of SA Druggists), which initiated the probe

Ranbaxy has hit back strongly, accusing Pharmacare of selling the same products on the domestic private market at prices lower than the tender award

Ranbaxy SA director Terry Lee says proof of this has been supplied to the BTT. He says Ranbaxy can prove it is not dumping and will challenge any finding to the contrary

Ranbaxy caused an uproar by winning the bulk of the R121m State antibiotics tender in June 1996 after the Medicines Control Council expedited registration of the two generics

The furore coincided with the breaking of Health Minister Nkosazana Zuma's *Sarafina 2*

However, it is possible that Pharmacare could seek to have the tender contract set aside if its petition is upheld by the BTT

The report notes that since losing the contract, Pharmacare has suffered "a loss of market share, price undercutting and suppression and a loss of sales volume and revenue, profits and production capacity usage"

Pharmacare claims that if it continues to lose orders for penicillin, production will have to be scaled down a lot, if not ended, leading to the loss of staff dedicated to the production of amoxycillin and ampicillin

The report says the import volume of dumped ampicillin has risen from nil in 1994-1995 to 26m capsules for the 1996-1997 tender period — double projected domestic sales volumes and more than five times Pharmacare's projected sales for the period

Pharmacare financial director Derrick Jones says Pharmacare is pleased with the outcome of the investigation but does not wish to comment until after May 16 in case the order is not ratified

Claire Bissek

Generic battle looms

FM 25/4/97

Minister Zuma would like to make generic medicines mandatory

Health Minister Nkosazana Zuma's mention last month to the Conference of Editors of statistics which claim medicine in SA is 4 000% more expensive than elsewhere, precedes the tabling in parliament of sweeping new drug reforms

The draft Medicines & Related Substances Control Amendment Bill is Zuma's attempt to make medicines more affordable

The multibillion rand pharmaceutical industry is considering renewed court action to halt the draft Bill, which effectively introduces mandatory generic substitution. A generic drug is a chemical equivalent which is cheaper by virtue of the patent on the

original having expired

In October 1996 Zuma backed down over plans to make the substitution of generic medicine mandatory when British multinational SmithKline Beecham took her to court. The dispute prompted fears that international drug companies would disinvest



Nkosazana Zuma

Last week Zuma publicly vented her feelings towards drug manufacturers when she rounded on members of the Pharmaceutical Manufacturing Association (PMA) who requested a meeting to discuss the statistics, saying "3 000%, 4 000%, 5 000% — what difference does it make

what prices I quote? We are one of the five most expensive countries in the world"

But PMA executive director Mirryena Deeb claims that manufacturers are not to blame for SA's high medicine prices and that Zuma's statistics are "intellectually dishonest"

She claims they compare local private sector retail prices with the prices of the International Dispensary Association (IDA), a Dutch aid organisation which sells cheaply acquired generic drugs to developing countries. In fact, some of the PMA's members have donated drugs to the IDA

They also ignore the fact that local manufacturers supply drugs in bulk to the State at tender prices which are sometimes a tenth of the price at which they are released to the private sector

Deeb accuses the health department of keeping under wraps statistics which show that on average local State tender prices are lower than Unicef prices. Unicef has a commercial buying arm which purchases medicine for aid purposes

Deeb lays the blame for SA's high medicine prices on the retail structure and the distribution chain where mark-ups of 100% on factory exit prices are not uncommon. In the US the average mark-up is 25%

The Bill, soon to be tabled in parliament, attempts to make medicine more affordable. The key proposals are

□ Generic substitution. The Bill says "A pharmacist shall prescribe a therapeutically equivalent medicine instead of the medicine prescribed by a medical practitioner unless expressly forbidden by the patient"

Generic prescribing and substitution is accepted international practice but is seldom mandatory. Detractors say the wording of the Bill amounts to mandatory substitution and fear it could also result in chemically different drugs being used interchangeably,

□ A near ban on dispensing doctors. The proposal that only licensed practitioners may dispense was the subject of heated

public hearings in parliament last year and will again be fiercely resisted,

□ The registration of essential drugs will be expedited. The Bill does not say on what criteria registration will be based,

□ The introduction of parallel imports — drugs which may be cheaper by virtue of being sourced from other countries, and

□ A ban on the sale to the State of any medicine containing a brand name in its label. Deeb says the industry will fight in court any attack on its intellectual property rights

Claire Biscoe



HEALTH WHITE PAPER

Zuma to squeeze medicine from stone

The Health Minister's new national health plan could hit the pockets of high- and middle-income earners PM 29/4/97

At first, Health Minister Nkosazana Zuma proposed free primary health care for all within five years. Now the goal is to provide basic health care within 10 years — and it is no longer free for those who can afford to pay.

This is the key feature of the White Paper on the transformation of the health system, published last week.

It aims to unify the fragmented health service into a comprehensive and integrated National Health System. Central to the strat-

egy is the devolution of managerial control from provincial to district health authorities, which must ensure the delivery of basic health services in each district.

The plan provides for an average of 2,8 primary health-care consultations per person per year by the end of the century, rising to 3,5 consultants' visits by 2005-2006.

Many in the medical fraternity consider this a gross underestimation of likely demand, especially in a country where the rate of HIV infection is rising exponentially.

The scheme will cost about R11,9bn in 2002-2003. No figures are provided for the final two years — a criticism also levelled at earlier policy proposals.

What's more, the figures rely on Financial and Fiscal Commission recommendations made in May 1996, which do not take into account the fiscal constraints imposed by government's Growth, Employment and Redistribution strategy.

The plan is undercosted by an average of 4%-5% per year, says SA Managed Care Coalition secretary-general Dr Steve Jooste.

But the White Paper says it is "broadly affordable" as long as public health resources are redistributed (geographically and with an emphasis on district and primary health care) and new sources of revenue are found.

The main sources it proposes are social health insurance and allowing public hospitals to retain a portion of user fees.

The former would require introduction of a mandatory medical aid package for all in formal employment and their dependants to cover their treatment in public hospitals.

It plans to stop large numbers of employed workers and their families from using public hospitals without paying fees even though they can afford to, and stop people who have exhausted their medical aid cover from using public hospitals without paying.

It implies that those with existing medical cover will not be exempt from taking out the additional package. It says contributions will be shared between employers and employees and related to income and family size.

A crucial omission in the White Paper, says Ginsburg Malan & Carsons director Gavin Watkins, is clarity on whether contributions will be calculated on a fixed monthly rand amount, or on a percentage of income. The latter would have severe consequences for top income earners.

Dan Pienaar, chairman of the Life Offices Association (LOA)'s health-care standing committee, sees the proposal as a form of dedicated tax that those in formal employment — who prefer to be treated in private hospitals — will pay to cross-subsidise basic health care for the majority. The proposal, he

38 CURRENT AFFAIRS

says, will substantially increase the cost of employment and have a dramatically negative impact on the economy.

NP health spokesman and MP Willem Odendaal says the White Paper contains several ideas from the Cuban socialist health-care model. But at least Zuma has abandoned some radical proposals, he adds, such as plans to allocate patients to certain doctors and institutions according to a register. The patient's right to choose is now recognised.

Claire Bissek

Govt targets wastage, cost of drugs (183)

BY JOVIAL RANTAO

Political Correspondent

SPW 28/4/97
Cape Town - The Government is to institute measures aimed at putting an end to the wastage of drugs through fraud and theft and would pursue means to reduce the cost of drugs, Health Minister Dr Nkosazana Zuma has announced

Zuma told Parliament on Friday during a debate on the health budget, that the anti-fraud and anti-theft measures, to be introduced in all provinces, would save the Health Department up to R500-million, which would be used to improve funding for health care in other areas

"The wastage of drugs through theft and fraud will be cut by enforcing bar-coding to track distribution and by issuing essential, primary health care drugs in patient-ready packs

A new information and billing system is being introduced into public hospitals to improve administrative efficiency

"Hardware for the new system will be in place in the Northern Province, Mpumalanga, Free State, Gauteng and Northern Province by the end of the year and staff training will be well advanced

"Progress is being made in the Eastern Cape and KwaZulu Natal, and the Western Cape will expand existing systems provided funds are available," Zuma said

This year, she added, the Health Department would massively increase access to affordable high-quality medicines.

"South Africa has been paying too much for its medicines. Through improved drug procurement and distribution we will ensure that safe and effective drugs are secured at the lowest cost. We're introducing legislation to control and regulate medicines and related substances

"We're introducing legislation to increase access to pharmacies so that medicines can be distributed by pharmacists working in a variety of outlets. This will give people greater choice and introduce an element of competition which will keep prices down," Zuma said

Unleaded fuel sales below expectation

Edward West

THE market share achieved by unleaded fuel had remained below expectation a year after its introduction, but there was no intention to increase the differential between unleaded and leaded fuel prices at this stage, industry sources said at the weekend.

SA Petroleum Industries Association director Collin McClelland said the market share achieved by unleaded fuel was 9,5% at the end of March and 9,3% at the end of last year, lower than the 15% average envisaged in an agreement between local oil companies and government at the fuel's introduction in February last year.

In terms of the agreement, oil companies can ask government to promote unleaded fuel

by increasing the price difference between leaded and unleaded, presently 4c/l, if market share is below expectation.

McClelland said the oil industry was unlikely to ask for an increase in the price difference at this stage, mainly because the international price of unleaded fuel had fallen against that of leaded fuel.

Higher production by local refiners would result in higher costs, he said. When unleaded fuel was introduced in SA last year, it cost refiners 2c-3c/l more than the production cost of leaded fuel.

A mineral and energy affairs spokesman said a decision on whether to take further action to promote unleaded fuel would be taken at the end of next month, which would be exactly one year after the full

introduction of unleaded fuel to the entire SA market

Toyota SA said the main reason for unleaded fuel's low market share was that most South Africans still believed a higher octane leaded petrol gave them better vehicle performance. There was also "unwarranted bad publicity" overseas about aromatics blended with unleaded fuel to achieve super-high octane ratings.

Some of the aromatics were said to be carcinogenic, but the "fuel industry has assured us the aromatics are perfectly safe", Toyota said.

The company said that aside from the price advantage, unleaded would double the life of exhaust systems and spark plugs, lengthen engine life, result in cleaner oil and not emit any lead, a known toxin.

(183) ED 30/4/97

Capital expenditure curbs Afrox growth

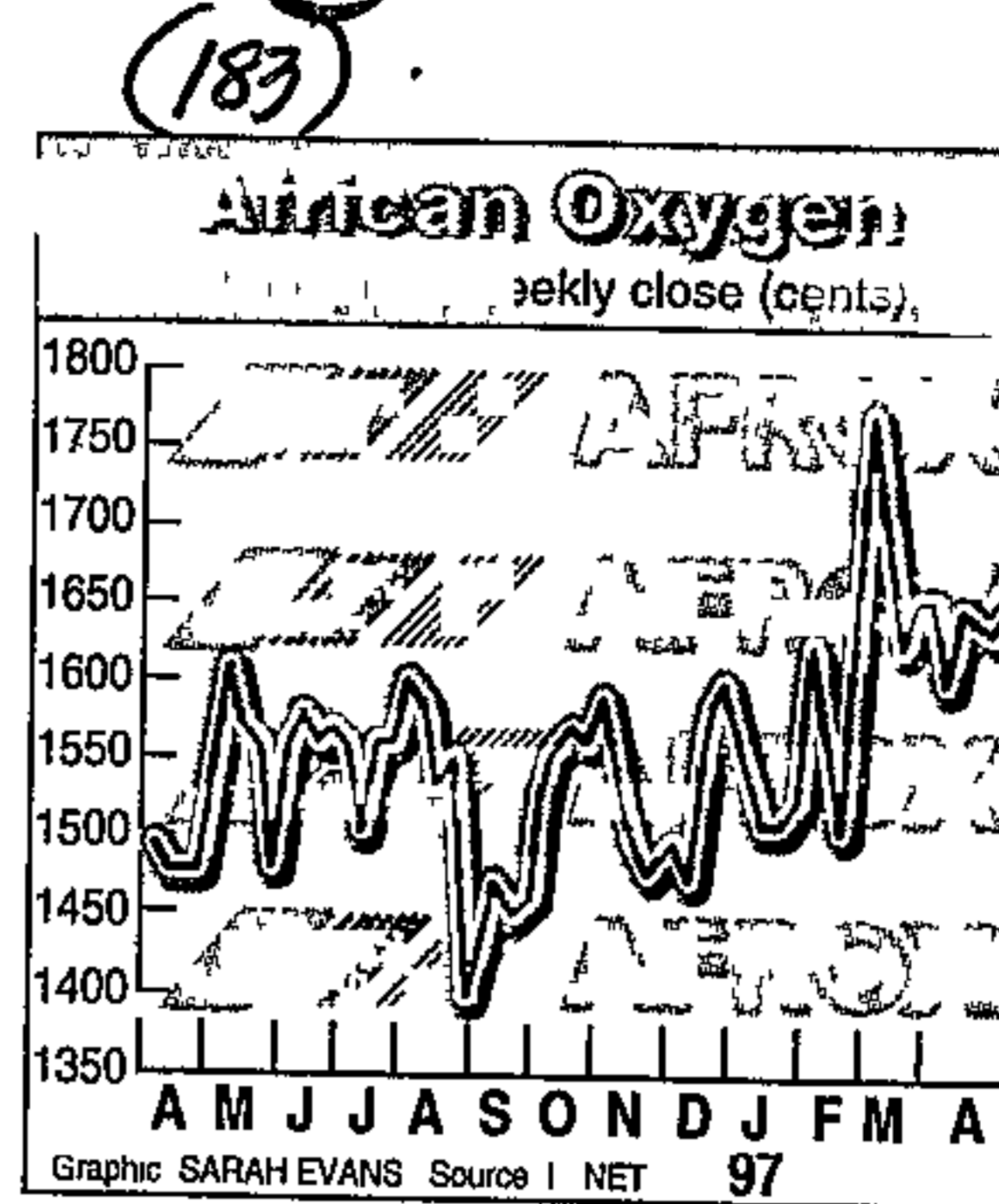
EF 00 2/5/97
 Ingrid Salgado

AFRICAN Oxygen (Afrox) increased attributable income a moderate 9% to R92,6m in the six months to March as heavy investment by the gases, welding and health care group in capital expenditure programmes slowed down the previous year's growth.

Current cost earnings — results of the British Oxygen Company subsidiary are adjusted for inflation — increased 7% to 30,3c (1996 28,2c). A capitalisation award of 0,82 shares for every 100 was made, with the option of a final cash dividend of 13c (11,6c).

Chairman and MD Royden Vice said trading conditions in the first three months had been slow. The half year was marked by product shortages which had largely been solved, and nonrecurring costs, including R6m to hire transport and security during a seven-week strike by Afrox drivers. A good second half was expected.

Executive director Dick Williamson said turnover increased 14% to R1,08bn (R947m), helped by good sales



growth in the gases business. Volumes at the welding and health care operations grew at a slower rate. Trading profit increased to R194m (R174,8m). The interest bill rose 20% to R41,5m (R34,4m) as borrowings rose 25% to R553,6m (R441,2m). Vice said the bor-

Continued on Page 2

Afrox (183)
 00 2/5/97
 Continued from Page 1

rowings increase reflected the group's commitment to expand the business and the subsequent 110% rise in capital invested to R197m from R94m.

About R60m was spent on Afrox's investment in Mpumalanga, which includes a 1 100-ton a day oxygen, nitrogen and argon plant and a 50km oxygen and nitrogen pipeline between Witbank and Middelburg. Williamson said the benefits of the project, due for commission in July, would start filtering through in the second half. It would give Afrox the opportunity to provide the lowest-cost product in the market.

Other investments included the purchase of Caltex's liquefied petroleum business and a 70% stake in Zambian Oxygen. A carbon dioxide plant in Sasolburg was commissioned, while the health care operation acquired several hospitals.

The group attributed a net cash outflow of R151,4m to earlier tax payments, dividend payments and investment in Mpumalanga. These would account for most payments in the current financial year.

The liquid gases business continued to record sales growth, but the supply position would remain tight until the Mpumalanga plant was commissioned. Handigas continued to grow and the Caltex acquisition enabled it to rationalise distribution costs further.

Slow trade and strike curb Afrox

(183) CT(ER) 2/15/97

JONATHAN ROSENTHAL

Johannesburg — The costs of a R6 million seven-week strike and slow trading conditions last year constrained the half-year earnings growth of Afrox, the JSE-listed gases, welding and health-care group, to a 9 percent rise in attributable profit, the company said yesterday.

The group uses current cost accounting (CCA), which takes into account the effects of inflation. For the six months to March 31, it reported a 14 percent rise in turnover to R1,08 billion. CCA profit before interest, but after depreciation, rose 11 percent to R193 million.

But a hefty interest bill of R41,5 million, higher than last year's R34,4 million because of increased capital spending and earlier tax payments, ate into pre-tax profit, which rose 9 percent to R150 million.

Capitalisation share awards increased the number of shares in issue, diluting the increases in earnings a share. CCA earnings a share rose 7 percent to 40,4c.

The group will award capitalisation shares, with 0,82 shares for every 100 shares held, and the option of a 13c interim dividend. This is 12 percent higher than last year's interim dividend of 11,6c.

Royden Vice, the chairman and managing director, said the half-year was characterised by several non-recurring costs and product shortages. "Trading conditions for the last quarter of 1996 were very slow, affecting our performance for the full six months. Some improvement, however, was seen in the first quarter of this year, and we expect this situation to continue for the remainder of our financial year."

The group's industrial gases business recorded record volume growth, and the healthcare businesses showed a "moderate improvement", he said.

US pharmaceutical companies to tackle Zuma on proposed bill

(183) 202/6/97

Simon Barber
and Ingrid Salgado

US DRUG companies plan to make the issue of Health Minister Nkosazana Zuma's draft Medicines and Related Substances Control Amendment Bill a hot issue when Deputy President Thabo Mbeki arrives for the US-SA Binational Commission next month.

Zuma would accompany Mbeki and address the companies' concerns, her office said yesterday.

This follows the launch of an offen-

sive by US drug companies against the minister's planned legislation aimed at curbing the local cost of medicines.

They have taken their complaints to Congress, the White House, the commerce department and the office of the US trade representative. They have also enlisted the support of the International Trademark Association.

Their chief objections are laid out in talking points prepared by the industry's powerful Washington trade association, Pharmaceutical Research and Manufacturers of America (Pharma).

The companies' cause has also been taken up by the US-SA Business Council, which serves as the secretariat for the business committee of the US-SA Binational Commission chaired by Vice-President Al Gore and Mbeki.

Last week, council chairman Aldrage Cooper, a Johnson & Johnson executive, wrote to Commerce Secretary William Daley urging him to raise the intellectual property issues directly with senior SA officials.

The firms' single most serious grievance is not over the bill's efforts to

promote the use of generic, as opposed to brand name, drugs, but over the blessing the draft appears to give to "parallel imports".

The bill would permit importers "in certain circumstances" to buy brand-name drugs outside the manufacturers' own marketing networks in order to exploit the wide differences in what the multinationals charge for their products in different countries. Pharma argues this would violate the World Trade Organisation's (WTO) trade-related intellectual property agreement

which, the association says, confers on patent holders the "exclusive right" to control marketing and distribution.

Pharma says that on top of violating SA's own WTO commitments, allowing parallel imports would cut into local manufacturers' sales, leading to losses in tax revenue and jobs, and diminishing technology transfer.

Other issues Pharma raises concern the bill's proposal to forbid the use of brand names of drugs as their "legally

Zuma (183) 2/6/97
Continued from Page 1

approved" names in the official formula, and a provision which states that no person "shall sell any medicine to the state if that medicine contains the brand name in its label".

Both measures are attacked as "unjustified encumbrances" on the use of trademarks in terms of the WTO intellectual property agreement. On Friday, the International Trademark Association endorsed these complaints.

British-American pharmaceutical group SmithKline Beecham would be reluctant to invest further in SA should Zuma's proposed wide-ranging

changes to the industry be made, law, CEO Günther Faber has said.

Johnson & Johnson said at the weekend that although it had not yet considered whether to halt further investment by its local pharmaceutical arm Janssen-Cilag, it was "deeply concerned" about the legislation.

A ministerial spokesman said the complaints were "premature" as their concerns could be taken care of during submissions on the proposed laws at public hearings due this week in Cape Town. There was "ample scope" for the legislation to be amended.

The Pharmaceutical Manufacturers' Association, Pharma's local counterpart, said a legal challenge would be considered if the legislation was adopted in its current form.

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CT (PR) 5/5/97

Sasol expects to maintain export earnings

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Maduna proposes state oil company

Edward West

EF BD 6/5/97 (183)

MINERAL and Energy Affairs Minister Penuell Maduna has resurrected the prospect of a government-backed national oil distributor and refiner in a bid to free the market and advance black empowerment efforts.

He said the idea of an oil company backed by government and its strategic fuel fund, needed to be revisited as — apart from downstream, where black businessmen controlled less than 10% of SA's fuel retail business — it was virtually impossible for them to gain a meaningful stake in the industry.

"We have an unfree free market. We want the market to be so free there is space for all, particularly in the mineral and energy sectors."

It would be possible to negotiate the construction of a new fuel refinery in SA on a joint venture basis with other countries, and "a lot of (oil) producer countries are talking to me. They want to participate in our economy."

Apart from coal-to-oil producer Sasol, all oil companies operating in SA

obtained discounts from their parent companies or overseas offices for bulk crude oil purchases. Yet local prices were based on notional overseas refined product prices, which were substantially higher. This was a "fraud upon the nation".

Maduna said the discounts were the reason local oil companies had failed to buy the approximately 55-million barrels of crude oil left over from SA's strategic oil reserves built up during the apartheid era.

He said only petrol prices were regulated. Nothing prevented the private sector from participating in the diesel and kerosene markets, but "if you come in you need to negotiate with the major oil companies on issues such as mooring, storage tanks and refining. We don't set jet fuel prices, but we are told by the airlines the oil companies are charging 30% more for jet fuel for local and international flights."

Excess diesel production was exported at lower prices than it was made

Continued on Page 2

Oil

(183)
BD 6/5/97

Continued from Page 1

available in SA. Industry regulations were aimed at trying to prevent vertical integration, but SA's oil refiners had found a way around these by charging, for instance, "super rents" for buildings, he said.

SA oil companies, excluding Sasol and Engen, were foreign-owned, with not a single SA shareholder. While this might have been useful during sanctions, multinationals should now consider listing their local operations on the Johannesburg Stock Exchange.

While deregulation might be considered a world trend, government could not completely forego such a good "cash-cow" as the fuel price, he said.

Exports lift Lion despite production disruptions

Nicola Jenvey

DURBAN — Industrial holdings company Lion Match raised attributable income 15% to R42m in the year to March after production was affected by labour-related disruptions at the Durban factory

Earnings a share on a cash equivalent basis increased to 103c from 94c and a 25,5c (1996 22c) final dividend was declared, bringing the total to 38c (33c) Earnings a share on an attributable income basis was 92,4c (88,1c)

The SA Breweries subsidiary boosted turnover 9% to R203m following further penetration into export markets, while maintaining domestic demand Trading profit increased marginally to R30,4m

(R29m) with net investment income generated from the investment of liquid resources increasing to R23,6m (R18m) Profit before taxation increased to R51m from R48m The tax bill was R12m (R11,6m)

Chairman Lawrence van der Walt said yesterday that the decrease in working capital, together with the additional investment income, enabled net liquid resources to rise R30,2m Coupled with the R240,1m on-hand, Lion Match remained in "an extremely sound" financial position

A stable domestic match market supported by modest increases in private consumption expenditure was expected this year Given efforts in the export market and normal production at the Durban factory, the group expected an increase in earnings

BD 6/5/97 (183)

OIL INDUSTRY *Multinationals accused of stranglehold on sector*

Maduna wants to 'reregulate' fuel sales

CT(BR) 6/5/97 (183)

JONATHAN ROSENTHAL

Johannesburg — Penuell Maduna, the energy minister, yesterday launched a scathing attack on multinational oil companies operating in South Africa, accusing them of transfer pricing and maintaining a stranglehold on the domestic oil industry.

But he said that, apart from

the price of petrol, the energy sector was already completely deregulated and that he planned to "reregulate" the sector.

"It (the oil industry) is absolutely controlled by the private sector, except for the price of petrol. The truth is we don't set these prices, they are merely guidelines. There is nothing that prevents the private sector from setting its own diesel or

paraffin prices," Maduna said.

His comments appear to contradict statements last year when he promised to deregulate the industry, which he said was benefiting from an apartheid era system that rewarded sanctions-busting oil companies.

Arguing for what he termed "reregulation" of the industry, Maduna said the government did not set the price of jet fuel,

but the international airlines told him that jet fuel prices were 30 percent higher in South Africa than average world prices.

Petrol pricing in South Africa was regulated through a complex formula based on the in-bond landed cost (IBLC), a derived price based on the cost of refined petroleum products in Singapore and Bahrain, which Maduna called "a fraud upon this market."

He said the IBLC formula had been developed during the apartheid oil embargo to encourage multinational oil companies to continue investing in the country. He said the IBLC price was based on that of refined product, which included labour costs of refining, even though it was for crude oil.

Maduna said that, apart from Sasol, all the oil companies in South Africa had offshore offices through which they channelled discounts on oil purchases. He was looking at the establishment of a national oil company that would use the state's existing oil assets in partnership with the private sector.

"They (the oil majors) buy in bulk and get discounts.

"Why don't we enter this fray and get these discounts and use this money (for social upliftment)," he said.



IT'S YOU Penuell Maduna castigates multinational oil companies for their restrictive practices

PHOTO: JOHN WOODROOF

Lion results match labour losses

CT (BR) 6/5/97 (183)

RAVIN MAHARAJ

Durban — Lion Match lifted attributable earnings by 15 percent to R42 million in the year to March 31 on a 2 percent increase in trading profit to R30,4 million, despite labour-related production disruptions at the Durban factory in November last year

Local sales remained stagnant, said Terry Turner, the managing director, and the decrease in working capital, together with additional investment income, enabled retained earnings to rise by R30,2 million. With R240,1 million currently on hand, the "group remains in an extremely sound financial position"

Earnings a share rose to 92,4c, compared with 80,1c in

the comparable period last year, and a final dividend of 25,5c a share has been declared, bringing total dividends to 38c for the year

Attributable earnings were R36,3 million in the comparable period last year and profits were R29,9 million

Turnover from product sales grew by 9 percent to R185,3 million.

Turner said turnover from product sales followed further penetration into export markets and maintained domestic demand

He said a net investment income of R23,6 million, generat-

ed from the investment of liquid resources, had assisted in lifting attributable earnings

Turner said despite inflationary pressure and continuing high levels of unemployment, a stable domestic match market, supported by modest increases in private consumption expenditure, was expected during the current financial year

This, he said, together with further progress in exports and the normalisation of production at the Durban match factory, should enable a satisfactory increase in earnings to be achieved in the forthcoming year

Turnover from product sales followed further penetration into exports

Govt committed to 'investor-friendly' oil policy

Samantha Sharpe

CAPE TOWN — Government was committed to making the regulatory framework for the award of offshore subleases as "investor-friendly" as possible to accelerate SA's search for oil and gas supplies, Mineral and Energy Affairs Minister Penuell Maduna said yesterday.

He spoke at the signing of an oil prospecting sublease agreement between state-financed Soekor, US-based Phillips Petroleum (40%), PanCanadian Petroleum International (20%), Energy Africa (20%) and Sasol (20%) over Block 17/18 on SA's northeast coast.

The award to Phillips and partners cov-

ered an area of about 15-million acres extending from the Mozambique border to 75km south of Durban. Virtually all SA's offshore areas were available for exploration, with the exception of the blocks awarded and those ceded to Soekor subsidiary E&P.

He said that Phillips and partners would be required to do at least 1 500km of seismic survey and drill an exploration well in the first four years, with a further well expected in each following period.

The Council for Scientific and Industrial Research is to do an environmental analysis — the site encompasses existing and planned marine reserves — with seismic survey work to start in the final quarter.

Edward West reports SA Petroleum Industry Association director Colin McClelland yesterday denied allegations by Maduna that the local oil companies were benefiting from transfer pricing. He said it was essential that the large gap of trust which had developed between SA's oil refiners and Maduna be narrowed.

Patrick Wadula reports Naledi Petroleum director Moses Moloole said the introduction of a state-owned oil refinery was long overdue. "This can only serve as an opening for black empowerment." He said oil companies had to give the new entrants into the industry time to grow.

Afric Oil MD Bheki Shongwe said this was a "wake-up" call from the minister.

BD 7/5/97

(183)

New plastics plant will double Safripol's exports

JONATHAN ROSENTHAL

CT(BA) 7/5/97

(183)

Johannesburg — Safripol, the joint venture between Sentrachem and Hoechst South Africa, officially opened its new R235 million polypropylene manufacturing plant at Sasolburg yesterday.

The new plant will increase Safripol's polypropylene capacity from 55 000 tons a year to 90 000 tons without creating any new jobs. It can be run from a control room by one person and will employ only 24 people.

Steffen Beuthner, the managing director of Hoechst South Africa, said polypropylene was regarded as the mass polymer with the highest growth rate in the world through the 1990s.

"Growth in South Africa has been in a league of its own at 11 percent per annum over the past seven years. Forecasts till 2000 suggest growth of 6 percent to 7 percent per annum, which is significantly above the rates of all other mass polymers," Beuthner said. Polypropylene is a plastic feedstock used in a range of products including carpets, dairy containers, automotive parts and pipes.

The group said it planned to export between 25 000 and 30 000 tons of

product a year through Plastomark, a joint-venture marketing company between Sentrachem and Hoechst. The new exports, primarily into African and Far Eastern markets, would double the value of the company's exports from about R70 million a year to R160 million.

Rod Crompton, the director of chemical and allied industries for the department of trade and industry, said the government hoped to encourage further value-adding in the plastics industry. He said the automotive industry seemed a natural market for the domestic plastics industry. "It could easily absorb the production which is presently being exported as raw material," Crompton said.

Safripol also announced it would embark on a new R20 million expansion of its high-density polyethylene plant, for which much of the equipment would come from the original polypropylene plant, "making this an extremely cost-effective expansion," the company said. The expansion would raise capacity by 20 000 tons a year to 180 000 tons.

The plant's output is used primarily for the manufacture of packaging film, pipes, crates and bottles. The upgrade is scheduled for completion towards the end of the year.

Safripol in R235m expansion project

(183)

BD 7/5/97

Ingrid Salgado

SAFRIPOL, the joint venture plastics company owned by chemical groups Sentrachem and Hoechst SA, significantly increased its capacity to manufacture polypropylene with the commissioning of a R235m expansion project in Sasolburg

The project, which was officially launched yesterday, was set to increase Safripol's polypropylene capacity to 90 000 tons a year from 55 000 tons, the company said

Safripol's marketing arm, Plastomark, would export between 25 000 and 30 000 tons into markets in Africa and the Far East — bringing the company's total exports of polypropylene and polyethylene to about R160m a year, Safripol said

However, the Himont technology-based new plant

would manufacture polypropylene primarily for the domestic market, which recorded growth of about 11% a year over the past seven years, and was expected to grow at between 6% and 7% a year

Hoechst SA MD Steffen Beuthner said the SA polyolefin market was a core activity for the local subsidiary of Hoechst. Polypropylene was regarded as the world's mass polymer, recording the highest polymer growth rate this decade, he said

The company announced yesterday it would invest R20m in expanding its high-density polyethylene plant. This would increase capacity 12,5% to 180 000 tons a year

Polyethylene is used to manufacture packaging film, crates and bottles, and polypropylene to produce carpets, automotive parts, twine and ropes and dairy containers, among other products

Oil deal could break tax law

CHRISTO VOLSCHENK

ECONOMICS EDITOR

Cape Town — The government has lured a consortium of companies, led by the international petroleum company Phillips, into signing an agreement to explore 14,5 million acres off the Kwazulu Natal coast for oil and gas with a tax offer which may contravene the Income Tax Act

The consortium comprises Phillips Petroleum, with a 40 percent interest, and PanCanadian Petroleum, Energy Africa and Sasol, each with a 20 percent stake. Should oil or gas be discovered, the state will have the option of a 10 percent stake in the consortium through Soekor.

Central to the agreement signed yesterday by Penuell Maduna, the mineral and energy affairs minister, and consortium representatives was a guarantee

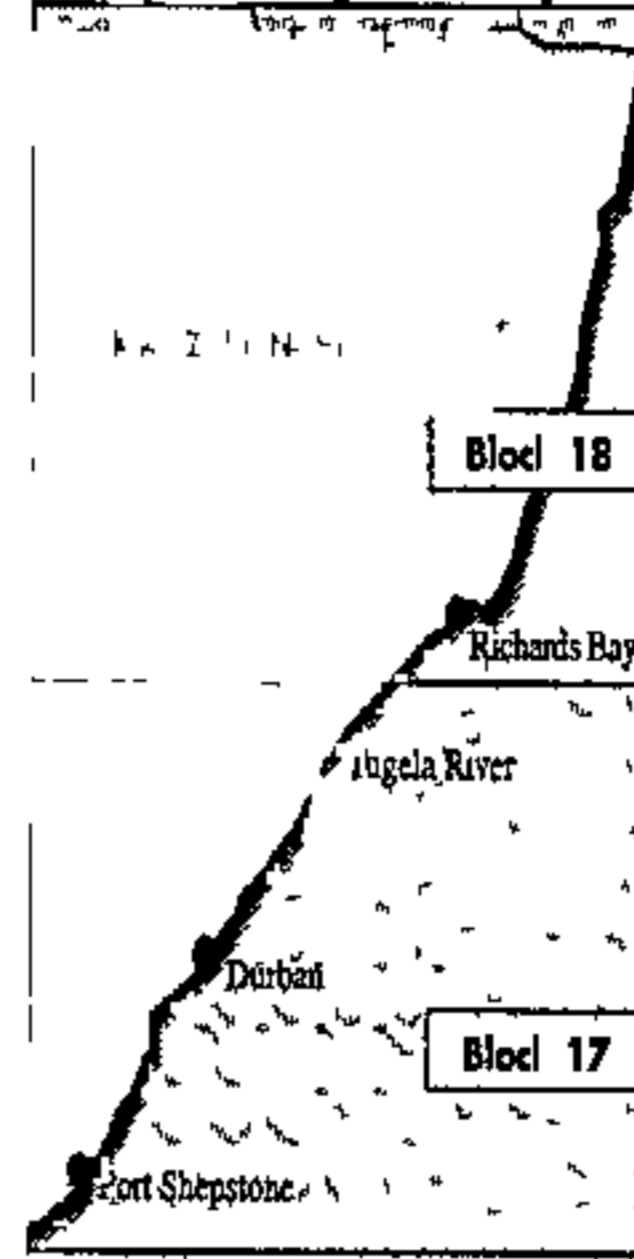
that the consortium would never pay company tax at a rate higher than the current 35 percent.

Tax experts said yesterday the Income Tax Act prohibited the government from handing out tax breaks or from giving guarantees that the tax rate will not rise above a certain maximum.

The consortium will also have to pay an undisclosed royalty to Soekor on top of company tax should oil or gas be discovered.

Maduna said finance minister Trevor Manuel had agreed to the tax deal and that it was within the law. He said it was a "once-off deal".

ET(BR) 7/5/97 (183)



OIL BLOCS New prospecting areas

"We had to lure Phillips after no other company showed interest. If Phillips finds oil or gas, South Africa will be in a stronger negotiating position when approached by other international petroleum companies for exploration rights," Maduna said.

The consortium will have exclusive rights to explore for oil and gas in the Indian Ocean between a point 75km south of Durban and the Mozambican border.

Under the initial four-year agreement Phillips will gather seismic data over an area of 1 500km and drill at least one exploratory well at a total cost of not less than \$8 million.

Importing drugs 'has pitfalls'

□ From Page 1

make medicines affordable for the poor, but warned that the quality of medicines coming into the country had to be watched closely.

Before the government decided to import medicines, Folb said, it would be advisable to look at the pitfalls experienced in Africa.

"A survey of 42 countries in Africa (excluding South Africa) found that for every \$100 (about R445) spent on sourcing drugs for the government, patients received only \$10 (R44,50). At least \$90 (about R400) was lost through waste, theft and inefficiency," Folb said.

In South Africa, individuals had been allowed to make enormous profits selling medicine and Folb said he agreed with Zuma that this had to be stamped out. The prices charged for a drug differed by as much as 1 000% among some dispensing doctors.

Matsoso said consumers in the

US were also becoming agitated with the high cost of drugs. "They want pharmaceutical companies to find other ways to fund their research and development so the price of drugs can come down. (The US) is a wealthy nation, so how can we expect people in South Africa to afford these high prices?"

In South Africa, an estimated R24bn is spent every year on health in the public and private sector, of which R8bn is spent on medicines. Of the R8bn, R5bn is spent in the private sector — which treats 20% of the population — and R3bn by the state.

Another bone of contention within the government is whether it should charge VAT and duty on imported medicines.

Folb said the national Drug Policy Committee had suggested to Zuma that taxes be dropped on essential medicines, but this had not been followed up. "The question now is: will the state tax its own imports?"

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PLAN TO CUT MEDICINE PRICES

Zuma unleashes

drugs furore

DRUG companies say Health Minister Nkosazana Zuma's plan to import medicines cheaply will be unfair competition and may open the door to unsafe products. Health Writer **CAROL CAMPBELL** reports.



HEALTH Minister Dr Nkosazana Zuma has provoked a furore in the pharmaceutical industry with her plan to import medicines quickly and cheaply to cut the bill for public health.

Zuma's move is aimed at providing cheap but effective medicines to the poor — but pharmaceutical giants say it will represent unfair competition as they are required to abide by strict quality and registration controls.

In an interview from Geneva, the chief executive of the Pharmaceutical Manufacturers' Association, Mrs Murrena Deeb, said yesterday that local pharmaceutical companies welcomed international competition, provided they had an equal chance to win government business.

"International competition will hurt us, but we welcome it. However, we insist that drugs brought into this country by the state be subject to the same controls (as) our medicines"

The Cape Times has established that the state buys medicines on local tender, which means the cheapest South African supplier acquires stock and sells it to the government for about one-tenth of the price for which it is sold in the private sector.

Using a hypothetical example, Zuma might be paying R5 for 100 Panado pills in the state tender system. If she buys the same drug overseas, she could pay as little as R1,50 for 100 pills.

If Zuma succeeds in pushing through changes to legislation that will allow her to import drugs, this could open the door to the risk of buying cheap drugs that have been dumped by overseas companies.

Imports by the government would

undermine the strength of local pharmaceutical giants, which could lose millions if their traditional market is flooded with cut-price drugs.

"The government must consider the sustainability and reliability of its sources before it commits itself," Deeb said. "What happens if a batch is called back — who will foot the bill for massive losses?"

The health minister's main gripe with pharmaceutical companies is that they will not give her a proper breakdown of who makes how much in the medicine supply chain.

Mrs Precious Matsoso, medicines director for the national health department, said it was understood that the price was marked up by wholesalers by 17,5% and pharmacists by 50%. Discounts negotiated with manufacturers were seldom passed on to the consumer.

"We want the pharmaceutical industry to be transparent about price structures — all we know about how medicine prices are made up is what they tell us," Matsoso said.

Pharmaceutical manufacturers did not argue this point, but said the quagmire in prices arose in the distribution and resale of drugs.

Allowing businessmen to open pharmacies and employ pharmacists to run them would help to bring down prices as drugs would move into untapped markets. Only pharmacists are allowed to own pharmacies — and most of these are in oversupplied communities. Many pushed up their prices as their market was too small to allow them to make profits by selling large quantities, the manufacturers said.

Dr Gunther Faber, chief executive of SmithKline Beecham International: Southern Africa, said that by buying

overseas, the state could unintentionally facilitate imports of counterfeit medicines or the growth of a "grey market".

"The World Health Organisation estimated that about \$12 billion (about R53bn) in counterfeit medicine a year finds its way into the developing world. Unfortunately, unscrupulous individuals dealing in counterfeit medicine have caused the deaths of numerous people."

Matsoso, too, was adamant that quality had to be maintained, but said medicines were useless if most people did not have access to them.

Mr Barney Sachs, executive director of the National Association of Pharmaceutical Manufacturers (NAPM), said a study two years ago had found that local tender prices in the public sector were among the lowest in the world.

"We can compete," he said. "In accordance with the minister's thinking, we need to have a strong local pharmaceutical manufacturing industry that will not only provide the local market with high-quality products at affordable prices, but could also export ... medicines to the north"

Sachs said the NAPM was not opposed to competition, provided it was structured fairly.

"We are against the dumping of medicines on the market," he said.

Matsoso said a large amount of the money pharmaceutical companies made was spent on researching and developing new and better drugs.

"We have to find a balance as there is no point coming up with better drugs when the majority can't afford them."

Faber said the research-based pharmaceutical industry spent about 20% of its annual turnover on research and development

"Without this research and development — conducted within the private sector — diseases like Aids and TB will never be conquered"

Professor Peter Folb, chairman of the Medicines Control Council and director of the WHO Collaborating Centre for Drug Policy, supported Zuma's move to

Turn to Page 3

OT 7/5/97

(183) (183)

Soekor signs big oil search deal

(183)

Sowetan 7/5/97

By Shadrack Mashalaba and Isaac Moledi

This follows oil company's R335-m Oribi project deal near Mossel Bay

SOEKOR, the state-owned oil and exploration company, has signed a sub-lease agreement with Phillips Petroleum Company, a US-based corporation, for the exploration of oil and gas on the offshore coast along KwaZulu-Natal

Phillips' subsidiary, PanCanadian Petroleum International Energy Africa, also forms part of the agreement that was signed in Cape Town yesterday

The KwaZulu-Natal project follows on the heels of Soekor's R335 million Oribi project located 140km from Mossel Bay in the Cape

Full production at the Oribi project is expected to start on Friday

The sub-lease gives the partners the exclusive right to explore for natural oil and gas off the coast which extends from the Mozambican border to 75km south of Durban

The contract is for an initial period of four years, with two conditional renewal periods of three years each

During the initial period, Phillips and partners are required to undertake at least 1 500 kilometres of seismic survey and the drilling of an exploratory well, with a further well in each following period

One of world's largest

Phillips, one of the largest petroleum refinery companies in the world, has so far spent R222 500 for the purchase of information and together with its partners will contribute R445 000 a year to a trust to be established for the training of South Africans in the oil industry

Minerals and Energy Affairs Minister Penuell Maduna, who approved the deal said yesterday the

presence of representatives of Phillips and PanCanadian indicated that international companies shared South Africa's firm belief that the country had the potential for further hydrocarbon discoveries and could be seen as attractive prospects for international investors

He said the South African offshore area totalled 100 million acres and was in oil exploration terms, considered as a high risk, frontier area

"The acreage is under-explored and the geological evidence indicates that most of the prospective formations are gas rather than oil-prone," he said

Soekor spokesman Bruce Mitchell said the effect on the economy would be enormous "South Africa will save millions on foreign exchange"

OIL INDUSTRY

183
FM 9/5/97

Black gold not in black hands

State-owned company the catalyst for redistributing profit?

The standoff between government and the oil industry remains as wide as ever, after an aggressively populist address by Mineral & Energy Affairs Minister Penuell Maduna in Johannesburg on Monday

Reiterating long-held positions, Maduna criticised the industry for having kept blacks "on the periphery" — especially in relation to the ownership of high-volume filling stations and in the case of some companies having allowed no SA investor participation in local operations

He also indicated that the creation of a State-owned oil company was an option — to be based on existing State-owned, oil-related

assets. Such a company would not retain what he appears to consider excessive profits, unlike the companies now operating. There would be funds available from its coffers for social welfare spending

The reasoning is flawed on several counts. First it assumes local oil companies are earning superprofits, second that a State company could match these. And, as a matter of macro-economics practice, subsidies should be visible and paid for by the fiscus so as to be integrated into spending priorities

Maduna was critical of the In-Bond Landed Cost (IBLC) price mechanism, complaining that it offered opportunities for the oil companies to gain extra profit from bulk discounts. He also complained that aviation kerosene cost 30% more in SA than in neighbouring territories

He said government was negotiating with Saudi Arabia as a possible entrant to the SA market. And he was also considering "reregulating" the industry

SA Petroleum Industry Association (Sapia) director Colin McClelland says there is a deplorable gulf between the industry and government, one which needs to be addressed urgently if there are not to be serious adverse economic effects

He agrees that the absence of blacks from oil industry participation should be ended. But this process has already started. Naledi Petroleum has applied to become a member of Sapia, while a deal to sell Sapia member

Zenex to a black-controlled group has been reported. And two further black-controlled groups, Africoil (in partnership with Caltex) and Bambanani, are already operating in the industry

As for Maduna's suspicion about profit margins under the IBLC, McClelland says Sapia has stated the willingness of its members to open its books to audit by an accounting firm, including any reputable firm nominated by Maduna (the name of Nkonki Sizwe Ntsacuba has been mentioned as a possibility), or even by the Auditor-General

The oil companies have argued in the past that the aspect of the IBLC mechanism that Maduna finds objectionable is its essential merit — that it enables the refineries to enhance their profits through greater efficiency, including efficiency in oil procurement. The IBLC also links local prices and profits to world markets. This Maduna seems to regard as profiteering

The present standoff appears to benefit no-one. And the cost of political harassment of the oil industry could be higher than is realised. Not only will oil companies not invest in additional refining capacity but there is a likely knock-on effect on foreign investment generally

Effective redistribution in the form of greater black participation in the economy can be achieved only through growth. This requires as much inward investment (especially direct investment) as possible

Not only does the present deadlock foreclose on new overseas investment, but a situation might be reached where the present foreign participants in oil might disinvest altogether

If government is seen to be using an administered price mechanism to prevent investors achieving a market-determined return, it is overseas investment in general that will take the knock

As for Saudi Arabia, it is contrary to ex-

perience to believe that it will engage in acts of charity. The Saudis look at the bottom line as much as anyone

In the last resort it is Maduna's Cabinet colleagues who need to take a grip on this threatening situation

The economic needs of the unemployed masses are not objectively served by vendettas, but by new factories, including oil refineries, and the financial counterpart of capital inflows

Robin Friedland



In-flight caterers choking on the hors d'oeuvre?

AIRPORTS COMPANY

Punitive levy ruffles industry's feathers

It's full flaps as bowser brigade baulks at pilot plan to boost bottom line performance

An attempt by the Airports Company to slap an extra tax on service providers has caused ructions in the industry. Airside service companies have been warned that the new tax on turnover is retrospective from January 1. The Airports Company runs the State's nine airports.

Industry pundits say a turnover tax of 8% on ground handling companies, 6% on security companies, 2,5% on inflight caterers and 1% on fuel will boost the company's bottom line by R20m-R30m/year.

It will also add 1,1c/l to the cost of fuel.

SA Airways CE Mike Myburgh says "there isn't an airline that isn't dissatisfied with the proposed tax. If it was necessary, if the company wasn't a monopoly, and if it wasn't showing a profit of 50% on its turnover, no-one would complain."

In its financial year to March 31 1996 the company made a pre-tax profit of R223m on a R455m turnover. It hasn't reported yet for 1997, but turnover is expected to be substantially up.

There was a 7% increase, to 4,45m, in international passengers passing through Johannesburg, Cape Town and Durban. Domestic passenger traffic through the same

airports increased by almost 10% to 10,17m. There was also an 8,7% increase in the number of international air traffic movements (landings and takeoffs) to 44 182 and a near 20% increase in the number of domestic landings and takeoffs to 166 308.

Airports Regulating Committee chairman Mrad Shahia says "The company has no legal right to impose a levy, only a court of law can grant it."

"The Regulating Committee, however, has taken the view that the charging of levies does not constitute a restrictive practice. But the company cannot impose levies arbitrarily. They must relate to cost."

The airside service providers have so far refused to pay the levy. They say they work on narrow margins and would have to pass the tax on to airlines, says Apron Services CEO Ewald Groenewald. His company claims to have handled 80% of the near 160 000 t of airfreight that passed through Johannesburg International between April 1996 and February 1997.

But airlines are also operating on narrow margins and would have to recover it from their only source of revenue — passengers — says Comair MD Piet van Hoven. **David Pincus**

SASOL/PHILLIPS PETROLEUM

In the swim (183) together

FM 9/5/97

Fathoming out strategy plan for SA's offshore oil and gas reserves

Sasol has confirmed it is negotiating a deal in oil and gas exploration off the east coast with international oil giant US-based Phillips Petroleum.

Despite its suddenness, Sasol's entry into southern Africa's offshore gas exploration business has not been unexpected. CE Pieter Cox recently said the petrochemical group's future growth "is linked to our becoming a global player in the further beneficiation of gas and oil, either from our own finds or in partnership with existing global players."

It also fits in well with the group's continuing negotiations with oil companies in Norway, Qatar and Nigeria for joint venture agreements to develop Sasol's new generation slurry bed distillate process to produce middle distillate fuels such as eco-friendly diesel and oil from gas (*Business* April 18).

Sasol's move follows the official signing of an offshore oil prospecting sublease between Soekor and the subsidiaries of Phillips Petroleum, Energy Africa, PanCanadian, Sasol and Minerals & Energy Department on May 6.

"The occasion is historic, marking the re-entry of foreign companies, after an absence of nearly two decades, into SA's offshore search for oil and gas," says Soekor.

Phillips has been talking to Soekor for more than a year with a view to obtaining exploration rights to offshore Blocks 17 and 18, lying just south of SA's northern border with Mozambique.

Sasol's growing interest in gas exploration is further confirmed by the fact that it has also taken an interest in a huge block of land in southern Mozambique.

According to information released by Mozambique's Ministry of Mineral Resources & Energy Department, the block of land stretches north from Inhambane to the borders of ENH-Enron's Pande gas field. It also borders on Arco-Zarara's Temane gas field, south of the Save river.

Mozambique has so far entered into full exploration agreements with Lonropet — for an onshore/offshore area stretching south from the border with Tanzania — and with Zarara-Scimitar, for the development of the Buzi gas field just south of Beira.

Heads of agreement have also been signed with Enron, Arco, Norbay-Antrim (Zambezi onshore) and British Petroleum (Zambezi offshore), setting out the terms and conditions for the future development of proven gas fields. **Arnold van Huyssteen**

Opposition to medicines bill heats up

(183)

BD 12/5/97

Kathryn Strachan

PHARMACEUTICAL manufacturers are, as a last resort, considering legal action to fight Health Minister Nkosazana Zuma's new medicines legislation, which gives her wide control over drug pricing.

The Medicines and Related Substances Control Amendment Bill, introduced in Parliament last week, enables her to force pharmacists into line with her national drug policy.

The Pharmaceutical Manufacturers' Association said the proposals amounted to "nationalising the industry" and violated foreign investors' intellectual property rights.

"These are wide and undefined powers the minister is trying to give herself so she can intervene in trade matters such as advertising and marketing, when she should be confining herself to issues of ethics and safety, and ensuring access and affordability," said association president Mirryeena Deeb.

The association would make representations at parliamentary hearings next week and try to convince the minister that her proposals would scare off foreign investors and do nothing to help achieve her objectives.

"If all else fails we will consider legal action," Deeb said.

While the association recognised the important role of generic substitution within a competitive environment where the patient had a choice, it was against making generic substitution mandatory. The proposals making substitution compulsory unfairly favoured one group above another, she said.

The association would also fight the proposal allowing parallel importa-

tion, which enabled the health department to buy abroad drugs identical to ones made in SA. While the association was not opposed to international tendering or imports, parallel importation went against drug trademarks registered in SA, she said.

The Medicines Control Council said parallel importation would open new avenues for imports of fake and potentially toxic drugs.

Deeb said the Pharmaceutical Manufacturers' Association welcomed international tendering, provided the same registration requirements held for all tenders. It opposed the bill's "fast-tracking" proposal, which would allow registration of selected drugs within a few weeks. The department had not explained how this process would operate. Another concern was that health care standards could be compromised by short-circuiting registration requirements.

The proposal that medicines sold by manufacturers to the state not be allowed to carry their brand name was a further contravention of trade rights. "This is a non-negotiable for us and a serious violation of the intellectual property rights of foreign investors."

Deeb said manufacturers were concerned about mark-ups applied along the pharmaceutical distribution chain, which in cases ran as high as 400%. They would welcome genuine efforts to limit these mark-ups.

A heated argument broke out recently over Zuma's contention that SA drug prices were 4 000% higher than in other countries. Deeb countered that the minister was comparing prices offered to aid organisations such as Unicef with private retail prices in SA.

Opposition bid to halt push on health bills

Parties united

CLIVE SAWYER
POLITICAL CORRESPONDENT

ARG 13/5/97

Five opposition parties are trying to block government attempts to push a series of major and controversial health bills through Parliament before the winter recess in July.

Spokesmen for the Democratic Party, the Inkatha Freedom Party, the National Party, the Freedom Front and the Pan Africanist Congress said in a joint statement that the bills had far-reaching implications for the sale of pharmaceuticals

At issue are the Medicines and Related Substances Control Bill, the Medicine, Dental and Supplementary Health Service Profession Amendment Bill and the Pharmacy Council Bill.

The bills would also have a serious impact on the roles of the Medical and Dental Council and the Pharmaceutical Council. Discussion of the white paper on reforming the health-care system should be completed before the bills were processed, the party officials said.

"If adequate time for public debate and wide consultation on these bills is not provided for, the passage will represent a mockery of the so-called transparent and consultative parliamentary process."

Mike Ellis, DP health spokesman, said the Health Ministry was trying to push through the bills "in unprecedented haste".

All three bills deserved full and open public hearings before extensive debate in the health committee, he said.

"Yet each bill has been allocated only one morning's hearing, and then on consecutive days. It is obvious that no committee can do justice to three important bills at the same time, and that normal procedure, of dealing with one bill at a time through to finality, should be employed."

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South Africa's first 'black gold' pumped from Oribi oilfield

LYNDA LOXTON

(183) ART 13/5/97

Orca Rig - South Africa's first "black gold" flowed from the Oribi oilfield off Mossel Bay yesterday, and officials said they hoped to pump 20 000 barrels of crude a day.

The R337-million project, 80 percent state-owned and 20 percent owned by Energy Africa oil company, began production more than two months behind schedule, mainly because bad weather held up the refurbishment of the Orca production rig, the officials said.

South Africa has searched for oil for more than 20 years and has been converting gas found off Mossel Bay into petrol for some years, but yesterday's flow was the first commercial production of crude oil in the country's history.

The new production platform is expected to meet around five percent of the country's daily crude oil requirement. Sasol's oil-from-coal plants provide over 30 percent of South Africa's liquid fuel requirement.

The oil is being pumped into a 700 000-barrel shuttle tanker, which will take about a month to fill. The first cargo will be ferried to the Caltex Oil SA refinery in Cape Town, which has agreed to take the oil field's initial 600 000 barrels.

The second cargo will go to a refinery in Durban. Reuter

First 'black (183) gold' flows

DD 13/5/97

MOSSEL BAY — SA's first "black gold" flowed from the Oribi oilfield, about 140km southwest of Mossel Bay, at first light yesterday and officials said they hoped to pump 20 000 barrels of crude a day.

The \$75m project, 20% owned by Energy Africa, was three months behind schedule, mainly because of bad weather, which held up the refurbishment of the Orca production rig.

The oil is being pumped into a 700 000-barrel shuttle tanker. The first cargo will be ferried to the Caltex Oil SA refinery in Cape Town. The second cargo will go to a Durban refinery.

For the past few weeks, engineers from the majority owner, state firm Soekor, have been overseeing the re-entry and completion of three existing wells with a network of connections to the rig, which has been customised to serve as a floating production vessel.

The Oribi oilfield is expected to produce initially 20 000 barrels of oil a day, sufficient to meet about 5% of SA's daily oil needs. This amount will taper off over three to six years.

The oilfield has probable recoverable reserves of 20-million barrels and will form the nucleus for the subsequent development of several other nearby oil discoveries, which would extend production by a further six years. — Reuter

Polypropylene price to drop

THE
JERUSALEM

JONATHAN ROSENTHAL

Johannesburg — Several new polypropylene plants, which are due to come on stream towards the end of the year, will lead to a growing oversupply on world markets, which could depress prices by up to 30 percent, industry sources and analysts said yesterday.

Reinhard Traub, the head of German-based Hoechst's polyolefins business unit, said the domestic market was unlikely to mirror the slump in European prices. He said South Africa's present prices were already much lower than Europe's.

Prices were likely to fall in Europe early next year, but South Africa's producers would not be substantially affected because

the South African market tracked Far East prices, which were about \$150 a ton cheaper if transport costs to South Africa were included, he said.

But Jennifer Ramsden, a chemical-sector analyst at research house SA Value Analysis, said prices could begin falling later this year, driven by new capacity in the Far East. She said prices could bottom out at about 30 percent below the present levels and that South Africa's market would feel the full brunt.

Polypropylene is a plastic feedstock which is used in the manufacture of a range of products including carpets, dairy containers, automotive parts and pipes.

Last week Safrapol, a joint venture between Hoechst South

Africa and Sentrachem, opened a new R235 million polypropylene manufacturing plant at Sasolburg, which will nearly double its annual polypropylene capacity to 90 000 tons.

Steffen Beuthner, the managing director of Hoechst South Africa, said the demand for polypropylene had grown at 11 percent a year over the past seven years. He said that forecasts to 2000 suggested growth of 6 percent to 7 percent a year.

But Beuthner said over the next few years about a million tons of additional productive capacity would come on stream in Europe, and only 20 percent could be absorbed by the market. The resulting "bloodletting" could create a significant downturn in prices, he said.

ET (BR) 13/5/97 (183)

Real power is economic

Oribi Oilfields starts pumping

Sowetan 13/5/97 (183)

By Isaac Moledi

SOUTH AFRICAN oil exploration company Soekor and its international partner, Energy Africa Bredasdorp, have started oil and gas production from the Oribi Oilfields, off the southern Cape coast

In a statement, the two companies said as of yesterday, the field was in full production at a flow rate of 20 000 barrels of oil a day

The first shipment of oil is expected to be delivered to Cape Town harbour by the end of next month

"The oil is of high quality and the Caltex refinery in Cape Town is purchasing the entire first shipment," Soekor said, adding that all operations were in accordance with best international oilfields practices

The company has dismissed allegations that taxpayers' money is being used to finance the project, saying Soekor's 80 percent of the R333,5 million required to develop the field was borrowed through syndicated loans

Soekor expects to recover the capital cost during the first year of operation

"Oribi production will provide about 6 percent of South Africa's oil requirements, equivalent to an annual saving of up to R800 million in foreign exchange on oil imports," Soekor said

The production of oil from the first commercially

The group says it is not using taxpayers' money

viable offshore field marks South Africa's entry into the ranks of the oil-producing countries. The search both on and offshore for local oil resources has been on for 30 years

The project, expected to save the Government more than R1 billion in oil imports a year, is expected to create 150 permanent jobs

Soekor chief executive Joggie Heuser told *Sowetan Business* over that 1 000 people were employed in the shipyard and other areas during the construction phase

Staff training

Soekor, according to Heuser, has invested more than R700 000 in staff training and has sent three black staff members overseas for capacity development

The Oribi Oilfields, about 140 km south-west of Mossel Bay, was discovered in 1990. The fields are presently owned on an 80 percent and 20 percent basis by Soekor and Energy Africa respectively

"With this exploration we hope our objective of achieving total independence from Government will become a reality," said Heuser

Sasol will invest R225m in new plant

(183)
Ingrid Salgado

30/4/5/97

SASOL is to invest R225m in a new Octene comonomer plant at its coal-to-chemicals complex in Secunda, signalling the start of an alliance to supply the chemical building block to the world's largest polyethylene producer, the Dow Chemical Company, into the next century.

The fuels and chemicals company announced yesterday that the plant's construction would start immediately. It was scheduled to start up in the first quarter of 1999, when 100 000 tons of comonomer Octene-1 would be separated and purified.

There were plans also to construct a second plant, for start-up by 2001, which would supply an additional 50 000 tons a year.

Sasol and the international group had concluded a long-term supply agreement for the entire output of the first production unit.

Dow recently announced plans to pump an extra 1-million tons a year of linear low-density polyethylene into the world market. New production plants in Germany, Canada, Thailand and Argentina would add to Dow's current capacity to supply 3,5-million tons a year. Sasol said: "Dow and Sasol are working together to ensure a reliable long-term supply of Octene comonomer as Dow grows its polymer business worldwide."

Sasol, which has been producing and marketing high purity Hexene-1 and Pentene-1 since 1994, said its experience in supplying for the comonomer and other speciality chemicals markets had enabled it to acquire a significant position in the global market.

Octene purification plant may generate R200m in sales

Sasol grabs a leading stake in plastics market

CT(BR)14/5/97 (183)

JONATHAN ROSENTHAL

Johannesburg — Sasol, the R13,5 billion a year petrochemicals-from-coal producer, is about to seize a substantial share of the world market for comonomer grade octene-1, a building-block for polyethylene plastic

Sasol yesterday said it had approved the construction of a R225 million octene purification plant at its Secunda complex. The plant will produce 50 000 tons a year, which analysts estimated would generate about R200 million in sales, and is scheduled to come on stream in the first quarter of 1999

The company also announced plans to build a second plant of the same capacity, which should start up in 2001

The entire output of the first production unit will be bought by the Dow Chemical Company, the world's largest polyethylene producer, under a long-term supply agreement, Sasol said

Themis Themistocleous, a chemical sector analyst and director at the SBC Warburg

brokerage, said the move was very positive for Sasol. "So far it has been producing hexene while its competitors produce a mix. When Sasol entered the market with hexene (its competitors) kept the hexene price flat and pushed octene prices up," Themistocleous said

He said the move, which would give Sasol almost 18 percent of the world market for octene, "would make life very difficult for anybody else who is thinking of putting up a plant

"At current hexene prices, Sasol is comfortably profitable, whereas I would be surprised if its competitors even cover their cash costs," he said

Alfonso Niemand, Sasol's communications manager, said octene presently went into Secunda's fuel stream, but the new plant would have a negligible effect on synthetic fuel output

"This is just a drop in the

bucket (compared with the volume of synthetic fuel produced)," Niemand said

The Sasol statement said the Dow Chemical Company was planning to expand its linear low-density polyethylene capacity by a million tons a year

"Dow and Sasol are working together to ensure a reliable long-term supply of octene comonomer as Dow grows its polymer business worldwide," the statement said

Sasol produces more than 1,2 million tons of potential plastic

feedstock at its plants

"Work continues on the extraction of all of the molecules involved, with several projects positioned for announcement in the near future

"Sasol will continue to extract the specific molecules as markets are identified," Sasol said

'The move will make life hard for anybody else thinking of putting up an octene plant'

Zuma's medicines proposals are logical

HEALTH Minister and everybody's favourite ogre, Nkosazana Zuma, is at it again. Her latest legislative foray pits her ministry against the big guns of the pharmaceutical industry in a struggle of Herculean proportions, if international experience is anything to go by.

Two bills related to the oversight and control of medicines have just been tabled in Parliament. The Pharmacy Amendment Bill raises a few hackles by shifting the issuing of pharmacy licences from the pharmacy council to the health department, and opening the ownership of pharmacies to anyone other than a medical doctor. However, this bitter pill is sweetened a little for private hospital pharmacists, who will now be able to practise as part of a team of health professionals.

But the bill that really makes many pharmaceutical manufacturers spit is the amendment to the medicines and related substances act.

If health reform is all about solving puzzles of varying complexity, then the regulation of medicines is its Rubik's cube. There are many elements that need to be aligned with one another. Some moves may only alter the relationship of one element to another without taking us any closer to a coherent final picture.

Because of this complexity, there are numerous stakeholders and interest groups, each looking at the problem from a different angle. Few of us, if any, can claim to be dispassionate observers, so I make no claim to fall into that category, but the proposals make sense to me as a consumer with a particular interest in the development of health care in SA.

Like Rubik's cube, moves to improve medicines control require a methodical approach. This should be guided by two principles: first, the aim of it all should be to improve health, a goal easily missed in the fracas. Second, the public and private health sectors in SA must be regarded as part of one system, not two.

This principle is best illustrated by example: those who can afford medical insurance often use the private health sector. Those who cannot, use public health

care. So the more affordable the private sector, the more people will be able to use it and the less pressure there will be on public services. Conversely, high private medical care costs push people towards the public sector. The minister must ensure practices in both sectors enhance affordability and access to health care.

So what is the intended purpose of medicines regulation and control? It is to ensure that:

- Medicines of good quality,
- Are available at affordable prices, and,
- Are prescribed and dispensed in a logical manner.

The principal mechanism for ensuring that medicines are of good quality is the Medicines Control Council (MCC), established in terms of the original act in 1965. A welcome amendment is that the registration of all medicines will lapse after five years, providing for continuing review of efficacy and effectiveness. The scheduling of substances, which imposes controls on who is permitted to prescribe as well as methods of prescription, has also been updated.

The most substantive amendments to this act seeks to put a lid on the spiralling costs of health care, and pharmaceuticals in particular. Any subscriber to a medical aid scheme will vouch for the fact that inflation related to health care has far outstripped general price increases. In 1982, medical scheme contributions were equivalent to 7,1% of average formal sector salaries. A decade later, this proportion has doubled to 15,2%. Increases in the price of medicines have been the greatest culprit.

In real terms, medical aids now fork out twice as much per beneficiary to cover medicines than they did 10 years ago. Medicines account for a sizeable chunk of the total medical bill and to almost a third in the private sector. It stands to reason any action that caps expenditure on medicines

will have a significant effect on medical inflation.

One measure used by the World Health Organisation to reduce costs considerably is the use of generic medicines. These are similar in effect and efficacy to the original medical compound and can be used once that drug's patent has expired. Generic medicines are not cheap substitutes, and the MCC ensures that those available here are dependable, safe and equivalent to the original brand name products.

Contrary to assertions, the amendment to the act does not make generic substitution mandatory. Rather, it places responsibility on every pharmacist to inform all customers when less expensive, but equally effective, alternatives to the medicine prescribed are available. Both the customer and the prescribing practitioner have the right to refuse that generic. This practice should contain costs through greater awareness of drug prices by practitioners and routine dispensing of the least-costly drug option.

The proposal to allow "parallel importation" of medicines is as contentious as generic substitution. This proposal will enable the health department to purchase the same drug from the parent or subsidiary company based in another country if the price is better. From the perspective of a government department trying to ration limited resources, this proposal makes sense. As will be noted later, there are considerations of quality control which make the option not that clear-cut.

Another measure aimed at containing costs is a single "exit price" for each type of medicine, to be introduced as part of new pricing system and made public. Provision is made for bulk discounts.

The exit price means the price at which medicines are sold by manufacturers, and greater transparency of pricing will allow the public to assess for itself the

Plans to alter drastically the regulation of medicines in SA have caused a furore. David Harrison takes the pulse of the health sector



BD 15/6/97 (183)

Medicines make up almost a third of the private sector health bill

extent of mark-ups and retail profits. Until now, there has not been an effective way to monitor and control price increases — a weakness overcome by the establishment of a pricing committee to implement a system that the average consumer can understand.

The third objective of medicine regulation and control is to ensure that medicines are prescribed and dispensed in a logical manner. There are SA clinics without medicines, or which receive erratic supplies. Nurses, the main prescribers in rural areas, are confronted with an often-changing array of medicines, which encourages inappropriate and wasteful prescribing. They need a

limited range of medicines which deal effectively with 95% of conditions they see and treat, which they can really get to understand and prescribe properly.

Introduction of the essential drugs list in the public sector a year ago struck the most fundamental blow in favour of rational drug use in SA, limiting the number and range of drugs available for primary health workers to prescribe. Implementation has been slow, and we have yet to see the benefits of better drug supply, stock management and use. An amendment to the act aims to speed up the process by fast-tracking the registration of medicines on the essential drugs list.

A drug is often prescribed for reasons other than its effectiveness and price. The ministry hopes to discourage "perverse incentives" by putting a halt to "side samples" from manufacturers to licensed dispensers, and preventing suppliers from giving bonuses or rebates for medicines.

An amendment which if manufacturers prohibits the sale of medicines to the state which bear the brand name of those drugs. The intention of the industry is to make prescribing for practitioners as clear and simple as possible. Given the immense difficulties in providing continuing support and information updates to rural health workers, this proposal makes sense.

Taken together, the proposals in the Medicines and Related Substances Control Amendment Bill represent a logical approach. Proposals such as routine generic substitution are fundamental to cost containment and rational drug use, and should not be further diluted.

An area of doubt is parallel importation, where concerns about fake medicines are real, despite the obvious cost benefit of the proposal. Either stringent controls need to be put in place, or the ministry should use parallel importation as a bargaining chip to ensure other vital amendments to the act are retained.

□ David Harrison works for Health Systems Trust, a non-government organisation which supports health care reform. He writes in his personal capacity

Zuma pledges safe drugs

JENNY WALL
HEALTH REPORTER

(183)
AR 4/16/97

Proposed changes to the law to reduce the high cost of medicines in the public and private sectors will not compromise safety and effectiveness, says Health Minister Nkosazana Zuma.

Dr Zuma said a legal challenge from pharmaceutical companies to the Medicines and Related Substances Control Bill would delay its implementation, but she was confident of winning the case.

"What we're trying to do is reasonable, and international practice."

Medicines in South Africa were among the most expensive in the world, ranking in the top five, and accounted for 30 percent of medical

costs in the private sector. More than R2-billion, or 11 percent, of South Africa's health budget was spent on medicines, she said.

She was appalled there was so much opposition to parallel importing, which allowed drugs to be imported from a company's factory in another country if prices were cheaper there.

But this did not mean that all drugs would be imported, said Dr Zuma.

"This depends on whether companies give us a reasonable and competitive price," she said.

Dr Zuma said it would be irresponsible of her not to take measures to contain or lower the costs of medicines in South Africa.

The issue of dispensing doctors will be dealt with in the Pharmacy Bill.

Medicine reforms to go ahead despite legal threats, says Zuma

Jacob Dlamini

CAPE TOWN — The health department would go ahead with plans to reform the regulation of medicines despite the threat of legal action from the pharmaceutical industry's threat of legal action, Health Minister Nkosazana Zuma said yesterday.

While she would prefer that the dispute between the department and the industry did not go to court, she was confident the department would win.

She said any legal challenge would delay the introduction of the Medicines and Related Substances Control

Amendment Bill, which is currently before the parliamentary health committee for debate.

Zuma said the bill was designed to increase access to primary health care and to redress historical inequities in the distribution of resources within the constraints of a limited budget.

The bill, which has drawn the ire of pharmaceutical companies and doctors, is intended to allow for the parallel importation of drugs into the country; fast-tracking the registration of certain drugs; ending the practice of "bonusing" by which practitioners are enticed to prescribe the products of

particular companies; regulating the marketing practices of pharmaceutical companies and legalising the generic substitution of drugs.

Zuma said health department investigations had shown that SA was among the top five countries in drug pricing and that people were paying too much for medicine.

The department needed legislation to import drugs from foreign companies if their SA subsidiaries did not offer a reasonable and competitive price.

Zuma said the department would not source its entire essential drugs list internationally but would use parallel

importing to make locally expensive drugs readily available.

The legalisation of generic substitution would allow pharmacists to prescribe cheaper drugs which were just as safe and would have the same effect. The bill would require doctors to indicate in their own handwriting if they did not want substitution to take place, while pharmacists would have to inform patients of available substitutes.

Zuma said ending bonusing would not take away the right of companies to give out samples, but would ensure that "the moral hazard" which could affect clinical judgment was removed.

was R250m, and additional offices would be purchased in Maritzburg and Durban to cut down on annual rent of R25m.

It was understood that the IFP was willing to scale down projects, provided the ANC agreed that they could go ahead.

The first phase of the project was for offices for premier Ben Ngubane and provincial director-general Otty Nxumalo. The ANC and IFP agreed that costs be slashed from about R70m to R40m, but this still needed to be approved by the legislature

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Census costs extra R31m

Linda Ensör

CAPE TOWN — The processing of millions of census forms had proved more expensive than initially anticipated but the additional costs should be fully covered by R31m in grants, Finance Minister Trevor Manuel said in Parliament yesterday.

Manuel opened the debate on the Central Statistical Service (CSS) which was incorporated under the finance department a few weeks ago. He said that as a result of a R20m grant from the reconstruction and development programme and R11m from the Swedish International Development Agency, the processing phase and the budget for the entire exercise was expected to break even.

"The overall cost will then be R398m — approximately R10 a head — which is about the same as Zimbabwe and less than half the figure of Australia."

The target date for the detailed results had been postponed from December to April next year, 16 months after the fieldwork. This was, by international standards, typical for a country of SA's size. But the CSS would produce a preliminary count, broken down by province, probably by the end of next month.

On the transformation of the CSS, he said consideration was being given to a system of user-pays for survey material. The user-pays principle would also soon be applied to economic series, which were of specific interest and would otherwise have to be abandoned, he said.

BD 16/5/97



ZUMA TO CRACK DOWN ON 'BONUSING'

Freebies for doctors to end

(183) 

MANUFACTURERS' handing out of free drugs to doctors in the form of samples will be limited under a proposed new law. **MELANIE GOSLING** reports.

DOCTORS' "freebies" from drug companies will cease once the new bill on medicines becomes law.

Health Minister Dr Nkosazana Zuma's Medicines Control Amendment Bill aims to bring down the country's medicines bill and to keep drug-taking within a "rational" use.

Zuma said at a press conference yesterday that the practice of "bonusing" would be banned because it often interfered with the doctor's clinical judgment and enticed practitioners to prescribe more of a particular company's products.

"Bonusing often takes the form of cash payments or the offer of overseas holidays. The object is to entice the practitioner to use that particular drug, and not because it

is the best drug for a specific ailment," Zuma said.

The bill also limits the handing out of free drugs in the form of samples.

"Very often excessive quantities of samples are given by drug companies, which leads to doctors and pharmacists selling them to their patients. Sampling will therefore be limited to the minimum quantities required to demonstrate the effective use of the product," she said.

The bill allows for parallel importing, which means that drugs from the same company may be imported to South Africa from another country, where they may be sold cheaper.

Said Zuma: "International pharmaceutical companies price their products differently on different markets and the prices in South

Africa are among the highest in the world.

"Through parallel importation a product can be imported from another country where the same product, made by the same company, is available at a much lower price."

This has come under attack from the manufacturing industry, who say they have no objection to valid competition, but believe such importing is unfair.

Zuma says she is "appalled" that there should be so much opposition to parallel imports, which happens all over Europe.

Pharmaceutical Manufacturers Association of SA (PMA) chief executive Ms Mirryéna Deeb said "She (Zuma) doesn't say the parallel imports will be subjected to registering or testing. There is nothing in the legislation that indicates there will be any form of record-keeping for these imports, so we'll have a whole unaccounted batch of medicines arriving in this coun-

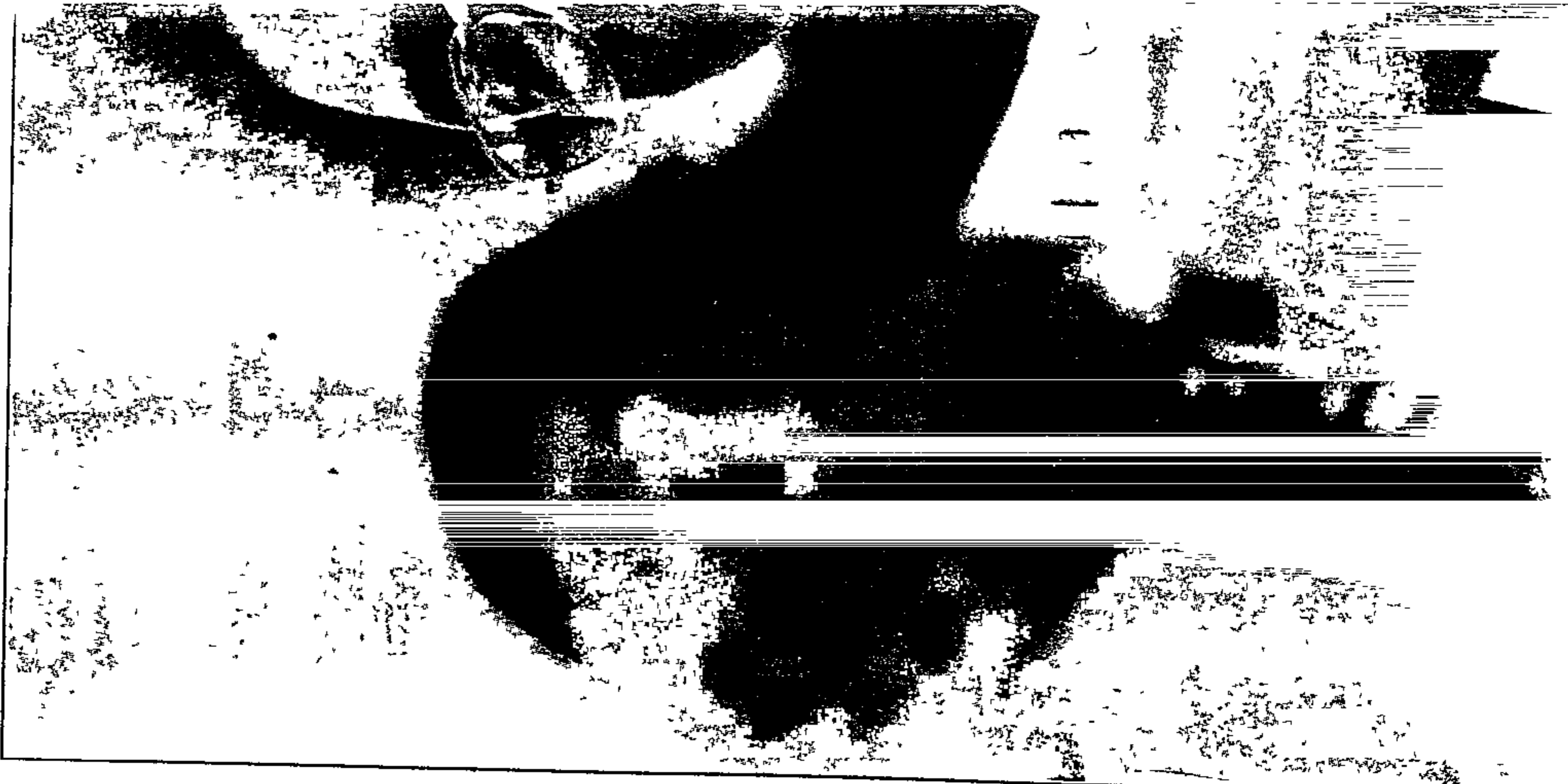
try. But we have to register our drugs, which makes the importing unfair.

"It also opens the door to fakes or expired medicines. In the rest of Africa, up to 50% of medicines are fakes or have expired. Some drugs simply lose their efficacy after expiry, but others actually degenerate into dangerous substances, sometimes lethal, like some of the antibiotics," Deeb said.

In the bill, generic substitution will be legalised, and pharmacists will have to inform patients of the options available to them. If the patient refuses a generic drug, this has to be recorded in a register.

"There is no duty on the pharmacist to tell the consumer he can refuse the generic," said Deeb.

"And why should patients have the onerous burden of deciding what drug to take, and why should it be recorded in a register that the patient refused the generic? It sounds to us like a bit of a witch-hunt."



Zuma takes on the drug companies

(183)

Minister determined that South Africans will pay less for their medicine *Star 16/5/97*

By JOVIAL RANTAO
Cape Town

Health Minister Dr Nkosazana Zuma will go ahead with plans to introduce legislation that would significantly lower the price of drugs, despite opposition from pharmaceutical companies, which have threatened legal action.

Zuma said yesterday the legislation would also force dispensing doctors to be licensed and discourage pharmacists from dispensing for a profit.

At a press conference in Parliament, Zuma said she was confident the Department of Health would win any legal action brought by pharmaceutical companies unhappy with proposed amendments to the Medicines and Related Substances Control Act.

The amendments would allow for the parallel importa-

tion of drugs into the country. "Through parallel importation, a product can be imported from a country where the same product, made by the same company, is available at a much lower price.

"This will be resorted to in order to make available those drugs which are much too expensive locally. There should therefore be no fear that this could lead to entire factories having to close up locally.

"The impact should not be different from that felt when a company loses a tender in a given year, and should certainly contribute to increasing competition," Zuma said.

She said discussions were held with stakeholders in the pharmaceutical industry after the release of the National Drug Policy Committee's report in 1994. Workshops were held in 1995 and bilateral meetings held with individual stakeholder groupings, and

the process culminated in the drafting of the drug policy.

"The goal of the national drug policy is to ensure an adequate and reliable supply of safe, cost-effective drugs of acceptable quality to all citizens and the rational use of drugs by prescribers, dispensers

Reliable supply of affordable, safe drugs to all is aim

and consumers.

"Amendments to the Pharmacy Act and the Medicines and Related Substances Control Act are aimed at bringing the two in line with the national drug policy," she said.

Zuma said the proposed legislation also sought to pro-

hibit dispensing doctors from receiving "bonuses" from pharmaceutical companies. Reports have suggested that most of South Africa's 6 000 dispensing doctors have received "bonuses" in the form of excessive samples of drugs, cash payments or offers of overseas holiday.

Zuma said the practice interfered with doctors' clinical judgment and led to more of a certain product being prescribed because it would be available in large quantities. The advertising, promotional and marketing practices of companies would be regulated through the enforcement of an ethical code of marketing which required that all promotion-making claims concerning drugs should be reliable, accurate and up to date.

Zuma said generic substitution would be legalised. This would be permissible where a cheaper drug was supplied in the place of a more expensive generic equivalent.

On the licensing of dispensing doctors, Zuma warned that doctors whose primary aim was to dispense for profit were unlikely to be granted a licence.

"Pharmacies must dispense for a professional fee and not for a profit markup. They're professionals and should not be making money from drugs and medicines but from their professional service. We're removing the incentive for dispensing expensive drugs," she said.

The NP, DP, IFP, FF and PAC objected to the attempt to push the Medicines and Related Substances Control Bill, the Medicines, Dental and Supplementary Health Service Profession Amendment Bill and the Pharmacy Council Bill through Parliament

SENTRACHEM

Crown jewels head for auction block

Damage control to battered balance sheet looks like major surgery. Will the shareholders stand for it? (183) FM 16/5/97

With borrowings running at R1,36bn — and gearing of 106% — Sentrachem is considering selling some of its more successful businesses to repair the balance sheet. The damage has been caused by the R380m cost of ill-judged forward exchange contracts and "restructuring" its troubled agricultural chemicals division, Sanachem.

Safripol, the 50-50 polymer joint venture with Germany's Hoechst SA, is named by insiders as a possible candidate for disposal. One Sentrachem divisional executive director goes so far as to say it is a "high possibility".

Another candidate is National Chemical Products (NCP), the group's plastics additives arm.

Shareholders, who have seen the share price plummet from last year's high of R17,10 to a little over R7, may be more than a little miffed at the prospect of now losing some of the group's "crown jewels".

The matter is extremely sensitive. A top Sentrachem source says "I think Sentrachem is probably thinking of selling some of their businesses, because they need to get their gearing in better shape."

"It's nowhere near as direct as fingering anything. That, in a sense, is an even worse story for Sentrachem, because it puts ev-



MD John Job could he survive sell-off?

erything up for grabs.

"Sentrachem clearly needs to do something about its borrowings, which are very high. And it's possible that something will be up for disposal. Safripol is a possibility

Any other candidates apart from Safripol? "NCP could be one. It depends how much money one wants to raise."

Safripol has tangible assets of R736m and last year contributed R56m pre-tax profits to Sentrachem. In the six months to February operating profit was up 49% to R43,8m on the previous half-year. The interim report said Safripol had an "excellent six months with increased volumes and prices contributing to its performance."

Last week its new R235m polypropylene plant at Sasolburg was opened officially.

Wholly owned NCP has almost identical assets (R735m) and in 1996 recorded profits of R154m. In the six months to February operating profit of R54,3m was 5% down on the previous half-year. The division was "adversely affected by very weak conditions in the flexible PVC market, which consumes its plasticisers." NCP has a R230m capital expenditure programme.

A Sentrachem divisional executive director says "these issues are being dealt with at a very high level. The whole group structure's being dealt with. Obviously there are a number of possibilities."

For him, Safripol is the logical disposal. "It has to be one of the things under consideration," he says. "Safripol has no real strategic link with any of the other operations in the group. It's very much a stand-alone, it's a separate Pty Ltd."

Who would buy it? "Look at where they get all their raw materials from — Sasol," says the director. "There's a very clear line of direction that should be pursued."

"Strategically, a takeover of Safripol by Sasol would make Sasol a formidable force in the world supply of polymer. It would make enormous sense."

There is, of course, Sentrachem's joint venture partner in Safripol, Hoechst, to consider. Hoechst MD Steffen Beuthner says he is "totally surprised" at the mere suggestion Sentrachem might pull out. "It's not on the agenda," he insists. "We have an excellent partnership."

What about selling the cause of all the trouble, Sanachem? In February group MD John Job told the FM "It's turning over

FM CORP HEALTH CARE CONFERENCE

Money or the box underground?

Every player in the health-care industry promises to save you money.

Every player has brand-new software, and often imported experts, all supposedly guaranteed to cut costs.

But is this all false economy? Can we really save money and not affect employees' quality of health care?

compromising now mean an early grave for some health plan members?

At the fourth FM Corporate Health Care Conference on May 22, you will hear from Dr Stephen Jooste, of the Managed Care Coalition, why doctors and health-care companies find it hard to agree on the treatment you should receive when you are ill.

The conference takes place at Gallagher Estate, Midrand. To book, or for

R1,1bn, it's got 100-odd employees. Two years ago it was exceptionally profitable — and it can be again. Also, much of its manufacturing production is integrated, it draws feedstocks out of the other companies.

"A decision to cut and run, or close and exit? I wouldn't say it's too horrible to contemplate, but it would be a very difficult and expensive thing."

Jack Lundin

Medicine plans leave a bad taste

By JANINE SIMON
Medical Correspondent

Health sources fear that Health Minister Nkosazana Zuma's proposed new medicines legislation will emasculate the Medicines Control Council.

This is the authoritative body charged with ensuring the safety and efficacy of medicines registered for local use.

The MCC also sets standards for ethical and scientific research. Its intervention in the Virodene Aids-drug controversy, clarifying where researchers had erred, and what clinical and scientific principles should be met to continue the work, is considered masterly.

The Medicines and Related Substances Control Amendment Bill is aimed at giving a legal framework to the National Drug Policy, which was released in January 1996 and aimed at securing a safe, cost-effective and accessible medicine supply.

MCC chairman Professor Peter Folb and vice-chairman Professor Peter Eagle met parliamentary portfolio committee on health chairman Dr Abe Nkomo yesterday, and the MCC will be making a full submission at the public committee hearings on the bill next week.

Folb declined to comment, saying the MCC was in discussion with the minister and the committee and that he did not want to jeopardise the talks.

Nkomo confirmed the meeting, but refused to disclose the details of the consultations.

However, it is understood the MCC's deep concerns centre on the fact that the draft bill gives the minister the power to overrule the council, the general lack of consultation and insight, loopholes on proposals for parallel importing (finding cheaper sources of drugs already registered and available in South Africa), and the fast-tracking of drugs on the essential drugs list.

Worry that minister could overrule council

The draft bill has also enraged the Pharmaceutical Manufacturers' Association, which says it infringes intellectual property rights.

PMA chief executive Mirryena Deeb said the PMA would take legal action and petition President Mandela for a ruling on whether that principle would be respected in South Africa; getting governments to accept intellectual property rights was regarded as the international pharmaceutical manufacturer's biggest single challenge.

Deeb said the legislation

contained severe restraints on intellectual property rights. It would not allow firms to use brand names for government tender and, by legalising parallel imports, would violate the intellectual property rights of the firms which registered the drug in South Africa.

A source in a generic-drug company, which has recently entered the local market, said multinationals were fighting to protect profit margins which were significantly higher than elsewhere in the world.

In SA, drugs which had come off patent were sold at up to 40% above the cost of generics, the source said.

The bill is one of three to be heard by the committee next week, as the Health Department progresses with the 10 pieces of legislation it is expecting to pass this year to give legal framework to the shift in health policy over the past three years.

Also up for portfolio committee hearings next week are the Pharmacy Amendment Act, which allows for ownership of pharmacies to be opened to all, and the Medical, Dental and Supplementary Health Service Professions Amendment Bill.

This bill contains enabling legislation for the controversial two years' vocational training for doctors, continuing medical education, as well as community representation on the Medical and Dental Council and the registration of foreign doctors.

Parties reject Zuma's rush to pass bills

By JOVIAL RANTAO
Political Correspondent

Cape Town - Five opposition parties have objected to attempts by Health Minister Dr Nkosazana Zuma to push through three pieces of legislation before the end of the current parliamentary session.

In a joint statement, the NP, the DP, the IFP, the FF and the PAC objected to an attempt to push the Medicines and Related Substances Control Bill, the Medical, Dental and Supplementary Health Service Professions Amendment Bill, and the Pharmacy Council Bill through Parliament.

The parties said that if adequate time was not provided, the bills would represent a mockery of the parliamentary process.

"These are major bills, with far-reaching implications for the sale of pharmaceuticals and the roles of the Medical and Dental Council and the Pharmaceutical Council. Aspects of the white paper have a bearing on them, and discussion of the white paper should be completed before they are entertained," the parties said in a joint statement.

Zuma's spokesman Vincen Hlongwane said the minister did not think there was any conflict in introducing the bill while the Health White Paper was being introduced.

Law could negate pharmaceutical proposals, say lawyers

Kathryn Strachan

SA's intellectual property laws could be used to stop Health Minister Nkosazana Zuma's plans to allow the parallel importation of pharmaceuticals, lawyers said yesterday.

Hearings on Zuma's proposals, which have been introduced in Parliament, will be conducted by the parliamentary health portfolio committee this week.

The proposal of parallel importation has raised the ire of the pharmaceutical industry. If adopted, it would mean even if a particular drug is manufactured in SA, the state would be

allowed to buy the same drug from another country if it could be obtained at a lower price.

The health ministry has said this proposal is key to containing the spiralling price of medicines in SA.

However, John & Kernick law partner Llewellyn Parker said "while amendments to existing medicines control legislation may enable the parallel importation of branded pharmaceuticals at lower prices than those available in SA, our intellectual property laws, if applied correctly, would negate these amendments".

Zuma's proposals would also

be in contravention of the international Agreement on Trade Related Aspects of Intellectual Property Rights, he said.

Sapa reports the Pharmaceutical Manufacturers' Association of SA (PMA) said at the weekend the proposed Medicines and Related Substances Act had the right goal, but would seriously disadvantage patients.

"The PMA supports Zuma's goal of ensuring an adequate and reliable supply of safe, cost-effective, quality drugs to all South Africans. It is, however, concerned that a number of proposals before Parliament in

draft legislation would do little to help her realise these objectives but would instead harm the industry irreparably and endanger consumer safety," PMA CE Murrayna Deeb said.

The PMA represents 90% of local and international manufacturers in SA.

Deeb said the association was concerned Zuma's "fast-track" registration method paved the way for unequal registration requirements, particularly for imported drugs.

The process was approved last year by the Medicines Control Council, but the health department had consistently re-

used to divulge the procedures and criteria allowing an applicant to make use of the "fast-track" method.

The proposed act did little to clarify this, Deeb said.

While the PMA welcomed international competition and respected Zuma's right to tender internationally, the consequences of fast-tracking for consumers could be grave.

"All medicine used in SA must be subject to the same safety and efficiency standards if the public is to be protected from harmful substances." The PMA also opposed Zuma's planned "parallel im-

ports" While it was true that currency fluctuations and differing levels of government control and subsidies could mean "parallel imports" were cheaper, it was not likely this practice would ensure a constant supply of reliable medicine.

Deeb said that parallel importation was notorious for easing the entry of established markets by counterfeit, fake, expired and harmful medicines and up to 50% of medicines found in Africa were fake because of this practice. The practice would also ignore several SA trademark laws and disturb the chain of accountability

A number of European governments were seeking to outlaw the practice because of the trouble they had experienced. Zuma's proposal that generic substitution be made mandatory was also cause for concern, Deeb said.

The proposed act demands that pharmacists substitute generics for prescriptions, medicine on all prescriptions, but does not make it clear that the patient is under no obligation to accept the generics.

Patients who refuse the generic substitution must have this recorded in a register, an infringement of the patient's

right to choose, Deeb said. Zuma's draft legislation also included proposals to end bonusing, sampling and price discounting.

Bonusing, the practice of giving free goods to buyers instead of cash discounts, was a normal business practice used legitimately by competitors in all commercial spheres. Sampling was important in medicine to try out innovations.

Zuma's proposal to regulate advertising, promotional and market practices was unnecessary because the industry's stringent code of ethics was self-regulatory, she said.

Pharmaceutical body against cheap drug move

By **TROYE LUND**

Consumer safety will be put in "grave danger" if Parliament accepts the proposed new medical legislation now before it, the Pharmaceutical Manufacturers' Association of South Africa (PMA) has warned

The objections follow Health Minister Nkosa-

zana Zuma's proposed legislation that would allow cheaper drugs to be imported.

It would also compel every pharmacist to substitute every prescription with cheaper generic drugs; regulate all of the pharmaceutical industry's advertising, promotional and marketing practices;

and establish a dual system for drug legislation.

Although it supports the Government's goal of an adequate, safe and cost-effective supply of drugs for South Africa, the PMA said the consequences of the legislation could be "grave".

Zuma could not be reached for comment yesterday

(183) Star 19/5/97

Council objects to drugs bill

BD 21/5/97

(183)

(15)

Jacob Dlamini

CAPE TOWN — A health bill currently before parliament would weaken the control of drugs, the Medicines Control Council told the parliamentary health committee yesterday.

Council clinical committee chairman Antoine van Gelder said the Medicines and Related Substances Control Amendment Bill would have an adverse effect on drug regulation.

The bill was ambiguous, which could lead to multiple interpretations, and contained deficiencies which could expose council members to legal action.

The bill forms part of the national drug policy, launched last year to ensure an adequate and reliable supply of safe and cost-effective drugs.

It calls for the parallel importing of drugs if the manufacturer's SA subsidiary proves too expensive, the speedier registration of drugs, as well as allowing for generic substitutes to reduce costs. It also seeks to end bonus-ing, a practice by which doctors are enticed to prescribe the products of certain companies.

Van Gelder said the amendments would compromise public confidence in

the safety of available medicines

Council vice-chairman Peter Eagles said some of the proposed amendments were in contrast to the national drug policy and would weaken the council's ability to evaluate the safety, efficacy and quality of medicines.

Eagles said parallel importing would allow for drugs to be brought into the country without having to go through the registration system.

The requirement that products supplied to the state should not bear brand names was a violation of intellectual property rights. In terms of the new bill, the council would be required to carry out extra duties without adding value to the medicine control process.

Eagles said the amendments would curtail the council's autonomy and turn it into a "juristic person", exposing it to legal challenges from the public and the pharmaceutical industry.

National Party spokesman Willem Odendaal accused Health Minister Nkosazana Zuma of trying to grab control over health care in a dubious way.

Inkatha Freedom Party spokesman Ruth Rabinowitz said the bill gave Zuma excessive powers and reflected a lack of faith in the private sector.

COMPANIES

SAD shares pick up but high profit 'unlikely'

bb 21/5/97 (183)

Ingrid Salgado

SHARES in pharmaceutical group SA Druggists (SAD) made headway on the Johannesburg Stock Exchange yesterday, climbing 40c to R33,20 after reaching a 12-month low of R32 last week.

Analysts agreed that the share price had probably bottomed out last Tuesday after losing 405c, or just more than 10%, this month, valuing it at closer to R40. At the interim stage in February, SAD had a net asset value of R12,38.

Smith Borkum Hare analyst Graeme Wald attributed the share's recent slide to negative sentiment about Medicross, a

chain of 38 clinics held by SAD. The group may have entered the clinic market too early, since Medicross was "only just" profitable, Wald said.

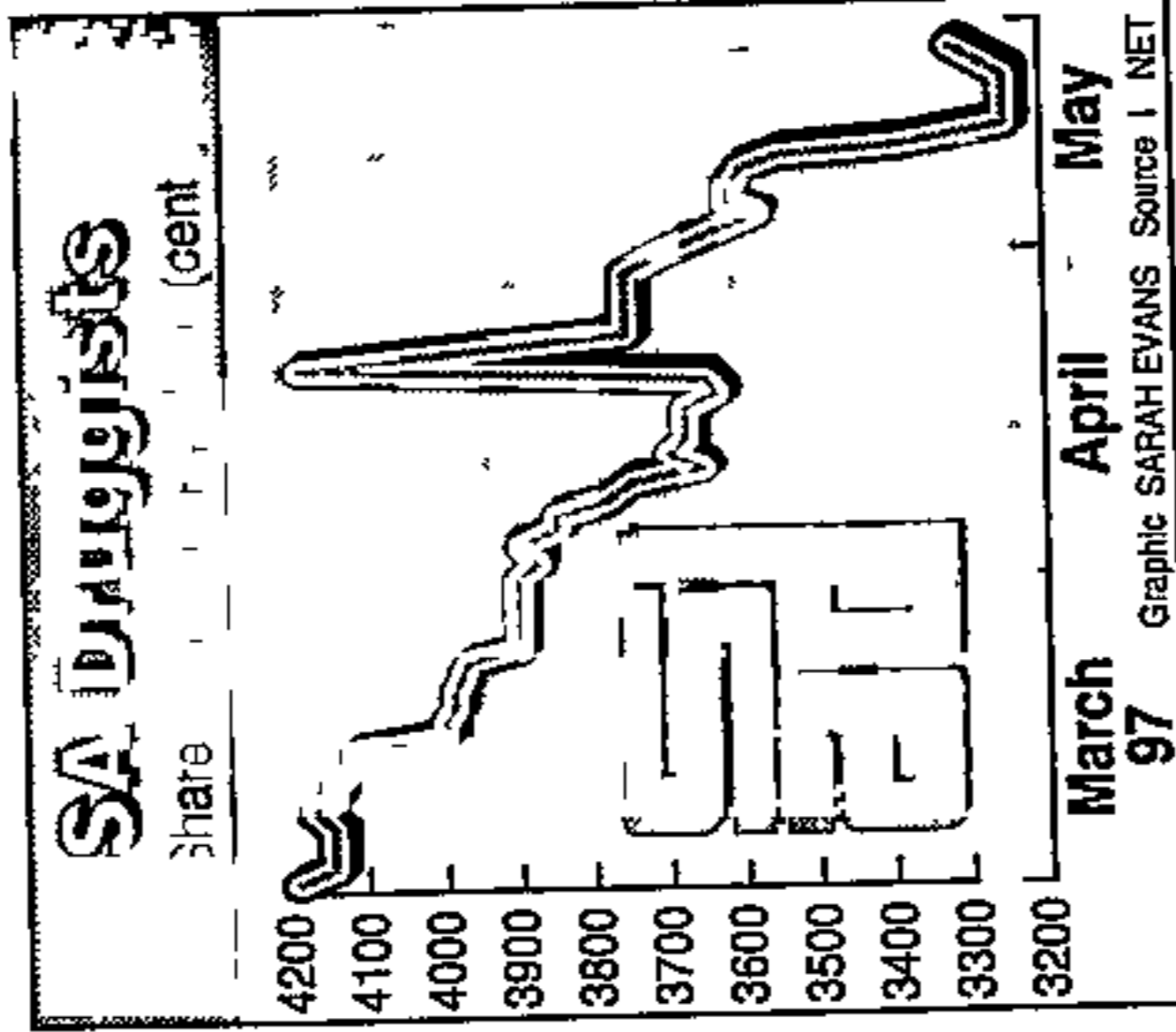
Proposals to allow for the parallel importation of pharmaceutical products had also contributed to the decline, analysts said. This was despite an active decision by SAD to decrease its exposure to the tender market significantly over the past three years.

Adcock Ingram, the other pharmaceutical heavyweight, had "virtually no exposure" to that market, Wald said. He estimated SAD held 25% of the market for government contracts in terms of vol-

umes at the end of financial 1996, down from 40% in 1994. Its share was 15% in terms of rand value, down from 25% three years ago.

Investec Securities analyst Melaine Da Costa said the SAD share's slide was primarily due to a perceived overhang following Malbak's unbundling, and the decision by Sankorp, Sanlam's industrial holding subsidiary, to reduce its holding in SAD after merger discussions failed.

Negative press about the proposed parallel import policy had also taken its toll. It appeared unlikely that SAD would achieve its promised 15% growth in earnings for the financial year to August.



Graphic SARAH EVANS Source I NET

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Pharmacy bill concerns will be thrashed out

Jacob Dlamini

BD 22/5/97

(183)

CAPE TOWN — The health department is to meet the Interim Pharmacy Council in a bid to thrash out differences on a controversial bill which would allow supermarkets and laymen to trade in prescription medicines.

The meeting is expected to take place within weeks and will focus on clauses in the Pharmacy Amendment Bill, currently before Parliament.

The bill, designed to improve access to medicines and pharmaceutical services, calls for the deregulation of existing laws to allow people other than trained pharmacists to own pharmacies.

Parliamentary health committee chairman Abe Nkomo called for the two parties to meet after the council expressed concerns about the bill yesterday.

Council legal advisor Pierre Marais said it was badly worded, would create moral hazards and offer perverse incentives which could be exploited.

Marais said the bill would discriminate against pharmacists who had to have a licence for themselves and their premises before they could operate.

It would allow prospective pharmacy owners to apply only for a licence for their premises as the bill would give everyone an automatic right to trade.

Marais said the bill would also make it impossible for the department to stop people from owning pharmacies, including pharmacists who had been struck off the roll for unprofessional behaviour.

Marais said the bill failed to make provision for the appropriate monitoring of nonpharmacists owning pharmacies and would result in the unequal treatment of various health personnel before the law.

He said a complete transformation of existing disciplinary measures was needed to bring them in line with peer review and public accountability.

Marais said provincial health authorities lacked the capacity to take responsibility for inspection of private health facilities and licensing of people wishing to operate pharmacies, as the new bill proposed.

feasibility studies... Will also

Shell, Total oiled apartheid's wheels

(183) CT 22/5/97

OWN CORRESPONDENT

DURBAN: Shell and Total were two oil companies prepared to bust sanctions during the apartheid years

This was disclosed yesterday by the acting general manager of the Central Energy Fund (CEF) Mr Howard Roberts, who told the National Assembly's Mineral and Energy Affairs Committee the two companies had supplied about 150 000 barrels of SA's requirements at the time, of between 400 000 and 450 000 barrels a day.

Some of the major oil companies, he added "did not see their way clear to buying on the open market and supplying their companies in SA", and the Strategic Fuel Fund (SFF), had purchased crude for the other oil companies, Roberts said

Speaking during the debate on the Mineral and Energy Affairs budget in the National Assembly yesterday, Democratic Party spokesman Mr Kobus Jordaan said there was a "need to finally take some decisive action on this apartheid dinosaur (the CEF)"

Jordaan said no one was likely to

ever know exactly who had benefited from numerous, mysterious CEF oil deals for the old government

"The CEF operated under such secrecy, that not even its direct clients knew what premium they were paying for imports," said Jordaan, who added that individuals such as Mr Johan Deutsch and Mr Marc Rich, associated with the old order were believed to have "regularly taken cuts on deals of many millions of dollars"

He said the only thing which was for sure, was that there was a "faceless and nameless network at work wheeling and dealing in operations which the taxpayer (still) had no knowledge of".

Currently SA had a strategic stockpile of 39 million barrels (down from 100 million two years ago) equivalent to 90 days supply, of which 29 million were stored at Saldanha and 10 million in disused mines.

Roberts said that the SFF now obtained crude in terms of two contracts with Egyptian and US companies for the supply of Egyptian oil, as well as from the spot market



Trevor Munday pushing for September deadline

POLIFIN

Who will get the R6bn Christmas cracker?

Top two even-money favourites have all the credentials to stay the trip. But don't forget the long shot (183)

Now comes the difficult choice. Where to site Polifin's envisaged R6bn ethylene cracker and downstream polymer plants?

Polifin CE Trevor Munday says he has told all three tendering parties — Sapref, Sasol and Mossgas — to meet a September deadline so that a decision can be made before the end of the year.

After that plant construction will commence in 1999 for completion by 2003.

The proposed R4bn ethylene cracker — to be linked to the adjoining inland or coastal feedstock supplier — will be integrated with other downstream polymer plants to produce polyethylene, polypropylene, PVC and various aromatic products, accounting for a combined Polifin investment of R6bn (1996 figures).

The cracker and downstream plants will hinge on feedstock proposals now being finalised by Durban-based Sapref, Secunda-based Sasol and Mossgas.

Sapref believes it is strongly in the running. Project manager Peter Ladeur says the refiner — jointly owned by BP and Shell — is looking at plans to expand its own refinery output by 80%-90%.

Should Sapref get the nod from Polifin — which is planning a 500 000 t-600 000 t/year cracker — this could arguably boil down to a combined R7bn-R8bn

capex investment in Durban

But Sasol — Polifin's major shareholder — is also strongly in the running. "We have submitted a proposal," says Sasol spokesman Alfonso Niemand.

Ladeur says Sapref is looking at building "a complete new refinery train that will increase our existing crude oil distilling capacity by 80%-90%."

He refuses to confirm the estimated capex costs at about R1bn, as Sapref is now entering into discussions with contractors. As Polifin will also need a feedstock stream for its proposed cracker, this will form part of Sapref's projection, adding to the potential scope of its planned expansion — subject, of course, to Polifin choosing the Sapref coastal option.

Sasol and Mossgas are also working on proposals to supply Polifin with feedstock. It would obviously add to cash flows and downstream profits flowing from the huge integrated operation.

Polifin will have three options.

But industry sources say the Mossgas proposal is "a very long shot," as it would only be a siting proposal and would have to include a new brownfields oil refinery operation, based on conversion of the existing gas refinery — and imported crude oil through the Mossel Bay harbour.

Arnold van Huyssteen

FM 23/5/97

Maduna wants open liquid fuels industry (183)

CT(BR) 23/5/97
JAMES LAMONT

Harare — Penuell Maduna, the minister of mineral and energy affairs, said yesterday he would ask international oil companies operating in South Africa to source about 20 percent of their needs from a proposed integrated energy company formed from state assets

Maduna, in a speech to parliament earlier this week, revealed plans to consolidate and restructure state-owned liquid fuel assets, including Mossgas, Soekor and the Strategic Fuel Fund (SFF), into a new energy company that would serve as a vehicle for black economic empowerment and reduce costs to the fiscus

Speaking at the Southern Africa Economic Summit yesterday, Maduna said there was a pressing need to open the liquid-fuels industry to all South Africans and that the formation of the new company was a step to reforming the oil industry

He appealed to the shareholders of international oil companies "to work with us to achieve this"

There were no plans for the state to surrender its ownership of the proposed company, he said, and denied that lack of alternative commercial interest in the assets had persuaded the government to turn them into empowerment opportunities

The oil industry had responded to the proposal by asking for more clarity as to the state's role in the oil industry and the regulatory environment governing it. It still awaits the government's White Paper

Koosum Kalyan, Shell's general manager for corporate affairs, said the restructuring of the state's liquid-fuel assets was the "right way to go" in the light of the recent investigation into the oil trading activities of the SFF

Rob Angel, Engen's chief executive, said a coherent energy policy was needed urgently.

Historic deal for Colgate, Black Like Me

(183) Sowetan 23/5/97

By Business Correspondent

HERMAN Mashaba's Black Like Me Products clinched an historic multi-million rand partnership deal with world leader Colgate-Palmolive in what is seen as one of the biggest transactions in the hair and beauty industry in the country to date.

Mashaba said his company had sold an interest to Colgate-Palmolive with a view to helping boost Black Like Me sales and distribution throughout South Africa and beyond its borders.

However, Mashaba said he would retain an equity interest in the new enterprise and would remain chairman and managing director.

An ecstatic Mashaba said "I am extremely pleased to have the resources of the hugely successful global consumer products company Colgate-Palmolive behind me so that we can continue our phenomenal growth."

The deal comes after months of speculation which suggested Mashaba was set to sell an interest in his company for a rumoured R35 million.

However, Mashaba would not be drawn into disclosing the financial part of yesterday's transaction, which he said

was private.

A few months ago, he said he was preparing to enter the new millennium with a "big bang" and that to succeed in doing so, he needed the expertise of an experienced partner.

David Conn, vice-president and managing director of Colgate South Africa, said "We have long admired the success Mr Mashaba has attained with his company and are delighted to be partners with him."

"Marketing the Black Like Me brand alongside our current major brands should significantly build both their business and ours."

Black Like Me, which celebrates its 12th anniversary this year, markets a wide range of black hair care products. Its annual sales are believed to be approaching R50 million.

To date, there are more than 125 Black Like Me products on markets in several countries including Uganda, Zimbabwe, Zambia and South Africa.

In 1994 Mashaba was honoured as the first and only black winner of the IMM Marketing Person of the Year, the New Nation-Engen Business Person of the Year award in 1994, and the 1995 Portfolio of Black Business Man of the Year award.

How the retail pricing system affects your pocket

Controversy over drug-pricing policy

Star 23/5/97

Health Ministry and Medicines Control Council in bid to thrash out problems over bill

BY JANINE SIMON
Medical Correspondent

Consumers are no closer to having the legal right to be informed of cheaper generic substitutes for prescription drugs.

They now face further confusion over drug prices as pharmacists introduce a professional-fee-based drug-pricing system.

The professional-fee-based price system will be phased in as from next week.

The Health Ministry and the Medicines Control Council met in Cape Town yesterday to discuss conflicts on the Medicines and Related Substances Control Amendment Bill.

The bill was drafted to give a legal framework to the National Drugs Policy released in January 1996.

It proposes to make generic substitution a legal option, license dispensing doctors, allow parallel drug imports, and ban drug-company bonuses to doctors, but has drawn fire for giving the minister excessive powers and emasculating the Medicines Control Council.

Pharmacists are, meanwhile, preparing to give effect to another aspect of the National Drug Policy. Professional fee-based pricing for prescrip-

The antidepressant Prozac, manufactured by Eli Lilly, is one example of how retail drug-pricing and medical-aid-reimbursement systems work in South Africa.

According to pharmacy clearing house Mediscor, the current "blue book" or retail price for a pack of 28 20mg capsules is R306,77.

That's the price you'll pay if you are not on a medical aid, if your pharmacy doesn't give a discount for cash or if you don't ask for a generic substitute.

From next week, you can also ask to pay the new professional-fee-based price of the Pharmaceutical Society of SA, which works out to about R262.

Prozac's generic equivalents, Lorien, made by SA Druggists, and Lilly Fluoxetine, made by Eli Lilly, retail at blue-book prices of R125,86 and R182,69 respectively. The PSSA professional fee price is R121 and R168.

Most medical aids reimburse at the maximum medical aid price - a guide for generic substitution drawn up by pharmacy clearing house Medikredit.

They are also still deciding whether to accept the PSSA professional fee structure, or that of the Representative Association of Medical Aids. Medical Correspondent.

CONFUSING CHANGES TO MEDICINE PRICES

Classification	Original	Example	Blue Book price	New PSSA Professional based price	Difference
Anti-arthritis	Original	Induclid R \otimes x 30	R245,61	R181,63	- R63,98
Anti-ulcer	Generic	Articulen LA \otimes x 30	R117,11	R93,86	- R18,75
	Original	Tagamet \otimes 400mg x 60	R403,47	R285,89	- R117,58
Antibiotic	Generic	Adco-Cimetidine \otimes 400mg x 60	R253,90	R187,11	- R66,79
	Original	Amoxil \otimes 500mg x 15	R70,22	R65,89	- R4,33
Painkiller	Generic	Adco-Amoxicillin \otimes 500mg (15)	R42,34	R47,78	+ R5,14
	Original	Stopayne \otimes	R41,95	R47,22	+ R5,27
Antihypertensive	Generic	Stilpane \otimes	R20,52	R33,08	+ R12,56
	Original	Tenormin \otimes 100 x 30	R162,14	R126,55	- R35,59
Diuretic	Generic	Ten-Bloka \otimes 100 x 30	R83,16	R74,42	- R8,74
	Original	Moduretic \otimes x 30	R99,07	R84,93	- R14,14
Generic	Adco-Retic \otimes x 30	R22,23	R34,14	+ R11,91	

tion drugs is an attempt to help lever the private sector out of years of hyperinflation of medicines prices.

For at least the next month, pharmacists will be running a dual pricing system, said Willie Kriel, head of the professional department of the Pharmaceutical Society of South Africa (PSSA).

This was because pharmacists still had contractual agreements with medical aids based on previous systems, he said.

This is the wholesale price, plus 5% finance charges, R3 for practice expenses and a professional fee of R15 for every prescription drug dispensed, excluding VAT, said Kriel.

and its generic Stilpayne from R20,52 to R33,08.

In some cases the final retail price is now higher than that which consumers were paying when they were given cash discounts off the old "blue book" recommended retail prices.

Medical aids not yet contracted to the PSSA's new system will have to choose whether they use the PSSA, or the system suggested by the Representative Association of Medical Schemes (Rams), said Kriel.

Most medical aids will only reimburse members for the cost of generic equivalents to prescription drugs, the so-called maximum medical aid price (MMAP) set by the four clearing houses which process pharmacy claims for medical aids.

Rams' recommended medicines scale of benefits is the wholesale price as of April 1997 (where available) plus a R19 per line dispensing fee, to a maximum of three items per script. It is significantly lower than current blue-book prices, said policy director Dr Aslam Dasoo.

But medical aids must still apply the Rams figures to their own MMAP prices, and decide how they wish to reimburse.

"It is up to members to demand explanations from their medical aids," Dasoo said.

The PSSA system will see the cost of top-range drugs plummet, including the price of some generics, but will add a small rand value to the cost of less pricey drugs.

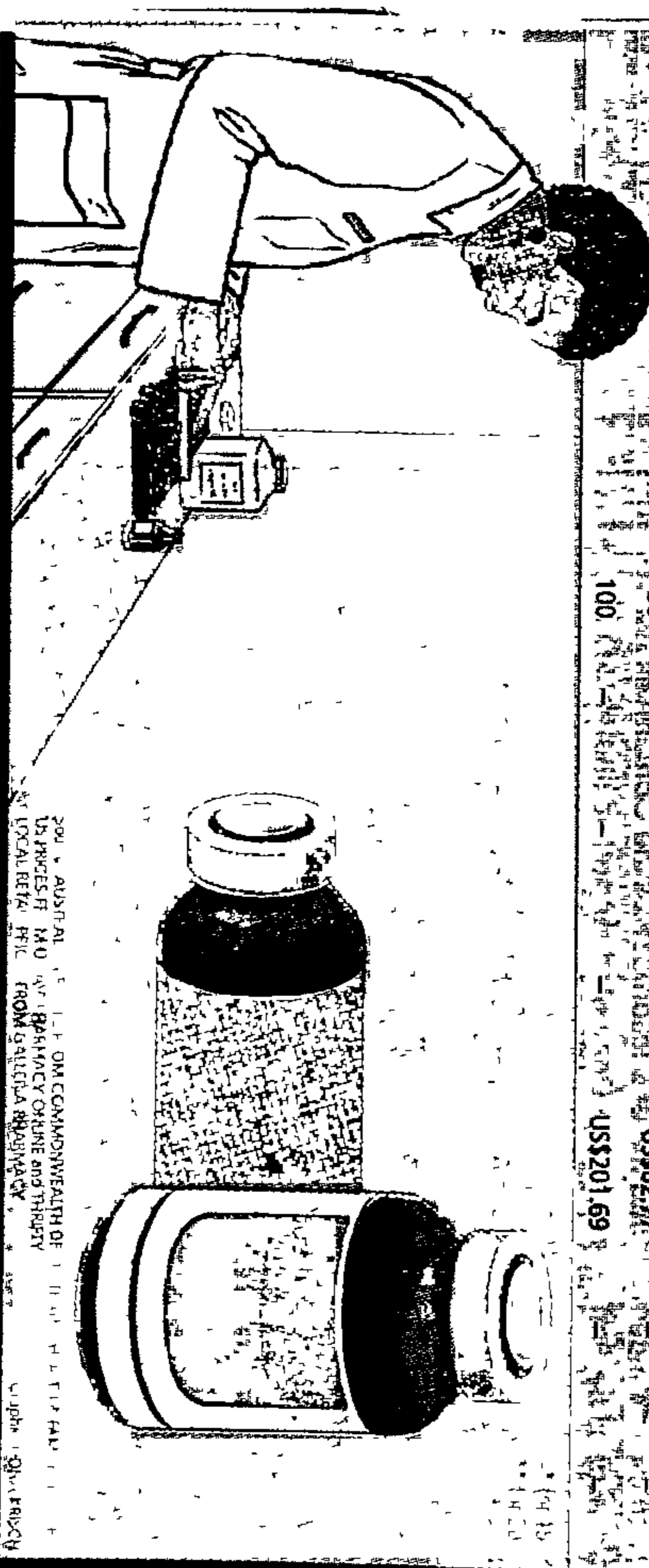
For example 15 500mg of the antibiotic Amoxil will drop from R70,22 to R65,89, the anti-ulcer drug Tagamet will drop from R403,47 to R285,89 for 60 400mg tablets, and its generic anti-ulcer Adco-Cimetidine from R253,90 to R187,11. But the painkiller Stopayne will increase from R41,95 to R47,22,

HEALTH CARE

Sunday Times Business Times
May 25 1997

BRANDED NAME PRESCRIPTION DRUGS: PRICE COMPARISONS

TRADE NAME	GENERIC NAME	STRENGTH	PACK SIZE	TENDER		DISCOUNT		US RETAIL		AUSTRALIAN GOVT PRICE	PRIVATE PRICE
				PRICE TO SA GOVT	*RETAIL AT GALLERIA PHARMACY	PRICE TO CONSUMERS	PRICE TO AUSTRALIAN GOVT				
Zosin	Simvastatin	40mg	28	R57.05	R227.16	R102.15	US\$67.69	**\$442.01	**\$491.96		
Augmentin	Clavulanic Acid	375mg	100	R197.22	R631.55	R252.07	US\$104.63	**\$458.07	**\$421.87		
Leptex	Enalapril	5mg	28	R7.65	R1.19	R0.27	US\$85.93	**\$21.00	\$42.96		
Roaccutane	Isotretinoin	10mg	60	R555.73	R361.22	US\$251.00	\$A101.06	\$A160.35			
Fluozac	Fluoxetine	20mg	28	R305.77	R199.40	US\$62.77	\$A35.50	\$A56.05			
			100			US\$201.69					



2001 AUSTRALIAN COMMONWEALTH OF AUSTRALIA
PHARMACY OF THE FUTURE
FROM GALLERIA PHARMACY

Discrepancies exist

in medicine prices

THIS table shows six of the top 10 selling branded prescription drugs in South Africa. The South African prices reflect the tender price — at which the drug company sold the product to the state — the "retail price" which several retail outlets still charge and the type of discount prices available to those prepared to scout around.

The United States prices reflect those an ordinary consumer would pay for the same drug in Los Angeles. But US consumers largely buy generic substitutes when they are available, almost all of which are very much cheaper.

Almost 50% of US citizens belong to managed care-type insurance companies who demand either that the generic drugs are bought in bulk by mail order, or insist that the generic alternative be supplied. They seldom pay for a branded prescription drug when a generic is available.

The pharmacist who supplied some of the US prices thought the inquiry would be better directed to Mexico where even the branded drugs, he said, were 80% cheaper than in LA.

The Australian prices reflect the peculiarities of that country's government subsidy system. The private price is an estimate of what a consumer would pay in a pharmacy with a prescription, but without the government subsidy scheme. The "government price" is the amount a pharmacist would receive for dispensing the drug to a patient. But the amount a patient pays (aside from the private price) depends on the category of patient and therefore the subsidy.

Pensioners and other low-income earners, for instance, never pay more than \$A3.20. And no Australian has to pay more than \$A20.00.

The retail prices of drugs in each country will show the characteristics of the distribution system as well as government systems.

South Africans can see that a huge discrepancy exists between the prices pharmaceutical companies sell to the state on tender and the amounts they recoup from private patients.



Council squares up to fight Zuma's Bills

ST(BR) 25/5/97 (183)

PHARMACEUTICAL INDUSTRY

By PAT SIDLEY

THE Medicines Control Council has joined the throng of stakeholders to object to the Health Department's package of Bills aimed at changing the way pharmaceuticals reach the market.

According to one multinational pharmaceutical company, the council is prepared to go to court to assert its rights. The Medicines Control Council is the body which regulates the standards, quality, safety and efficacy of drugs that reach consumers.

Pharmaceutical companies have objected to almost all the changes proposed by Health Minister Nkosazana Zuma, which are aimed largely at bringing prices down and introducing more equity in the drugs market.

The council says the Bill contains serious and fundamental flaws which, if not corrected, will immeasurably weaken the medicine control process in a retrogressive manner.

Chief among its problems is the fact that the proposed importation of medicines (through parallel imports or international tendering) will take place "outside the regis-

tration system", according to the council. The proposed system of registration will mean that imported drugs will not have to undergo the same rigorous inquiries as do those which are sold within South Africa, before they can register and reach the market.

The council has also objected to the process proposed in the legislation for appointing councillors, which, it believes, will seriously erode its present autonomy and allow the minister to override objections the council may have to a particular drug.

The council emphasised that "autonomy in this context means the fearless application of the discretion that the council has in the manner that it evaluates and interprets the safety, efficacy and quality of medicines". However, it also says it does not believe the council is not accountable to the public and to the minister for its operations.

The council believes a change of wording in the law will mean that whereas in the past the MCC and the minister had to reach consensus before

regulations were made or action taken, the minister will, if the Bill becomes law, only have to "consult" the MCC and then do what she wants anyway. The council would become a legal entity in a different way from the way in which it is presently constituted. Because of the threat of litigation, the council has to function to the best of its capacity, and this could be impaired by the changes.

Regulatory authorities had their watchdog powers beefed up almost 30 years ago after the Thalidomide scandal to ensure that drugs which caused huge problems for consumers, could no longer reach the market. In most countries, since AIDS, methods have been devised to hasten certain drugs' passage onto the market — but in those countries efforts are made to ensure that quality is not compromised.

In many such countries, moves are afoot to try to force regulatory authorities to be less secretive. Although they all purport to work on behalf of the public, their work is regarded as the property of the pharmaceutical companies, and it is almost never disclosed to the public.

(3) whether any of these officials have been replaced, if not, what is the position in this regard, if so, what are the relevant details in each case?
N1042E

The MINISTER OF HOME AFFAIRS

(1) Yes

(a) 4 officers

(b) and (c) *Position*

	<i>Years Experience</i>
Regional Director	29 years
Deputy Director	27 years
Assistant Director	28 years

Senior Administrative Officer

32 years

(2) Severance packages were granted to the officers concerned on their written request

(3) None of these officers have been replaced since the Department is still awaiting a decision from the Department of Public Service and Administration regarding the filling of vacancies caused by severance packages in the Department. It is, however, being endeavoured to fill the post of Regional Director as soon as possible

INTERPELLATIONS

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language

Parallel importation of medicines

1 Mr M M CHIKANE asked the Minister of Health

(1) Whether she will make a statement on the parallel importation of medicines, with specific reference to who is allowed to do so and what the reasons are for the parallel importation of medicines,

(2) whether any drugs are currently being so imported, if not, what is the position in this regard, if so, which drugs? N1263E INT

The MINISTER OF HEALTH Madam Speaker, I am not sure whether this interpellation[†] is to be debated or not. Can we ask the person who put it on the Question Paper? I am under the impression that it might have been withdrawn

Mr M M CHIKANE Madam Speaker, I would like to withdraw the interpellation, but would like it to be debated at a later date

The DEPUTY SPEAKER Order' Interpellation No 1 will be withdrawn

Mr M J ELLIS Madam Speaker this is absolutely unacceptable [Interjections] I cannot believe that we can, at this stage, have an interpellation withdrawn. I am due to speak. I have two minutes in this interpellation. I have prepared myself, and it is a matter which I feel is of great importance. Yet at the beginning of this sitting we are informed that this interpellation has been withdrawn. This is absolutely unacceptable [Interjections]

The DEPUTY SPEAKER Order' Hon member, can we make an appeal to you that perhaps the issue Hon Doidge, did you want to shed some light on this matter?

Mr G Q DOIDGE Madam Speaker, on a point of order Comrade Moss Chikane is the interpellant, and not Mr Mike Ellis, and he has the right to withdraw if he so wishes

Mr M J ELLIS Madam Speaker, I accept the right of anybody to withdraw any question or interpellation. But surely the governing party should have the manners, the decency, to inform everybody concerned well in advance. I stress the point that this is absolutely unacceptable [Interjections]

Mr G Q DOIDGE Madam Speaker, we do apologise to the hon Mike Ellis

The DEPUTY SPEAKER Order' Hon Ellis, we hope that you accept the apology. May I just say that when there is a situation of this sort, we appeal to the Whips please to try to communicate with one another in such a manner as to smooth things out

Mr M J ELLIS Madam Speaker, I have respect for Mr Doidge. He is a good man. Since he has asked for acceptance of his apology, I will accept it

1 Mr M M CHIKANE – Health [Withdrawn]

Problems with building of houses/housing subsidies

2 Mr J A RABIE asked the Minister of Housing *

Whether, with reference to the termination of the contract of the Director-General of her Department, any problems are experienced countrywide in respect of the (a) building of houses and/or (b) utilisation of housing subsidies, if not, what is the position in this regard, if so, what are the biggest problems? N1312E INT

The MINISTER OF HOUSING Madam Speaker my response to the hon Mr Rabie's question is that no problems are being experienced countrywide in respect of the building of houses. As I announced on 6 May, we have passed the halfway milestone in our housing subsidy programme. We now have more than 880 000 subsidies already released, and almost 200 000 houses have already been built or are under construction. The major beneficiaries of these subsidies are people who earn R800 per month or less or people who are unemployed

Our delivery is improving because we are focusing on removing obstacles impeding delivery. We have implemented recommendations made in the first and second task team reports. We have established housing institutions to assist in speeding up access

Hansard

Pharmacy policy changes welcomed

BD 28/6/97

(183)

THE Hospital Association of SA (Hasa) has welcomed changes to the Pharmacy Act regarding ownership, saying the policy had been severely restrictive and made it impossible for private hospitals to render a proper pharmaceutical service.

Hasa executive director Dr Anette van der Merwe said her association supported strongly the proposal that applications be made to the director-general and not to the Pharmacy Council.

Van der Merwe, reacting to the pharmacy bill, said the director-general had no vested interest in the matter, and there was therefore no potential conflict of interest. "Applications will therefore be considered on merit, with the interest of the patient as the main objective," said Van der Merwe, whose organisation represents 97% of private hospitals in SA.

"With the move away from profit on drugs at retail level, to a professional remuneration for pharmacists, the profit making incentive is removed for corporations and body corporates not directly involved in the delivery of health care to apply.

"Pharmacists will in future be compensated for their professional expertise and the standard of service maintained."

The association said it was inappropriate for the Pharmacy Council to maintain and enhance the interests of the pharmaceutical profession.

"Instead, this role should be carried out by the professional organisation of the pharmaceutical profession which does not enjoy the statutory status of a professional body," Van der Merwe said.

The association warned there would be a potential conflict of interests between members of the public and the pharmaceutical profession, should the pharmacy bill "hope to fulfil this dual role".

The National Assembly health committee is scheduled to hold public hearings on the draft bill on June 9. — Sapa.

Drug Bill provokes strong opposition

183
Sawyer 28/5/97 (183) (183)

THE National Association of Pharmaceutical Manufacturers yesterday expressed its opposition to what it termed the "nationalisation" of the pharmaceutical industry in terms of the Medicines and Related Substances Control Amendment Bill

NAPM executive director Barney Sachs said the Bill was not in the best interests of pharmaceutical manufacturers, gave Health Minister Nkosazana Zuma increased control over drug prices and would weaken the industry

The Hospital Association of South Africa on Monday also warned against the proposed fast-tracking of the registration of essential drugs, envisaged in the Bill, as this could lead international companies to dump inferior drugs on South African markets

"We are opposed to fast tracking - whereby drugs on the essential drug list would be approved in a shorter space of time," said Dr Annette van der Merwe, executive director of Hasa, which represents

private hospitals

"Using a different set of safety requirements for these drugs will reinforce the perception of a dual system for health care delivery between the public and private sector, with standards in the public sector inferior to those in the private sector," she said

Van der Merwe also questioned the clause in the Bill which prevented nurses from administering schedule zero to six drugs which did not appear on a list prescribed by the minister

This should not apply to all nurses as the proposal was made with primary health care - working without supervision - in mind, she said

"The proposed Bill does not distinguish clearly between administering and dispensing drugs. Apart from the problems in terms of the administering of drugs, nurses would no longer be able to dispense drugs. This would hinder hospitals from providing an efficient 24-hour service and dealing with emergency cases," van der Merwe said - Sapa

Nurses face ban on giving drugs

(183) ~~183~~ ARGUS 28/5/97

Durban - Nurses will not be able to administer or dispense drugs at ward level if a medicines bill is passed in Parliament - a move that health workers fear will seriously hinder hospital services and their ability to deal with emergencies.

The Hospital Association of South Africa (Hasa) warned that the proposed Medicines and Related Substances Control Amendment Bill could have dire consequences for patients.

Hasa's Anette van der Merwe said that according to the bill, nurses would no longer be able to administer six particular medicines nor would they be able to dispense drugs. She said the bill implied that at least 20 000 nurses would have to apply for licences and complete a supplementary course before they would be able to administer these drugs. - Argus Correspondent

US pharmaceutical firms freeze investment

Linda Ensor

(183) BD 28/5/97
CAPE TOWN — US pharmaceutical companies have frozen new investments in SA pending the outcome of Health Minister Nkosazana Zuma's legislation on generic medicines.

US Congressman Robert Menendez said in an interview yesterday the proposed legislation violated the trademark rights of the US firms and they could file their objections with the World Trade Organisation as it was in contravention of WTO regulations.

The firms had raised their objections with the US government. Menendez said it was possible for the US government to raise objections with the SA government as it did with China over the violation of intellectual property rights.

Kathryn Strachan reports that the Pharmaceutical Manufacturers' Association said the US-based companies held the largest share of SA's pharmaceutical market with invest-

Continued on Page 2

Pharmaceuticals

(183) BD 28/5/97
Continued from Page 1

ments worth about \$100m. These included Eli Lilly, Smithkline Beecham, Johnson & Johnson, Pfizer, Bristol Myers Squibb, Upjohn and Wyeth.

Merck, which had recently invested R500m in SA, was particularly angered by Zuma's proposals, the association spokesman said.

Menendez said US firms had no problem competing in the generic drug arena, but mandating the use of generic drugs infringed on their trademarks and undermined the free market.

"The firms say to me that they have tried to have input with the health

ministry without much success. What is alarming to me is that if this goes ahead their investments will cease," he told a joint sitting of the finance and trade and industry committees.

He was one of a group of congressmen who briefed parliamentary committees on proposed US legislation — the African Growth and Opportunity Act — to promote trade and investment with sub-Saharan Africa.

A briefing on US relations with SA to Parliament's foreign affairs committee by the congressmen was held behind closed doors at the insistence of the Americans. SA foreign affairs officials said they could not understand why the US delegation required secrecy.

See Page 6

THE BIG STORY

Is she dispensing the right med

... and will South Africa's medical fraternity open wide
(183) ARG 30/5/97

CHANGES TO LAWS GOVERNING MEDICINES ARE INTENDED TO ENSURE THAT PEOPLE HAVE EASY ACCESS TO GOOD QUALITY, AFFORDABLE MEDICINES, REPORTS JENNY VIALI. HOWEVER, THERE IS CONSIDERABLE OPPOSITION TO SOME OF THE WAYS IN WHICH THE HEALTH DEPARTMENT PROPOSES TO DO THIS

Three bills being debated in parliamentary committees will change the face of medicine supply in South Africa, directly affecting where we buy medicines and what they cost.

Among others changes, scheduled medicines will be available from your local supermarket, but it will become more difficult for your doctor to dispense medicines unless he or she works a certain distance from a pharmacy.

Your pharmacist will now be required by law to give you the option of a generic medicine at a cheaper cost and will no longer profit by selling more expensive medicines.

These and other changes, introduced in amendments to laws governing medicines and their control, will bring drug legislation in line with the health department's National Drug Policy and expedite the transformation of the country's health system.

Last week, Parliament's Portfolio Committee on Health, chaired by Abe Nkomo, heard submissions from health department officials and the three councils directly affected by the changes to legislation, the Medicines Control Council, the Interim Medical and Dental Council and the Pharmacy Council.

The changes have far reaching implications for the way medicines are bought, sold and dispensed.

The bills affect a wide range of people, from private doctors who say it's their right to dispense medicines, to pharmacists, who will no longer profit from selling medicines, and the public, which uses health services both public and private.

One of the bills makes provision for the contentious issue of a vocational training programme for doctors and dentists.

The first set of hearings has highlighted the many areas of dissension between the Department of Health and the affected roleplayers.

It is now up to the committee to go through the bills, clause by clause, bearing in mind the many and complex objections to changes and make the necessary adjustments.

Public hearings on the bills are taking place.

All submissions so far agree that medicine prices must come down and all support the National Drug Policy.

Medicines in South Africa account for 30 percent of medical spending in the private sector, which means that we're spending far too much on prescription drugs.

The Department of Health spends more than R2 billion, or 11 percent, of its health budget on medicines.

Health Minister Nkosazana Zuma says that changes to legislation will bring down the prices of medicines in both sectors

without compromising on safety and effectiveness.

"What we're trying to do is reasonable and international practice," she has said.

The three bills under discussion are the Pharmacy Amendment Bill, the Medicines and Related Substances Control Bill and the Medical, Dental and Supplementary Health Service Professions Amendment Bill.

One of the most controversial issues in the bills is that of dispensing doctors.

Dr Zuma has emphasised that her department is not banning dispensing, but regulating it in the interests of lower prices and better dispensing practice.

"We are saying doctors should be licensed to dispense. The primary reason should be a need to dispense, not to make a profit."

New requirements are that any doctor who wants to dispense must apply for a licence, which will be issued by the director-general of health in consultation with provincial health authorities according to the need for pharmaceutical services in that area.

It also requires doctors to do a course on dispensing, to be run by the Pharmacy Council, a provision to which the Interim Medical and Dental Council (IMDC) has objected.

The health department says it's a trend in many countries to break the link between dispensing and prescribing to remove the "perverse incentive" whereby doctors make money through their professional fee and also by selling medicines.

It's the professional duty of the pharmacy to dispense, the doctor to prescribe, it argues.

Dispensing doctors disagree, questioning the department's reasons for limiting dispensing. The IMDC says it is unacceptable that the director general should now regulate dispensing doctors, which has been its duty until now.

Regulations already exist to control dispensing and discipline those who step out of line, says the council.

Changes to the law will remove the profit motive from dispensing, both for pharmacists and doctors.

This will be done by setting one "exit price" for medicines, which means that the doctor and pharmacist get paid a set fee (still to be determined) for each script they dispense, and not for the amount of drugs dispensed or what they cost.

With the profit motive removed, there is no longer a "perverse incentive", say doctors, so why is the department wanting to limit the number of dispensing doctors?

The health department is not about to back down, however. In her submission to the committee, Director General of Health Olive Shisana said her department was "pitching this clause with as much passion as those opposing it".

"Our interest is to protect the public, theirs is to make money. There is likely to be little agreement between medical practitioners and ourselves," she said.

This was firmly rebutted by IMDC president Soromni Kallichrum, who said the council's priority was to protect the health of the public.

For the first time, the new law will bind the State to follow its own dispensing regulations, which include safe packaging and



Standing firm: Minister of Health Dr Nkosazana Zuma is convinced she's doing the right thing.

labelling. This might take some time, warned Bada Pharasi, a director in the health department, because there were many areas in the public sector where standards had to be brought up to scratch.

Vocational training, which means an extra two years' training for doctors, will come into effect from January next year in spite of vigorous opposition from junior doctors.

The Government has given its assurance that there are enough posts available. A year's vocational service for dentists will be introduced in 1999.

Other changes to the laws aimed at bringing medicine prices down are the outlawing of "bonusing" and sampling, which are seen as "perverse incentives" which can interfere with doctors' professional judgments.

Bonusing is the practice whereby pharmaceutical companies give doctors cash payments or overseas holidays as an incentive to prescribe that company's medicines.

Sampling is where doctors are given large quantities of samples which they sell or give away. There has, not surprisingly, been very little objection to these clauses.

Substituting generic drugs for brand name drugs has caused concern, however.

The bill makes it compulsory for pharmacists to inform people of the benefits of a generic drug (a drug with the same active ingredient as a branded drug, but cheaper) and substitute it with a generic medicine unless forbidden by the patient or the doctor to do so.

In South Africa, only 16 percent of drugs used are generics, compared to 40 percent in the United States.

Concern at quality and efficacy have been expressed, but generics will be no different from other medicines which have to be registered with the Medicines Control Council (MCC).

Another measure to bring drug prices down is the introduction of parallel importing, which allows the Government to import drugs from the same pharmaceutical company in another country if prices are cheaper there.

This does not mean that all drugs will be imported, Dr Zuma has said.

"It depends on whether companies give us a reasonable, competitive price."

Dr Shisana said parallel importing was simply letting market forces work and this included the international market. Quality control would not suffer, she said.

"We found that tender prices from the

"There is likely to be little agreement between medical practitioners and ourselves"
— Olive Shisana

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ing the right medicine?

's medical fraternity open wide to take it?

ARG 30/5/97

(183)



Standing firm: Minister of Health Dr Nkosazana Zuma is convinced she's doing the right thing

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The bill makes it compulsory for pharmacists to inform people of the benefits of a generic drug (a drug with the same active ingredient as a branded drug, but cheaper) and substitute it with a generic medicine unless forbidden by the patient or the doctor to do so

In South Africa, only 16 percent of drugs used are generics, compared to 40 percent in the United States.

Concern at quality and efficacy have been expressed, but generics will be no different from other medicines which have to be registered with the Medicines Control Council (MCC)

Another measure to bring drug prices down is the introduction of parallel importing, which allows the Government to import drugs from the same pharmaceutical company in another country if prices are cheaper there

This does not mean that all drugs will be imported, Dr Zuma has said.

"It depends on whether companies give us a reasonable, competitive price"

Dr Shisana said parallel importing was simply letting market forces work and this included the international market. Quality control would not suffer, she said

"We found that tender prices from the

'There is likely to be little agreement between medical practitioners and ourselves'
- Olive Shisana

pharmaceutical industry (locally) were 21 percent higher than what we could get on the international market."

An amendment to the Pharmacy Bill allows anybody to own a pharmacy, provided that it is under the continuous supervision of a pharmacist. Concern has been expressed that large chainstores will put small pharmacies out of business

Dr Shisana says, however "It is not the Government's responsibility to protect business interests in the private sector It's an unhappy and sorry state that the Government has protected certain professions"

The pharmacy council told the hearings it was concerned not so much at the principle of pharmacy ownership, but at the wording of the bill. The council and the health department are meeting to iron out problems

The Medicines Control Council will also be affected by the new laws which make it a legal entity for the first time (meaning it can be sued separately from the health department) and allow it to retain revenue from registering drugs

Peter Eagles, vice-chairman of the MCC, said the council had reservations as to its constitution and the fact that the Minister of Health had the final say over its executive committee He said amendments would be detrimental to the council's objectives of safety, efficacy and quality unless certain wording was changed

Differences between the health department and the MCC about the bill were such that Dr Nkomo had ordered that the two parties to meet again to work out their major differences

Through the three mornings of hearings there were murmurings and rumblings that Dr Zuma was being given extensive powers to control the sale of medicines in South Africa, a perception which was denied by health department officials who said it was rather a consolidation of powers

Concern was also voiced at the hearings that the legislation was being rushed through the parliamentary process without adequate consultation

Democratic Party spokesman on health Mike Ellis, who sits on the portfolio committee, said handling three complex bills at the same time within a short time was a problem

This was echoed by the three councils presenting their views They said that although there had been extensive consultation up until the bill was drafted, they had not seen final drafts in time to consult adequately with the department on changes

Dr Shisana responded by saying "We are doing three bills at the same time because they are interrelated Our intention is to ensure consistency"

However, there is clearly also a sense of urgency as a delay in passing the bills would be a delay in bringing drug prices down

"We would like to move rapidly for transformation to reduce costs of medicines for our people," Dr Shisana told the hearings

Chairman of the portfolio committee Abe Nkomo supported this, saying "Now is the time of the depths of the transitional period It can't be business as usual."

OIL *Malaysian partnership a model for restructuring assets*

Engen lights way for state

ET (PR) 30/5/97

(183)

CHRISTO VOLSCHENK

Cape Town — The government will use Engen and Petronas, the Malaysian oil company, as an example of how to build successful partnerships between the public and private sectors, Penuell Maduna, the mineral and energy affairs minister, said yesterday.

It would do this when it consolidated all state-owned energy-related assets into a new energy company to be listed on the JSE and later used as a tool for black economic empowerment. Maduna said at a celebration of the start of production of the Oribi oilfield off the Bredasdorp coast.

The first tanker-load of oil from Oribi will arrive in Cape Town in any case, month. This load has been sold to Caltex at the international price for oil of equivalent standard. A second load might be shipped to Durban but the negotiations had not been concluded, Maduna said.

Engen and Petronas have stakes in Engen. Engen is wholly owned by the Malaysian government.

"While we would not duplicate the Petronas model, we would seriously look at Engen as a shining example of successful partnership," Maduna said.

"We want to see the partnership with the private sector to create opportunities for the empowerment of the black population."

"We do not want to see the economy dominated by a small minority. We want to use the energy assets to deracialise the economy," Maduna said.

Thabo Mbeki, the deputy president, and Azizan Zainul Abidin, the chairman of Petronas, held talks last week about Petronas' plans for Africa.



SETTING AN EXAMPLE Penuell Maduna celebrates the Oribi oilfield going into production

PHOTO BY ...

Gundle earnings up on organic growth

MATT GETZ

(183)

CT(BR)30/5/97

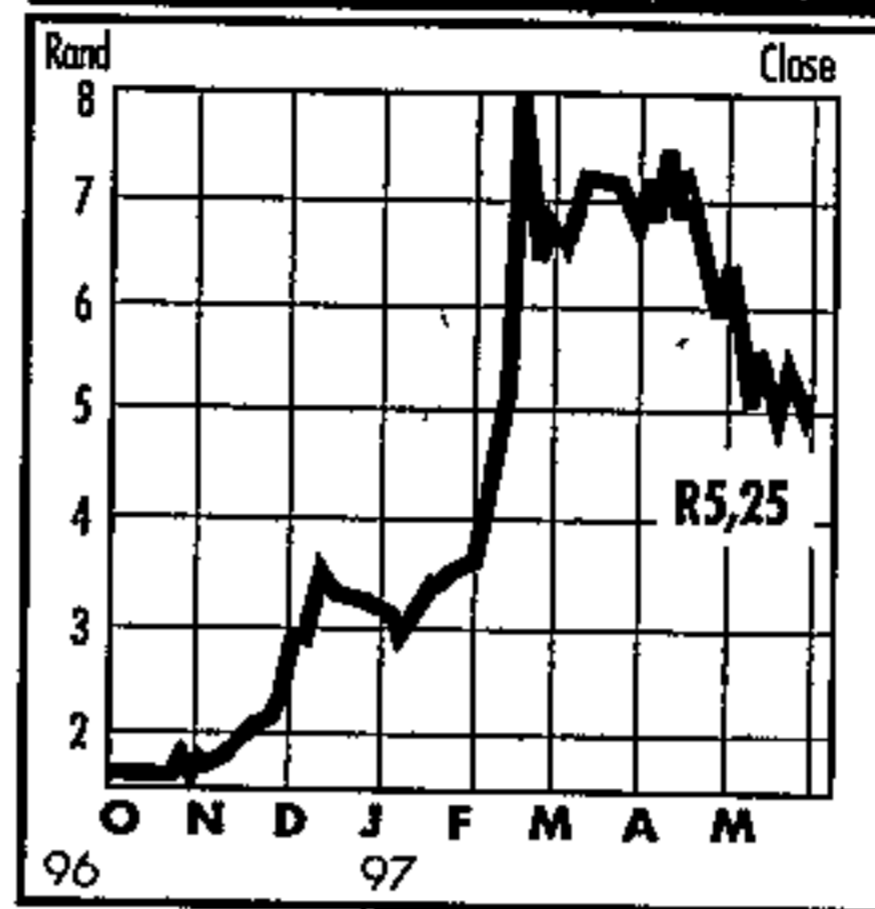
Johannesburg — Gundle, the polyethylene manufacturer formerly known as Plastall, said yesterday that attributable income in the six months to March 31 rose 33 percent to R2,687 million, from R2,019 million in the same period last year. Weighted earnings a share rose by the same degree to 18,3c.

The company attributed the rise to "contained costs coupled with a diverse product mix and good plant utilisation". It said turnover rose 29 percent to R51,8 million despite competitive trading conditions. The company did not declare a dividend.

Capital expenditure rose from R359 000 to R6,197 million. The bulk of that was going to the construction of a new manufacturing facility in Gauteng which would produce multilayer and barrier-type value-added products, the company said.

The balance sheet showed that at the end of the period the company had interest-bearing

Gundle



debts of R12,885 million — barely changed from last year — and long-term liabilities of R8,457 million. It had net current assets of R9,385 million.

The directors said the improved results were pleasing because they had come from organic growth. They said the effect of the growth could be seen in the share price, which rose from R1,70 to R6,87 in the period. It has since slipped back, but gained 15c to R5,25 yesterday.

Winhold, which owns 86 percent of Plastall, added 16c to R1,30 yesterday.

UK drug producers join battle against bill

Kathryn Strachan

BRITISH pharmaceutical manufacturers joined the battle against Health Minister Nkosazana Zuma's proposed medicines legislation yesterday, stating their objections in a letter sent to Zuma and to Deputy President Thabo Mbeki.

The Association of the British Pharmaceutical Industry also raised the issue with the UK government, arguing that the

proposed bill violated international trade rights agreements.

In the US, drug manufacturers scheduled a meeting last night between several companies and SA ambassador Franklin Sonn. The International Federation of Pharmaceutical Manufacturers joined the offensive last month when its president, Glaxo Wellcome worldwide CEO Sean Lance, said the proposed legislation would result in disinvestment in SA.

The US industry's trade association, Pharmaceutical Research and Manufacturers of America (Pharma) said yesterday the next step would be to testify at the parliamentary hearings due later this week.

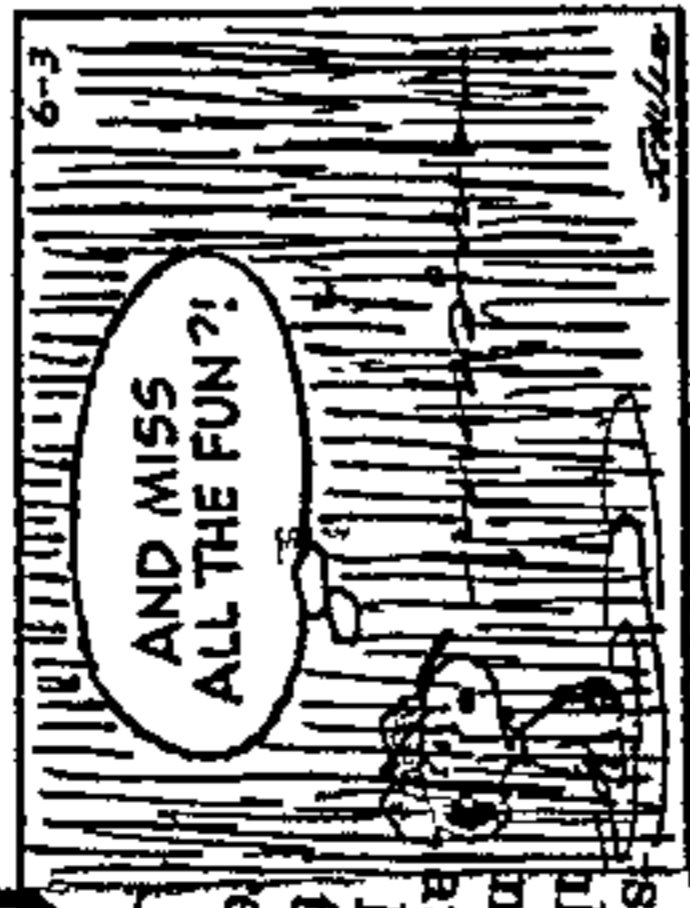
Pharma vice-president Tom Bombelles said US government representatives had raised the matter with their SA counterparts at a World Trade Organisation meeting last week.

Sapa reports that Pharma-

care Limited, the pharmaceutical division of SA Druggists, has come out in support of Zuma's intention to promote the use of generic medicines above more expensive branded drugs, where appropriate.

But the company was concerned by Zuma's intention to import cheap generic medicines which gave the impression SA was unable to satisfy its own requirements for competitively priced generic products.

By Charles Schulz



Court challenge to teacher redeployment

Linda Ensor

BD 2/6/97

CAPE TOWN — The legality of Education Minister Sibusiso Bengu's teacher redeployment strategy was challenged in the Cape High Court yesterday by Grove Primary School, whose action was supported by more than 70 other Western Cape schools.

Placard-wielding members of the SA Democratic Teachers' Union, which supported redeployment, thronged the court entrance before proceedings began, to protest against the application.

The court action was brought against Bengu, who is opposing it, the education MECs of the nine provinces and 21 other signatories to the Education Labour Relations Council. The central issue concerned the right of school governing bodies to choose teachers rather than have them prescribed by MECs from lists of redeployable teachers.

In terms of the scheme, teachers who voluntarily agreed to redeployment ranked highest on the list of those eligible for employment, followed by compulsory redeployees ranked by the last in, first out principle. If a school disagreed with the teacher allotted to a post, its objection would be considered only on the basis of "curriculum requirements".

"Provision of the best quality teachers plays absolutely no role and schools have no choice worth the name," Grove's counsel Gerrit van Schalkwyk SC argued. The strategy was based on the questionable principle that excess teachers in employment had a superior constitutional right to employment than teachers who had left the profession, and graduates.

Grove has applied for agreements on redeployment to be set aside on the grounds that they were ultra vires. It has also argued that Bengu's promulgated extension of these agreements to all employees and employees in the educational sector who were not party to the agreements was unlawful.

Van Schalkwyk noted that Bengu had extended the provisions of the agreements under the Education Labour Relations Act on November 22, although this act was repealed by the Labour Relations Act which came into force on November 11. Bengu had also acted contrary to provisions of the National Education Policy Act in concluding agreements on redeployment at the education labour relations council.

Holdings Limited

Republic of South Africa
Number 96/06/185/06
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allotment and granting of listing

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Generic drug headaches

(183) (183) (183)
FRANÇOISE BOTHA

CT (Be) 3/6/97

Johannesburg — South African pharmaceutical companies are strongly divided over support for proposals by Nkosazana Zuma, the health minister, to promote the use of generic drugs rather than branded products

The proposal, which is contained in the draft Medicines and Related Substances Control Amendment Bill, is aimed at reducing the cost of medication through the increased use of unbranded, or generic, drugs.

South African Druggists and Ranbaxy, the generic drug makers, came out in strong support of the proposal yesterday, which would see them gain market

share from multinational branded-drug rivals like SmithKline Beecham, Glaxo Wellcome and Novartis

Kobus Nel, the chief executive of Pharmicare, South African Druggists' pharmaceutical subsidiary, said "Generic substitution is indeed one of the most sensible ways of ensuring adequate primary healthcare for all. Unfortunately, the perception is that generics are of lower quality than branded ethical drugs. This is simply not true."

Terry Lee, the chief executive of Ranbaxy South Africa, said there was strong support for Zuma's proposal and generic drug substitution was "highly likely" to be introduced

COMPANY NEWS

Negotiations hinge on deregulation

Caltex strikes refinery deal with Afric Oil

JAMES LAMONT

Johannesburg — Caltex, the international oil company, was likely to offer Afric Oil, a black empowerment oil company, a stake in its Cape Town oil refinery, BusinessMap, a business intelligence consultancy, said last week in an investment report.

Afric Oil, the largest black-owned chain of petrol retail outlets, is a joint venture between Caltex and Worldwide African Investment Holdings (WAIH). The report said WAIH's interest in Afric Oil and Zenex, which holds 2 percent of the petrol and diesel sales by market share, would be linked.

Joe Makobe, a spokesman for WAIH, said yesterday that Afric Oil had no plans "at the moment" to acquire a stake in Caltex's refinery.

"It would be prudent first to see what happens with deregulation before making such a decision. Deregulation could affect those companies with heavy capital investments in the industry," he said.

South Africa has three coastal refineries and one inland. The Caltex refinery in Cape Town, the Sapref and Engen refineries in Durban, and Natref in Gauteng, owned by Sasol and Total. These refineries process 450 000 barrels a day.

The oil industry is waiting for a white paper, to be published shortly, to lay the ground rules

The report said the oil sector had been far slower to transform after the 1994 elections than other sectors, and retained the characteristics of the apartheid siege economy, with fixed pricing on retail and wholesale margins and restricted entry to petrol retail.

Relations between the oil industry and the new government have been cool, partly because the foreign multinationals resisted ANC pressure to enforce sanctions in the 1980s. Steps towards deregulation were not furthered by a period of inertia under Pik Botha, the former minister for mineral and energy affairs.

"In the next few years the most probable scenario is one of partial deregulation and changes in legislation to favour black companies. Fixed prices look like staying and import restrictions partially lifted," the report said.

Until the government gives a clearer picture on deregulation, new investment and additional capacity, including refinery investment, are on hold.

Demand for industry projects will outstrip existing refining capacity by the turn of the century for petrol (a 12 percent shortfall) and kerosene and fuel oil (a 52 percent shortfall).

A refining capacity shortfall of 150 000 barrels a day is expected by the year 2000. An expansion of capacity to meet this shortfall would cost an estimated R8 billion to R10 billion.

Mooitex gets pick of cartoon catalogue

SHIRLEY JONES

KWAZULU NATAL EDITOR

Durban — Mooi River Textiles (Mooitex), the KwaZulu Natal-based textile manufacturer which is part of Anglovaal's textile division, has been appointed the South African houseware licensee for Warner Brothers, the global entertainment group.

Warner's portfolio of characters includes Bugs Bunny, Daffy Duck, Tasmanian Devil, Tweety & Sylvester, Tom and Jerry, Fred Flintstone, Yogi Bear, Scooby Doo and the superheroes Batman and Superman.

Franklin Haddon, Mooitex's marketing director, said yesterday the company was unwilling to forecast the amount by which this deal would boost turnover, but said it would have a significant effect on the bottom line.

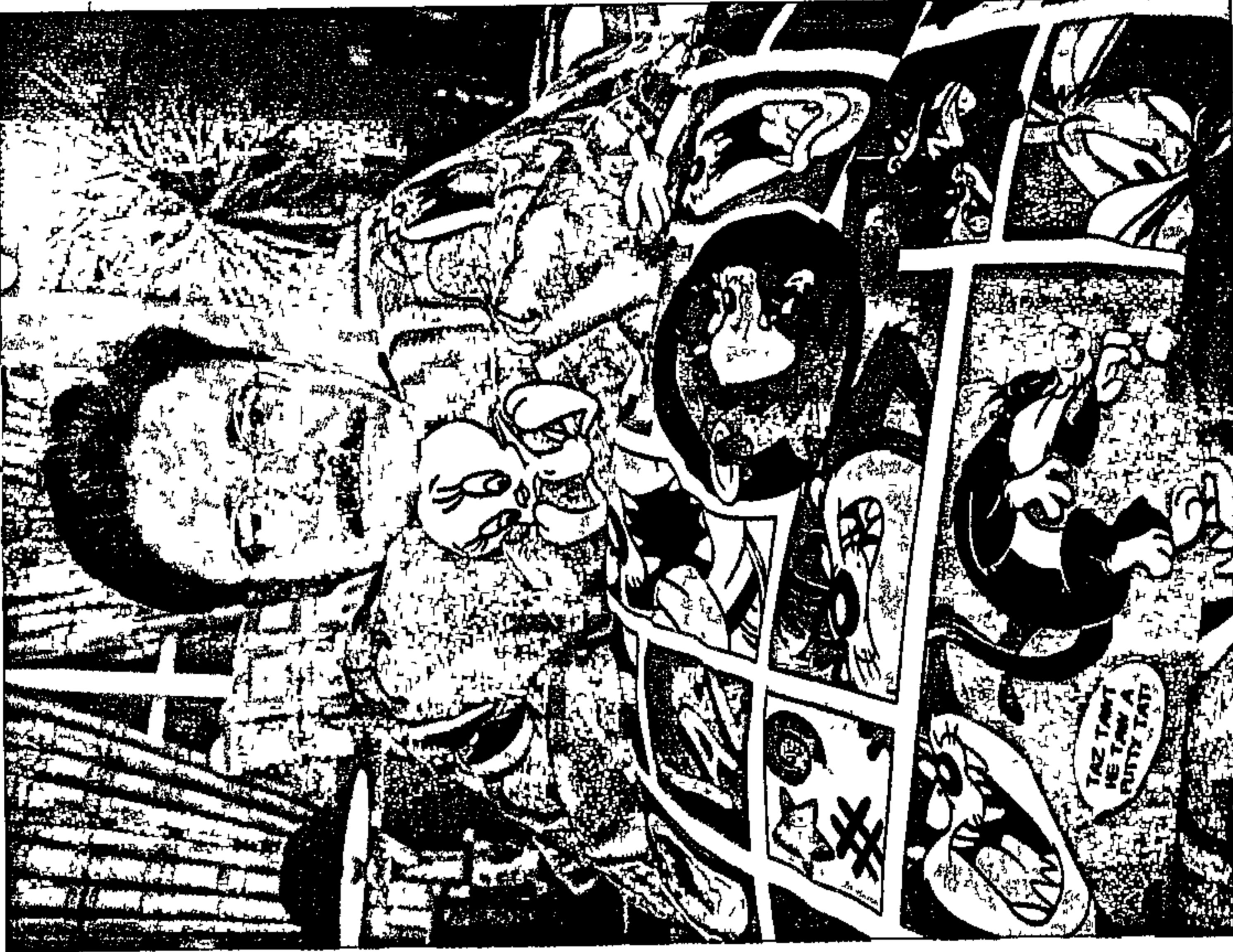
"It's going to be huge because we have sole rights."

Already, several retailers had placed orders for customised Warner ranges. Later this year Mooitex will launch a range of bedroom co-ordinates such as duvet covers and curtains. It would also import allied products such as towels, said Haddon.

He said Mooitex had its eye on the children's market "Kids' awareness is unprecedented. They want brands that they can identify with," he said.

"In today's competitive market, differentiation is the name of the game. Our use of the Warner Brothers characters adds value to our products because of the emotive elements of association and affection which they create in the minds of consumers."

The new Batman movie will be released in September "it's destined to create a huge demand for Batman and Robin merchandise. The introduction of Batgirl also opens up opportunities for products created specially for girls."



IS THAT A PUDDY TAT? Franklin Haddon, Mooitex's marketing director, says its new Warner Brothers licence would have a significant effect on the bottom line. PHOTO ANDREW BROWN

Leading businessman issues warning on SA investment

Tim Cohen

EDINBURGH — The edge was taken off a major SA investment effort yesterday when a leading member of the SA pharmaceutical industry issued a serious warning on investing in SA

In stark contrast to many other forums at the Europe SA '97 conference where investors were encouraged to invest in SA, SmithKline Beecham CEO Gunther Faber warned of a "total socialisation of healthcare in SA"

Faber surprised delegates by saying SA's small but vibrant pharmaceutical sector was "under threat"

Faber said this was because of proposed legislation "which flies in the face of official government policy of an economy based on free-market principles" The legislation had "scant regard" for intellectual property rights and was contrary to the Trips agreement that government had recently become party to, he said

"Naturally, from an investment point of view, it will relegate SA's im-

portance in terms of a base as a springboard into Africa"

The health department had decided to ignore the government's macro-economic policy which embraced free-market principles, to "use socialistic policies" to drive forward its own laudable primary healthcare policy for SA

But despite the gloomy prognosis, Faber said prospects were good and investors ought not to be "despondent"

Finance Minister Trevor Manuel defended the health department, saying as far as government was aware, the legislation did not contravene the Trips agreement.

He chided the industry for speaking in general terms about the free market, but had not come forward with specific problems it had with the legislation. It was up to the industry to show how the legislation contravened intellectual property rights, he said.

Furthermore, the industry had not presented an overall philosophy of where it was headed "So far we have only heard lobbying," Manuel said.

(183) BD 4/6/97

AECI buys leading African company

Ingrid Salgado

AECI Explosives has further boosted its position in Africa, announcing yesterday it had bought an 80% share of leading central African commercial explosives company Kafironda through wholly owned subsidiary ICI Explosives Africa

ICI had purchased 34% of Kafironda from Zambian parastatal the Zambia Industrial Mining Corporation (Zimco) — which held a 54% share in Kafironda — and acquired the balance from Covilink and Cobar Overseas Holdings

Zimco's remaining 20% would be transferred to the Zambia Privatisation Trust Fund for flotation on the Lusaka Stock exchange at a future date.

AECI said Kafironda, which manufactures and supplies commercial explosives and initiating systems to Zambia's copper mining industry and exports similar products to surrounding countries, placed the group as an effective supplier to the African region

BD 4/6/97 (183)
Reinvestment at Kafironda in modern emulsion explosives and initiating systems manufacturing technology was under way to replace an outdated nitroglycerine manufacturing plant that was shut down at the end of last year. Kafironda's product range included a variety of packaged emulsion explosives, surface bulk explosives and accessories for blasting in the mining, quarrying and construction industries, the group said.

The deal follows the January acquisition of Ashanti Goldfields Company's 49% stake in ICI Explosives Ghana.

More than half of ICI Ghana's sales arose from Ashanti, and ICI had opportunities to expand in to Guinea and other Ashanti operations

responsibilities of governing bodies. Employment should be related to the kind of business that

Outrage at cabinet stand on rhino trade

~~5/6~~ CT 4/6/97
THE Environment Ministry had not been consulted about a government decision to support renewing international trade in ivory and rhino horn, Environment Minister Dr Pallo Jordan said yesterday.

He told a meeting of the National Assembly's environment committee that the cabinet would not change its mind.

The issues are to be raised at next week's meeting of the Convention on International Trade in Endangered Species in Harare

Jordan promised to brief the cabinet tomorrow about the committee's concerns.

Members of the committee said they were disturbed that the executive had reached a decision without consulting Parliament or the public. Renewing the trade could lead to widescale poaching.

The Southern African Development Community had resolved last year to ask that elephants be downgraded from "endangered", but SA had since decided not to include its own herds, Jordan said

The proposal to renew trade in rhino horn had been made by the Natal Parks Board, which envisaged harvesting horn from living white rhino to halt poaching

The present policy on elephant and rhino had curtailed illegal trade, but had not answered the question of how best to use Africa's natural resources and meet developmental needs.

"I think it is within the power of the minister to turn this around," Mr Nic Koornhof (National Party) said "We need more time (and) consultation "

Mr Aubrey Mokoena (African National Congress) said the committee could not allow itself to be sucked into the depletion of natural resources in Africa

The African director of the International Fund for Animal Welfare, Mr David Barritt, said later he was alarmed by the cabinet's decision "How can we square that with the new democratic SA?" — Sapa

Gauteng seeks delay in implementing new system

CT 4/6/97

JOHANNESBURG: Gauteng's education authorities have called on Minister of Education Dr Sibusiso Bengu to postpone introducing the new curriculum next year as its schools will not be ready to do so.

Teacher unions, which have said teachers throughout the country will not be ready to implement the curriculum next year, have welcomed the call

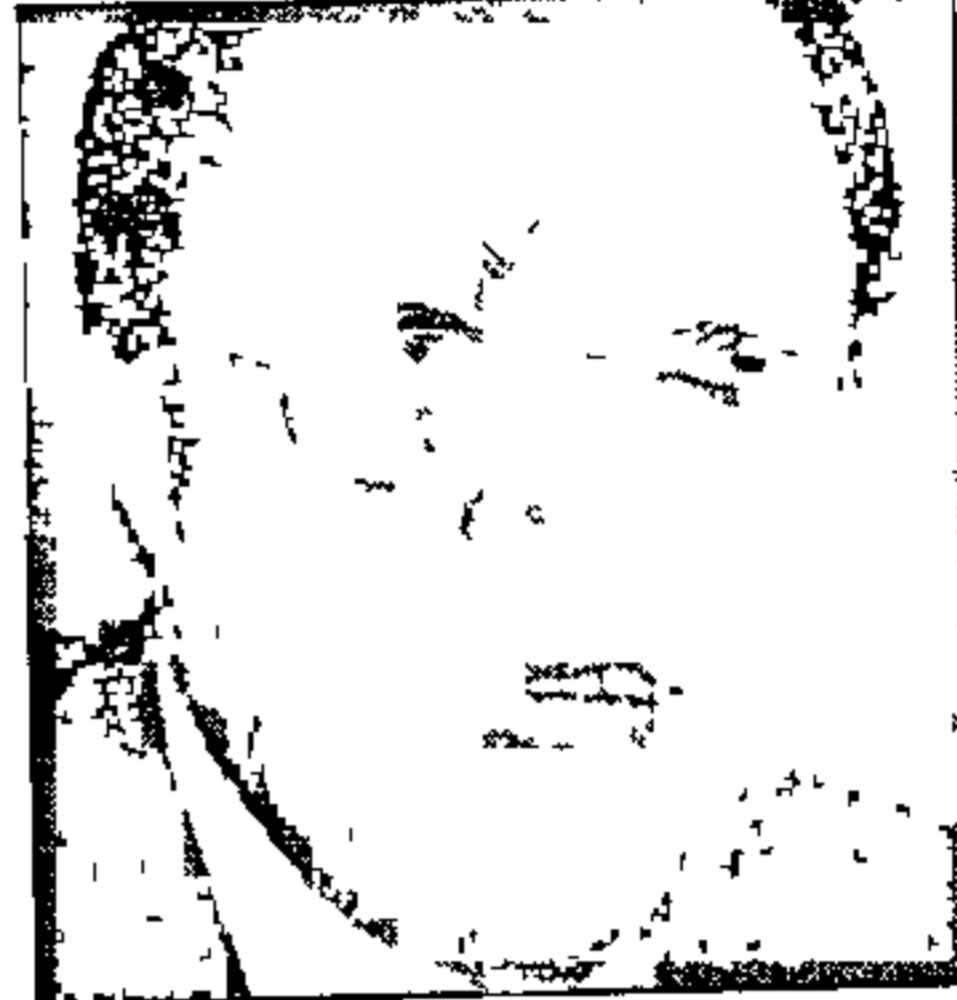
It is believed that the Western Cape and the Eastern Cape are to make similar reports to Bengu to persuade him to delay the process

Bengu tried to reassure teachers yesterday that they would learn the new curriculum as they taught it. However, he opened the door to a postponement.

"If in our assessment we are not ready, we will not hesitate to inform the public accordingly," he said

It was decided last year to introduce the new system only in Grade One and Std 5 next year

Speaking at an education conference here yesterday, the co-ordinator for the Gauteng Department



'LEARN ON JOB': Sibusiso Bengu

of Education's Institute of Curriculum Development, Mr Haroon Mohammed, said the province had assessed its state of readiness and decided the curriculum should be delayed

"We will manage implementation in Grade One, but it is doubtful we can manage Grade Seven (Std 5) "

It would be recommended to Bengu that the curriculum be introduced in Std 5, as well as Grade Two and Std 6, in 1999.

"Given the 48 000 teachers we have to reach in the province, it would be better to set a strong foundation with Grade One," Mohammed said.

The South African Democratic Teachers' Union, although keen for the new system to be introduced as soon as possible, said it might be more realistic to delay it

The National Professional Teachers' Organisation of South Africa's executive director, Mr Andrew Pyper, said he was "delighted" by the decision by Gauteng authorities

"We hope their recommendation will bring about what we have been requesting," he said

The Association of Professional Teachers also welcomed the move

Asked at the conference if the government would ensure teacher understood the new system before it was implemented, Bengu said it would be necessary to do so. He did not want criticism that educators "are not informed because they are going to be informed". — Own Correspondent and Sapa

Drug companies decry forced generic medicine

~~9/3~~ (183) CT 4/6/97
DURBAN: DRUG companies have slammed the government for trying to enforce the use of generic medicines and have warned that the importation thereof could damage the local manufacturing industry

The Pharmaceutical Manufacturers Association (PMA) said it was "concerned" with proposed legislation that would make generic substitution compulsory.

PMA chief executive Ms Mirryena Deeb said in a statement that although industry was not opposed to the use of generics it was against measures that forced the use of generics because this amounted to "government favouring one competitor ahead of another"

The draft medicines bill, to be debated in Parliament on Friday, states that the pharmacist should substitute every prescription with a cheaper generic, and must also inform the patient of the benefits of substitution — Own Correspondent

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- Standby time up to 120 hours
- Talktime up to 3.5 hours
- Send/receive SMS messages
- Any key answer

PLUS ONLY FROM



SASOL

Hunt on for mastermind

Amid great secrecy, petrochemical giant Sasol is scouring the world for a main board director to mastermind the group's globalisation programme

So discreet is the search that this week there were rumours that the skids were under new chairman Paul Kruger

The company refused official comment. Market rumours indicated that the group was looking for a substitute chairman, but a top source says this is not the case. "This is a sensitive issue and why his name has been dragged into it I have no idea"

In view of Sasol's globalisation pro-

gramme it is said to be looking at the possibility of appointing a director on its board from abroad — a prominent foreign businessman. No-one has been lined up, but he will be based abroad, possibly in London. Says a Sasol source: "Our globalisation effort is not only directed at Europe, but the US and Asia, among others"

The job will command a substantial salary as befits a company which last year boosted profits attributable to shareholders by 25.5% to R2.3bn

The group estimates capital spending between now and 2000 at more than R10bn to sustain the strong growth of the past. A key part of this growth strategy is increased globalisation

Already 25% of Sasol's R13.5bn turnover comes from foreign sales. But the main thrust in the globalisation pro-

gramme is identifying and "transplanting" Sasol-type industries and plants closer to foreign markets

The group has approached institutions to investigate joint venture possibilities abroad to supplement its technology base, through downstream technology or market opportunities for Sasol products

In Qatar the company is talking to the Qatar Petroleum Company about plans to establish Sasol technology for the conversion of natural gas into diesel fuel. This would be the first time that Sasol has applied its technology outside SA

In April the group formed an alliance with Statoil of Norway to convert natural gas to synthetic fuels using Fischer-Tropsch technology developed in SA. This will utilise Statoil's large gas reserves in northern Europe

Jack Luntjoh

MEDICINES CONTROL FURORE

FM 6/6/97
**Trademark war
 over Zuma drug plan**

Manufacturers claim the Health Minister's drive for cheap medicines could harm SA's trading status (183)

Intellectual Property Rights and removes the competition that spurs manufacturers to improve their products

Stimson says that though the Supreme Court's 1996 decision in the McDonald's fast food case was a step in the right direction, trademark owners have had good reason in the past to be concerned about trademark protection in SA

"By contravening the basic principles of trademark law, the Bill's passage would suggest to trademark owners everywhere that their valuable intellectual property as-

The International Trademark Association has added its voice to the barrage of criticism against Health Minister Nkosazana Zuma's proposed drug reforms, warning that they contravene the basic principles of trademark law and threaten foreign investment in SA

The Medicines & Related Substances Control Amendment Bill, now before parliament's portfolio health committee, aims to make medicine more affordable but has been slammed from all sides

This week, powerful Washington-based lobby Pharmaceutical Research and Manufacturers America (PhRMA) joined forces with local pharmaceutical manufacturers to fight the Bill, which they say violates their intellectual property rights and threatens the viability of the domestic industry

It is believed that the US Department of Commerce backs PhRMA's case and is prepared to take its protest to the World Trade Organisation unless Zuma moves to reassert trademark protections

There were signs earlier this week that the Health Department was beginning to bend to pressure. The parliamentary health committee instructed the Medicines Control Council (MCC — SA's independent drug regulatory authority) to get together with the department and review the MCC's concerns in anticipation of the committee's public hearings on June 6. These closed-door meetings have resulted in substantial changes to the Bill

"The department has accepted our view on a number of points and, while we have had to accept their points, I am satisfied that we have made progress," says MCC chairman Peter Folb. He refuses to give details, but industry sources say the changes will give the council greater control over cheaper drug imports

The usually conservative council made a damning submission on the Bill to the portfolio committee last week, saying it contains "serious and fundamental flaws which could weaken the medicine control process"

In a letter to the committee dated May 29, International Trademark Association president David Stimson objects to the provision which prohibits the sale of any medicine to the State if its brand name appears on the label

He says it violates SA's obligations under the Agreement on Trade Related Aspects of



Nkosazana Zuma resisting pressures to drop drugs plan

BITTER MEDICINE

How Zuma's proposals would weaken health controls

Existing procedures

- Raw materials, dosage form & packaging need approval
- Manufacturing procedures & controls are inspected
- Quality controls continuously monitored
- Duration of shelf life tested
- Innovative medicine requires evaluation of all international studies on animal & human tests
- Generic medicine must be proved to have comparable therapeutic effects
- Medicines must be registered
- All drugs continually monitored by Medicine Control Council

Zuma's proposals for parallel imports

- Draft law...
- Medicine Control Council...
- ...registered in SA...
- ...be considered...
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sets may still be at risk in SA," he says

PhRMA represents 16 US-based multinationals with investments worth about R5bn in SA. They make up more than half of the domestic pharmaceutical industry, which turns over R10bn annually

PhRMA has taken its concerns to the highest level, including the US-SA Business Council (the secretariat of the business committee of the US-SA Binational Commission chaired by US Vice-President Al Gore and SA Deputy President Thabo Mbeki), SA Ambassador Franklin Sonn, the US State Department, members of the US Congress, the US Patent and Trademark Office and the International Trademarks Association

The industry's prime concern is the proposal that would in effect allow any importer to buy a multinational's drugs outside its controlled distribution networks in order to take advantage of the substantial differences in drug prices between countries

Doctors get heard on medicines bill

CT 6/6/97

(183) (18)

CAROL CAMPBELL

POPULAR moves by Health Minister Dr Nkosazana Zuma to make medicine in South Africa cheaper will be questioned by the medical fraternity at a special public hearing in Parliament today

Zuma has repeatedly said the price of medicine in South Africa was "among the highest in the world" and the provision of safe, effective and affordable drugs in the right quantities to the whole population was a national priority

Medical sources say the price of medicine in South Africa is about four times higher than it is in most overseas countries and Professor Peter Folb, chairman of the Medicines Control Council, said prices differed by as much as 1 000%

among some dispensing doctors

A spokesman for Zuma's office said the pharmaceutical industry refused to give the minister a full breakdown of who makes how much in the medicine trade

Major players in the pharmaceutical industry, pharmacy owners, dispensing doctors and representatives of the nursing profession will make their representations to the Parliamentary Health Committee, who then has to decide if the Medicines and Related Substances Control Bill should be changed

Issues raising hackles are

- Zuma's plan to import cheap medicines for use in public hospitals and clinics — a practice which is common in Europe and Africa

- Legalising generic substitution This means that pharmacists

will have to offer patients cheaper generic medicines as an alternative to medicines prescribed by their doctor. If doctors don't want an alternative they will have to write this on the prescription

Dr Mohamed Adam, secretary of the National Convention of Dispensing said doctors would fight in court if necessary for their constitutional right to dispense medicines

Adam said he agreed no one should make a profit out of selling medicine, but to stop doctors charging cost plus a dispensing fee was wrong

Adam said doctors were questioning the safety of generic substitution and whether or not nurses and pharmacists should be permitted to prescribe drugs (recommended in the new bill)

Spokesman for the Medical Association of South Africa (Masa), Ms Marleen van Wyk, said "While we support generic prescribing, we oppose the introduction of an obligation on pharmacists to sell generic products, under certain circumstances, without consulting the prescriber"

She said it was unacceptable that the bill envisaged absolving a pharmacist from liability if a patient was harmed for not receiving prescribed medicine

Masa also opposes restrictions on doctors to dispense medicine to their patients "If licensing is to be introduced it should be done by doctors' professional board which must take responsibility not by a government official such as the director-general of health, as envisaged"

Huge drug thefts still unsolved

ET (BR) 6/6/97

(183)

SHIRLEY JONES

KWAZULU NATAL EDITOR

Durban — Investigations into the theft of medicines worth hundreds of millions of rands, either from large manufacturers or from the state, have completely disintegrated in KwaZulu Natal, industry sources said this week.

They said calls for a special task group to examine the breakdown of investigations had until now fallen on deaf ears. Attempts to motivate the overloaded South African Police Service (SAPS) had met with little success in the wake of a breakdown in communication between the units supposed to be handling the cases.

They alleged bureaucratic bungling had led to widespread inefficiencies, including the loss of dockets, the loss of evidence and the withdrawal of cases. As a result, there had been only one prosecution for theft of medicines in the province since 1990. There are 23 unresolved cases.

Lee Dutton, a spokesman for the Concerned Pharmaceutical



MISSING MEDICINE *Confiscated medicines which have been overlooked for more than a year in a stalled investigation into a syndicate of KwaZulu Natal doctors and pharmacists*

Manufacturers' Association, said yesterday that theft of medicines remained a national problem. Although some progress was being made, there were still a number of grey areas. KwaZulu Natal was one of them, he admitted.

Medicines worth nearly R500 000 seized by department of health inspectors after a raid on doctors and pharmacists were still being held, while the case remained unresolved. The raid uncovered medicines stolen from

provincial hospitals, medicines that had expired and drugs that had been repackaged in incorrect containers.

The unresolved cases date back as far as March 1993. According to one source, there are lists of complaints with "declined to prosecute" noted on them.

The SAPS had not replied to inquiries at the time of going to press. The Medicines Control Officer in KwaZulu Natal also declined to comment.

Parliament to hear evidence on pharmacy amendment bill

Jacob Dlamini

(183) (88)
809/6/97
CAPE TOWN — The parliamentary health committee will hear evidence today on the controversial pharmacy amendment bill, amid fears of possible legal action against government by the pharmaceutical industry and dispensing doctors should it become law.

The Pharmaceutical Manufacturers' Association warned on Friday that it would not countenance intervention which would foster unfair competition and infringe intellectual property rights. Several organisations said the bill violated the constitution.

The bill is part of legislation which includes two years of vocational training for medical students, restrictions on doctors' ability to dispense and the introduction of measures intended to allow laymen to run pharmacies.

Six opposition parties accused the African National Congress (ANC) of seeking to push through Parliament the new legislation during parliamentary hearings on the medicines and related substances control amendment bill on Friday. The parties said they would request President Nelson Mandela's intervention in the matter.

The Democratic Party, National

Party, Inkatha Freedom Party, Freedom Front, Pan Africanist Congress and the African Christian Democratic Party staged a brief walkout from the hearings following a row with parliamentary health committee chairman Abe Nkomo over the 10 minutes allocated for submissions.

DP spokesman Mike Elhs said the six opposition parties had also jointly decided to call for the extension of the Interim Medical and Dental Council's term of office by six months to allow for further discussion of the bill.

The committee heard submissions from deans of medical schools and junior doctors, who objected to the lack of consultation and said it would be too soon to introduce vocational training at the beginning of next year.

The Interim Medical and Dental Council said it was opposed to health department plans to assume control over the licensing of dispensing doctors as such licensing was a professional practice matter which should be done by the council. The bill also came under attack from the Free Market Foundation, with spokesman Temba Nolutshungu saying sections of it would lead to unwarranted state interference in the marketing of medicines.

'BOLD' NEW PLAN

Medicine law 'would save billions'

BATTLE LINES are drawn between medical aid schemes and the pharmaceutical industry over the Health Minister's plans. **CAROL CAMPBELL** reports.

HEALTH Minister Dr Nkosazana Zuma's moves to make medicines in South Africa cheaper were "bold" and "courageous", and would save medical aid schemes "billions of rands".

Dr Aslam Dasoo, the director of policy for the Representative Association of Medical Schemes (Rams) made these comments at a public hearing on changes to South Africa's medicine laws.

"The cost benefit to medical schemes will translate into lower contributions by workers and employers," he said at the hearing which was held in Parliament.

Zuma plans to import cheap, quality medicines from factories overseas at prices far lower than she is being offered in South Africa.

The Cape Times has established that the state buys most of its medicines on local tender. The cheapest South African supplier acquires stock and sells it to the government for about one tenth of the private sector price.

This year the Department of Health will spend about R20 billion on public health. About one-third of this will be on medicines, Dasoo said.

The health minister is also demanding that pharmacists offer private consumers cheaper generic medicine as an alternative to brand-name drugs prescribed by

What Zuma has:

- At the moment the state buys medicines on local tender, which means a company based in South Africa sources the drugs from overseas, imports them and then sells them to the government.
- Right now pharmaceutical companies offer doctors and pharmacists "bonuses" for selling their drugs to patients. Generics, which are cheaper than brand-name drugs, are not always offered even though they are as good.

What Zuma wants:

- In future Zuma wants the state to source drugs for the public sector from factories overseas — cutting out all middlemen. She believes she will be able to get medicines at a much lower price she is currently paying. This is called "parallel importing".
- Zuma wants all pharmacists to offer patients the choice of taking a cheaper generic drug rather than the brand name drug which their doctor prescribes. This is called generic substitution.

The problems:

- Unless this system is scrupulously controlled the state could unwittingly import counterfeit drugs. Overseas factories could "dump" their excess drugs in South Africa which will upset local pharmaceutical economics.
- Pharmaceutical companies are concerned that their trademarks on medicines are not being respected by Zuma.
- The problem with generic substitution is that if something goes wrong and the patient gets sick because she took a drug not prescribed by a doctor but suggested by a pharmacist, the pharmacist will not be held liable.
- Local pharmaceutical companies say Zuma will not be able to source drugs directly from their factories elsewhere in the world which means she might be forced to go through a "middle man" and expose herself to the risk of buying "dud" drugs.

How are medicine prices made up:

- One of Zuma's major problems with the pharmaceutical industry is that they are not transparent about how the cost of a medicine is worked out. All she knows is that wholesalers mark-up the price by 17,5% and pharmacists by about 50%. However, medicine prices are not regulated and mark-ups vary by as much as 1 000%. Also, she does not know how much it costs to make a medicine and how much it is then sold for.
- Zuma wants a pricing committee to monitor the price of medicines in the country. She is also considering other cost-curbing measures like set dispensing fees and placing limits on the prices manufacturers may charge.

their doctor.

She wants to cut out "bonus-ing", a practice in which a doctor "wins" an overseas trip or a gift from a pharmaceutical company for repeatedly prescribing its drugs.

Dasoo said medical aid schemes would in future insist on buying medicines in a "normal free market" and not in the current "disempowered" and "subservient" manner.

"Rams is satisfied that the Medicines Control Council, which is a world-class regulatory authority, will protect the citizens of the country as it is obliged to do, by preventing any questionable drug

to be improperly registered in South Africa."

The Pharmaceutical Manufacturers Association, represented by Mrs Miryena Deeb, told the Cape Times that the industry in South Africa had an annual turnover of R10 billion and 80% of this came from foreign investment.

"These laws are frightening investors off. Already 10 factories have closed in the past six months because the new laws are perceived as unfair. What Dr Zuma is doing to the pharmaceutical industry in this country is at odds with the government's macro-economic policy."

The local pharmaceutical industry, which is subjected to stringent quality checks by the Medicines Control Council, has also accused Zuma of endangering the lives of South Africans by sourcing drugs from "unknown" factories.

An international expert on drug counterfeiting warned that seven percent of pharmaceuticals worldwide were counterfeit. In the Philippines it was established that parallel imports were a major source of these "dud" drugs.

Deeb criticised the way the parliamentary portfolio committee handled the public hearings on the bill.

Dr Gunther Faber, chief executive of SmithKline Beecham International, interrupted a business trip to Europe to address the meeting, but was asked to speak only at 7pm when only five of the 26 members of the portfolio committee were still present.

• The Cape Times will carry a special report on counterfeit drugs tomorrow.

Bitter battle looms over ivory trade ban

HARARE: A bitter battle over a proposal to resume trade in African elephant ivory looks set to dominate a world conference on endangered species, opening in Zimbabwe today.

The 10-day Convention on International Trade in Endangered Species (Cites) has attracted more than 2 000 delegates, including

members of the world's leading environmental watchdogs.

Many have already declared their position on the ivory dispute and focused media attention on the issue — much to the irritation of Cites secretary-general Mr Ezgrev Topkov.

"For us, all the issues on the agenda are important, but for

many people the conference has become a conference on elephants alone," Topkov told a press conference last week.

"We have 115 agenda items. The media should not report only on elephants," he complained.

The elephant debate has been brought to the fore by a proposal from three Southern African states

— Botswana, Namibia and Zimbabwe — for the partial lifting of a seven-year-old ban on ivory trade.

The three countries and their supporters, notably Japan, say they must be allowed limited trade because their elephant herds, now estimated at around 150 000, are rising steadily.

Since the ban was imposed

these countries have accumulated nearly 100 tons of ivory from annual culls and legally hunted trophies.

But the proposal is strongly opposed by some influential green movements and countries, who argue that lifting the ban will leave elephants at the mercy of poachers.

— Reuter

the weekend

De Beer, who worked with

MARK ROYALIST FARIUS SCHOEMAN, would have speeded up the pace

elsewhere, in Eastern Cape head council member and

about Sources

Pharmaceutical industry public hearings are farcical, says DP

Jacob Dlamini

CAPE TOWN — The parliamentary health committee has come under fire over its handling of public hearings on draft legislation intended to reform the pharmaceutical industry, with the Democratic Party (DP) calling the proceedings "farcical"

Yesterday DP spokesman Mike Ellis walked out of hearings on the Pharmacy Amendment Bill, saying it was a waste of time discussing the legislation without the amendments likely to be added to it as a result of an agreement between the health department and the Interim Pharmacy Council

The council and the department earlier announced that they had agreed on a number of proposals which were likely to alter the bill. The legislation is designed to lower the cost of drugs by opening up the ownership of pharmacies to laymen

In terms of the agreement, the department will state clearly the conditions a lay person must satisfy in order to qualify for owner-

ship of a pharmacy. The department will also be required to define the terms under which a lay person's licence to operate a pharmacy may be revoked

The changes are likely to be added to the bill before it goes through parliament later this year.

The committee heard evidence from various organisations opposed to the lay ownership of pharmacies. The SA Association of Community Pharmacists said laymen and chain stores lacked the professional ethos needed to run pharmacies and would be driven purely by economic imperatives. Family Practitioners' Association spokesman Bharuth Seetharam said lay ownership would expose customers to counterfeit, stolen and expired drugs. He said chain stores would muscle in on the trade and force community pharmacies to close down

Six opposition parties said they rejected the existing bill and called for the extension of the Pharmacy Council's term of office, which expires in October, by six

months. The DP, National Party, African Christian Democratic Party, Inkatha Freedom Party, Freedom Front and Pan Africanist Congress said that the extension would remove the need for Parliament to pass the legislation this year and would allow for more consultation.

However, council president Johan van der Walt said he would be satisfied if the bill was passed this year. Van der Walt said he would not support the extension of the council's term of office, as it had fulfilled its mandate.

But Van der Walt warned that the bill's implementation might have to be delayed if parties failed to reach agreement on the other two pieces of legislation — the Medicines and Related Substances Control Amendment Bill and the Medical, Dental and Supplementary Health Service Professions Amendment Bill

Van der Walt said there were clauses in the three bills which were interdependent and that these would be invalid if the bills were enacted separately

60 10/6/97

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... In the two-year limit

DP slams proposed Pharmacy Amendment Bill as 'farcical'

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Medical school deans say graduates too inexperienced to go out on their own

Alan 10/6/97

By JOVIAL RANTAO
AND JANINE SIMON

Public hearings on the Pharmacy Amendment Bill, which aims to cut drug costs by opening ownership of pharmacies to all, were yesterday labelled "farcical" by Democratic Party health spokesman Mike Ellis

The bill is one of three controversial pieces of legislation geared to support the Health Department's National Drug Policy and revolutionise the health and pharmaceutical sectors

The other two, the Medicines and Related Substances

Control Bill and the Medicine, Dental and Supplementary Health Service Professions Amendment Bill, were the subject of fierce exchanges that led to a walkout of the hearings by the five opposition parties on Friday

The legislative process is under pressure because the terms of office of the Interim National Medical and Dental Council and the Interim South African Pharmacy Council (ISAPC) end in October

Yesterday changes to the Pharmacy Amendment Bill, agreed on by the ISAPC and the Health Department, were tabled at the beginning of the

hearings. They relate to among others, conditions of ownership of pharmacies.

Ellis walked out of the hearing, saying the legislation without the amendments would be a waste of time.

But ISAPC president Professor Johan van der Walt and Director-General of Health Dr Olive Shisana were optimistic that all three bills would become law before December.

The Junior Doctors' Association of SA and the Intern Action Coalition Group intend taking legal action against the Health Services Bill if it is unchanged at the time of the second reading scheduled for next

month. The bill obliges medical graduates to do two years' vocational training.

They say terms of training have been altered without notification, that there will be inadequate supervision of posts, and that the training period will become too long

But the Health Department has hit back, saying the extra two years allows graduates to gain experience and skills while earning at least R77 903 a year

None of the deans of medical schools believed their graduates were "safe" to practise independently immediately after their intern year

Medicine law hearings 'a farce'

ET 18/6/97 (183)

HEALTH WRITER

PUBLIC hearings on South Africa's new medicine and pharmaceutical laws have been dismissed as "a farce" by opposition parties who claim the ANC is riding roughshod over opposing views to push through fundamental and controversial changes to health legislation.

Yesterday Democratic Party health spokesman Mr Mike Ellis walked out of the public hearing on the Pharmacy Amendment Bill after his appeals for the process not to be rushed were dismissed by committee chairman Dr Abe Nkomo

Ellis and other opposition MPs also walked out of a hearing on Friday when the committee was hearing evidence on whether or not junior doctors should do two years' vocational service.

"Bills which have such far-reaching implications cannot be rushed," Ellis said.

Nkomo told the audience that the hearings were not the place for political bickering and appealed to members to "listen" and not drag the committee fighting into a meeting intended for civil society to air its views

Despite his appeals, several members of the pharmaceutical and pharmacy industry sided with opposition parties and expressed concern that the committee did not fully appreciate the consequences of the changes proposed.

Yesterday's hearings focused on the ownership of pharmacies.

Minister of Health Dr Nkosazana Zuma wants better distribution of medicines to rural areas and townships and has proposed that businessmen and not just pharmacists be allowed to own pharmacies

By doing this she hopes to encourage entrepreneurs to move into unserved

areas

Mr Ivan Kotzé, chief executive of the Pharmaceutical Society of South Africa, argued that in certain situations the wording of the act was vague and created loopholes that could be abused by unscrupulous businessmen

"We agree there should be a deregulation of ownership but only in certain circumstances. If you allow total deregulation there is no way the small township pharmacies will survive"

Talks with the health department had been encouraging and an indication that pharmacists represented by the society and Zuma were thinking along the same lines, but the spirit of those talks was not reflected in the amendments to the bill, he said

The health committee will reconvene on June 17 to discuss submissions on amendments to the new bills

'NO PROTECTION AGAINST FAKES'

Drug imports may open Pandora's Box — expert

AN INTERNATIONAL EXPERT on counterfeit drugs says the cost of checking imported drugs will outweigh any savings, Health Writer **CAROL CAMPBELL** reports.



IMPORTING cheap medicines, as Health Minister Dr Nkosazana Zuma proposes to do, will risk counterfeit drugs flooding into South Africa if the process is not controlled scrupulously, an international expert on counterfeit drugs has warned.

Under the present system the South African Medicines Control Council (MCC) knows exactly where medicines are made and, if there is a problem, can trace the drug back to its factory source.

The MCC has advised the minister it is essential that the present system of controls on all imported medicines, regardless of their source, be kept

Failure to do so would soon lead to the country being flooded by inferior and counterfeit medicines

Speaking from London yesterday, Mr Frank Madsen, director of international security for the British pharmaceutical company, Bristol-Myers Squibb, said it was impossible to tell, by looking at it, if a drug was authentic.

Madsen has been involved in setting up the new Pharmaceutical Security Institute which, from its secret venue in Italy, is co-ordinating international efforts to stamp out dangerous "dud" drugs.

"The packaging, the batch number, everything looks exactly like the real thing — (but) the consequences of taking a counterfeit drug can be lethal.

"(Counterfeiting medicine) is a dangerous business. It is run by organised crime syndicates."

At a meeting of the World Health Organisation and the International Pharmaceutical Manufacturers' Association (IFPMA) in 1995, it was estimated that 15% of the pharmaceuticals traded worldwide was counterfeit.

The head of the MCC, Professor Peter Folb, said although this figure was not based on sound data, it was accepted as correct.

"Counterfeiting in medicines is big business," he said.

"(These drugs) are likely to be ineffective and may be unsafe

"Dr Zuma's proposal is that once a company has been approved as a source of medicines for parallel importation, such medicines — regardless of their origin — may be brought into the country by the company, provided the company's name is attached

"There can be no adequate control of this situation. There is every prospect of

ET 10/6/97
183
its being exploited by unscrupulous companies"

Madsen warned of Mafia-style counterfeiting operations in India, China, Nigeria and Brazil, but emphasised the problem was impossible to monitor

"The counterfeiters make their medicine in one country, print the packaging in another, bring the two together in a third and sell it in a fourth. If countries like the United Kingdom and the United States, with their powerful legislation, can't control counterfeiting, who can?"

Madsen has sent a written submission on counterfeit drugs to the parliamentary portfolio committee on health

South Africans could be exposed to these drugs if international pharmaceutical companies with local divisions bar Zuma from buying medicines from their factories elsewhere in the world

"She will have to go through unscrupulous middlemen and that is where there could be a problem"

Madsen said the cost of setting up checks and balances to protect Zuma from counterfeit drugs would be so high that she might as well continue to procure medicines by local tender

In the Philippines, 8% of all pharmaceuticals sold were counterfeit. About 9% of these were parallel imports and often of "spurious" origin

"Some, unfortunately, could be described only as lethal. These were injectable antibiotics that contained no active ingredient or the wrong one

"They all contained non-sterile water for mixing the product prior to injection."

US business calls on Parliament to halt proposed medicines legislation

Jacob Dlamini

CAPE TOWN — The American Chamber of Commerce (AmCham) yesterday called on Parliament to halt the proposed health reforms, and predicted dire consequences if this did not happen.

AmCham called for the changing of the Medicines and Related Substances Control Amendment Bill, saying it was not in SA's international trading interests.

The chamber said the bill,

which seeks to improve access to health care by lowering the price of drugs through generic substitution and parallel importation, was a violation of international trading practices.

AmCham spokesman Patrick McLaughlin said the provision for the removal of brand names from products sold to government by pharmaceutical companies was a violation of trademark rights.

The provision would set a dangerous precedent for international

property rights and could have serious repercussions from concerned US companies in SA.

The bill would, if it became law, affect 263 US companies with a combined employment of 280 000.

He said it would be up to AmCham's members to withdraw from the country and SA stood to lose millions if this happened.

The bill implied that the health ministry wanted to sanction practices which contravened SA legislation and international norms

The bill also indicated to international investors that their intellectual property assets would not be protected.

Meanwhile, the Democratic Party's health spokesman Mike Ellis told University of Cape Town medical students and interns yesterday that the Medical, Dental and Supplementary Health Services Bill, seeking to introduce vocational training, was draconian.

Ellis said it was authoritarian for government to ask medical

graduates to commit themselves to vocational training. He warned that the bill would fail.

However, Representative Association of Medical Schemes (RAMS) policy director Aslam Dasoo welcomed the health reforms. He said the proposed bills would help reduce RAMS' annual R6bn drug bill.

RAMS was more interested in the rights of South Africans who had been denied, rather than in the intellectual property rights of

pharmaceutical manufacturers, Dasoo said.

South Africans had been denied access to affordable health care through high prices for drugs which were protected by trademark laws, he said.

While government is free to procure generic drugs from any source in the world under the existing Medicines Control Act, it is prohibited from buying trademark drugs from another source if they are registered in SA.

(183) 60 1116 197

Parties force Zuma to back down on Bills

Sowetan 12/6/97

(183)

Health Minister will now take three Bills back to Cabinet following stiff opposition

By Rafiq Rohan
Political Correspondents

HEALTH Minister Dr Nkosazana Zuma has backed down and withdrawn her controversial health Bills with all minority parties declaring her move as a victory for democracy

Late last week all opposition parties in Parliament walked out of the portfolio committee on health meeting

They accused the African National Congress of trying to push through new legislation that would restrict doctors' rights to dispense medicines and would introduce a mandatory two-year vocational training period for medical students

The proposed changes have resulted in countrywide protests by medical students and doctors

Before making the announcement yesterday, Zuma made an impassioned speech, insisting that her only intention was to ensure that South Africans received "affordable, quality and safe medicines"

However, the Pharmacy Amendment Bill, the Medicines and Related Substances Control Amendment Bill and the Medical,

Dental and Supplementary Health Service Professions Amendment Bill have not been scrapped

Zuma said she would resubmit the Bills to Cabinet next Wednesday

"I would like to study the submissions and make sure that the genuine concerns and suggestions are taken on board," she said

The Pan Africanist Congress' Ms Patricia de Lille welcomed Zuma's announcement to look at the Bills again and ascribed it to the "joint mass action" of the opposition parties

The African Christian Democratic Party's the Reverend Kenneth Meshoe said "We welcome the minister for doing the right thing by listening to minority voices"

ANC chairman of the portfolio committee Dr Abe Nkomo saluted Zuma for taking the Bills back to Cabinet but described the behaviour of certain parties as "sad and shocking"

The Democratic Party's Mr Mike Ellis thanked Zuma for "finally seeing reason" but slammed her for her "blatant disregard for any viewpoint but her own (which) completely undermined the public participation process and generated intense dissatisfaction in both the public and private sectors"

Zuma withdraws controversial bills

Jacob Dlamini

CAPE TOWN — Health Minister Nkosazana Zuma has backed down on her plans to introduce sweeping health reforms, by withdrawing three controversial bills from Parliament.

Zuma told Parliament yesterday she was withdrawing the legislation so she could study the submissions made to Parliament's health committee.

The legislation is aimed at introducing two years of vocational training for medical students; allowing for the lay ownership of pharmacies, allowing generic substitution where cheaper drugs are available; and allowing the parallel importation of drugs at competitive prices.

The Pharmacy Amendment Bill, the Medicines and Related Substances Control Amendment Bill and the Medical, Dental and Supplementary

BD 12/6/97
Health Service Professions Amendment Bill were withdrawn

The announcement comes after opposition from political parties, the pharmaceutical industry, medical students and foreign companies with interests in the SA health industry.

Zuma said she wanted to make sure genuine concerns and suggestions expressed during the hearings on the bills were taken into account before they were resubmitted to the cabinet next Wednesday. The need to improve access to affordable health care superseded all sectional interests

Zuma's move also follows mounting pressure from opposition parties for the bills to be withdrawn. They said another round of public hearings would have to be held once the bills had been resubmitted to the cabinet

The Representative Association of Medical Schemes (Rams) expressed re-

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gret that the bills had been withdrawn. Rams policy director Aslam Dasoo said he hoped the bills would still be passed this year. He understood Zuma may have been motivated by fear of possible litigation from opponents of the bills, which could have tied the bills down.

Kathryn Strachan reports that the Pharmaceutical Manufacturers' Association questioned whether one week was enough time to make meaningful changes.

The Medicines Control Council said the council unreservedly supported the principles underpinning the legislation, but had problems with technicalities which would be vital to the ultimate impact of the legislation

Junior Doctors' Association of SA spokesman Mark Sonderup said the announcement was "very encouraging. It is a sign that they are at least taking note of what we all have submitted"

Mossgas asks for R1bn as profit doubles ⁽¹⁸³⁾

BB 12/6/97

Linda Ensor

CAPE TOWN — Mossgas dealt a blow to its critics in the year to March, producing a R715m operating profit on the back of higher oil prices, tight cost controls and higher production volumes

This was more than double last year's R352m (1994/95: R517m) and meant a saving to the state of R1,4bn in foreign exchange for crude oil which it would otherwise have had to import

Mossgas has requested government approval for a R1bn investment in the EM field in the Bredasdorp Basin, 45km from the existing platform

CEO David Day told Parliament's mineral and energy affairs committee yesterday the gas field could extend Mossgas's lifespan by as much as 15 years. This investment would be in addition to the R910m approved by the cabinet last year for the development of the FA satellite gas fields

Day was confident the cabinet would approve the request but hoped the decision would be made "timeously so that we do not have the political wrangle we had last year".

A Mossgas spokesman said a decision was needed before the end of the year if the EM field was to come on stream in 2001, immediately after the satellite fields were exhausted. It would take about three years to complete the drilling.

Day said Mossgas should continue to exist and should be listed on the Johannesburg Stock Exchange. It should be given the same opportunity to prove itself that Sasol had had in moving from a protected environment to being a successful enterprise

Last year's audited results were boosted by exports of alcohol and diesel which represented 10% of total income, Day said in an interview. The figures were not strictly comparable with the previous year when the plant underwent its second yearly maintenance close down for four weeks.

The operating surplus before the tariff subsidy and synthetic fuel levy amounted to R626m (R40m) with the tariff equal to R40m (R191m) and the fuel levy R49m (R121m).

The R715m cash flow could not be regarded strictly as a profit, Day said, as it went to the Central Energy Fund to reduce the R11,4bn loan received from the state to set up Mossgas. The debt stood at R10,6bn, less than expected in the light of last year's cabinet decision to divert R910m from cash flow to developing satellite oil fields.

Day said Mossgas would lobby hard — in the courts if necessary — for the abolition of what he regarded were the subsidies paid to oil companies out of the Equalisation Fund. He said these subsidies — paid for by motorists and amounting to 8c-9c a litre — went directly to the bottom line of these companies rather than to Mossgas.

Mossgas also wanted to conclude a commercial agreement with oil companies to enable it to market its products properly. In exchange for not competing in the retail market, Mossgas wanted oil companies to bind themselves to buy its products before embarking on imports.

Day said Mossgas's prospects would be enhanced if it was freed from its licence agreement with Sasol which prohibited it from selling chemicals.

Cabinet to take another look at Zuma health bills

(4) (42/85) (183)

CLIVE SAWYER

POLITICAL CORRESPONDENT

ARL 12/6/97

Protests by parliamentary opposition parties against Health Minister Nkosazana Zuma's controversial package of health bills has paid off with her announcement that the measures will be temporarily withdrawn.

The bills would be submitted again to the Cabinet next week, she said.

Minutes after her announcement in Parliament yesterday, opposition parties called for a fresh round of public hearings on the bills.

Dr Zuma, in her special announcement to the National Assembly, made it clear she still fully backed the intention of the bills.

Health should no longer be the sole privilege of those who had medical aid or the money to pay.

South Africans were paying among the highest prices in the world for medicine, she said.

Her bills would enable access to quality medicines on the global market and open the running of pharmacies to non-pharmacists.

Zuma's withdrawal of three bills welcomed

Star 12/6/97
By JOVIAL RANTAO
AND JANINE SIMON

Health Minister Dr Nkosazana Zuma's withdrawal of the three controversial medicines and pharmaceutical bills has elicited a cautious welcome

Role players said dissatisfaction with the process of the public hearings was so deep, the minister ran the risk of being challenged in the Constitutional Court

They question how the more than 200 submissions on the Pharmacy Amendment Bill, the Medicines and Related Substances Control Bill and the Medicine, Dental and Supplementary Health Service Profession Amendment Bill can be dealt with in just one month.

Zuma said in the National Assembly yesterday that she was withdrawing the bills to allow her department to go

through concerns raised by all stakeholders, and would resubmit them to the Cabinet on July 18.

The new bills, containing the same principles, would then be subjected to public hearings and are expected to be tabled in Parliament in August.

"The bills will enable South Africans to access safe, effective medicines from the global market if local industry cannot give us a reasonable price," Zuma said.

The Junior Doctors Association of South Africa (Judasa), which has threatened legal action if the health services profession bill is pushed through, said they were cautiously optimistic that Zuma had realised the need to consult with all stakeholders. Chairman Dr Mangaliso Mhlaba said Judasa urged the minister to suspend the issue of vocational training

for 1998

Mirryena Deeb, chief executive of the Pharmaceutical Manufacturers Association, questioned whether 200 submissions could be considered, and the medicines bill redrafted within one week.

The Pharmaceutical Society of South Africa's executive director Ivan Kotze said most of the submissions were on technical points, and it was not impossible that decisions on the few important issues could be taken within a week

NP MP Willie Odendaal said: "The NP would not have accepted the way in which parties were excluded from asking questions"

The DP's Mike Ellis said the withdrawal was a victory for the democratic process.

The SA Communist Party accused some parties of not promoting health care for all

'RAPPED OVER KNUCKLES'

Zuma withdraws

Withdraws three bills

Zuma withdraws health bills

From Page 1

She, and many of her fellow students, would have been "very tempted" to leave the country because of the compulsory training.

"At least now they (health authorities) will have to take us more seriously," she said.

However, the student said she "wouldn't be surprised" if vocational training was introduced anyway.

Fellow fifth-year student Mr James Drew said he was "just happy it (the law-making process) will be done in the proper way".

"If they (authorities) go about it the right way, then it can be worked out," he said.

Drew took issue with the term "vocational training", saying it was a "slap in the face" and implied doctors were inadequately trained "when everybody knows it's community service".

Mauritian Mr Mohammad Chumroo, a second-year student, said he had been considering settling in South Africa but had changed his mind over vocational training, which was "like the army".

Now he would reconsider — if the conditions were favourable, he said.

"I'm happy about it," he said, and expressed the hope that students would be consulted.

Mrs Erica Mann, vice president of the Pharmaceutical Association of South Africa, said she was "thankful" and "grateful" that Zuma had stalled the passing of new legislation on medicines.

"My concern is that she has only promised a week for changes to the bill which I don't think is enough time to do everything properly."

Dr Hendrik Hanekom, secretary general of the Medical Association of South Africa (Masa), said he was pleased that Zuma had heeded the concerns and recommendations expressed during three days of public hearings.

"Masa will most certainly make use of the opportunity to submit further input."

NKOSAZANA ZUMA appears to have been "rapped over the knuckles" for not following the proper processes in preparing health legislation for Parliament. Health Writer CAROL CAMPBELL reports.

HEALTH Minister Dr Nkosazana Zuma has withdrawn three highly controversial health bills — which would have changed the face of South African medicine — from Parliament.

She will resubmit the amended legislation to the cabinet next Wednesday, but the whole process of public consultation over the country's new health laws will begin from scratch.

The withdrawn bills are:

● The Medical, Dental and Supplementary Health Services Professions Bill — this would have forced medical students to do an extra two years of vocational training in rural areas before they finally graduated.

● The Medicines and Related Substances Amendment Bill — this enabled Zuma to import cheap medicine for use in public hospitals and encouraged the sale of generic medicines. It was unpopular with the pharmaceutical industry but welcomed by medical aid companies.

● The Pharmacy Amendment Bill — this would have led to the deregulation of pharmacies so businessmen and not only pharmacists could own a pharmacy. The intention was to get pharmacy services into rural areas and townships.

Last night sources in Parliament said they believed the cabinet had "rapped Zuma over the knuckles" for not following the proper processes while preparing the legislation for Parliament.

"Why else would this have



PRESSURED: Health Minister Nkosazana Zuma

been slowed down at the last minute?"

Public hearings on the three bills were held last Friday and Monday but were dismissed as "a farce" by opposition parties who said the legislation was being rushed by the African National Congress government.

They were supported by many of the organisations giving evidence at the hearings who complained that 10 minutes to present their side of the story on such fundamental legislation was inadequate.

Committee members were not given the opportunity to ask questions on two of the bills because of time constraints.

Democratic Party spokesman Mr Mike Ellis, the most vocal opponent of the rushing through of the legislation, said Zuma's surprise move was a "victory" for the Democratic Party and proved

that "democracy is not dead" in South Africa.

"We thank the minister for at last seeing reason," he said.

Last night medical students at the University of Cape Town said they were "elated" that the idea of adding two years to their training (pushing it to nine years) was going to be reconsidered.

Dr Mark Sonderup, vice-chairman of the Junior Doctors' Association, said he was "encouraged" but "cautiously optimistic" by the surprise move.

"We are dealing with a minister who has quite a track record. I say let's wait and see."

Undergraduates also tempered their relief with caution, but felt students would be given more of an opportunity to state their views the next time around.

Most said they were, in principle, not against having to perform vocational training — a term some also had a problem with — but were opposed to Zuma forcing it on them.

"I don't think anybody was objecting to the idea behind vocational training — we're all dedicated to health care in this country," said third-year student Mr Michael Huth.

But he added: "(Zuma's) got good ideas but bad methods. The way she wanted to do it would have been detrimental, not beneficial."

He called on Zuma to consult widely with students, saying: "She can't just make unilateral decisions."

Second-year student Mr Tilman Stasch agreed: "Now we hope she is going to look into our arguments."

A "relieved" fifth-year student, who did not want to be named, said the impending vocational training period had "affected people's lives drastically".

Turn to Page 3

CT 12/6/97

(183)

Tight controls sought to halt flow of fake pharmaceuticals

Kathryn Strachan

BD 13/6/97

THE Pharmaceutical Security Institute, an international body based in Italy, has argued before Parliament's health portfolio committee that tighter controls were needed on the international flow of pharmaceutical products in order to crack down on potentially lethal counterfeit alternatives.

Institute director Frank Madsen painted a disturbing picture of the flow of counterfeit products, detailing the outcome of the institute's investigations over the past six years. The World Health Organisation (WHO) estimated that 7% of pharmaceutical products worldwide were counterfeit and that they had resulted in a large number of deaths, particularly of children.

The first study undertaken by the institute was in the Philippines, where a one-year investigation showed that 8% of all pharmaceutical products sold were counterfeit. Many of these counterfeit products did not contain active ingredients, and some were lethal.

As a result of the inquiry into fakes, the deaths of several children were identified. However, the institute said it was difficult to establish exactly how many people had died as a result of the counterfeit products.

The next inquiry in China showed

(183)
not only that fake products had resulted in a number of deaths of children, but that many counterfeit branded products were being exported from state-owned factories in China. Although the products contained active ingredients, they still posed a risk as they had not been manufactured to pharmaceutical industry standards.

The institute's inquiries also showed that fake products were being imported into many countries which allowed for parallel imports.

The WHO estimated that 60% of the pharmaceutical products on the Nigerian market were counterfeit. Some were manufactured locally, while others were brought in through the parallel importation route.

A number of children in Nigeria died as a result of a case involving counterfeit cough syrup. The same product killed 250 children in Bangladesh and about 100 in China.

Investigations also showed substantial amounts of counterfeit products in Taiwan, Sri Lanka and Pakistan. Further investigations were under way in Lebanon and Egypt, where lethal counterfeits were seized.

Finally, "very difficult inquiries" in Europe showed organised crime was playing an important role in counterfeiting pharmaceutical products.

No major change to health bills — Zuma

(183)

CAPE TOWN — Health Minister Nkosazana Zuma said yesterday that the three contentious health bills she had withdrawn from Parliament would not undergo substantial changes and denied that she was bowing to pressure.

Zuma announced on Wednesday that she was withdrawing the Medicines and Related Substances Control Amendment Bill, which will allow parallel imports of cheaper medicines and regulate generic substitution as well as legislation to set up new pharmacy and health professions councils.

Zuma said she intended to study submissions made to recent parliamentary hearings on the measures and resubmit the bills to the cabinet next week.

She said yesterday the withdrawals were "just a normal democratic process when there's been a hearing . . . People must not read anything into the withdrawal other than that I'm looking through the submissions and will incorporate some of the useful suggestions."

Sapa
BD 13/6/97

ANC pulls the plug on Zuma's embattled bills

'Goings-on behind scenes'

ARG 14/6/97

(92)(93)(183)

JEAN LE MAY
STAFF REPORTER

Health Minister Nkosazana Zuma has withdrawn three controversial bills under pressure from colleagues, including African National Congress MPs.

"It is common knowledge that Dr Zuma was told bluntly to withdraw the bills," said a source.

In spite of Dr Zuma's repeated statements that she would not budge on the intentions behind the bills, Saturday Argus has established from sources in Parliament that she withdrew the bills after pressure from within the Cabinet, from politicians (including African National Congress MPs) and from people with interests in health and pharmaceutical businesses.

The amended bills will now go to the Cabinet and the whole process of consultation and Parliamentary debate will start all over again

Mike Ellis, Democratic Party spokesman on health, said yesterday that withdrawing the bills was "a most unusual process".

He said it was a sign that "something very serious was happening behind the scenes".

"Dr Zuma finally overstepped the mark by trying to keep total control, and by behaving in a way which was anything but democratic"

Mr Ellis said that one of the most serious objections to the Medical, Dental and Supple-



Nkosazana Zuma: backed down

mentary Health Service Professions Amendment Bill was that the minister was given the power to override the provisions of the existing act by the proposed amendments.

Mr Ellis said anybody could now be made a health practi-

'It is common knowledge that Dr Zuma was told to withdraw the bills'

tioner by the minister.

In its submission, the Interim National Medical and Dental Council said that if this became law "the act can, in essence, be done away with, since the minister, not Parliament, decides on the registration of practitioners"

The withdrawn bills are: the Medical, Dental and Supplementary Health Service Professions Amendment Bill; the Medicines and Related Substances Amendment Bill and the Pharmacy Amendment Bill.

Dr Zuma told Parliament that she was withdrawing the bills and would resubmit them in a week. In the meantime she would look at submissions to see "if there was anything that can be taken on board"

The bills were referred back to the SA Dental and Medical Council, the Medicines Control Council and the Pharmacy Control Council for comment

The councils were given a week to respond.

Dr Zuma's autocratic approach to the issue was demonstrated by the manner in which she and her department ignored the formal written submission on the proposed amendments made by the Interim National Medical and Dental Council in July, 1996

In a submission made on May 19 this year, the council said that it "received no feedback on its submission, nor was it at any stage requested for further input. In April, 1997 the council informally obtained a copy of a draft bill".

"Council noted that in broad terms its proposals had been incorporated. However, it was concerned that it was not approached for any input or comment prior to the publication of the draft bill," the council's submission said



OIL'S WELL: The tanker Knock Dee arrives in Table Bay with 600 000 barrels of crude oil from the Oribi oilfield off Mossel Bay

Picture: RICHARD SHOREY

SA's first oil shipped to Table Bay

ST (CM) 15/6/97 (183)

BOBBY JORDAN

ABOUT 600 000 barrels of crude oil from South Africa's first producing oilfield arrived in Table Bay harbour aboard the oil tanker Knock Dee yesterday

The oil comes from the Soekor/Energy Africa-owned Oribi field about 140 km off Mossel Bay

The shipment is Soekor's first, and was offloaded into Caltex storage tanks at the harbour, from where it will be pumped to refineries near Milnerton

The Oribi field, discovered in 1990, produces about 24 000 barrels a day, about six percent of

South Africa's daily requirement, said a Soekor spokesman

Together with Sasol, an oil-from-coal producer, and Mossgas, South Africa produces roughly half of its total fuel needs, he said

At the Oribi field, Soekor's oil rig Orca used a water injection system to assist oil extraction from beneath the ocean bed, pumping it to the surface and onto the Knock Dee moored alongside

The tanker will be used to ferry regular shipments from the oilfield to Cape Town

While the tanker is away, the rig cuts back production and the process only swings back into full gear upon her return

Although able to transport

600 000 barrels, the Knock Dee is a relatively small tanker compared to some supertankers that carry as much as 2-million barrels per load, with a gross tonnage of up to 350 000 tons

The Soekor spokesman said the Oribi field was producing slightly more than expected. Company officials were already concluding negotiations for the sale of a second shipment

"This saves the country a lot in foreign exchange," he added

"Every time we don't have to import fuel, it means that money stays inside the country"

The Oribi oil was also high quality and therefore much in demand, the spokesman said

Row over Sasol move to add alcohol to fuel

ST 15/6/97

Having lost its Brazilian alcohol market, Sasol plans to add its byproduct to local petrol, writes DON ROBERTSON

(183)

THE motor industry has slammed a decision by Sasol to reintroduce alcohol into its fuel blend from September.

The National Association of Automobile Manufacturers of SA (Naamsa) was informed only last month that Sasol planned to reintroduce alcohol, and has claimed it is "totally unacceptable" to the industry and possibly to the other oil companies.

Naamsa, representing most manufacturers, vehicle importers, the Automobile Association, the Motor Industries' Federation and the oil industry, says Sasol's unilateral decision could result in considerable damage to fuel systems, with consequent customer resistance.

When South Africa was subjected to an oil embargo, alcohol, a byproduct of Sasol's oil-from-coal process, was used as an extender. Then, three years ago, Sasol negotiated the sale of its excess alcohol to Brazil.

It now says "The market situation (in Brazil) has changed, and this resulted in Sasol informing all interested parties of its in-

intention to reintroduce some alcohol into the local petrol pool from September 1."

The motor industry insists that during the period of alcohol use, motor manufacturers and their customers experienced problems including dry and wet corrosion, degradation of fuel systems and synthetic materials within these systems, and corrosion of aluminium components.

Almost 50% of all petrol sold by the oil industry in Mpumalanga and Gauteng is Sasol-based.

The reintroduction of alcohol will

invariably lead to similar problems, says Nico Vermeulen, Naamsa's executive director, and the industry is not prepared to accept the consequent negative effects of customer dissatisfaction and incremental costs.

Vehicle manufacturers have, in fact, decided that if alcohol is reintroduced they will not accept responsibility for additional costs.

Naamsa says the whole issue of possible future claims by motorists and vehicle manufacturers' warranty claims should get urgent attention.

Sasol says, however, that during the years before the withdrawal of alcohol, virtually no compatibility problems were experienced. It adds that since local petrol specifications provide for inclusion of alcohol, local manufacturers and importers should have ensured their products were compatible.

Vermeulen says that during those years, considerable resources and funding were devoted by vehicle manufacturers to developing alcohol-resistant fuel systems, but customer dissatisfaction was never-

theless "considerable".

Vermeulen says that since the withdrawal of alcohol from petrol, all vehicle manufacturers have introduced new models which have not been tested for compatibility with alcohol fuels. In addition, almost 100 000 vehicles have been imported into the country in fully built-up form. Most of these are unlikely to be compatible with alcohol, he says.

Even if an emergency programme were initiated, it would be impossible to recall the vehicles to retrospectively fit alcohol-resistant components.



NICO VERMEULEN

Bid to remould plastics industry

(183)
ST (ST) 15/6/97
A CLUSTER initiative aimed at overcoming obstacles to competitiveness in the petrochemicals, plastics and synfibres industry is starting to show results

Dr Rod Crompton, head of the Department of Trade and Industry's chemical and allied industries directorate, says the initiative is aimed at boosting SA's downstream plastics conversion industry.

"This is because this sector has the most potential for growth, especially on the export side, and the lowest capital cost per job created"

The initiative was launched in January last year by Trevor Manuel, then trade and industry minister. The pricing of plastic raw materials has long been a sensitive issue for customers and suppliers, but Crompton says one of the major benefits of the initiative is improved communications "between all players in the industry"

Areas being looked at include improving shop-floor relationships, the industry's logistics and its technology base

The possibility of creating an institution to assist small- to medium-sized companies with exports is being examined

The Plastics Federation of SA has been brought in to oversee certain aspects of the competitiveness initiative

Zuma's retreat is strictly temporary

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THE temporary withdrawal of Health Minister Nkosazana Zuma's controversial trio of health Bills should not be seen as a retreat from restructuring the health care industry.

The Bills are already being redrafted, and they will be placed before the cabinet for approval on Wednesday. The ministry has a good idea of what it wants to amend.

The Bills deal with how medicines reach the market, aiming eventually to make them cheaper. A pharmacy Bill provides that people other than pharmacists will be able to own pharmacies, and another Bill provides for extended vocational training by doctors.

Opposition to the Bills reached a peak this week with threats of investment pull-outs by multinational companies and court action. Zuma has said the philosophy and framework behind the Bills will remain intact, although she will try to take into account the many submissions on the Bills where it seems necessary.

Among the contentious areas likely to be addressed are parallel imports of drugs. The government is not likely to give the multinational drug companies as much ground as they want. However, it will tighten up the section on the circumstances under which imported drugs will be registered by the drug authorities.

This section also worried the Medicines Control Council, which wants to be able to reassure the public that drugs available in South Africa are safe and effective.

The international trade lobby which vigorously opposed the Bills may have found a willing ear in some of Zuma's cabinet colleagues, such as Trade and Industry Minister Alec Irwin or Finance Minister Trevor Manuel.

Opposition to vocational training is profound and may in the end cause more trouble than the exercise was worth.

51 (01) 15/6/97

Big shake-up in speciality market

ST(BT)15/6/97 (183)

THE impact of a major shake-up in the international chemicals industry — and especially in the \$100-billion a year world speciality chemicals market — is starting to be felt in South Africa

Announcements of new deals are increasing as companies, particularly those in Europe, try to improve profitability

Job cuts, plant closures, disposals and mergers abound as global players attempt to rationalise their businesses and become more focused

International journal Chemical Week recently quoted ICI chief executive Charles Miller Smith from London as saying: "In the past 18 months, the 10 companies ICI regards as its main competitors have taken 150 steps to restructure. And, in the past 12 months alone, there has been more restructuring in the industry than in the previous 45 years"

In South Africa, the moves are starting to leave their mark on companies such as ICI, Ciba, Shell and Hoechst

ICI's global restructuring began in 1993 when it demerged its chemicals business into ICI and its pharmaceuticals operations into Zeneca. Then, last month, it announced it had acquired Unilever's speciality chemicals business for \$8-billion

Commenting on the SA impact, group country manager Richard Kernick says certain Unilever companies will be brought into the ICI fold

"But we cannot say what the structure will be because we are still looking into it," says Kernick

The two local Unilever companies, Quest and National Starch and Chemicals, will add R300-million to ICI's SA sales, upping the total to R2,3-billion a year

Kernick believes the latest deal offers ICI many exciting opportunities "It will make us less cyclical, more speciality driven and more profitable"

Meanwhile, newly created speciality chemicals group Ciba is on an international advertising drive to highlight the changes it has been through

These started when its Swiss parent Novartis, itself the result of a worldwide merger between Ciba Geigy and Sandoz last year, hived off its speciality chemical interests into a separate company

The new company, now independently listed on the Swiss stock exchange, has annual sales of Sfr6.7-billion and operations in 117 countries

Ciba's Johannesburg-based regional president, Richard Hartland, says the move will unlock shareholder value and provide a sharper focus for the speciality chemicals operations

As in many other European companies, Ciba's speciality chemicals operations previously formed a division of a larger company which often gave greater priority to areas such as pharmaceuticals and agrochemicals

Hartland expects the changes to make Ciba more responsive to customer needs. New product launches will be faster and pricing policy more competitive

Ciba Speciality Chemicals, which sells additives, consumer care chemicals, performance polymers, pigments and textile dyes, is now one of the largest players in its segment of the SA speciality chemicals market

The world's biggest petrochemicals group, Shell, has also been reorganising its chemical operations. It recently formed international joint ventures in ad-

ditives and polyethylene and has disinvested out of fine chemicals

In order to improve its international chemicals businesses' efficiencies and customer delivery, Shell has created regional clusters. This has resulted in its SA operations — which make epoxy resins, detergents and hydrocarbon solvents — becoming the focal point for its southern African activities

Shell International Chemical's London-based head of external affairs, Mark Wade, says his group is investigating further moves to rationalise its chemicals operations which will involve its SA operations, along with those in the rest of the world

Facing tough business conditions, especially in Europe, German group Hoechst and Swiss-based Clariant recently announced a merger of their speciality chemicals operations.

The move creates one of the world's biggest speciality chemicals companies with an annual turnover of around R23,7-billion

However, Hoechst SA, which is listed on the JSE, is currently staying out of the transaction

Says Jan de Kock, the company's manager of corporate services and group legal affairs. "We cannot switch in and out of businesses because of international developments in our group. The transaction must make local sense and must be good for shareholders in South Africa"

Hoechst SA is considering the various options presented by the deal. Clariant has a Durban-based speciality chemicals operation which may offer it synergies

Despite the global changes the chemicals industry has been through, many believe that there are plenty more in store.

THE South African chemicals industry is increasingly throwing off the shackles of its past and reshaping itself into an international player.

Improved efficiency, joint ventures and importing the best technology have become the order of the day.

To increase economies of scale, all major players are working hard to increase their exports.

They are adding value to their products to reduce their vulnerability to fluctuating world commodity prices, producing a greater variety and investing more on research and development.

The industry's capital expenditure is also running at unprecedented levels.

"This is because South Africa's re-entry into the global economy has meant that local companies have to get their quality right and their costs down," says Polifin managing director Trevor Munday.

Investments range from the R10-million CH Chemicals Is spending on a new polyurethane factory in Edenvale to a proposed ethylene project costing R6-billion in 1996 money. This project excluded, Polifin has forked out R1-

Improving quality the way to take on the world

billion over the past three years and will invest another R1-billion over the next three.

Sasol's budget tops R3-billion and AECI will spend about R500-million a year over the next couple of years on expanding and improving existing operations and creating new businesses.

AECI was one of the first companies to reorganise itself in the face of changes in 1993. It merged its explosives business with those of ICI Explosives and formed Polifin, a joint venture with Sasol.

One of the driving forces behind the Polifin deal was to secure more viable feedstocks from Sasol to replace the uncompetitive acetylene AECI previously used.

AECI has also made large strides in containing its costs. Says managing director Mike Smith: "We have cleaned up our portfolio and we are still looking at opportunities to re-

marked its operations with those of its sister companies around the world and is building a R205-million polymer plant for its fibres business. It will boost its capacity, make it self-sufficient in sourcing polyester chips and eliminate a series of production steps.

Hoechst has also rationalised its chemical plants into one and consolidated certain manufacturing sites. "Where we found that production was not competitive, we outsourced it," says De Kock.

Chemsolve executive chairman Lex van Vught says: "We realised that small plants at the tip of Africa could not manufacture certain of our speciality chemicals as economically as countries like Britain and Finland. We therefore shut down two factories. We still have a high market share in these products, but source them from abroad."

Ciba's Johannesburg-based regional president, Richard Hartland, says as part of its restructuring it stopped local production last year and now imports all its chemicals. The SA market was too small to offer economies of scale and neighbouring markets were not developed enough to create justifiable volumes.

had to adapt or die."

This week, Polifin approached its board for R285-million to further expand polypropylene production. Another request was for R19-million to build a polymer technology centre in Johannesburg to improve its technical ability and service to customers.

Hoechst SA has also not been sitting with blinkered focus, says Jan de Kock, manager of corporate services and group legal affairs. "We have taken the view that if we are not competitive in the SA market, we will just not survive South Africa, however, is a small market and there is little purpose in erecting plants designed just to meet local needs. We have invested heavily in moving towards world-scale production capacity and have gone for the best technological processes to reduce unit costs."

Hoechst SA has bench-

at a cost of R510-million.

As part of its drive to become a world-class player, Polifin spent R650-million restructuring its Midland factory in Sasolburg — a move which has resulted in annual savings of R150-million.

It is also investing R57-million in upgrading its Sasolburg linear low density polyethylene plant to use hexene as a more competitive feedstock.

In addition to various environmental investments, Polifin spent R66-million on the latest technology at its Secunda polypropylene plant to speed up its catalyst reaction and increase capacity.

Munday says much of Polifin's spending has been in response to a drop in tariffs on imported polymer products two and a half years ago which "threw local manufacturers very quickly into the cauldron of international competition they either

The SA chemicals industry faces big challenges in its drive to become a world force. ZILLA EFFRAT looks at how local players are preparing for the future

New formula needed to be competitive

STC (S) 16/6/97

SOUTH Africa's re-entry into the international arena is placing increasing pressure on its chemicals industry. The industry, the largest of its kind in Africa, makes up about 23% of South Africa's manufacturing sales, is worth some R60-billion a year, employs about 200 000 people and contributes around 5.3% to the country's GDP.

While companies like Sasol, AECI and Sentrachem are the dominant local players, the industry consists of an estimated 350 manufacturers and suppliers. Chemicals touch every aspect of our lives and are found in just about everything we use, from toothpaste and banknotes to carpets and cars. Because of this fact, the industry's wellbeing is directly related to the health of the SA and world economies. In addition to volatile local trading conditions, the industry's challenges have mounted over the past few years as South Africa shrugged off its pariah status. Among its new pressures is the rise of international competition in its backyard at least 20 multinationals have established themselves locally and the products of others are flooding in. A reduction in import du-

raw materials rather than imported feedstocks became a possibility. When Sasol built two large synfuels plants at Secunda in the early 80s to provide South Africa with a self-sufficiency in fuels its synfuels process became a major local source of chemical feedstocks and intermediates.

During the apartheid years, the SA chemicals industry was shaped by a philosophy of isolationism and protectionism which tended to foster an inward-looking approach and a focus on import replacement.

This thinking encouraged the building of small-scale plants which had poor economies of scale because capacities were geared to only meeting local demand.

The industry's isolation from international competition and its high raw material prices — the result of the import protection it received — led to many of its products not being competitive in export markets.

The use of coal-based technology meant the basic inputs for the chemicals and plastics industries were sometimes more expensive than if they were oil-based, as they are internationally.

Another result of the import replacement philosophy was the building of chemical



Sasol is investing billions in its plants in a bid to boost production

Sasol to put billions into its plants

FUEL and chemicals group Sasol is striving to ensure that its chemicals operations contribute half of its income by the turn of the century. Chemicals made up 28% of Sasol's operating profits in the year to June 1996. To improve on this, it will invest heavily in chemical plants in the next few years, says chief executive Pieter Cox.

Sasol's total current capital expenditure is over R3-billion. Over the past seven financial years, the group has invested more than R10-billion in new projects, mainly to produce value-added chemical feedstocks to have world-class plants and operations, but the SA market is too small. As a result, a large percentage of our outputs will have to be exported.

Sasol's exports have jumped in the last two financial years from R770-million a year to R1.7-billion and then to over R3-billion, an increase of almost 250%. This improvement was driven primarily by a significant increase in chemical sales and the opening of new chemical plants. Increased chemical sales were also mainly responsible for the jump in Sasol's exports to R1.9-billion in its current year to June.

Improved marketing and logistical know-how, new markets, the launch of new products and a weaker rand helped export growth.

Sasol's drive to boost its chemical sales is no doubt aimed at countering the loss of its annual R1-billion tariff protection which is being phased out.

Its investment in chemicals is also focused on adding value to its feedstocks to reduce its vulnerability to price changes on the world market.

Chemicals also offer it a largely untapped treasure chest. The process it uses to make fuel from coal generates a range of commodity and specialty chemicals, more than half of which are left unrecovered in the group's fuel streams. For only slightly more than the cost of producing fuel, Sasol can extract these chemicals, which sell at far higher prices than fuel.

Sasol's investments in chemical operations include a R85-million project to raise the hexene purification capacity of its Alpha Olefins plant at Secunda. The project should be fully operational by year-end.

A R43-million project to boost the capacity of Sasol's ammonia plant at Sasolburg has just come on stream and a R167-million acid recovery plant at Secunda has been commissioned.

A strategic alliance with Dow Chemicals will result in Sasol supplying the US firm with comonomer octane, a chemical building block for polyethylene plastic, into the next century.

As part of this project, Sasol will construct a 50 000 tons-a-year plant at its Secunda chemicals complex. A second 50 000 ton plant will be operational in 2 001.

Mike Smith, says the world chemicals market is strong because of the buoyancy of the US economy.

This trend is expected to continue for the rest of this year in the longer term there is the possibility of new international capacity for products like plastics, polyesters, polypropylene and polyethylene, which could affect some prices in 1998 and 1999. "A lot will depend on how the world economy performs," says Smith.

However, Smith, along with other local producers, would like to see the SA economy growing faster than it is — a development which will improve local consumption.

Most stakeholders believe that the many measures being implemented by the local chemicals industry to boost its competitiveness will make it in good stead and stand it a force to be reckoned with in future.

bouring African countries like Zimbabwe, Namibia and Botswana, but these are considered small markets.

A light at the end of the tunnel, however could be the Maputo Corridor Development Project. It includes the development of the harbour at Maputo, which could help boost export opportunities from inland plants.

In the short term, prospects appear fairly rosy. AECI's managing director,

plants at inland locations close to the coal-based synfuels plants which supplied the feedstocks.

At the time this strategy was attractive because of the benefits of being sited close to heavily populated, large consumption markets like Gauteng. However, these plants are far from SA's harbours, resulting in higher transport costs on exports.

The plants may be well placed for exports to neigh-

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Medical schemes' body threatens to go it alone on importing of drugs

Star 16/6/97 (183)
BY CRAIG URQUHART

As the Ministry of Health continues to stall over the controversial Medicines and Related Substances Control Amendment Bill, the Representative Association of Medical Schemes (Rams) is threatening to "go it alone" and establish its own guidelines for the parallel importation of drugs.

"We will explore every avenue to obtain cheaper medicine, including the parallel importation of drugs. We refuse to be held hostage to the current structure and we will support any measures by the Government, including these bills, to obtain cheaper medicines," said Rams director of policy Dr Aslam Dasoo.

The move from the multi-billion-rand organisation, which represents 186 private medical schemes that provide health cover to 15% of South Africans, could set the standards to which the Government would ultimately have to adhere.

"The outcome of the bill does not stop private schemes from slashing the cost of available drugs as long as they are sub-

mitted to the Medicines Control Council. We're advancing the Government's intended programme because it makes good financial sense," said Dasoo.

Rams, which is facing pressures from its members because of their soaring contributions, says some schemes face bankruptcy if generic substitutions are not legalised.

Bowing to pressure from US politicians and business, the

SA prices are among the highest in the world

Government last week withdrew the proposed bill which would mandate that physicians prescribe only generic drugs.

Health Minister Dr Nkosazana Zuma said she was confident the bills would be passed with minor adjustments.

She said the price of medicine in South Africa was among the highest in the world and the provision of safe, effective and affordable drugs in the right

quantities to the whole population was a national priority.

She plans to import cheap medicines from overseas for use in public hospitals and clinics - a practice which is common in Europe and Africa - and legalise generic substitution.

This means that pharmacists will have to offer patients cheaper medicines as an alternative to medicines prescribed by their doctor. If doctors do not want an alternative, they will have to write this on the patient's prescription by hand.

The National Convention of Dispensing Doctors said doctors would fight in court if necessary for their constitutional right to dispense medicines. It says doctors are also questioning the safety of generic substitution and whether nurses and pharmacists should be permitted to prescribe drugs - which is recommended in the bill.

Pharmaceutical Society of SA executive director Ivan Kotze said most of the submissions were on technical points, and it was not impossible that decisions on the few important issues could be taken within a week.

Govt claims synfuel levy from oil firms

Edward West

MOSSGAS has become involved in a spat between government and SA's oil refiners involving more than R50m a year in synfuel levies which government believes should have been paid for Mossgas product by oil groups

Mossgas CEO David Day said on Friday oil companies should have paid the government-determined base price for fuel bought from Mossgas because refiners had become net importers of petrol from the last quarter of 1995, and net importers of diesel from the end of the first quarter this year

In terms of an agreement with government, oil companies buy product from Mossgas at export prices, traditionally lower than the notional government-determined base price — as long as there is surplus local production which is exported

Day said the auditor-general had attempted to investigate the matter further but oil companies refused the office access to import and export statistics on the basis that they were international privately owned groups "They can't disprove the claims This is not a dispute between Mossgas and the oil refiners This involves state money and the oil companies," said Day

An SA Petroleum Industries Association spokesman said the dispute related to diesel exports

Oil refiners had suggested to government in the middle of last year that a higher price be paid for Mossgas's petrol, as some of Mossgas's petrol production was being consumed locally, whereas in the past it had been exported However, government did not take up the proposal

"The statistics we get from the Central Statistical Service and what Day

BD 17/6/97 (183)
says appears to be different According to our own statistics, SA will remain a net exporter of diesel by the year 2000," the spokesman said.

Patrick Wadula reports Business Times reported that Sasol was to reintroduce alcohol into its fuel blend from September 1 this year

Alcohol, a by-product of Sasol's oil-from-coal process, was used as an extender during the oil embargo on SA

The motor industry argues that during the period of alcohol use, car manufacturers and their customers experienced problems including dry and wet corrosion

Sasol says, however, that in the same period there were virtually no compatibility problems It says that since local petrol specifications provide for inclusion of alcohol, manufacturers and importers should have ensured their products were compatible

Furore over pharmacists' dispensing fee

Stephané Bothma

BD 17/6/97

A SHOWDOWN is looming between medical aid schemes and half the pharmacies in SA which plan to introduce a dispensing fee that could result in patients having to pay cash for prescription medicines.

The dispensing fee, of R20,90, would result in an average increase of 17% in the cost of medicines, the Medscheme Group said yesterday.

It said United SA Pharmaceuticals, representing 1 480 of SA's 2 900 pharmacies, had informed medical aid schemes of an intention to implement a R20,90 dispensing fee from June 26.

The pharmacies threatened to boycott medical schemes refusing to accept the pricing structure by making patients pay for medicines in cash.

"To avoid the boycott would mean an average increase of 17% in the cost of medicines and hardest hit would be those in the lower income bracket," a Medscheme spokesman said.

United SA Pharmaceuticals said the dispensing fee was being introduced in an effort "to reduce the high price of inflation".

The move by the pharmacies was evaluated as part of an audited survey of 10-million prescription items across 32 medical aids commissioned by Pharmaceutical Benefit Management (PBM). Findings showed that, on average, the dispensing fee would increase medicine costs 17%. "In the case of schemes for lower-income workers, the increase would be between 20% and 26%," PBM MD John Cowlin said.

He said the feasibility study indicated that the dispensing fee could often

be higher than the actual cost of the medicines.

Bafana Nkosi, principal officer of Bonitas Medical Fund, which serves 500 000 black South Africans, said the threatened boycott was discriminatory. "Few of our members will have the cash and we object to being blackmailed into paying more for medicines when members get no added value for these high costs."

In SA by far the largest proportion of money paid out on medical aid benefits was for medicines — about 32% compared with an average of 12% in the UK and 14% in Zimbabwe.

"One of the key aspects of containing the health care cost spiral in this country in recent years has been the management of medicines, especially those for chronic illnesses," the Medscheme spokesman said. Medical aid schemes, generally, believed a negotiated solution was necessary for health care to be affordable, she said.

Cosatu said it was confident that Health Minister Nkosazana Zuma would remain firm to the commitment that government would put in place mechanisms which would lead to a reduction in the cost of essential medicines despite the "enormous bullying tactics used by companies who stand to see a cut in their super profits".

Referring to Zuma's move last week of temporarily withdrawing three controversial health bills from Parliament, Cosatu "strongly urged" the African National Congress and the cabinet to support Zuma's intention to reintroduce speedily the proposed legislation after it had been refined on the basis of inputs from the public.

Medicines to be sold at cost plus a fee

BD 18/6/97
Stephane Bothma

(183)

PRESCRIPTION medicines would be sold by most of SA's 2 750 pharmacies at cost price plus a fee of R17,10 from July 28, United SA Pharmacies chairman Julian Solomon said yesterday.

Providing details of the fee, originally to have been R20,90, Solomon said the profits of some medical aid schemes and administrators would decline by millions because of the pricing structure, which was in line with government's national drug policy.

Although some medical aid schemes claimed the fee would result in an average increase of 17% in the cost of medicines, he said the cost of expensive prescription drugs would be significantly reduced.

"The object of this professional fee is to move the incentive for pharmacists from making a small profit on the sale of medicines to being rewarded for their professional services.

"This will dramatically bring down the total cost of the medicine drug bill," he said

The move by United SA Pharmacies, which represents 1 553 pharmacies in SA, has hit strong opposition from medical aid schemes or administrators which stand to lose discounts of up to 30% on the cost of medicines

Negotiations between pharmacies and medical aid schemes over the past nine months to resolve the issue had been unsuccessful, Solomon said.

"Medical aid schemes have been

Continued on Page 2

Medicines

Continued from Page 1

BD 18/6/97

bleeding pharmacies to the extent that around 100 a year are forced to close."

He said United SA Pharmacies members would charge the fee from July 28, but in some cases from June 26. Nonmembers were likely to follow

Members of medical aid schemes which refused to accept the pricing structure would have to pay pharmacists for their prescription drugs from those dates and then submit claims to the schemes, Solomon said.

The introduction of the fee was in line with a decision by drug wholesalers to sell goods at cost to pharmacies from July 28. It replaces the practice of adding a profit margin to the cost, offset by a discount passed onto medical aid schemes by pharmacists

Solomon said the principle of a professional fee had been endorsed by the

SA Pharmacy Council and the Representative Association of Medical Schemes, and formed part of government's national drug policy

"When all parts of the drug policy are in place the end price, across the board, will be substantially lower in total than is currently the case.

"Whether the cost of a prescription is R50 or R500, the professional fee remains R17,10," he said.

The fee would be used to cover the cost of running pharmacies, and included VAT.

Medical aid schemes earlier said an audited survey of 10-million prescription items showed that, on average, the dispensing fee would increase medicine costs 17%

Solomon said this was misleading, as the new lower cost of medicines had not been taken into account.

Sapa reports a redrafted version of controversial legislation aimed at lowering the price of drugs is expected to be approved by the cabinet today.

I also want to emphasise that we need a well-rounded education system in this country. We have to move every pupil, every child, into the 21st century, because other countries are leaving us behind. We really have to move at a run, and we have to use every method that can ensure that the children think, but at the same time come quickly into the 21st century. If we are not careful, we might find ourselves producing robots at the end of it all. I believe that education should be well-rounded, and I want to support the Minister wherever that is happening. I believe that he should take the whole nation with him. [Time expired]

The MINISTER OF EDUCATION Madam Speaker, firstly I want to say that the outcomes-based education cannot produce robots. It is the content-based education that has already produced robots, and I also want to say that we are not mimicking the United States of America or any other country. The outcomes-based education that is being introduced is based on South African values. I am disappointed at the member's seeming lack of understanding of what we are doing in education. Perhaps a lesson in this regard is necessary.

Outcomes-based education is a learning and teaching methodology which focuses on the results expected at the end of each learning process. Every teacher and learner will need to plan the teaching and learning around these critical outcomes which include skills, knowledge and values such as being able to identify and solve problems and make decisions using critical and creative thinking, to collect, organise, analyse and critically evaluate information, to work effectively with others in a team, group, organisation or community, and other skills and values which I cannot mention now. Let me pause for now. I will continue with my lesson.

Dr K RAJOO Madam Speaker, Mr Minister, outcomes-based education has definitely given rise to some trepidation in different quarters. My colleague put this interpellation so that we could clarify some points. It is not a criticism of the outcomes-based approach. In fact, the IFP categorically supported the outcomes-based approach in education.

For a long time, mathematics and science were taboo subjects as far as the black children in this

country were concerned. Because we had poor teachers and we did not have the right facilities, our children felt that mathematics and science were things they could not do. Now the outcomes-based education approach will, at least, bring this together. It will be a user-friendly type of educative system, a system whereby new books and new methods of teaching will come, so that our children will, at last, find out that they can take their rightful place as scientists, engineers, doctors and architects in greater numbers than ever before in this country. That is the situation as it should be. However, the Minister will understand that all new approaches cause fear, and that type of fear is being felt in the schools and by the teachers. What we need is an infusion of money to educate those teachers, and the children and their parents, to tell them that outcomes-based education is going to be the best for them. After all, outcomes-based education develops the full potential of the child. A standard type of organisation or examination system will not do this.

Whose standards are we operating by? Our children fail. Ninety per cent of black children are failing in maths and science in schools because of the lack of infrastructure. What outcomes-based education is doing is simply putting together this type of situation.

In the United States it certainly failed. There a different type of programme was applied. There was no table-top situation as in South Africa. In the United States different criteria were applied. [Time expired]

Mr M F CASSIM Madam Speaker, most of my teachers, if the hon the Minister had to ask them, would have said I was a good student but a troublesome one, because I asked too many questions, which I still do. I would be very happy for the Minister to be 100% right and for me to be 100% wrong, because it would then be a great relief to know that education in the country was 100%.

We support OBE, but I warn the Minister that he must be very careful indeed, because if what is being trumpeted and heralded here fails, then the consequences will be for the Minister to bear and for him to bear alone. Wherever OBE has been tried it has been good, but it has also had very negative consequences, so much so that a dozen

states have actually had to withdraw it. Now, can one imagine if in South Africa two or three years down the line it suddenly became evident that this system was not working and that mediocrity was what it was leading to? That is the danger I want to warn the Minister about. [Time expired]

The MINISTER OF EDUCATION Madam Speaker, with due respect I do want to say that maybe I am not ready to be warned and I do not deserve to be warned, because I am not going to be threatened by failure. I am not prepared to have people come here and agree that the system that we have used all along has been bad, that it has disadvantaged the majority of this country, and at the same time refuse to have us go forward and introduce a new system.

I would hope that the comments made in support of outcomes-based education are accompanied by the confidence that ought to be there. In fact, when this question is raised in relation to the disadvantaged, I always ask: What are you offering the disadvantaged? They are already disadvantaged. Is it the fear of failure that you are offering?

I believe that I can appeal to all hon members to support the approach and, in fact, to run with it and see where it gets us. It is this approach which will get us ready for the 21st century.

Debate concluded

4 Mr L M GREEN - Environmental Affairs and Tourism [Withdrawn]

QUESTIONS

† Indicates translated version

For oral reply

Executive Deputy President

Letters concerning secret oil deals/CEP (183)
*1 **Mr J A JORDAAN** asked the Executive Deputy President

(1) Whether a certain Minister, whose name has been furnished to his Office for the purpose of his reply, has informed him of letters in the said Minister's possession concerning secret oil deals and the Central Energy Fund; if so,

(2) whether he will be prepared to make the names of the authors and recipients of such letters public, if not,

(3) whether he will, in the interests of transparency, instruct the Minister concerned to make the names of such authors and recipients public, if not, what is the position in this regard if so, what are the relevant details? N1441E

The SPEAKER Order! The Deputy President has informed us that he has requested Minister Maduna to respond to this question, and that the questioner, Mr Jordaan, has agreed to this arrangement.

The MINISTER OF MINERALS AND ENERGY (for the Executive Deputy President)

(1) Yes

(2) Yes

(3) In the light of the above, this question falls away

Mr J A JORDAAN Madam Speaker, arising out of the hon the Minister's reply, in his Budget Vote he referred to these letters. Can we ask him today to actually make public what we have asked for. In other words, is he prepared to make these names public, and can we hear from him the exact details across the floor today? I would like to hear from him exactly what the situation is regarding what he said in his speech during his reply to his Budget Vote.

The MINISTER OF MINERALS AND ENERGY Madam Speaker, I do not want to prejudice the people affected, or prejudice their interests, but I will read only one letter to this House, if it pleases you. It is a letter which is handwritten and which is dated 24 October 1994. To be specific, it reads 24/10/94. It is addressed to a person called Roy. The next word is "Salem" and it is underlined. It reads as follows:

Roy Salem. We (Shell and myself) had agreed on the following:

1) They will write you a letter explaining the matter. This letter will be hand delivered.

2) We will then advise them what to do with the money. In view of transparency, we must find a way which will not disclose the origin of the money.

3) We again agreed on secrecy. No one will disclose anything.

4) If you agree, we can inform Minister Botha. He can then thank (or whatever) John Drake over the telephone. Nothing in writing. In doing it this way, Shell gets acknowledgement from the top that we have the money, but we do not disclose the origin in the books.

Mr J A JORDAAN Madam Speaker, further arising out of the hon the Minister's reply and the information that he has given, in his reply to his Vote he said "I will disclose the names in this House if I am pressurised to do so." He then went further, referring specifically to me "I want to tell them that it is one of many letters that I have captured."

If the Minister tells me that they are still busy with an investigation, that it involves his predecessor, etc., I believe that we have got to accept that but, as one reads in the last part of the question that I put, we would, in the interests of transparency, prefer the hon the Minister to come clean, unless that might have an influence on the investigation [Interjections.]

The MINISTER OF MINERALS AND ENERGY Madam Speaker, I shall not read a second letter, but I will quote from it. This second letter comes from the Deputy Auditor-General, Mr J A J Loots. It is addressed to Mr Barend Petersen, the management auditor I appointed, and it is dated 11 June. The letter suggests to me that it was copied for hon members Ms Barbara Hogan and Mr Ken Andrew, in their official capacities. I want to read it to this House.

Before I read it to this House, I want to say that this letter is in response to a series of questions which I asked the auditor that I appointed to put to the Office of the Auditor-General. One of those questions relates to the so-called loss of the sum of R170 million. This loss, I discovered, was part of this investigation when I actually collided with a document which was submitted to my predecessor

by Price Waterhouse as a report - an audit report, in fact - to the shareholder.

I then decided to go into it systematically, in conjunction with the auditor. That one says that there was a loss of R170 093 000, and that the loss was ascribable to the transfer of oil stock reserves. It is dated 7 February 1994. The Auditor-General, who was given this report, because the audit was done by Price Waterhouse, an agent of the Auditor-General, then did some humble footwork in the report. I then checked why there was a difference between what was reported in the Price Waterhouse report dated 7 February 1994 and the report of the Auditor-General dated 31 March 1994, weeks before our election.

This afternoon I established from the Clerk of the Papers, Mr Reg Morgan, that that report was tabled in this House on Wednesday 29 June 1994, well over a month after the induction of the hon Nelson Rolihlahla Mandela as Head of State. When I said that questions about this must be put to the Office of the Auditor-General, this is the response I got, dated 11 June 1997.

The Auditor-General published an abridged version of the financial statements to Parliament. The extent of disclosure was subject to the secrecy provisions which pertained at the time, as well as the goal to present information to Parliament in as concise a form as possible.

I have said that, bearing in mind that this so-called loss was incurred - I do not care how - significantly, in the period post 2 February 1994, the age of transparency, and, more particularly, literally weeks before the elections of 27 April 1994, it would indeed be interesting if one day this House was told what these secrecy provisions were, what laws, if any, contained them how, and to what extent, they applied to the affairs of the SFF Association, to whom, in the place of this House and this Parliament, full, true and accurate reports were made and to whom those who were made privy to such reports accounted.

It would also be interesting to know under whose discretion the question of what was affected by the so-called secrecy provision fell, and what

criteria or guidelines were followed in deciding what to disclose or, as the case may have been, what not to disclose to Parliament. In other words, is Parliament expected to have full confidence in an office which may be tempted to think that it has a discretion to selectively disclose matters, and yet present such matters to Parliament as though they are complete, accurate and flawless?

In conclusion, the sum represents 21,34% of the trading income of the SFF for the relevant financial year. According to the Price Waterhouse Meyer Nel report, which I have referred to, the said loss was occasioned by strategic stock transfers. The questions that this averment immediately begs are: Who were the recipients of these transfers of South Africa's strategic oil stocks? Why were the stocks transferred at a loss of this magnitude? What consideration, if any, was given in exchange for such transfers, and to whom? If nothing legitimate, illegal or untoward was being done with these stock transfers, why did the Auditor-General's office deem it fit, at that time, not to disclose this so-called loss to Parliament? And, especially, under what statutory authority was that decision made? I rest my case [Applause.]

Mr D M NKOSI Madam Speaker, I would like to do a follow-up on the question raised. Clearly, the issue here is that it is part of what has happened that we need to put right.

IsiZulu

Somlomo, umbuzo wami engizowuveza manje ubhekiswe kubaba uMaduna mayelana nokuthi njengoba inhlwa isavele ngekhandla, kungakanani okusasele? Sizothola kanjani ukuze sikwazi ukuthi sithole umbiko ongathi uyabambeka ukuze sikwazi ukuthi simbe lamangcwaba, abantu bangwatshwe ngendlela efanele, ngoba asesingeni? Ngakho-ke bengithi angikuveze kanjalo kuNgqongqoshe.

Ngyaxolisa kuSomlomo ngenxa yokuthi kungenzeka ukuba ashayeke kancane. Kodwa engikushoyo kubaba uNgqongqoshe ngokuthi cha, inhlwa isavele ngekhandla. Ngicela ukuthi asazise ngendlela engathi iyabambeka ukuthi umbiko obambekayo esingawuthola, singawuthola nini

mayelana nendaba ye-SFF. Lokho ngikusho ngoba akusiyona into esingayazi, kodwa yinto esemlandweni ophelile wokwenzeka kwezinto ukuthi bekungafanelanga kwazi muntu ngezindaba zezimali [Translation of Zulu paragraphs follows.]

[Madam Speaker, the question that I would like to ask now is directed to the Minister of Minerals and Energy. My question is, since this is the tip of an iceberg, how much more is still left? How is it going to be possible for us to get a tangible report so that we can dig up these graves and bury the people properly, since these graves are in the veld? That is what I wanted to bring the Minister's attention to.]

I would like to apologise to Madam Speaker because it may be possible that she misses out on what I am saying. But I am saying to the Minister that this is the tip of an iceberg. I would appreciate it if he can give us a plausible report regarding the SFF. I am saying so because that is not something that we do not know, but the full history of what happened bears testimony to the fact that nobody was supposed to know anything about matters concerning funds.]

The MINISTER Madam Speaker, the investigation I have commissioned is not about what happened in the era of apartheid. I have nothing to do with that. All of us know and acknowledge that in order for this economy to survive two decades of sanctions - in particular, for it to survive the oil boycott and the oil embargo - all manner of nefarious things had to be done. I am not going into those. I will not even go into the activities of the Chiavellis and into the activities of certain people in the Botswana government. I have no interest in those. I have seen those.

What I am doing, however, is to investigate the issues that occurred in the post-sanctions era, from 1992. To answer the hon member's question the report will be coming pretty soon. It will reveal more. It will embarrass some people - it will surely embarrass them. They will have to say exactly what happened to our money in the fiscus. They will have to account for that. As I have said, they still have to come up and say how, short of a big fire, they lost stock to the tune of R170 million. They have not accounted for that as yet. Furthermore, they will also have to say why they

paid 7,5 American cents to certain people in respect of Egyptian crude when those moneys were not due and payable

My research has taken me all the way to Amoco, it has also taken me all the way to the Egyptian General Petroleum Company, and I am in possession of letters of people in charge of those two companies which tell me as Minister that those moneys were not due and payable. I am also in possession of letters which some people would draft for certain people in my own establishment, and then get them to answer, pretending that in fact those were letters that they themselves had initiated. In other words, a breach of secrecy occurred. I will actually bring that report, I will give it to the Head of State and I will also give it to this House.

I want also to say this. I do not care a tinker's cuss what Mungo Sogot thinks of this. I have deliberately refused to be provoked to respond by the media. But the author of the letter to Roy knows what I am talking about. I have also heard this Roy interviewed, and Roy has said that despite his obligations under the Central Energy Fund Act of 1977, he felt that he should play along in this game of hiding whatever money they were dealing with in relation to Salem. They still have to account to Parliament. I know that the Office of the Auditor-General does not know that that money relating to Salem was not disclosed appropriately. That hour shall come when they shall have to account for the sins dating this side of 1992. [Applause]

Mr M R SIKAKANE Madam Speaker, I want to take this opportunity to question the questioner, who is my next-door neighbour here. [Interjections]

The SPEAKER Order! I am sorry, hon member, but you have to address a supplementary question to the Minister.

Mr M R SIKAKANE Very well, Madam Speaker, I shall address the question to him. Arising out of the Minister's reply, I wonder why the hon member, my learned friend here, who was here in those years, did not question the doers at that time. He is beginning to question this now.

his honesty, etc, and also for his humility. [Laughter] I would just like to know from the hon the Minister, because certain implications have been made, whether there is any indication at this stage whether politicians or a political party on occasion benefited from these funds. [Interjections.]

The MINISTER Madam Speaker, I am not a sangoma or a diviner. I am just a humble Bantu man. [Laughter] But those who received the transfers know themselves. I think they owe it to this House to say, one day "I, so-and-so, did receive the transfers." We shall find the answers. Those who made the transfers are known, but the recipients are not yet known.

Now we are going to go to them and say that they did not report that this was a loss occasioned by theft and that they did not report that this was a loss occasioned by fire. What is it that occasioned it? They were transferring things. If they were transferring gifts, they would have told us. We accept that. But if they were stealing then they are in trouble. [Interjections] They will finger them. I have no doubt about it. Something tells me that very soon they will want to speak.

We now know, in fact, that this fig leaf called secrecy provisions has been thrown aside by this Bantu man. I have cast it aside. We can now see what lay beyond the fig leaf, ie the theft of R170 million of stock. [Interjections]

Mr J A JORDAAN Madam Speaker, arising out of the hon the Minister's reply, I would just like to say to him that I will consult my amadlozi (ancestors) at Ebhaya (Port Elizabeth) and mam'u mthakhathi (witchdoctor) will convey it to him. [Laughter]

The SPEAKER Order! No, there will be no further supplementaries on this question. What is the hon member raising? A point of order?

Mr N N KEKANA Madam Speaker, on a point of order. I would like to know if it is in order for the NP to be this quiet when this is happening. [Applause] [Laughter]

The SPEAKER Order! Hon members, after a great deal of consideration, I would rule that it is highly in order for every party to be quiet and orderly. [Applause] [Laughter]

*2 Dr T G ALANT - Executive Deputy President † [Transferred - see No *41]

**Executive Deputy President:
working holiday in Zanzibar**

*3 Mr P W COETZER asked the Executive Deputy President †

(1) Whether the State paid for a part of or the whole cost of his recent working holiday in Zanzibar, if not, what is the position in this regard, if so, what did the cost amount to,

(2) (a) which official appointments did he keep during his visit to Zanzibar, (b) who did he visit in his official capacity as Executive Deputy President and (c) what was his full programme during his visit to Zanzibar,

(3) whether he will make a statement on the matter? N1466E

The EXECUTIVE DEPUTY PRESIDENT

As the President's office had announced in a public statement, I went on holiday to Tanzania from 28 May to 8 June 1997.

No costs were borne by the State except for the provision of air transport to and from Tanzania, which was provided by the SA Air Force according to regulations governing the provision of security for the Deputy President.

Dr B L GELDENHUYS Madam Speaker, arising out of the reply given by the hon the Deputy President, could he inform the House whether the aircraft he was travelling in during his working holiday was in any way involved in an accident, either at the airport in Zanzibar or in Madagascar.

The EXECUTIVE DEPUTY PRESIDENT Mr Chairman, on the day we arrived, the pilots spent the night in Dar es Salaam, and the

Too many drugs are a pain in

Hapless consumers, manufacturers, pharmacists and medical aid societies all agree the system is badly flawed and n



By JANINE SIMON
Medical Correspondent

Like many others, Hon eydew secretary Jean Baxter (62) thought Dr Nkosazana Zuma "didn't know what she was doing"

But when the cost of the generic painkillers prescribed to her for arthritis doubled in the months since January, she developed a new interest in Zuma's efforts to control drug prices

Now costing about R64 a box of 100 Baxter's "Adco-dol" eats a quarter of her R250 monthly medical aid allowance for non-hospital expenses. She's found a discount pharmacy offering the pills at about R36 a box, but, she says "I'm moaning for all the other people out there who can't manage the price"

Adcock Ingram Pharmaceuticals say Adco Dol was subsidised by the company's other products. The decision to up prices came long before Adcock merged with Premier Pharmaceuticals, manufacturers of the branded version of the painkiller, partially because more than 60% of the raw material cost has nearly doubled since August 1995

Of course, Baxter could refuse to buy the pills, but her health would suffer. The painkillers are a "grudge" purchase and her agonising over their cost strikingly dramatises whether health is a human right or a commodity

Were pharmaceuticals like the sweets Jean buys for her grandchildren, profits and the power of branding would concern only economists

But drugs secure health, and the Government, driven by the principles of its new fair health policy, says pharmaceutical services must be managed to serve the health care needs of the country

That means, as elsewhere in the world, that South Africa's sophisticated R10 billion pharmaceutical industry must play ball - and not a few players are wishing for time out from the bloody job of trying to make that happen

But industry is not the only player that needs to act

The principles of the new pharmaceutical order have been debated since 1993, and are spelt out in the National Drug Policy, released in Febru

ary last year (See box)

Few quibble with the policy's lofty aims, but take issue with the form they have found in the three contentious and inter-related bills which Zuma is to re-submit to Cabinet today

The Medicines and Related Substances Control Amendment Bill, the Pharmacy Amendment Bill and the Medical, Dental and Supplementary Health Service Professions Amendment Bill seek to enforce practices which industry regards as unjustified intrusion on commercial rights

The documents hastily pushed through the portfolio committee hearings were riddled with technical inaccuracies, and effectively gave the minister almost unfettered powers over health regulation and registration issues

The threat of legal challenge forced Zuma to temporarily withdraw, but the private sector has continued to try to give life to the principles of the drug policy

Jean's medical aid is one of 187 which spend about R20-billion (about equal to the State's health budget) on private health care for six million of South Africa's 43 million people. This year about R7 billion of that will be spent on drugs

Total payout has risen by 20% a year since 1995, and smaller schemes could sink by 1999 if the trend continues, says Dr Aslam Dasoo, policy director of the Representative Associations of Medical Schemes (Rams)

Medical aid schemes, or rather employers and members who fund them, can no longer afford the drug bill. Neither can they justify spending so much on so few, and they also have to free money to extend the net of private health cover

Many medical aids have turned to pharmacy benefit managers who process, pay and manage claims, for example, by detecting fraud or paying out at only the level of the cheaper generic equivalent. Savings to medical aids have been between 14 and 25%, says Dr Wim Booysse, director of the largest, Medikredit.

Members, though often have to pay the difference between the medical aid payment, and pharmacist's asking price.

Better management suppliers, employers and medical aid administrators are all at fault) will trim costs, but that alone cannot untangle the matted knots of the industry

Government buys 80% of drugs on tender, at prices among the lowest in the world. The private sector's 20% must subsidise the State, and make drug manufacture worthwhile in the face of a weak rand, import duty on raw materials, and research and development costs.

Manufacturers say improving productivity, tackling the theft which costs government R1 billion a year and opening pharmacy ownership to lay owners, as proposed in the Pharmacy Amendment Bill, will turn the tables

Pharmacists say perverse incentives in the pricing structure must also go

Officially, manufacturers sell at an industry standard price, wholesalers add 21.2% and pharmacists another 50% plus a R1.30 dispensing fee - to make up the infamous "blue book" standard reference price lists

But discounts and incentives crisscross this structure, completely obscuring it and strangling operators - no fewer than 50 pharmacists and two wholesalers have closed their doors in recent months

Firstly, the price of drugs leaving a factory depends on who is buying. Dispensing doctors can better influence a sale and get a better discount than wholesalers. Some of the country's 35 big wholesalers get better prices - but pressure to end discriminatory pricing is said to be closing that gap. And some pharmacists, like the discount chain Jean Baxter uses, buy items such as injectables direct from the manufacturer, at 35% off the standard price

Secondly, warehouses can't source different products, so they compete on price and service, discounting themselves out of business by giving between 3% and 10% off their official 21.2% markup, says Trevor Phillips, executive director of the National Association of Pharmaceutical Wholesalers. And they're also being squeezed by manufacturers starting their own distribution houses

Thirdly, pharmacists often buy at prices well below blue book prices, but are entitled by industry norms not to pass on these savings and sell at blue book plus 50%

But many medical aids demand a 22% discount off blue book for guaranteeing to pay the pharmacy - although poor management on both sides can delay payment for months

Many pharmacists offer a similar or larger discount to

cash customers, or just turn into discount stores and cut margins. Baxter's pharmacy buys 100 Adco-dol at R26.35, marks up 19% to sell at R31.35, including VAT. Blue book wholesale and retail prices are R37.68 and R64.33 respectively

Manufacturers agreed to end bonus and sampling last year, but it's an open secret that pharmacists still get discounts or deals on branded drugs, mostly those for which there are generic competitors, such as antibiotics, says Keith Johnson, head of the Pharmaceutical Society of South Africa's pricing committee.

It is enticement to push the expensive brand - you make more rands off a 50% markup on a more expensive drug, and you could legitimately charge medical aids or consumers at the blue book price.

Official prices to medical aids are about 20% higher than true cost prices, and sometimes up to 60%, says Dasoo

The broom to clear this web is the oft-postponed introduction of a professional fee for pharmacists.

It is a joint effort between pharmacists, RAMS and wholesalers to open pricing deals to scrutiny. Once done, wholesale margins will be a standard 14%, and pharmacists will charge cost plus a flat fee for each item dispensed

Cleaner it may be, but players acknowledge the new tariff will raise prices of the cheaper drugs. Pharmacy benefit managers fear it will inflate overall costs, and some have already advised their stable of funds to stay away

All want to know if the new structure is to be calculated off the true price of drugs entering the system

But only 30% of manufacturers, mostly local companies and European multinationals, have revealed actual selling prices, says Dasoo

In desperation and defiance, pharmacists have banded together to show what they really pay, says Johnson

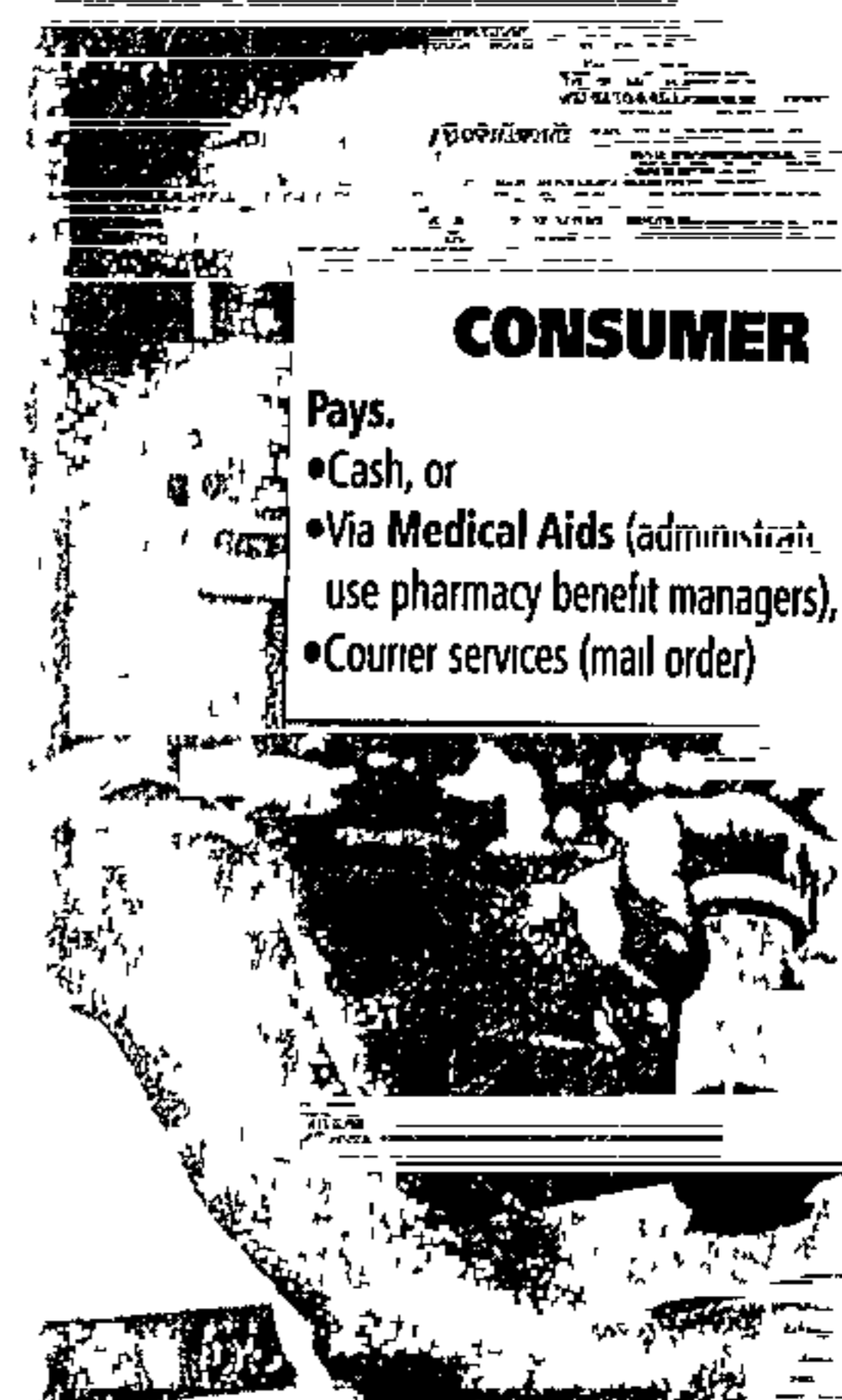
By month-end, when the new system is due to be phased in, manufacture, wholesale and pharmacy price lists are expected to have been collated into a better approximation of the truth, and published as the PSSA/RAMS joint Medicines Scale of Benefits.

Medical aids should agree to follow that guideline, but it will take about six months to analyse the effect. Until then, the minister holds centre stage

TANGLED LINE



- Sells mostly Private
- Can offer buyers
- Some
- Sometimes



CONSUMER

- Pays.
- Cash, or
 - Via Medical Aids (administrators use pharmacy benefit managers),
 - Courier services (mail order)



- Controversial,
- Single exit
 - Transparent pricing
 - Generic
 - Parallel imports
 - Open ownership
 - Medicines C

drugs are a pain in the pocket

(183) 18/6/97

ists and medical aid societies all agree the system is badly flawed and needs an overhaul

JGNASA DIAR

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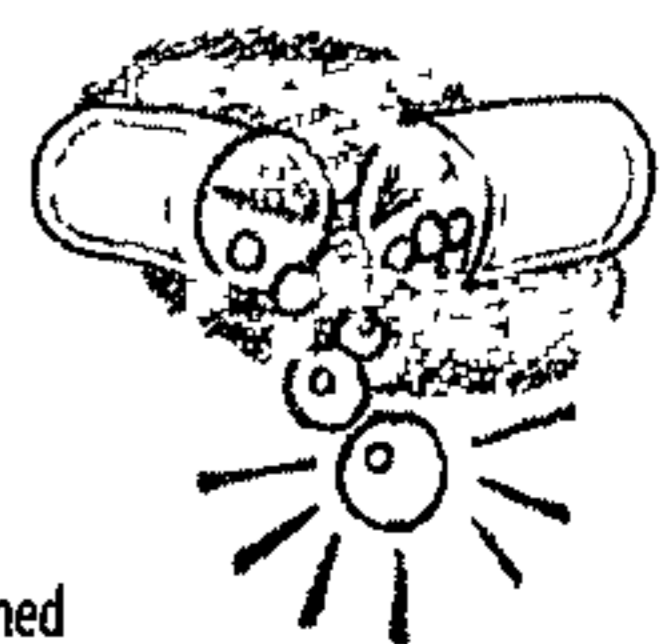
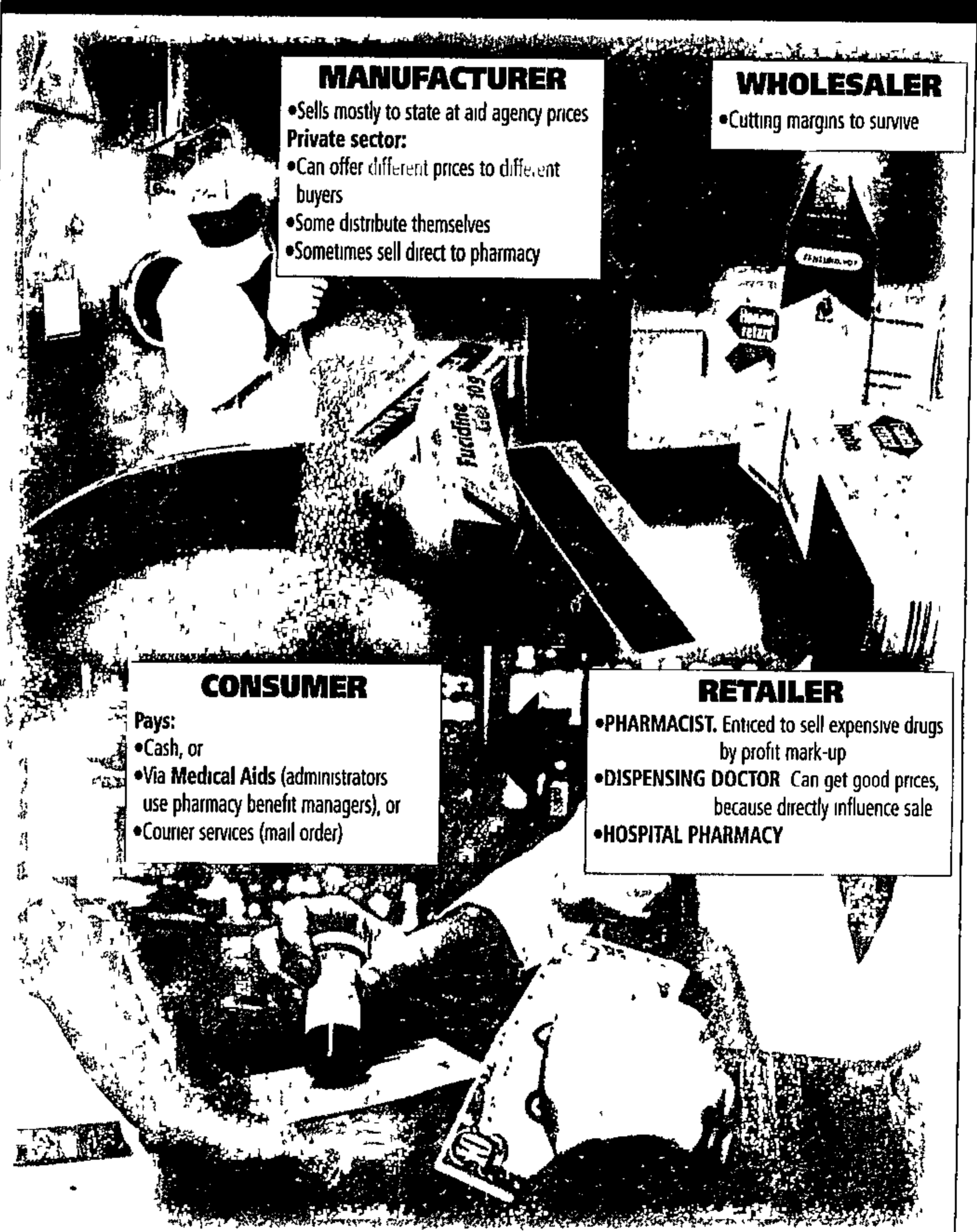
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TANGLED LINES OF DRUG SUPPLIES



LEGISLATION

- Controversial, but suggests.
- Single exit pricing
 - Transparent pricing structures
 - Generic substitution
 - Parallel imports
 - Open ownership of pharmacies
 - Medicines Control Council (MCC)'s authority could be threatened

New proposals on future of Mossgas

(183)

CT (BR) 18/6/97

JONATHAN ROSENTHAL

Grand Baie, Mauritius — New proposals on the future of Mossgas would be examined by the restructuring committee of the National Framework Accord nearly a year after the cabinet rejected several privatisation bids, Susan Shabangu, the deputy energy minister, said yesterday at the Sub-Saharan Oil and Minerals Conference.

Last year Mossgas, the synthetic fuel-from-gas producer, was dealt with separately from other state assets in an aborted privatisation process, which was overseen by a special task group reporting to cabinet.

Although several bids were solicited in a costly "market testing" exercise, the government said none of them was acceptable.

Mossgas produced an operating profit last year, but it was unable to service its debt burden.

Shabangu said the government had since received several new proposals "to turn Mossgas around".

These bids were now in the hands of the cabinet, but she said the government could not "look at the issue of Mossgas outside of the broader restructuring of state assets".

"We have put Mossgas as one of those assets to be looked at by the (National Frame-

work Accord restructuring) committee," Shabangu said.

She said the government had not yet taken a decision on Mossgas's request for a further R1 billion in funding to extend the life of its gas reserves.

"We will have to get the approval of the minister of finance and also that of the cabinet," she said.

Last year, Mossgas was given approval by the government to borrow more than R900 million to invest in compressors to extend its gas reserves.

Shabangu also said the government was encouraging the development of the Pande and Kudu gas reserves, offshore of Mozambique and Namibia.

"We are hampered by a strong coal culture rather than a gas culture, (but) gas has an important role to play in the development of the region, is more environmentally friendly and will diversify South Africa's primary energy sources," she said.

She said the government's long-awaited gas policy, to be released soon, would be driven by the principles of competition, the avoidance of monopolies and minimal state intervention.

She also said South Africa was on the brink of signing a gas cross-border agreement with Mozambique and would follow that with an agreement with Namibia.

Zuma's revised bills before cabinet again

CAROL CAMPBELL
HEALTH WRITER

THE cabinet meets today to discuss the three controversial health bills that were withdrawn unexpectedly by Health Minister Dr Nkosazana Zuma last week.

Zuma withdrew the legislation after two days of public hearings in Cape Town in which major players in the pharmaceutical industry, pharmacists and medical students vociferously protested that she was "rushing" public input into laws that would change the face of South African medicine.

The amended bills were handed back to the cabinet on Friday prompting speculation that the changes were "purely technical".

But Zuma is believed to have reworded the sections that would have given her power over the Medicines Control Council, the Pharmacy Council and the Interim Medical and Dental Council (soon to be called the Health Professions Council).

The old wording gave the minister the final say in all decisions relating to health, but the new wording should say she will only be able to make decisions "in consultation with" these councils.

Medical students probably still face two



WILL CONSULT:
Nkosazana Zuma

years of "community service" before they graduate, but yesterday the director general of health, Dr Olive Shisana, said they would know "very soon" what would be expected of them in future.

"I cannot give you details of the changes until the cabinet has seen the legislation," she said.

Zuma also stressed, when she withdrew the bills, that the principles would not change.

If the cabinet is happy with the revamped bills they will be tabled in Parliament tomorrow.

But even if the bills are dealt with quickly they will be put on the back-burner until August because Parliament goes into a six-week recess on Friday.

The bills which were withdrawn by Zuma in a surprise move last week are:

- The Medicines and Related Substances Amendment Bill, which will enable Zuma to import cheap medicine for use in public hospitals and encourages the use of generic medicines.

- The Pharmacy Amendment Bill, which will lead to the deregulation of pharmacies so that businessmen can provide pharmacy services into rural areas.

- The Medical, Dental and Supplementary Health Services Professions Bill, which could force medical students to do two years of community service.

The good, bad and downright ugly of proposed medicines legislation

Star 18/6/97 (183)

Dissent over process, undue ministerial powers and the most commercially controversial clauses of the new medicines legislation has obscured support for other of its provisions

The "good" in the Medicines and Related Substances Control Amendment Bill, the Pharmacy Amendment Bill and the Medical Dental and Supplementary Health Service Professions Bill includes.

■ Clauses to wipe out incen-

tives, rebates and free samples, often given by manufacturers to induce doctors, pharmacists and wholesalers to buy branded drugs, and regarded as perverse incentives.

■ Opening pharmacy ownership to, for example, chain stores and medical aid administrators. The Pharmaceutical Manufacturers' Association have been calling for this for years, saying bulk buying will drop prices by as much as 30%. The Representative Association

of Medical Schemes (RAMS) believes medical schemes would be the only lay owners of pharmacies who would not be driven by profit;

■ Transparent pricing and single exit prices to be enforced by a new statutory pricing committee. This would forbid manufacturers altering prices for different buyers

The "bad" is the wording of the terms on generic substitution and parallel importing, and fast tracking registration.

The bill says: ■ A pharmacist shall inform the patient and substitute every script for a branded product with a cheaper generic, unless the doctor or patient forbids it in writing. Critics say this intrudes on the doctor/patient relationship; advocates say it empowers the patient

■ Medicines identical to those registered in South Africa can be imported without further registration. Critics say this paves the way for fake medica-

tion, advocates say objections are based on protecting trade marks. If medications are properly assessed, finding cheaper sources overseas is good news. The same applies to the clause allowing the council to fast track registration of drugs deemed essential to national health

"Downright ugly", say manufacturers, is a clause forcing firms to use international non-proprietary names instead of patented trade names in statu-

tenders. This would nullify intellectual property rights and discredit the country in its search for international investment, and pave the way for counterfeit, says the National Association of Pharmaceutical Manufacturers

Most disturbing of all is the proposed power of the minister to override or sidestep the Medicines Control Council, as a cheap drug without proper independent evaluation can be called neither safe nor effective.

The seven main objectives

These are the main objectives of the National Drug Policy:

- to ensure drugs reaching patients are safe, effective and meet approved specifications;
- to promote availability of safe, effective drugs at the lowest possible cost;
- to promote rational choice of drugs to be used in South Africa, according to the concept of essential drugs;
- to ensure an adequate supply of effective and safe drugs;
- to promote rational prescribing by both medical and pharmaceutical personnel;
- to develop expertise and human resources to implement the policy;
- to promote research to facilitate implementation and proper monitoring.

Private auditors to probe state's loss

Linda Ensor

BD 19/6/97 (183)

CAPE TOWN — Mineral and Energy Affairs Minister Penuell Maduna told Parliament yesterday he had appointed a private auditing firm to investigate the state's loss of R170m in a post-sanctions oil deal because he distrusted the auditor-general's office.

Maduna said the firm's report, which would be presented soon, would "embarrass" certain people and reveal the recipients of the stolen money.

"Without seeking to impugn the authority and integrity of the auditor-general, I felt constrained to go outside of the ranks of the state and look for independent people who would be able to give me the answers I was looking for," Maduna said in reply to a question by Democratic Party MP Kobus Jordaan.

Maduna said he had come across a document submitted to former mineral and energy affairs minister Pik Botha by Price Waterhouse, acting as an agent of auditor-general, dated February 7 1994. It noted a loss of R170m ascribable to a transfer of oil stock reserves. However, this had not been disclosed by the auditor-general when he reported to Parliament.

Last week the auditor-general's office told Maduna that the extent of disclosure was subject to the secrecy provisions which pertained at the time. However, Maduna questioned this. "Is Parliament expected to have full confidence in an office which may be tempted to think it has a discretion to selectively disclose matters and then present such matters to Parliament as though they are complete, accurate and flawless?" he asked.

Maduna said he had in his possession letters concerning secret oil deals and the Central Energy Fund. He then read a letter dated October 24 1994 addressed to "Roy" and concerning "Salem".

The letter said "We (Shell and myself) had agreed on the following: they will write you a letter explaining the matter. This letter will be hand-delivered. We will then advise them what to do with the money. In view of transparency, we must find a way which will not disclose the origin of the money."

"We again agreed on secrecy. No one will disclose anything. If you agree we can inform minister (Pik) Botha, he can then send (or whatever) John Craig over the telephone. Nothing in writing. In doing it this way, Shell gets acknowledgement from the top that we have the money but we don't disclose the origin in the books."

MINISTERS DIFFER ON DOCTORS' TRAINING

Bengu's challenge

NKOSAZANA Zuma's three controversial health bills are believed to have been given the thumbs up by cabinet yesterday and are scheduled to be tabled in Parliament today before the five-week recess. Health Writer **CAROL CAMPBELL** reports.

EDUCATION Minister Dr Sibusiso Bengu posed a challenge to his ANC colleague, Health Minister Dr Nkosazana Zuma, yesterday when he spoke out against adding extra years to a student's education for "vocational training".

Extra years on a degree would not improve the quality of a qualification, but instead the course curriculum had to be updated and improved to meet the needs of the new South Africa, he said.

By voicing his disapproval Bengu undermined a drive by Zuma to extend the training of medical students by two years so that they could work for the state in understaffed clinics and hospitals in rural areas and townships. Bengu's sentiments are believed to represent a growing feeling in the ANC on the issue.

"The position of the education department is clear and well known. If there is a problem, and the quality of students needs to be improved, then change the learning methods and programmes. I don't think an extension of the course is a viable option," he said.

He said he would discuss the issue in greater depth at yesterday's cabinet meeting. Three controversial health bills, withdrawn from Parliament by Zuma last week, were due to be discussed by the cabinet in the meeting.

One of the three was the Medical, Dental and Supplementary Health Services Professions Bill, which suggests that medical students do two extra years of community service/vocational training. This means a doctors' training could last as long as nine years.

Zuma withdrew the proposed legislation last week after a public outcry that she was rushing fundamental changes to health care.

At the time she said the main principles of the legislation would not change.

Now the question of which ministers' opinion will hold sway is waiting to be answered.

Do medical schools report to Zuma, whose department funds academic hospitals,

or Bengu whose department funds universities?

Mr Lincoln Mali, a spokesman for Bengu said it was a "joint effort".

But Bengu's low opinion of "extended" vocational training is understood to represent a growing feeling in the ANC, that adding to a university course to force students into rural areas and the townships, will not resolve the skills shortage in these areas.

Rather the existing higher education courses, for all professions, like law, engineering, accounting, architecture have to be restructured to include vocational training in disadvantaged communities. The length of the courses though would remain unchanged.

The immediate problem facing Zuma, if she pushes ahead with her plan to make doctors "study" for another two years before qualifying, will be the shortage of trainers in far-flung areas.

There is talk that general practitioners living in areas like Eshowe, Queenstown or Mogwase will be asked to spend a certain number of hours every day supervising trainee doctors doing their vocational training in the area.

Also, residential facilities for medical students in many of these towns do not exist and will have to be built or upgraded at great cost to the state.

Medical students will have to be paid — probably on the same salary as a medical officer, which is about R100 000 a year.

Zuma's three controversial bills (one dealing with medicines, another with pharmacies and the third with medical professions) are believed to have been given the thumbs up by cabinet yesterday.

They are scheduled to be tabled in Parliament today before the five-week recess so that public hearings on the new legislation can be held when Parliament is back.

Zuma will announce to the public today exactly what her plans for the legislation entail.

19/6/97
Zuma

Pharmacists 'living on the edge' over imminent changes

BY PRISCILLA SINGH
Health Reporter

Pharmacists are stressed out over the uncertainty of new dispensing regulations, a survey conducted by Roche Consumer Health has revealed.

Berocca Stress Barometer's high-stress findings showed only 18.4% of dispensing pharmacists had stress levels in the 30 to 40 category, which indicated they were coping with the repeated postponements and lack of clarity on new dispensing fees.

One pharmacist said the stress levels were an indication of the state of flux that the industry was in and that pharmacists were worried and confused about the variety of pricing structures proposed by the various controlling bodies and associations.

A professional fee is to

be introduced for pharmacists once the controversial Medicines and Related Substances Control Bill is passed.

The bill was expected to be approved by Cabinet yesterday.

Other factors which contributed to the high-

Staff are feeling vulnerable

stress levels among pharmacists was the fact that medical aids were at odds about the dispensing tariffs.

Survey co-ordinator Gill Polglase said: "The environment for the dispensing pharmacist is now changing drastically and until all the kinks are ironed out, the stress levels will run high."

A startling finding by

the stress barometer showed that 26% of pharmacists had very low-stress levels, between 0 and 20, and was a possible indication that their circumstances had finally got the better of them.

Polglase said this category was generally very laid back, distracted and lacked motivation.

At least 38.47% had scores higher than 40 and some 19% had a stress level over 50.

The pharmacists in general said that the future was very uncertain in their environment.

They said pharmacies would have to streamline their operations to make ends meet.

This would possibly lead to retrenchments and staff at smaller pharmacies, which felt the most threatened by the imminent changes, according to the survey.

Star 19/6/97

(183)

Legal wrangle erupts over retailing of pipeline gas for heating purposes

Sasol in flare-up with refiners

ET (BR) 20/6/97 (183)

JONATHAN ROSENTHAL

Grand Baie, Mauritius — Sasol, the petrochemicals-from-coal producer, and South Africa's oil refiners have become embroiled in a legal wrangle over Sasol's entry into gas retailing. Kevin Mulder, the supply and trading manager of Caltex Oil South Africa, said yesterday

Last week Sasol served court documents indicating that the refiners had breached an agreement regulating the relationship between Sasol and the rest of the industry

Alfonso, Niemand, Sasol's

spokesman, said yesterday "There is an issue between Sasol and other oil companies relating to a gas pipeline which Sasol has been marketing since the 1960s and Sasol's own consumption of diesel. We prefer not to elaborate on this matter in order to respect the relationship between Sasol and the other oil companies."

The agreement, which was signed in the late 1970s when Sasol began to produce synthetic fuel on a large scale, stated that the other refiners would buy Sasol's synthetic fuel and 100 000 tons of liquefied petroleum gas (LPG) a year, while Sasol would

remain out of the retail market for LPG

The purchase price was set at import parity. But Mulder said over the past few years Sasol had begun to sell diesel directly into the market

The other members of the industry then deducted the marketing margin (about R10 million a year) they were forfeiting on their diesel sales up to the quantity of diesel Sasol was marketing on its own

But in the past two years Sasol had won contracts to sell pipeline gas directly to large clients who were formerly

served by the refiners, Mulder said. In response, the industry last year reduced the quantity of liquid petroleum gas it bought from Sasol by the equivalent amount of pipeline gas that Sasol was marketing to two large clients — about 3 000 tons a year

Industry also deducted the forfeited marketing margin from the purchase price of the equivalent quantity of LPG purchases from Sasol, believed to be between R5 million and R10 million a year

"They hit us twice through taking a client and trying to get us to continue buying the gas

which we had sold to the client," Mulder said. "We have said if it is proved that we owe them the money we will pay it back with interest."

Mulder said the agreement allowed for arbitration in the case of a dispute and a five-year notice period by either party. He also said Sasol had argued, in its discussions with the industry, that the agreement allowed Sasol to market heating pipeline gas

But he maintained, in the case of the two large clients, the gas was not used for heating purposes

MOSSGAS

(183)

FM 20/6/97

Window of opportunity

Slashing hardware and software costs by R2m/year

With operating profits more than doubling to R715m, Mossgas' transition from a protected environment to a competitive business is well advanced. Another step towards becoming more competitive is a massive revamp of its computer systems.

The gas-to-oil producer is expected to save more than R2m/year on its software and hardware facilities budget, thanks to the transfer of its enterprise business software from an SAP R/2 mainframe system to SAP R/3, which operates on a Windows NT client/server network.

The changeover, which took nine months — a short time for the size of the project — cost Mossgas R5m in software, user training and consultancy fees.

"It was justified on the savings in our facilities budget alone," says Mossgas R/3 project manager Mark Westraad. Upgrading the mainframe would have increased hardware resources by 40%. Operational costs of the hardware and software would have been 30% higher than for R/3.

Other benefits which will be felt with the implementation of the second phase from the end of the year include improved functionality, decision making and work flow.

Mossgas is one of largest Windows NT sites in SA on which the SAP R/3 has been installed.

Marina Bidoli

Russell Roberts

CHEAPER MEDICINE

Noble objective pursued by dubious means

The Health Minister's retreat over three health Bills is a victory for a civil society which lobbied against what it saw as a bid to railroad them through parliament

PM 20/6/97

(183)

Nkosazana Zuma deserves credit for being the first Health Minister with the political will to tackle the powerful vested interests of the pharmaceutical industry and medical establishment head on

Medical schemes say her bold plans to allow parallel imports of cheaper medicine from other countries will save them billions of rand. Health economists back her proposal to cut medicine costs by allowing the lay ownership of pharmacies — a recommendation issued repeatedly, from the Browne report in 1985 to the Broomberg/Shisana report last year

But Zuma's failure to consult professional councils and her lack of insight into the profession and technical aspects of medicine safety have posed dangers of their own

Though society lauds Zuma's intention to lower the unacceptably high cost of medicine, her methods have been criticised

Parliament's health portfolio committee has heard evidence that the Medicines & Related Substances Amendment Bill will violate SA's obligations under international trade agreements, precipitate legal action and disinvestment by infringing drug companies' intellectual property rights, open the door to counterfeit medicine and has enough technical errors to be unworkable

These threats are too easily dismissed as a backlash by pharmaceutical manufacturers whose only concern is the bottom line

One of the most vociferous critics has been the Medicines Control Council (MCC), which has urged the committee not to accept Zuma's plans for parallel imports of medicine

If the Bill is passed without amendments, any importer will be allowed to buy a multinational's drugs outside its controlled distribution networks and take advantage of substantial differences in countries' drug prices

Though parallel importing can mean cheaper drugs for users, the MCC warns that unless they come from the same manufacturing site as drugs already registered in SA or are subject to the same control procedures as other medicine, the door will be opened to counterfeit drugs

Yet an international authority on counterfeiting was one of three international pharmaceutical representatives prevented from addressing the committee during the public hearings on the Bill. The reason given was that it represented organisations that do not have local sub-

sidaries — a shortcoming which has never prevented the department from calling on international experts to address the same committee

Given the lengths to which the committee went to stifle proper debate, Zuma's withdrawal of the Bills is even more remarkable

Thirty-four submissions were scheduled for one day, allowing the participants 10 minutes each and leaving no time for questions

Submissions were made on the original Bills because revisions were not available. This prompted opposition parties to walk out in protest

But why did Zuma, having brazened her way out of

Sarafina II and the Virodene scandal without apologising, suddenly get cold feet over the Bills when she appeared to have the committee in her pocket?

The cynical response is that she has withdrawn the Bills as a sop to interest groups to give the appearance of having reviewed their concerns but will reintroduce the legislation to the Cabinet this week with a few minor changes

Zuma's remarks on radio about pressing ahead with her plans have reinforced scepticism that the withdrawal may be a tactical retreat rather than a sign of willingness to reappraise the Bills

Backbenchers say she has bowed to pressure from within the ANC, which was feeling the heat from international lobby groups with US backing. This, the threat of interminable law suits from the R10bn pharmaceutical industry and stirrings of mass action from medical students over compulsory vocational training may have forced her to reconsider

Or perhaps this often intransigent Minister has genuinely decided to listen to critics this time. If so, it could be taken as a sign of moral strength, not weakness we will see

Whatever her motive, she has not made much political capital out of her retraction. In fact, far from conceding to parliament she was withdrawing the Bills because they were flawed, she spent 10 minutes praising their virtues before stating that they were being retracted

Embarrassing maybe, but normal fare for most ministers in parliamentary democracies. Minister Zuma is sitting on a raft of Bills which will fundamentally alter health care. For the most part, her goals are credible. But the way she achieves them matters greatly ■



supermarket drugs

(96) (183)

Zuma opens way for

Cabinet approves health bills which will go before Assembly: store pharmacies must be run by fully qualified staff

STAFF REPORTERS

Staw 20/6/97

Supermarket chains and other businesses will be allowed to run pharmacies in their stores, in terms of revised health bills approved by the Cabinet yesterday.

The three bills represent Health Minister Nkosazana Zuma's controversial efforts to bring down the cost of health care and make it more accessible.

After Cabinet approval, they must now be passed by Parliament's National Assembly before becoming law.

The move to remove the monopoly ownership in the pharmacy retail industry - at the moment only pharmacists may own pharmacies - has been welcomed by major medical scheme Medscheme. In terms of the new legislation businesses may own pharmacies, provided they are run by qualified personnel.

Ivan Kotze, executive director of the Pharmaceutical Society of South Africa, said he welcomed the introduction of a pricing committee which would set the price of drugs and ensure that the smaller pharmacies, which did not have the financial muscle to negotiate discounts, would not be put out of business.

Barney Sachs, national director of the National Association of Pharmaceutical Wholesalers, said he did not think that the bill would lead to in-

creased use of medicines. The changes, which would allow non-pharmacists to sell drugs, would mean that more people, especially in the rural areas which formerly did not benefit from having neighbourhood pharmacists, would have access to quality medicines.

He said he did not feel that the smaller pharmacist would be jeopardised by the changes, especially as pharmacists were becoming more patient-oriented rather than product-oriented.

The bills also provide for newly-qualified doctors being compelled to do two years' community service.

Zuma said she had to decide how the notion of community service would fit in with the two years' vocational training for doctors provided for in the bill. The Interim Medical and Dental Council said interns needed a period of supervised, practical training to prepare them for independent practice.

"The council's standpoint is that a period of vocational training should be required." This would be in the best interests of newly-qualified doctors as well as the public, the council had said.

The Medical Association of South Africa said it was "surprised and disappointed" that Zuma was proceeding with the legislation. The matter would be discussed at Masa's annual federal council, which begins in Pretoria today.

Everyone's still tight on Zuma's facelift

STC (PT) 22/6/97 (83)

Changes to the Health Minister's Bills have failed to quell the uproar, writes PAT SIDLEY

THE Department of Health has agreed to changes in the three drugs Bills withdrawn earlier this month but has retained a controversial clause which will allow her to override concerns of the Medicines Control Council.

This will allow Health Minister Nkosazana Zuma to veto MCC decisions on many aspects of the industry, including the registration of drugs, if she deems it to be in public interest.

She could, for example, have blocked MCC opposition to the registration of the controversial AIDS drug Virodene.

Virodene was concocted by three Pretoria entrepreneurs with inadequate medical knowledge and no proper scientific protocols. Although the active substance was known to be toxic, Zuma backed the venture and opposed the stance of the MCC, which would not allow the drug onto the market.

According to law, the council, which is the public's watchdog on medicines, had the last word.

If the law had not stopped Zuma, however, AIDS patients may have been given Virodene despite inadequate re-

search to back its claims. The MCC's vice-chairman, Professor Peter Eagles, said the council hoped the minister could still be persuaded to change her mind.

Several other clauses which had originally been opposed by the medicines watchdog, have, however, been dropped or changed.

Most importantly, Zuma made some concession on the parallel importation of drugs into the country. The clause in the Bill that caused controversy suggested that a drug, which is available in South Africa, but was imported because it is cheaper, need not go through an SA registration process.

At present all medicines available in this country have to be registered by the MCC. Under the amendments medicines imported from other countries and which have been registered abroad, will have the sites of manufacture visited and examined by the MCC. This situation will continue as before.

Zuma has also acceded to one of the demands of the multinational pharmaceutical companies. The companies objected strongly to a clause that

brand-name medicines sold to the public sector could not carry the brand name of the drug on the package. This clause has been dropped.

But the moves have not blunted the ire of the Pharmaceutical Manufacturers Association, which had hoped that both parallel imports and the backing for generic drug substitution would be terminated.

The PMA's director, Mirryna Deeb, told Reuter she feared the environment envisaged by the revised Bills would scare multinationals into moving away. While the companies may not take legal action against the Bills, she feared they would simply disinvest from the country.

Zuma also made some amendments to the Bill governing compulsory service for medical students. Over the past two weeks students have called for a scrapping or at least a phasing in of their compulsory two years' service.

But the changes to the Bill merely promise them a

choice between community service and vocational training although the expected nagging process over this may in any case serve to delay the introduction of the two extra years of training.

Pharmacists may have been given some concessions under the changes to the Pharmacy Amendment Bill, but, as the fight this week over professional fees shows, they will continue to face pressure to lower drug prices.

The debate about the dispensing fee has overshadowed the real issue, whether the public will get drugs at lower prices. The answer is "certainly not" if you are a private patient using a medical aid and pharmacies to get your medicine.

The row appears to be over a R2 per item fee on prescriptions, over and above the cost of the drug. This amount is the difference between the approximately R17 and R19 dispensing fee which may be charged per item on a

script. The amount is designed to ensure that pharmacists will not feel a dent in their pockets when the effects of Zuma's moves in the market come through.

The amount has been disputed by many constituencies, but the present public row is between the lower amount charged for its members, and USAP, which represents most pharmacies and which would not like to see the pockets of its pharmacist members raided.

In theory, from next week people going into a pharmacy will be charged on the basis of the cost to the pharmacist of the drug, plus the professional fee and two other charges. One is a 5% mark-up on the cost price and the other is a R3 fixed fee.

The percentage mark-up fee will encourage some of the old abuses by giving an incentive to dispense the more expensive drugs. The professional fee should be added on only when a professional service has been rendered.

The claim of the medical schemes is that poorer members buying cheaper drugs will be made to suffer by the new stance of pharmacists



Nobody is contesting, however, that pharmacists should be allowed to continue to earn what they have been earning. Even within the Department of Health some "sensitivities" to the problem is being sought. Cutting pharmacists' margins, or forcing medical members to use certain outlets and not others, may put pharmacies out of business.

Because this means some communities may be deprived of the only pharmacies available in their areas, the development is being watched with growing concern in the Department of Health. It is now possible that the department will seek to intervene and meet both parties to try and find a compromise.

The compromise will be between suiting the pockets of the medical scheme administrators and the pharmacists. Members who have had to suffer huge increases in the cost of medicines will have very little say in the issue. Prices of medicines rose 37% in 1990, 45% in 1992, 19% in 1993, and 14% in 1995. These figures are supplied by the Representative Association of Medical Schemes

NSB management 'not attuned to sorghum'

CT (PR) 24/6/97

JABULANI SIKHAKHANE

BUSINESS EDITOR

Johannesburg — The management appointed by United Breweries to run National Sorghum Breweries (NSB) had not been quick to tackle the problems facing the sorghum and clear-beer brewer, Mohale Mahanye, the company's executive chairman, said last week.

United Breweries, India's largest brewer, manages NSB in terms of an August 1995 agreement under which United bought a 30 percent stake in NSB.

"United Breweries gets paid a management fee, and we would expect them to deliver," Mahanye said. He said United's appointed management had proved good on financial discipline and operational matters, but appeared out of its depth on distribution and marketing issues.

More than 20 months have elapsed since NSB and United Breweries announced plans to bring Kingfisher, one of United



LET DOWN Mohale Mahanye, NSB executive chairman

Breweries' major clear-beer labels, to South Africa.

Mahanye said the strategies used to improve the performance of NSB's sorghum beer division "are not attuned to the sorghum beer environment, which is highly informal".

He said the sorghum beer business could not be mass-marketed, since it thrived on the personal relationship that

customers had struck up with the small-scale retailers.

NSB has already closed six sorghum breweries and now produces from 15 breweries country-wide. There was still scope for further rationalisation, Mahanye said, citing Gauteng, where NSB could mothball two breweries.

Despite the tensions between Mahanye and management, he said the partnership would remain.

He said if United Breweries walked away from NSB, it would lose R70 million plus R55 million in respect of the put options on convertible debentures that United Breweries gave to NSB's bankers.

The tension started after management ordered a reaudit of NSB's financial accounts for the year ended last December 31.

The reaudit, which delayed the release of NSB's financial 1996 results and the annual shareholders' meeting, was done without the prior knowledge of the

board of directors or Israel Skosana, the chairman of NSB's audit committee.

Meanwhile, Patrick Phosa reports a top-level emergency board meeting has been planned to discuss the company's fate.

Swinder Gandhi, NSB's managing director and chief executive officer, said yesterday an emergency meeting was to be held sometime between July 7 and 10.

Gandhi had previously shot down reports that the relationship between NSB and United Breweries was to come to an end.

"We are committed to this country, and we are not ready to disinvest," Gandhi said.

"If we were not, we would not have invested here in the first place. We have a healthy partnership and believe the problems can be resolved."

He acknowledged there were differences of opinion about how certain things should be done, but said there was no friction.

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Polifin to boost output through plant expansion

(183) CT (PR) 24/6/97

JONATHAN ROSENTHAL

Johannesburg — Polifin, the Sasol and AECI plastics joint venture, has approved the investment of R285 million to expand its polypropylene and propylene purification plants at Secunda, the company said yesterday.

The new expenditure will increase polypropylene production from 140 000 tons a year to more than 220 000 tons a year when it is completed in January 1999. The company said the additional production would be surplus to the requirements of the domestic market and would be sold into "deep-sea export markets".

Trevor Munday, the managing director of Polifin, said "what this means is that a plant originally designed to produce 120 000 tons a year will now be able to produce more than 220 000 tons a year. This is all in support of Polifin's vision to be world-class and to sweat the assets to produce more and more."

The expansion is the second phase of a project launched in 1995. The first phase, which was completed by January

of this year at a budgeted cost of R75 million, consisted of modifying the plant to use a new catalyst technology. It also entailed debottlenecking the existing propylene purification facility.

"This project has entailed higher reactor throughput, improved process stability and superior quality products," said Munday.

This second phase will include the upgrading of equipment such as extruders, reactor cooling and bulk handling systems, as well as the provision of a new polypropylene purification plant.

The investment comes at a time when world polypropylene markets are bracing in expectation of weaker prices next year because of the growth in new production capacity across the world.

But several chemical sector analysts maintained that Polifin was well placed to weather an expected downturn in prices, which should reverse in 2000.

In February the group reported a 20 percent increase in earnings a share to 48c on an 11 percent increase in turnover to R1,8 billion for the half-year ended on December 25.

ENT

Pay upfront or do without - what new medicines structure means

Chemists to boycott non-participating aid schemes

APR 24/16/97

ARGUS CORRESPONDENT

Durban - Pharmacies will boycott members belonging to medical aid schemes that do not accept a new pricing structure to be implemented this week - forcing thousands of users to pay up-front or do without medicine.

The new structure will, according to one source, hit almost a million people who can least afford it. It will introduce a professional fee replacing the old mark-up system, in line with the Health Department's National Drug Policy.

Medicine prices are currently also under scrutiny by the Representative Association of Medical Schemes (Rams) and the Pharmaceutical Society of South Africa. A scale of benefits document will be pub-

lished later this week. However, medical schemes believe the introduction of a professional fee will cause drug prices to rise - by as much as 17% for some schemes.

Chairman of the United South African Pharmacies (Usap), Julian Solomon, said the more than 1 500 members of Usap would "no longer be able to deal with Medscheme (the biggest administrator of medical aid schemes in the country) under present onerous conditions".

Mr Solomon said the administrator refused to consider any change in the status quo that could deprive medical aids of income.

The pharmaceutical society proposed a pricing structure that would consist of a five percent mark-up (to cover financing) a further R3 for running a practice (overheads)

and a professional tariff of R150 per hour or R15 per script.

That is R18 plus five percent plus VAT or about R20,90 per item. Medscheme proposed a flat fee of between R14 and R15 while Rams recommended a professional fee of R19 per lined item on a script to a maximum of three items per script.

Rodney Cowlin of the Pharmaceutical Benefit Management said the new structure would have a detrimental affect on members belonging to low benefit schemes.

"Almost one million people who could least afford it will be adversely affected."

Last week Medscheme urged Health Minister Nkosazana Zuma to resubmit urgently the Pharmacy Amendment Bill. The bill would allow people other than pharmacists to own pharmacies.

"Once the monopoly of ownership has been removed, medical aids would be free to contract a wider range of providers and achieve cheaper distribution costs of their medicines."

The Pharmacy Amendment Bill, the Medicines and Related Substances Control Amendment Bill and the Medical, Dental and Supplementary Health Services Bill were re-submitted to Parliament last week.

Mr Solomon assured consumers that pharmacies would be open to negotiation with members to make alternative paying arrangements if they could not pay up immediately.

He said medical aid schemes were an administrative nightmare, but hoped they would "come to their senses" and resume negotiations.

Restructuring plan aims to save R1bn over 12 to 18 months (183)

Sentrachem targets debt

CT (BR) 25/6/97

FROM REUTER

Johannesburg — Sentrachem, the chemicals group, said yesterday it was implementing a restructuring plan to reduce debt by about R1 billion over the next 12 to 18 months

John Job, the managing director, said the action, which followed a detailed review of all the group's activities, should achieve savings in operational expenditure and position the group for the future.

Restructure proposals include the merger of NCP and Karbochem into a larger, focused industrial chemical company

Some of their activities would be relocated elsewhere in the group, while several secondary operations would be disposed of

Steps towards restoring Sanachem would continue with plans to remove between R300 million and R350 million in working capital costs, and the elimination of other costs

These moves follow a disastrous first half-year for Sentrachem, in which one-off charges of R261 million plunged the group into a loss. These charges were the result of forward cover contracts and restructuring costs at its Sanachem unit

Other elements of the restructuring include undertaking a feasibility study on the listing of an international speciality chemicals business in London or New York

This listing would be anchored around Sentrachem's US-based Hampshire Chemical

Sentrachem said the revamp was subject to the listing requirements of the Johannesburg Stock



COST CUTTER John Job, the managing director of Sentrachem who announced the launch of the group's radical debt reducing plan, wields a wooden replica of a panga

PHOTO: JOHN WOODROOF

Exchange as well as other necessary regulatory and shareholder approvals

Job said the group would make further announcements on the

progress of implementing the proposals

Sentrachem closed at R8,70 yesterday, a drop of 10c on its previous close.

Chemists delay introducing prescribing fee

(183) 1/11/97

By PRISCILLA SINGH

A pharmacy dispensing fee, supposed to begin today, has been delayed pending talks which started yesterday between United South African Pharmacies and Medscheme

Julian Solomon, chairman of United South African Pharmacies, said there could be a one-week embargo on the implementation of the R20,90 fee.

Keith Hollis, chairman of

Medscheme, which administers 57 medical aids, said the two bodies held intensive discussions yesterday

"The professional role of the pharmacist was recognised, as well as the need to remove perverse incentives currently operating in the medicine distribution chain.

"The need for cost containment by medical schemes was also recognised," said Hollis.

Pharmacist Matau Tsiki of

the Bertrams Link Pharmacy said it would have been impossible to bring in the fee today anyway because they had not received new pricing structures for medicines "We are still working on the old system."

The fee was introduced after the Government decided to drop the 50% markup on drug prices, resulting in patients paying only the cost of prescribed medicines and the dispensing fee



John Job overseeing the first in a series of salvage moves

SENTRACHEM

New York listing for revived chemical giant?

(183)

KM 27/6/97

Radical surgery will see overheads chopped and debt slashed by R1bn. Significant savings from divisions merger

Restoring Sanachem to health is only part of Sentrachem CEO John Job's strategy to return the chemical group to blue chip status. Perhaps a more significant event will be the merger of its two main SA subsidiaries, NCP and Karbochem, with combined 1996 sales of R1.9bn, into a single industrial chemicals group.

Job says the definition of industrial chemicals is broad enough to include its profitable HTH pool chemicals business, the core of its chlor-alkali cluster, but NCP's yeast business is definitely for sale.

The rest of the food products division could follow suit.

He adds that there will be significant savings from the merging of the two divisional head offices — which are larger cost centres than Sentrachem's small corporate office — and the combined group may easily match Sanachem's expected R350m of cost savings.

There are few synergies between NCP, a chlor-alkali and intermediates group, and synthetic rubber and carbide producer Karbochem in terms of product. But there are considerable overlaps in the engineering skills and technical competence available in the group, and a good balance between cash generating and cash absorbing companies. There will also be some rationalisation of product lines with Karbochem's fungicide mancozeb moving to Sanachem.

Sentrachem's fine chemicals businesses

and the research-intensive Delta G subsidiary will be consolidated into a new company, Syntheta.

Job has not yet raised the prospect of unbundling, but confirms the company is looking at listing its international R1bn/year speciality chemicals company, Hampshire, in New York or London. After the NCP/Karbochem merger the listing of the combined company may be possible.

Job says there is no threat to Sentrachem's joint venture with Hoechst SA but the group is considering ways in which to capitalise on further opportunities. There is some doubt about Hoechst's long-term commitment to plastics, as it seems to be devoting more resources to its pharmaceutical business, but Sentrachem is in no shape to make substantial cash commitments to upgrading the group. Perhaps a listing or a third partner will make sense.

Sentrachem has, in effect, conceded that it is too broadly based. Perhaps with a narrower focus it could have kept a closer watch on its Sanachem pesticide subsidiary, in which it had to write off hundreds of millions in late 1996. It has also conceded that there were considerable inefficiencies in its "star" performers, Karbochem and NCP.

The Sanachem debacle forced Sentrachem to examine its operations from top to bottom. If it does cut debt by R1bn and cut back on overheads it will salvage some good from the recent events. **Stephen Cranston**

LION MATCH

(183)

Still sitting on its cash pile

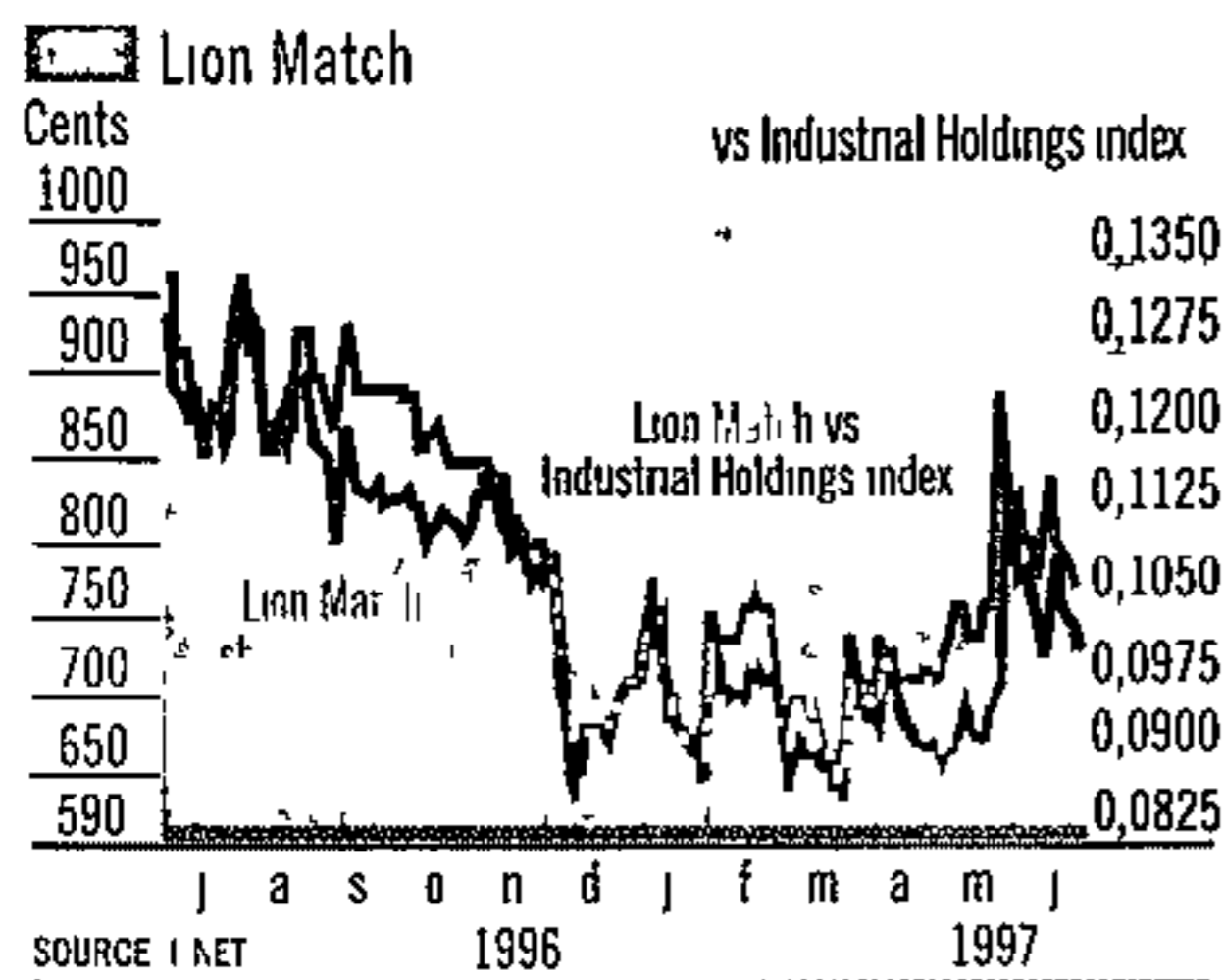
PM 27/6/97

Cash lends respectability to Lion's otherwise lacklustre results

By the end of the 1998 financial year, Lion Match's net investment income should be contributing almost as much to attributable earnings as operating profit provided the two figures keep growing at current rates

In financial 1997, investment income jumped 31% while operating income edged up by just 2%. The surge stemmed from Lion's burgeoning cash pile, which stands at R240m. Total assets are just R366m.

About R166m of this is invested in redeemable preference shares — the company does not disclose further details —



with an annual return of 10,6% (after tax). The rest is on deposit, yielding 16,2%.

For several years now, the company claims to have pursued investment opportunities for this cash. Lion Match MD Terry Turner assures investors that management continues to examine opportunities. He notes that the tax-efficient deployment of such liquid resources helped lift EPS by a respectable 15,4%.

It also distracted market attention from a rather mediocre operating performance. This was particularly marked in the lights division, where operating margins dropped due to labour-related production disruptions at the Durban factory.

This fall was offset somewhat by a 22% growth in export volume in the lights division, resulting from improved penetration into the South American and African markets. The domestic markets in the lights and shaving, and home and garden divisions remained flat during the year.

At the end of November, the licence

agreement on the Wilkinson Sword trademark terminates and the brand will be taken over by Gillette SA. Wilkinson Sword products now contribute just less than 30% of the division's earnings, which in turn contribute 20% of total operating profit.

Turner assures investors that sales and profits in this product category will not tumble as a result and says Lion is introducing another brand called Duel, which should be in all the main retail chains by July. "It all depends on how consumers react to the product but the initial launch to the trade was well received," he says.

In terms of a technical assistance agreement, Lion was restricted from trading in these products outside of SA. Its termination means that Lion will be able to export its own brand, using existing distribution networks.

Gillette SA MD Patrick Kirwan hopes to retain Wilkinson Sword's market share — just less than 10% of the blade market and 20% of the shaving preparation market.

In the next financial year Lion should continue its export growth and recover some of its margins, with lower levels of labour unrest and illegal imports. Turner expects a "satisfactory" increase in earnings in the coming year.

With its cash muscle, Lion Match should be able to produce real earnings growth. In the longer term, assuming Lion invests this capital effectively, there is the possibility of even better returns, making the share look cheap on its multiple of 8,4. *Stuart Rutherford*

- **ACTIVITIES** Manufactures and markets matches, disposable lighters, firelighters, shaving products, knives, scissors and garden tools
- **CONTROL** SA Breweries 70,5%
- **CHAIRMAN** L van der Watt MD T Turner
- **CAPITAL STRUCTURE** 45,4m ords Market capitalisation R110m
- **SHARE MARKET** Price 780c Yields 4,9% on dividend, 11,8% on earnings, p/e ratio, 8,4, cover, 2,4 12-month high, 985c, low, 600c Trading volume last quarter, 700 000 shares

Year to March 31	'94	'95	'96	'97
ST debt (Rm)	5,4	4,2	3,7	4,2
LT debt (Rm)	13,6	10,2	6,5	2,3
Shareholders' interest	0,82	0,81	0,84	0,84
Return on cap (%)	12,1	8,6	8,9	8,3
Turnover (Rm)	238	167	185	203
Pre-int profit (Rm)	35,7	27,2	30,0	30,4
Pre-int margin (%)	15,0	16,3	16,2	15,0
Earnings (c)	44,8	57,5	80,1	92,4
Dividends (c)	18,5	24,0	33,0	38,0
Tangible NAV (c)	534,0	567,5	619,7	674,2

AMAPROP

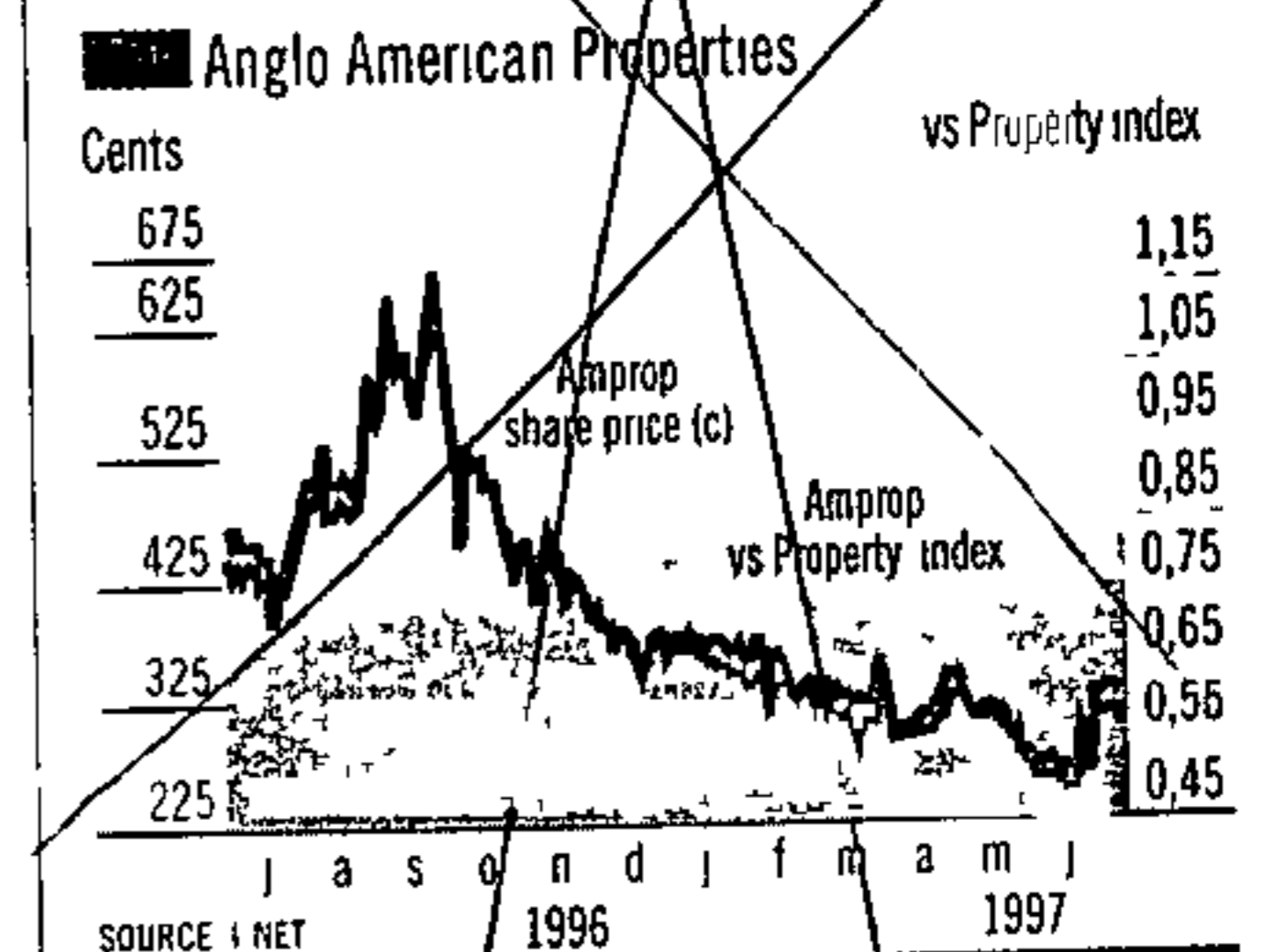
Fighting the CBD discount

Will the balance sheet values be validated in the market?

Amaprop's moment of truth has arrived. Now that it plans to dispose of all CBD buildings, the balance sheet values of these properties will either be validated or proved to be excessive.

This is now a company with a market capitalisation of R151m but showing shareholders' funds of R476m, a massive discount of 68%.

The critical factor is the valuation of properties, shown at R569m in the balance sheet. In terms of Amaprop's accounting policies, all investment properties, both freehold and leasehold, are generally val-



ued every three years or at shorter intervals. Investment properties were valued on March 31 last year, primarily on an "existing use" basis by Geoffrey Kruger of DTZ Leadenhall. But these valuations produce only theoretical values, the equity market frowns on them.

In the past two financial years Amaprop provided for losses of R50m in subsidiaries. There were also provisions for future losses of R127m on head leases. Yet losses of more than R7m were recorded on disposal of investment properties.

It remains to be seen whether investment properties in the CBD will fetch the values shown in the balance sheet.

If these were sold piecemeal, the chances of adding value for shareholders would be much better. But it is going to be an uphill battle, probably with few willing buyers around.

The only other alternative seems to be for Anglo American to sell its 65% stake in

Car industry fumes over Sasol dumping its alcohol into fuel

ST (BT) 29/6/97 (183)

ENGINE DAMAGE FEARS

By DON ROBERTSON

FUEL companies have joined motor manufacturers, the Automobile Association and the Motor Industries' Federation in expressing concern about Sasol's plans to reintroduce alcohol into fuel blends from September

Sasol informed the motor industry in May that it intended to introduce alcohol into leaded and possibly unleaded petrol in Gauteng and Mpumalanga from September 1. Other fuel marketers are obliged to use a portion of Sasol petrol in their own blends in these areas.

In terms of the Oil Industry Supply agreement, Sasol may furnish alcohol to mix with Sasol hydrocarbon blendstock, thus meeting the requirements of the SABS specification for leaded grade 93 octane fuels.

The agreement does not, however, cover the Sasol supply of alcohol for unleaded fuels.

The reason for the reintroduction, says Sasol, is that the market for surplus alcohol, which was previously exported to Brazil, has now dried up. Alcohol is a by-product of the oil-from-coal process and was used in petrol blends here in the late 1980s and early 1990s.

During this period, the alcohol blend, in many cases, caused dry and wet corrosion, degradation of fuel systems and corrosion of some aluminium components in these systems, causing problems for motorists and the industry.

Coating of fuel components and the addition of corrosion inhibitors became a necessity.

In recent years, however, many new models have been introduced which have not been tested for compatibility with alcohol.

Fuel marketers, Sasol and the National Association of Automobile Manufacturers of SA (Naamsa) are looking into the matter.

Vehicle manufacturers say that if Sasol goes ahead with its decision, Naamsa members are not prepared to accept the consequent negative effects of customer unhappiness and the incremental costs arising from reparation problems related to petrol blended with alcohol.

But Sasol insists that when alcohol was in use, virtually no compatibility problems were experienced. It has also agreed to make samples of the petrol available for testing and "will, within reason, perform tests of behalf of the industry".

A technical spokesman for the oil industry, however, echoes the concerns of motor manufacturers, saying these problems could resurface and additional ones could be experienced.

He says that since alcohol was removed about three years ago, new pumps have been installed at petrol stations which have never been exposed to Sasol alcohol and the effects this might have on them is not known.

There is the additional problem of the engines of lawnmowers, motor cycles, industrial engines and motor boats being incompatible with alcohol-blended petrol.

At least one refiner has a petrol guarantee which it fears might be compromised by the alcohol blend.

Because the local motor industry is relatively small, it is unlikely that overseas source companies would be prepared to supply components that are alcohol compatible, says the spokesman. And he doubts that Sasol, refiners and vehicle manufacturers will be able to do the necessary testing of components in the next nine weeks.

Pharmaceutical industry faces CCMA

CT(BR) 30/6/97 (183)

JONATHAN ROSENTHAL

Johannesburg — The Chemical Workers and Industrial Union (CWIU), with a claimed membership of 43 000, last week referred its wages and working conditions dispute with employers in the pharmaceutical industry to the Commission for Conciliation, Mediation and Arbitration (CCMA), a union spokesman said last week.

The union said it was

demanding a 15 percent wage increase against an employers offer of 9 percent.

It said employers had agreed in principle to a R2 000 minimum wage for the sector but wished to exempt five companies which would pay R1 800 a month. The union said it had rejected the proposal and demanded that the five companies phase in the required increases to bring minimum wages across the sector to R2 000

within the next year.

The union said other differences were its demand for a 40-hour working week and four months paid maternity leave. Employers have offered 3 months with 33 percent pay and the balance made up in benefits from the Unemployment Insurance Fund.

Employers had proposed a private mediation, "but that doesn't stop us from going ahead with consultation with the CCMA".

SA's Iran oil storage deal heads for rocks

Deadlock on Saldanha tanks plan

AAG 1/7/97 (183)

HENRI DU PLESSIS
SHIPPING REPORTER

Hopes of a deal with Iran for the storage of Iranian oil at Saldanha Bay appear to be foundering.

The Central Energy Fund has admitted as much in a statement in which it reported that the draft report of the Saldanha environmental impact assessment would be completed despite an impasse in negotiations between the two countries.

The report would be released soon, said the Central Energy Fund's acting general manager, Howard Roberts.

The study, by the Council for Scientific and Industrial Research, was launched because of the possibility of such a deal. It

was to investigate the impact on the environment of large-scale oil storage in underground tanks at Saldanha, and provide all interested and affected parties with an opportunity to review and comment on the plans.

The final report would be submitted to the specialist review panel convened by advocate Andrew Brown.

The assessment focused specifically on the increased tanker traffic through the harbour that would result from such an arrangement, and the increased frequency of oil transfer operations.

At the inception of the study, it was thought that up to 75 ships a year could pass through the harbour if the plan was implemented.

This figure was, however, significantly reduced as the study progressed. It was thought unlikely that more than 30 ships a year would visit the terminal – only four more than the present number, Dr Roberts said.

Consequently, the environmental risk, but also the economic benefit, were significantly reduced.

Dr Roberts said the prospects for an agreement remained poor as the parties found it difficult to come to terms which were mutually acceptable.

The environmental impact study was, however, still considered valuable as the storage facilities would still be available for oil from other countries, Dr Roberts said.

Chemical union dispute referred to commission

Reneé Grawitzky

BD 1/7/97

(183)

DISPUTES between chemical employers in seven sectors and the Chemical Workers' Industrial Union (CWIU) centre on a principle agreement for a 40-hour working week with the phased-in period open for negotiations and wage increases up to 15%

Chemical employers expressed frustration yesterday over the negotiation process, asking whether it constituted serious wage talks or part of the dispute over the Basic Conditions of Employment Bill, used to strengthen union federation Cosatu's hand.

The CWIU has declared a dispute around a minimum wage of R2 000 a month, a 40-hour working week and six months of maternity leave, four of which should be paid.

The union wanted a 40-hour working week to be phased in by 1999.

The union announced at the weekend that more than 6 000 workers in the petroleum industry were gearing up for industrial action.

An employer source said most employers paid way above R2 000 a month.

Disputes had been referred to the Commission for Conciliation, Mediation and Arbitration (CCMA).

SASOL

(183)

Alcohol in fuel fires 'em up

Reversal looms for car importers as compatibility row flares

FM 4/7/97

Rising car imports from Europe and the US could be hit by Sasol's decision to bring back alcohol in fuel blends from September 1

Car imports from Chrysler, Volvo, Peugeot, Renault and Daihatsu have soared since import duties were slashed under the Motor Industry Development Programme, introduced two years ago

But the National Association of Automobile Manufacturers of SA (Naamsa) believes most of these are at risk. More than 90 000 completely built-up units have been imported since 1994

Naamsa is to seek urgent talks with Sasol top management to resolve the issue

Sasol first introduced up to 12% ethanol (alcohol) in automotive fuel sold on the Highveld in 1980 in response to sanctions and the oil embargo. The change in

fuel composition caused numerous problems such as wet and dry corrosion and premature failure of fuel systems, especially seals. Vehicle manufacturers then repaired the damage and Sasol absorbed part of the cost

By 1994, when alcohol was withdrawn from fuel, manufacturers were making fuel systems alcohol-compatible

Naamsa says Sasol agreed to conduct compatibility testing in Sasolburg for manufacturers, but in 1994 said there was no point as "the chances of alcohol coming back into our fuel are slim"

"Three of our member companies are prepared to sign affidavits to that effect," says Naamsa director Nico Vermeulen

"The industry was led to believe the reintroduction of alcohol was simply not on the cards. So it has introduced a whole range of new models since 1994. These vehicles will not necessarily be compatible with alcohol blended fuel"

Sasol's controversial decision follows the collapse of its fuel alcohol exports to Brazil. This entailed forgoing more than US\$75m

Sasol Oil then said it was "renegotiating certain terms of the contract" and believed "the bulk of our motor fuel alcohol production will

continue to be placed in Brazil in the long term"

Sasol now admits its fuel alcohol market in Brazil has dried up, but reckons this is temporary. The alcohol is produced in its fuel-from-coal process

Naamsa demands to know why Sasol won't transform alcohol into ether and use that as a fuel additive. "Ether is widely used in European fuel and is less corrosive than alcohol," says Vermeulen

In a letter to Sasol Oil, Naamsa warns that vehicle makers will not accept responsibility for costs associated with problems that may arise

Urging Sasol to review its decision, it warns the reintroduction "will inevitably accelerate public pressure for the rapid and complete deregulation of the automotive fuel refining and distribution industries"

Sasol does not foresee any technical problems. "When alcohol was used as a petrol extender, isolated compatibility problems occurred," the company says. "Commercially viable technology for the conversion of a blend of alcohol to ether does not exist but is under development"

"The national specifications for leaded and unleaded petrol provide for alcohol and all vehicle marketers have ensured their products are compatible with local fuel"

"Using alcohol in petrol is common world-wide as it contains oxygen and contributes to more complete combustion, making petrol more environment-friendly"

Sasol says it will make samples of the alcohol available to anybody who wants to perform tests and will also carry out tests on behalf of the industry

Jack Lundin



Naamsa's Nico Vermeulen sobering thoughts for Sasol

VIRGIN ATLANTIC

Branson poised for SAA coup

Virgin Atlantic Airways admits it's interested in buying a stake in loss-making SA Airways

But has Virgin's Richard Branson scuppered his chances through his brusque treatment of local black partner Bhekilanga in the bid for Sun Air? Virgin pulled out of the bidding consortium two weeks ago

Bhekilanga chairman Zandile Zungu says Virgin's tactic of "marching in and out" of SA did nothing to promote foreign equity partners' status in the privatisation process. Virgin hadn't even

discussed pulling out, he complains

The airline plans to expand its operations in SA within four years

Whether this will embrace SAA remains a riddle. A London spokesman says "we may be interested. It's impossible to know what the government will do with SAA. So we don't know what direction, shape or form a bid might take"

A Branson bid would pit Virgin against Lufthansa and British Airways, which have already stepped into the ring

Explaining the decision to withdraw from

the Sun Air bid, the Virgin spokesman says "there were restrictive covenants involved in going further with the bidding process, given the size of the investment"



Virgin's Richard Branson "marching in and out"

"We thought we'd rather carry on with what we're doing — that is, expanding in the market by going daily and looking at opportunities that emerge"

Plotting opportunities in SA was probably the last thing on Branson's mind this week as he whooped it up at Hong Kong's handover celebrations. But something is in the air

Jack Lundin

AECI found guilty of negligence

From page 1

no steps from the time the sulphur was stored to the time the fire broke out to assess the risk of fire, and did not take precautionary measures

The report said the 30 000-strong Macassar community bore the brunt of the disaster, described as "extremely disruptive, terrifying and traumatic for all residents".

The sulphur fumes left many families without anything to eat. The fire also destroyed plants, including vegetable crops and flowers.

The report stated that the fire had caused "significant" air pollution.

Hundreds of residents suffered respiratory problems and scores of people were treated for the effects of sulphur dioxide inhalation at emergency medical centres and hospitals.

The commission's recommendations include legal help for the community affected by the fire in claiming damages, a further investigation to determine the bio-physical impacts of the fire and a review of existing civil defence planning and control procedures.

Steven Law, Environmental Monitoring Group spokesman, welcomed the report and said AECI had been "found guilty" by the commission for its management of the stockpile, but had been let off the hook for the deaths of the Williams brothers and the health problems now plaguing Macassar residents.

AECI negligent in sulphur blaze

NORMAN JOSEPH
STAFF REPORTER

AECI was negligent in its handling of the sulphur dump at its Somerset West chemical factory, which caught fire in December 1995.

This was the main finding of the Desai Commission of Inquiry, headed by Judge Siraj Desai, whose report was handed to Environmental Affairs Minister Pallo Jordan at a packed public meeting in Macassar last night.

Two asthmatics died, allegedly as a result of the fire, and thousands of Macassar residents fled in panic when their homes were engulfed by sulphur fumes.

The sulphur was part of a strategic stockpile bought by the former government and stored by AECI.

The commission found that AECI took

To page 3

Sasol Gas signs supply deal with Alusaf

(183) CT(BR) 14/7/97

ANDI SPICER

MINING AND RESOURCE EDITOR

Johannesburg — Sasol Gas, the gas supply division of synthetic fuel producer Sasol, said last week it had signed a multimillion rand deal to supply methane-rich gas to power the Alusaf Hillside smelter in Richards Bay

Sasol Gas would pipe 1 million gigajoules of gas a year — equivalent to 27 million litres of diesel — to fire the smelter's ovens in the carbon plant and the holding

furnaces in the aluminium cast-house, said Jeremy Nottingham, Alusaf's operations director

Sasol also has a supply deal with Alusaf to provide methane-rich gas to the Bayside smelter and this replaced producer gas as feedstock for the furnaces

Earlier this year the company completed a R85 million deal to supply methane-rich gas from Secunda to industries in the Richards Bay, Mandini and Verulam industrial areas. Extensions of the system are planned as part

of Sasol's KwaZulu Natal pipeline system

More than 250km of pipeline will be built in extensions to the regional pipeline and costs are estimated at R150 million to pipe gas to emerging industrial areas

Sasol has targeted more than 70 prospective customers initially for its gas once the pipeline system is fully operational. But more than 150 customers have been identified as potential users

The gas is sourced from Mpumalanga and KwaZulu Natal

The agreement was a boost for the pipeline project, said Wikus Kritzinger, the divisional manager of Sasol Gas

The company recently signed a deal with Durban south central and north central councils to supply gas to the greater Durban Bay-head industrial areas of Jacobs, Mobern and Merebank

The second phase will extend the system to the Prospecton, Isipingo and Umbogintwini industrial areas and a new spur will extend the network to Newcastle

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Public protector asks Zuma to substantiate medicine prices claims

Kevin O'Grady

PUBLIC Protector Selby Baqwa has asked Health Minister Nkosazana Zuma to substantiate statements she made on the cost of medicines and the use of generic medicines in SA in support of medicines control legislation.

Baqwa's spokesman, Tinus Schutte, confirmed yesterday that Zuma's office and the health department had been approached following a complaint by the Pharmaceutical Manufacturers' Association last month.

Association CE Mirryena Deeb said the complaint was lodged as a result of "intellectually dishonest" comparisons Zuma and her officials made between commercial and noncommercial drug prices, apparently to create the perception that SA drug manufacturers were responsible for unreasonably high medicine costs. "Such high costs would then serve as justification for the draconian measures which Dr Zuma tried to rush through Parliament last month," Deeb said.

The legislation — the Medicines

and Related Substances Control Amendment Bill — was withdrawn following complaints from local and international drug producers but was resubmitted to the cabinet in amended form and approved soon afterwards.

The main aim of the legislation, expected to come before Parliament again next month, is to make medicines more affordable, but certain measures have prompted threats of legal action by manufacturers.

Deeb said the association took issue with statements by Zuma and health

ministry officials ahead of the legislation's introduction and believed they could not be substantiated. The statements included claims that SA medicine prices were among the world's five most expensive, that some medicines cost 4 000% more in SA than the world average and that medicine costs had increased at double the inflation rate during the past 10 years.

The association also objected to a statement that prescription of generic medicine in SA, at 16% of the total, lagged behind countries such as the US

(48%) and Britain (54%).

Deeb said she had asked Baqwa to decide whether the statements and the reliance on the data on which they were based constituted improper conduct as the public had a constitutional right to accurate information.

The association had asked that Baqwa, in his report on the complaint, dispel the perception created by the statements that pharmaceutical manufacturers were "fat cats who profiteer and have no regard for the patients using the products sold by them".

The public protector has asked the health minister to substantiate her claims that drug prices in South Africa are among the world's five most expensive.

Bd 17/7/97

Medicine costs: Zuma must answer Protector

By **THEMBA SEPOTOKELE**

The Health Ministry was today still studying a document sent by the Public Protector Selby Baqwa, asking the Minister of Health, Nkosazana Zuma, to substantiate statements she has made relating to the high cost of local medicines

This follows a complaint lodged by the Pharmaceutical Manufacturer's Association (PMA) last month accusing Zuma and her officials of making "intellectually dishonest"

distinctions between commercial and non-commercial drug prices.

They have argued that these comparisons were aimed at creating a perception that South African drug manufacturers were responsible for unreasonably high costs of medicine

In a 30-page affidavit the organisation says that Zuma's claims cannot be substantiated, adding there are certain norms for public administration including the provision of "accurate information".

(183) (18) / Stan 17/7/97

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Public protector asks Zuma to substantiate medicine prices claims

Kevin O'Grady

PUBLIC Protector Selby Baqwa has asked Health Minister Nkosazana Zuma to substantiate statements she made on the cost of medicines and the use of generic medicines in SA.

Baqwa's spokeswoman, Imus Schutte, confirmed yesterday that Zuma's office and the health department had been approached following a complaint by the Pharmaceutical Manufacturers' Association last month.

Association CE Mirryena Deeb said the complaint was lodged as a result of "intellectually dishonest" comparisons Zuma and her officials made between commercial and noncommercial drug prices, apparently to create the perception that SA drug manufacturers were responsible for unreasonably high medicine costs. "Such high costs would then serve as justification for the draconian measures which Dr Zuma tried to rush through Parliament last month," Deeb said.

The legislation — the Medicines and Related Substances Control Amendment Bill — was withdrawn following complaints from local and international drug producers but was reform and approved soon afterwards.

The main aim of the legislation is to come into effect next month, but certain measures have prompted threats of legislation by manufacturers. Deeb said the association took issue with statements by Zuma and health

ministry officials ahead of the legislation's introduction and believed they could not be substantiated. The state medicine prices were among SA world's five most expensive, that some medicines cost 4 000% more in SA than the world average and that some costs had increased at double the inflation rate during the past 10 years.

The association also objected to a statement that prescription of generic medicine in SA, at 16% of the total, lagged behind countries such as the US (48%) and Britain (54%).

Deeb said she had asked Baqwa to decide whether the statements and the reliance on the data on which they were based constituted improper conduct as the public had a constitutional right to accurate information.

The association had asked Baqwa, in his report on the complaint, to dispel the perception created by the statements that pharmaceutical manufacturers were "fat cats who profiteering the products sold by them".

B0 7/7/97

FM 18/7/97

Zuma's statistics under scrutiny

The Public Protector is investigating Health Ministry statements on the high cost of medicine after a formal complaint by the Pharmaceutical Manufacturers' Association

The PMA is asking Public Protector Selby Baqwa to take urgent steps to prevent parliament from considering Zuma's controversial drug reforms until he has completed his investigation

It alleges the statistics which underpin the Medicine & Related Substances Control Amendment Bill are incorrect. It accuses officials of improper conduct for disseminating inaccurate statistics. These, it says, have created the prejudicial impression that pharmaceutical manufacturers are responsible for what is presented as "the unconscionably high cost of medicine in SA."

The R10bn industry is up in arms over the Bill, which seeks to reduce medicine costs by making the substitution of generic drugs mandatory and allowing anyone to import drugs sourced from countries with a cheaper cost structure than SA (parallel importation). Baqwa's assistant, Tinus

Schutte, says the investigation is being accorded priority as it must be completed before August 11 when parliament reconvenes

He says the Public Protector could recommend the department issue a formal retraction in parliament if it decides the matter in the PMA's favour

But he stresses that, "the Public Protector would not want to act as a pressure group on a Bill that parliament has yet to decide on"

The PMA disputes five statements on technical grounds. They are that

- SA is rated in the top five most expensive countries for medicine,
- Some medicines sell for up to 4 000% above the world average,
- SA pays 2 500% more for anti-tape-worm preparations than the international norm,

- Medicine costs have increased at double the inflation rate over the past 10 years, and,
- Of all the medicine prescribed in SA, generics account for only 16% compared with 48% in the US and 54% in the UK

On April 14, Zuma rounded on members of the PMA, saying "3 000%, 4 000%, 5 000% — what difference does it make what prices I quote? We are one of the five most expensive countries in the world"

PMA executive director Mirryena Deeb says the department has told her that Zuma was comparing local private-sector retail prices with the prices of the International Dispensary Association (IDA), a Dutch aid organisation which sells essential drugs to developing countries at reduced prices

Deeb's affidavit furnishes independent statistics which show the average increase in manufacturing prices between 1987-1997 was 13%-13,7% (in the private sector) compared with a CPI of 11,96% averaged over the same period. Price increases passed on to the public sector were below inflation on average

The investigation will be the Public Protector's third involving Zuma. The previous inquiries into the *Sargfina 2* affair cleared her of any wrongdoing

The ministry did not wish to comment

Zuma and Deeb disagree on the numbers



Macassar fears new sulphur fire disaster

Dispute over dump remains

ARG 18/7/97

NORMAN JOSEPH
STAFF REPORTER

The dust has still not settled on the removal of the 15 000-ton sulphur stockpile from Somerset West where 7 100 tons of leftover contaminated sulphur awaits the outcome of negotiations.

A runaway fire at the sulphur dump in 1995 resulted in the evacuation of the seaside suburb and allegedly caused the death of two Macassar residents

The Department of Trade and Industry said it would enter into urgent talks soon with Namibian company Rossing Uranium to remove the remaining sulphur dumps on the AECI site.

The department said it had sold the stockpile to Rossing but the company said it had bought only the pure sulphur not contaminated by the fire.

Spokesman for the department

David Potter said it had initially given Rossing 90 days to remove the sulphur stockpile and that this was a special condition of the sale.

Mr Potter said the entire stockpile must be removed from the site within the stipulated period as a "notification of acceptance of the tender".

He said the department would hold talks soon with the company and give it a list of tender conditions which Rossing had agreed to

Last week, Rossing removed 8 500 tons of pure sulphur. Rossing spokeswoman Hella Froeser said the company was not obliged to remove the 7 100 tons of contaminated sulphur.

George Liddle of the Macassar Disaster Action Committee said the community was concerned a grass fire could cause a repeat of the 1995 disaster if contaminated sulphur was left behind. At a residents' meeting on Tuesday it was decided to approach a law firm to handle claims

Zuma told to explain claim

CT 19/7/97

(183) (18)

OWN CORRESPONDENT

DURBAN: Health Minister Dr Nkosazana Zuma has been ordered by the Public Protector to substantiate claims allegedly made by the ministry that the cost of medicines in South Africa are among the highest in the world.

This follows a detailed 30-page complaint, made last month by the Pharmaceutical Manufacturers' Association (PMA), to Public Protector Mr Selby Baqwa.

The Minister's spokesman Mr Vincent Hlongwane confirmed that they had received a document on Wednesday from the Public Protector asking them to respond to the complaint.

Hlongwane said it was too soon to comment as they had not yet gone through the entire document.

The statements at issue — allegedly made by the minister and other officials of the Department of Health — include:

- "South Africa (18) rated in the top five most

expensive countries in the world for medicine."

- "Some medicines sell in South Africa for up to 4 000% above the world average."

- "South Africa pays, for example, 2 500% more for anti-tapeworm preparations than the international norm."

- "Medicine costs have increased at double the inflation rate over the past 10 years."

- "Prescription of generic medicine in South Africa, at 16%, lagged behind countries like the United States at 48%, and Britain, at 54%."

In the document, PMA chief executive Ms Miryena Deeb requests the Public Protector to decide whether the statements were proper conduct on the part of Zuma and other health officials.

In a statement the Public Protector said the PMA had alleged that "inaccurate or offending statements are creating the perception that medicines in South Africa are unreasonably expensive and that the blame lies with the manufacturing companies."

R400m Zenex deal oils empowerment in energy industry

For the first time, black investors have secured control of a fully operational oil company, writes **MARCIA KLEIN**

(183) (55)
ST(BT) 20/7/97

BLACK-owned company World-wide African Investment Holdings (WAIH) has taken a 51% controlling stake in Zenex Oil in a deal worth R400-million

The deal entrenches the group as a player in the oil industry — it launched Afric Oil in 1995 in a joint venture with Caltex — giving it about 3.5% to 4% of SA's petrol sales after the deal

WAIH managing director Phuthuma Nhleko says this is a significant deal for the group and gives black investors effective control of a fully operational oil company

Zenex reported more than R1.4-billion turnover in 1996, with total annual sales volume of over 660-million litres

Nhleko says that Zenex, the only fully SA-owned major oil industry player apart from Sasol, is an integrated oil company, but does not have a stake in a refinery

It has 150 service stations, 20 country depots, a lubricant blending plant in Durban, terminals in Cape Town, Alrode and Durban and a stake in Durban's marine bunker fuel facilities

There will be no enforced job losses and management will remain in place

The interest in Zenex complements WAIH's interest in Afric Oil, which is strictly a sales operation with 52 service stations. Nhleko says Afric Oil has done well and has managed to secure good business. The acquisition "gives us a fair share of the total petroleum liquid fuels market." He points out that

WAIH will not be a passive investor and will take an active part in the business, as it has done with Afric Oil

Zenex was sold by The Zenex 1995 Trust, a Jersey-based trust which bought it when a US-based company disinvested in 1987. Since 1994, all of its non-retained income has gone to the Zenex Foundation which supports education and training initiatives for disadvantaged groups

Caltex chairman Mike Rademeyer says the deal offers WAIH the opportunity "substantially to expand its role in the oil industry through the acquisition of an existing, fully fledged oil company and by merging Afric Oil with Zenex." WAIH has pre-emptive rights to increase its shareholding.

Nhleko says the deal is an important step in entrenching WAIH's will to focus on a limited number of key industries

Another major investment is in telecommunications, where WAIH is a joint controlling shareholder of Plessey Corporation, with a 26% stake

The group is also the major shareholder of Infinity Asset Management in a joint venture with Genbel. It has 5% of Bidcorp, 3.5% of Johnnic, 2% of Norwich Holdings and 20% of shipping company Southern Chartering

Founded in 1993, the group is 60% owned by founding black private investors, with the balance held by several institutions. The group intends to list on the Johannesburg Stock Exchange in due course.

BUSINESS

AECI's insurers to pay up despite negligence

Ingrid Salgado

GROUP insurers for chemicals manufacturer AECI were expected to continue settling legal claims arising from a sulphur fire at the company's Somerset West factory in December 1995, despite the finding of a commission of inquiry that AECI had been "causally negligent"

AECI communications head Mike Blizzard said yesterday there was "no indication" that the insurers would refuse to cover about 8 300 commercial and domestic claims against the group.

About R22m had been paid to affected parties to date. A handful of commercial claims and certain long-term health claims were still outstanding.

The Desai commission of inquiry into the events of the fire found that AECI had taken no steps to assess the fire risk of sulphur stockpiles established in the area in 1967. No safety measures were introduced and the sulphur dumps were "simply forgotten".

Two people died and several people were injured after the fire released a cloud of toxic sulphur dioxide into the atmosphere, leading to the evacuation of about 3 000 residents of the nearby Macassar town. Reports of bronchitis, lung infections and asthma-like illnesses among the community followed.

The gas mixed with light rain to form sulphuric acid, damaging crops in the area. Vegetable and flower crops were destroyed and some livestock farmers claimed breeding stock had been affected.

Blizzard said commercial claims represented about 60% of AECI's total payout. Of these, about six were still outstanding as they related to damages affecting the new growing season. Certain health claims from individuals in the area were also outstanding as they involved determining the long-term effects of the fire on their health, he said.

Lion Match expects stable local conditions

Nicola Jenvey

(183)
BD 30/7/97
DURBAN — Industrial Holdings group Lion Match expected a stable domestic market for its products this year despite inflationary pressures and high unemployment levels, chairman Leonard van der Watt said in his company's annual report.

This coupled with progress in exports and the normalisation of production at the Durban match factory, should enable the SA Breweries subsidiary to achieve a satisfactory increase in earnings, said Van der Watt.

The benefits of increased plant utilisation with improved efficiencies and containment of production costs would continue. Most of the R131m capital expenditure programme would be spent on the lighter operation.

MD Terry Turner said the match division's domestic sales volumes were in line with those achieved last year, with the total domestic market remaining stable during the period. This, and increased penetration of export markets, had lifted turnover to R152,7m.

Turnover had been hit by recent labour-related production disruptions, which had affected margins — trading profit had remained unchanged at R25,0m.

The strike's lighter brand had also performed well as a result of updated designs.

Lion Match lifted attributable income 15% to R49m in the year, but a 2% increase in operating profit to R30,4m.