MANUFACTURING - GENERAL

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SOWETAN BUSINESS

Small businesses get a boost from Britain

Sowetan 2/5/91 (180)

By ALI MPHAKI

THE British Minister for Small Firms, Mr Eric Forth, will address the first AGM of the newly-launched National Industrial Chamber (NIC) next month.

The meeting is scheduled for Jan Smuts Holiday Inn on June 19.

Forth will share ideas on how Britain nurtured small businesses over the last 10 years and will speak under the theme "Promoting Small Firms in Britain and their impact on unemployment".

Over the past decade, the British government, wherever possible in partnership with the private sector, has introduced a comprehensive range of support services for small firms.

Mr GABRIEL MOKGOKO

These include more than 400 local small business advisory agencies, a Freefone telephone advice service, deregulation units in most Government Departments, tax concessions for small businesses and campaigns to encourage sub-contracting of small businesses by local authorities, big business and Government.

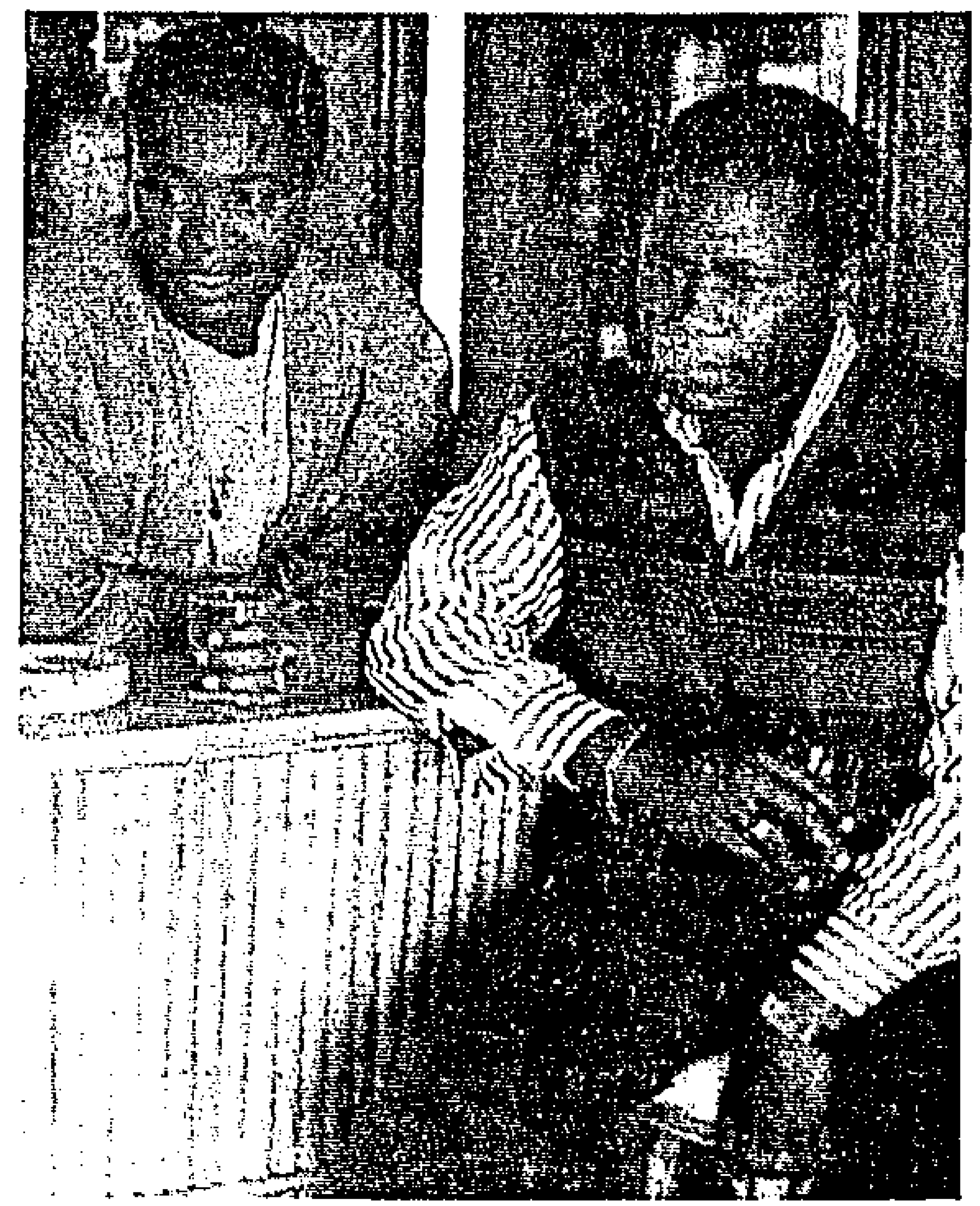
Speakers

Another aim of the meeting is to put manufacturing on the map as it is usually assumed that black business is only associated with retailing and taxis.

Nafcoc's organising secretary, Mr Gabriel Mokgoko, will speak on manufacturing and the problems encountered by small manufacturers in South Africa.

Other speakers include Nafcoc president Dr Sam Motsuenyane and Mr S Khuvhutlu, a manufacturer from Gazankulu.

NIC is a successor body to the old Industrial Committee of Nafcoc.



David Mulaudzi and Pat Magadze...challenge the odds and make an impact.

A new breed to challenge all odds ...

By ALI MPHAKI

IT'S not easy to keep your head held high when you're poor, young and black. But occasionally, there comes a breed of young, gifted, and black men, who believe nothing is hopeless and there's always a rabbit somewhere in the hat.

This is a breed that challenges all odds and make an impact in society. Such is the stuff that David Mulaudzi and Pat Magadze are made of.

The two are joint directors and owners of a scrapyard in Meadowlands, a spares shop in White City and a up-market hair salon/beauty parlour in Tshiawelo.

On entering their plush salon, aptly called Padavee, acronyms of both men, one can instantly recognise that David had already become a part of Pat's life.

How large and important a part, one could not estimate, but it was obvious this was no casual affair But the extent of their mutual confidence and respect was evident in the manner with which they answered questions during the interview.

From an association which dates back in 1985, when they met at a fashion show organised by Pat in Venda - at the time Pat had a clothing boutique near the Venda Sun - the two have never looked back.

It was after Pat relinquished his clothing shop and moved to Johannesburg that the two opened a scrapyard in Meadowlands Zone 3 in 1986.

"The money is here in Johannesburg, not in Venda," Pat said.

The next step for the duo was to open a motor spares parts shop, which was a natural move, considering that they already had a scrapyard.

With the entrepreneurial bug causing havoc inside the two, they bought a hair salon franchise from Alex Hair.

"Subsequently, we carried a survey and realised that we could still operate succesfully without being part of a franchise. This was the beginning of Padavee beauty parlour," said David.

Both Pat and David altogether employ 28 people.

Their future plan is to open a fully-fledged gymnasium in Soweto.

R500m boost for export projects

BD 25/7/91 (180)

ZILLA EFRAT

THE Industrial Development Corporation (IDC) has announced a new R500m low-interest rate scheme to promote the export of industrial products.

The scheme, aimed at reinforcing government's attempts to boost exports and create job opportunities, has been welcomed by both Sacob and Safto.

The IDC would make available R500m at a rate of R100m a year for the financing of additional production capacity that resulted in at least 30% growth in exports, had economic merit and created new jobs.

Safto CE Wim Holtes said the new scheme would contribute to solving the problem of lack of export capacity in some sectors of the economy and could be followed by increased foreign investment in SA's manufacturing sector.

A Sacob statement said the move would further assist SA manufacturers to become more internationally competitive and thereby boost exports.

Sacob deputy director general Ron Haywood added that while R100m a year might not necessarily be seen as a lot of money for manufacturing projects, it was a step in the right direction to addressing the issues which placed SA manufacturers at a disadvantage in the international market.

In a statement outlining the scheme, the IDC said an interest rate of 9% p.a. would be applicable for the first three years provided that 60% or more of the sales from the project or expansion were exported.

After three years the borrower could chose between the IDC's fluctuating or fixed interest rates.

If between 30% and 60% was exported, only half the finance would qualify for the 9% interest rate. The balance could be obtained at normal IDC interest rates.

Companies with total assets of over R100m would be limited to a maximum of R20m per project, but normal IDC funds were available for the balance of the funding.

The new scheme, which would come into effect immediately, was based on the IDC's previous low-interest rate scheme launched in 1988 which provided R320m for 273 projects.

Employers must be on their toes, says Louw

BDay 3/5/91 (180)

Political Staff

CAPE TOWN — Employers have generally not been as well organised as workers in recent years, Manpower Minister Eli Louw said yesterday.

Outlining recent trends in the labour field to the annual conference of the Cape Local Government Employers' Organisation in Parow, Louw said statistics showed that unions had used the prescribed conflict resolution mechanism to their advantage.

"At the same time, employers watched passively and did not grasp the opportunities and measure available to them."

Louw said it could be expected that labour union activities would become increasingly extended to the rural areas.

"It would therefore be good for rural employers to make themselves conversant with negotiations with unions and labour law."

Louw said that while the trade union movement had shown a downward trend for some time in Europe, the movement was growing in SA.

"The growing influence of unions in the public sector and in the area of local authorities will continue."

Louw noted that among workers there was a measure of opposition to privatisation because job losses were feared, and that would have to be addressed.

The chief reason for strikes continued to be disputes over wages, accounting for 80% of strikes in 1990.

But SA's economic realities meant that unions would have to revise their demands before they opted too hastily for strikes.

Louw said employers and organised labour should "join hands in a conciliatory approach in moulding attitudes in the battle for the hearts and minds of people".

Employers and employees had a common goal — the improvement of their living standards. "This can hardly be done by conflict. I strongly recommend co-operation."

Louw said that in balancing these interests, employers should not act defensively, as though the economic and commercial environment would remain unchanged.

"They must act pro-actively to bring about mutual beneficial changes in a constructive way.

"Those employers that can adapt most easily to the art of compromise will ultimately be better off," Louw said.

Can exports lead the way?

WMail 3/5 – 9/5/91 (180)

With the mining sector — particularly gold — in a decline, most economists are pinning their hopes on industry to revitalise the South African economy, reports **REG RUMNEY**

THE one belief common to both left wing and orthodox economists is that South African industry should be the engine of further growth.

On how to do this there is less agreement.

There is a difference in emphasis on the export and the domestic market.

Mainstream economists and indeed the government recently have stressed export-led growth. Those on the left have pinned their hopes on growth in the domestic market as redistribution of wealth enables the poverty-stricken majority to buy locally produced basic goods.

How to create jobs for the rapidly growing labour force and earn foreign exchange (rather than save it), is a question addressed in the latest *Economic Survey* by Sanlam's Economic Research Department.

The survey notes that though the crumbling of sanctions will open new doors to South African exporters, the industrial sector will have to change drastically to take advantage of these opportunities.

At what stage are we now?

Firstly, the industrial sector's contribution to gross domestic product — the broad measure of economic activity — rose only slightly in the past 20 years. At the same time, industrial exports as a percentage of GDP stayed still, and actually dropped in recent years. Also, industrial imports decreased, but not enough to stop the trade balance for manufactured goods showing continued deficits.

Secondly, South Africa's productivity is low. Crucially, the finger cannot, as is commonly believed, be pointed wholly at labour. Capital productivity is the villain. During the past two decades more and more capital has flowed into the industrial sector to buy plant and machinery, while the number of workers has risen only slightly. Sanlam's economists reckon the declining relative cost of capital because of low interest rates is the cause. With interest rates at levels below the inflation rate for long periods, entrepreneurs found capital investment in plant attractive. The cost of capital investment was further reduced by the relatively generous writing-off and incentive allowances available in our tax system. "On the other hand, the cost of labour increased much faster than the consumer price index."

Our low productivity compared to our principal trading partners decreases the competitiveness of South African industrialists, notes the survey.

Sanlam's economists leave the matter there, but the implication is clear: to compete in the tough international export markets industrialists will have to use capital better. Wage increases will also have to be capped, for while labour productivity is better than capital productivity it is not good.

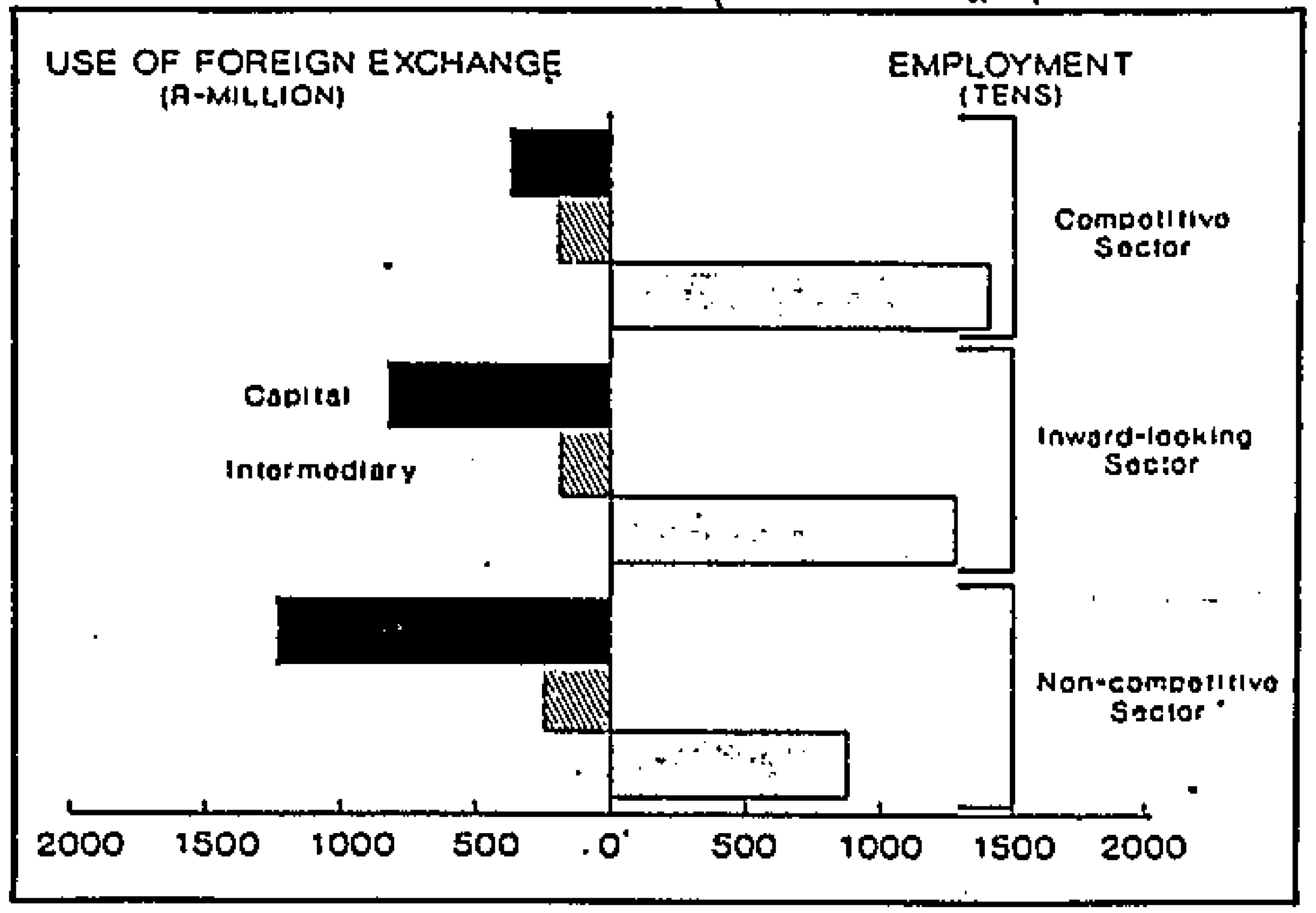
But where to put most effort? The industrial sector is not, after all, monolithic.

Sanlam's economists conclude that of four categories of the industrial sector the "competitive" and the "inward-looking" sectors are best able to create jobs and earn foreign exchange.

Industries which have a competitive advantage include certain branches of the textile industry, the clothing industry, and the basic iron and steel industry, as well as basic non-iron industries.

Inward-looking industries depend mainly on the local market, and include food processing, beverages, tobacco, rubber products and the paper industry.

The inward-looking sector is responsible for about 60 percent of total industrial production.



Boost ... the graph shows the effect of a R1-billion increase in final demand on employment and use of foreign exchange

The competitive sector and the inward-looking sector together employ 70 percent of the total labour force in the industrial sector.

These two are responsible for almost 70 percent of total exports, but use only 25 percent of all industrial imports.

"Non-competitive" industries include the chemical industry, the motor industry, and electrical machinery.

The non-competitive sector accounts for around 38 percent of total industrial production. It uses more capital and provides work for 28 percent of the total industrial labour force.

It absorbs 70 percent of industrial imports, but contributes only 26 percent of total industrial exports.

What remains are "open industries", where imports as well as exports are significant. This category accounts for only 1 percent of total industrial production.

The inward-looking and non-competitive sectors both deliver about 90 percent of their production of finished goods to the domestic market.

Import replacement, notes the *Survey*, probably caused the capital-intensive, non-competitive sector to grow at the expense of the competitive sector since 1970.

The effect of a R1-billion increase in final demand will have a markedly different effect on employment and the use of foreign exchange in each of the major categories.

Increased production in the competitive and inward-looking sectors will create most jobs. In the competitive sector 14 000 jobs will be created, in the inward-looking sector the figure will be 13 000, and in the non-competitive sector 9 000 jobs will be created.

The clincher is that the first two sectors will also need the smallest amount of foreign exchange to increase production capacity.

So from the Sanlam analysis it seems both export-orientated industries and suppliers of basic goods mainly for the domestic market should be favoured.

The suppliers of goods from "non-competitive" industries lose out (this includes the motor industry, already subject to a foreign-exchange saving programme).

The next big question is simply: how? The Sanlam survey does not address the complex mechanics.

It is clear from the survey's analysis that the emphasis should fall on exports rather than import replacement, and this appears to be accepted by the government.

However, this normally means more capital investment to produce goods with "added value" for exports. In view of South Africa's low capital productivity and high unemployment rate, this is undesirable.

The best route would be a labour-intensive export-oriented industry — but this is easier said than done.

SA manufacturers' survival depends on tariff protection

(180)

NICOLA MAGNI BDay 6/5/91.

THE ever increasing crescendo of voices — including Business Day editorials — calling for a new economic policy based on "removal of tariff protection" so as to expose local manufacturers to foreign competition is highly disturbing.

SA manufacturers are being accused by all quarters of being complacent and inefficient, of being unable to compete internationally, and of being leeches who sponge off the good of the land and give back very little. Instead of recognising the fact that SA manufacturers have brought irreplaceable skills to this country, that they have created employment and have been courageous in investing capital in a politically unstable country, we are being classified almost as a leper colony which must be exorcised for the benefit of a new SA.

Incredible ignorance exists in SA about the real problems facing local manufacturers. Free advice is being given, and new reborn economic policies are being formulated without any understanding of the chaotic consequences that some of these policies may have. They are being formulated by theoreticians, few of whom have ever run a business. It is not SA manufacturers who have to be "shaken out of their complacency" but the economic policymakers.

SA manufacturers are faced with endemic problems:

☐ Our cost of labour is very high. We are asked to compete with countries in the Far and Middle East whose hourly labour cost is 50% or less than that in SA — not to mention mainland China which pays its workers $15 a month. The equivalent going rate in SA is more than R1 000 a month;

☐ The productivity of labour in SA is extremely low. The work ethic here cannot be compared with that of Eastern countries, the Middle East or Europe. Productivity is a difficult concept to sell to trade unions, most of whom tend to see it as a capitalist ploy to exploit the masses. Changing this attitude will take a long time, without any guarantee of results;

☐ We have a generally militant trade union movement, which is vying for political power, does not really understand the basics of business economics, and whose main contribution over the years has been to raise artificially the cost of labour. It is all very easy for theoreticians to say manufacturers must stand up to unreasonable trade union demands, but a long strike is financially disastrous for the medium to smaller manufacturer. Only the big conglomerates can really afford it;

☐ The cost of capital equipment in SA is abnormally high. It is estimated that between surcharges, GST, high transport costs and ridiculously high interest rates, a machine costs an SA manufacturer 50% to 120% more than his overseas counterparts. Although some positive moves have been made in this direction, we are a long, long way from having solved the problem;

☐ Local manufacturers are very highly taxed and the investment allowances granted up to a few years ago have now been abolished;

☐ There is a pitiful shortage of skilled labour. Once upon a time skilled workers could be imported. Today, with the unstable political situation, very few are available. The few left behind are commanding unrealistically high earnings, and they are generally the residue, the better ones having emigrated;

☐ "Foreign competition" is often unfair competition. Exporters in countries such as Turkey and Taiwan are aggressive and heavily subsidised by their governments. They are able to quote prices which often represent a fraction of local manufacturers' cost of production. This is not only because they are more efficient, but largely because they are financed by taxpayers in their own countries to export unemployment into SA. This will lead to the demise of whichever local industry is exposed to this type of "competition"; and

☐ In a politically unstable country there is the further disadvantage that when import channels are opened, people will have the tendency to import at almost any cost, because by doing so they can obtain all sorts of "fringe benefits" — such as free overseas trips and commissions paid into foreign bank accounts — which are unrelated to competition or efficiency.

Having said all this, calls such as that in your editorial of April 12 for the removal of tariff protection are short-sighted. If SA manufacturers are going to be "exposed" to the type of competition discussed above, the thing that will be stimulated will be the quickening of the pace at which they close down their plants.

It is a relief that you realise there will be "dozens of manufacturers pointing out that export giants such as Japan only achieved their positions from behind almost impenetrable trade barriers". However, you go and spoil it all by saying these special pleas will have to be "ignored".

It is also argued that the "bottom line is that high tariffs cheat us all, and allow inefficient local manufacturers to burden us with excessively high prices for locally made goods". Thought needs to be given to the fact that, even granting this, it means people are given jobs. Is it more important to have cheaper prices with increased unemployment, or perhaps slightly higher prices with more employment?

Almost any consumer product produced locally could be obtained at a cheaper price from a foreign supplier. If your argument is carried through to its logical conclusion, it would mean that most of SA's manufacturing industry must be shut down, simply because everything (from a box of matches to a motorcar) can be imported at a cheaper price. Who then would employ these consumers who are to go out in droves to buy "cheaper" imported products?

SA manufacturers have had no shortage of the "competitive jolts" to which you refer. We have not only been competing among ourselves locally, but against dumping from overseas, against policymakers and politicians who have, at best, not had an industrial policy, against militant trade unions which are pricing our labour out of the market. We have also been "jolted" by matters such as political instability, boycotts, intimidation, uncertainty, industrial unrest, high interest rates, bankruptcies. How many more "jolts" do we have to suffer before our plight is really understood?

In conclusion, there are obviously SA manufacturers who are indeed inefficient and who may even be complacent. But this is an ever diminishing factor. There are, however, very clear endemic problems in manufacturing in SA which are beyond the control of the manufacturer. These problems must be understood by all if they are to be solved.

It is indeed ironic to read that Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals appreciate the fact that, unless strong growth is promoted within five years, SA will become ungovernable.

On the one hand we realise the certainty of this unpleasant scenario, and at the same time economic policy is being formulated which will certainly encourage this taking place. People will be put out of work, so that they may join the queues of criminals carrying AK-47s who will then help themselves from the shelves in the shops without worrying necessarily whether the goods they are stealing are being manufactured in SA or not.

Our top priority is job creation, investment and expansion of productive capacity in SA. Some local manufacturers are giving thought to shutting some of their operations and possibly reopening them in another country, where the right hand knows what the left hand is doing, where employment is appreciated and encouraged rather than otherwise, where the cost of labour will be more reasonable, and where economic policies will be formulated and tailored to the needs and realities of that country.

☐ **Magni is MD of a textile manufacturing concern employing 2 000 people at four factories.**

Platform for concerned businessmen

(180)

B/Day 6/5/91

TIM COHEN

AN organisation has been formed to provide a platform for business concerned about political issues affecting the economy.

The organisation, which includes several well-known businessmen, has not adopted an ideological stance but will "speak out" on any issue which affects growth or stability in SA, says spokesman Mariette van Niekerk.

Prominent among the members of Businessmen for Growth and Stability is former Kersaf chairman Dick Goss.

"We feel that businessmen should play a more active role", says Van Niekerk who runs an international marketing business.

The organisation was formed after informal discussions between a handful of businessmen who were concerned about developments in SA which would possibly affect investments and economic growth.

She described the organisation as a "dynamic" group of people who were not prepared to wait for others to come forward with information.

The organisation, which has about 50 members, would only involve itself with political issues affecting SA's growth potential.

Dhlomo issues plea for talks on peace

B/Day 6/5/91

THEO RAWANA

ANC and Inkatha leaders must talk peace and avoid the temptation to use violence to entrench their political positions, Institute for Multiparty Democracy executive chairman Oscar Dhlomo said on Saturday.

Addressing the Foundation for African Business and Consumer Services (Fabcos) annual meeting in Johannesburg, Dhlomo also urged the ANC and government to "pick up the broken pieces of reconciliation and engage in dialogue once more".

Dhlomo, a former general secretary of Inkatha, said: "Political power and influence obtained over the dead bodies of thousands of innocent people is not worth having.

"In this regard, ANC and Inkatha leaders must continue to talk about peace, difficult as this is at this time. There is no alternative to peace and reconciliation."

He said: "A grave responsibility rests with Messrs Mandela and De Klerk in this regard, and we pray that they accept this responsibility and reopen talks in a spirit of patriotism. For them, too, there is no alternative to peace."

Warning against following the path of conflict and revolution, Dhlomo said:

Mapping out what could be done to avoid a dark future, Dhlomo said astute political leaders encouraged their followers to prosecute the struggle simultaneously on all fronts — political, economic, cultural, spiritual and intellectual.

"...it is only total struggle that can yield total liberation. Political power devoid of economic power frustrates; political power underpinned by economic power liberates," he added.

Dhlomo encouraged Fabcos to accelerate its attempts to establish "a poor peoples' bank".

In the present situation, financial institutions expected a poor person to prove how rich (and not how poor) he was when he tried to raise a loan from them.

This anomaly would not be corrected by white financial institutions. It had to be corrected by Fabcos and other black business organisations, he said.

At the same meeting ANC international affairs director Thabo Mbeki called on all leaders in the SA political arena to address urgently the question of violence. He said the ANC recognised that some violence emanated from its members.

Soldiers

"There is some violence by people saying they are acting on behalf of the ANC. But we have agreements with Inkatha, and the Natal committee's work on this violence is still going on," Mbeki said.

Recently, unknown people entered Dobsonville Hostel, drove out legal residents and attacked people, he said.

"Who are these people, and why are the security forces not dealing with them?"

Mbeki said he told government to move police from the streets of Soweto to the hostels where the violence came from. There were no soldiers at hostel gates to prevent people coming in and going out with dangerous weapons.

Mbeki said government's inability to address the question was part of the reason for the ANC's feeling that it could not continue talking with government.

Future 'lies in the hands of business'

B Day 6/5/91 180

GILLIAN HAYNES

A POOR return on investment rather than the current violence was the only factor that would jeopardise international investment in SA, and as such the business community controlled the future of SA, Jatta International Investment president Ophelia Jeppa has said.

Speaking at the national convention of the Institute of Life and Pension Advisers on Friday, Jeppa said businesses had to be proactive and create the opportunities for the future.

She said companies had to go into the townships and "see how trade is transacted. There is a lot of business opportunity in black townships — blacks are the ones with the disposable incomes".

Businesses also had to take note of what the international investment community was doing. She said although there had been a lot of "paper pullouts", there was no real disinvestment.

"The debt moratorium was an excellent way for companies to be seen to disinvest without having to move their investment out of SA."

Similarly, businesses had to look at the movements of the major companies in SA, which were still putting money into property and investments.

However, Tax Advisory Committee chairman Michael Katz argued that a stable SA was essential for economic growth and increased foreign investment.

He said increasing investment in fixed plant and machinery was the most important objective of economic policy.

The dilemma in the 1991 Budget was to attempt to reconcile the requirements of immediate assistance to the Third World section of population and creating more economic opportunities for all. Government had tried to tackle the issue through commitment to stability, reducing the surcharge on imported goods, reducing the corporate rate from 50% to 48% and allowing full credit for capital and intermediate goods under VAT.

Other major economic problems were the lack of discretionary savings and the fight against inflation, Katz said.

ANC challenges police with own unrest report

B Day 6/5/91

JONATHON REES

THE ANC plans to launch its own daily unrest report today to counter what it says is the SAP's misinterpretation of events.

Spokesman Saki Macozoma said police failed to report accurately on the reality people experienced and often created an incorrect picture favouring themselves.

Monitoring mechanisms were already in place in some townships and being established in others, so the ANC could ensure information received was reliable and verifiable.

Macozoma said the ANC report's success would rest on its reliability. The ANC would use its monitoring structures to test the veracity of information before it was utilised.

The organisation hoped other monitoring structures such as Lawyers for Human Rights would also provide information.

Police often reported township deaths without outlining their circumstances, making it impossible for people to gain an understanding of violence and how it manifested itself, Macozoma said.

They would be able to read the ANC and police reports and determine what they wanted to believe.

Macozoma said an example of how police distorted events was their attribution of practically all incidents to tribal fighting.

"Their aim is to promote ethnicity, which suits their own purposes."

The ANC felt it would be allowing wrong information to go unchallenged if it did not make its own information available.

Macozoma expected police to dismiss the report as propaganda and said the ANC feared police might harass township sources.

Businessmen issue challenge to ANC

(180)

Business Day Reporter

AN advertisement placed in 12 newspapers today by Businessmen for Growth and Stability has called on the ANC to state whether it is a political party or a "terrorist organisation".

In an open letter, the organisation asks whether the ANC sees itself as a political party prepared to play by democratic rules, or a "terrorist organisation with a secret agenda to usurp power or seize by intimidation, trickery or force". B10 an 7/5/91

From the ANC's document, "Negotiations and the struggle for a democratic SA", the businessmen deduce that the ANC is not interested in a political settlement, but in usurping total power.

☐ Business Day yesterday incorrectly reported that former Kersaf chairman Dick Goss was a member of the organisation. The Dick Goss mentioned as a signatory to the open letter is secretary of the Springs Chamber of Commerce. Business Day regrets the error.

UK Minister to address Nafcoc AGM

180

THEO RAWANA

NAFCOC's National Industrial Council (NIC) has invited British Small Firms Minister Eric Forth to visit SA as part of an initiative to promote small black manufacturing.

B'Day 8/5/91

Forth will address the NIC's AGM in Johannesburg on June 19 on the effect promoting small firms had on UK unemployment.

NIC president Joe Mogodi said the British government, in conjunction with the private sector, had in the past decade introduced a comprehensive range of support services for small companies.

These included more than 400 advisory agencies and tax concessions.

The result was that the number of self-employed people rose by 50% to more than 3-million during this period, he said.

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Business confidence 'vulnerable'

SYLVIA DU PLESSIS

SA BUSINESS sentiment has edged up because of improved international relations, but it remains susceptible to the endemic violence in the country, SA Chamber of Business (Sacob) chief economist Ben van Rensburg said yesterday.

Addressing a news conference, Van Rensburg said the marginal rise in the chamber's business confidence index to a level of 87,7 in April, from a 52-month low of 87,3 in March, was not unexpected.

It confirmed Sacob's earlier view that the economic downturn appeared to have bottomed out after a slowdown which had lasted about nine quarters.

"Although the business mood remains vulnerable, it is now also being bolstered by the progressive normalisation of SA's external economic relations. This is especially so after President F W de Klerk's recent trip to Europe.

"The positive impact of the reduction in interest rates and the Budget's broad message were also able to exert their influence on the business mood more fully. But it remains vulnerable to the endemic violence in the country."

Sacob's survey of the manufacturing sector showed that while confidence levels remained "fairly buoyant" in April, there was a noticeable decline in the relative level of optimism, with fewer respondents believing that sales in the coming 12 months would be higher than in the previous 12.

Sacob economist Keith Lockwood said that, in the short term, the majority of manufacturers believed the volume of new orders received in April would be lower than actual levels in March.

"However, this is probably a seasonal occurrence arising from a shorter number of work days and school holidays.

(180)

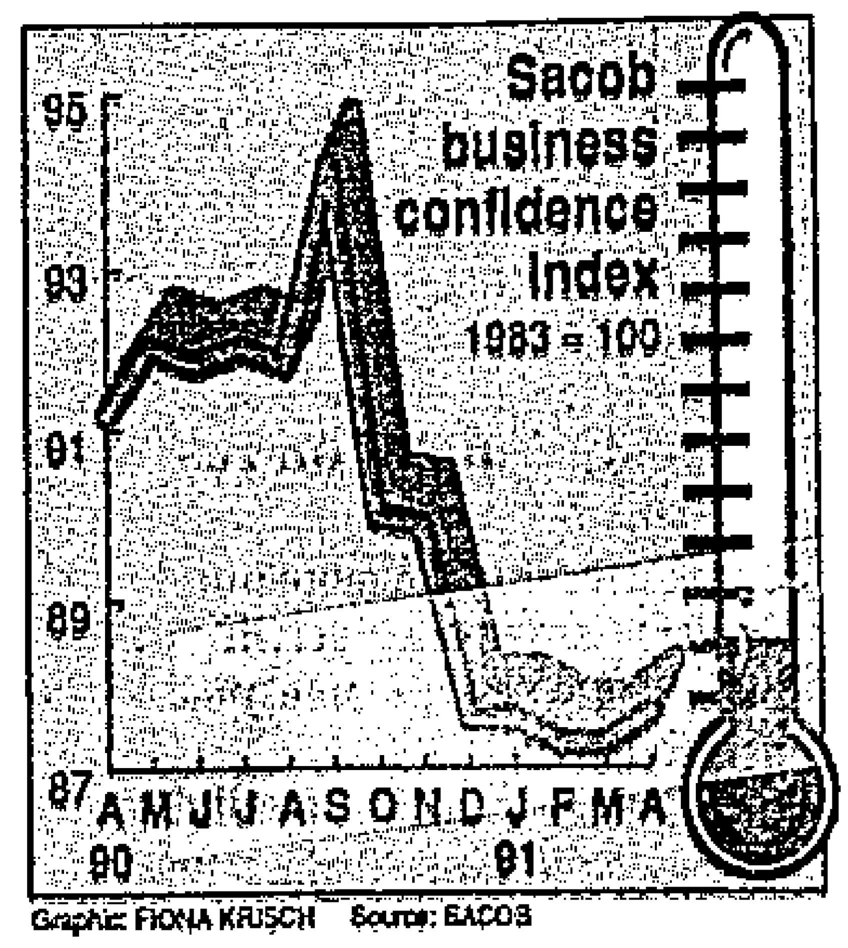
B/Day 8/5/91

Stoppages

"Despite this, sales and production volumes and capacity utilisation are still expected to rise in both the short and medium terms."

Lockwood said the relative decline in the degree of manufacturers' optimism could be due to the impact of the violence and the rising expectations of work stoppages in view of wage negotiation deadlocks.

"In the sectors manufacturing capital goods, it also seems likely there may be some 'damming up' of demand as a result of the cost savings that might be obtained under a VAT system.



Graphic: FIONA KRUSCH Source: SACOB

"But there's also evidence the strength of consumer demand is starting to wane — something Sacob anticipated would happen because of the lack of any tax relief to individuals in the latest Budget, high interest rates and high inflation."

Sapa reports that Sacob said in its commentary: "The decline in the rate of inflation of 0,9 percentage points will also have served to improve the outlook of business."

However the introduction of VAT was expected to cause a slight increase in the perceived consumer price inflation.

Business confidence index shows slight rise

By Sven Lünsche Star 8/5/91

180

Confidence, as measured by the Chamber of Business (Sacob) Confidence Index (BCI), remained at a relatively low level in April.

The BCI rose to 87,7 in April from its four-year low of 87,3 in March, although confidence was slightly bolstered by the normalisation of external economic relations.

"This is especially so after the State President's recent trip to Europe," Sacob said yesterday.

It added, however, that the US policy of maintaining its veto against renewed financial access by SA to IMF facilities, even if the Comprehensive Anti-Apartheid Act was repealed, was a setback to confidence.

This would maintain pressure on the Reserve Bank to build up gold and foreign exchange reserves and keep a tight rein on the demand for imports.

On balance, however, the level of business confidence appears to have bottomed out, and is rising in expectation of an upswing.

"Economic fundamentals, including signs that activity levels in the real economy have stabilised and are now starting to rise and a lower inflation rate, could augur well for the future.

"However, the business mood remains vulnerable because of concerns about the sustainability of the strength in consumer spending, the weak gold price, and the high level of violence," Sacob said.

Tax-free incentives to stimulate industry

Star 9/5/91 (180)

By Peter Fabricius
Political Correspondent

The Government has announced a new financial incentive scheme to stimulate regional industrial development everywhere in the country except the central PWV and Durban areas.

Foreign industry will be paid up to R1 million per project to move to South Africa.

Minister of State Expenditure and Regional Development Amie Venter unveiled the new Regional Industrial Development Programme in Cape Town yesterday.

The main difference from the previous industrial incentive scheme — which is to be phased out — is that incentives will be based on profitability, and industrial development will be stimulated not only on the borders of the homelands but in all underdeveloped regions.

This will include some metropolitan areas such as Cape Town and the Port Elizabeth/East London complex.

The old policy came in for severe criticism because it was designed to bolster the now-defunct homelands policy.

Unlike the old scheme, which was open-ended, the new scheme will be based on performance.

Industries will be paid a tax-free cash grant for the first two years to overcome establishment problems and after that will receive a tax-free cash allowance for three more years — but based only on profit.

Amie Venter . . . revealed plan to boost SA industry.

No money will be given to industries to relocate within South Africa.

The Cape Peninsula, the Durban/Pinetown/Maritzburg area — except for the Durban core — and the "deconcentration area" around the PWV core will qualify for 60 percent of the establishment grant and 100 percent of the profit incentive.

All other areas except the PWV and Durban core areas will receive 100 percent of the establishment and profit-based grants.

The basic annual establishment grant will consist of 70 percent of total operational assets.

Total assets will be limited to R15 million for concession purposes.

The profit incentive is based on a complex formula — but cannot exceed the annual establishment grant.

Mr Venter said the new scheme would show improved results because the profit-orientation would select good performers and ensure cost-effectiveness of subsidy payments.

Mr Venter said there was still a need for regional industrial development in South Africa.

Only 30 percent of the population lived in the metropolitan areas, which contributed 62 percent to the gross domestic product.

The less-developed areas supported 70 percent of the population but produced only 38 percent of GDP.

He said that despite the good economic performance of the previous incentive scheme, it was extremely difficult to administer, complicated and financially open-ended.

It would be phased out without breaking contracts.

BUSINESS

Disclosure proposals detailed

BiDay 10/5/91 (180)

SHARON WOOD

THE SA Institute of Chartered Accountants has identified certain disclosure requirements as a "first step" towards inflation accounting after a survey of major companies.

A minimum requirement is that companies split turnover between real and nominal to separate real growth and growth through inflation.

Other recommendations are the publishing of replacement costs of non-monetary assets, seven-year indexed cash flows in today's money and the splitting of cash flow into real and nominal terms.

Saica has moved away from trying to implement a compulsory inflationary standard after the failure to win widespread acceptance for past proposals.

Instead the institute will leave decisions on inflation accounting to the company, but will encourage companies to take up its minimum recommendations.

Inflation accounting has been a controversial topic abroad and locally. The central obstacle to its formal implementation has been the inability to come up with a perfect theoretical solution. But JSE president Tony Norton says it is important companies arrive at broadly correct real performance figures — they do not have to be absolutely correct.

Dozen

At the core of the problem is which price index must be used to reflect realistically the inflation rate in the economy.

Companies have repeatedly expressed their concern that a general price index might not reflect the internal inflation rate of the company.

Some have argued that inflation accounting would index inflation into the economy — in much the same way as wage indexation based on inflationary expectations contributes to rising inflation.

Less than a dozen companies provide inflation adjusted statements.

These include Afrox, Chemserv, SA Breweries and Anglo-Alpha. They do so despite the fact that the practice depresses profits and earnings, because current cost adjustments can only be made on profits after taxation.

Saica accounting director Monica Singler points out that inflation accounting must be instilled in all the workings of the company and in management thinking. Norton adds company accounts based on historical costs are becoming increasingly meaningless.

Saica's latest decision in the inflation accounting arena is based on a survey of the top 30 SA companies, which showed only a quarter of respondents were willing to comply with the proposals.

SOWETA

Businessmen aim to tackle the violence

(180)

Sowetan 10/5/91.

VIOLENCE, unity among black organisations and the role business must play in post-apartheid South Africa, came under focus during the three-day annual meeting of the Foundation of African Business and Consumer Services (Fabcos) this week.

By JOSHUA RABOROKO

The meeting, whose theme was "Black Business in the Face of Political Change; Fabcos as a Catalyst for Black Economic Empowerment", condemned soaring township violence.

It was agreed that steps to end violence should seek ways to address the bloodbath without calling off further negotiations between the State President FW de Klerk and deputy president of the ANC, Nelson Mandela.

Violence

In his keynote address Fabcos president Mr James Ngcoya said the Government must use all its might to resolve the issue of violence without further loss to human life and limb.

Fabcos urged the withdrawal of live ammunition by the police as a measure to assist in rebuilding the tarnished image of police, and taking strong action against irresponsible police elements.

Firearms

"The Government is urged to disarm all other members of the community and to suspend all existing firearm licences. No new licences should be issued.

"Government should make the possession of any lethal weapons illegal and punishable," he said.

Ngcoya called for an urgent and unconditional meeting between Mandela, Inkatha president Mangosuthu Buthelezi, PAC president Mlambi Makwethu and Azapo president Phandelani Nefolovhodwe.

The meeting was attended by delegates from ANC, PAC, Institute for Multi-Party Democracy and Azapo.

Carnage

PAC's deputy president Advocate Dikgang Moseneke said: "The State, which suppressed our people for over 300 years, cannot be heard to say they cannot stop this carnage. It suits the State not to stop the violence.

"Our people, in this regard, reserve the right to defend themselves."

Plea

Dr Oscar Dhlomo, chairman of the Multi-Party Democracy, called on the ANC and Inkatha leaders to continue talks about peace, difficult as it might be at this time. "There is no alternative to peace and reconciliation," he said.

ANC's director of International affairs Mr Thabo Mbeki called for an end to violence, including in the taxi industry.

He urged that Fabcos play a leading role in advancement of black business.

Top guns reap the rewards

(245) (180)

W.mail 10/5 – 16/5/91

Moneywise and in the quality of life, does South Africa deliver the goods for top executives? **REG RUMNEY** reports

SOUTH AFRICAN executives must often wonder what it would be like to have an equivalent position in Europe, the United States, Japan or Australia.

Comparisons are odious, never more so than when those comparisons revolve around living in different countries.

They are also irresistible.

How to compare, though? Even the matter of actual remuneration is no simple exercise.

With the help of Trevor Woodburn, who heads South African headhunting firm Woodburn Mann — affiliated to topflight personnel company Ward Howell International — we compiled the accompanying table.

The buying power of various currencies differs markedly, and South Africa appears, on the basis of our second table, to have a rather undervalued currency.

We wanted to compensate to some extent for the distortions that would arise if we simply converted all the salary packages into dollars or some other currency.

We also wanted some single yardstick for comparison of a chief executive of a typical company in each of the countries chosen. (Converting to rands gives a different picture.)

We settled on a company with a turnover of 100-million units of the currency of that country — rands, dollars, Deutschemarks, etc. The exception was Japan, where yen figures would be unwieldy. Here we decided to convert to dollars.

The result was a surprising similarity of remuneration in the currency chosen.

A chief executive of a South African company doing R100-million earns R230 000 to R250 000. His counterpart in the United States might earn no less than $175 000 to $ 200 000 and not more than $300 000.

The United Kingdom only fits the pattern if the pound is assumed to have twice the buying power of the dollar. But working out a typical UK salary was a case study in the difficulty of such comparisons. Ward Howell's man in London gave figures that varied widely depending on the type of company involved.

In the financial services business a chief executive officer would get up to £200 000 a year; in the manufacturing or engineering field a British chief executive would get only £75 000; in retail he would get £150 000, and in fast moving consumer goods around £100 000.

It would not be surprising if the financial services sector in Britain had far outperformed the manufacturing sector.

What of quality of life? This is so subjective that any glib answer would be foolish. Of course, it's horses for courses. Small things like easier traffic contribute to people's feelings about a place.

But in an informal poll of foreign executives some facts stood out.

One was that the strong current of violence surging through the society is a adverse feature that threatens to overwhelm positive aspects. In the West, only in some parts of the United States would people feel as threatened by violent crime, if at all.

Upjohn MD Jan Peterse remarks that this too is to some extent subjective. Some people living here will feel particularly perturbed by the violence surrounding them, others will shrug it off. Peterse also comments that a foreign executive's feelings about whether the lifestyle here is better or worse than at home depends very much on where he or she comes from. As a Hollander, Peterse would be accustomed to housing that South Africans would find cramped and expensive. To a lesser degree this applies to most of Europe, but not America and Australia, where comparable housing (except in places like New York) can be found.

The Europeans *The Weekly Mail* spoke to agreed housing in South Africa is a bonus.

French Bank MD Francis Klein finds that in most respects there is little he doesn't like about living here. Living in South Africa compares well with France, with the exception of the cultural venues, such as theatres, opera and museums. However, sport is less expensive, particularly golf.

Health care Klein considers as good if not better, though for French speakers education is something of a problem. The general attitude of people is relaxed and easygoing, he notes, and this makes for a pleasant working environment. Another aspect of living and working here he likes is that traffic flow is better.

Vergilio Zaina, MD of Olivetti, the only computer company to have stuck determinedly to having a subsidiary here, remarks that businessmen have to balance business and politics. Heads of a multinational have had to keep a low profile and take care about whom they speak to "There is lots of skating on thin ice."

In other ways the business environment in South Africa is generally easier because there is less bureaucracy than Europe.

Gillette MD Bob Crespi is a British national with an Italian surname from Mexico working for an American company, giving his observations some weight. He reckons the similarity from a business point of view is that both his home country of Mexico and South Africa have two distinct business communities — one that fits into the First World mould, and one that fits into the Third World. So Mexico has the equivalent of a Pick 'n Pay, but it also has numerous smaller shops ranging from corner cafes to the equivalent of spazas.

Crespi points to the still reasonable lack of pollution as a major plus point for South Africa as compared to the notorious smog of his home town of Mexico City. "One of the reasons I prefer living here is that I can breathe." However, it is a an area of concern and Crespi expresses the hope that South Africans can tackle the pollution problem here before it worsens.

He finds no dearth of consumer goods in comparison to Mexico, though the range of is not perhaps as wide as in the United States. Housing compares well with Mexico, and health care is better. "For me and my family," he says, stressing it is his personal view, "it's beautiful here."

CE SALARIES - A REMARKABLE SIMILARITY

SA	US	JAPAN	UK	AUSTRALIA	GERMANY
R	$	Y	Pounds	Aus$	DM
240 000	250 000	250 000	150 000	230 000	275 000

Comparison of salary packages of top execs in companies with turnovers of of 100-million units of the local currency (except Japan, where an equivalent turnover in dollars was used).

Source: Ward Howell International.

	Johannesburg	Osaka	US	Birmingham	Frankfurt
Aspirin	7.91	41.68	8.81	8.04	32.03
Cleaning person p/hr +	2.50	26.00	18.00	25.00	26.00
Merc 500SL@	556 500.00	259 548.00	255 219.00	319 388.00	242 641.00
Sirloin/pr lb	7.00	66.89	12.44	24.12	14.36
Oranges	0.91	3.05	2.00	3.41	3.10
Man's suit	900.00	1468.00	946.00	1199.00	791.00
Meal with wine	60.00	192.00	98.00	131.00	180.00
Cinema ticket	8.50	40.00	15.00	16.00	18.00
University *	4 575.00	6 740.00	35 737.00	—	—

*Average fee, first year B Com at Wits.

+ For full-time live-in maid, working 8 hour day five days a week for R400 a month. Cost of accommodation and food not included.

@Fully imported. SA-made Mercedes Benz cars compare pricewise much better.

Source: Fortune magazine and WM spot survey

Comparative costs ... South African prices shape up well. All prices are in rands

SA told to prepare for upswing

B/Day 14/5/91 (180)

SHARON WOOD

COMPANIES should use the downswing period by upgrading staff and researching new products, says Bankorp chief economist Nick Barnardt.

It is critical that executives fully understand that there will be an upswing through to 1993/94, and that they make provision for it, he adds.

A political situation which facilitates a net inflow of funds is necessary to sustain a durable upswing and if this does not happen, the entire economy will have to be cut back.

"The domestic upswing projected for mid-1992 will raise the country's import volumes.

"Consequently, the overall performance of the balance of payments remains the determinant of the durability of the upswing.

"Due to the surprisingly sharp increase in net reserves in recent months and weaker growth prospects in the next year, SA seems set to enter the upswing with a higher level of foreign reserves than originally expected," he says.

The United group, in its latest Economic Monitor, says it expects recessionary trends to persist into the third quarter of this year.

Barnardt predicts the downswing phase will continue for another year.

"Conditions will present a real survival challenge to most enterprises," he adds.

"Negative factors for the remainder of the downswing include the implementation of VAT, which will temporarily push up the inflation rate with a resulting negative impact on the business cycle, effectively preventing interest rates from declining rapidly," he says.

The United predicts the prime rate will be "some 18% or roughly 5% in real terms" by year-end.

But it cautions that the considerable probability of too high money supply growth and high inflation in the near-term may postpone the announcement of the next reduction.

According to the Economic Monitor, inflation is expected to remain at a high level during the first half of 1991, but is likely to recede in the second half of the year and continue to decline into 1992.

'Entrepreneurs can bridge conflict'

BDay 16/5/91. (180)

THEO RAWANA

ONLY entrepreneurs, who had hands-on experience of a free market at work, could act as a bridge between conflicting views on SA's future economic policy, Small Business Development Corporation (SBDC) MD Ben Vosloo said in Pretoria yesterday.

Addressing the national congress of the Public Relations Institute of Southern Africa (Prisa), Vosloo said SA should expect a battle for the minds of the people between the forces of individual freedom and enterprise, and central economic planning.

"We at the SBDC believe that the natural mediators between these conflicting world views are SA's entrepreneurs. Particularly those men and women who are engaged in the small business sector of the economy tend to be true free marketeers, although few would actually give themselves that label," Vosloo added.

Vosloo said for the average entrepreneur the critical question was not whether a concept was ideologically acceptable, but whether and how it worked in practise.

Without job-creating, economic growth and a prosperous economy, society would be condemned to impoverishment and all basics such as housing, education and health would fade out of reach. Vosloo said socialist rhetoric had lost much of its appeal and political momentum. "Socialism did not live up to its promises. Marxism/Leninism and Third World socialism invariably lead to authoritarian one-party rule or even one-man dictatorship and the violation of human rights.

" . . . In the final analysis it should be clear that our hope for the future does not lie in simplistic ideological rhetoric. It lies in a refocusing on the true nature of development at the grassroots level in towns, cities and regions," Vosloo said.

'Relevance' of education is a priority

PRETORIA — There was no doubt education was the key to a better future, but it had to provide relevant skills and expertise, Small Business Development Corporation MD W B Vosloo said. BDay 16/5/91.

Addressing a diploma ceremony at the Pretoria Technikon's Faculty of Economic Sciences yesterday, he said that should this test not be passed, there would be no future as nobody could doubt there was a crisis in the educational system.

Employers were also dissatisfied by the products of education.

"Their standpoint comes down to the fact that scholars and students are not being sufficiently prepared for industrial life," he said.

"Although unemployment in SA today is caused mainly by the stagnant economy, it is undoubtedly related to education." — Sapa.

FW's summit 'should go ahead'

ANC briefing disappoints businessmen

17/5/91 B/Day 17/5/91 180

BUSINESS leaders indicated they would prefer President F W de Klerk's summit on violence to go ahead without the ANC after they emerged disappointed and sceptical from a high-level briefing by ANC deputy president Nelson Mandela on violence yesterday.

The briefing, the biggest meeting between business and the ANC since last year's Carlton conference, was at the ANC's request and was held under the auspices of the Consultative Business Movement.

● MANDELA

It was attended by 107 top businessmen at Premier Group's Killarney, Johannesburg headquarters. Its main purpose was to allow Mandela to explain his organisation's April 30 ultimatum.

Prominent business sources said Mandela, by portraying the ANC as the innocent victim of the violence, "blew" his opportunity to win some understanding and sympathy from business .

"You cannot treat businessmen like fools. Many present ... had put a lot of energy into the violence issues. They are

PATRICK BULGER
and THEO RAWANA

well-informed and know the explanation for the violence is not that simple.

"They will not accept pious exclamations of innocence."

Among those present were Neil Chapman (Southern Life), Kevin de Villiers (Allied), Murray Hofmeyer (retired JCI chairman), Mervyn King (Frame), Gavin Relly and Michael Spicer (Anglo), Leon Cohen (PG Bison) and Peter Wrighton (Premier).

Mandela's delegation included ANC international affairs chief Thabo Mbeki, Umkhonto we Sizwe chief of staff Chris Hani, Umkhonto commander Joe Modise and national executive committee member Stanley Mabizela.

Business sources at the meeting told Business Day that Mandela admitted the ANC had erred by imposing an ultimatum on government before briefing the SA business community.

Sources said Mandela had reiterated that government was to blame for not quelling the violence and for not being firm with Inkatha.

Mandela was adamant that the ANC would not attend a government-initiated peace conference as it should have been consulted beforehand on the conference.

One informant said Mandela said he did not see how he could be blamed for the violence because he had warned about it while he was still in prison.

Mandela, however, sounded a conciliatory note towards Law and Order Minister

☐ To Page 2

Summit

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☐ From Page 1

Adriaan Vlok, saying that he was attempting to doing something about the violence, but that the Cabinet was holding him back.

One delegate said while the Mandela tone was conciliatory the discussion was disappointing because he had failed to explain why it was that people in the townships were killing each other. It seemed as if the ANC wished to distance itself from the violence, the delegate said.

Mandela said business had a direct responsibility to get involved in attempts to end the violence by throwing its weight behind the ANC and other organisations in putting pressure on government to take concrete steps to address the issue.

Sacob had warned the ANC soon after the publication of its open letter that the weak level of confidence in SA was likely to plummet further as a result of its ultimatum.

Sacob also forecast that potential new investment from overseas would be affected if political talks collapsed.

● Picture: Page 3
● Comment: Page 10

Slump: some sectors feel only mild pain

B/Day 17/5/91 (180)

GRETA STEYN

WHILE the mining and manufacturing sectors are plunged in deep recession, other sectors of the economy are surviving with only mild pain.

Mining and manufacturing output fell by a real 4% and 3% respectively in the first quarter of 1991 from the fourth quarter of last year (seasonally adjusted and annualised), according to Central Statistical Service (CSS) figures.

CSS figures also show employment in these sectors has been falling in recent months. SA economic policymakers hope that a rise in manufactured exports will be a major force for growth in the next upswing.

Agriculture turned in positive growth in the first quarter, as did finance and real estate, transport and communication, and general government.

Despite falling overall output, South Africans increased their spending in the first quarter in a continuation of a trend that has surprised economists for most of the upswing.

Buoyed by both private and government consumption, overall spending rose by 1% from the fourth quarter — compared with a decline of similar magnitude in overall output.

Against the background of an economy shrinking in real terms, sales of "luxury" household items have continued to rise rapidly.

Sales of television sets and other domestic furniture rose by 6,4% in the year to February, in spite of high overall interest rates. CSS retail figures show cash sales rising at a faster rate than credit sales, which could explain why tight monetary policy has done little to depress consumption.

SA's propensity for consuming is reflected in the decline in fixed investment and savings as a percentage of GDP over the past few years.

Fixed investment has fallen from 23,3% to 19,6% between 1985 and 1990, while private consumption increased over the same period.

But economists predict that the consumption has little scope for further increases. Forecast declines in real disposable incomes because of a drop in real remuneration should hit consumption spending soon.

FM 17/5/91

BUSINESS CONFIDENCE

TICKING UP

180

Manufacturing is playing an increasingly important part in the economy as revenues from gold exports continue to disappoint and world commodity prices remain depressed. So 1991 growth depends largely on the performance of the manufacturing sector.

The SA Chamber of Business's April survey of manufacturing confidence shows that, despite some erosion of confidence, most respondents expect sales and production volumes, as well as capacity utilisation, to rise in both the short and medium terms.

Sacob economist Keith Lockwood suggests this is the result of the low level of inventories throughout the economy. The marginal decline in optimism (58% of respondents believe sales will increase, compared with 62% in March), he says, "reflects concern about the sustainability of consumer demand and the high level of violence."

An increase in capital expenditure — measured in constant 1985 prices — is expected. This will be on new plant, not only on replacement, but employment of skilled, and especially unskilled, workers will probably decline. Lockwood says this may indicate that companies are becoming more capital intensive to reduce their exposure to labour disruptions after deadlocked wage negotiations.

Manufacturing companies are not planning to increase their own stock levels significantly because high interest rates make it expensive to maintain them.

Sacob says the economic downturn may be bottoming out. April saw a 0,4 point rise in its Business Confidence Index to 87,7. The figure for the previous two months was 87,3, the lowest since December 1987 (87).

The index, a composite measure of activity in selected markets, was buoyed by:

- Increases in: imports and exports, the JSE overall index, the number of new motor vehicles sold, physical volume of manufacturing production, real value of building plans passed and net migration; and
- Declines in: the BA rate, the prime lending rate (from 21% to 20%), inflation (from 15% in March year-on-year to 14,1%) and the number of insolvencies.

Negative influences include:

- Falls in the dollar gold price and the rand/dollar exchange rate; an expected decline in retail sales; fewer new companies registered; and more unemployment. ■

Manufacturing output falls another 3 %

ARG 22/5/91

(180)

The Argus Correspondent

JOHANNESBURG. — Manufacturing production volumes continue to decline in the wake of the slowdown in economic demand.

Figures released by the Central Statistical Services show a decline in the index of the volume of manufacturing production of 2,9 percent for February 1991, compared with the same month last year.

For the past three months the index has fallen by 0,4 percent, compared with the preceeding three months from September to November 1990.

The manufacturing sector has been hard hit by the slowdown in consumer demand and the subsequent destocking that has taken place in most sectors of the retail industry.

The seasonally adjusted Gross Domestic Product for the manufacturing sector fell by 3 percent in the first quarter of this year and many economists do not expect a significant improvement over the next few months.

Inventory investment was negative throughout last year and the decline accelerated in the fourth quarter as a result of a further drawing down of industrial and commerical inventories.

Altogether there was a net destocking in real inventories of R3 billion last year. Economists had estimated that such a low level of stock could not be maintained and the subsequent restocking would lead to a rise in orders from the manufacturing sector.

However, the extent of the fall in consumer demand has put paid to hopes of such a recovery.

The Bureau for Economic Research at Stellenbosch University has estimated that private consumption expenditure on durable goods will fall by 8,3 percent this year, while demand for semi-durable goods is forecast to rise by a moderate 0,3 percent.

Similarly motor manufacturers predict a 3 percent fall in demand for new cars this year.

Production volumes decline

Star 22/5/91 (180)

By Sven Lünsche

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Similarly, motor manufacturers predict a three percent fall in demand for new cars this year.

Providing a breakdown of the volume of production in subsectors of the manufacturing industry the Central Statistical Services figures show that large decreases were recorded by the textile and footwear industry, iron and steel basic products, machinery and equipment and electrical machinery industries.

R500-m available for new undertakings

Sowetan 23/5/91

(180)

THE Industrial Development Corporation of South Africa Limited has made available R500 million at R100 million a year on a "first come-first served" basis to promote new investment directed at exports.

By ALI MPHAKI

Finance is available at nine percent per annum for the first three years for the acquisition of fixed assets (machinery and equipment).

Thereafter, the normal IDC rates for the remaining term of loan will apply for projects fully complying with the scheme.

Interest

For projects partially complying, half of the finance is available at the preferential nine percent rate for the first three years and the balance at normal IDC interest rates.

The scheme is available to independent industrialists or groups with total assets (fixed assets plus current assets) of approximately R1 million and more at the time of application.

The industrialists' projects should be such that they will:

* Create new and/or additional capacity generating sales of which at least 30 percent is directed towards exports;

* Result in a reasonable number of new job opportunities;

* Have economic merit;

* Not result in the applicant's funding structure being unreasonably strained (about one-third owners' funds to total assets after the expansion).

The scheme is available in the form of loans, suspensive sales or lease finance. Financing for undertakings with assets of more than R100 million will be limited to R20 million.

The scheme takes immediate effect and further information and brochures are available from the following IDC offices. Sandton, Tel (011) 883-1600 ask for Ben Smith or Thys Loubser. Cape Town (021) 21-4794 and ask for Pierre Erasmus. Natal (031) 266-8922 and ask for Fred Cawdry.

TPA enlists aid of private sector

B/Day 24/5/91

GERALD REILLY

THE Transvaal Provincial Administration (TPA) has called in the services of the private sector in an attempt to address the province's growing urbanisation crisis.

Transvaal Administrator Danie Hough warned in a statement yesterday that urbanisation was stretching the TPA's resources to the limit.

He said a meeting with private sector groups in February agreed that quick decisions had to be taken to mobilise private sector organisations into six regional development management (RDM) posts.

The RDMs would be based on the East and West Rand, Pretoria, Pietersburg, Potchefstroom and Witbank. They would be extensions of the TPA and would support the TPA's regional directors in their efforts to meet demands flowing from urbanisation.

To ensure the RDMs provided the required expertise, it would be necessary to form multi-disciplinary consortiums led by a consulting firm with proved project management experience in the urban development field.

The RDMs had to deal with infrastructural, institutional, financial, economic, developmental and community participation needs.

Hough said the February meeting had been called to inform the private sector of the extreme urgency of the issue and to explore ways of forming a partnership between the state and private sector.

Advertisements are currently running in newspapers inviting applications from private sector organisations to act as regional development managers to assist the TPA's Development Branch.

The appointments will be effective from July this year.

Allowance fails to boost capital goods

BDay 24/5/91 (180)

LINDA ENSOR

CAPE TOWN — Large industries have continued to put all capital goods purchases on hold until the introduction of VAT at end-September — despite the additional 15% depreciation allowance announced by Finance Minister Barend du Plessis to counteract delayed purchasing.

Capital goods suppliers report dull trade after the Budget announcement that inputs on capital goods would be claimable under VAT. They say the concession has not had any stimulatory effect on purchasing.

The concession of a 15% additional depreciation allowance on capital goods bought before September 30 brought the total allowance for the first year to 35%.

Haggie Rand financial director Walter Sherwood said the group had postponed purchasing until October to save paying GST. He said the depreciation allowance was really only a timing difference, whereas not having to pay GST was a definite cash advantage.

Sherwood felt that inflation was an intangible and that it was unlikely prices would increase by 13% by October.

Atlantis Diesel Engines MD Fritz Korte said that many customers had cancelled orders despite the 15% concession as they believed they could get a better deal under VAT. "I do not think the 15% concession is sufficient to make good the difference of not paying GST."

Arthur Andersen tax manager Shane Ferguson said a number of the firm's clients involved in the supply of capital goods had reported dull trade.

"A lot of clients have decided that, as far as is practical, they will delay the purchase of capital goods," Ferguson said, adding that for the mines a 15% concession made no difference as they were granted a 100% concession in the first year.

However, he said that the tax situation of some industrialists might favour delayed purchasing with a rental arrangement until October.

SA Chamber of Business chief economist Ben van Rensburg said capital goods suppliers had reported a dramatic decrease in demand since the introduction of the special provision, which he said relieved only about half the influence of GST. He said, however, that it should be borne in mind that inflation and the exchange rate which was deteriorating against importers were factors favouring immediate purchases and could nullify the benefit of the remaining 6% to 7% of GST.

"I think decision makers are not taking all those considerations into account," Van Rensburg said.

Industries delaying capex owing to VAT

24/5/91 (180)

Business Correspondent

THE posting of VAT registration forms, which ultimately will give companies their registration numbers, will begin by the middle of next month. Inland Revenue deputy director Peter Frank said yesterday that the VAT 101 forms would be posted between June 17 and July 7.

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Capital goods suppliers report dull trade after the Budget announcement that inputs on capital goods would be claimable under VAT. They say the concession has not any stimulatory effect.

The concession of a 15% additional depreciation allowance on capital goods bought before September 30 brought the total allowance for the first year to 35%.

Haggie Rand financial director Walter Sherwood said the group had postponed purchasing until October to save paying GST.

Atlantis Diesel Engines MD Fritz Korte said that many customers had cancelled orders despite the 15% concession as they believed they could get a better deal under VAT.

SA Chamber of Business chief economist Ben van Rensburg said capital goods suppliers had reported a dramatic decrease in demand.

Proposals within two months

New scheme to kickstart the economy

BIDay 27/5/91 180

LESLEY LAMBERT

CAPE TOWN — A package of financial incentives to give a vital kickstart to proposed multibillion-rand industrial projects will be introduced soon, Trade and Industry Minister Org Marais has indicated.

In an interview after his department's budget vote in Parliament on Friday, Marais said he was hoping to produce within the next two months proposals for measures to assist the development of new projects in the chemicals, engineering and mineral beneficiation sectors.

The new projects had been proposed by leading SA industrialists, he said.

Marais declined to provide details on the projects concerned or the incentives under consideration, but said an announcement would be made soon. He said his department was looking at a wide range of financial incentives, including possible partial funding and tax concessions.

He said the projects had the potential to provide significant benefits to the SA economy in the form of millions of rands in new capital investment and employment.

They could also provide catalysts for much needed foreign investment in SA.

"If we are able to offer incentives and if they are competitive, the local industrialists may be able to sell off portions of the projects to foreign investors."

Marais said government would also have to give urgent attention to a longer term incentive package, in line with those offered by other countries, or SA would be unable to attract foreign capital.

But the restructuring of the Industrial Development Corporation (IDC) had made it necessary for the state to consider providing assistance to help selected new industrial projects over the initial unprofitable stage.

Finance Minister Barend du Plessis announced during his Budget that he had instructed the IDC to disburse some of its holdings and inject R500m a year into the economy for new developments over the next two years.

In the debate on the Trade and Industry Department's budget, Marais said government also hoped to stimulate the rate of technological development in SA by providing partial funding to projects aimed at developing new technological products or processes.

This was in line with proposals in the draft technology policy statement for initial, temporary support to activate growth.

Government also intended to encourage venture capital investment in technology

☐ To Page 2

New scheme

B/Day 27/5/91. 180

☐ From Page 1

and the commercialisation of technological operations in the military and the atomic energy sectors, Marais said.

Practical measures to achieve specific results would be proposed in the almost completed technology policy statement.

Proposals for the industrial incentives had not yet been submitted to Cabinet.

Marais said: "We have discussed the project with the SA industrialists who proposed them and have decided — in conjunction with other departments and in line with proposals by the late (Economic Co-ordination Minister) Wim de Villiers — to give as much attention as possible to the question of assisting new capital investment and industrial development.

"If there are ways we can assist, they will have to be decided within weeks."

Civil debt jumps 25% in recession's worst period

B I Day 27/5/91

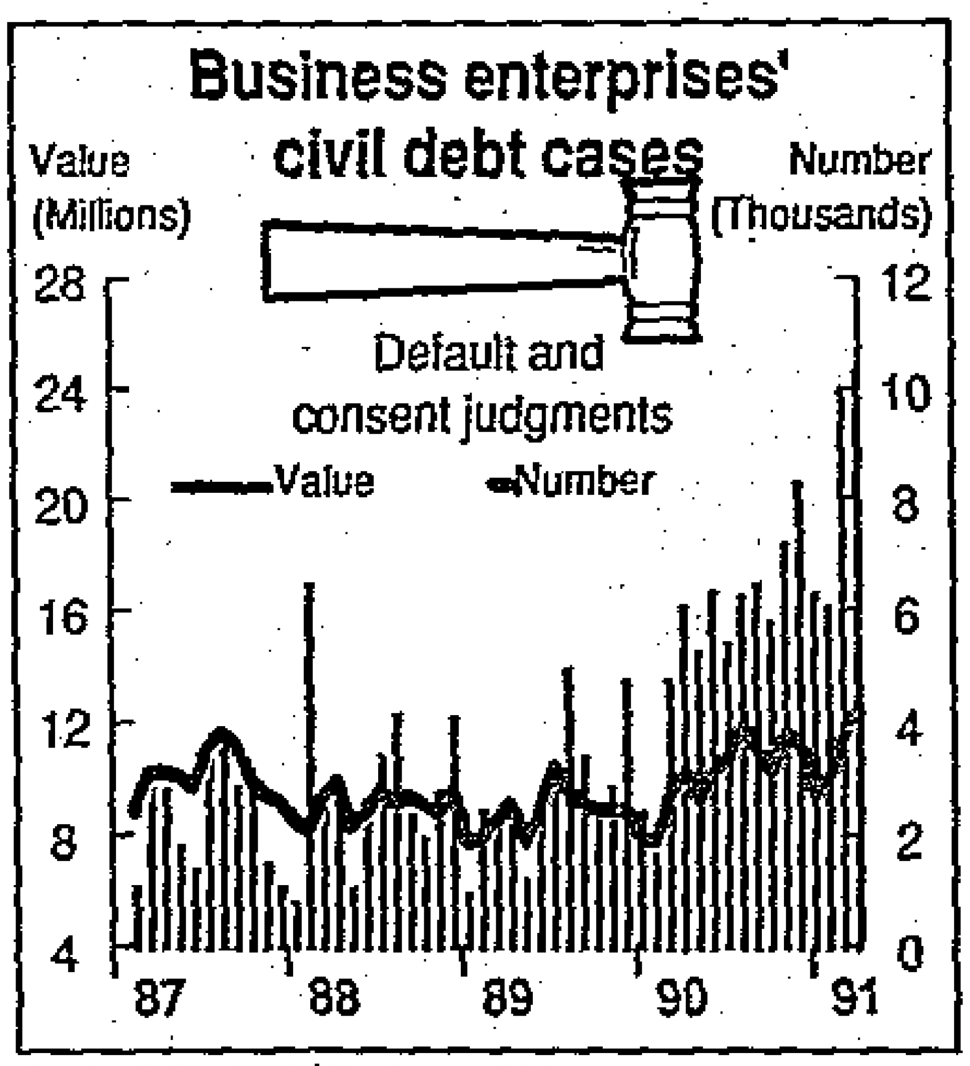
180

SHARON WOOD

RECESSIONARY conditions drove civil debt cases for businesses up 24,8% in the first quarter of this year compared with the same quarter in 1990, to their highest level in four years.

Figures released by Central Statistical Service (CSS) show that summonses issued for business civil debt rose by 29,5% to 26 865 from 20 752 in last year's final quarter.

The total number of civil debt cases was 29 560.



Graphic: FIONA KRISCH Source: CSS

Credit Guarantee economist Luke Doig said in a statement that these were the highest figures for business civil debt cases in four years.

Taken together with the disappointing inflation and money supply figures, it could be argued that the economy was currently at its darkest point of the recession, he said.

The economy contracted by a further 0,9% in the first quarter of the year.

Total civil debt cases rose 3% in March to 97 008 from February's 94 138. Civil summonses were up 4,2% in March.

Trends

During the first quarter this year debt cases were up 3,7% on the first quarter of 1990.

The number of default and consent judgments rose 8,1% from 40 508 from 43 800.

Sacob economist Ben van Rensburg said the figures indicated the deepening of the recession in the first quarter this year, though these recessionary trends were not necessarily an indication for the rest of the year.

In the last month there may have been indications of a bottoming out in the recession, he said.

Tricky VAT registration choice

6104 27/5/91 (180)

GILLIAN HAYNE

COMPANIES must carefully consider whether to register for VAT as one entity or to register their branches as separate units, say tax experts.

Deloitte Pim Goldby tax manager Rob Collins said the decision was one of the most crucial VAT issues. He recommended that companies register their branches individually if they were already separate cost-accounting centres.

"I believe companies should consider the single entity route only if the administration would otherwise prove too onerous, or the company operates from a centralised computer system anyway."

With separate branch registration, normal VAT rules would apply to inter-branch stock transfers. One branch would have to charge VAT on the stock as an output tax and the receiving branch would have to pay input tax.

As input tax credits could be claimed, there would be no cash disadvantage attached to separate registration, only an additional administrative element.

Collins added that separate registration could become a management tool.

"Head office will be able to monitor the cashflow situation of each of its branches and thereby have a clear indication of the performance of each cost centre if the branches maintain separate VAT records."

The separate registration was an option for branches only if they were separately identifiable and had adequate accounting records. Group registration was not an option.

Inland Revenue deputy director Peter Frank said last week that VAT registrations forms — VAT 101 — would be posted between June 17 and July 7.

Companies which had not received forms by the first week in July should contact their nearest Revenue office. Companies which chose to register their branches as separate tax entities should collect the branch registration forms — VAT 102 — from their Revenue office.

Ernst & Young national tax consultancy director Chris Hassall said the late release of forms was putting a strain on companies' preparations for VAT.

Financial incentives to kick-start economy . . .

180 CT 27/5/91

Billions earmarked for industrial projects

By LESLEY LAMBERT

A PACKAGE of financial incentives to give a vital kick-start to proposed multi-billion rand industrial projects will be introduced soon, said Trade and Industry Minister Org Marais.

In an interview after his department's budget vote in Parliament on Friday, Marais said he was hoping to produce proposals for measures to assist the development of new projects in the chemicals, engineering and mineral beneficiation sectors within the next two months.

The new projects had been proposed by leading SA industrialists, he said.

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This was in line with proposals in the draft technology policy statement for initial, temporary support to activate growth.

Government also intended to encourage venture capital investment in technology and the commercialisation of technological operations in the military and the atomic energy sectors, said Marais.

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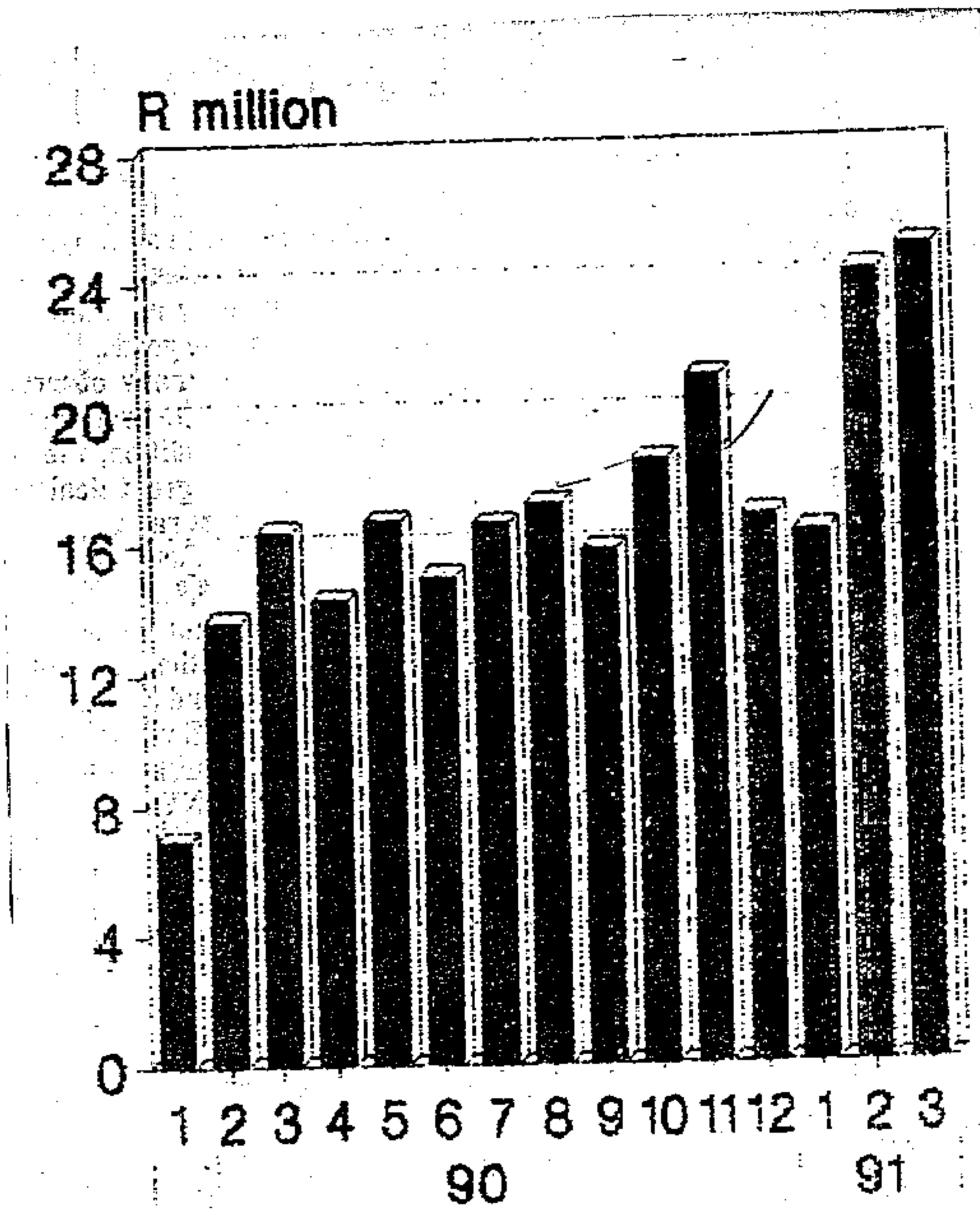


The value of default and consent judgments against business enterprises

Civil debt figures soar

Star 27/5/91

By Sven Lünsche

180

Civil debt figures in March for both individuals and business enterprises make for sombre reading.

The figures, provided by Central Statistical Services and analysed by Credit Guarantee, are particularly bad for the business sector.

Total civil debt cases in the first quarter of the year rose 3,7 percent to 272 729, compared with the first three months of 1990, while civil summonses over this period rose 5,8 percent to 244 303.

Excluding individual debt cases and summonses, the figures show the extent of the impact of the recession on small- and medium-size businesses, says Credit Guarantee economist Luke Doig.

For businesses, civil debt cases were recorded at 29 560 for the first quarter and were 24,8 percent up on the same period in 1990.

Debt summonses at 26 865 were 29,5 percent higher than last year's first quarter total of 20 752.

A similar picture emerges when analysing default and consent judgments.

For both individuals and businessess, the number of default and consent judgments rose by an annual 6,6 percent to 122 199.

The value of these judgments surged by 36,2 percent from R408,8 million to R556,6 million, largely because of the 74,4 percent rise in the value of default and consent judgments against businesses to R65,5 million.

Says Mr Doig: "The February and March 1991 default and consent values of just over R24 million each are horrendous and the highest in over four years." (see chart).

The number of judgments against businesses in the first quarter soared by 40,7 percent to 11 094.

"Taken together with the disappointing inflation and money supply figures in April (14,6 percent and 15 percent respectively), it could be argued that the economy is currently at its darkest point in the recession," Mr Doig says.

"I hoped that the impetus of Christmas spending would allow the business cycle to bottom out in the last quarter of 1991, but this may now be a distant hope unless something dramatic occurs."

Mandela reassures investors

180

aff Reporter Star 28/5/91

NC deputy president Nelon Mandela yesterday ledged commitment to efrts to encourage the rate f economic growth in the ost-apartheid era, but argued that the sanctions lockade should be maintined at the moment.

Mr Mandela assured a priate meeting of stockbrokers nd business economic consultants in Johannesburg hat the ANC was also committed to seeking internal political stability via the negotiating process.

He fully understood that it was not in the ANC's interests to damage the economy but there were still political reasons why sanctions were supported at the current stage of developments.

He added that the ANC would reverse its stance on sanctions "as soon as possible".

Mandela . . . ANC seeking stability.

The meeting took place at an office block alongside the Johannesburg Stock Exchange, which Mr Mandela visited earlier.

Stockbroker Sidney Frankel, chief executive of Frankel Max Pollak Vinderine Inc, who arranged the meeting, said today: "Mr Mandela made a very positive impression on most businessmen.

"He outlined the background to the violence and repeated what steps the ANC would take to reduce the conflict. He clearly believed it was important to have stability for economic growth.

"Mr Mandela reiterated his belief that Government had the capacity to halt the violence and that there was no need for a state of emergency. The whole session was on a positive note."

Insiders said Mr Mandela seemed eager to make a special effort to reassure investors on the longer term outlook.

But one of them added that Mr Mandela also gave the impression that the ANC wanted to dictate all the measures that should be taken by the Gov...

Businessmen ask Mandela for answers

Star 29/5/91

(180)

Staff Reporters

The group Businessmen for Growth and Stability took out an advertisement in 10 national newspapers yesterday demanding that the ANC formally set out its position on business in South Africa.

The advertisement, published under the heading "Answer Please, Mr Mandela", poses 17 questions to the ANC leadership asking for official statements on economic issues from a minimum wage to nationalisation.

The group also published an "Open letter to the ANC" on May 7, challenging its vision of the negotiations process.

According to Rob Emmet, managing director of Midrand Property and a founder member of the group, the organisation was formed earlier this year by businessmen concerned about possible economic policy under an ANC government.

Although there were no further ads in the pipeline, Mr Emmet said the group was growing rapidly and would continue to ask questions and try to get answers from the ANC on the country's economic future.

Unless these answers were forthcoming, businessmen would be forced to "seek a more hospitable climate elsewhere" with "devastating consequences for all South Africans."

● The ANC yesterday said the advertisement smacked of propaganda.

It said that while the 17 questions raised by the businessmen were of concern to all South Africans, the advertisement was not a real attempt to address the serious issues facing SA.

It noted that in the earlier advertisement, Business for Growth and Stability "raised questions in such a way as to portray the ANC as a terrorist organisation".

The ANC proposed that these businessmen should invite the organisation to meetings, consultations and briefings so that the ANC could put forward its own views.

Earlier yesterday, ANC spokesman Carl Niehaus said many of the questions would presumably have been answered by Mr Mandela at a private briefing attended by stockbrokers and investment managers in Johannesburg this week.

He said Mr Mandela's remarks had reportedly been well received by the gathering.

Verwoerd and Lenin's days are numbered

30/5/91

B/Day 30/5/91

180

Business Day Reporter

WHAT do Verwoerdburg and Leningrad have in common? Probably as little as their namesakes, except that both sets of city fathers are under pressure to change their names.

A number of Verwoerdburg businessmen are rebelling against the town's name, which they claim is retarding business.

At the same time, Leningrad's Communist Party chief has dismissed attempts to return the city's name to St Petersburg.

GERALD REILLY reports from Pretoria that, at a Verwoerdburg town council forum this week, a businessman claimed local business was losing out on development opportunities and foreign investment because of the town's. association with apartheid's architect, Hendrik Verwoerd.

Louis Norval, of the Verwoerdburg CBD Association, said multinationals would be embarrassed to have the town's name on their letterheads.

Association chairman Dudley Pound said BMW and the Development Bank of Southern Africa had avoided Verwoerdburg because it was named after a politician responsible for apartheid.

Pound said National Sorghum Breweries had moved its head office from Verwoerdburg because of the name.

Meanwhile Sapa-AP reports that Leningrad Communist Party first secretary Boris Gidaspov said yesterday a drive to change the city's name dishonoured the citizens who had fought to protect it during the Second World War.

The proposal to rename Leningrad follows moves by several cities to shed names imposed by communists under Stalin or erase mounments to old-line communists.

IDC grants R67m to promote exports

B/Day 30/5/91 (180) (7?)

THEO RAWANA

THE Industrial Development Corporation (IDC) has approved six applications, amounting to R67m, for its R500m low-interest rate scheme to promote export-oriented manufacture.

IDC senior GM Jan de Bruyn said this week there had been 13 applications for the scheme, which was launched three weeks ago. "The investment climate is not good for industry. This is the IDC's contribution to promote export in the manufacturing industry. It is a start-up assistance with a below-prime interest rate of 9%."

The scheme, which will make R100m available a year, will provide finance on a first-come-first-served basis for the acquisition of fixed assets.

After the first three years, normal IDC rates for the remaining term of the loan would apply for projects fully complying with the scheme, said De Bruyn.

"For projects partially complying, half of the finance is available at the preferential 9% rate for the first three years and the balance at normal IDC rates."

The scheme was available to industrialists or groups with total assets of about R1m or more at the time of application.

It was designed to finance projects creating or adding capacity, generating sales of which at least 30% was directed towards exports, and creating jobs.

Top SA firm linked to Iraq arms smuggling

(180)

W/mail 30/5 – 6/6/91

A high powered British and American investigation team claims a Barlow Rand subsidiary is linked to illicit arms trading with Iraq.
EDDIE KOCH reports

BALLISTIC missiles and anti-aircraft equipment used by Saddam Hussein's army during the Gulf war — and seen by millions of South Africans on CNN television reports — were allegedly made with technology smuggled into Iraq by a company that has close links with Barlow Rand.

This startling claim is made, not by a group of anti-apartheid hotheads, but by British and American government officials involved in a top-level investigation into a huge and illicit arms trade that operated between the US, South Africa, Chile and Iraq in the 1980s.

Barlow Rand and member companies of the Barlow Group here have also been linked by the high-powered investigating team to an international arms dealing syndicate that is accused of supplying Saddam with cluster bomb technology that was developed in Chile and shipped via South Africa to Iraq in time for use in the Gulf war.

A small army of detectives and law enforcement officers in England and the United States is probing allegations that Barlow Rand and its subsidiaries received illegal shipments of electronic equipment used in the local manufacture of ballistic missiles and other sensitive military projects from a US-based company called International Signal and Control (ISC).

"Do you remember watching the anti-aircraft bursts from Baghdad on CNN that first night of the allied bombing in January? That was some of the stuff which got to Iraq through the ISC shipments to South Africa," one of the US investigators is quoted as saying.

The American company is accused of using its South African connections as a conduit for sending ballistic missile equipment as well as cluster bomb technology developed in Chile to Iraq.

Richard Knight, executive director of the American Committee on Africa, told *The Weekly Mail* there was documentary evidence that Barlow Rand was implicated in deals with ISC and that at least some of these violated the US arms embargo against South Africa and the US Arms Control Act.

A mass of evidence has also been collected by the *Financial Times* and ABC's *Nightline* television programme, which last week ran major exposés of the arms trading network. Much of the information is reported to have been leaked by the FBI and other federal investigators in the US.

Barlow Rand general manager for public affairs, Ken Ironside, on Wednesday said: "At this stage we have no comment to make".

According to the *Financial Times* report, court documents collected by the investigators include bills of landing, receipts and invoices as well as shipping papers that label the equipment as not to be exported from the US without a licence. They show that customers included Armscor and private companies in South Africa.

Barlow Rand has a long-standing relationship with ISC and its controversial director, James Guerin. At one stage the group or one of its associate companies invested in ISC and even considered buying it entirely.

Earlier this year, Ironside dealt with the ISC issue by saying: "During 1975 Barlow Rand acquired an interest in ISC. This investment was disposed of in the same year, six months later, and since that date Barlow Rand or its subsidiaries have not had any interest, direct or indirect in ISC."

Estimates on the value of the ISC trade with South Africa vary from $10-million to $50-million a year. The US investigators — which include officers from the FBI, Defence Department, and Attorney's Office — are investigating companies associated with Barlows in connection with the trade.

They believe the sales were made without legitimate government approval and are sifting through the evidence to establish whether documents used for the shipping of legal products were used to move "illegal" products into South Africa.

The joint *Financial Times*/ABC investigation reveals that:

- Federal officials believe some of the US technology sent to South Africa was used in Saddam's missile projects.
- Senior British sources confirm that missile technology jointly developed by ISC and South Africa was offered for sale to other Gulf states before the war.
- Radar-controlled anti-aircraft equipment shipped by ISC to South Africa found its way to Iraq in time for the Gulf war.

US officials say that ISC used a front company called Gamma to ship consignments of sophisticated missile technology into South Africa from 1982 or 1983, a time when Armscor desperately needed equipment to test a long-range ballistic missile capable of carrying a nuclear warhead.

Equipment was also used to develop ground-to-air missiles and radar tracking devices. These deliveries continued until as late as 1989 and sometimes took place on a weekly basis.

The material included tracking antennae, which trace missiles' flight paths and pass on data relating to velocity and fuel consumption, as well as gyroscopic equipment used for the guidance systems of ballistic missiles. Photo-imaging film readers were also imported to determine missiles' performances.

Other technology shipments from ISC indirectly helped Iraq build a cluster bomb factory. The evidence indicates that most of this equipment came from Chile. But the *Financial Times* reports say cluster bomb fuses that came to South Africa from Chile were then shipped on to Iraq before the war. There is no immediate evidence that Barlow Rand was involved in this aspect of the trade. However, Barlow's subsidiary, Reutech, does admit to being a world leader in the manufacture of fuses for artillery, rocket, mortar and aircraft bomb applications.

Change to accounting promoted

SHARON WOOD (180)

COMPANIES would be encouraged by the Chartered Accountants Institute of SA (Caisa) to comply with certain minimum recommendations set up by the institute to adjust company statements for inflation, Caisa accounting director Monica Singer said this week.

This decision was reached because most of the top 30 SA companies canvassed by Caisa recently said they were unwilling to adopt a compulsory inflation accounting standard.

The companies said a standard set of rules would not work in practice because a widespread number of methods were used to measure the performance of different companies in an inflationary environment.

A number of respondents also expressed reservations because of the costs involved in implementing inflation adjusted figures, and said they were sceptical about the usefulness of the information.

The steering committee created by Caisa for the survey concluded that amending accounting standards ED77 and AC201 would be pointless at this stage as it was clear they would not gain general acceptance.

Instead companies would be encouraged to comply with identified disclosure requirements.

JSE president Tony Norton said the institute's suggestions were a major step forward. He added that all responsible boards had a fiduciary duty to provide realistic figures which took inflation into account.

Caisa first tried to to officially incorporate the effects of inflation into SA company accounting in 1978.

The three attempts it made since then failed because they were rejected by most companies. Less than a dozen companies formally account for inflation in their financial statements. B | Day 3|5|91

The recommendations envisaged by the institute will shift emphasis on primary income and balance sheet inflation adjustments to cash flow based inflation-adjusted statements.

Caisa accounting director Monica Singer says this would be a meaningful way of singling out a companies' real growth performance from growth through inflation.

Nafcoc wants more say in big business

Star 31/5/91 (180) ~~(30)~~

By Des Parker ~~176~~

A black assault on the ramparts of white-dominated business is being spearheaded by the National African Federated Chambers of Commerce (Nafcoc).

Opening the annual meeting of the Inyanda Chamber of Commerce in Durban yesterday, Nafcoc president Sam Motsuenyane accused major companies of "marginalising" blacks by appointing single, token blacks to their boards of directors.

Singling out Anglo American Corporation, Barlow Rand and Southern Life as culprits, Dr Motsuenyane urged big business to "change this policy drastically" to give significant numbers of blacks the opportunity to influence the way major corporations conduct their business.

He reiterated a demand made by Nafcoc last year that blacks achieve specified levels of representations in the formal sector of the economy by the year 2000, such as the holding of 30 percent of directorships on JSE companies, a 40 percent black stake in equity of quoted companies, 50 percent of the contracted out business of white companies go to black concerns and 60 percent of managerial positions be held by blacks.

Zimbabwe had failed to take such measures, Inyanda members heard, and there had been "very little black penetration into their companies in 11 years of independent rule". A conference was to be held in that country on June 16 to consider steps to increase black involvement in business.

Dr Motsuenyane said blacks should take every opportunity to further their skills in such fields as management and he called for all education facilities to be opened to all people "without attached conditions" so that blacks could enhance their positions.

Nafcoc had a role to play in restoring peace to the country, the meeting heard, with its chambers around the country — but particularly in Natal— "serving as instruments of reconciliation for political and ethnic opponents".

"We must retain our political neutrality in this regard if we are to ensure the survival of our businesses," Dr Motsuenyane advised.

He said the black business movement should "learn to stand on its own feet again".

Nafcoc, which was formed 27 years ago, had coped without sponsorship from white business until 1976; now it risked sacrificing its leadership role among black business organisations because members had become complacent and had lost some self-reliance.

Govt, business in master plan

STimes 2/6/91. (180) (Bus/Times)

By CURT VON KEYSERLINGK

AFTER being at odds for years over economic policy, the Government and the private sector are teaming up to prepare South Africa's faltering economy for growth.

SA Breweries executive chairman Meyer Kahn has been appointed part-time special adviser to Economic Co-ordination and Public Enterprises Minister Dawie de Villiers.

Mr Kahn says: "We are at a stage where there are no fundamental differences between the Government and business on economic issues. The only differences are those of degree.

"For example, we agree that there should be real interest rates, but have not yet defined how high they should be."

There is also growing co-operation between the SA Chamber of Business (Sacob) and the Department of Trade, Industry and Tourism.

Sacob this week released a 63-page document — A concept for the development of a new industrial policy for South Africa — which analyses factors restraining growth and makes recommendations on how to deal with them.

Input

Sacob notes the similarity of its conclusions with those of the new Minister of Trade, Industry and Tourism, Dr Org Marais. Barring one exception about which it requires more information, Sacob says: "The policy stances touched on by Dr Marais have in most cases been arrived at in consultation with Sacob and the rest of the organised business community."

Dr De Villiers said in an interview this week that the Sacob document would be used as an input in the Economic Development Programme being prepared in his department for publication late this year.

Dr De Villiers says the private sector is the locomotive of growth. He is determined to eliminate factors controlled by government that needlessly raise business costs.

His priorities include: tax reform, the fight against inflation, supply-side economics, revision of import protection and the control of State spending.

"The private sector must be encouraged to make 'production profits' instead of capital profits that come from investing in property developments or the stock exchange."

Dr De Villiers is keenly aware that co-operation between the Government and business will not by itself solve SA's economic problems.

"We must restore confidence in our economy and everybody with a genuine interest in the welfare of the country should help.

"The brutal political violence should be stopped, so should the irresponsible utterances about economic policy by certain political figures."

Dr De Villiers says the Government is trying to promote what he calls social contracts between disadvantaged communities and various State and private organisations to provide basic housing and infrastructure, including electricity, clinics and schools.

"It would stabilise these communities by creating jobs for their members and giving them the facilities they think they need most.

"But we cannot merely hand out money. We need their involvement and we require that they take responsibility for ensuring that the projects succeed. This is not always easy because some parties appear bent on breaking down local authority structures.

"The poor people of this country will be the first beneficiaries of economic growth and it is a tragedy that those who purport to represent them appear to be working against it.

"If we cannot start growing now, whoever becomes the new government one day will inheirit national poverty.

"The ANC has moved a lot in its economic outlook — for example, there is little talk about nationalisation now. We must give them credit for it. But until the ANC formally commits itself to more moderate views, foreigners will remain wary of investing here."

Painful

Dr De Villiers says aspects of the new economic programme, such as the fresh approach to tariff protection, could necessitate painful adjustments for certain industries.

"But the public sector has already begun to make painful adjustments of its own. Organisations such as Transnet, Eskom and Armscor have made huge staff reductions in switching to commercialisation. There have been big spending cuts in many Government departments."

Dr De Villiers says his job as Minister of Economic Co-ordination does not make him a "super minister" with authority over other departments involved in economic affairs.

"They have line authority over their own activities, but I chair the meetings of all ministers involved in economic matters. I have to ensure that they do not depart from agreed guidelines relating to the achievement of national economic objectives."

DAWIE DE VILLIERS: Poor first to benefit Picture: TERRY SHEAN

Sacob nails the high cost of inputs

Sunday Times 2/6/91

By CURT VON KEYSERLINGK

SOUTH AFRICAN manufacturers are on average at a 15% cost disadvantage to those in Organisation for Economic Cooperation and Development countries.

Their cost disadvantage to manufacturers in newly industrialising countries is even greater.

These are the findings of a study by the SA Chamber of Business (Sacob).

The report says SA manufacturers pay more than their foreign counterparts for all but one of their cost items — electricity. But this does not help them much because electricity accounts for only 2,9% of their costs.

They get no cost advantage from the mining sector in SA because in most cases they pay world prices for minerals mined here.

Sacob says inputs bought by manufacturers from their SA counterparts have the highest cost-raising effect. This is because import surcharges and high tariffs raise the prices of these goods above international levels.

Reasons

The most important SA-made inputs to the manufacturing sector — fabrics and yarns, chemicals and plastics, fabricated metals and motor vehicles — receive high protection.

Iron and steel and paper and pulp have medium levels of protection. Only SA-produced non-ferrous metals receive low protection.

The report says the cost of capital in SA is another important cost-raising element. There are several reasons, including:

- Investors in SA expect a higher rate of return because of the what they see as a high risk element.
- Nominal corporate tax of 50% is among the highest in the world.
- Real interest rates and inflation are high.
- Debt-equity ratios are high, leading to greater demand for top short-term yields.

The cost-raising effect of labour is also high.

SA's exports as a percentage of world trade show a large decline in recent years. In 1961, exports, including gold, accounted for 1,7% of the world figure. By 1989, they had fallen to 0,5% of world trade.

ADR cuts corners in settling disputes

S Times (Bus Times) 2/6/91

180

By TERRY BETTY

A CHEAPER and more effective means of litigation, alternative dispute resolution (ADR), has been developed by SA lawyers.

They have formed Adrasa, a non-profit organisation, to be registered in about two weeks' time. Its object is to promote ADR and train people to be neutral in disputes.

The idea is for companies to adopt as corporate policy that ADR will be explored before resorting to litigation. About 400 American companies have signed such a pledge with one another. It has been successful in helping executives to reach mutually acceptable decisions.

Chairman of the working group getting Adrasa off the ground William Lane stresses that companies are not legally obliged to use ADR if they believe the issue should be resolved by a court.

ADR can be used by the ordinary person to settle small claims.

Mr Lane says: "The advantages of ADR are it is cheaper, quicker and can deal with real issues regardless of legal form." This is particularly beneficial where the parties have a continuing relationship.

For example, a court settlement in a divorce would deal with technical details, but not the underlying issues. With mediation the parties could reach a solution.

About 90% of law suits are "doors of court" settlements — the parties eventually settle out of court.

The cost of pleadings, summonsing experts and research can be avoided with ADR.

AVI maintains status as a firm market favourite

B Day 3/6/91 (180)

TRADING at about a 125% premium to estimated net asset value compared to 75% six months ago, Anglovaal's fast-track industrial nucleus, Anglovaal Industries (AVI), has lost none of the lustre which pushed its share price to one of the most favoured on the industrial board.

On a comparable rating AVI is a tough act to follow.

It is trading on a high of R95 and boasts a near-sector high historical price to earnings ratio (p:e) of 12,7 times, and dividend yield (d/y) of 1,4%.

Blue chip Amic's share price puts it on a historical p:e of 10,5 times and a d/y of 4,0%, while Malbak comes in with a p:e of 7,8 times on a d/y of 3,4%.

Even the rating of top industrial stock Barlows has waned in relation to AVI's increasing market worth. Barlows shows a p:e of 9,3 times and a d/y of 4,2%, while lesser-rated W & A comes in with a p:e of 4,5 and a d/y of 9,8%.

There is definitely no dispute that there is a healthy market respect for AVI, but most analysts feel it is probably a little over the top.

One analyst said that at its current rating the market had already discounted growth of about 30% a year over the next three years.

There is also agreement that a major motivating factor for the dramatic upsurge of the group's share price is the fact that it is extremely tightly held.

BRENT VON MELVILLE

In a relatively healthy month volumewise, AVI last month traded a mere 41 000 shares. This compares with a monthly trading average of 67 000 shares a month during last year for the rest of the sector.

Fergusson Bros, Hall, Stewart & Co analyst Steve Rubenstein said that AVI was correctly priced on its asset value although it was slightly overrated on its p:e.

Rubenstein forecast an earnings increase for the year to June 1991 of 6% in earnings to 696,4c (657c) a share.

He said the biggest hike in profits was likely to come from the packaging and rubber division represented by Consol, which would kick up profits about 44%.

Other healthy performances were likely to come from Grinaker, with a 25% improvement, while I & J would increase its earnings 12% and National Brands by 10%.

Conversely the textiles and engineering division was likely to suffer from depressed market conditions to push its contribution down 20%.

A spokesman for AVI said last week that overall, there would be an increase in earnings for the year, but could give no further details.

Regardless, the market's enchantment with the industrial counter will go on. In the words of one investment analyst: "I've managed to accumulate a healthy section of AVI stock in my personal portfolio, and I cannot see myself selling it ... ever."

Santam calls for sacrifices in all sectors

C|T 6/6/91. (180)

Financial Editor

SA's economy can only get out of the doldrums and perform if sacrifices are made on all sides, says Santam's senior GM Koos van Tonder in the company's quarterly economic review.

This means that private sector business should accept lower returns and invest more widely, that government should lower tax rates and that the labour force should accept a realistic level of reward.

He says big business must seriously consider their willingness to accept risks and to motivate the labour force by making investments in smaller undertakings and create job opportunities.

"We should not be thinking of massive steel factories or oil refineries costing hundreds of millions of rands, but rather of a mass of smaller undertakings — not unlike Hong Kong, especially since we have abundant labour.

"SA can get its economy going, and pull the rest of Southern Africa with it, if big business is prepared to accept smaller returns on funds invested in such projects.

"This, of course, requires a change in attitude but we must help small business to become a self-supporting scenario.

"There will be times when losses will be incurred, but big business must be prepared to invest risk capital as a contribution to the creation of a stable community and the establishment of the business enterprises of tommorow.

"I'm not talking about handouts, but a fundamental change in investment attitudes," says Van Tonder.

He warns that this was no time to be over-cautious — work opportunities had to be created to establish tomorrow's middle class.

"If big business does not accept this challange and act quickly, the time may come when a future government may have little alternative but to institute measures which will result in a more even distribution of wealth. This must be avoided at all costs.

"At present big investors seem reluctant to get involved in this type of activity and prefer to place their money in tried and tested investments.

"These large investors could play a material part in the establishment of new undertakings which would create employment."

Van Tonder stressed, however, that the labour force and the unemployed would have to accept their responsibility and realise they could not become wealthy overnight.

Manufacturing industry plunges into recession

BDay 6/6/91 (180)

SHARON WOOD

THE manufacturing industry slid deeper into recession in March with production volumes down 5,2% year-on-year, according to preliminary figures released yesterday by the Central Statistical Service (CSS).

Manufacturing production had been in a shallow downward trend since the recession began in the first half of 1989, but the latest figures show a steepening fall..

The manufacturing production index fell to 105,6 (1985 = 100) in March from 111,5 last year.

Production of durable and semi-durable goods has been particularly hard hit by recessionary conditions in the industry.

The industries contributing to the slump in March were beverages (down 0,4% year-on-year), clothing (-5,2%), paper (-9,5%), other chemical products (-2,8%), machinery and equipment (-3,0%) and motor vehicles (-1,7%).

The figures followed recent concern expressed by Sacob and economists about the poor performance of the manufacturing industry, which is considered to be the growth engine in the development of the SA economy.

Sacob, in its recently published Industrial Policy document, said industry's contribution to growth had declined steadily during the 1980s and remained significantly lower than in most developed and newly industrialising countries.

The manufacturing industry as a whole contracted by 0,3% a year between 1981 and 1989, said Nedbank chief economist Edward Osborn in his latest Guide to the Economy.

Osborn pinpointed several problems behind the poor performance of the industry during the decade.

The cutback in fixed investment and capital formation in the manufacturing industry during the 1980s had a severe impact on the industry.

"SA has inflicted greater damage on itself through curbing of capital formation activities than international sanctions," he said.

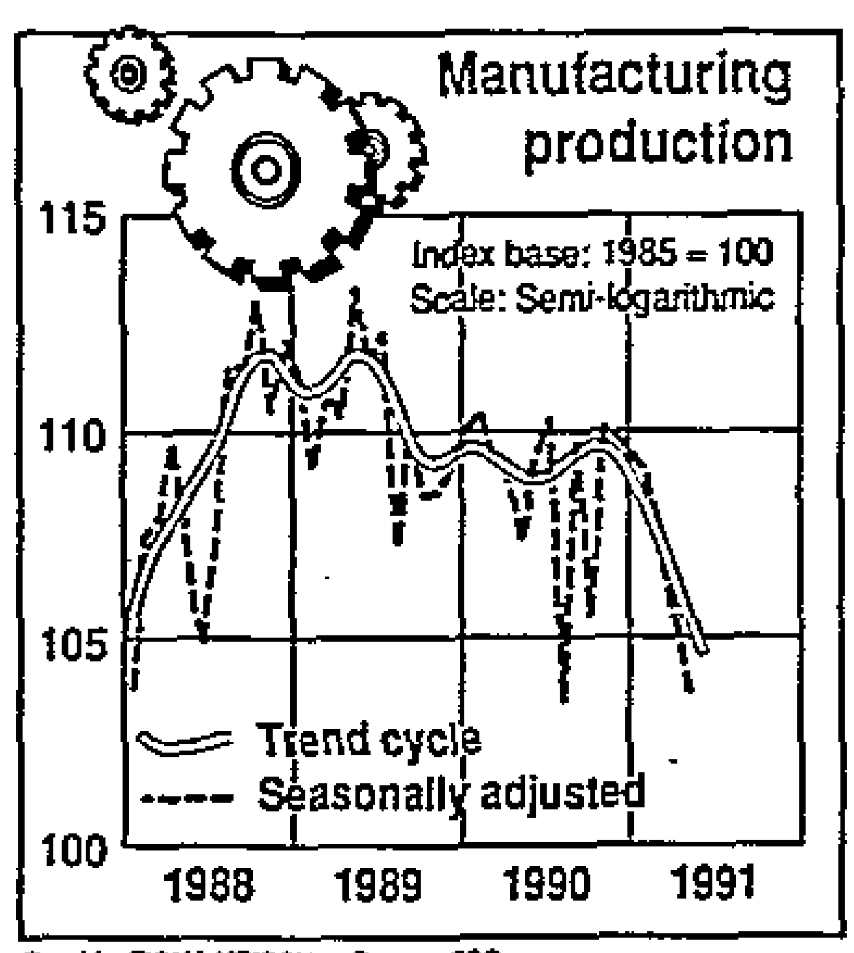
Sacob says fixed investment in the manufacturing industry has been insufficient to meet capital replacement needs. This is reflected in the declining trend in the level of fixed capital stock during the 1980s.

The share of investment in the manufacturing sector in total fixed investment declined to 18% from 26% between 1980 and 1989.

Manufacturing production stagnated during the 1980s despite high growth in domestic comsumption and demand. Osborn said increases in consumption demand had been met by imports instead of local production.

Analysis showed only 16,7% of local production had been stimulated by the rise in domestic consumption over the period.

The analysis also indicated that, apart from a few exceptions, SA manufacturing was not export-oriented — a mere 7,0% of the industry produced goods for export.



Graphic: FIONA KRISCH Source: CSS

Business confidence improves

CT 7/6/91

Financial Editor

THE further rise of nearly 1% in the Business Confidence Index (BCI) in May confirms that business confidence has stabilised, at least for the time being, the SA Chamber of Business (Sacob) says in its latest BCI report released yesterday.

Sacob says the improvement is attributable to factors such as the view among many businessmen that the end of the current economic downswing is in sight and that an upturn can be expected by 1992.

There has also been a positive response from the business community to the continuing normalisation of SA's external economic relations and the renewed interest abroad in the SA economy.

Another factor is the willingness of many investors to look beyond the current problems of violence and political uncertainty to the future potential of the country.

Evidence of this is the strong performance of industrial shares on the Johannesburg Stock Exchange.

Sacob notes that trade and other relations with SA are being re-established in spite of the opposition of some of the black political organisations.

Nevertheless, there is a widespread belief among economists that a continued export surge in the coming months could provide the boost for the economic growth which is expected to occur towards the end of the year.

The negative side of the foreign trade picture is to be found in the fact that imports showed a similar tendency to increase which means that the much-needed improvement in gold and foreign exchange reserves has not been realised, says Sacob.

The present surge in imports, however, could be an indication of inventory replenishment because of depletion which took place in the immediate past.

These specifics need to be evaluated against the broad economic background which is characterised by continued high price increases at all levels sustaining the inflation rate at levels above 14%.

Also a need for stringent monetary policy and levels of government expenditure which are in danger of resulting in more relaxed rather than a restrictive fiscal policy approach necessitated by the present state of the economy.

Sacob notes that the economies of SA's main trading partners are also struggling to emerge from severe recessionary conditions.

Inflationary conditions in these countries call for high interest rates which are keeping the gold price down at uncomfortable levels for the SA gold industry.

Although the official unemployment figures in SA show an improvement, narrative evidence tends to prove the opposite.

The overall performance of manufacturing production also provides reason for concern, says Sacob.

Sacob warns that the slight increase in the BCI may yet prove to be a false start, especially by the number of the remaining uncertainties which influence business confidence in SA.

Continued violence and the threat this holds for the transformation process, lack of clear-cut action with the VAT introduction process and the continued recession in the rest of the world may play a role in this regard.

Sacob voices doubt on new crime legislation

(180) (Bill)

BDay 7/6/91

SYLVIA DU PLESSIS

THE Investigation of Serious Economic Offences Bill, now before Parliament, was unacceptable in its present form, SA Chamber of Business (Sacob) legal manager Ken Warren said at a media conference yesterday.

He was commenting on the chamber's submission to the joint committee on justice last week of a memorandum on the draft legislation, aimed at giving new clout to serious foreign exchange fraud probes.

The committee is due to meet today to discuss the Bill further.

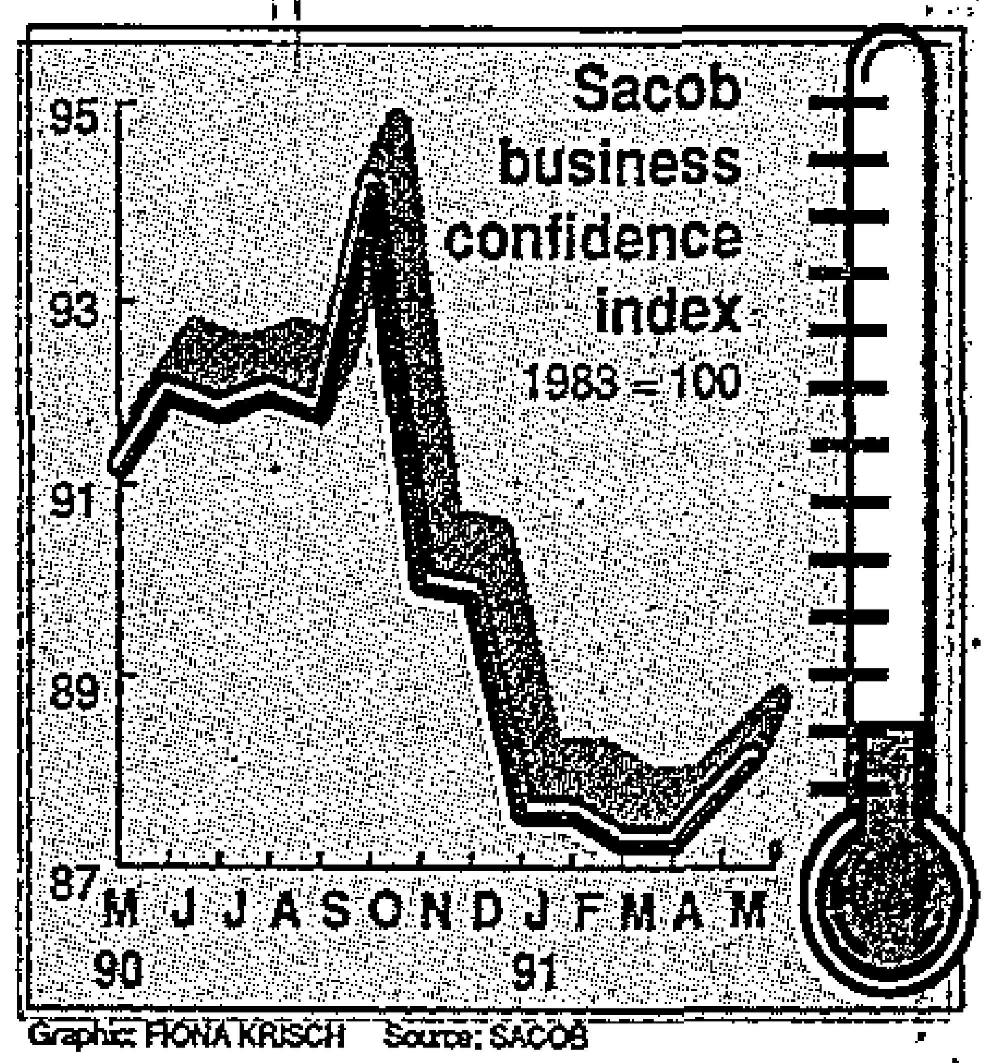
Warren said Sacob stated that it shared general concern at the unprecedented rise in the incidence of "white-collar crime" and the considerable economic and other harm caused to SA as a result.

But it believed the emphasis on contraventions of currency exchange measures, as set out in the explanatory memorandum to the Bill, was misplaced because the commercial crime upsurge related to all facets of "white-collar" criminal behaviour.

Sacob felt it would be preferable to extend existing crime prevention and judicial agencies and their resources, and co-ordinate their activities better, rather than create a new entity such as the envisaged Office for Serious Economic Offences, headed by a director, he said.

"It would be difficult for such a new organisation to operate effectively in a multiplicity of jurisdictions, bearing in mind the regionalised structure of the judiciary.

"We suggested if government still wished to enact legislation of this nature, the powers provided for should be conferred on the respective Attorneys-General. If necessary, they should also be empowered to function beyond their areas of jurisdiction in the exercise of the extended powers of investigation contained in the Bill."



Graphic: FIONA KRISCH Source: SACOB

Sacob believed officials of the Attorneys-General offices were best suited to investigate serious and complicated commercial cases, and that this would be the most cost-effective means of deploying existing resources.

Warren added it was "totally repugnant" that a person testifying at an inquiry would not be entitled, in terms of the Bill, to refuse to answer any question on the ground that the answer could expose him to a criminal charge.

□ Sacob chief economist Ben van Rensburg said the chamber's business confidence index rose to a level of 88,6 in May from 87,7 in April, due in part to the view of many businessmen that the end of the recession was in sight.

But while they felt an upturn could be expected by 1992, this "promising sign" might yet be turned into a false start, especially by the number of remaining uncertainties.

Sacob's survey of confidence levels in the manufacturing sector showed that manufacturing activity sagged in May, but many industrialists remained cautiously optimistic about their sales performance over the next year.

High growth 'could push industrial index to 9 000'

B/Day 11/6/91.

ROBERT GENTLE

THE industrial index could reach 9 000 in five years and certain companies could see their share price increase tenfold over the same period, according to Board of Executors (BoE) senior GM John Winship.

Addressing influential business figures last week, at a seminar entitled Financial Markets in the new SA, Winship said BoE was increasingly optimistic about market opportunities once sanctions go.

He foresaw a high growth cycle which would filter through to commodity prices and the share market. World markets were now entering a bull phase and the Dow had recently broken through its all time high.

"World growth in the '90s will be higher than in the '80s. Some of our shares could benefit immensely," Winship said, citing De Beers and Richemont as examples.

Admittedly, certain markets had not yet reflected this, but the trend was there. "We are increasinly confident of our views," said Winship.

He said it was worth investing in SA over the long term, and that certain foreign investors had already realised this. Maybe South Africans were too close to the situation to see the potential, he said. "Maybe we can't see the wood for the trees."

'Double whammy' trouncing small firms

G1 2/6/91

(180)

By AUDREY D'ANGELO
Business Editor

SMALL businesses and self-employed people are being forced into liquidation by the "double whammy" of falling demand and higher costs, which include high interest rates, the Cape Chamber of Industries (CCI) reports.

Bankorp senior economist Emile van Zyl says in his weekly report on economic indicators and financial markets that the recession is deepening, with the volume of manufacturing production down by 3,8% year on year in the first quarter and the number of liquidations in April the highest since mid-1990.

The SA Chamber of Business (Sacob) says in its manufacturing survey for May that "small firms with a limited working capital are suffering the most.

"This does not mean that large companies have escaped unscathed," says Sacob economist Keith Lockwood, "but smaller companies are often more vulnerable.

"Many of them suffer from the double impact of shrinking demand, as a result of the economic recession, and higher costs of production.

"The high costs of production tend to be a result of high finance costs and interest bills, excessive wage demands which do not match productivity and higher fixed costs per unit of output as a result of lower sales.

"Consequently many small businesses in general and numerous self employed sole proprietors are going into liquidation at the moment."

In spite of this, and a drop in manufacturing activity in May, Lockwood continues, "many industrialists are still cautiously optimistic about their sales performance over the next 12 months."

He says the survey showed "many industrialists intend to invest in new capacity over the next 12 months."

And he forecasts "a wide economic recovery will start in the first half of 1992 and gather further momentum in the next half of that year."

This, he says, will be helped by the need to replenish stocks and by a more accommodative monetary policy.

The CCI says its members are slightly more optimistic than those in the country as a whole.

Commenting on the Sacob survey, the CCI weekly bulletin reports: "Responses by members of the CCI indicate a greater level of optimism, with the index for expected manufacturing sales for the next 12 months recording 118 compared with the national index at 114."

Star 13/6/91.

Sacob pleads for peaceful negotiations

By Michael Chester 180

The South African Chamber of Business (Sacob) yesterday sent out urgent appeals to President de Klerk and ANC leader Nelson Mandela to ensure the ultimate shape of a new constitution was decided by negotiation rather than violence.

The plea was made in a policy document titled "The Economic Aspects of a New Constitution for South Africa".

It warned that a new constitution enforced by armed conflict would be rejected by the outside world and, in particular, by investors and bankers.

Sacob director-general Raymond Parsons said it was vital the new constitution was regarded as legitimate by international standards.

A multiparty democracy would not be easy to create in South Africa, given the diversities and tensions in our society, he said.

"Any quantum leap in constitutional thinking will require the ground to be well prepared. We may not get a second chance to repair serious mistakes."

● Businessmen have formula for future — Page 19

Sacob urges leaders to oil the wheels of negotiations

180 Argus 13/6/91

The Argus Correspondent

JOHANNESBURG. — The South African Chamber of Business (Sacob) has sent out urgent appeals to President De Klerk and ANC leader Mr Nelson Mandela to ensure the ultimate shape of a new constitution is decided by negotiation rather than violence.

The full text carried a blunt warning that a new constitution enforced by armed conflict would be rejected internationally and in particular by investors and bankers at home and overseas.

The two political leaders were urged to oil the wheels of negotiations by splitting reform talks into two separate and specific agendas that should be tackled in tandem.

One agenda should concentrate on shorter-term problems and set out a special "social accord" that committed all parties to a 10-year social upliftment programme for the deprived black community.

The other agenda should concentrate on the formulation of a new constitution to cover wider political and economic frameworks.

The document argued that the chances of success of reform negotiations would be far better if shorter- and longer-term issues were divided under two agendas.

In a major policy document on the economic aspects of constitutional reform, Sacob underlined that the business sector ranked the need for peaceful solutions a priority.

It argued that any proposed new constitution needed the approval of a national referendum or an alternative form of popular vote if it was to carry maximum weight of endorsement.

Director-general Mr Raymond Parsons said the need to win trust in any new political system should be seen as paramount. It was vital the new constitution was regarded as legitimate by international standards.

It was also crucial that the new constitution inspired confidence among investors and bankers at home and abroad to renew the flow of capital investments needed to increase the momentum of economic growth.

South Africa needed to move away from the Westminster model of government, which was highly centralised and an open-ended source of uncertainty for business.

It was also essential that business engaged in dialogue with political and trade union leaders about the nature of proposed new political and economic structures.

● See Page 15.

Business wants a constitution that promotes prosperity

B/Day 13/6/91 (180)

Sacob yesterday spelt out its vision of a new constitution for SA.

ALTHOUGH it is not the function of employer organisations to get involved in the sphere of party politics, the SA Chamber of Business (Sacob) believes there are certain broad constitutional questions which the business community must address. Industry and commerce have a vital stake in the shape of a future constitution for SA, as it would like to see the right combination of change and stability.

This stake arises from five important considerations.

Firstly, the business sector would like to see the future political and constitutional decisions being settled by negotiation and not by violence.

Secondly, the business sector would like to see a dispensation which upholds certain key values important to the business community and to society as a whole.

Thirdly, the business community wants trust in a new constitution and in its ability to limit abuse of political power.

Fourthly, business perceptions of the political process have a significant impact upon business confidence and hence upon long-term fixed investment in the private sector. Sacob believes that a sound and growing economy and political reform are interdependent.

Fifthly, although SA must decide its own future, a new constitution must also inspire confidence in foreign investors and bankers.

A future constitution should facilitate strong but limited government. It should explicitly define and preclude all authoritarian traits and tendencies in government: legislative powers which permit retrospective legislation and the abolition of constitutional safeguards; a political system which curbs free party political formation and promotes the creation of political appointments for life; and excessive government interference and undue influence in the economy.

The rule of law must be a basic ingredient of our future constitutional order. A new constitutional order must be founded upon a constitution which has the character of a supreme law. Checks and balances, such as a bill of rights, an independent judiciary, public hearings for all senior public appointments, devolution of power, and an ombudsman would have to be spread throughout the political system to protect and uphold certain basic values.

While an economic system or policy as such cannot be entrenched in a constitution, certain concepts fundamental to a market economy and to business confidence need to be safeguarded, perhaps through entrenched clauses in a bill of rights. These include the law of persons; the law of property; and the law of contract.

To give proper effect to these intentions it would also be necessary expressly to entrench the independence of the judiciary, the principle of equality before the law and the principle of non-discrimination.

The rights of ownership — corporate and individual, including the ownership of the means of production — are fundamental to a democratic social and economic order. A new constitution should say that "no person or organisation shall be deprived of their property without due process of law and without just compensation". This entrenches the principle without making it totally inflexible.

A constitution provides the basic framework for lawful government action but does not prescribe specific policies. In a democratic state, it is for the democratically elected government to apply its economic policies — albeit within certain constitutional ground rules.

However, it must be emphasised that there are many constitutional principles which have a definite bearing on economic conditions and which can either promote or destroy economic prosperity and growth.

These include the rights to rewards for endeavours, freely to employ labour, to equal work opportunities and free choice of employment, to fair remuneration, to freedom of contract, to equal pay for equal work, and the right to form or join trade unions, or commercial, industrial or other associations with the concomitant right not to be compelled to join such union or association.

Sacob also believes that some of these rights need to be enshrined in a bill of rights that should form an integral part of the constitution.

There are other elements in a new constitution which will promote predictability and guard against the excessive concentration of political power. These include maximum devolution of power to regional and local levels, on a completely non-racial basis, and open debate and clearly defined public mechanisms for handling legislation — known as "alarm bell procedures" — which should be laid down in the constitution. A compulsory system of public hearings — such as in the US Congress — will subject all legislation to public scrutiny.

Notwithstanding constitutional constraints, economic mismanagement could ruin a country. Ownership rights can be usurped and rendered worthless by excessive inflation and high taxation.

One potential safeguard against excessive inflation is an independent Reserve Bank. The main purpose of the Reserve Bank should be to protect the purchasing power of the country. However, it should be clearly understood that inflation can only be kept under control if strict monetary policy is underpinned by an equally conservative fiscal authority. In shaping a future constitution, the position of the Reserve Bank should be secured. It is important to accord the Reserve Bank a high degree of de facto autonomy in deciding monetary policy.

Regarding taxation, even maximum devolution of power is no impenetrable shield against excesses, as even taxpayers in federations such as Germany, Canada and the US have experienced. Even in these countries strong voices have been raised in favour of the introduction into the constitution of a so-called "fiscal rule" that would limit the level of taxation to the particular ratio of, for example, GDP.

The introduction of quantitative "fiscal rule", whatever its economic merits, would have to be regarded as a political innovation against the traditions of the SA order.

Once again, it may not be necessary to reach agreement on the particulars of the way in which the tax principle is entrenched as a precondition to further constitutional negotiation — for example by such a quantitative rule, or by means of a broad norm and a supporting institutional structure. The primary issue is to gain consensus among the negotiating parties about the need for the entrenchment of some constraint as a precondition to proceed further along the road of political reform.

In conclusion, Sacob wishes to see a constitution which is consistent with the basic tenets of the market economy. The level and quality of future economic growth will depend to a large extent upon what type of economic system and constitutional model emerges from the political bargaining process.

While a constitution can protect citizens against individual excesses, a sound economic policy is essential to underpin economic growth and wealth creation in the best interests of the whole population.

Any new constitutional model for SA will also influence the perceptions of foreign investors and bankers overseas, who — like SA businessmen — want to see the right blend of reform and stability. This is the challenge facing the political negotiators who will be responsible for a new constitution.

☐ **These are edited extracts from Sacob's The Economic Aspects of a New Constitution for SA.**

Businessmen have formula for future

180
Star 13/6/91

Big business has added its voice to the debate on a new constitution to steer South Africa into the the post-apartheid era. MICHAEL CHESTER reports on how the South African Chamber of Business (Sacob) has assigned 15 experts to marshal these views in a policy document that seeks to oil the wheels of negotiations.

BIG BUSINESS yesterday entered the debate on a new constitution by urging President de Klerk and ANC deputy president Nelson Mandela to oil the wheels of negotiations by splitting talks on the political and economic future into two completely separate agendas.

Sacob laid out the radical new proposals in a major policy document which argues that the whole process of negotiations on the shape of South Africa in a post-apartheid era would stand a far better chance of success if two agendas were created to divide short-term and long-term issues.

One should concentrate on formulation of a "social accord" that would commit all parties to a special 10-year programme to ensure the socio-economic upliftment of black society.

Formulation of a new constitution laying out longer-term guidelines to the political and economic system should be tackled on an agenda of its own.

Sacob director-general Raymond Parsons confirmed that the proposals had been put forward to Mr de Klerk and Mr Mandela, and copies sent to politicians and political parties.

"Sacob believes that socio-economic upliftment in South Africa is urgently necessary and must be given a high priority," said the document. "But Sacob is of the view that the immediate need for socio-economic development must be addressed separately from the fundamentals of a future political and economic system.

"If we allow the constitutional negotiations to be bedevilled by redistribution issues, the risk of failure is likely to be much higher. It is better to address the questions of socio-economic upliftment in its own right."

Sacob said "political idealism and power competition have to be constructively balanced by sound economic judgment and experience if South Africa is to prosper".

The business sector wanted to see future political and constitutional issues settled by negotiation and not by violence.

"What matters to the business community is that there is trust in a new constitution, and its ability to limit any possible abuse of political power.

Essential

"Business perceptions of the political process in South Africa and its future have a significant impact upon business confidence and hence upon long-term investment in the private sector.

"This type of investment is essential for the future growth prospects of the country.

"Although South Africa must ultimately decide its own future, a new constitution must also inspire confidence in foreign investors and bankers.

"To maximise economic growth in an open economy like that of South Africa requires political structures which are also perceived as legitimate internationally.

"The search for a new constitutional model for South Africa is not only a matter of importance to those who live here, but also for those countries with which we do business."

The role of the government should be strong but limited. A future constitution should explicitly define and preclude all authoritarian traits and tendencies in government such as:

- Execessive and uncurbed emergency powers. Such powers must be exercised under clear limitations prescribed by law and under the scrutiny of the legislature.
- Central government powers which permitted encroachment on fundamental rights and freedoms, the unbridled erosion of local autonomies and the installation of political appointees in the administrative hierarchy without scrutiny by independent bodies.
- Legislative powers that allowed retrospective legislation and the abolition of constitutional safeguards for the protection of minorities, freedom of association, independence of the judiciary, and suspension of rights and freedoms.
- A political system that curbed the formation of free political parties and inspired tendencies towards a one-party state.
- Excessive government interference and undue influence on the economy.
- Arbitrary restrictions on the civil liberties of individuals.

"Sacob stands for a system of constitutional government which permits economic freedom and private enterprise.

"It is self-evident that authoritarianism in government goes against such an ethic, and in effect destroys the basis upon which free enterprise can be undertaken."

The rule of law must be a basic ingredient of a future constitution, said Sacob.

In the past, the principle of the sovereignty of the law had been undermined and indeed denied by a political system that was dominated by the supremacy of Parliament, which in turn acted in accordance with the policies and wishes of the government of the day. □

Sacob calls for 10-year social accord

BDay 13/6/91

SHARON WOOD

THE SA Chamber of Businesses (Sacob) has called for a 10-year "social accord", involving organised business and labour, to address the immediate needs for socio-economic upliftment.

Releasing its document Economic Aspects of a New Constitution for SA, Sacob said yesterday socio-economic upliftment had to be separated from the development of a new economic and political system.

The document outlines Sacob's view on the economic and political requirements needed for the formulation of a new SA constitution.

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Sacob says achieving socio-economic upliftment and economic and political stability must be two parallel developments in the negotiation process.

Socio-economic development is a short-term process and economic and political stability is a "normal" expected part of negotiation about a new constitution.

"If we allow the constitutional negotiations to be bedevilled by redistribution issues, the risk of failure is likely to be much higher," Sacob says.

"It may be necessary to establish a monitoring commission which will report on a regular basis to Parliament on the progress made with the programme of social upliftment," the chamber says.

Political stability will be achieved only with a strong but limited government, su-

☐ To Page 2

Sacob (180)

BDay 13/6/91

☐ From Page 1

premacy of the rule of law and a bill of rights which safeguards inalienable rights and freedoms, Sacob argues.

The constitution had to guard against an excessive concentration of political power by supporting maximum devolution of power and "alarm bell procedures" which subjected all legislation to public scrutiny.

The new constitution had to be based on a market economy, guaranteeing the law of persons, property and contract.

"Sacob stands for a system of constitutional government which permits economic freedom and a private enterprise ethic," Sacob says.

The independence of the Reserve Bank must be secured to prevent economic mismanagement and excessive inflation, the report sas. As such, the main purpose of the Bank had to be to protect the purchasing power of the country.

The problem of SA's rising tax burden should be approached by gaining consensus among the negotiating parties about the need to entrench some constraint on government taxation.

● Picture: Page 4
● See Page 8

Mabuza, Dhlomo on Anglovaal board

(180)

ANDREW GILL

TWO former homeland ministers, Enos Mabuza and Oscar Dhlomo, have been appointed to the board of Anglovaal with immediate effect, the group announced yesterday.

The move follows their appointment to the board of Standard Bank in April and Mabuza's appointment to the board of Times Media Limited (TML) at the beginning of June.

Mabuza was chief minister of KaNgwane until his resignation in March. BDay 13/6/91

Dhlomo is executive chairman of the Institute for Multi-Party Democracy which he founded earlier this year. It followed his resignation as secretary-general of Inkatha and KwaZulu minister of education and culture in June last year.

Mabuza, who is out of the country at present, said at the time of his appointment to TML that he hoped he could help the company be relevant in the changing SA.

Anglovaal chairman Basil Hersov said last night it was "extremely significant" that two leading people in the community at large had been appointed to the board.

DESIGNING EXPORTS

FM 14/6/91 ~~204~~ 180

Michael Hunt runs an engineering design consultancy and heads the design division of the SA Institution of Mechanical Engineers. He chairs a seven-person committee of industry and research officials that will report by the end of the year on what obstacles should be removed and what steps can be taken to promote local design.

Few issues are more important to SA's economic future than design, but few are as consistently overlooked.

The manufacturing sector is generally acknowledged as our main hope for providing the employment growth needed for the country's prosperity. But the ghost of our colonial heritage still causes many of our industrial decision-makers to believe that design, the essential ingredient in manufacture, is something that can be done only overseas. Thus local industry prefers to manufacture under licence or under the direction of a foreign company. The result: SA spends more than R500m a year on overseas licences and royalties.

Maybe this is considered just what the doctor ordered, getting overseas technology straight into our factories. However, as with many medicines, the symptoms are covered up, and the side effects can be severe, even fatal. Manufacturing under licence automatically means a time lag before the latest designs are implemented. And licensing agreements usually stifle local development and restrict the right to export.

In this climate, we will never develop our design skills. Qualified young engineers and technicians are generally discouraged from becoming involved with design ("we mustn't try to re-invent the wheel, you know"). Shunted into maintenance and well-paid administrative posts, they bypass their true vocation, thus depriving the country of their professional skills. The result is that it is widely believed that we cannot design or redesign anything locally (except for the few genuinely entrepreneurial firms and some of the defence projects).

However, the reasons behind this inferiority complex have largely disappeared. With the vast progress in design technology over the last few years, relatively small firms can now afford to enter the design field and compete on both home and world markets. The vast teams of draftsmen and analysts have given way to handfuls of designers operating computers.

And exports must be a goal of all local manufacturing, whether or not the design is local. The excuse that the local market is too small to justify local design and development is as discredited as the notion that industry should aim only at import replacement.

But how can SA become a major exporter of manufactured products?

We must overcome our inferiority complex about design, and we should nurture design as the key to success that it can be. The Japanese say their manufacturing success is directly dependent on the speed that design changes can be introduced into the finished products.

If we buy technology, we must ensure that it will benefit exports. The Japanese actually spend more money on importing technology than on exporting it — but they use it in the products they export.

We must aim to extract our overseas technology from early in the production process, when it is cheaper, more adaptable and more current than the licensed technology that comes towards the end of the process. It may even cost nothing at all: Great industrial successes often come from copying other ideas and improving on them.

Several local companies have succeeded by using local design as a springboard. Export Award winner Bell Equipment in Richards Bay exports 45% of its products, which are all designed locally (*Business & Technology* March 29). The company attributes its phenomenal growth to the competitiveness afforded by its policy on local design.

Ermelo-based Celair is the world leader with its fully aerobatic glider, the Celstar, which has received exclusively overseas orders so far. But, despite the product's complexity, members of the company's in-house design team can be counted on one hand.

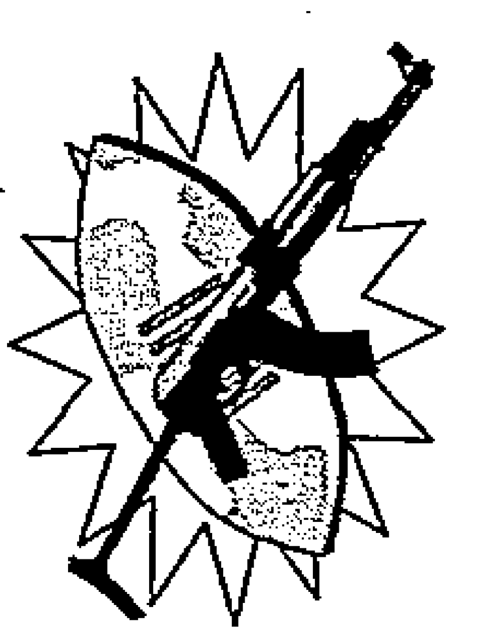
SA-designed swimming pool cleaners sell throughout the world. There are even local design firms that sell their design skills to overseas manufacturers. Pentragraph in Sandton does design work under contract for several major international companies, including Mercedes in Germany.

It has been all too easy for us to export our unbeneficiated raw materials. Reliance on such a policy will be economic suicide in the years ahead. We have no choice but to expand dramatically our export of manufactured products — by design.

BUSINESS AND VIOLENCE FM 14/6/91

CAUGHT IN THE CROSSFIRE

LOCAL PEACE FORUMS ARE IMPORTANT IN RESTORING ECONOMIC LIFE



Violence in the Pretoria-Witwatersrand-Vereeniging area has sharply affected perceptions of the nation's economic well-being. It followed what has happened — and is happening — in Natal.

The violence in Natal has led to investors shying away from the area, and the entire regional economy is suffering. Spin-off effects include consumer boycotts, strikes and stayaways — and industrial violence has become more commonplace too, with high death tolls in some strikes.

The *Innes Labour Brief* reports that in the first half of this year violence in the Transvaal cost the economy some R3bn. This includes the deaths of 1 800 people, the destruction of about 2 000 shops and factories, expenditure on security forces and the cost in lost production of national and regional stayaways.

Businessmen often find themselves in the middle of the conflict, and how they react and the strategies they choose will influence the climate in which they will have to operate in future. How have they been coping so far?

In Natal, businessmen have been involved in mediating between warring factions — and trying to address the socio-economic problems that underlie the violence — for at least two years. Their involvement has increased worker loyalty and productivity at companies that have shown concern.

John Hall, an executive director of Barlow Rand and president of the SA Chamber of Business, notes that unless violence is dealt with, attempts to confront socio-economic problems are doomed.

"Housing in poor black areas often doesn't get under way because of theft and violence," says Hall. "If the whole community (including whites) gets involved in achieving peace, leading to stability and the restoration of building projects, the whole mini-economy benefits. In many areas, one finds business getting involved with church leaders, trade union and community leaders."

Hall, who is also chairman of Middelburg Steel & Alloys, has direct experience of such a process. Last year, he says, "we virtually had Beirut in Middelburg. There were a hundred Casspirs in the township. Rioting mobs were moving out of the townships toward white areas. Large and small traders were suffering. Employees had problems getting to work. The tension had an impact on workplace productivity."

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"It wasn't simple," Hall recalls. "The catalyst was when the town council threatened to switch off lights and water to the township. Tensions were running high."

Middelburg Steel's immediate response was to pay off the township's R350 000 services arrears bill. "Initially it was shuttle diplomacy," Hall says, "before a forum was formed under urgent circumstances." It took just under a week to establish this forum, but the entire community, black and white, conservative and leftwing, realised they needed each other to survive.

The Middelburg peace forum led to innovative job-creation schemes, including a kibbutz-style operation whereby the youth could be trained and given tasks such as growing vegetables commercially for the community. "We are committed to education, health care, job creation, and dealing with issues of homelessness," Hall says.

Not all employers realise, initially, the damaging effects unrest is having on their factory floor. Outside advice and assistance can become essential, but certain actions can help immediately (see box).

These steps are not always readily taken. In one case, a group of companies in Natal was approached by Cosatu to act as mediator in bringing the warring factions together, but did not initially wish to become involved. "We perceived it as political," one of the group's leading MDs, who does not wish to be named, now admits. "There was no visible violence in our area and we did not understand the ramifications of violence in the greater Maritzburg area from where we

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FM 14/6/91

SOME BASIC MECHANICS OF PEACE

180

Employers who are faced with violence in the workplace should consider certain guidelines in dealing with it. They are not hard-and-fast rules, but emerge from the experience of businessmen in conflict situations, particularly in Natal.

- ☐ Talk to the workers through their elected representatives, such as shop stewards, to establish whether or not the work force wants management to become involved, and if so, to what extent;
- ☐ Establish what, if anything, is being done by local businessmen's forums such as the chambers of commerce and industry. If they are not doing anything of much use, consult fellow businessmen about establishing a mediating or "peace" forum;
- ☐ Once such a forum has been established, try to discover the origins of the violence. Community leaders from affected communities, church leaders, unionists and municipal or local authority representatives can all be drawn together on a specific day and time — which could involve considerable shuttle diplomacy beforehand;
- ☐ The police have to be brought into the forum, and liaison structures established with them;
- ☐ Staff members need to be involved in the forum — and they should be people with whom workers would feel free to go to with their problems;
- ☐ The youth need to be brought into the forum, which is one way of creating work for them;
- ☐ Initial help may involve the distribution of food and blankets, and should be done through neutral bodies such as church organisations;
- ☐ The building of large structures such as new local authority offices can be counterproductive; schemes that bring infrastructural improvements to areas such as water supplies, sewage and garbage removal, the grading of sand roads, repairs to schools and the establishment of a clinic are far more useful;
- ☐ Don't probe too much about the political affiliations of your workers, but do ban them from wearing the T-shirts of political organisations other than unions, on the shop floor. Workers must feel that their work environment is a neutral zone;
- ☐ Assistance can be given to workers who have has lost homes through arson or aggression. This could include relocation;
- ☐ Space on factory premises could be made available for workers who want to stay away from home for a few days to escape intimidation during stayaways;
- ☐ Transport problems need attention;
- ☐ If your workers live in hostels, visit them and see for yourself how they live; and
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BUSINESS AND VIOLENCE FM 14/6/91

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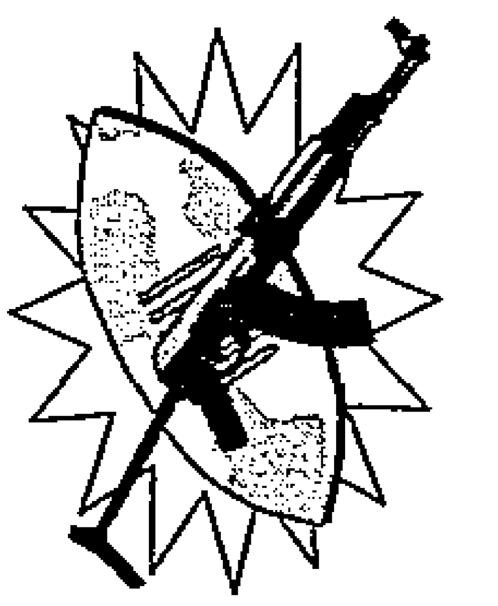

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FM 14/6/91

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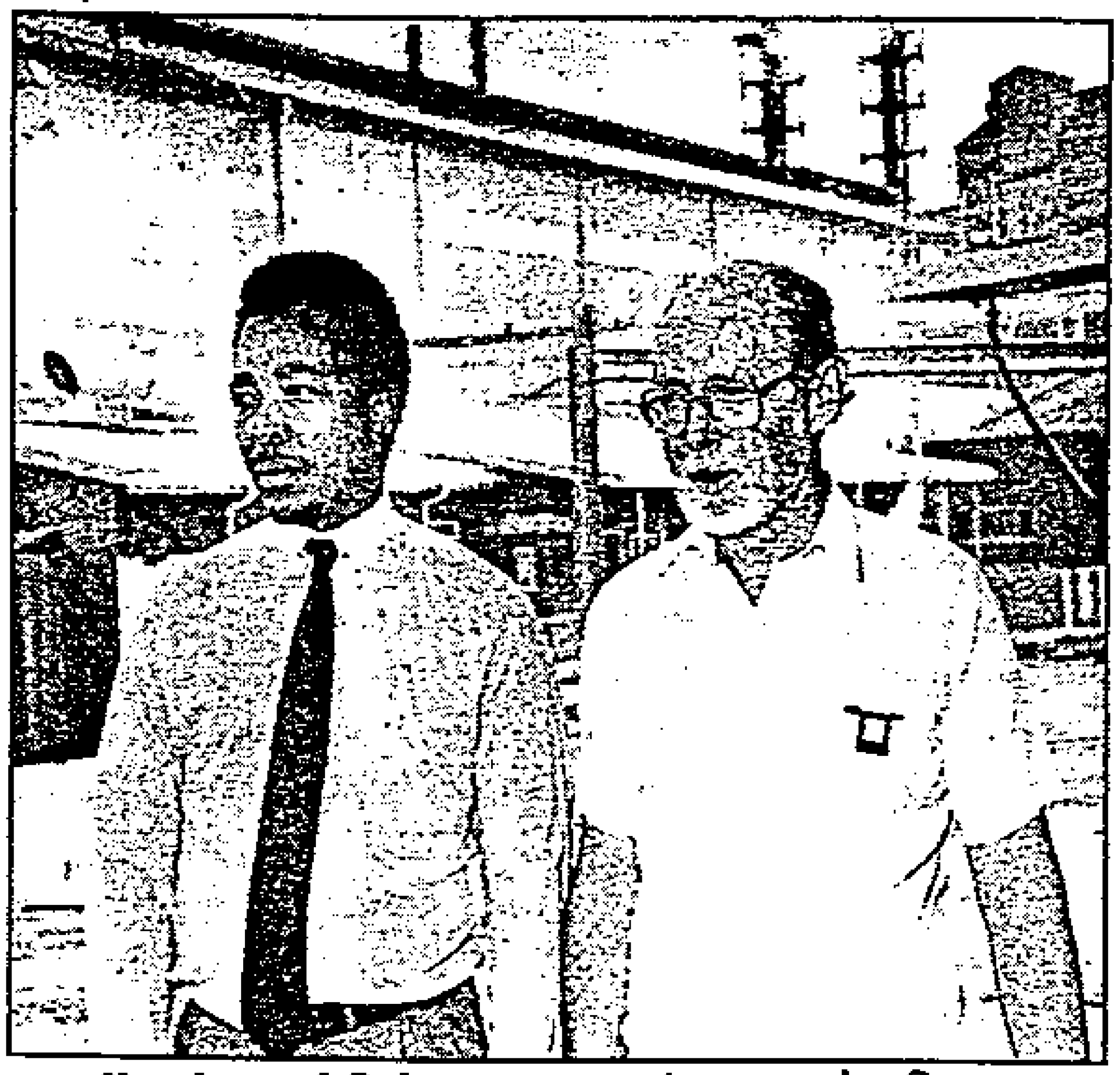
Fm 14/6/91 (180)



Ngcobo and Delany ... *putting out the fires*

draw our labour."

Once they saw matters differently and did become involved, it took seven months to set up the first meeting, which drew together chiefs from surrounding areas. Urged on by Cosatu, the businessmen persisted, aided by close links with police drawn into the forum. Violence has since died down in the areas from which they draw their labour, and their forum, now involved in discussing transport and community-related issues, has developed into a regional economic planning body.

Employers who have become involved in peace efforts advise that to appear to be sympathetic to a particular group is self-defeating. If an employer is perceived as biased, the opposing group will be suspicious and may refuse to meet with him.

Gerry Delany, human resources manager of SA Tioxide, at Umbogintwini, says the present cycle of violence in the area began in 1989. Thabo Ngcobo, industrial relations manager at the same company, says unrest consumed the Maritzburg and Durban townships, and it now scourges the coastal areas and the Richmond area.

Ngcobo says: "What began as a struggle for political dominance has become so complicated. I don't believe that if leaders of political parties said today they want peace, that it would filter quickly down to the grassroots. The meeting between Buthelezi and Mandela in January is an example: they called for peace, but there was no response from the grassroots."

Delany says such calls are "like trying to stamp out a fire by stamping out one clump of grass." In Natal, he adds, the violence initially seemed to involve attacks on the homes of individuals because they "belonged to the wrong political persuasion. Then it seemed to degenerate into hit-and-run attacks on individuals. People were killed in the night or disappeared ... Political activists on both sides were targeted."

The Transvaal has followed a similar pattern and now seems to be in the second phase described by Delany.

In late 1989 and early 1990, SA Tioxide realised employees were sleeping in the bush at night, too terrified to go home. The company discussed the matter with shop stewards but realised that if it was alone in taking a stand, its workers could be victims of violence.

So Delany approached the Institute for a Democratic Alternative for SA for advice. Out of that came meetings with Cosatu and other employers already working on the issue. A business contact group or peace forum was established in the area "with an emphasis on restoring respect for the rule of law."

A Pinetown businessman who is now involved in peace forums comments: "The biggest problem workers and employers have is the lack of (violence-related) arrests. People on my work force have been murdered and nothing happens. The police tell us it is almost impossible for them to do their job, because witnesses refuse to come forward because of intimidation."

Ngcobo says it is essential "to replace confidence in the rule of law. People see no arrests are made, so revenge becomes a major element in continuing violence."

It may be, too, that the belief that no one will be arrested for murder, arson or public violence is in itself a strong element in the continuing violence. How else to explain the limits on violence in factories in contrast to the widespread township violence?

SA Tioxide, Delany says, would come down heavily on any employee who behaved aggressively at work — a common view throughout industry. However, this refers to the potential for community-related conflict between political groups on the shop floor. Strike-related violence, which has increased recently, is more problematic and often harder to monitor. The tendency is nonetheless for employers to take a hard line when violence becomes a factor in strikes, an attitude supported by industrial courts.

The contact group that Delany and Ngcobo are involved in has a three-phase crisis intervention plan. The first is to contact the police when they hear of potential conflict, or that it has broken out. The police have compiled a list of emergency contacts.

The second step is to encourage follow-up investigations and arrests. And the third is practical support to employees — such as transport to remove them from violence-torn areas, or financial assistance to relocate or rebuild a burnt-down house. Employees are never asked about their political affiliations; and Ngcobo says companies should look at the physical or socio-economic causes of violence rather than the political ones.

Any businessman caught in the middle, in other words, has to stay there — ideologically speaking. Except where crime is involved, he needs to render quick, charitable assistance to employees regardless of their affiliations, and he must be seen to be committed, in a non-partisan manner, to the quest for a wider peace. Contact with the police is balanced by contact with the community.

All parties can then meet in forums centred on politically neutral businessmen. Out of this comes the demonstration effect, on a small scale, of what has yet to be achieved at a national level. ■

AMCOAL

LOOKING EXPENSIVE

Fm 14/6/91

EXPORTS ARE EXPANDING, BUT PROFIT MARGINS HAVE BEEN ERODED

After the rerating of the share since the beginning of this year, investors are unlikely to be greatly encouraged by Amcoal's 1991 performance.

Though the dividend was increased by a tenth and attributable earnings were higher by 7,3%, the operating profit was actually down by R47m, or 10%. The earnings advance was achieved largely because the group's effective tax rate dropped from 54,2% to 48,7%.

Amcoal received an income tax credit of R18,4m (compared with R21,3m in the previous year) because of the drop in the tax rate on coal companies from 56% to 54,5%. It expects a "significantly" larger credit this year, when the rate should fall to 50,88%.

A more important influence on the group's effective tax rate, however, was the deferral of tax benefits of R95m, compared with R13m in the previous year. In March last year Amcoal changed its policy of accounting for deferred tax to the comprehensive liability method — whereby deferred tax benefits, which arise from capital expenditure allowances, are recalculated each year — to reflect the effects of changes in the rate of tax.

Amcoal's operating performance suffered from lower export earnings, caused mainly by squeezed export margins — modest price increases were eroded by the exchange rate, railage rates and mine working costs — as

continue/

New bombshell bursts over Barlows

WMail 14/6 – 20/6/91.

Barlow Rand has been linked to the development of a secret long-range missile capable of carrying a nuclear warhead.

(180) By EDDIE KOCH

BLUE-CHIP industrial giant Barlow Rand participated in a clandestine arms project near a fishing village on the Cape coast where Israel and South Africa jointly developed a long-range missile capable of carrying nuclear warheads.

This is one of the startling claims to emerge from an international investigation being conducted into an American firm called International Signals Control (ISC) which ran a huge and illegal arms trade between the US, South Africa, Chile and Iraq in the 1980s.

ICS and its complex network of associated companies are at the centre of a massive fraud case — which involved the fictitious sale of missiles to Pakistan — that has been described as the biggest and most sophisticated arms scam ever seen.

According to a team of official investigators, including members of the FBI and the US Internal Revenue Service, ISC played a key role in supplying Armscor and Barlow Rand with equipment needed to manufacture missiles as well as sophisticated artillery ammunition.

Barlow once considered buying ISC in its entirety but decided against this in the late 1970s. There is no formal or legal connection between the two firms and no sign that Barlow was involved in the fraud currently under the spotlight.

But investigators probing the fraud say that informal links between the controversial US company and South Africa were so extensive that ISC effectively operated as an American wing of Barlow Rand.

"To say ISC was owned 100 percent by Barlow Rand might be something of an overstatement," said one federal source. "But to say they were a US arm of Barlow Rand would be right on target."

Other evidence from the probe indicates that Barlow, the country's biggest industrial corporation which acts in close co-operation with Armscor, helped send sophisticated electronic military equipment from the US to Iraq in time for Saddam Hussein's army to use it in the Gulf war.

Richard Knight, researcher for the New York-based American Committee on Africa (ACA), this week supplied *The Weekly Mail* with sensitive details which reveal Barlow subsidiaries were involved in covert operations to import high-tech computers, vital for the testing of long-range missiles, from the US into South Africa.

The electronic equipment was, according to official investigators in the US, required to monitor the performance of the rocket being developed at Armscor's missile testing range near the village of Arniston in the Western Cape.

Last week Barlow's general manager for public affairs, Ken Ironside, denied reports that the corporation or its subsidiaries had "any interests, direct or indirect" with ISC.

But information supplied by the *Intelligencer* journal in Lancaster where ISC was based, reveals that Barlow obtained the computer equipment needed for missile testing from ISC in the late 1980s — via a complex network of front companies and subsidiaries hidden within subsidiaries.

The journal quotes senior members of the American investigating team as saying that one of these fronts was a firm called ISC Education Systems, which was touted as a company dedicating to supplying underprivileged blacks in South Africa with remedial education programmes.

A South African counterpart called Learntech, owned jointly by ISC and Barlow's subsidiary Reutech, was established here to trade with ISC Ed Systems, according to the *Intelligencer*.

"Federal investigators said it (Ed Systems) had another function, that of supplying South Africa with small sophisticated computers destined for the guidance systems of Israeli-built, nuclear-capable intercontinental ballistic missiles and other weapons-related components," the *Intelligencer* reported earlier this year.

"According to a former high-ranking ISC executive, Ed Systems probably did, at most, $2-million in legitimate business in the education arena. But there were millions and millions of dollars in missile systems, like technology, spy systems and mobile military command and communications bases sent to South Africa."

In December 1989, sources inside the CIA provided details of the top-secret Arniston project by leaking details to American journalists about "a full-blown partnership" between Israeli and South African scientists to develop a long-range missile with a nuclear capacity.

According to the CIA sources, who leaked the information out of concern at the proliferation of sophisticated missile capabilities in the Third World, a missile called the Arniston and capable of hitting a target 800km away was first successfully tested on July 5, 1989.

Reports supplied by the ACA suggest Barlow Rand also owned a firm in Florida called York Ltd which was used as a conduit to supply sensitive technology to Fuchs Electronics in South Africa, an unlisted company ultimately controlled by the Barlow Group at the time.

The reports say a US Customs search warrant affidavit indicates York Ltd engaged actively in the illegal export of US electronic equipment needed for the construction of intercontinental ballistic missile systems over a three year period in the late 1980s — the time when the Arniston missile was being developed.

BUSINESS CONFIDENCE (180)

BOTTOMING OUT FM 14/6/91

Business confidence has stabilised, according to the SA Chamber of Business (Sacob) Business Confidence Index, which rose again in May to 88,6 (87,7). This composite measure was boosted by:

☐ A substantial increase in merchandise imports, a sign of rising economic activity, though it has a negative impact on the reserves. Exports also rose, but this partly reflects the decline in the rand;
☐ A surge on the JSE, despite the falling gold price;
☐ A steady decline in the three-month BA rate; and
☐ An improvement in unemployment, the number of new companies registered, building plans passed and net immigration.

The trend was undermined by:

☐ The decline in the gold price and the rand/dollar exchange rate;
☐ A rise in year-on-year inflation to 14,6%;
☐ A drop in the number of new cars sold and the physical volume of manufacturing; and
☐ An increase in insolvencies of individuals and partnerships.

Despite a drop in manufacturing activity, Sacob's survey of manufacturing confidence in April shows cautious optimism about sales for the next 12 months. ■

BTI to be restructured

By BILLY PADDOCK (180) CT 14/6/91

THE Board of Trade and Industry (BTI) is to undergo a radical restructuring which would include the employment of private sector businessmen to help chart a new trade strategy.

In an interview yesterday, Trade and Industry Minister Org Marais said three of the remaining five BTI members would be retiring at the end of the year, and he would be bringing in people from the private sector in both a full-time and part-time basis.

The key to the new strategy of Trade and Industry was competition and stimulating manufacturing industry.

This rested heavily on three elements: creating an investment climate; business oriented measures; and industry-orientated measures.

The overall strategy must create the right climate for investment by encouraging savings, investment and entrepreneurialship.

In the business sector, research and development must be encouraged. There should be support for training and tax incentives should be given.

At the third level the Trade and Industry Department had its major role of backing and supporting specific industries such as textiles and the motor industry.

The major assignments the board would have to undertake within this new strategy are:

- Investigating and helping to plan industry/micro-economic strategy as well as any inquiries Marais might direct to them;
- Work out effective ways of implementing the IDC recommendations such as combatting dumping; reducing tariff protection and eliminating unfair competition especially from international competitors.

The board will also be restructured to establish a new personnel structure which will enable it to the job without relying on secondments from the department.

It would draw far more on the private sector and with the Department of Trade and Industry there would be closer co-operation with organised business such as Sacob and the AHI and organised labour.

Apparently much of the new initiative being planned comes from proposals put forward by Sacob and the AHI.

Marais said one of the ideas he was working on was that those industries benefiting from incentives would be forced to sell their products locally at internationally competitives prices.

He said this would not be difficult to manage.

One of the board's main programmes still in existence is Phase VI local content programme for the motor industry.

Marais said he would be tabling a Bill early in the next session of Parliament to give effect to this new strategy he wanted to pursue.

‘Alarm bells’ could prevent abuse

Star 14/6/91. (180)

The South African Chamber of Business believes all new legislation should be subject to public hearings, reports MICHAEL CHESTER.

THE SOUTH African Chamber of Business says that under a new constitution, the general public should have a grandstand view of all that goes on in the corridors of power.

It is fretful about the risks of the Government pressing secret buttons to set in motion new legislation that may come as a shock to the electorate.

In short, it wants guarantees that the next government must avoid the sort of iron-fisted methods that were used by former regimes that refused to listen to the public — as happened with the imposition of apartheid on a society in which the majority had little say about it all.

Sacob, in the document it released at mid-week entitled "Economic Aspects of a New Constitution", spells out the need to borrow ideas from a system it believes has been used to good effect in the US.

In Washington, all important proposals on new legislation must stand the acid test of open debate by way of a set of mechanisms known as "alarm bell procedures".

The system compels the US Congress to hold public hearings when proposed new legislation looks likely to run into controversy, ensuring that there is full-scale public scrutiny of proposals before they are written into the statute book.

Sacob sees the "alarm bell procedures" as part and parcel of a completely new approach to the whole concept of such safeguards as a bill of rights and ultimately the sanctity of the rule of law in any new constitution.

It believes a simple glance back over the shoulder should prove the soundness of its ideas.

Sacob points a finger to what happened in the past four decades, when, it says, there was a political system that was dominated not by a set of basic legal principles but by the supremacy of Parliament, which was ruled with a rod of iron by the government of the day.

Now, it argues, South Africa has the chance to put the rule of law back in command.

If there are lingering doubts about the independence of the judiciary, Sacob believes it again has the answer: even appointments to the judiciary should be compelled to be exposed to public hearings before they are approved.

The Sacob document is peppered with proposals on new checks and balance that it suggests should be entrenched in the new constitution. All are intended to home in on a single target — blocking the risk of any more abuse of power. □

Focus on incentive programme for WP

CT 17/6/91 (180)

Business Staff

THE new industrial incentive programme — and ways in which firms in greater Cape Town can benefit from it — will be discussed at a seminar organised by Coopers Theron du Toit (CTDT) at the Lord Charles Hotel in Somerset West tomorrow

Willie Viviers, a partner in CTDT, said yesterday that there seemed to be confusion among local business people about the scheme.

Opportunities could be missed by those who did not realise that industrialists in the Peninsula now qualified for 60% of the grant for the first two years, and 100%, based on profits, for the following three years.

Lower risk profile will encourage investments

180 CT 17/6/91

By ARI JACOBSON

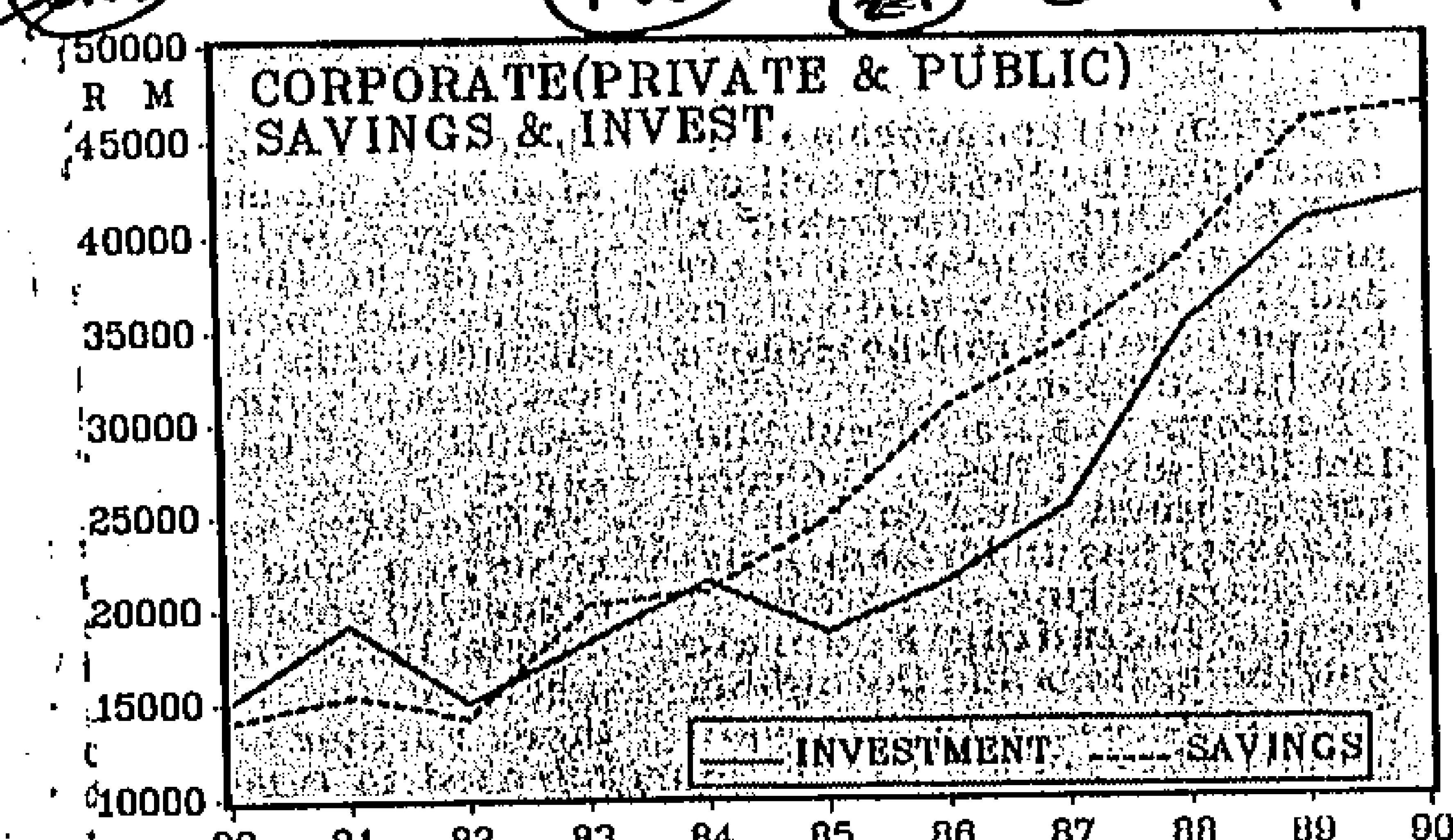
THE behavior of the SA real and financial sectors has been highly consistent according to the outcome of a study conducted by the head of the University of Cape Town's (UCT) economics department, Brian Kantor.

It all makes very good sense, said Kantor, that less investment has been a response to the higher cost of capital — caused by the increased risk premium.

"The corporate sector in response to higher risks and the withdrawals of foreign capital — saved more and invested less."

Kantor added the household sector saved more through contractual savings schemes and borrowed more against the security of their homes "and especially their pension schemes".

"The value of their pensions was, in turn, being improved by the excellent returns generated by the corporations in which the pensions held shares."



He added that there was no sense in blaming the life offices and managers of pension funds for not investing more in real assets.

"It should be recognised that the corporations are best suited to make investment decisions and the financial institutions are well placed to finance them."

Kantor pointed out that had the corporations wished to borrow more (or issue more shares) over the period between 1985 and 1989 — these funds would have had to come from either the households, foreign savings or the savings of corporates themselves.

"The problem of generating more investment spending can only be solved by reversing the relationship between risk and return, that became so unfavourable for investment in SA."

Lower risks he said would mean lower required returns and so increase investment.

"This higher level of investment spending could easily be financed if less capital flowed out of SA and more flowed in."

Kantor said foreigners and South Africans with claims on the country's wealth had withdrawn their savings rather than supply greater capital He concluded that a lower risk profile would clearly encourage capital inflows.

'Top directors paid about R3 540 a week'

PATRICK BULGER

THE directors of the top 100 industrial companies listed on the JSE earned an average of R3 540 a week last year, the Cape-based Labour Research Service (LRS) says. Sowetan 17/6/91

An LRS survey found that the 1 079 directors awarded themselves average increases of 18,8% last year and took home R199m. This could have supported 14 547 families earning a "living wage" of R1 140 a month, it said.

The LRS arrived at its figures by dividing the total disclosed directors' remuneration — a reporting requirement in terms of the Companies Act — by the number of directors.

It comments that the average director earns 20 times more than the average labourer earning R179 a week.

"The 129 directors employed by the 10 top-paying companies took home just under R1m in pay each week in 1990 — enough to buy 11 Mercedes Benz cars every week. (180)

"The mining houses pay even more than the industrial companies. The 12 directors of JCI gave themselves R6,9m in 1990. So each director got R11 058 a week on average. This is 70 times larger than the weekly wage of R157 paid to a grade four underground mine worker at a JCI gold mine," says the LRS.

Credit demand slows

CT 17/6/91

Own Correspondent

JOHANNESBURG. — The recession is now striking areas like retailing, bank credit and manufacturing production, all of which were virtually unscathed last year.

Statistics show retail sales are in a downtrend and banks report credit demand has slowed in recent months.

Buoyant private consumption expenditure last year was reflected in steady growth in retail sales and credit demand.

But the downturn in both areas in the first quarter of this year shows that high interest rates and recessionary conditions have at last curbed consumer spending.

Although month-on-month retail sales in May 1991 grew in real terms, monthly retail sales figures are volatile and a distinct downward trend, established in the last quarter of 1990, is now well entrenched.

Debt-financed expenditure has been a particular feature of the current recession but this now appears to be slowing.

Figures released by the Reserve Bank show annual growth in bank credit extended to the private sector eased to 19,5% in March, after a turnaround in February when credit extension again topped 20% year-on-year.

This may have been a technical increase due to the implementation of the new Deposit-Taking Institutions Act in February.

First National Bank senior GM Jimmy McKenzie said growth in credit demand over the past two months had been modest.

United senior GM marketing Tienie van der Merwe said demand for hire-purchase finance had fallen off in line with Reserve Bank measures to curb credit demand.

But demand for personal loans and overdrafts had been quite strong given the current economic conditions.

Manufacturing production volumes fell by 2,3% month-on-month in February 1991 and wholesale sales dropped by 1,4% in March.

Manufacturing production has fallen 4,2% since the onset of the recession in the first quarter of 1989.

Nearly 50% of the industry's production has fallen by as much as 20% over the recessionary period, and about 35% showed increases of up to 20%, says Nedbank chief economist Edward Osborn.

Bidvest buys Sable subsidiary

(180) BDay 17/6/91

SEAN VAN ZYL

FINANCIAL property-listed Sable Holdings has struck a R60,8m deal to sell its 60% stake in subsidiary Steiner Services to cash-flush industrial holding company Bidvest.

A statement released by Bidvest at the weekend said the company had also purchased the remaining 40% share capital of Steiner held by a management consortium.

The total value of the combined deal was in the order of R86m, said Bidvest's chairman Brian Joffe.

He noted that the transaction was based on Steiner producing a taxed profit of R11,017m for the financial year to end June this year — equating to a price earnings multiple of 7,8. Should Steiner produce a shortfall on the target, Joffe added that the purchase price would be reduced by R7,80 for every R1 below this target.

Joffe explained that the deal would be paid partly in cash, and the remainder through the issue of Bidvest debentures and ordinary shares at R27 each.

Steiner's businesses include the supply of continuous towel cabinets, garment manufacturing, industrial laundering, hotel supplies, garment and towel rentals and other related products. The Steiner title will be retained.

The Sable deal, subject to its shareholders' approval, has been struck at R60,8m with Bidvest acquiring Steiner's entire assets, businesses and liabilities. A Sable statement said the R60,8m, to be received as a cash consideration, would be equivalent to 812c per ordinary Sable share.

Joffe noted that the deal would have boosted Bidvest's earnings by 4% to 271,5c

□ To Page 2

Bidvest

BDay 17/6/91 (180)

□ From Page 1

from 259,5c a share for the last interim period to December.

Bidvest's net asset value would, however, have fallen by about 4% to 974c from 1016c a share for the same period.

But Joffe noted that the deal would have a significant bearing on Bidvest's future earnings: "Steiner's hotel division is a direct competitor of a business in the Bidvest group and certain rationalisation benefits will flow from having both businesses in the same group."

The Sable statement noted that, had the transaction been effective from June 30 1990, Sable's net asset value would have jumped more than 124% to 1290,6c from 574,2c a share while earnings would have climbed 15,5% to 120,9c from 104,7c a share.

Compared with the R32,6m Sable paid when it acquired 60% of Steiner in July 1988, the value of the Bidvest deal has brought more than an 87% return on the group's investment.

Foundation to restructure

LINDEN BIRNS

IN A bid to protect itself from a multi-million-rand drain on its finances, the Urban Foundation has asked the Independent Development Trust (IDT) for R17,5m to help fund the restructuring of its five housing utilities companies.

(180)

The restructuring will see the foundation reduce sales of housing units, with most of its turnover being generated through site and service developments.

According to a report drawn up by the foundation's residential development MD Matthew Nell in May, the need to restructure the utilities companies — which are involved in low-cost housing projects — was brought to a head by a R28m loss the companies were expected to have incurred for the year to end-June.

In his report Nell said the IDT's pledge would be matched by a further R17,5m to be raised from unnamed companies.

This funding, together with R10,5m from the foundation's reserves, would finance the restructuring of the utility companies into one Section 21 company called Newco.

Funds raised to start up Newco would have to cover the utility companies' losses. Previously, profits from the foundation's treasury activities offset these, but this year the treasury also incurred losses.

The report said the foundation could absorb some of the exposure through its R25m annual grant income.

In the 10 months to end-April the utility companies incurred a R16,7m loss.

The companies have recently been criticised by private sector developers for al-

☐ To Page 2

Foundation

B/Day 18/6/91. (180)

☐ From Page 1

legedly encroaching on their markets instead of providing real low-cost housing.

Under the new structure Newco would not be a foundation subsidiary. The utility companies' activities would be transferred to a single National Trading Company, a Newco subsidiary. Another Newco subsidiary is the Land Investment Trust (LIT), established in February, which would finance acquisition, servicing and holding of land for Newco development and sale.

The report said Newco's board of directors would consist of representatives of investors, community leaders and "expertise bodies".

Newco would be responsible for the large-scale development of site and service projects and, initially, the management of "starter housing" schemes with package prices of less than R35 000.

In terms of Newco's financial plan, starter housing would be phased out by next January. Site and service projects aimed for 20 200 units a year by June 1993.

Housing unit sales were expected to drop from 4 220 by end-June, to 2 880 by the same time next year, with no sales in 1993.

This year's net loss of R20,6m was expected to convert to a net profit of R4,1m next year, and R1,6m by June 1993.

The LIT would finance the acquisition, servicing and holding of land with security provided by R70m of low-cost subordinated debentures put up by the IDT.

Negotiations with pension funds and life offices had indicated there should be no problem securing the estimated R200m loan financing for the LIT, the report said.

It said 30 site and service projects consisting of about 30 000 stands were in preparation for submission to the IDT which would respond by mid-July.

Nell and other Urban Foundation executives could not be reached for comment.

Company directors 'paid R3 500 a week'

(180) ~~232~~ Star 19/6/91

By Michael Chester

The average pay packets of the directors of South Africa's largest industrial companies have grown to more than R3 500 a week, according to a new survey of salary and wage trends.

The Labour Research Service, based in Cape Town, yesterday released survey results showing the 1 079 directors who controlled the top 100 industrial companies quoted on the Johannesburg Stock Exchange last year shared pay packets worth no less than R199 million.

The survey estimated that the directors awarded themselves average increases of 18,8 percent in 1990, equal to R560 a week.

Unions

These raises carried the average size of their pay packets to R3 540 a week.

A spokesman said a full report on the findings had been sent to Cosatu and all the major individual trade unions, which had financed the research.

The information was likely to be used by the unions as background material in their annual wage negotiations.

The survey underlined that the pay packets of directors were running 20 times higher than average weekly wages of labourers, which rose to R179 following 1990 increases of slightly more than 20 percent.

The R199 million paid out to directors of the top 100 industrial companies last year could have supported 14 547 families with a "living wage" of R1 140 a month.

Results had been gathered by an analysis of directors' pay as disclosed by corporate annual reports and also by calculations based on the size of total boardroom remuneration divided by the number of directors.

The exercise yielded the average size of pay packets.

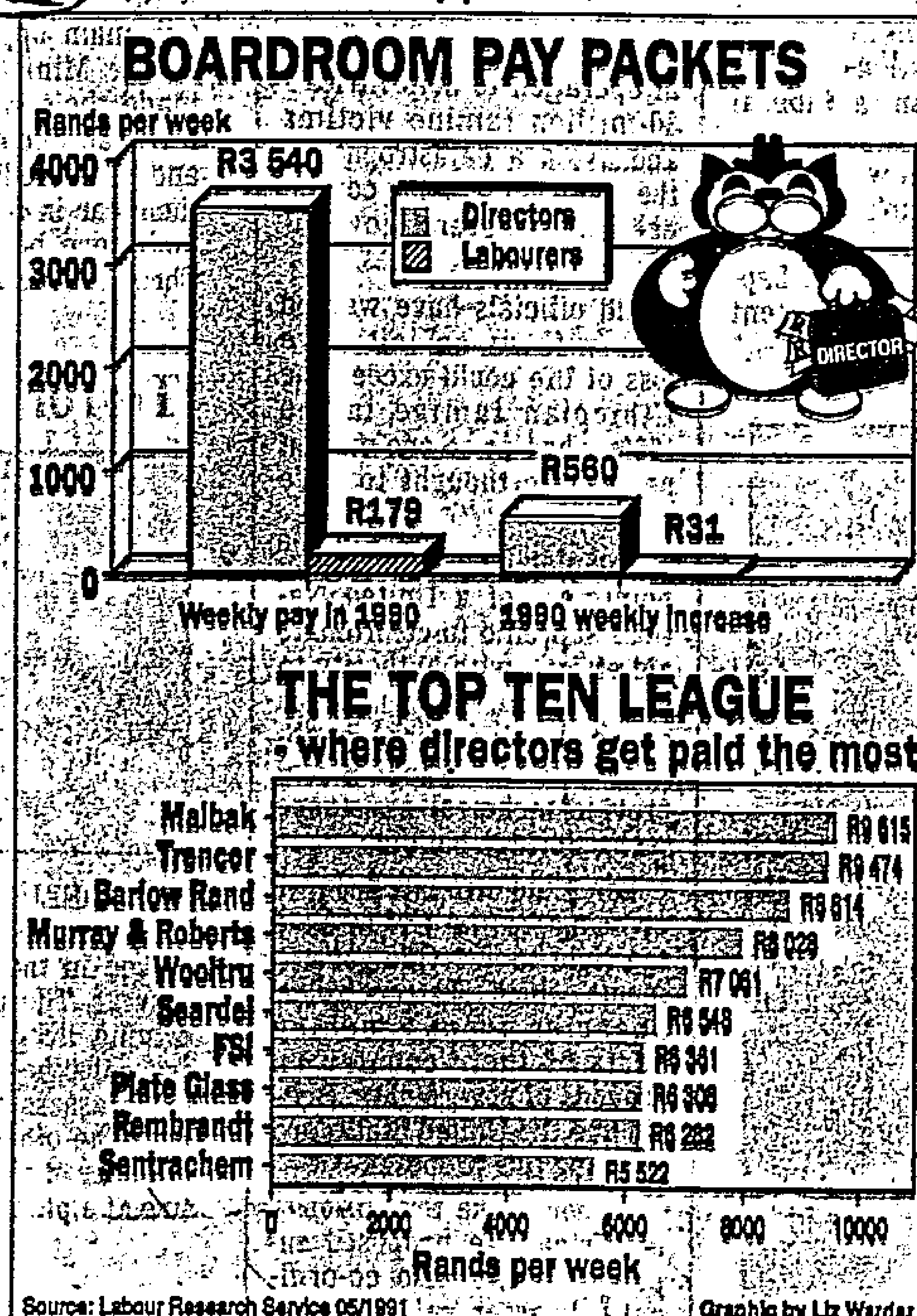
No allowance was made for any additional income earned by many directors who collect dividends from share incentive schemes.

Directors of the big mining houses picked up even fatter pay packets, according to the survey.

Details of this will be released soon.

Among the largest industrial companies, boardroom pay packets were biggest at Malbak, where the average pay of directors was R9 615 a week.

The next highest weekly average was at Trencor, where the weekly average was R9 474.



'Small firms essential part of economy'

ET 20/6/91 Own Correspondent

JOHANNESBURG. — The growth in the number of British small companies to 2,5-million over the past 10 years had meant that 96% of all businesses in the country were those employing fewer than 20 people, British Small Business Minister Eric Forth said yesterday.

Addressing the annual conference of Nafcoc's National Industrial Chamber (NIC) in Johannesburg, Forth said between 1979 and 1989, the number of businesses registered for VAT grew by almost 30%.

He said this was "a staggering increase of 373 000 or 100 additional businesses every day (including Sundays), something which was sustained over a period of 10 years."

Forth, who is also Minister of State for Employment, added: "In the 1980s firms which employed fewer than 20 people created more than 1-million jobs. In comparison, larger firms created half-a-million jobs over the same period.

"Small firms are an essential part of a healthy economy. They will produce industrial leaders of the future by maximising the range of choice available through market provision and challenge the dominance of existing market leaders," he added.

Forth said small companies were "the engine" of the British economy.

Sapa reports that the battle for a better deal for black businessmen is not over despite the events which have changed the "old" South Africa over the past 30 years, says black businessman Gab Mokgoko.

Speaking at the conference yesterday, Mokgoko said a new thrust had to be made by manufacturers and to adopt methods of co-operation with other enterprises.

Discount House Risk Management (DHRM), which also handled MS 101.

"Sasfin will now be able to grow its instalment finance business without resorting to increased equity capital or limited bank funding," said Sasfin MD Roland Sassoon.

institution was adhered to by using Mercantile Bank as an intermediary. Mercantile received an upfront, one-off fee, said Jacobs.

"We see this as an innovative step towards the securitisation of many other types of assets," she said.

Small firms 'vital to economy'

THEO RAWANA

THE growth in the number of British small companies to 2,5-million over the past 10 years had meant that 96% of all UK businesses were employing fewer than 20 people, British Small Business Minister Eric Forth said yesterday.

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"Small firms are an essential part of a healthy economy. They will produce industrial leaders of the future by maximising the range of choices available through market provision and challenge the dominance of existing market leaders," he added.

Sapa reports that businessman Gab Mokgoko said the battle for a better deal for black businessmen was not over despite the events which had changed the "old" SA over the past 30 years.

Mokgoko told the conference black manufacturers should improve their technical skills through association with other businesses and private research institutions and through technology transfers with other innovator businesses in SA or abroad.

Black businesses should refuse to remain small indefinitely, and should lobby government for a better deal and campaign for the creation of a department of small business.

(180)

APARTHEID BAROMETER

DIRECTORS' SALARIES 180

COMPANY directors who control the Top 100 industrial companies on the Johannesburg Stock Exchange earned a total of R199-million in 1990 — enough to support 14 547 families, each with a "living wage" of R1 140 a month.

This is the finding of the Cape-based Labour Research Service's (LRS) annual directors' pay survey, involving 1 079 directors.

The directors' weekly pay — which worked out to an average of R3 540 — was 20 times more than a labourer's average weekly wage of R179 in 1990. WMail 21/6 - 27/6/91.

According to the LRS, mining houses pay more than industrial companies. "The 12 directors of Johannesburg Consolidated Investments (JCI) gave themselves R6,9-million in 1990. Each director got R11 058 a week, on average. This is 70 times larger than the weekly wage of R157 paid to a Grade Four underground mine-worker at a JCI gold mine."

HARMS COMMISSION

BARRING outstanding and legal expenses, the Harms Commission had cost R191 693,31, Minister of Justice Kobie Coetsee told parliament recently. WMail 21/6-27/6/91

POLICE TRAINING

BASIC police training is to be integrated from next January, deputy Law and Order Minister Johan Scheppers announced this week. He said police colleges would be open to all races, but "forced integration" would be avoided and freedom of choice, religion, culture and dietary habits would be respected. WMail 21/6-27/6/91.

BUSINESS

ARGUS 21/6/91

ANC plans using private assets

180

From JEREMY REES

DURBAN. — The private sector will be required to help fund the infrastructure for housing, schools, hospitals, roads, water, electricity and other services in the new South Africa, the Director International Affairs for the ANC, Mr Thabo Mbeki, told delegates at the South African Property Owners Association annual convention yesterday.

The new Government would be obliged to tap the vast sums available from such financial institutions as Old Mutual and Sanlam.

"The Government would prefer such funds to be made available on a voluntary basis and not through legislation," Mr Mbeki said.

State expenditure would also have to be reviewed — in particular the R10 billion now spent on defence.

"After all, there is no external threat from Swaziland or Lesotho or even Zimbabwe," he said.

It would also be necessary, although perhaps difficult, to trim expenditure on the tripartite Parliament and Own Affairs departments.

"I am also told there is a great deal of financial wastage in the failed decentralisation scheme on which a saving could be made."

It might be possible to obtain finance from local government sources, but this would be made difficult if, as is required, the surrounding areas of some cities were to be brought within the municipal boundaries.

Other ways of raising funds could include assistance internationally from the United States.

"We could save money by using to its best the infrastructure we have already in South Africa," he said.

(180) FM 21\6\91

INDUSTRIAL POLICY

AVOIDING THE PITFALLS

The chorus for an industrial policy grows louder by the day. SA must have an industrial policy, it is argued, to avoid the "ad hockery" of past decision-making and to put the economy on the right "growth path."

Advocates of this school of thought, whether from business, government or the ANC, cite the economic powers of the Far East as examples of what an effective industrial policy can do to kick-start an economy.

But for free market proponents, calls for an industrial policy sound an alarm. For industrial polices usually mean interventionism: governments picking favoured industries, deciding what products would be made and where, what can be imported and what must be kept out — exactly how SA got into its mess in the first place.

Free market-leaning countries such as the US studiously avoid any hint of an industrial policy; when Congress raises the issue, the veto threats from the White House are immediate. And besides, the success of Japan, South Korea, Taiwan and especially Hong Kong is not the result of government meddling in business decisions, but their emphasis on market policies — positive real interest rates, low taxes, low tariffs, minimal regulations and a strong focus on education and training.

The debate was heightened recently with the SA Chamber of Business's long-awaited release of its study, *Concept for the Development of a New Industrial Policy for SA*. This followed another important contribution to the debate — the release of the Industrial Development Corp's report strongly recommending sharp tariff reductions.

The chamber plans to follow the report with an analysis of various manufacturing sectors and then have each sector use the information to formulate its own strategy.

In the marketplace for industrial blueprints, the chamber believes it has a comparative advantage. Says chamber economist Ben van Rensburg: "Government is not competent enough to devise such strategies off its own bat. The private sector needs to determine its own priorities."

The chamber's report certainly reveals that something must be done:

- The manufacturing sector's contribution to GDP dropped from 26% in 1981 to 23,6% in 1989 — surely one cause of the 7% drop in the average South African's living standard between 1979 and 1989;
- While production volumes in SA were dropping between 1981 and 1989, South Korea and Malaysia averaged real manufacturing growth of 7% a year between 1980 and 1988;
- Total industrial employment increased by a mere 0,2% a year in the Eighties; and
- Investment in machinery and equipment, as a share of GDP, declined from 10,7% in 1982 to 7,3% in 1989. "The current level of investment in machinery and equipment is at a similar level to what it was in the early Seventies," the chamber says.

The high cost of capital is highlighted as the central problem. "For SA, the cost of capital is an estimated 31,3%. This means that for each R1 000 used to fund working capital and capital stock in business, a margin of R311 is required to service the cost of capital. This margin must come from the selling price of the products."

SA's 48% company tax rate means that products must cost roughly 15% more to

continued →

yield the same profits as products made in a country with a 30% rate, says the report. And with interest rates at 20%, local manufacturers must add 4% more to their prices than competitors who pay 10% for funds.

The country's 31,1% cost of capital is far higher than Australia's 14,5%, the US's 11,4%, France's 11,5%, Germany's 9,7% and Japan's 3,4%, according to the report. And the cost and productivity of labour, as well as the political risk, further add to SA's lack of attraction for investors.

On top of all this, factors such as import duties and surcharges, GST and other charges put SA industry at an even greater disadvantage to other countries. Compared with a UK manufacturer importing capital equipment, for example, a local manufacturer faces costs that are as much as 58% higher (see table).

If SA must have an industrial policy, these facts and figures show that a simple policy aimed at eliminating the burdens holding down industry would be very effective. Many of the proposals for industrial policies aim to do just that. For example, economist Michael McDonald of the Steel & Engineering Industries Federation of SA suggests a policy that eliminates import surcharges, eventually reduces company tax to 30%, and dramatically chops tariffs.

But business can't resist asking for some perks for itself; clearing away all the obstacles to growth isn't enough. So McDonald also says he feels that SA may need specific policies such as tax holidays and other incentives to promote industrial investment.

Likewise, government can't resist carving out a role for itself; if it eliminated all the impediments and stepped aside, the politicians and bureaucrats would have nothing to do. In his budget vote last month, Trade & Industry Minister Org Marais said government must create the right investment climate by following correct monetary and fiscal policies, leading to lower inflation.

But, he added, it should also introduce "activity-specific" policies — tax incentives and other benefits for chosen sectors. He said government intervention should be aimed at improving competition and at facilitating the beneficiation of raw materials for export by "kick-starting" industry, if necessary.

This is where market advocates begin to get nervous. Were not decentralisation, import replacement, government ownership of certain industries and other discredited programmes once part of an interventionist industrial policy?

Organised business groups and government met recently to discuss the issue and they plan to press ahead. "What we need is a constant monitoring of progress to develop an industrial strategy for SA," McDonald says. "What we must prevent at all costs is a fall-back to the ad hockery of the past."

What he also might have added is a fall-back to the interventionism of the past. ■

Cost of imported equipment

	for a UK manufacturer	for a SA manufacturer
Equipment bought in Germany	R100 000	R100 000
Trucking & installation	R10 000	0
CIF charges: 10%	0	R10 000
Import duty: 10%	0	R11 000
Import surcharge: 10%	0	R12 000
GST: 13%	0	R17 303
Vat	0*	0
Wharfage & railage	0	R5 000
Installation & commissioning	0	R15 000
Interest for extra delivery time	0	R3 300
TOTAL INSTALLED COST	R110 000	R173 703

Higher cost for SA manufacturing: 58%

*Vat on productive equipment immediately refundable

INDUSTRIAL LAND (180) FM 21|6|91

DURBAN NEEDS ROOM TO GROW

Durban is said to be one of the fastest growing cities in the world. But urban planners say its growth, in terms of providing enough jobs for its expanding population, is being stifled by a chronic shortage of suitable industrial development land.

This has led industrialists to cast their eyes over the hundreds of hectares of State-owned property that are largely under utilised in the greater Durban area.

Two sites being targeted are the Department of Transport (DoT)'s Louis Botha Airport, south of the city, and the proposed airport site at La Mercy on the North Coast.

Work on a new international airport at La Mercy to replace Durban's outmoded Louis Botha was stopped at the earthwork stage in the mid-Seventies when funds ran out. Government has made no headway with new or alternative plans since then.

Industrialists want the department to stop dithering and rezone at least one of the sites for industry. They would settle for either, though Louis Botha is a natural extension to the industrial area south of Durban.

Industrial land is at a premium around Durban and, with little new land available for development, rentals are pushing through the R10/m² mark. The land shortage is now starting to hurt the local economy.

Industrial and Commercial Property Group's Chris Winter says: "Smaller concerns that cannot absorb rent increases are already beginning to move out of Durban. The situation will get worse if there's an upswing in the economy or if interest rates drop."

New investment in Durban, particularly by manufacturers who want to set up operations near the port, is being hampered by the land shortage and high rentals. Winter says some of his clients have chosen to locate on the Reef and pay the transport costs to Durban because they can get better deals and more suitable sites in the Transvaal.

"It would help Durban tremendously if the department either went ahead with its proposed La Mercy airport, so releasing land at Louis Botha for industrial development, or upgraded Louis Botha and sold the La Mercy site to industrialists, By doing that, government would recoup a lot of its costs," Winter says.

What does the department say? The short answer is "no way." But there might be hope in the long term if plans to commercialise the country's nine State airports proceed next year.

The DoT's Stuart Huckwell says government is not prepared to consider releasing land at either site at this stage. But he has just completed the first of a two-part study that assesses the present and future capacity of Louis Botha, which he will be handing to Transport Minister Piet Welgemoed shortly.

The second part of the study will project the growth rate in passenger traffic at Louis Botha. After this is completed this year the department will be able to decide whether to expand Louis Botha or to develop a new airport at La Mercy.

"We hope to present government with scientific and engineering evidence of what Louis Botha's future demands will be, giving a figure, in today's terms, of what it will cost

to develop the airport to meet expected passenger growth," Huckwell says.

He is unable to divulge the contents of his initial report until it has been seen by government. But the history of the saga suggests that the State will probably continue injecting funds into Louis Botha to enable it to cope with increasing demand, while it holds on to its La Mercy site to keep its options open. FM 21|6|91

The latest projected completion date for the new airport is 2011.

This is not encouraging news for those who want to see idle airport land rezoned for industrial use. But one glimmer of hope is the scheme announced this year by former Transport Minister George Bartlett to commercialise the country's airports.

Says Huckwell: "Government intends making airports separate and self-financing business entities, free to take loans on the capital market and attract private sector investment to finance development."

He says a profitable airport authority could raise sufficient funds from both the market and private investors to develop a new airport, such as La Mercy. "Insufficient funds have been the reason for La Mercy not going ahead. This may change once airports are commercialised," he notes.

Industrial developers, however, should not expect too much. Transnet, with the possible exception of its harbour division Portnet, has not been quick to capitalise on commercialisation or put its surplus land to use.

The most probable outcome is that the DoT will eventually sell its La Mercy site to industrial developers.

There is a view that socio-economic projects are more critical at the moment than building state-of-the-art airports. In future, public expenditure is more likely to be channelled into housing, education and health facilities.

Meanwhile, Durban developers may have more luck persuading Spoornet to sell some of its land for industrial development. The organisation has set up a property division and has indicated that it will consider selling off surplus land to private developers.

Spoornet, for example, owns a large tract of land near Durban's Springfield Industrial Park, one of the most successful industrial parks in the country.

Developers would love to get their hands on it, but Transnet's property manager for Natal, Roland Bohmer, says it is earmarked for a rail link from Inanda to Durban, and a multimodal interchange for transferring rail and road goods.

However, he says: "While both projects are in the pipeline, significant finance is involved, and if one or both projects is shelved the land could become available for development."

That, of course, does not guarantee that the land will be sold to private developers. Bohmer says Spoornet is considering three options: undertaking its own development, joint development with the private sector, or selling the land. ■

Move to tax employer-funded bursaries delivers big blow to students

LESLEY LAMBERT

CAPE TOWN — Tax exemption for employer-sponsored university, technikon and school education has been withdrawn.

Inland Revenue Commissioner Hannes Hattingh said yesterday provisions of the Income Tax Bill, which was passed in Parliament on Monday, abolished current tax exemptions for company bursaries granted to employees or their children.

He said the exemptions had been withdrawn because of widespread abuse. "Bursaries were being used by employees as fringe benefits. They were not being granted on merit."

At present, the tax exemptions apply to any "bone fide scholarship or bursary to enable an employee (or dependent) to study at a recognised educational or research institute".

They also apply to school education subsidies of up to R750 a year for employees below the tax threshold.

When the amendment is implemented on March 1 next year, the tax exemptions on bursaries for employees and their children, and school subsidies, will be withdrawn and employees with be taxed on the amount they receive.

It appears, however, that the exemption will continue to apply in cases where bursaries are granted on "merit". Hattingh said if applicants could convince the Commissioner they were top achievers and the bursary was bone fide, they would qualify for tax-free sponsorship. B/Day 21/6/91

"In these cases the bursary would be regarded as capital and therefore not taxable in the hands of the employee," he said.

Hattingh also scotched rumours that the measure would apply more widely to all staff upliftment training schemes.

"These would be regarded as an expense to the employer in the production of income and, as such, we would not place them in the same category as bursaries," Hattingh said. (180)

The abolition of the concessions has serious implications for the funding of education.

Up to 75% of students at Wits University are estimated to receive financial assistance in one form or another. It is likely that a fairly high proportion receive assistance through company bursaries.

The taxation of these bursaries will place them out of the reach of many employers and, thus, their children.

Tax consultants say that the additional financial burden will so great, particularly in the case of lower-income recipients, that many will have to take their children out of university or technikon, or find another funding source.

The prospect of finding other sources is becoming increasingly difficult as state university subsidies dry up and economic conditions force the private sector to cut back on education assistance programmes.

● See Page 8

Tax changes will deprive many of education

B/Day 21/6/91

180

LESLEY LAMBERT in Cape Town

TAX EXEMPTIONS for company bursaries are to be withdrawn in March next year — another addition to the list of increasing costs and funding cutbacks which are placing tertiary education out of the reach of most SA families.

The Income Tax Bill, which was passed in Parliament earlier this week, contains a number of shocks for education-conscious companies and parents. One is the abolition of tax exemptions for bursaries paid by companies for the education of their employees' children.

The tax changes may have other effects. Company-sponsored training which results in a diploma or degree for the employee seems likely to be taxed as a benefit to that individual.

There is less clarity on short-term training schemes which many companies sponsor to improve their employees' skills.

The bursary money received by employees for university, technikon and school education is currently tax-free. But, from March next year, it will be taxable. The full amount awarded to the employee will be added to his or her salary for income tax assessments and, depending on the amount received, will add substantially to the tax burden.

The Bill, introduced by Deputy Finance Minister Theo Alant, also abolishes concessions on the payment of education subsidies of up to R750 a year to employees below the tax threshold, and sponsorship of professional exams passed by employees.

One important concession it introduces is tax exemption for corporate donations to primary schools. Currently, companies can claim deductions only for the sponsorship of tertiary and secondary education.

Abolition of tax exemptions for company bursaries has disturbing implications for current and future funding of all education, particularly tertiary.

Employees using the company bursary facility will have to reassess its financial implications and the impact of this on their ability to afford their children's school and university education.

Lower income parents who intended using the bursary facility in the future will now have to find other funding sources. To many already using the facility, it will become unaffordable because of the huge additional tax bill, forcing them to remove children from technikons or universities. Tax experts argue that this consequence makes the amendment retrospective, because of the effect it will have on scholars whose funding will dry up before they have completed their studies.

The prospect of finding other sources of funding is becoming increasingly grim as costs rise and economic conditions force the private sector to cut back on bursary schemes.

Government subsidies to universities have declined substantially, forcing the institutions to increase their annual tuition fees by percentages in excess of inflation. Efforts by the private sector to absorb a greater portion of the burgeoning demand for financial assistance have been thwarted by economic conditions. This tax amendment will place even greater pressures on the private sector's efforts to assist.

In a memorandum to the Income Tax Bill, the financial authorities argue that the concession was being abused "to such a degree" that it became necessary to withdraw it.

Alexander Forbes Executive Consultants MD Les Lawson, whose company specialises in employee benefits, argues that if the concession is being abused, it should be redefined or limited, not withdrawn.

Other specialists argue that people will find ways of getting around the tax.

But, as Lawson argues, it would be better to close the loopholes and maintain the concessions than to force people to break rules in order to fund their children's education.

☐ ALANT

LETTERS

JCI directors the biggest earners

Randlords grab R500 000 a year

Star 2/6/91

180

By Michael Chester

Boardroom pay packets of the countries two largest mining empires have climbed on the average to more than R500 000 a year, according to trade union researchers.

The Cape Town-based Labour Research Service, which is funded by Cosatu and major individual unions, claimed that the 12 directors at Johannesburg Consolidated Investments drew the highest average pay cheques — the equivalent of R11 058 a week.

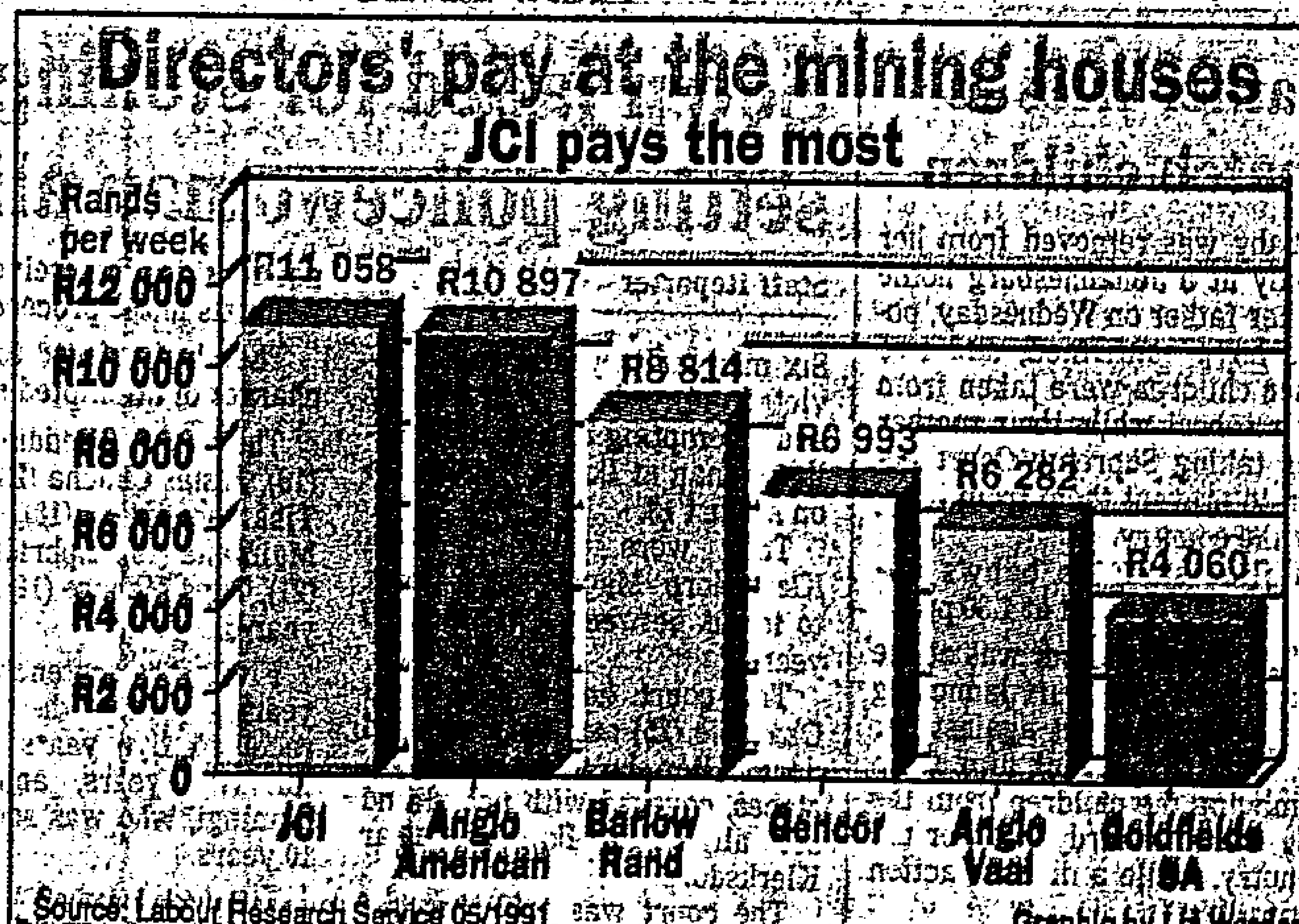
Between them they earned R6,9 million last year, or 35 percent more than in 1989, according to survey results. The calculation put average pay levels at R575 000 a year.

The next biggest earners were directors of Anglo American Corporation, who paid themselves an average of R10 897 a week.

LRS researcher Dasi Moodley explained that boardroom pay packets had been analysed on a weekly basis to allow easier comparison with the earnings of blue-collared employees.

At JCI, for example, the average pay of R11 058 a week drawn by directors was shown to be 70 times more than the weekly wage of R157 paid to a Grade 4 underground worker at a JCI gold mine.

Mr Moodley stressed that the analysis was based on the average level of director payments, leaving aside the probability that executive directors drew much more and non-executive drew less.



The research unit, which feeds all its findings to the trade unions for use as ammunition at wage negotiations, made its first disclosures this week.

It revealed that directors of the Top 100 industrial companies listed on the Johannesburg Stock Exchange were now drawing an average of R3 560 a week.

'Living wage'

The survey, released by LRS earlier this week, and reported in The Star, showed that the 1 079 directors who controlled the top 100 industrial companies quoted on the Johannesburg Stock Exchange last year shared pay packets worth no less than R199 million — which could have supported 14 457 families with a "living wage" of R1 140 a month.

The industrial survey also underlined that the pay packets of directors were running 20 times higher than average weekly wages paid to labourers, which rose to R179 following 1990 increases of slightly more than 20 percent.

Mr Moodley added fuel to the debate yesterday by pointing out that most directors of large companies also substantially boosted their income by dividend payments paid out of share incentive schemes.

Research found that directors at Pi[illegible] Class on average add [illegible]761 to their pay of R [illegible] every week by dividends from their shareholdings in the company.

The average weekly pay of R9 615 collected by directors at Malbak was boosted by dividend income running at an average of R2 967 a week.

In the top hierarchies of several companies, fortunes were made out of dividends alone.

LRS said that as an example, Aaron Searll, managing director of Seardel, the largest clothing manufacturer in South Africa, last year earned an extra R49 653 a week in dividends paid out on his personal 21 percent shareholding in the company.

Neil Jowell, chairman of Trencor, the transport giant, and other members of the Jowell family collected combined dividends at the rate of R93 230 a week from shares that represented a 24 percent control of the company.

"Both JCI and Anglo American last night refused to comment on the research findings.

BUSINESS

Top men get R3500 a week

(180)

Argus 22/6/91

Row over huge payouts for directors

A ROW has broken out about the accuracy of a survey which claimed the average pay packets of directors filling the boardrooms of South Africa's largest industrial companies have grown to more than R3500 a week.

Company bosses have challenged the validity of figures in a new survey into salary and wage trends by the Labour Research Service (LRS), based in Cape Town.

The survey found that 1079 directors who control the Top 100 industrial companies quoted on the Johannesburg Stock Exchange last year shared pay packets worth R199 million.

It estimated that the directors awarded themselves average increases of 18,8 percent in 1990, equal to R560 a week. The raises carried the average size of their pay packets to R3540 a week.

An LRS spokesman said a full report on the findings had been sent to Cosatu and all the major individual trade unions, which had financed the research.

The information was likely to be used by the unions as background material in their annual wage negotiations.

The survey underlined that the pay packets of directors were running 20 times higher than average weekly wages of labourers, which rose to R179 following 1990 increases of slightly more than 20 percent.

The R199 million paid out to directors of the top 100 industrial companies last year could have supported no fewer than 14547 families with a "living wage" of R1140 a month.

Biggest pay packets:

MALBAK	R9 615 a week
TRENCOR	R9 474 a week
BARLOW RAND	R8 000
MURRAY & ROBERTS	R8 000

Results had been gathered by an analysis of directors' pay as disclosed by corporate annual reports and by calculations based on the size of total boardroom renumeration divided by the number of directors.

The exercise yielded the average size of pay packets. It was assumed executive directors were often paid more than the average and non-executives were paid less.

Directors of the big mining houses picked up even fatter pay packets, according to the survey. The researchers estimated that directors of Johannesburg Consolidated Investments, as an example, were paid R11058 a week on average.

This, it claimed, was 70 times more than the weekly wage of R157 paid to a Grade 4 underground worker at a JCI gold mine.

Among the largest industrial companies, according to the survey, boardroom pay packets were biggest at Malbak, where the average pay of directors was R9615 a week.

The next highest weekly average was at Trencor (R9474). It was also above R8000 a week at Barlow Rand and Murray and Roberts.

However Johannesburg Consolidated Investments on Friday dismissed the survey as being inaccurate.

Company chairman Mr Pat Retief challenged the basis on which the Labour Research Service had tried to calculate average remuneration and accused the researchers of deliberate distortion of the facts.

He said the average fees of JCI directors was in fact a much more modest.

Mr Retief said the LRS had failed to differentiate between actual director's fees and any income from the sale of their personal shareholdings carried out as normal share transactions.

The researchers had also failed to make proper allowance for the number of non-executive directors sitting on the main board, which in the case of JCI was as few as two when in many companies it was a far higher proportion.

"Nor does the LRS report make plain that directors' pay in South Africa is far lower than the emoluments paid their counterparts in such countries as the United States, Britain and Germany - even though they carry far more onerous duties in view of dour socio-economic problems here.

"The whole report is totally biased."

Business slams bursaries tax

(180) ~~(50)~~ (320) CT 22/6/91

JOHANNESBURG. — The South African Chamber of Business, Sacob, is taking up, with the tax authorities, the "serious implications" for educational bursaries contained in the latest Income Tax Bill.

The bill abolishes tax relief for bursaries given to employees and their children with effect from March 1.

Sacob economist Mr Keith Lockwood said the chamber had taken note of the provisions of the bill and had expressed concern over its implications.

He said Sacob was to meet the departments of Finance and Inland Revenue yesterday afternoon to discuss the issue.

In an interview, Inland Revenue Commissioner Mr Hannes Hattingh said companies would still enjoy tax relief for granting bursaries.

He said the introduction of the new tax was an effort to stop abuse of bursary schemes.

Bursary benefit

"We now find that the child of every employee gets a bursary (and) in effect the employee gets a portion of his income tax-free", Mr Hattingh said.

He indicated that the tax was also introduced to try and encourage employers to grant the bursary benefit as salary in the hands of the employee.

This would attract a higher rate of tax in some cases but for the lower income groups the fringe benefits tax applicable to busaries would place an undue burden on an already low salary.

However, Mr Hattingh pointed out that "bona fide" bursaries would still be tax free in the hands of employees, if they are granted on merit and are open to all and not only to employees and their dependents, and that this can be proved to Inland Revenue.

In a further statement issued yesterday by the Commissioner of Inland Revenue it was revealed that bursary holders who are obliged to work for companies granting such bursaries, would be liable for tax.

The statement also pointed out these bursaries would only attract tax if the holder of the bursary exceeded the tax threshold of R10 358, including the value of the bursary. — Sapa

Recession hurts company profits

(180)

STimes (Bus Times) 23/6/91.

By DAVID CARTE

THE rate of company profit growth has plunged as recession has deepened.

The graph, prepared by stockbroker Martin & Co, shows how average earnings growth of financial and industrial companies has plunged from 32% at the end of 1989 to -5% at the moment.

Thanks to conservative dividend cover, average dividend growth has remained positive at 8% (down from 25% last year).

A Business Times investigation into the profits of March reporting companies confirms that those that sell to mines and other businesses have been harder hit than those selling to consumers.

In the consumer area, sales of some durables, such as cars and houses have stagnated or fallen. But furniture, white and brown goods were given a lift by easier HP rules. Clothing and food sales have been buoyant.

International recession was an important factor in falling profits. Mines and big exporters such as Middelburg Steel felt the effect of lower dollar prices for their products. A stable rand for much of the year added to their woes.

Banks, life assurance, food, drug and private hospital groups have fared best in the environment of high interest rates and hectic destocking.

Earnings reverses by huge companies such as Anglo American (-17%) and Barlows (-14%) tend to exaggerate corporate travails — because they weigh so heavily in the indices.

In the March period, more companies reported profit gains than declines. No fewer than 81 of 181 operating companies reporting to end March reported earnings increases, while 65 reported reverses.

Is the trend improving or deteriorating?

Some comfort can be derived from companies reporting for the six months, as opposed to the year, to March. Of 59 interim reporters, only 18 reported earnings falls. Martin's graph seems to show a weak upturn.

Upturn

The recent decline in the rand and lower interest rate trends offshore could eventually help mines and other flagging rand hedges.

Further hope for an improvement is contained in statements such as Finance Minister Barend du Plessis's, that an upturn could start at the end of the year.

First National Bank's Cees Bruggemans was the first economist alive to the possibility of a turn, noting that the severe destocking which took place last year, may now have run its course.

In a masterly analysis of consumer behaviour in FNB's current Business Brief, he points out that overall employment has not fallen much and that wage settlements have remained high.

The easing of HP restrictions encouraged first-time credit use by blacks. Other factors in surprisingly resilient demand were the pursuit of new technology and interestingly, forced purchases due to burglary and car theft. The rising value of property and shares have helped make credit more affordable.

Dr Bruggemans believes it will take a firm hand by the Reserve Bank to restrain pent up boom conditions.

Pressure is mounting on the Reserve Bank for a token cut in interest rates but even if Dr Stals holds the line, profits seem likely to improve.

What do the mega-groups say of prospects? Anglo says nothing. Barlows is looking for an earnings decline similar to that of its first half. Premier is "well positioned for satisfactory growth".

In spite of a decline in world paper prices of 19%, Sappi is looking for a modest increase in earnings in 1992. Altron is counting on Powertech and a greater off-shore contribution for a boost next year.

As the graph on page 1 shows, falling profits and rising share prices have pushed up the average PE on the JSE from 9 in October 1990 to 13,1, which means the market is in the same territory PE-wise as it was before the great crash of 1987.

While institutional buying continued to push blue chip share prices skywards, the only institutional stock among 13 which increased earnings more than 30% was Altron, which was recovering from horrors in Punch Line and Fintech.

Most companies that improved profits by 30% plus were recovering from setbacks last year but some, such as Spur, continued from strength to strength.

Stars of the banking sector have been NBS, Investec, Fidelity Bank and the Board of Executors, while First National and Nedbank have both beaten inflation.

While companies such as Romatex and Sappi reported disastrous profit falls, others have improved by 50%. Ronnie Price's stable of one-time high fliers had a year to forget. One of the worst performers in the period was Romatex, long an early indicator to economic activity because of its exposure to motors, building and furniture.

PROFIT GAINS OF 30% PLUS

Prelim's

Company	% gain
Spur	49
Wankie	79
Twins	98
Shield	34
Reggies	550
Morkels	64
Investec	37
Yabeng	38
Titaco	182
Presmed	45
Audiodek	42
Altron	34
Clyde	40
Saflife	41
Interims	
Fidbank	35
Vansa	82
Adcock	30
BOE	41
ABS	45
Fenner	31
Metkor	43

PROFIT GAINS OF 15%-30%

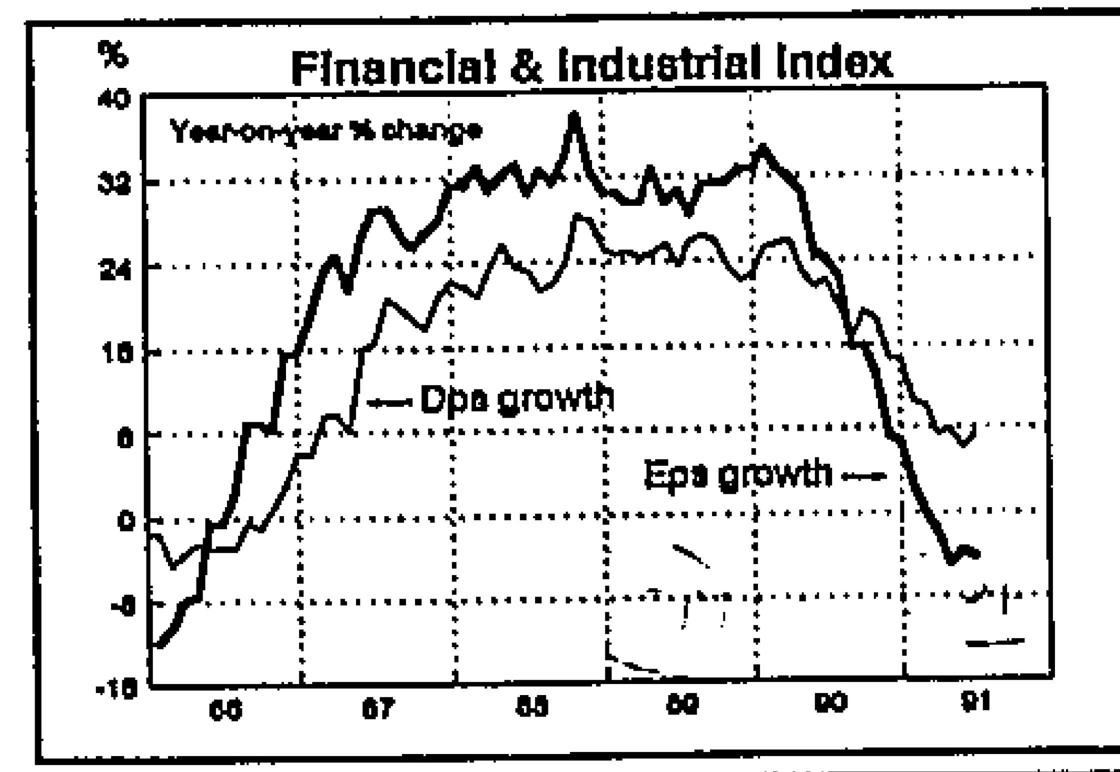
Prelims

Company	% gain
Jasco	16
Specialty	19
NBS	26
Pepkor	17
Bolpro	15
CNA Gallo	19
Edgars	22
ABI	25
HLH	23
Premier	17
SAB	18
Southern	20
Teljoy	18
Datakor	26
Remgro	15
Argus	16
Interims	
FNB	20
Nedcor	18
Afrox	27
Elangeni	19
Santam	17
TSI	21
Metpol	22
Clinic	24

PROFITS DOWN MORE THAN 30%

Prelims

Company	%
Sappi	-38
SPL	-30
Midas	-48
Score	-48
Bolpro	-70
Vaaltrucar	-45
Gresham	-55
PDC Holds	-78
Da Gama	-30
Penboard	-31
Macadam	-53
Advtech	-68
Quorum	-68
Molyslip	-48
Milstan	-54
Aroma	-38
Aida	-84
Eureka	-67
Cmatic	-74
Eurevest	-49
Boumat	-91
Saficon	-64
Interims	
Romatex	-72
Barplats	-42
Oceana	-32
Leppin	-67
Plastall	-79



THE ONE BILLION RAND CLUB

Company	Turnover (Rbn)	Earnings change (%)
Sappi	2,7	-38
Pepkor	2,0	17
Score Clicks	1,9	-13
*Senchem	1,1	-25
Powtech	1,2	11
Edgars	2,5	22
Altron	2,6	84
Premier	5,1	17
Amrel	1,0	6
SAB	15,4	18
Amcoal	1,8	7
Tongaat	3,8	-19
*ICS	1,0	-1
*Nampak	1,9	12
*CG Smith	7,9	6
*CGS Food	5,6	10
*Tiger	3,9	13
Fedfood	1,3	12
SA Drug	1,0	-12
*Barlows	15,5	-14
Dorbyl	1,2	7
*Metkor	1,4	43
Boumat	1,1	-91
Saficon	1,5	-64
Argus	1,8	16

* six months

Taxman will listen to bursary plans

BDay 24/6/91 (180)

LESLEY LAMBERT

CAPE TOWN — The tax authorities could not backtrack on their decision to withdraw tax concessions for company bursaries but were prepared to listen to suggestions on the issue, Inland Revenue Commissioner Hannes Hattingh said yesterday.

Hattingh was responding to reports that the SA Chamber of Business (Sacob) was planning an urgent meeting with his department to discuss the withdrawal of tax concessions for employer-sponsored university, technikon and school education.

There was nothing the tax authorities could do to accommodate objections because the amendment had been passed by Parliament, he said.

But, they were prepared to discuss the matter and would consider proposals put forward.

Reinstatement

Sacob said at the weekend it was planning to take up the "serious implications" of the amendment with the tax authorities. Sacob's Tax Committee is expected to meet Hattingh this week.

Tax Committee chairman Bob Wood said yesterday Sacob would propose the reinstatement of more limited concessions which were not as open to abuse as the old system.

He said: "As a general rule, Sacob does not favour tax concessions on expenditure but in this case we believe the concessions should not have been withdrawn now because of the need to promote education."

Hattingh said the concession had been withdrawn because of widespread abuse. Bursaries were being granted to some employees as a fringe benefit.

He said the provisions applied to employees only and that companies would continue to get tax relief for granting bursaries. Employees would also continue to qualify for tax relief if they received bona fide bursaries based on merit.

University of Cape Town registrar Hugh Amoore said all educational institutions would be affected by the withdrawal of tax concessions but private schools would probably be hardest hit.

Bursary facilities were more available to senior staff whose income levels enabled them to send their children to private schools, Amoore said. The decision could make it difficult for them to afford private schooling.

Amoore said most of the financially assisted students at UCT received bursaries from companies that did not employ their parents and they would not be affected by the move.

□ GILLIAN HAYNE reports that Charter Life senior manager Martin Sweet said the move could not have come at a worse time.

Sweet, who spoke at a tax and insurance information seminar on Friday, said it would have been more reasonable for government to place a ceiling on the amount on which tax relief could be claimed.

"It is the young people wishing to improve their skills who will suffer, and this will lead to further socio-economic erosion in SA," he said.

The exemptions which will no longer be applicable are:

□ Payments of up to R750 a year for the education of an employee's children, where the employee earns a salary below the tax threshold;

□ Amounts paid to an employee for passing an exam or obtaining a degree or diploma; and

□ Amounts paid to an employee in terms of an approved bursary scheme.

● Comment: Page 8

‘Average pay not R500 000’

180

Sowetan 24/6/91

CLAIMS by trade unions that the average pay of Johannesburg Consolidated Investments directors is more than R500 000 a year were dismissed by company chairman Mr Pat Retief yesterday.

Retief, accusing union researchers of deliberate distortion, challenged the basis on which the Labour Research Service had calculated the average salary.

Retief said it was in fact much more modest - below R208 000 a year.

He said the LRS had failed to differentiate between actual directors' fees and any income from the sale of their personal shareholdings carried out as normal share transactions.

The researchers, he said, had also failed to make proper allowance for the number of non-executive directors sitting on the main board - which, in the case of JCI, was as few as two - while in many companies it was a far higher proportion.

"Nor does the LRS report make plain that directors' pay in South Africa is far lower than the emoluments paid their counterparts in such countries as the United States, Britain and Germany - even though they carry far more onerous duties in view of our socio-economic problems here," Retief said.

"The whole report is totally biased." - *Sowetan Correspondent.*

Meeting of 200 top-level delegates

Business gets development talks going

(180)

BiDay 24/6/91

GRETA STEYN

BUSINESS has brought together government leaders, the ANC, trade unions and development agencies in top-level discussions on formulating a national development strategy for the new SA.

Planners who ended a three-day workshop in Sandton at the weekend hope the new development strategy will dovetail with peace initiatives.

The meeting — organised by the Consultative Business Movement (CBM) — brought together more than 200 top-level representatives from a variety of interest groups.

It signalled a growing realisation that developmental efforts would have to be co-ordinated at a national level.

Workshop chairman Murray Hofmeyr said it was organised because the development challenges that faced SA were hampered by mistrust and a lack of communication.

Government representatives included Education and Training Minister Stoffel van der Merwe, Trade and Industry Minister Org Marais, Land Affairs and Development Aid Minister Jacob de Villiers and Finance Director-General Gerhard Croeser.

Development agencies were represented by Development Bank of SA executive chairman Simon Brand and delegates from the Independent Development Trust, the SA Housing Trust, the Urban Foundation and the Kagiso Trust. Political delegates included the ANC's Thabo Mbeki and Gill Marcus and Inkatha's Frank Mdlalose.

Among the top business people at the workshop were SA Chamber of Business (Sacob) president John Hall, Nedcor CE Chris Liebenberg, Anglo American's Michael O'Dowd and Standard Bank senior GM Andre Hamersma.

CBM spokesman Colin Coleman told reporters yesterday in-depth follow-up discussions would be held on local government issues, the land question and housing.

Further investigations would be conducted into ways and means of investing in community infrastructure, with a particular emphasis on training.

Coleman said every effort would be made to assist the peace process through development and reconstruction efforts. Delegates had requested that the "Core Group" of development agencies and recipients of development aid contact the Peace Planning Committee to this end.

The Core Group would also investigate establishing a data base on development initiative and encourage networking between development actors.

Hofmeyr said business was "profoundly convinced" of the importance of development and would "like to feel the initiatives are sensible with proper accountability".

CBM spokesman Bob Tucker, who leaves the Perm at the end of this week, said there was a clear understanding that development was not a product delivered by the haves to the have-nots, but a process in which business played an integral role.

Coleman said a thread running through the workshop was the issue of survival

☐ To Page 2

Chairman of the CBM workshop on development in SA, Murray Hofmeyr, right, with the Kagiso Trust's Eric Molobi at yesterday's news conference in Sandton. Picture: CATHERINE ROSS

Development

BiDay 24/6/91. (180)

☐ From Page 1

which interlinked government, business and the communities needing development.

Business was concerned about creating an environment in which it could operate.

Hofmeyr said development had to proceed from the bottom up.

Former secretary-general of the Preferential Trade Area for eastern and southern African states, Bax Nomvete, told delegates SA would not survive on its own in a world of trade blocs.

He called for economic co-operation among groups of African countries and said SA's participation in SADCC, the Central African Economic Community and the Maghreb in North Africa would be beneficial to all concerned.

Development the priority

Star 24/6/91

(180)

By Mark Suzman

A huge National Development Workshop involving groups from all parts of the development spectrum has resolved to focus on new measures to help in the process of development in South Africa.

The three-day workshop, which ended yesterday, was convened by a "core group" of people involved in development issues that was formed earlier this year by the Consultative Business Movement (CBM). It incorporates representatives from organisations such as the Independent Development Trust and the Urban Foundation.

Among the more than 200 delegates who gathered at the Indaba hotel at Fourways were Trade and Industry Minister Org Marais, ANC foreign affairs director Thabo Mbeki, diplomats, businessmen, major political parties, trade unions and local community groups.

According to core group chairman Murray Hofmeyr, the conference was called because the CBM felt that a proper, co-ordinted development effort involving all parties could be the foundation for a peaceful and democratic future.

"Development is the cornerstone on which the peace process can be built," he said.

The workshop resolved to follow up with discussions on specific issues such as local government, the land question and housing.

In addition, the core group will investigate the formation of new training centres to stimulate development and set out a document that will synthesise different groups' perspectives on the issue.

Bob Tucker, former managing director of the Perm, applauded the attitude of conference participants.

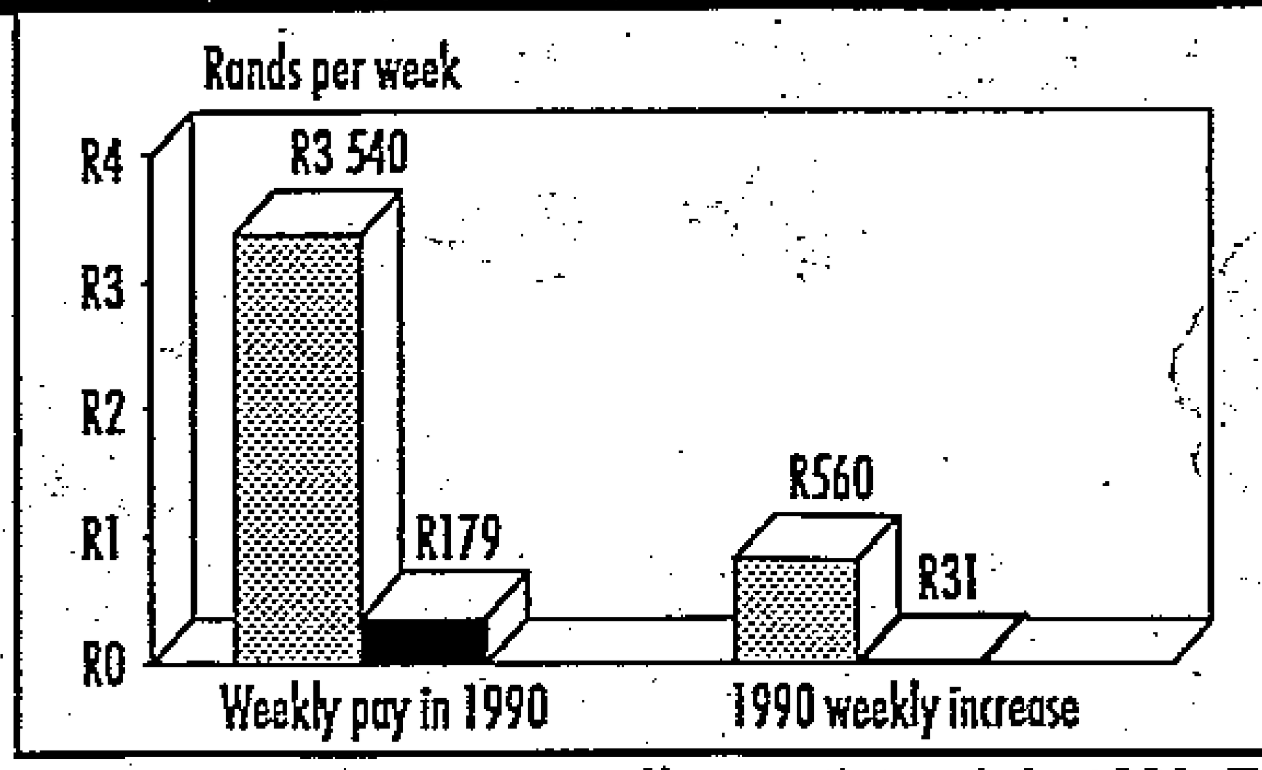
"There was a high level of realism about the speed at which issues could be addressed and an acknowledgement of the need for co-operation in getting to grips with the problem," he said.

These sentiments were echoed by Kagiso Trust official Eric Molobi, one of the core group members. "It shows that we don't have to wait for political solutions before development initiatives can take place," he said.

DIRECTORS LIVE IT UP

Sou /72
20/6-26/6/91

180



COSATU'S "Retrench the Bosses" slogan gains new meaning from figures on executive earnings released by the Labour Research Service.

LRS found the 1 079 directors who control the top 100 companies earned a total of R199 million in 1990 — enough to support 14 547 families on R1 140 a month. The 129 directors employed by the 10 top-paying companies took home just under R1 million each week in 1990. The 10 are: Malback, which pays directors an average of R9 615 pm, Trenoor (R9 475), Barlow Rand (R 8 814), Murray & Roberts (R8 028), Wooltru (R7 051), Seardel (R6 584), FSI (R6 381), Plate Glass (R6 308), Rembrandt (R6 282) and Sentrachem (R5 522).

The 12 directors of Johannesburg Consolidated Investments earned R11 058 a week.

Support for black directors

MARCIA KLEIN

THE Institute of Directors in southern Africa (IOD) has backed the call by the National African Federated Chamber of Commerce (Nafcoc) for a sharp increase in the number of black company directors.

Nafcoc has called for a 30% increase in the number of blacks on the boards of listed companies within 10 years.

IOD chairman Brian Hawksworth said the IOD fully endorsed Sam Motsuenyane's call "for sharply increased black involvement in steering the affairs of SA's listed companies".

The call comes soon after the appointment of former KaNgwane chief minister Enos Mabuza to the Anglovaal, Standard Bank and TML boards.

However, this was possible "only if an increasing number of blacks are educated in the responsibilities and duties of directors".

He said the IOD had offered to provide Nafcoc members with training "and whatever other assistance is required".

The IOD has also asked Nafcoc to identify possible members for the IOD, thus providing continuing education and the opportunity to meet regularly with other directors of companies. B/Day 26/6/91

Concern

A further benefit was that IOD members had full reciprocal membership of the IOD in London.

Hawksworth said the IOD's support stemmed partly from its concern that only 1% of its members were black.

Ongoing recruitment efforts had met with little success, and Hawksworth said that Nafcoc's call would hopefully prove to be a turning point.

Govt to aid private sector research

Bday 26/6/91. (180)

MARC HASENFUSS

GOVERNMENT is to implement a support programme for private sector research and development.

Yesterday Trade, Industry and Tourism Minister Org Marais said the programme would fund part of a research project and would create better links between the private sector and research infrastructure.

His department would submit details of the programme to Cabinet.

The scheme would attempt to improve industries' growth potential through specific technology programmes aimed at future growth markets. This in turn would assist in the diffusion of technological innovation in secondary industry.

Active support for research and technology development in the private sector was preferred to investment allowances and subsidies on exports. It could take the form of a tax incentive or a partial subsidy.

Companies qualifying for the programme would have to have track records in technology development. A special programme to stimulate technology development in smaller firms was also being considered.

Healthy industries can prosper even during a recession

B/day 26/6/91. (180)

EDWARD OSBORN and KEVIN LINGS

THE ECONOMY reached the crest of the business cycle in the third quarter of 1989. Since then there has been a continuous slide into recession.

Over the two-year period from the first quarter of 1989 to the corresponding quarter of 1991 (a time frame used to minimise seasonal distortions) GDP has declined in real terms by 1,19%, and the total index of manufacturing production by 4,24%. But the decline in the manufacturing industry has not been uniform.

Changes in output have varied widely among sub-sectors, from a decline of nearly 40% to a rise of 60% at the extremes. The bulk of the changes, however, has been between -20% and +20%. Nearly 50% of industry by weight, or relative importance, has experienced reductions in output of up to 20%, and about 35% have increased output by up to 20%. This greater preponderance of falling industry has led to the overall reduction of 4,24% for all manufacturing industry.

This analysis classifies the percentage changes into strong and moderate decline and strong and moderate growth. Static industries are identified separately. The static industries are taken to be those that have moved only in the small range of plus or minus 2%. The moderate movements are taken to be from 2% to 10%, and the strong movements beyond that.

To take a longer term view, industries are further grouped as either buoyant or depressed. This has been determined by whether output in 1989 was above or below that in 1985 — with an index of 100 for 1985.

Overall, it was found that some 65% of manufacturing industry might be described as buoyant, and some 32% as depressed. (Information on current production was not available from Central Statistical Service for 3% of industry.)

The "buoyant/depressed" distinction is an important one for it demonstrates clearly that virtually no depressed industry was able to improve its position moving into the recession. At the same time there was a sizeable weight of buoyant industry that was able to maintain a growth momentum — 25% of industry with moderate growth and 8% with strong growth. Similarly most of the industry that remained static, as defined, were in the buoyant class — they remained relatively immune to the downward tug of recession.

The depressed third of all industry was brought down further by the recession. Only some 20% of "buoyant" industry was pulled down to various degrees by the recession, but nevertheless remained above the 100 dividing line.

The broad conclusion to be drawn is that already depressed sectors are most unlikely to recover when the economy is moving into recession, while much of buoyant industry can withstand the ravages of recession.

This conclusion in itself would be self-evident. It is of greater interest to move from the general to the particular. The accompanying table summarises the experience of the more important industries. Industries with a weight of 0,50 or more have been singled out and classified according to their growth experience and status — whether buoyant or depressed.

Much of the industry that experienced growth is directly associated with private consumption of non-durable goods and the specific categories of semi-durable footwear and women's and girls' clothing. Private consumption expenditure on these categories has sustained its growth throughout the recession, albeit with a discernible slowing down.

The large and amorphous industry described in the official statistics as "other chemical products" (that is, other than industrial chemicals, medicinal and pharmaceutical, and toilet products) experienced continued growth during the recession, as also did tyres and tubes, plastic products and "other metal prodcuts". Tinware, which embraces tin foil, tin plating and household articles, showed strong growth of 18%.

The furniture industry maintained its output level despite the economic downturn, and further evidence of this is given in the official estimates of consumption of durable goods, with national consumption of furniture, household appliances, etc, rising from R2,818m in 1989 to R2 984m in 1990 (at constant 1985 prices).

Pulp and paper, with its orientation to the export market, maintained its level of production and was not affected to any significant degree by the recession.

The depressed state of the building and construction industry was instrumental in pulling down associated supply industries such as cement, structural clay products, cement products, cables and wire products, and structural metal.

The motor industry's difficulties are well known and are reflected in the summary table. There are, however, some surprises. For example a number of consumer semi-durable and non-durable food items appear among the declining industries. In these cases there could be specific reasons for their downturn.

For example, the meat slaughter industry has encountered problems connected with the poor climatic conditions of the 1990/91 season and labour difficulties in the abattoirs. The industry is also sensitive to changes in disposable income. In the case of the blankets and textile finishing industry there have been the specific problems of exposure to international competition, particularly from Turkey.

The analysis has brought out the fact once more that SA's manufacturing industry is tremendously diverse and that its susceptibility to general economic climatic conditions can vary markedly.

However, it would have been surprising if the total manufacturing index had not fallen; there was just too much weight of industry that was influenced by such recessionary factors as reduced capital expenditures and pressures on disposable incomes. In some cases the setback to industry was exacerbated by special problems of production, labour, exposure to international competition and other factors.

Nevertheless, the extent to which manufacturing industry continued positively on an upward path is quite remarkable.

☐ **The authors are both members of the Nedbank Economic Unit.**

The Growth Experience of Principal Manufacturing Industries in the Recession

Strong Growth		Moderate Growth		Static		Moderate Decline		Strong Decline		Strong Decline	
Buoyant		**Buoyant**		**Buoyant**		**Buoyant**		**Buoyant**		**Depressed**	
Milk products	0,51	Cooking fats	0,73	Bakery products	1,24	Confectionery	0,63	Can/d frt & veg	1,18	Can'd meat & fish	0,58
Breweries	1,06	Flour & grain mil	1,89	Knitting mills	0,56	Other food prod	0,86	Meat slaughter	1,07	Blankets/finish	2,12
Soft drinks	0,90	Animal feeds	0,63	Furniture	1,44	Distilleries	0,76	Resins	1,36	Cement products	1,00
Tobacco	0,54	Footwear	0,99	Pulp & paper	2,19	Basic non-ferrous	3,02	Clay products	1,31	Steel pipe & tube	0,57
Female clothing	1,50	Medicinal & phar	1,22	Packaging	1,33	Cables, wire	0,77	Other machinery	3,15	Structural metal	2,86
Stationery	0,61	Toilet products	1,52	Paints	0,69	Radio, TV	1,55	Electrical indust	1,90	Special ind mach	2,76
Tinware	0,95	Chemical, other	12,09	Rubber products	0,54	**Depressed**		Insulated wire	0,61	Caravans, trail	0,74
		Tyres & tubes	0,88	Sheet glass	0,61	Male clothing	1,33	Motor vehicles	2,15	Other transprt eq	0,96
		Plastic products	2,10			Sawmilling	0,93	Motor parts	1,68		
		Other metal prod	2,06			Printing	3,83				
						Cement	0,99				
						Iron & Steel	7,11				

Source — CSS

SA firms can exhibit at Lusaka trade fair

(180)

By ALI MPHAKI

IN what represent a major breakthrough in regional trade, South African companies have been invited to exhibit at Zambia's Lusaka Trade Fair which takes place from August 1 to 5.

The green light for South Africa's participation was given to John Thomson of Sandton-based Exhibiton Management Services, during talks in Gaborone recently with Fidelis Kapoka, general manager of the Lusaka Trade Fair, and Daniel Chigaru, manager of the Zimbabwe International Trade Fair. Sowetan 27/6/91

"We discussed ways of utilising the region's existing trade fairs to accelerate business contacts across the sub-continent and bring together companies who previously had been kept apart due to politics,"said Thomson.

He added:" I was given the assurance that for the first time ever South African companies would be welcome at the Lusaka show and, furthermore, that the Zambian authorities would provide a pre-agreed foreign exchange allocation for each South African exhibitor."

Enthusiasts can contact Lineke van der Brugghen or Diane Kydd-Coutts at (011) 783-7250/1/6.

Toyota workers walk out

Sowetan 27/6/91

By IKE MOTSAPI

MORE than 50 placard-carrying workers at Brenners Toyota in Braamfontein yesterday staged a demonstration demanding better wages.

Workers walked out soon after reporting for duty in the morning. They sang and danced the toyi-toyi outside the premises.

Mr Vusi Mazibuko, a shop steward and spokesman for the workers, said they had been "trying for a long time now to convince management to give us a better living wage".

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Mazibuko said management had been side-stepping the issue and workers now felt it was right to resort to protest.

Barend pledges assistance to industries in the export field

By David Canning Star 21/6/91

DURBAN — The Government was committed to kick-starting industries which could make a contribution to export earnings, Minister of Finance Barend du Plessis said on Tuesday.

Speaking at a Max Pollak Vinderine seminar in Durban, Mr du Plessis rejected a plea for reimplemenation of an initial set-up allowance and other blanket tax concessions.

However, small industries had to be kick-started, particularly in the export manufacturing area. The country had to rapidly supplement its export earnings and help to build up its reserves.

A high degree of discretion would be exercised by government experts over the next two years to encourage industries to get off the ground. Thereafter, however, there would be a return to strict tax rules.

Higher growth would be achieved by lower direct tax — hopefully a top marginal tax rate of 40 percent by 1994/5.

He said protection levels had been too high in many industries and the changed circumstances meant there now had to be adjustments. At the same time, export industries had to be encouraged.

Windows of opportunities were opening and industries would be able to use SA's comparative advantages, for example, electricity and transportation costs should be more competitive between now and the turn of the century.

Capital shortage

Most industrial countries had undergone severe structural adjustments in the early Eighties following the oil crisis. Smokestack industries had given way to high-tech businesses and the power of the "greens" had emerged.

In the past South Africa simultaneously had experienced a shortage of capital and negative real interest rates. Ironically the country had suffered from a shortage of capital while that capital was very cheap. One of the spinoffs was very expensive unit wage levels.

Incorrect pricing policies had to be corrected. The country had to choose very rapidly between free services or user charges. Why, for example, should a developer be able to obtain a map for one rand which cost R200 to R300 to produce. Why should the taxpayer have to subsidise medical costs of the very affluent?

Company and direct tax had to be reduced to a level where economic growth would be encouraged. "We need a system that will allow us to to get tax from those who can afford to pay." This would go hand in hand with deregulation and privatisation.

The Government had to force financial self-discipline in a wide range of areas. This discipline would not come if free handouts continued to be made. The poor had to be subsidised in an effective way.

People did not work harder without the motivation to do so.

Mr du Plessis said Government spending increases of more than one percent in real terms and high salary increases for civil sevants inhibited economic growth — but in a high wage environment the Government had to retain a corps of motivated staff.

Nevertheless the number of bureaucrats had fallen sharply while there had been growth in the social areas like teachers and policemen.

Inquiry

Mr du Plessis also said he was very pleased the State President had initiated an inquiry in to the idea of putting directors general of government departments on to an incentive basis.

He personally believed that about 60 percent should be a basic salary — and bonuses accorded, depending on how well certain goals were achieved, such as achieving spending targets.

FM 28/6/91 (180)

INSIDER TRADING (180)

NEW BALL GAME

FM 28/6/91

Since February 1, SA has been living with a tough new set of definitions of insider trading. Amendments to the Companies Act no longer refer to fraud or artifice. Instead, it will be an offence if a person, directly or indirectly, knowingly deals in a security on the basis of unpublished, price-sensitive information — that is to say, knows the information has been obtained by virtue of a relationship of trust or by wrongful method.

This is preferable to referring simply to fraud. The US concept of fraud cannot be applied straightforwardly because the essential difference is that, under American law, there must be actual prejudice, while in SA potential prejudice falls within the definition.

It was felt that it would be unsatisfactory to import an American definition framed in relation to US criminal law concepts and then attempt to interpret it in accordance with SA principles.

Price-sensitive information is defined as information which, if available, would potentially affect the price of a security.

A person connected with a company (such as a director, past director or officer) who deals on price-sensitive information is guilty of insider trading if he deals before the information is generally available.

Apart from a sentence not exceeding R500 000 and/or 10 years' jail, the guilty person will also be liable to a civil suit brought by any person suffering any loss or damage as a result of the insider trading.

The amendments also require directors of listed companies to give the JSE details of their holdings and any changes.

Michael Katz, a member of the Company Law Standing Advisory Committee, says the major change brought about by the new Section 440F lies in the description of so-called secondary insider trading. This definition has caused great difficulty to overseas legislatures as well as to the courts. A particular problem in aligning SA company law with its US counterpart lies in the differences of meaning attached to the word "fraud" in the two legal systems.

A second major change concerns the concept of "unpublished price-sensitive information." This is now confined to matters affecting a company's internal affairs, operations, assets, earning power or involvement in a merger or similar transaction.

Wider wording would have penalised institutions for doing market research. It was feared that a well-informed investor who apprised himself of market conditions and studied market forces might have been guilty of insider trading under the old wording.

The third major change — also wanted by financial institutions — relates to the digestive period. In the US the taint against insider trading does not cease the moment information is published; information must also be digested by the market.

SA's 1989 amendment provided a 24-hour digestive period, which institutions considered to be arbitrary. The new wording does not mention a period; the concept of a digestive period has been absorbed into the new term "generally available." The taint ceases when information is generally available, according to the new S440F(2)(b).

JSE president Tony Norton says the exchange has made attempts over many years to secure convictions for suspected insider trading, but never managed even to lay a charge. Norton, as a member of the committee, participated fully in the deliberations to improve the relevant wording, along with Katz and Mr Justice Cecil Margo. ■

FM 28/6/91

EXECUTIVE ATTITUDES

UNHAPPY DAZE

180

Clem Sunter may not have got it all right with his now-famous Anglo-sponsored scenario for the future of SA, but he brought the low road/high road options into the language. A disturbing new survey has found that 70% of business leaders appear to accept the low road as inevitable and are planning (if that's the word) for it.

The survey was conducted by the Decision Makers Group, a business and marketing consultancy. Though the sample of only 60 senior executives was small, it was representative of 80% of the country's business power, according to Decision Makers' executive director Tony van der Schyf.

The executives tended to split into two camps: the pessimistic 70% and the more bullish minority. The majority was found to be paralysed by fear and uncertainty and unwilling or unable to adapt to changing marketing conditions. The minority feels more optimistic and is more aggressive in adapting to and capitalising on change.

Even though most of the executives accepted that exports, the black market and added-value products were the major potential sources of growth, new products and markets were generally seen in the context of "getting back to basics," as Van der Schyf puts it. Strategic imperatives were expressed in such terms as "sticking to the knitting" or concentrating on the core business. Big companies saw acquisitions and mergers as the major short-term opportunity for growth.

Instead of preparing for the changes ahead, they were obsessed with cost-cutting and staff rationalisation. Short-term thinking took precedence, a factor aggravated in listed companies that are under pressure to maximise short-term profits and return on shareholders' investments.

"Organisations less exposed to investment scrutiny were more favourably disposed to current conditions," Van der Schyf says. Thus the bullish minority was comprised of a greater number of executives of smaller and privately owned companies.

Other attitudes that he found worrisome included:

☐ The apparent inability or even unwillingness, especially among middle management, to recognise and adapt to changing market conditions;

☐ Procrastination and indecision about what action to take;

☐ A lack of consensus on the need for a focused strategy. Lip-service is being paid to

Continue →

BUSINESS 180

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strategic planning, new products and new markets; and

☐ A lack of understanding of the source of their companies' true core competence.

Perhaps most alarming, the business leaders showed no commitment to stopping *inflation*. Virtually all the executives interviewed were highly critical of the financial authorities for their approach to inflation. Most felt the battle had now reached the stage of overkill and that a quick fix for inflation was not possible without severely damaging the economy. ■

The FSB paints a different picture. The 15% commission is a business acquisition cost paid by the underwriter to the intermediary. It is invisible to the consumer. A fee is different and should, a spokesman says, be pointed out in writing as a separate item.

For underwriters, regulated commissions are convenient and easily budgeted. But the system fails to address the anomaly that corporate brokers and parochial operations are — notionally — rewarded in the same structure.

For the rest, there is little new in the latest draft Short-Term Bill. It eliminates the proposal for underwriters to offer 50% of their reinsurance programmes to the seven local professional reinsurers.

That had been seen by underwriters as a hand-out for the reinsurance market and potentially inflationary.

Reinsurers, however, will not after all be forced to separate life and short-term business into separate companies. Five of the seven are composites and may continue to operate as such. *Bryan Deans.*

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ECONOMIC INDICATORS (180)

SUMMING UP

Domestic markets have had a lot to absorb this week: the sudden fall in the gold price from US$365,20/oz to $360,90 between London's Monday fixes; the release of key economic statistics and figures on the Exchequer account in the first two months of the fiscal year; and publication of the Reserve Bank *Quarterly Bulletin.*

Despite the improved monthly surplus on the trade account, the net effect of the news was bearish, taking the top off the recent crest in share prices and sending up interest rates, even in the money market which has had the benefit of strong spending by government. In April-May, Exchequer issues of R15,4bn were up 28% on those months of the previous year. Revenue, on the other hand, at R9,5bn, is less than 11% up on last year.

The bulletin records that first-quarter GDP fell 0,9%, the shrinkage came in the trade balance, with exports falling 21,7% and imports rising 34,9%. As a result the surplus on the current account was down to R1,5bn from R9,7bn in the fourth quarter. GDE, on the other hand, was up 18,5%, due to a slowing in inventory decumulation, a 1,1% increase in private consumption and a 19,5% increase in government consumption. (All figures are seasonally adjusted and annualised.)

Between the end of February and the end of May, the broad monetary aggregate M3 grew by a seasonally adjusted 2,8%. Annualised, this amounts to 12%, just within the Bank's 8%-12% guidelines.

This is a better indicator of underlying growth than the year-on-year rate, as M3 was sharply boosted by technical factors in February, when the Deposit-Taking Institutions Act came into effect, bringing in certain transactions that previously did not form part of the money supply. Credit extended by all monetary institutions at the end of April amounted to R175,3bn, down on the R175,9bn at the end of March and the R175,5bn at the end of February.

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In the 12 months to May, M3 grew an estimated 15,14% to R173,8bn. Annualised growth from the base of the current target year is a seasonally adjusted R174,9bn. Equivalent figures for April, now revised, show growth of 14,52% and 21,75%. In the 12 months to April, M2 grew 17,56%, M1, 11,8% and M1A, 15,11%.

Figures released by the Central Statistical Service (CSS) show inflation jumped 0,6 of a percentage point to reach 15,2% year-on-year in May, the highest since November. The seasonally adjusted monthly increase in the consumer price index (CPI) was 1,6%.

The three-month moving average, which has declined since November, was up 1,2 percentage points to 15%. Food price rises remain rampant — the index rose 17,5% year-on-year.

CSS is to revise weightings used in computing CPI. These are based on a survey of household expenditure patterns, made every five years. The new weightings will come into force in the August CPI, to be published in September.

From Customs & Excise come figures which show export growth in the first five months of this year was strongest in the category of miscellaneous manufactured articles — 61,1% up on the same period of 1990. This was followed by plastics and rubber (47,3%), building materials (42,8%), live animals (37%) and vehicles and transport equipment (32,8%).

Each of these categories is a small proportion of exports but together they're significant. Other unclassified goods (mainly gold and platinum-group metals), which constitute 42% of the total, rose by only 10,9%. The long-term international trend is for industrial products, particularly capital-intensive manufactured goods, to gain market share at the expense of raw materials.

Main influence

In the plastics sector, according to Ferguson Bros energy analyst Richard Price, the main influence was Sasol's polypropylene surplus — the local market can absorb only 25% of production and the rest is exported.

Other industries are also exporting surplus produce to sustain production. An example is the depressed building industry, which Safto economic consultant Gad Ariovitch believes is exporting largely to Africa.

Improved live animal exports, he says, reflect distress selling in the face of prolonged drought.

There are three reasons for strong growth in exports of vehicles and transport equipment; Ariovitch says competitiveness has improved in the transport industry; foreign motor companies are allowing exports from SA subsidiaries; and manufacturers are taking advantage of export incentives.

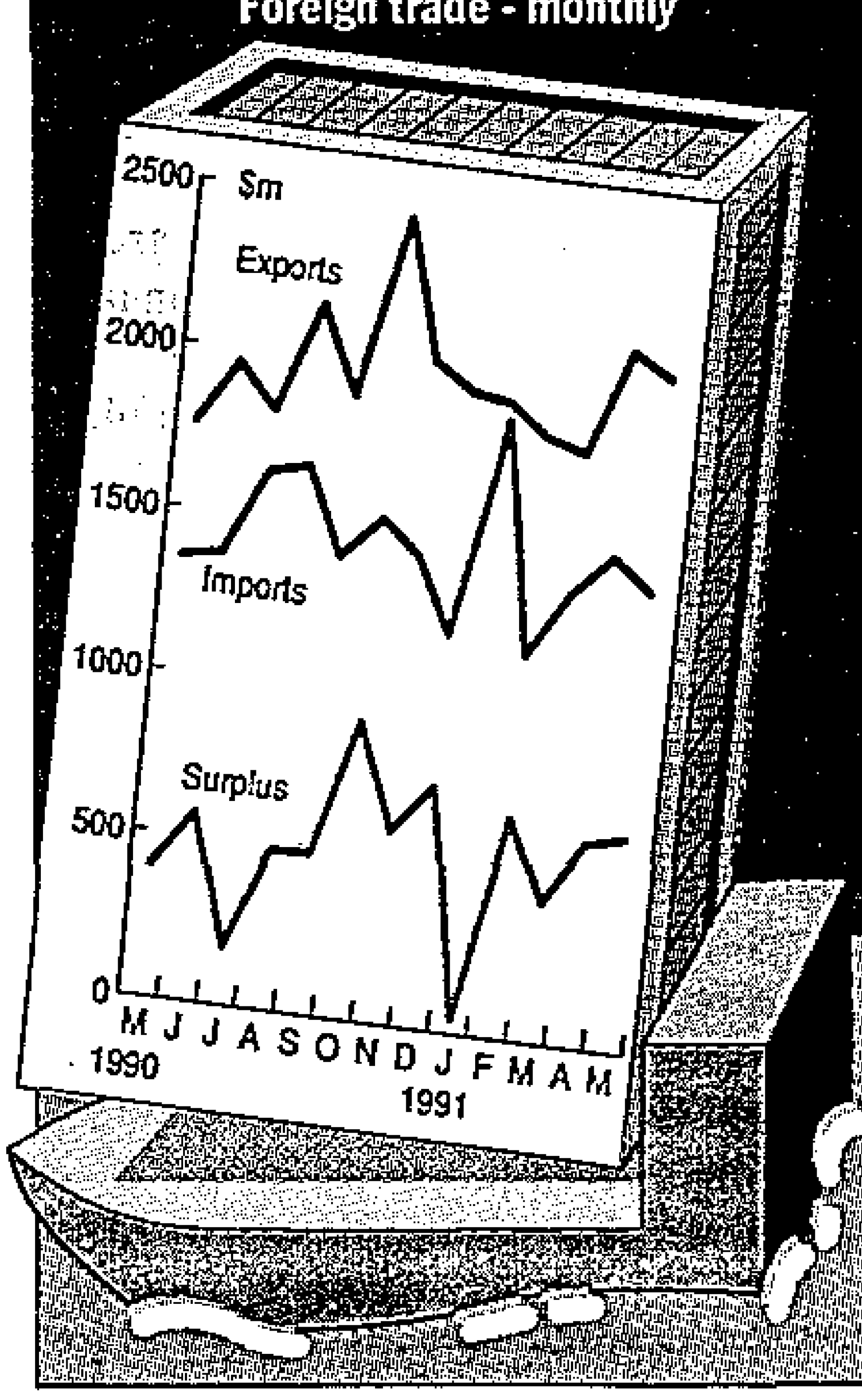
Continue →

ECONOMY & FINANCE (180)

FM 28/6/91.

Holding up

Foreign trade - monthly



□ May's trade surplus rose to R1,83bn ($650m) compared to R1,71bn ($630m) in April, largely due to lower imports of R3,95bn ($1,42bn) after April's R4,14bn ($1,51bn). Exports were little changed at R5,78bn ($2,07bn) from April's R5,85bn ($2,13bn). The cumulative surplus for the year to May is R9,78bn ($3,50bn). ■

—Credit control and asset management—

Small businesses need to keep an eye on the cash

Bday 28/6/91. (180)

SMALL businesses need to give attention to cash management and credit control in the economic downturn, says an accountant specialising in the small business sector.

Price Waterhouse partner Len Walker says stringent credit control is vital if businesses are to weather the storm.

"A sale is not a sale until the money is in the bank," he says.

"It's no good selling something promptly and then waiting for ages to be paid."

Attitude

The problem, says Cutfin operations director Richard Smith, starts with the attitude of many businesses.

"A number of businessmen tend to regard credit control as a part-time job which can be slotted in with other duties such as bookkeeping, salaries, switchboard and the like.

"This is a recipe for disaster and is the reason the cash flows and profitability of many companies are poor performers."

Smith says a company's debtors' ledger must be regarded as a prime asset.

Proper management can enable companies to use their debtors to overcome such problems as tight cash flow, bad debts, giving away discounts and forfeiting discounts from suppliers.

"It is remarkable how many companies fail to link management of their debtors' book to the company's cash flow and profitability," Smith says.

"Many businessmen find their debtors' book grinding to a halt and then throw resources at it in the form of temporary staff to try to remedy the position — and they wonder why this fails to achieve results."

The only solution, say Smith and Walker, is effective, comprehensive, ongoing credit control.

Walker says credit terms must be strictly enforced and credit limits carefully assessed.

Statements and invoices must be issued promptly after a sale has been made.

"Be wary of excuses for non-payments and failure to return telephone calls," he says.

"It is necessary to be even more cautious when a customer is reluctant to provide financial information such as a balance sheet."

Businesses must be careful about customers who pay "round" amounts, as well as commission-earning salesmen who sell to customers whose credit is suspect.

Reviewing

"To ensure its future, a company must keep its records up to date, constantly reviewing and following up overdue accounts.

"Documentation such as delivery notes and invoices must also be completed properly to minimise queries.

"It's also a good idea to maintain regular contact with customers to gain an insight into their financial affairs.

"Proper control of the debtors' book is essential at any time — but in the present business climate it can spell the difference between survival and failure," says Smith.

Manufacturers blamed

WMail 28/6-4/7/91 180

THE African National Congress' draft economic policy ditches "growth through redistribution" but seems to hold on to a concept crucial to that plan.

The document repeats the assertion that South Africa's economic problems stem from the wrong industrialisation policy.

It says a manufacturing industry has grown up oriented primarily towards providing "luxury consumption goods for the wealthy minority".

Nedcor chief economist Edward Osborn says this could only apply to the top end of the motor manufacturing industry.

He points out the industries already exist to manufacture basic goods, and they have been responding to the shift in consumption patterns from whites to blacks.

There are not many obvious areas left for setting up new manufacturing industries. However, redistribution would increase the degree of demand for manufactured goods.

The draft economic policy document reiterates previous criticism of the manufacturing sector: "The manufacturing sector has failed to become internationally competitive.

"It makes little contribution to foreign exchange earnings, but depends to a very great extent on imported machinery and equipment paid for out of foreign exchange earned by mineral exports."

Numsa code for foreign investment

W/Mail 28/6 - 4/7/91

180

By DREW FORREST

THE National Union of Metalworkers has spelt out its conditions for foreign investment in post-sanctions South Africa.

At its weekend congress, Numsa called for a code, to be jointly developed with the Congress of South African Trade Unions and canvassed with its allies, to ensure investment "benefits the working class".

The terms of foreign investment must be made public and open to negotiation between the state and civil society, including unions, it says.

Numsa calls for investment to develop manufacturing, mining, agriculture and social services — and a ban on speculative financial or property investment. Investment on the JSE must be "limited".

"Investment must comply with the short, medium and long-term policies laid down by the state in negotiations with the mass organisations of civil society," the resolution says.

Investors must agree to support centralised bargaining and national and industry training programmes, and will also be bound by minimum labour standards. They will have to comply with nationally negotiated wage levels.

Civil judgments are soaring as the recession bites

(180)

B/Day 28/6/91

THE rand value of civil judgments against companies soared 73% to R65,3m during the first quarter of this year compared to the same period last year.

The value of judgments against individuals rose 32% quarter-on-quarter for the same period to reach R49m.

Recession is biting into company turnovers and, in an effort to counteract this, businessmen are increasing the availability of credit.

Little more than lip service is paid to the concept that no customer is better than a defaulting customer.

Salesmen, in an effort to drive up commission earnings, sell to customers whose accounts are already in arrears.

Kreditinform MD Ivor Jones says: "The high rate of interest is largely to account for the shortage of liquidity.

"When interest rates climbed sharply over a short period, consumers saw their disposable income drop, and sales followed suit.

"Years later, there is still no sign of a recovery.

"The rate of liquidations tends to follow the interest rate and so unless interest rates drop suddenly and radically we can expect to see liquidations increasing before levelling off.

"Retailers are squeezed from two sides. Not only have they been faced by shrinking markets, but they are also subject to the high cost of money."

Natural

Jones says these trends are a natural part of the normal economic cycle —with one abnormal and threatening factor.

"There is no sign of a levelling off in SA's economic cycle and the peaks and valleys are becoming more vicious and destructive to business," he says.

"There is an element of instability in the cycle and this is aggravated by the small entrepreneur, who serves to muddy whatever market he is operating in.

"By manipulating price, production rates and the like, he can create artificial supply and demand conditions but, being small, can rarely sustain performance.

"It is in the interests of SA as a whole, as well as individual businessmen, for standards of management to improve within the small business sector."

Insuring the debtors' book is a neglected aspect of effective credit management, he says — and there are others.

"The most valuable tool any credit manager can have is information.

"The small business will be affected not only by the amount a customer can buy, for example, but also whether the customer will pay him on time.

"Two tips for managers are: not to allow too few debtors to dominate their books; and to know each one of their debtors intimately," he says.

Knowing the debtors involves knowing who their key suppliers are, what market share they hold in their industry and the general state of the industry in which they operate.

"With information like this it becomes possible to assess how great a risk the debtor is," says Jones.

"A debtors' ledger is an asset and must be managed as an asset portfolio.

Spread

"The wise businessman will give himself a spread of low-risk customers who buy small quantities up to high-risk customers who buy large quantities — and a range of permutations in-between."

A well-managed book will ensure customers pay timeously or, if they tend to allow their credit to extend beyond previously agreed limits, carry the burden of the cost.

"As much as a company needs a marketing policy, it must have a credit policy," he says.

Business hoping for a signal

C/P News 30/6/91 (180)

LOCAL and foreign businessmen are taking a keen interest in this week's ANC congress.

The key question is whether the new leadership of South Africa's biggest political party will give a clear indication of future economic policy.

Statements made during the past few months have created the impression among local and foreign businessmen that the ANC is softening its stance on nationalisation and redistribution.

In business circles the ANC's policies on centralised control of business and sanctions are viewed with deep concern and suspicion. Business confidence is at a low ebb and very little investment in new undertakings (which means more jobs) is taking place.

MONEY TALK

Although rather simplistic, the approach seems to be: why take the risk of building up or expanding a business if you will end up losing everything.

It is an open secret that many businessmen today are more interested in getting money out of the country than investing in their companies.

Foreign businessmen are visiting South Africa in record numbers, but one gains the impression they are more interested in selling to us than in investing substantial amounts of money.

The international economy has cooled off and everybody is looking for new business.

Whether we are going to enjoy strong economic growth after our long recession will mainly depend on a recovery of business confidence in the near future.

A contribution in this direction was made last week by Walter Sisulu, who said, according to reports, that to call for the intensification of sanctions is no longer realistic. He pointed out that certain countries have already decided to lift sanctions and said a proposal for the phased lifting of sanctions was "reasonable".

The proposal will, according to the reports, be discussed at the ANC congress.

The actual lifting of sanctions will make very little difference to our economic situation in the short term. But at least the pressure on our embattled business community will be reduced if the congress accepts Sisulu's thinking.

R2bn to be raised in a spate of rights issues

(180)

27/7/91

Own Correspondent

JOHANNESBURG. — More than R2bn in new capital is to be raised in a spate of rights issues in the first half of this year by companies taking advantage of the buoyant share market.

Standard Merchant Bank corporate finance GM Mark Barnes says rights issues are logical at the moment.

"With the cost of funding still high and with management becoming less optimistic that interest rates will drop as a result of the ongoing high inflation," he believes more issues will take place.

He expects many companies "will take advantage of price-to-earnings ratios standing at levels higher than they have been for a while".

Barnes says the funds raised will be used largely to refinance existing borrowings and to place them in a strong position for expansion in the next upturn.

With high price-to-earnings ratios, fewer shares need be issued to raise the same amount of capital, which avoids excessive dilution of earnings per share.

"Second-tier companies will more likely use the funds as an alternative form of financing to borrowings rather than for expansion purposes," says Barnes.

Firstcorp executive vice-president Stuart Jones agrees it is an opportune time for rights issues "considering the market is holding up so well".

The market would not follow a rights offer unless it felt the funds raised would be used well.

"If the funds raised are to be used to reduce debt it is up to the market to decide if a reduction in debt is necessary.

"If a company has a good track record, then institutions are likely to follow the issue without knowing exactly what the company has in mind."

In recent weeks rights issues were announced by Metropolitan Life (R220m), Consolidated Metallurgical Industries (R100m) and UAL's Sycom property fund (R75m).

The R1,1bn raised in April by energy group Engen is to be used to fund expansion and exploration projects. Engen's issue was the largest the JSE had seen since July 1989 when Gencor raised R1,4bn.

The rights issues have been undertaken not only to finance projects but also to reduce debt and take advantage of any potential acquisitions given the depressed economy.

According to JSE statistics, R4,18bn was raised through rights issues in 1990. About R2,5bn had been raised by this time last year. A feature of last year was the number of mining companies coming to the market — 11 compared with two so far this year.

JCI's ferrochrome producer CMI is offering a 30% discount to induce shareholders to follow their rights.

Gengold's developing gold mine Oryx had to put plans for a rights offer on ice because of bearish market sentiment.

Metropolitan Life is an example of a company taking advantage of a high price-to-earnings ratio.

The share currently stands at 1 000c, having risen by over 70% from its low of 575c in October last year — the ratio moving to 16,4 from 9,4.

Small men hold the big key

Star 1/7/91

(180)

AT THE dawn of a post-apartheid era, the main debate now centres on what kind of political model looks best suited to the new South Africa — and which economic route to follow.

On one side stand the champions of a market economy approach, with an emphasis on free enterprise, individual initiative, entrepreneurship and efficiency.

On the opposite side stand the supporters of a command economy approach, with a commitment to egalitarianism, welfare services and social security based on Government intervention and control.

There are also many combinations and permutations between the two extremes of the sort of fully democratic system practised in Switzerland and the totalitarian dictatorships that ruled much of Eastern Europe until the recent collapse of several communist regimes.

One major problem is the way the current debate is bedevilled by a lack of consensus on the precise meaning of key terms in the political lexicon.

For one person, "profit" means a reward for effective economic action; for many others it carries connotations of exploitation or privilege.

For some, "socialism" means solutions to end poverty; for others it raises the spectre of a failing and declining economy and widespread misery.

The irony of the situation is that the protagonists of socialism hold that central planning is necessary to achieve a better deal for the masses.

Dr Ben Vosloo, who today celebrates 10 years at the helm of the Small Business Development Corporation, was at the spearhead of moves that ushered budding black businessmen into the economic mainstream when he took the lead in breaking down apartheid barriers. He explains why he believes the small businessman can play a crucial role in the post-apartheid era.

This is due to the fallacy of identifying the ideology of "separate development" with the economic system of "capitalism" in the minds of people in the large Third World periphery.

The majority of voters in the new South Africa are not likely to be easily persuaded that central planning and totalitarian government — albeit "democratic centralism" — are inherently hostile to the spiritual and material welfare of the man in the street.

Hence we must expect a battle for the minds of people between the forces of individual freedom and enterprise on one hand and supporters of socialist central economic planning on the other.

We at the Small Business Development Corporation believe that the natural mediators between these conflicting views are South Africa's entrepreneurs.

Men and women who are engaged in the small business sector of the economy tend to be true free marketeers, though few would actually give themselves that label.

It is largely only the entrepreneurs, with positive hands-on experience of a free market at work, who can act as a bridge between those South Africans who find they do not really see eye-to-eye.

And it is only here that emotional issues do not cloud concepts by attaching moral values to them. For your average entrepreneur, the critical question is not whether a concept is ideologically acceptable, but whether and how it works in practice.

Without job-creation and economic growth, our society will be condemned to impoverishment. Basic needs such as housing and better education and health services will fade out of reach.

Like most countries in today's world we are likely to continue running a mixed economy that combines free market features and some government intervention. But sharp questions will have to be asked about the nature of the mix — and the direction of the tilt.

In the final analysis it should be made clear that our hopes for the future do not lie in simplistic ideological rhetoric. They lie in a refocusing on the true nature of development at the grassroots level in towns, cities and regions.

Real economic development is a do-it-yourself process that can at best only be reinforced by sound economic policies.

It boils down to the rediscovery of the enterprising individual who creates job opportunities, who takes risks, who breaks new ground and who plays an innovative role in the economic life of a country.

The way to build a happy and prosperous nation does not lie in centralised bureaucratic planning and control but in unleashing the creative potential of the entire population.

The media in South Africa has a crucial role to play to ensure that the debate on our future political-economic order is an informed debate and that all the relevant facts and arguments are made known. □

Manufacturing still in grip of recession

(180) BD 4/7/91

By MAGGIE ROWLEY
Deputy Business Editor

THE manufacturing industry is still in the grips of the recession, with few signs of it emerging from a two-year production and sales slump.

The latest survey on the sector by the Bureau of Economic Research at Stellenbosch University (BER) shows business conditions declined at faster in the second quarter of this year, with sales and production down, compared with the same period last year.

The findings coincide with the latest figures released by Central Statistical Services (CSS), which show the total volume of manufacturing production in March continued to fall.

The index of total production in March was 1,3 percent down from the preceding month and the sixth successive monthly decline since October last year.

In the first quarter of this year the manufacturing sector experienced better than expected business conditions. A further improvement with increased sales volumes had been anticipated for the second quarter, but had not materialised owing to a decline in the demand for industrial products, resulting in a lowering of the business confidence index in this sector.

The BER survey among 827 manufacturers in 21 subsectors shows sales targets were not reached in the second quarter and that the volume of sales, production and new orders received were down on that of a year ago owing to insufficient demand and the unstable socio-political climate.

The Reserve Bank in its quarterly bulletin advances another reason for the fall in sales and output.

Pent-up demand for durable goods, particularly furniture, in 1990 enabled many manufacturers to maintain strong production volumes.

"In the first three months of this year, however, a contraction in expenditure on furniture and transport equipment resulted in a moderate decline in outlays on durable goods, in spite of continued increases in expenditure on audio equipment and other appliances," the Bank reported.

This could be attributed to a natural levelling off in expenditure on durables after the pent-up demand of the second half of last year.

"Other factors, such as the cooling-down of the economy, labour retrenchments and the high level of township violence, could also have led to a more conservative attitude toward durable expenditure," according to the Bank.

According to the BER survey not all industries saw manufacturing activity decline. While industries in the capital goods market and suppliers of intermediate products were facing tough business conditions owing to the economic downturn, and higher production costs, producers of consumer goods had been enjoying a boom.

The business confidence index in the manufaucturing sector declined by six points, indicating that only 25 percent gross of manufacturers were satisfied with prevailing conditions.

"This lower level of business confidence is substantiated by a decline in the willingness of manufacturers to increase their fixed investments in machinery and equipment over the next 12 months. Money for capital creating purposes is now being diverted to the stock exchange and other securities," reports the BER.

The bureau forecast a slight improvement in business conditions for the third quarter although at a lower level, compared with the same period last year.

Manufacturers were fairly optimistic that the decline in sales, production and new orders was likely to bottom out during the current quarter.

This optimism was based on the expected further decline in interest rates, a hopeful easing of sanctions after the final scrapping of certain discriminatory business legislation, the proposed export incentive programme and the newly announced low interest rate assistance scheme for industrial development.

IDC's R750m export boost

B/Day 5/7/91

ANDREW GILL

GOVERNMENT's new growth strategy will gain further impetus with R750m being redirected into mainly export projects.

This is as a result of the Industrial Development Corporation's withdrawal from further backing of the Mossgas project.

IDC chairman Koos van Rooy announced yesterday that it had decided not to follow its rights for a 20% shareholding in Mossgas as the financing had been arranged with the Central Energy Fund.

Analysts said the move was further evidence of government's export drive in attempts to set the country on the road to sustained economic growth.

The additional cash would be used instead to promote industrial growth and boost foreign exchange earnings through various schemes "with the full financial resources of the IDC".

The move is one of the first resulting from President F W de Klerk's opening of Parliament speech in February when he announced a restructuring of the IDC with a view to boosting exports.

The announcement said schemes were aimed at utilising idle capacity in industry, beneficiating local raw materials and establishing projects, currently being investigated and implemented, which would result in large scale earnings and savings of foreign exchange. (180)

Van Rooy said possible projects which could benefit from the IDC funds were the R2bn Columbus stainless steel joint venture being investigated by Highveld Steel and Samancor and the R3bn Alusaf smelter project under investigation by Gencor.

The projects involved beneficiation of raw materials and could have a significant effect on the country's balance of payments. The Alusaf project, for instance, is expected to generate $400m a year in foreign exchange if it gets off the ground. The IDC owns more than 40% of Alusaf.

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The IDC was investigating some projects itself, he said, many of which required "substantial" capital commitments.

Another sector which could benefit from IDC funds was the textile industry with a view to import replacement, he said.

Discussions had taken place with many of the bigger companies and groups on the issue of utilising idle capacity and Van Rooy was waiting for their reaction.

Incentives in this regard would include favourable transport and electricity rates and financing from the corporation.

The IDC already had R530m invested in Mossgas, which would be repaid over time.

Engen chairman Bernard Smith said the IDC's withdrawal was no problem at all as Engen's position was secure. The company has a 30% interest in Mossgas.

Van Rooy said the withdrawal was not a "thumbs down" for Mossgas but had happened because the project was adequately financed and had well-established private sector participation. As a result, the IDC's presence was not essential.

Although the IDC would not participate directly in Mossgas, the corporation would remain involved in the possible development of downstream petrochemical facilities based on surplus gas and byproducts from Mossgas.

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CORPORATE PROFITS: LITTLE GROWTH LEFT

Company		Reporting Period	Turnover Rm	Turnover % change	Operating Profit Rm	Operating Profit % change	Finance Charges Rm	Finance Charges % change	EPS c	EPS % change	DPS c	DPS % change
INDUSTRIAL HOLDING												
Amic	P	Dec 31	6 123,0	6,0	571,0	−49,4	122,0	−3,9	836,0	−29,2	350,0	0
Anglovaal Ind	I	Dec 31	3 655,7	19,5	331,0	7,5	43,0	−9,7	383,0	4,0	—	—
Barlow Rand	I	Mar 31	15 523,0	12,3	1 226,0	−0,6	338,0	17,4	187,0	−14,1	51,0	0
Bid Corp	I	Dec 31	197,2	11,5	18,7	14,2	▲6,5	397,5	63,8	40,5	25,0	66,7
Bolton Industrial	P	Feb 28	370,2	2,1	•12,6	−54,6	n/d	—	70,9	−60,8	26,0	−43,5
BTR Dunlop	P	Dec 31	700,8	10,9	134,2	21,0	8,8	120,0	372,0	20,0	165,0	17,9
CG Smith	I	Mar 31	7 888,0	14,9	627,3	8,2	131,3	15,5	400,6	6,9	111,0	5,7
Cullinan	I	Dec 31	301,2	−10,5	19,9	−15,8	10,2	23,9	53,9	−8,6	17,0	0
Darling & Hodgson	I	Feb 28	288,3	−3,2	•44,7	−12,4	n/d	—	38,1	−20,0	‡50,5	381,0
ESI Corp	P	Dec 31	n/d	—	n/d	—	n/d	—	110,4	−18,4	35,0	0
Grincor	P	Dec 31	497,5	17,3	57,0	9,3	15,3	16,8	73,3	17,7	28,0	21,7
HLH	P	Mar 31	587,1	26,5	117,8	23,5	24,8	72,1	91,2	12,0	32,5	12,8
Imphold	I	Dec 25	315,0	12,6	27,4	23,3	4,8	10,3	17,6	20,0	7,0	21,7
KNJ	I	Dec 31	152,8	−11,6	16,8	−25,8	4,0	−12,8	5,8	−38,9	—	—
Longmile	I	Dec 31	172,6	−21,5	22,3	−5,2	6,0	−9,4	15,7	−26,6	0	—
MacPhail	P	Dec 31	211,8	38,1	•11,9	13,8	n/d	—	50,5	21,7	19,0	15,2
Malbak Group	I	Feb 28	4 193,0	4,9	357,0	6,6	89,0	−2,2	57,0	0,9	12,5	0
Mccor Holdings	I	Dec 31	262,2	6,2	•1,2	−57,8	n/d	—	6,3	−57,1	—	—
M & R Holdings	I	Dec 31	2 237,0	14,5	143,4	9,1	10,9	−2,7	208,0	5,6	46,0	15,0
Picbel	I	Dec 31	n/d	56,0	16,4	−13,4	10,2	−52,7	85,0		100,0	—
Plate Glass	P	Mar 31	2 300,0	−27,0	n/d	—	n/d	—	408,9	15,2	222,0	0
Royal Corp♣	I	Feb 28	220,8	29,5	23,0	30,2	2,9	−8,6	21,9	18,4	7,0	16,7
Safren	I	Dec 31	2 111,1	2,9	383,7	7,9	n/d	—	225,0	10,8	60,0	9,1
T & N Holdings	P	Dec 31	413,4	5,6	26,2	−23,4	§21,1	31,9	35,0	−49,5	13,8	−55,5
Toco Holdings	P	Mar 31	131,3	29,1	17,2	31,6	3,0	82,6	19,6	24,1	7,5	25,0
W & A Investments	P	Dec 31	3 036,5	30,2	316,7	7,8	▲117,9	77,9	95,0	−13,8	42,0	0
BEVERAGES, HOTELS AND LEISURE												
Amalgamated Beverage	P	Mar 31	884,3	19,6	109,6	24,7	§5,2	−9,5	53,7	25,5	26,0	23,8
Distillers Corp	I	Dec 31	n/d	13,5	107,5	11,3	§0,3	—	36,8	10,2	11,0	10,0
Interleisure	I	Dec 31	190,4	−5,1	37,3	14,0	2,1	−50,5	10,1	13,5	4,8	11,8
Kersaf	I	Dec 31	904,1	12,3	249,1	13,0	13,5	−20,3	101,0	18,8	58,0	16,0
M-Net	P	Mar 31	426,4	31,5	44,8	54,0	5,0	−46,0	30,3	170,5	7,0	84,2
SA Breweries	P	Mar 31	15 385,0	16,1	1 688,0	20,7	§275,0	24,4	265,0	17,8	118,0	16,8
Sun Bop	I	Dec 31	388,6	22,8	112,3	17,2	0,4	−78,4	82,3	21,7	55,0	22,2
Suncrush	I	Dec 31	231,8	13,7	39,3	30,0	n/d	—	773,0	28,4	125,0	30,2
Transkei Sun	I	Dec 31	96,0	19,6	33,8	1,8	0	−77,8	18,2	7,1	13,8	5,8
BUILDING AND CONSTRUCTION												
Anglo Alpha	P	Dec 31	697,3	11,6	187,8	−0,8	13,6	−22,3	349,8	−4,7	132,0	14,8
Basil Read	I	Dec 31	277,9	62,0	12,0	32,6	▲2,9	45,4	35,1	−28,9	10,0	0
Basil Starke Group	P	Dec 31	171,2	15,4	7,8	18,3	4,4	15,7	33,9	4,3	—	—
Blue Circle	P	Dec 31	776,0	4,7	119,0	−6,3	6,9	−7,9	286,2	−13,5	115,0	4,5
Boumat	P	Mar 31	1 091,2	8,9	31,1	−46,3	25,3	30,0	7,0	−93,5	48,0	6,7
Everite	I	Dec 31	166,3	2,5	7,9	−52,2	0,9	−33,5	10,0	−39,0	4,0	−46,7
Grinaker	I	Dec 31	989,3	5,2	47,3	−25,5	4,8	−47,0	41,6	−28,5	10,0	−23,1
Group Five	I	Dec 31	672,1	3,0	16,9	9,5	n/d	—	101,0	44,3	27,0	17,4
PP Cement	I	Mar 31	377,0	5,1	79,7	−7,0	3,6	140,0	125,7	7,2	45,0	7,1
Shoredits	P	Dec 31	◊219,2	16,7	38,4	−4,4	◊4,3	11,2	◊21,8	−28,3	◊8,0	0
Stocks & Stocks	I	Oct 31	669,1	3,4	19,3	5,3	5,3	128,2	19,0	−13,8	4,0	0
Supreme Industrial	P	Dec 31	216,1	185,7	33,3	284,3	20,3	683,4	30,0	61,3	10,0	42,9
CHEMICALS AND OILS												
AECI	P	Dec 31	5 031,0	5,8	499,0	−17,4	130,0	19,3	154,0	−24,1	87,0	0
Chemical Services	P	Dec 31	446,0	33,0	53,9	46,0	n/d	—	367,0	20,0	120,0	20,0
Engen	I	Feb 28	3 093,0	22,9	165,0	17,0	n/d	—	110,9	20,7	42,0	20,0
Omnia Holdings	P	Dec 31	380,8	13,3	•27,9	−5,1	n/d	—	73,2	8,9	30,0	15,4
Sasol	I	Dec 25	4 000,7	69,5	974,2	58,9	▲204,5	—	82,5	29,3	32,5	18,2
Sentrachem	I	Feb 28	1 140,6	10,4	102,4	−3,3	64,3	7,0	24,2	−26,3	6,0	−52,0
CLOTHING, FOOTWEAR, TEXTILES												
Amshoe	P	Feb 28	219,1	5,6	27,3	−14,1	5,3	13,9	27,4	−18,2	9,0	0
Bolton Footwear	P	Feb 28	189,8	1,0	17,3	−13,6	4,6	5,0	26,2	−24,6	8,4	−23,6
Conshu	I	Dec 31	317,2	10,9	35,8	7,4	5,6	20,8	33,0	8,6	11,5	9,5
Da Gama	P	Mar 31	260,7	−5,5	50,3	−28,1	n/d	—	83,2	−30,4	36,0	−30,2
Frame	I	Dec 31	371,8	−18,8	(38,9)	—	▲18,6	148,1	(257,5)	—	0	—
Leco	P	Feb 28	•440,8	55,2	54,2	27,9	16,3	129,9	43,2	−4,6	10,0	11,1
Rex Trueform	I	Dec 31	n/d	7,0	4,0	−61,0	0,8	139,4	77,3	−41,0	—	—
Romatex	I	Mar 31	337,0	−3,7	16,7	−48,4	9,0	119,5	19,4	−71,9	10,0	−60,0
SA Bias Ind	P	Dec 31	n/d	51,0	19,2	5,8	1,9	96,7	47,3	1,7	18,0	0
Seardel	I	Dec 31	535,8	13,9	42,8	3,1	§15,9	−2,4	65,5	5,6	8,0	0
ELECTRONICS												
Aberdare	P	Dec 31	432,4	−0,5	•83,8	11,7	n/d	—	300,0	14,5	150,0	14,5
Allied Electronics	P	Feb 28	2 655,0	0,9	•289,2	30,8	n/d	—	410,5	34,3	142,0	16,4
Allied Technologies	P	Feb 28	926,5	16,7	•143,1	6,8	n/d	—	822,0	−1,4	268,0	0
Datakor	P	Mar 31	498,6	11,1	46,4	−11,9	8,9	−30,0	20,0	25,8	8,5	21,4
Fintech	P	Feb 28	524,0	−22,3	22,8	—	4,7	−69,6	84,0	—	20,0	—
Fintech Informatics	P	Feb 28	350,3	−11,6	9,6	—	n/d	—	8,6	—	0	—
Grintek	I	Dec 31	505,8	8,7	38,0	−24,5	1,2	−89,7	7,1	−34,9	2,4	−20,0
Power Technologies	P	Feb 28	1 204,2	4,1	•126,8	25,2	n/d	—	30,8	10,8	8,3	10,7
Reunert	I	Mar 31	759,7	16,6	49,7	−5,3	▲8,1	−26,6	84,4	5,4	22,0	0
Siltek	I	Dec 31	n/d	7,0	32,8	−10,1	2,9	−40,5	33,0	−16,2	10,0	−9,1
Tedelex	I	Feb 28	268,6	37,2	22,6	38,4	7,6	8,7	23,6	43,9	7,0	40,0
Technology Systems	I	Mar 31	637,7	17,7	41,0	0,2	n/d	—	21,1	20,8	10,5	16,7
ENGINEERING												
African Oxygen	I	Mar 31	514,5	17,5	111,0	19,2	▲19,1	20,9	131,0	27,2	83,0	26,0
Bearing Man	P	Feb 28	96,0	11,0	16,2	−1,5	6,6	100,9	95,0	−26,0	30,0	−26,0
Dorbyl	I	Mar 31	1 255,7	1,0	82,8	−4,4	▲16,0	−5,3	160,1	8,6	28,0	0
Ed L Bateman	I	Dec 31	423,3	34,7	14,5	49,9	1,1	−7,1	317,0	24,8	72,0	26,3
Fenner	I	Feb 28	123,5	31,5	13,9	40,4	§2,2	68,5	30,9	30,9	7,5	15,4
Fraser Alexander	I	Dec 31	104,7	6,8	n/d	—	n/d	—	44,6	−28,6	11,0	−21,4
Genrec	I	Dec 31	279,1	10,4	•22,2	166,6	n/d	—	119,0	83,1	25,0	100,0
Haggie	P	Dec 31	1 254,1	6,3	137,7	−8,8	▲20,3	77,3	363,2	−10,6	157,0	0
Hudaco	P	Nov 30	403,1	10,5	14,5	25,2	§9,0	31,1	110,4	2,8	50,0	4,2
Metkor	I	Mar 31	1 409,7	1,0	80,8	2,9	24,2	−7,6	14,5	42,9	4,7	10,8
NEI Africa♣	P	Dec 31	712,2	22,6	15,4	−67,3	n/d	—	(68,2)	—	165,0	−21,8
NTC	P	Dec 31	502,8	22,7	37,4	22,3	10,6	23,3	155,0	16,6	50,0	13,6
Robor Ind Hold	I	Mar 31	360,2	−10,6	20,2	−31,8	1,8	−64,0	55,1	−20,1	19,0	0
Standard Engineering	I	Feb 28	296,0	−9,2	35,1	−19,5	7,9	4,5	46,0	1,7	14,0	0
Unihold	P	Dec 31	195,9	23,8	23,0	4,1	7,5	33,4	28,2	−25,6	13,5	12,5

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CORPORATE PROFITS: Continued

Company		Reporting Period	Turnover Rm	Turnover % change	Operating Profit Rm	Operating Profit % change	Finance Charges Rm	Finance Charges % change	EPS c	EPS % change	DPS c	DPS % change
INDUSTRIAL HOLDING												
FOOD												
Cadbury Schweppes	P	Dec 29	537,7	22,2	47,3	12,3	10,2	84,7	100,5	13,2	41,0	13,9
CGS Food	I	Mar 31	5 594,2	16,2	390,5	13,4	95,1	31,9	150,8	30,2	37,0	8,8
Fedfood	P	Mar 31	1 285,0	12,7	169,0	13,5	n/d	—	190,0	11,8	63,0	12,8
ICS	I	Mar 31	1 083,0	2,8	18,6	−19,2	10,2	14,1	63,1	−1,1	14,0	0
I & J	I	Dec 31	692,3	13,9	44,5	0,7	3,2	−15,6	101,2	6,5	—	—
Kanhym	I	Feb 28	495,2	4,0	23,6	−2,0	6,0	−0,4	31,9	13,1	10,0	0
Lebowa Bakeries	P	Mar 31	91,1	23,9	12,1	12,0	1,0	−0,4	23,0	10,0	9,3	19,4
Premier Group	P	Mar 31	5 094,1	17,3	374,3	11,5	▲81,5	7,2	210,0	15,7	70,0	16,7
Rainbow Chicken	P	Mar 31	◊697,1	9,7	240,2	−37,4	n/d	—	◊17,3	−44,0	◊5,7	−46,4
Tiger Oats	I	Mar 31	3 888,5	20,5	283,7	22,6	▲44,9	66,3	98,0	22,6	25,0	13,6
FURNITURE AND HOUSEHOLD												
Afcol	P	Mar 31	780,1	11,2	64,2	9,8	25,3	28,8	163,1	−14,3	81,5	−14,2
Amrel	P	Mar 31	1 030,7	21,4	142,4	5,0	n/d	—	260,0	8,1	87,0	6,1
Ellerine	I	Feb 28	311,3	30,0	53,6	35,3	n/d	—	375,0	26,7	125,0	14,7
JD Group	P	Dec 31	645,7	36,9	83,6	25,7	21,9	32,6	143,2	39,6	22,0	29,4
Morkels	P	Mar 31	268,3	31,2	28,4	55,3	9,2	43,2	23,7	53,4	10,0	42,9
Protea Furnishers	P	Dec 31	◊144,8	104,1	25,8	—	9,4	39,8	◊20,5	—	◊3,0	—
Rusfurn	I	Dec 31	849,0	21,9	109,5	30,8	31,7	137,8	37,2	0,3	5,5	0
MOTOR												
Asseng	P	Dec 31	128,9	−0,9	12,4	−41,2	5,6	51,4	18,8	−44,4	7,0	−53,3
Brian Porter	I	Dec 31	148,1	5,2	3,4	−10,6	▲1,7	15,9	29,4	34,5	8,0	−33,3
Combined Motor	P	Feb 28	367,1	−0,9	10,9	−22,4	▲2,5	−26,1	22,3	−20,4	10,7	0
Gentyre	P	Dec 31	520,0	15,0	64,1	1,3	n/d	—	442,0	67,9	112,0	20,4
Metair	P	Dec 31	330,4	6,9	19,3	−28,7	n/d	—	153,0	−37,6	83,0	0
Salcon	P	Mar 31	1 463,5	−5,0	57,3	−31,9	26,3	33,0	53,0	−64,4	14,0	−67,4
Toyota	P	Dec 31	3 117,9	6,8	◊252,4	43,3	n/d	—	2 764,0	28,6	475,0	15,9
Vektra	P	Dec 31	475,5	1,8	28,1	−17,9	19,0	70,3	46,3	−57,3	16,0	−54,3
Wesco	P	Dec 31	3 117,9	6,8	*255,8	43,5	n/d	—	724,0	22,9	72,0	20,0
PAPER AND PACKAGING												
Carlton Paper	P	Dec 31	394,0	24,2	49,9	34,4	▲3,8	−30,3	184,5	40,9	78,0	25,0
Coates	P	Dec 31	145,1	19,0	15,5	27,5	n/d	—	232,6	28,1	61,0	24,5
Consol	I	Dec 31	1 042,9	65,1	141,0	61,1	§10,6	−1,0	91,9	30,7	—	—
CTP Holdings	P	Mar 31	482,1	6,2	44,9	34,5	▲3,8	−30,1	99,4	35,2	19,0	22,6
Holdains	I	Feb 28	959,6	6,9	86,8	16,0	21,2	6,7	166,7	10,0	51,0	8,5
Nampak	I	Mar 31	1 956,9	15,1	215,7	7,6	27,2	−19,0	229,0	11,7	75,0	10,3
Sappi	P	Feb 28	2 669,0	−2,1	492,3	−34,0	§280,9	37,0	402,0	−38,2	200,0	0
PHARMACEUTICAL AND MEDICAL												
Adcock Ingram	I	Mar 31	371,2	30,6	52,1	27,6	2,8	9,6	100,0	26,9	28,0	30,2
Clinic Holdings	I	Mar 31	n/d	—	23,5	18,9	n/d	—	12,4	23,7	5,3	16,7
POC Holdings	P	Mar 31	522,3	2,1	0,8	−94,8	n/d	—	8,7	−78,0	3,0	—
SA Druggists	P	Mar 31	1 061,9	12,0	88,2	−8,0	▲15,5	22,8	25,3	−12,2	10,0	0
Twins	P	Mar 31	493,4	0,3	81,7	−1,4	16,1	−21,8	39,2	−5,1	16,0	0
PRINTING AND PUBLISHING												
Argus	P	Mar 31	1 806,2	14,4	182,3	22,9	▲6,9	6,8	160,0	15,9	50,0	14,3
Caxton	P	Mar 31	482,1	6,2	47,1	21,8	▲3,8	−30,1	1 818,0	26,2	303,0	23,2
Perskorgroep	I	Dec 31	n/d	—	*110,8	22,9	n/d	—	165,9	21,7	16,0	—
Times Media	P	Mar 31	266,1	11,6	38,6	−0,9	1,8	16,9	115,0	−3,5	60,0	11,1
RETAILERS AND WHOLESALERS												
Bergers Group	P	Dec 31	143,0	71,2	13,7	45,5	▲3,1	1 262,1	34,3	13,6	14,8	13,5
Boymans	P	Feb 28	189,9	0,9	14,2	10,7	9,2	16,8	23,5	−3,5	0	—
Cashbuild	I	Dec 29	196,8	22,2	*8,8	27,2	n/d	—	17,2	22,9	5,0	25,0
Clicks Stores	P	Feb 28	551,9	29,5	43,4	26,5	▲0,7	162,4	102,3	25,0	43,0	26,5
CNA Gallo	P	Mar 31	798,4	17,4	97,1	24,9	§14,9	43,9	168,5	18,8	67,0	21,8
Edgars	P	Mar 31	2 475,8	24,9	353,0	22,7	§58,6	31,1	296,0	21,8	113,0	21,5
Foschini	P	Dec 31	822,0	24,3	169,0	35,0	20,1	40,8	762,2	33,9	311,0	28,5
Gresham	P	Mar 31	833,1	33,1	18,2	3,9	▲10,7	388,5	6,5	−54,0	3,0	−50,0
Metro	I	Dec 29	2 140,2	23,4	28,0	−31,6	20,3	140,2	(0,5)	—	0	—
Midas	P	Feb 28	241,8	9,5	10,6	−36,1	5,8	−9,4	31,5	−47,8	8,5	−57,5
Milstan	P	Feb 26	129,7	18,9	4,2	−46,7	n/d	—	8,9	−53,9	4,5	−43,8
OK Bazaars	P	Mar 31	4 799,8	13,8	67,9	−15,4	▲38,4	15,0	120,3	−26,2	63,0	−26,7
Penbin	P	Dec 31	228,3	32,4	6,0	−3,6	n/d	—	15,2	−25,8	7,0	−22,2
Pep	P	Feb 28	1 225,3	24,0	155,2	25,7	4,1	−6,7	193,9	11,4	78,0	14,7
Pepkor	P	Feb 28	1 957,4	32,1	188,1	24,8	14,7	0,7	678,6	17,0	212,0	14,6
Pick 'n Pay	P	Feb 28	5 189,2	18,6	133,4	13,9	n/d	—	110,6	4,4	57,5	10,6
Score-Clicks	P	Feb 23	1 904,0	6,6	65,0	−2,3	15,8	83,5	26,0	−12,9	9,5	−22,0
Score Food	P	Feb 23	1 352,3	−0,6	22,5	−31,8	14,1	85,3	52,2	−47,6	13,0	−67,5
Shield Trading	P	Feb 28	648,9	26,7	18,2	47,3	n/d	—	12,6	34,0	6,0	33,3
Shoprite	P	Feb 28	732,1	55,3	17,6	−2,9	1,0	376,3	27,2	−1,3	13,6	12,5
Smart Centre	I	Dec 31	101,1	40,2	17,2	21,9	1,2	−23,4	21,0	10,7	3,0	—
Specialty Stores	P	Feb 28	245,9	32,6	22,7	28,7	5,3	97,7	75,1	6,8	27,5	10,0
Teljoy Hold	P	Mar 31	146,8	26,2	31,6	16,0	§9,9	28,8	32,1	17,8	13,5	0
Tradegro	I	Dec 31	4 207,2	16,7	70,2	−14,8	27,3	27,1	(0,2)	—	6,0	0
Waltons	P	Feb 28	685,3	5,7	105,0	−2,7	19,7	−29,5	52,6	−17,3	19,0	−9,5
Wooltru	I	Dec 31	1 687,9	24,0	*149,3	19,6	n/d	—	220,7	29,2	77,0	20,3
STEEL AND ALLIED												
CMI	I	Dec 31	102,0	−20,7	(5,1)	—	12,6	15 645,0	(35,0)	—	0	—
Highveld	P	Dec 31	1 431,7	−11,3	201,3	−64,4	n/d	—	208,4	−53,7	70,0	−46,2
Iscor	I	Dec 31	3 597,0	17,3	437,0	−27,3	108,0	120,4	16,1	−80,0	4,5	−16,7
Usko	I	Mar 31	294,1	−0,1	(3,4)	—	§9,5	−29,3	(41,0)	—	0	—
SUGAR												
Tongaat-Hulett	P	Mar 31	3 798,4	2,4	317,5	−15,0	105,1	17,3	190,6	−19,4	73,0	−7,6
TOBACCO AND MATCH												
Lion Match	P	Mar 31	330,6	18,1	40,1	16,7	12,0	17,8	33,8	9,4	14,0	7,7
Rembrandt Group	P	Mar 31	n/d	—	*360,3	24,6	n/d	—	185,8	15,1	30,0	20,0
Utico	P	Dec 31	440,6	22,0	85,2	21,5	2,7	69,2	368,0	29,9	205,0	34,0
TRANSPORTATION												
Cargo Carriers	P	Feb 28	180,3	3,3	7,6	−51,6	8,2	72,8	0,5	−98,7	3,6	−73,1
Laser Transport	P	Dec 31	106,5	0,1	9,3	−36,0	2,7	−10,8	33,9	−45,2	13,0	−48,0
Putco	I	Dec 31	177,4	−6,4	(14,4)	—	0,3	2 800,0	(51,5)	—	0	—
Trencor	I	Dec 31	390,0	−1,5	61,0	13,0	10,0	66,7	254,0	22,7	35,0	16,7
Unitrans	P	Mar 31	257,1	18,9	37,4	5,1	▲13,0	66,7	72,5	7,5	23,6	20,5

I = Interim. P = Preliminary. n/d = Not disclosed. * = Income before tax. ▲ = Net interest. § = Net finance charges. ◊ = Annualised. ♣ = Interim for 12 months. ‡ = Includes special dividend. ♠ = Restated results.

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Private sector urged to cater for low-income groups

By Al-Ameen Kafaar

The private sector's lack of interest in the lower income groups could hold serious problems for South Africa's economy in the future, says Dr Simon Brand, chief executive of the Development Bank of Southern Africa.

Speaking to a group of businessmen at the Islamic Bank in Fordsburg, Dr Brand said that with an affluent market, which had not shown much growth in the past few years, the private sector had tended to look for new markets other than that of lower income groups.

Building societies, for example, after a saturation in higher income group housing, had started moving out of the housing area by re-registering themselves as banks instead of concentrating on lower income housing.

In the same way, construction firms and household goods manufacturers had also failed to cater to lower income groups.

A sound future economy would depend on wise advice and the willingness of the government and private sector to make adjustments.

Reducing government contributions to the rich — without lowering standards — and raising the living standards of the poor was a possible approach to a sound future economy.

This approach would not only pay dividends in the long run but would be more "noticeable".

It was inevitable that a new government would be under a lot of pressure to meet the expectations of the poor.

One argument was that government intervention in the economy was needed to produce quick and dramatic results. But, as proven in other countries, substantial government intervention was not always the answer.

Complete neutrality, as argued by others, would also not be a solution. A certain amount of government intervention was needed for the establishment of a legal framework and the provision of services such as health and welfare.

"The present government is based on a white electorate. To tell the electorate less is going to be spent on them is a strange thing for a politician to do.

"But it is an unavoidable decision and the Government has been saying that to its electorate.

"The future lies in our own hands. By making contributions from our own resources, we could make the country much more attractive for foreign investors," Dr Brand said.

Now's the time for top company rights issues

S Times 7/7/91 (Buss Times)

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WITH the market near an all-time high, borrowing expensive and likely to remain so, the time is ripe for highly rated companies to raise new equity capital through rights issues.

Institutions are crying out for high-quality scrip.

Of course, it is only companies with a bit of debt or those with good investment projects that will think of rights issues. But there is a case for getting cheap equity capital now. With an upturn in prospect towards the end of the year, now might be the time to raise money.

The average financial and industrial price:earnings ratio on the JSE is 13. For the first time in years, the JSE's average PE is more or less the same as that in London. Some blue chips are on PEs of more than 20.

A PE of 20 is another way of saying a share has an earnings yield of 5%. A company with an earnings yield of 5% can issue new shares without diluting earnings — provided it earns 5% after tax on the new money.

For top-quality companies, many of which earn 20% plus after tax on equity, that is a pushover.

New shares are always issued at a discount to the market price, but with institutions so hungry for scrip, it need not exceed 10%. So even taking account of the discount, a high-quality company with a bit of debt and ambitious expansion plans should examine a rights issue.

With the prime overdraft rate at 20% and the company tax rate 48%, a business that uses new equity capital merely to retire debt earns effectively a 10% return. More importantly in these straitened times, the company improves its risk rating.

According to one merchant banker, the chief executive who knows how to use the equity market for capital raising is a rarity.

Two exceptions are Donald Gordon of Liberty Life and Gencor's Derek Keys. In June 1989 Gencor raised R1,4-billion, enabling the mining house to acquire Mobil and Alusaf and to establish Engen. Those who took shares at R75 (equivalent to 750c after the 10-for-one split) are no doubt delighted. The shares are now worth 1 305c.

One could say that Gencor lost, having issued shares so cheaply. But had it not issued the shares and kept its balance sheet in good shape while it expanded its empire, its share price would not have performed so well.

Mr Gordon has used Liberty's PE of up to 30 wisely. To avoid earnings dilution on a PE that high, Liberty needs to earn only 3% or 4% after tax. It is able to put the proceeds of rights issues straight into capital and money markets at a return of 17%, thus automatically enhancing earnings.

One reason companies are slow to use the JSE for capital raising is the proliferation of pyramids. With a planned capex programme of R3-billion in the next two years, SA Breweries is a natural for a rights issue. But to do so, it has to get the support of big shareholders, such as JCI, Liberty and Old Mutual.

If Tiger Oats goes for a rights issue, CG Smith Foods may need one and then Barlow Rand. Old Mutual may not feel inclined to take more Barlow stock, so Tiger's capital-raising plans could be thwarted.

Facilitating capital raising is another compelling argument for flattening JSE control structures.

To gain an idea of which companies might be advised to have rights issues, I asked a stockbroker to extract from his superlative database all those on the JSE with a debt:equity ratio of more than 50%, their interest cover and their return on average capital employed (ROCE). I have looked up the current earnings yield in each case.

The difference between the return the company makes on capital and its earnings yield gives a rough idea of how positive for profits new rights money might be.

The numbers relating to some companies, such as Plate Glass, Waltons and Teljoy are a bit dated because they are about to produce reports for 1991.

The SA Brews and Afcol numbers reflect last week's annual reports, but I have not worked out return on capital because of the problem of consistency with the broker's methods.

COMPANY	DEBT: EQUITY	INT COVER	ROCE (%)	EY (%)
Plate Glass	111	4,2	32,6	7,6
Waltons	97	3,8	40,7	8,1
Teljoy	89	3,9	30,9	14,3
Senchem	87	2,3	19,4	6,7
Sappi	83	1,7	11,8	10,1
SA Brews	57	5,7	na	4,9
Consol	72	7,5	36,2	5,2
Afrox	70	4,9	37,4	4,2
Cadswep	65	4,0	27,8	3,4
Afcol	37	2,5	na	11,7
Edgars	57	6,0	49,1	5,0
CGS Food	54	4,8	28,0	7,0
AECI	52	3,9	25,2	11,4
Engen	50	5,3	26,9	6,2

DIAGONAL STREET by David Carte

A toug the sor

HUMPHREY Borkum, ne chairman of the Johannesbur Stock Exchange, has inherited super-heated seat.

● On the first floor of the JSE buil ing, Cape Attorney-General Fra Kahn is investigating alleged sk duggery related to share dealing f Old Mutual.

● President Tony Norton and h administration are fending off ang charges from some members th they spend money wastefully.

● Banks are eager to muscle in lucrative broking turf by means of big, medium or small bang. Th have a foot in the door in the Bo Marketing Association and the S Futures Exchange.

● The exchange's biggest custome the institutions, are still griping th commissions are determined by and not by competition.

● Worst of all, in the public mi stockbrokers, replete with Porsch and racehorses, are seen more a more as the unacceptable face capitalism, a cosy little club of ha lunching, hard-golfing parasites wi nary a thought for the new Sou Africa except how to turn v bucks.

For the son of the legendary M Borkum, house broker to An American and a few other me institutions, life has been inheren awkward for the past 25 years.

Big firms back book on SA

Bday 8/7/91

TANIA LEVY

SOME of SA's top corporations will join forces with London's Euromoney Publications to produce a major glossy book on SA and its business opportunities.

Barlow Rand, Nedbank, Anglo American and De Beers confirmed at the weekend that they had agreed to back SA and Southern Africa: A New Era.

The book will be launched in September and marketed worldwide for at least two years.

Euromoney Publications is believed to have also asked Eskom, Gold Fields of SA, Transnet, Allied and the Johannesburg City Council to back the venture.

The six to eight co-publishers will each contribute £15 000 towards costs of publication, which will be edited in SA by Wits University economics professor Merton Dagut.

Euromoney confirmed on Friday that a major publication on SA would be published in September but refused to give any details of content or cost.

The book, which is expected to retail for about £80, is expected to elaborate on the changes in SA's political and economic climate and the investment and trade opportunities these present.

Johannesburg City Council management committee member Cecil Bass said he was not aware that the council had been approached to come in on the venture.

Johannesburg recently placed an advertisement in the London Financial Times to promote the city's investment and tourist potential.

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Brazil

Planning department senior deputy director Japie Hugo said the advertisement had brought a flood of inquiries from overseas publications, financial institutions, business concerns and individuals.

Inquiries had been received from as far away as Brazil and had concerned Johannesburg's development projects, real estate opportunities and other investment potential.

These inquiries had been forwarded to the Johannesburg Chamber of Commerce and industry, the SA Property Owners Association (Sapoa) and the Afrikaanse Sakekamer, said Hugo.

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Business facing new challenges

Business concerns will have to take definite note of the totality of change that could occur on the political, economical, social and community fronts after the adoption of a new constitution for South Africa, Mr Hendrik Sloet, chairman of Saambou Holdings told the Durban Sakekamer yesterday.

Mr Sloet said that such firms will have to satisfy a need with a high quality product at a competitive price.

"As long as the Afrikaans companies do this and comply with their social responsibilities, I see no problems for them. It will then also not be necessary to change their culture and image haphazardly".

In the new South Africa, businesses's self appraisal will have to be directed at a delicate balance between striving for a profit and the social needs of the community.

"To a certain extent they will have to strive for an old and a new culture, with an underlying aim of improvement in service quality and innovative thought", Mr Sloet said.

He identified five fundamental responsibilities in the establishment of a future business culture, including that directed at the employees in which education plays an important role.

He also did not regard it correct or imperative to constitute a work-force that was a precise reflection of the country's population profile, as this was contrary to the principle of a non-racial society. Merit should be the most important consideration.

A company also had a responsibility towards its clients and satisfying their needs, and should also set an example to the emerging new consumer community.

In addition there was a responsibility towards suppliers, shareholders and the community as a whole. The objective must be to improve quality of life in general.— Sapa.

Industrial property agents optimistic

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Bday 10/7/91.

Reports by
PETER GALLI

INDUSTRIAL property agents are bullish about the market for the rest of 1991 and, though cautious, believe activity levels are high enough to ensure sustained growth.

J H Isaacs leasing and sales director Wayne Wright says business was unusually active during January and February, mainly as a result of a carry-over of deals initiated during November and December.

"Demand was mainly for mini-units but, at the end of February, a new trend emerged as most users were interested in units ranging from 500m² to 1 000m²," Wright says.

Old Mutual Properties also reports that industrial space in key locations in the PWV area, such as City Deep and Isando, remains strong.

"The level of interest is reflected in lettings and enquiries at Old Mutual's recently expanded Business Park at Isando and the newly-completed Mini Park, a factory/warehouse complex adjacent to the Old Mutual Industrial Park at City Deep," says Johannesburg letting manager Lin Edmund.

Rentals range up to R16/m² for a mix of warehouse and office space on the East Rand through to a gross rental of R12/m² for warehouse space at City Deep.

Although rentals have not declined in prime nodes, incentives are being offered in areas of oversupply to secure tenants, says Wright.

"These include rent-free periods, increased installation allowances, shorter lease periods linked to higher escalations and bonus commissions for property brokers."

However, demand is for properties in prime areas preferably already tenanted by a "blue chip" company. Other prerequisites include 10-year lease agreements and five-yearly rental reviews.

"Yields are generally 11% to 12%," adds Wright.

Russell Mariott & Boyd Trust industrial manager Simon Noyes-Lewis says the level of activity in the industrial market is increasing.

"Longer leases are being negotiated and more companies are looking to buy outright," he adds.

Baker Street Industrial MD Peter King agrees, saying the market is showing signs of an upturn, with an increased number of enquiries and deals.

But the supply of stock was still high, he said.

"This is due to the large number of liquidations and the fact that much of the stock completed within the last 12 months remains unlet."

VAT 'will bring relief to industry'

(180) GILLIAN HAYNES

INDUSTRIAL insurance costs could fall by 11,5% after the introduction of VAT, says machinery valuators Dunlop Heywood director David Read.

This could rise to 16% if the 5% cut in the import surcharge announced earlier in the year were taken into consideration.

Read said that as a result of the lower cost of replacing factory equipment, insurance premiums should fall overnight on September 30.

Under the VAT system, companies will be allowed to claim full input tax credits — refunds from government on VAT paid on their inputs — on capital and intermediate goods.

Although costs of plant replacement had increased between 2% and 18%, the overall balance by the end of the 1991/1992 financial year would see a reduction in real costs.

Read warned, however, that the 11,5% saving could diminish with fluctuations in the value of the rand, and overseas and local inflation.

"Assuming no other economic and political factors bedevil the situation, industrialists will obtain cost relief," he said.

B/Day 10/7/91

Recession 'has not yet bottomed out'

11/7/91

PAUL ASH

THE economy had not yet reached the lower turning point anticipated by Sacob, chief economist Ben van Rensburg said yesterday.

The business confidence index (BCI) for June remained static at 88,6 which showed that the economy had not reached a turning point.

The long-awaited upturn in SA's economy would probably not occur until the end of the year and businessmen were urged to keep fighting in anticipation of improved prospects in early 1992, deputy director-general Ron Haywood said.

Sacob was looking for growth in the business sector but Haywood believed the recession had yet to bottom out.

Van Rensburg said factors affecting the economy included the Reserve Bank's strict monetary policy, which dampened economic activity to fight inflation.

An upturn in the world economy could influence local economic prospects and the lifting of sanctions would allow the return of major trading partners who would support an economic upturn, he added.

Domestic political events also had a significant effect on business confidence.

Sacob was hoping the anticipated upturn would be export-led, although it believed that while the lifting of many sanctions has probably reduced the lag between world economic activity and improved export performance, the SA economy was unlikely to benefit from rising foreign earnings before February 1992.

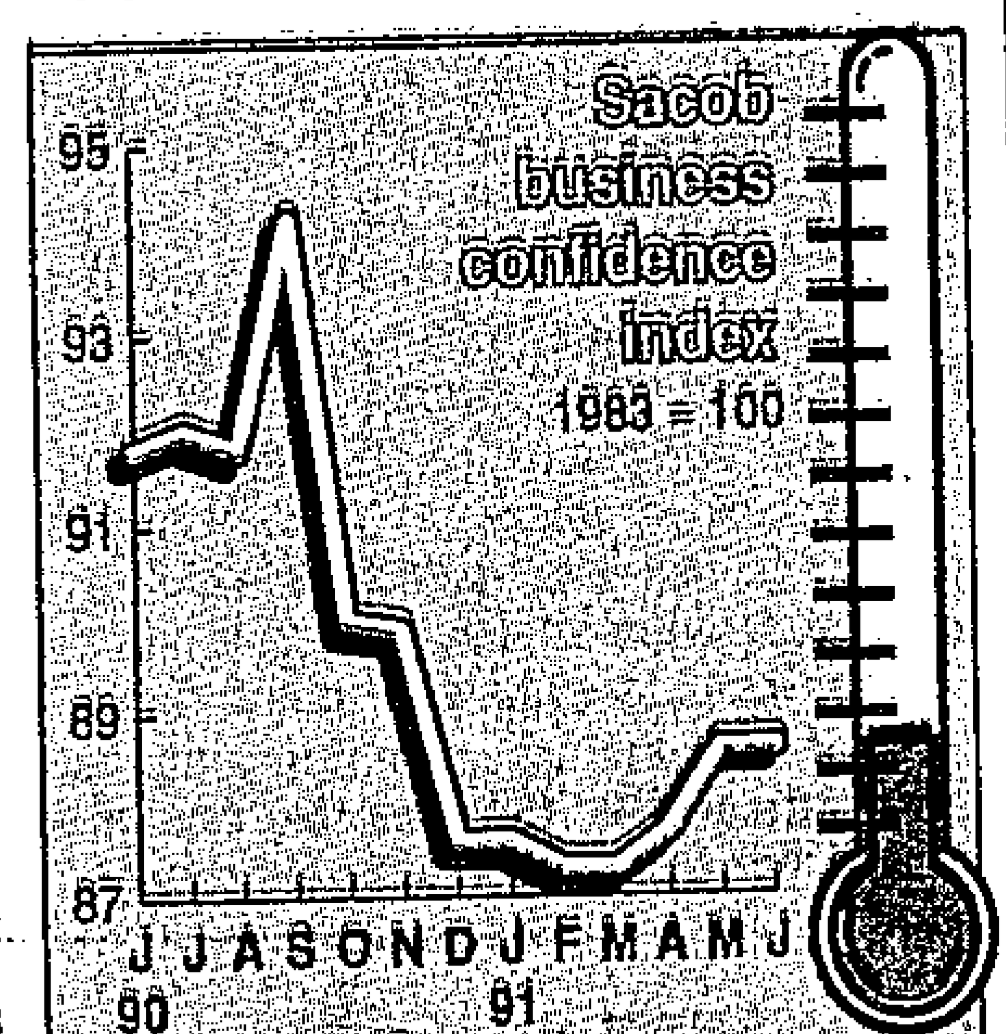
The organisation was encouraged by results of the manufacturing sector survey which showed most manufacturers were optimistic that business conditions would improve in the short to medium term.

Most manufacturers anticipated sales and production volumes would increase in the next 12 months but were still cutting back on stock levels in the light of continuing tight monetary policies and uncertainty over the timing of an economic upswing.

Employment levels of skilled and unskilled workers would also probably continue to be cut to maintain profitability.

Sacob said a slight majority of manufacturers expected to increase investment in plant and equipment over the next year but investment in new capacity was expected to decline in the short term as a result of the impending introduction of VAT.

The survey showed the Maritzburg region was the most optimistic with 70% of manufacturers there expecting an increase in sales volumes. Haywood said manufacturers in Cape Town and Maritzburg were optimistic due probably to the export potential of both regions. The Cape Town-based clothing industry and Maritzburg's wood furniture industry would be key players in this regard, he said.



Graphic: FIONA KRISCH Source: SACOB

Scrapped, by George

Star 11/7/91. ~~280~~ ~~?~~ 180

There was great jubilation at the South African Chamber of Business yesterday when the news broke that President George Bush was ready to scrap American sanctions against South Africa. But there are still many hurdles to be cleared. MICHAEL CHESTER reports.

HATS WERE thrown in the air and champagne corks popped at the South African Chamber of Business (Sacob) yesterday when news came that President George Bush was poised to bring an end to US sanctions against South Africa.

He promised the removal of one of the main cornerstones of the international sanctions blockade — the Comprehensive Anti-Apartheid Act.

"We have seen a lot of chisels at work chipping away at sanctions in recent months," said Sacob deputy director-general Ron Haywood. "But this will be like the first big swing of a sledgehammer.

"It is almost bound to be seen as a green light that gives the go-ahead to everyone else around the world to allow South Africa to break out of isolation."

The American Chamber of Commerce in Johannesburg (Amcham) agreed.

"It will provide a tremendous boost to business confidence," said executive director Wayne Mitchell. "The psychological impact will be enormous."

First off the mark, he forecast, would be expansion in two-way trade. It had managed to increase even during the peak of the sanctions campaign.

South African exports to the US, dipping and weaving through gaps in the package of sanctions, still moved forward from around R4 billion to R4,5 billion a year between 1987 and 1988.

US exports to South Africa rose from R3,6 billion to R4,8 billion.

"As the brakes come off, the two-way traffic should do much better," said Mr Mitchell. "But it may take time."

When the euphoria settled down, both Sacob and Amcham turned to face the fact that while the White House looked set to wipe out obstacles, there were hurdles galore still to be cleared.

Mr Mitchell underlined that no fewer than 26 states and 76 major cities across the US still had their own sets of sanctions rules that needed to be removed before they pressed ahead with any new contact with South Africa.

Even if they decided to follow the White House lead, the sluggishness of bureaucratic machinery could mean it would take at least 18 months or more to alter legislation.

(No fewer than 14 US states have still not had time to change laws that apply sanctions on Namibia.)

An illustration of the clout of local legislation was seen in the way New York had the power to maintain a ban on landing rights for SAA until the city council decides otherwise. Until then, there will no air links unless SAA strikes a deal with an airport elsewhere.

Amcham pointed out still more obstacles that have yet to be removed, such as restrictions on South Africa's access to vital new loans from the International Monetary Fund and the World Bank, and access to the US Import-Export Bank, which Mr Mitchell said still blocked cash flows needed for business and socio-economic investment.

Moreover, the 106 US companies that had stayed in operation in South Africa through all the anti-apartheid turmoil — waving farewell to no fewer than 214 companies that pulled out under political pressure — at the moment still faced special tax problems.

Yet to be clarified was the future of what Washington calls the Rangels Amendment, which forces them to pay double taxation as a penalty.

Mr Mitchell predicted that many potential US investors would keep their cards close to their chests until they saw the shape of the promised new South Africa.

"The crisis and violence in the black townships is suggesting to the potential foreign investor that the end of apartheid is not synonymous with an end to instability," he said.

"Especially in the wake of the recent ANC congress, they are unlikely to make any major decisions until they h
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Banned: Krugerrands, metals, textiles, food

R Haywood

The Comprehensive Anti-Apartheid Act, introduced by the US Congress in 1986, banned all new United States investments in South Africa and all loans and credit to the SA Government and State corporations.

It also banned imports of uranium, coal, textiles, iron, steel, arms, ammunition, military vehicles, agricultural products and food from South Africa.

Sugar import quotas were transferred from South Africa to the Philippines.

There was a blanket ban on imports of Krugerrand gold coins and the importation of any products from South African State-owned companies, even if they tried to escape the sanctions net and were routed via third countries.

In turn, United States companies were banned from sending in crude oil, petroleum products or munitions, or material or technical data used in connection with any nuclear power plants.

Prohibitions were also clamped on US exports of computers, computer software, computer services to the South African military, police "and other agencies involved in the administrating of the apartheid system".

The Act ended air links between the US and SA and banned landing rights to all SA aircraft.

Corporations violating the rules were threatened with fines as high as $1 million (R2,8 million). □

W Mitchell

Full return to world financial markets could be years away

(180)

Star 11/7/91

South African business got a much-needed confidence boost with the lifting of some United States sanctions, but a full return to world financial and export markets could be years away, analysts said yesterday.

Political turmoil, lack of clarity on post-apartheid economic policy, and remaining sanctions by many US local authorities, were tough barriers to investment, they said.

"The boost to confidence is terribly important but there will be little immediate effect on trade flows," said Jim Buys, chief economist of Anglo American, the country's largest company.

"There's not going to be a rush of guys banging on the door with their cheque books," added analyst Tony Twine of economic consultants Econometrix.

Wayne Mitchell, chairman of the American Chamber of Commerce, said: "It's an important short-term psychological boost and quite a bit of money might now come into the stock market, but the cure is not going to happen overnight."

Economists said President George Bush's decision to lift the 1986 Comprehensive Anti-Apartheid Act opened the door to a bigger prize — renewal of access to International Monetary Fund (IMF) finance — but a vast network of sanctions applied by US cities and states would remain in force.

"When the CAAA goes the battle only begins ... the whole question of city and local sanctions will remain to intimidate corporations," Mr Mitchell said.

IMF loans

Access to the IMF is in effect blocked by the 1983 Gramm Amendment, which requires Washington's IMF representative to block loans because of apartheid.

Mr Mitchell said the future of the Gramm Amendment would not come up for discussion in the US Congress until next year.

While South Africa is unlikely to require IMF loans because it has no balance of payments problem, renewed access would unlock the commercial bank finance its stagnant economy needs.

The economy recorded real growth of only about one percent annually in the 1980s and shrank again in 1990.

The government says unemployment, currently around 50 percent among the black majority, could make South Africa ungovernable by the mid-1990s unless international banks resume lending, and economic growth returns.

International banks cut off new credit to the country amid economic upheaval and a black uprising in 1985.

Mr Mitchell said 197 US companies had pulled out of South Africa since 1983, including majors like General Motors, Proctor and Gamble and publishers McGraw Hill. Only 36 US firms still operate in the republic.

Azar Jammine of Econometrix said it was unlikely that any US firms would rush to build factories in South Africa until the political situation clarified.

But he added: "Given a peaceful future, the sky is the limit for American businessmen."

Mr Mitchell commented, however, that South Africa had never accounted for more than one per cent of total US foreign investment and he said there would be hot competition from Japanese, Germans, Italians and even Eastern Europeans for the best South African investment opportunities. — Sapa-Reuter.

Star 11/7/91.

Sacob calls for social accord

By Sven Lünsche

The SA Chamber of Business (Sacob) yesterday stressed the need for a social accord for government, business, labour and political organisations before embarking on a National Growth and Development Strategy (NGDS).

Dr Ronnie Bethlehem, JCI economist and chairman of Sacob's Economic Affairs Committee, said at a press briefing yesterday that political circumstances in SA precluded the Government from drawing up a NGDS on its own.

Emphasising the importance of a national strategy to boost economic growth and reduce unemployment, Dr Bethlehem said such a strategy "must be commonly owned if it is to succeed in SA today".

"A social accord would constitute an understanding reached by government, organised business, labour, political organisations and communities on what needs to be done to get the economy growing again." 180 (62)

Dr Bethlehem said a social accord on the economy would also contribute in an important way to advancing progress in political negotiations.

Turning to the NGDS, he said the strategy needed to take account of the market nature of the global economy and SA's dependence on that economy.

'Business success on merit' in the new SA

180 ~~176~~ ~~30~~ CT 12/7/91

By AUDREY D'ANGELO
Business Editor

IN the new SA black entrepreneurs and other business people will have to succeed on merit, Mofasi Lekota, executive director of the National African Chamber of Commerce (Nafcoc) said at the annual dinner of the Western Province African Chamber of Commerce (Wepcoc) yesterday.

Lekota stressed that injustices of the past would have to be righted through better education and training, the provision of more jobs and better communication between people of different race groups.

He urged employers to halt the present trend towards becoming more capital intensive and less labour intensive.

But he pointed that blacks would have to "plan for the challenges that will come with a post-apartheid society.

"We cannot continue to blame the evils of apartheid for our under-development.

"In a few years' time nobody will be listening to that justification and — worse — no one will give us sympathy on that basis.

"Apartheid was intrinsically evil, no question, and we are victims of that system. But we cannot afford to sit back and mourn our miseries for an indefinite period."

Lekota said Nafcoc would continue to call for affirmative action programmes to address inequities.

But, he continued, the success of affirmative action would depend on the level of response from black business people.

"Unless we are good and strive to be the best in whatever we are doing, unless we deliver in time and unless we dedicate ourselves, no amount of affirmative action will help.

"Our attitude towards work and perfection must change. A few years ago it made sense (at least, political sense), to slow down at work and arrive late on Monday morning because we all felt overworked and underpaid by the white Establishment.

"We used to find ways and means of cheating on the Receiver of Revenue whenever possible. That made political sense because we regarded it as some form of protest. 'No tax without representation,' we said.

"In a few years time we will be represented in Parliament and Mr Pasiwe there (Themba Pasiwe, president of Wepcoc) might be our Commissioner of Inland Revenue.

"The democratic Government will be budget-squeezed to pay for the provision of education, health care and housing. There will no longer be justification to evade tax.

"Without any excuse for failure and without justification for slow growth, the black business people will have to work harder than ever before to succeed. In that real world there will be no preferential treatment based on colour.

"It is during that time that true entrepreneurs will be separated from the chancers. It is during that time that creativity, self-discipline, quality and dedication will make the difference between success and failure."

FM 12/7/91 180

HOW COMPANIES ARE COPING

When AECI saw the recession coming, it quickly moved into the export market to take up surplus capacity. The shift isn't adding much to profits, but it keeps its plants going and workers employed.

Gilbey Distillers & Vintners, on the other hand, moved closer to its customers and kept advertising cuts to a minimum. That's enabled the company to take market share away from competitors.

Coping with a recession is a true test of executive savvy. And in this recession, now in its 28th month and the longest since World War 2, the examination seems endless. Most of the easy steps have been long implemented: hiring and pay freezes, putting a hold on expansion plans, trimming back company cars, business trips and other perks — but an upturn is still 6-12 months away.

The most dramatic way to handle a recession is to retrench workers, and lay-offs certainly have been dramatic. An estimated 300 000 people have lost their jobs in the last two years, and lay-offs may be accelerating.

"Employers tend to retrench towards the end of a recessionary cycle and that's what's happening now," says Seifsa economist Michael McDonald. Member companies cut 25 000 jobs last year, he says, and another 35 000 jobs are expected to be lost this year.

When lay-offs and other measures don't work, companies stop paying their bills, and finally go out of business. Judgments against companies for debt jumped 73% to R65,3m in the first quarter, compared with last year.

But while sequestrations are up 15% to 766 in the first quarter, there is some question over whether the recession is performing its classic job of weeding out the weakest companies. Econometrix director Tony Twine feels that this process may be distorted by the country's degree of economic concentration. "In the big conglomerates one has a feeling that the stronger companies are acting as bankers to other companies within the group, providing survival credit for that company which the commercial banking sector might eschew."

But Barlow Rand group financial director Evert Groeneweg disagrees.

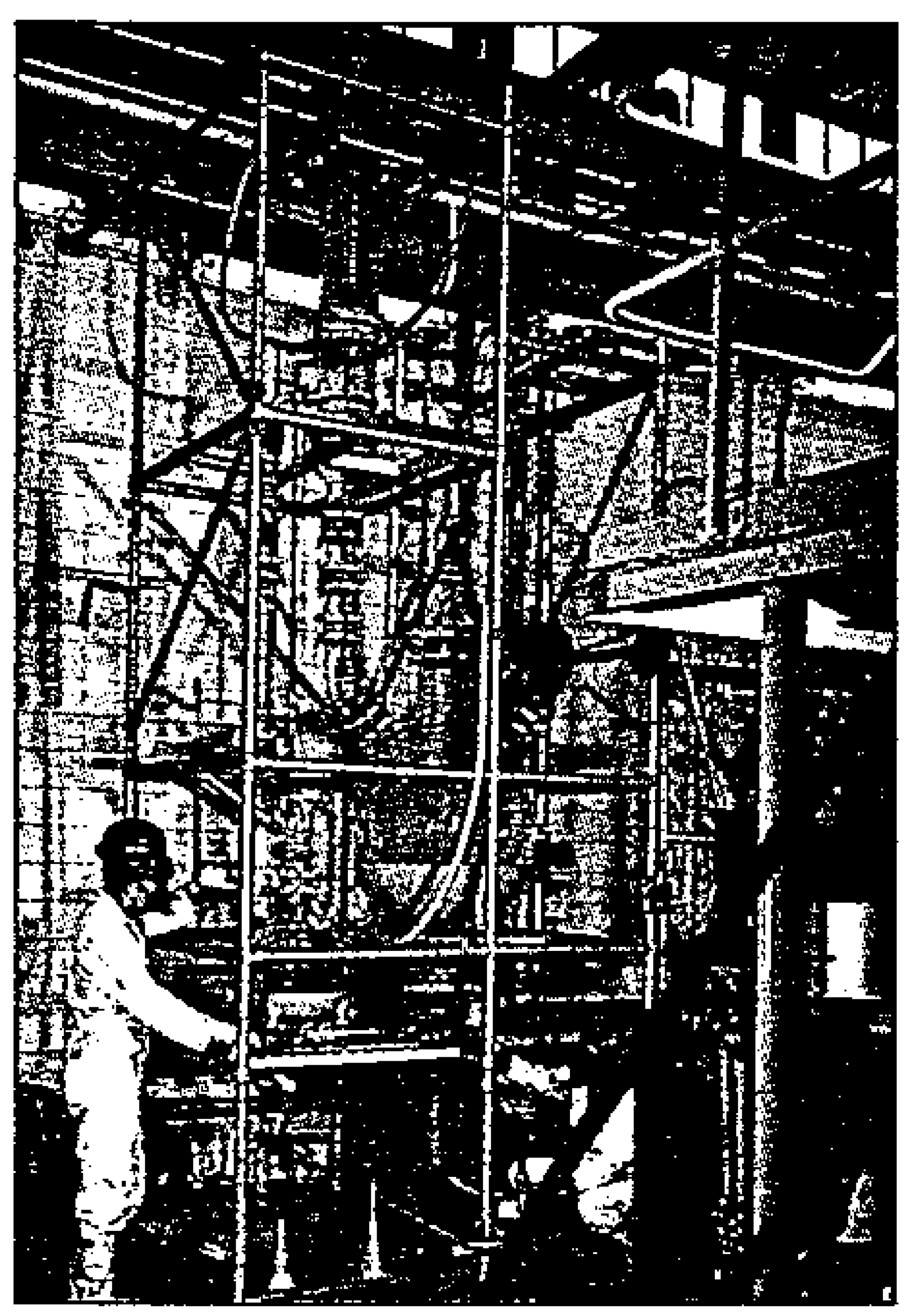
"The downturn is a cleansing process. Companies can't take losses and pour money into subsidiaries just to protect them — they must be efficient under any circumstances."

Groeneweg says his group has done a range of things to cope. "If your market is shrinking, obviously you have to rationalise. Alternatively, if you see your opponents weakening, you go out and get more market share. Working capital management becomes crucial in a downturn, you have to carefully manage and conserve cash. This is what our companies have been doing.

"I think we have to make this recession a difficult one to break our inflation psychosis. Sure it's difficult for a lot of people and there's permanent damage, but that happens during every recession. The effective companies, however, will come out of it."

This recession has been mild in comparison to the 1984-86 downturn, but permanent damage has been done. Employment is the obvious casualty (certainly all those lost jobs will not reappear quickly). But Seifsa's McDonald says the loss of skills hurts the most. "We lost a lot of good, skilled people in the last recession — they move out of the industry, or overseas. We can't afford to let that happen again."

A hard lesson learnt from the last recession was "cut inventories early." Says Twine: "Business learnt that you didn't have to run with high inventories and in many cases this



Surviving the slump ... *companies must find the right formula*

has made the difference between survival and going to the wall."

But it can be a double-edged sword, he adds. "Manufacturers have used the inventory trick to stave off disaster, but felt the effects of it because everyone else is also cutting inventories."

This is particularly true for truck manufacturers because they operate in an industry prone to sharp cycles. MD of Cape-based Atlantis Diesel Engines (ADE) Fritz Körte says fluctuations in manufacturers' inventory levels have had a direct impact on ADE's production levels and capacity utilisation.

Getting close to customers is always a key to a company's success, but especially so in bad times. Says Gilbey's operations director Tim Hacker: "We adopted this as our single major thrust, and it's starting to pay off. We are growing in market share in most categories." He adds that the wine and spirits company likes to run a lean ship. "We don't have a lot of people or believe in cumbersome structures. This helps a lot when you enter a downturn."

Consequently Gilbey's has not had to scale down any operations significantly and has had no retrenchments. Other companies in the same market, however, such as Stellenbosch Farmers' Winery, have been particularly hard hit by the recession — they've been forced to lay off staff and close plants.

Cost-cutting is one way to ride out a recession, but finding new markets may help a company more in the long run. AECI, for one, has moved swiftly into export markets to take up surplus capacity. "World prices are weak so we are not adequately compensated," says AECI MD Mike Sander, "but at least exports keep the wheels turning."

His other tried and true method for dealing with slumps: "You have to distinguish between a downturn, which will recover, and a change, which will not. In industries such as building, textiles and automative products, where demand will return, we have run as lean and tight a ship as we can until things pick up. But we have to question whether the gold-mining industry will bounce back and for us that has meant downsizing parts of our business."

SA Chamber of Business economist Keith Lockwood believes that the casualties of this recession are probably victims of cashflow problems.

"Generally, these were companies that failed to take heed of warnings of a slowdown and did not take steps to reduce their gearing and interest burdens in time to weather the storm. While the economy remained fairly buoyant, they were able to continue operating, but as soon as sales started to fall, their cashflows came under pressure, particularly in the face of continued high interest rates." This caused a domino effect, with some companies having to write off debts, putting their own cashflows under pressure in turn.

"The companies that have survived are mainly those operating in the consumer-goods market, and those that were already established in the export market," Lockwood says. "Most companies operating in the capital goods market tend to be larger, and to have greater resources."

Though this recession is clearly not as severe as the last, Seifsa's McDonald says that is not always the perception among industrialists. "Many businesses see this recession as worse, largely because of the continuing violence and political uncertainty."

So until the politicians sort something out, there's not much business can do but hang in.

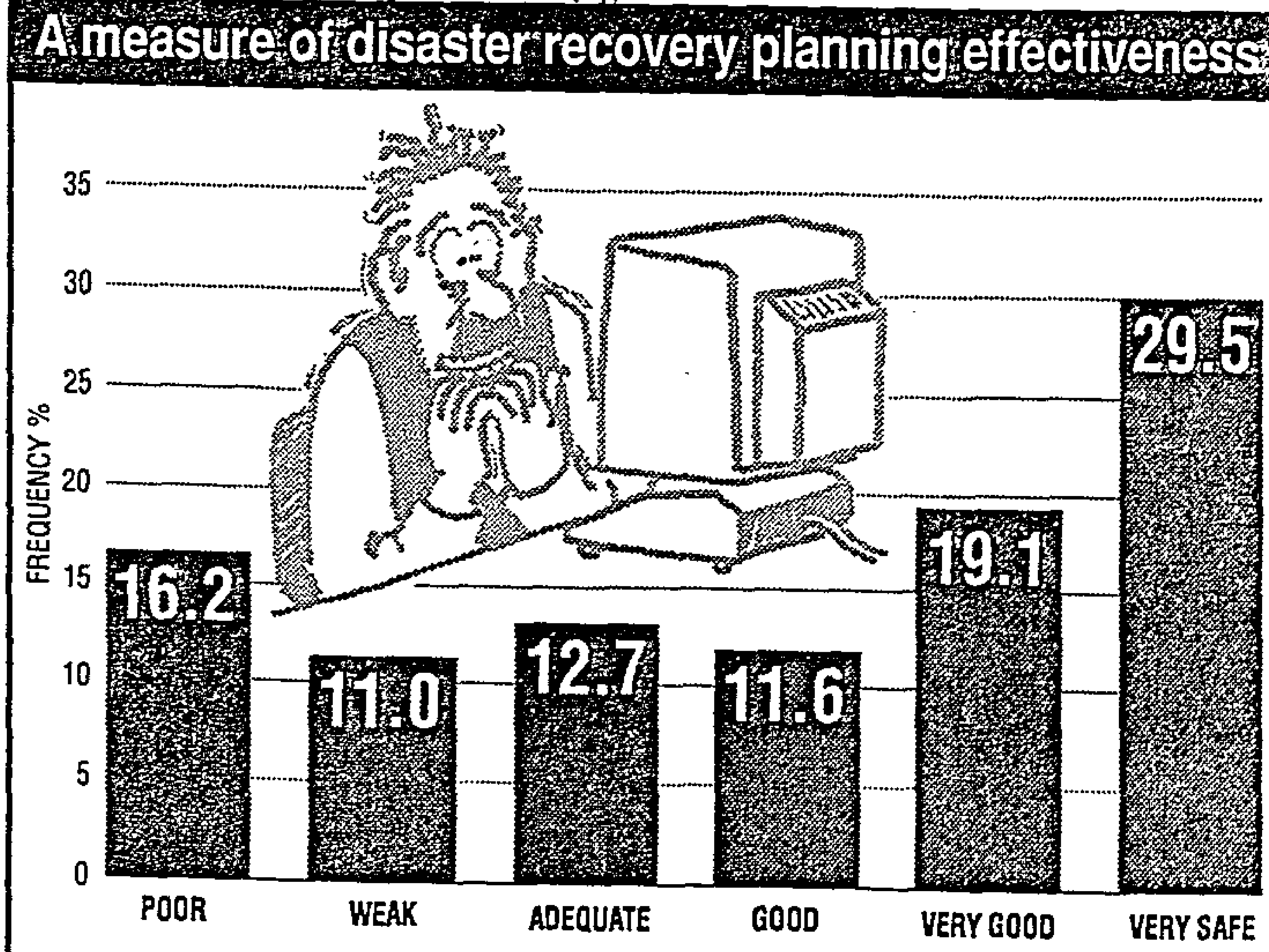
Reliance: SA firms need their systems

(180)

Argus 13/7/91

ANDREW MORRIS

Computer Correspondent



Graph: BOB GRIERSON, The Argus

FORTY percent of major South African companies could be put out of business by the loss of computing facilities.

About a quarter of local firms believe they could not survive for more than one day if their computers were significantly impaired.

Loss of computer facilties for one working week will significantly harm more than two-thirds of firms and few could survive after 10 days.

This is the finding of a recent national survey of computer disaster recovery planning undertaken by the University of Cape Town Graduate School of Business.

This study shows an improvement since the previous one conducted five years ago by Gugyeras Gombay (1985), but highlights a continuing threat to companies.

Most firms are significantly more dependent upon their computer facilties than previous research has shown but the majority of firms remain inadequately protected. Strategies range from manual backup to contracted "hot site" facilities.

Disaster Recovery Planning (DRP) is most often the responsibility of the information systems management and the survey indicates that these plans may be poorly defined and far from fully implemented.

As reliance on computer facilities increases DRP should be seen not as a way of keeping the computer department but rather as a way of keeping the company running. The declaration of a disaster is a business decision and mandate for DRP should come from the chief executive.

Having a plan is one thing, but only 18 percent of South African firms have actually tested these plans. Considering the risks involved, the reluctance to fully test preparedness is understandable, but may be creating a dangerous sense of false security.

A recent study in America showed that 75 percent of American firms declaring disasters could have avoided them by having disaster avoidance strategies in place. These strategies include fortifying computer facilities, and installing alarms, smoke detectors and water pumps.

Even employment practices need to be addressed to screen out potentially irresponsible employees as human error is still a significant contributor in disaster situations.

Recovery from a disaster is also a significant issue and the study reveals that 23 percent of local firms believe they could not survive for more than one day if their computer facilities were significantly impaired.

This is considerably higher than the previous study. Loss of computer facilties for one working week will significantly harm more than two thirds of firms and few could survive after 10 days.

There is also a significant shift from manual recovery to contracting of outside agencies providing hot site facilities, indicating a marked increase in the perceptions of risk.

Hot site facilities are fully operational computer centres in a state of readiness in the event of a disaster in a client's facility. Some of the larger companies maintain their own remote sites for their own use and for selected partners.

The study uses an "index of preparedness" developed from the previous study which gives a measure of the respondent's ability to withstand loss of computer facilites in relation to their needs. It is necessary to understand the significance of the facility to the business since DRP costs must be controlled. If a firm can successfully continue operation using manual recording this may be acceptable, but for large institutions requiring immediate turnaround with large volumes of transactions this would be totally inadequate.

According to this index

POOR: The organisation is highly vulnerable to a loss of its information systems and a disaster could jeopardise its survival.

WEAK: The organisation is vulnerable to a computer disaster which would result in a conspicuous interruption of its processing capabilities. The organisation' s operation could be adversely affected to the extent that it might lose business.

ADEQUATE: An organisation in this category could recover from the loss of its computer facilties at some cost and after some public exposure.

GOOD: The organisation is serious about preparing for a computer disaster which should only have a passing effect on the continuity of its business operations.

VERY GOOD: Within this category organisations are preapred for the worst that could happen and a disaster should have no material effect on the business side of their operation.

VERY SAFE: Organisations in this category are playing it safe by making sure they can recover from a disaster effectively and swiftly even if they do not have immediate business exposure to a loss of computer facilities.

It is not all bad news since more than 50 percent of the firms surveyed can be construed as having very good or very safe DRP strategies in place.

Report: Planning for the loss of computer facilities in South African companies, trends over the last five years by Dr Jon Miller and Michael Wenham, May 1991, UCT Graduate School of Business.

Firms must aim at niche markets

(180)

BDay 16/7/91

LINDA ENSOR

CAPE TOWN — To be successful as world players, South African firms needed to concentrate on a specific niche market they were familiar with and good at, Prof Manfred Perlitz of West Germany said yesterday.

Perlitz holds the chair for the business unit of the University of Luneberg, is a noted authority on international business strategy and is a consultant to several German and international companies.

He was speaking at a Graduate School of Business Association function on what globalisation meant for SA companies.

He said there were two ways of being internationally competitive — being better or cheaper.

To be cheaper meant taking on the stiff competition of Far East countries and Perlitz suggested it was advisable to have better products and services as higher prices could be charged.

The world's population could be divided into the richer, fewer and older populations of the Western industrialised countries, the younger, poorer and numerically greater populations of the developing countries and the transitional newly industrialised countries such as Hong Kong, Singapore and South Korea which were a mixture of the two.

Perlitz said these profiles should be taken into account when targetting one's market.

He stressed the importance of research and information about the markets for the globalisation strategy and the need for this to be imparted to second and third level management who would be responsible for undertaking it.

Globalisation was a lengthy process and immediate gains should not be expected, Perlitz said, adding that success required the determination to win.

Competitive advantages which South African businessmen had were the ability to speak English, a natural understanding of the European markets and the skills to improvise born out of years of isolation under sanctions.

ANC warns of R&D laws

B/Day 16/7/91 (180)

SHARON WOOD

REGULATIONS should be implemented compelling private companies to allocate significant percentages of their turnovers or profits to research and development (R & D), says ANC economic spokesman Tito Mboweni.

It is "scandalous" that SA companies spend so little on R & D, he says.

If SA is to emerge as a serious manufacturing exporter, attention will have to be focused on R & D, he adds. The private sector will have to accept that there will be government intervention.

"This is an issue for debate ... but the private sector has shown its inability to invest voluntarily in R & D."

CSIR Research, Development and Implementation Group group executive Brian Clark describes SA as "an exceptionally modest investor in R & D".

Total R & D expenditure in SA amounts to between 0,7% and 0,8% of GDP. Based on 1990 GDP, this suggests annual R & D expenditure of about R1bn. Most major industrial countries spend more than 3%.

"This will have to be turned around if SA is to become a competitive exporter in world markets", says Clark.

But government should not force the private sector to invest in R & D. Instead it should make it easier for the private sector to spend on R & D through tax incentives and grants, he says.

These incentives have been implemented in industrial countries and the SA government must level the playing fields for local companies.

Clark adds private sector exposure to competition will make it essential to invest in R & D.

Government is in the process of developing a programme to promote R & D in the private sector. Trade and Industry Minister Org Marais recently said government would implement a support programme for private sector research.

The programme would concentrate on tax incentives and partial subsidies to companies which had proven technology advancement track-records.

Rand Merchant Bank economist Rudolf Gouws says enforced private sector R & D expenditure would not necessarily promote useful and productive research.

R & D should be left to market forces because the market would penalise companies if they did not invest in it.

● MBOWENI

SA firms may be able to bid for EC-funded projects

B|Day 17|7|91 (180)

MARCIA KLEIN

SA COMPANIES could be eligible to participate in major African development projects funded by the EC, Safto says.

The European Development Fund has committed R40bn to projects in African, Caribbean and Pacific (ACP) countries. Most of the money, which comes from the EC, is to be used for infrastructural development from this year until 1995.

Safto executive Paresh Pandya said yesterday his organisation estimated that about 90% of the fund's aid would be channelled to countries in Africa.

He said SA companies could participate under certain circumstances. Until now, it was thought that only EC and ACP companies were eligible to participate in the fund's projects.

However, provisions were made for firms from non-member countries to participate, if certain criteria were met.

Pandya would not give details of the criteria, but said SA was at an advantage over many other countries in terms of fulfilling the criteria, and he was confident that SA would meet them.

This was because SA was close to the rest of Africa, it could be competitive in terms of costs, and its technology was suited to the continent.

SA was in a good position to participate in new business opportunities arising from international aid agencies.

Also, only 70% of funds previously committed had been spent, indicating a lack of viable projects.

The balance would be added to the R40bn.

Aid was mainly given for projects including agricultural and rural development, transport and communication, social development, industrialisation, water engineering and social development.

Govt must encourage exports — Anglo chief

B/Day 17/7/94

MATTHEW CURTIN

GOVERNMENT had to create a business environment in SA which encouraged investment in export-oriented capital projects able to compete on equal terms with overseas competitors, Anglo American chairman Julian Ogilvie Thompson said yesterday.

SA urgently needed a resumption of investment activity "with a strong bias towards export markets". That bias was vital if economic recovery was to be sustained. If tied to a boom in domestic consumption, it would lead to another balance of payments crisis and recession.

In his chairman's statement, he said: "It is for government to make the playing field level, in terms of international criteria, and it is then for the private sector, responding to market signals in a way that bureaucrats and academics cannot, to identify and invest in ventures that can survive in what has been called today's borderless world."

The "stultifying impact" of high corporate and indirect tax rates, double digit inflation and high interest rates on investment had recently been recognised by government. Investment in SA, he said, had "not only been too low, its quality has suffered from too much spending on projects aimed at strategic self-sufficiency and import replacement not adequately subjected to the tests of the marketplace".

Latest legislation, "mitigating the effects of high inflation by allowing higher and earlier depreciation allowances for new investments that meet certain criteria with respect to the beneficiation of materials largely for export", took the process, which started with the 2% cut in the nominal company tax rate this year, the phasing out of import surchages, and provision of VAT credits on inputs, "one step further".

However, ad hoc reform, steering investment one way and then another, was not the full answer. A new tax dispensation as well as social stability, an end to sanctions, access to international capital funds, and an end to "stop-go" economic policies were crucial factors.

Ogilvie Thompson said World Bank studies and SA's own economic fortunes had shown massive state spending did not promote sustained economic growth. Instead it financed dependency rather than self-reliance, and institutionalised proverty rather than alleviating it.

As for Anglo's performance for the year to end March 31, he said the 17% fall in equity accounted earnings to R2,6bn was the result of the domestic recession and weak prices for gold and other commodities in world markets. The contribution to earnings from gold fell to 11% from about 33% three years ago.

Projected 1991-1994 capital expenditure stood at more than R6bn for the gold, coal and industrial sectors of the group, with an additional sum earmarked for the R3bn Columbus stainless steel joint venture with Gencor.

NEWS FOCUS

How black must a boardroom be?

BDay 17/7/91 180

THAMI MAZWAI

NAFCOC president Sam Motsuenyane's call that JSE-listed companies should make their boards 30% black has been met with widely differing responses from white and black businessmen.

Peter Vundla, MD of the black-controlled advertising agency Herdbuoys, said: "Companies refuse to appoint competent blacks as general managers or to positions where they would strategically guide the company as a whole.

"Blacks have been appointed to sit on company boards mainly for token reasons and no substantial contributions were expected from them except to tell the company what was happening in the townships.

"We must be content with being social responsibility managers, public relations officers and so on.

"One of the few challenging positions given to blacks is that of human resources manager, but then the incumbent will only handle the black staff and will of course not be a member of the board."

Motsuenyane's call was made at a Nafcoc (National African Federated Chamber of Commerce) seminar six weeks ago in Cape Town and in an interview this week he spelled out his terms further.

"This country has a sophisticated white business community and a struggling black business sector. These must be integrated if we are to have a non-racial economy," said Motsuenyane.

"We need black directors, producers, investors and employers. It is the responsibility of the corporate sector to embark on affirmative action programmes to achieve these objectives."

To achieve this, he said:

- JSE-listed companies must have a 30% presence of blacks on their boards;
- blacks must own 40% of the equity in these companies;
- black businessmen must provide 50% of supplies needed by these companies to hasten the process of black entrepreneurial development; and
- managements must be 60% black compared with the present 4%.

These percentages, what he calls the 3-4-5-6 strategy, must be attained within 10 years.

Motsuenyane's call provoked an angry response from the white business establishment, perhaps summed up in the Financial Mail's comment:

"It is difficult for us to reconcile Nafcoc's desire for economic growth, backed by the efficient allocation of resources through a free market, with its willingness to see both processes impaired — at obvious cost to black job creation — by the application of racial quotas to the running of the quoted companies.

"The object of a free SA must be to ensure that wealth and income flow to those with merit — not to those with a certain skin colour."

But black businessman Rueul Khoza countered this argument by saying:

Qualified

"While our white colleagues are quick to denounce Motsuenyane, they forget that an unwritten law of 'no blacks in boardrooms' was in force until recently and many white companies still cling to it.

"It is all very well to talk of merit when government ensured it was whites who had this merit by giving them superior education."

However, the predominantly white Institute of Directors gave qualified support to Motsuenyane's call.

Institute chairman Piet Kieser said his organisation agreed with Motsuenyane but not necessarily with his figures.

"We support the appointment of suitably qualified blacks to boards and we have had discussions with Motsuenyane in that direction," he said.

White business leaders say they cannot find enough black managers, investors, suppliers and potential board members to meet Motsuenyane's demands in the specified period.

They say the education system would have to be massively transformed if Motsuenyane's criteria were to be met within 50 years, let alone 10.

Appointing people to management positions because they are black, or making purchases along these lines, would lead to inferior management and products, say white businessmen.

They believe the competitiveness of companies would be undermined, particularly against foreigners, and the production levels of SA companies would drop.

Affirmative action programmes, the essence of Motsuenyane's calls, are only effective if they complement merit as the major principle, say whites. If they become the dominant guideline the economy will deteriorate.

"But who must be blamed for this abnormal situation?" asks Khoza. "Why must blacks suffer?" He says this is what repudiating Motseunyane's call amounts to.

Peter Vundla says whites never look hard and far enough for competent blacks.

Khoza said Motsuenyane did not set quotas but targets. "If you aim at nothing, you will hit nothing," he said.

He says there are enough qualified blacks for boardroom appointments.

"We are talking of non-executive directors who contribute to the drawing up of broad policy guidelines, strategic planning, helping the organisation scan the environment and highlighting issues that may impact on the company.

"Any person with intelligence and appropriate qualifications will be able to do this and in return he will be exposed to a new environment with the potential of developing his capabilities. What we need are opportunities."

Black Management Forum executive director Lot Ndlovu and Mike Ntlatleng, public affairs director of the Foundation of African Business and Consumer Services, endorsed Motsuenyane's call, but stressed that merit should be the main criterion.

MOTSUENYANE . . . setting targets

They say that a substantial number of people could be found in the black community to assume senior responsibilities.

Ndlovu said only a few blacks had so far been appointed to boards, and these were now being used as a pool whenever a company wanted a black person on its board.

"There is a desperate need to increase this pool," he said.

Reserve Bank is doing right thing, says Anglo chief

180

Star 17/7/91

By Magnus Heystek
Finance Editor

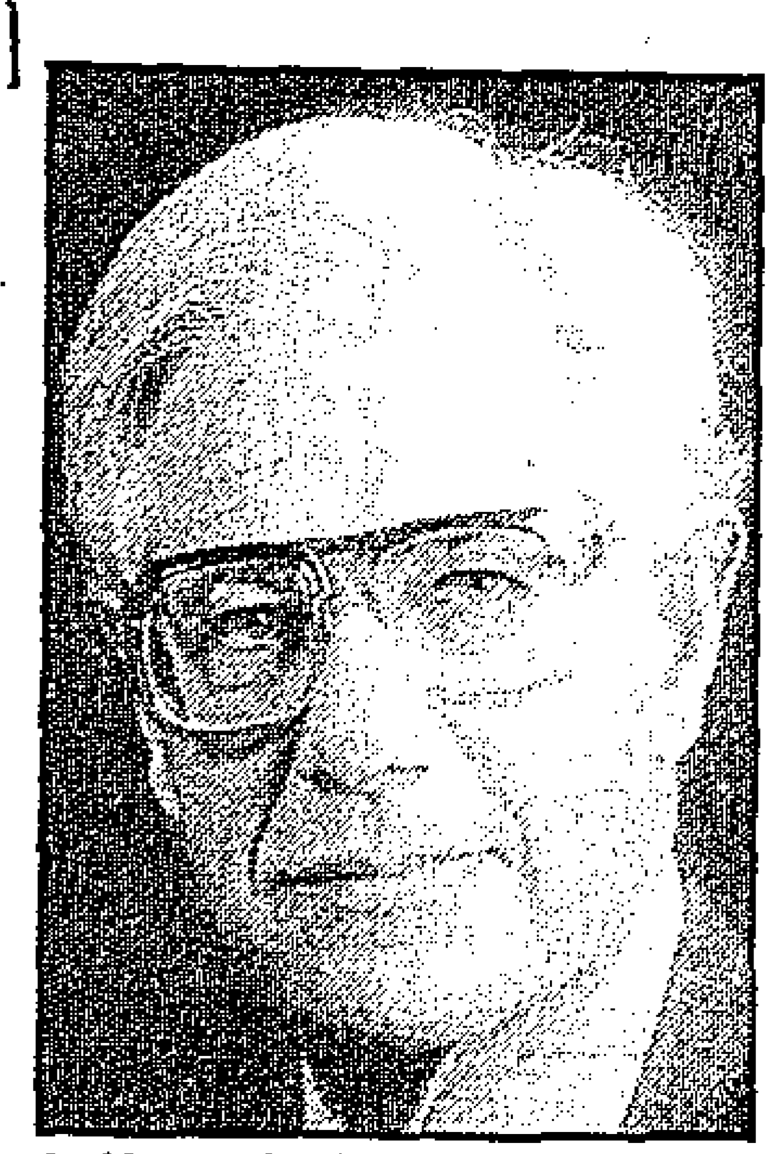
The chairman of Anglo American Corporation, Julian Ogilvie Thomson, has come out in full support for the tough monetary stance by the Reserve Bank.

This differs sharply from other leading businessmen who have been calling for a reduction in interest rates in an effort to stimulate growth.

Writing in the group's annual report, he says: "Resorting to growth by way of monetary expansion would not fall within the bounds of responsible economic management."

Commenting on improving economic fundamentals, including the abolition of trade and financial sanctions and the likelihood of capital inflows, he says this does not justify the calls for a pronounced relaxation in fiscal and monetary policies now.

"The wide swings in domestic demand in South Africa over the past two decades, associated with poor and deteriorating growth performance, high inflation with consumption increasing at the expense of saving, investment and



Julian Ogilvie Thompson . . . the destruction of all gains that have been achieved

future growth demonstrate beyond doubt the futility of such measures.

"Far from alleviating poverty in our society, they have increased and prolonged it," he says.

According to Mr Ogilvie Thompson, anti-inflationary policy takes several years to exert its full impact, and impatience with high real interest rates, while understandable, is therefore misplaced.

"If policies aimed at achieving single-digit inflation have so far done no more than contain it at the mid-double-digit level, that is no argument for a resigned acceptance of a 14 to 15 percent rate — and for relaxing monetary policy accordingly.

"The outcome, unquestionably, would be a surge in inflation to much higher levels, the destruction of all gains that have so painfully been achieved over the last few years, and the erosion of our potential for growth," he says.

Elsewhere in the report, Mr Ogilvie Thompson reveals that Anglo is planning capital investments of some R6 billion in the major sectors of its business — gold, coal and industry — in the period 1991 to 1994.

The figure could be significantly higher should the Columbus stainless steel plant, a joint venture worth an estimated R3 billion with Gencor, get the green light.

Mr Ogilvie Thompson says a positive announcement about the venture can be expected by the end of the month.

The Columbus project, he says, could make South Africa a major player in the the stainless steel industry, earning about R2 billion in foreign exchange when completed.

The stainless steel industry is one that adds value to a high degree.

In the case of Columbus, this could be by about 50 times in terms of the chrome content of the stainless steel produced.

The plant's initial capacity would be 300 000 tons a year, rising to 400 000 at some stage and would use state-of-the art technology.

It would employ 5 000 people during commissioning and 1 500 on a permanent basis when it is completed within just over three years.

FM 5|7|91

CORPORATE PROFITS

180

LOOKING FOR RECOVERY

PROFITS MAY BE NEAR THE BOTTOM BUT NO UPTURN IS IMMINENT

As is apparent from the severe setbacks sustained by some leading industrial groups, business conditions have generally continued to deteriorate as the year progressed.

However, analysis of corporate profits announced over the past six months underlines a peculiarity of this recession: its effects remain patchy; certain sectors, particularly those exposed to consumer spending, remain surprisingly buoyant.

The same approach was taken for the *FM*'s previous profit surveys. Summarised in the accompanying table are the results of major industrial companies that reported over the past six months. Selection is based partly on size, with an arbitrary cut-off of about R100m turnover.

An attempt is made to ensure that the figures are comparable with results for the previous period, to minimise distortions from corporate restructurings or changes in financial periods.

Some 170 companies appear on the list. They are roughly the same companies as appeared in the previous table and cover the entire industrial board. Reporting periods (interim or preliminary year-end figures) are mostly for the fourth quarter of 1990 or the first quarter of 1991.

Whereas the last roundup (*FM* January 4) showed that the average change in EPS for those in the table had dropped to a negative 0,4%, this year the average is 0,9%. And while six months ago, average dividend growth had fallen to 8,4%, this time it is only about 6%. From these broad averages the deterioration may have virtually bottomed out.

Predictably, results in the industrial holding sector are mixed, though it's notable that few of the large diversified groups continued to produce real growth in earnings or dividends. Nearly two-fifths of the 26 groups included from this sector posted lower earnings and there was an average decline in EPS of 2%; two of them cut their dividends; seven merely maintained them.

Sectoral trends largely reflect developments in the economy. Companies dependent on fixed investment, spending on infrastructure, exports, commodities or precious metal markets tended to be the worst hit at trading level. Thus earnings performances were almost consistently poor in building and construction (average EPS fall of 11%), motors (average decline of 16,6%), steel and allied (average drop of more than 42%) and transportation (average decline of 32%).

Results shown from companies in clothing, footwear and textiles (average EPS decline of 19%) roughly reflect the blows dealt out to many manufacturers. They have been hurt by falling sales volumes, competition from imports, rising finance charges, capital spending programmes and the sudden moves by customers to slash inventories.

On the other hand, distributors of many consumer products, especially semi-durables, have again held up well. In the retailers and wholesalers sector, EPS on average were virtually static, but for individual companies there were wide variations, including some more outstanding performances.

Three other sectors where the earnings trend remained vigorous were beverages, hotels and leisure (EPS rose by an average 34%); furniture and household (EPS were up by an average 20%); and paper and packaging (EPS increase of 18%). For the last the sales are closely linked to consumer spending on durables and semi-durables.

Exactly when industrial profits will turn upwards will depend on many factors, not least of all the nature of the business concerned.

As was emphasised last week when LTA released its results for the 1991 year, industries such as construction, which work largely on long-term contracts, are only now entering recession.

There is no sign of any improvement for capital goods suppliers such as heavy engineering; for suppliers of goods and services to the gold mining industry, conditions will almost certainly worsen as the mining houses intensify efforts to contain cost escalation. They will have to look to other markets.

There is, however, growing optimism that the economy will recover in 1992. Who the immediate beneficiaries of this will be obviously depends partly on what brings about the recovery.

Exporters, for example, would benefit strongly from a return to growth in industrial economies, a continuing easing of trade sanctions or a resumed depreciation of the rand. Commodity prices have fallen to a three-year low and have yet to turn firmly upwards.

Inventories in many sectors have been slashed to low levels. Simpson McKie economist Graham Boyd has pointed out that inventories are already at a very low ratio to GDE; a rise in inventories or even a lower rate of destocking, he says, has a powerful statistical effect on the measured growth rate. Manufacturers may also benefit from an inflow of foreign capital.

While positive developments may emerge, it is also likely that certain obstacles standing in the way of brighter business conditions will remain in place for some time.

One obstacle is the feeble level of fixed investment by the private sector. With a few recent exceptions — such as SA Breweries — many industrial companies have been cutting back on capital spending. To change this, there will have to be higher levels of confidence but also, in many cases, sharply higher levels of capacity utilisation.

Further easing of interest rates will happen eventually, but the probability of a steep drop is low. In general, profits are likely to benefit at trading level, rather than from shrinking finance charges. High real rates are not usually seen as a prime ingredient for getting a profit boom off the ground.

Wait for 1992

While the trend in industrial profits may have bottomed, there is no great assurance that a marked upswing will appear this year. Equity investors are now assuming there will be enough positive developments in the economy and political backdrop to get profits growing again by the first half of 1992.

But predictions of favourable events (such as interest rate cuts) have been pushed into the future more than once over the past 18 months.

Should these assumptions prove optimistic, share prices will be looking even more expensive than many now think. As Simpson McKie has argued: "Either the economy will show a substantial recovery by 1992 . . . or it won't, in which case one would be an aggressive seller of all but the rand hedges."

At this stage, sanguine forecasts of a profit upswing continue to be made, though they suggest a return to vigorous growth may be as much as two years off.

Frankel Max Pollak Vinderine forecasts EPS for Industrial index companies will rise by 8,5% in calendar 1991, by 19,6% in calendar 1992 and by more than 20% in calendar 1993. Simpson McKie forecasts EPS for these shares will grow by 8% over the next 12 months and by 23% in the 12 months to June 1993, with dividends rising by 7% and by 17% over those two 12-month periods.

Fergusson Bros Hall Stewart's forecast, based on an unweighted average for more than 100 shares, is EPS growth of 5,9% and DPS growth of 7,8% in the year to March 1992, and EPS growth of 17,6% and DPS growth of 15% in the year to June 1993.

Even should these forecasts prove broadly correct, they underline the point that share prices of many companies are discounting results a long way ahead. Any buying now should be highly selective. *Andrew McNulty*

Industry must be restructured before tariffs are lowered

(180)

LAWRENCE McCRYSTAL

B/Day 17/7/91

SINCE 1922 the main thrust of SA's industrial policy has been import replacement. It was popular, easy to understand and explain to the electorate and no subsidies had to be budgeted for since the subsidisation was provided by the consumer indirectly through higher prices.

This policy achieved its pinnacle in the Sixties when numerous industries were established and the industrial sector grew by more than 6% per annum for several years. By the early Seventies it became clear that the law of diminishing returns was starting to set in on import replacement. Every additional rand of output from new import replacement industries needed more and more capital and highly skilled manpower.

Recognising this, government appointed a commission of inquiry into exports in 1971 under Prof Hennie Reynders. The response to the commission's report was, however, slow and half-hearted. Export incentives were implemented only in the late Seventies and a subsequent study group led by Dr Basie Kleu, which reported in 1986, found these incentives to be ineffective and therefore a waste of money.

Moreover, there was, as part of the consideration of the export commission's report, no concerted effort to reorientate the economy in an outward direction, including a review of tariff policy to assist in this process. In fact quite the contrary happened.

Exporting and outward orientation acquired a bad reputation in the private sector in the late Seventies and early Eighties because the rand was hopelessly over-valued relative to the inherent competitive ability of the private sector, brought about by SA's version of the "Dutch disease" — a high gold price. As a result exporters lost markets they had taken years to develop and those supplying local markets could not compete against imports. The cry went up that the government was delivering industry to the wolves and demands were made for higher tariff protection and even the tightening of import control. The war in Angola, successive oil crises and escalating sanctions added to the growing inwardly orientated mood.

In 1987 the Board of Trade and Industry (BTI) launched its own exercise into what should be done and reported to the government early in 1988. The conclusions were clear. Nearly 70 years of import replacement; sanctions; in the period 1975-1984 an over-valued rand; and government overspending, had built up an industrial sector which was structurally uncompetitive.

Unless its structure was altered it would be incapable of sustaining high growth. Apart from the macro-economic aspects which had to be put right, the way out was to give an outward bias to the economy. To do that the remaining quantitative import controls had to be removed. As far as tariff protection was concerned, three alternatives were considered:

☐ Lower tariffs across the board;
☐ Compensation for the cost-raising effect of the tariffs by means of subsidies on exports; or
☐ Institution of a programme aimed at reducing tariffs but giving industries an opportunity to restructure themselves to become more competitive.

The first was rejected for various reasons including the following:

☐ A tariff structure aimed at import replacement was highly unsuited to achieving an outward orientation. For example high protection was given to many processed materials that were inputs for other industries which consequently could not compete;
☐ To have lowered tariffs while the fundamentals of macro-economic policy had not been put right, especially the causes of inflation, would have condemned SA to a vicious spiral of declining exchange rate and rising inflation and unemployment while wiping out whole swathes of SA industry;
☐ Experience elsewhere indicated that tariff reductions in developing countries were successfully launched only in times of political stability. SA's political situation was highly unstable; and
☐ Successful tariff reduction needed to be supported by major restraining efforts to ensure that workers leaving declining industries were re-employed elsewhere. Otherwise the policy would have led to rising unemployment, adding to the political instability. SA did not have the necessary retraining institutions.

☐ McCRYSTAL

The second alternative was rejected because it would have been too costly, distorted markets and, in any event, unless the assistance had been carefully targeted and given only for a limited period, it would have done more harm than good to the economy.

That left the third alternative which, it was recommended, should be implemented in such a manner as to ensure that, after a period of time, the industries concerned would have either become competitive or would have gone into other businesses where they were competitive, with only modest tariffs. Because of the legacies of the past, however, the restructuring would have, in some cases taken a long time.

The fact that apartheid and town planning regulations have prevented people from living where they work is one example of how higher costs have been built into our economy while countries in the East have not made this mistake. The fact that people in the East can live above their workplace has assisted in spawning many small "mamma and pappa" subcontracting entrepreneurs who are, in many industries, the backbone of those countries' export efforts. SA has little of this.

Summarily to lower tariffs while inflation is still rampant and the Reserve Bank is trying to maintain the integrity of the rand, would simply annihilate whole sections of SA industry with nothing to replace them because there are neither the retraining nor the competitive structures in position to facilitate the switches which would be necessary.

As it is, much of SA's industrial sector (particularly manufacturers of final products), is structured for failure in the rapidly opening world of the Nineties. Only a major restructuring programme, from macro-economic to tariff protection and from labour training and retraining to town planning regulations will bring about the outward-orientated competitive economy that is urgently needed.

As part of such a comprehensive strategy, some of which is already being pursued, first a restructuring and then a lowering of tariffs is a viable policy. Simply to lower tariffs in the absence of such a comprehensive strategy would be a recipe for disaster.

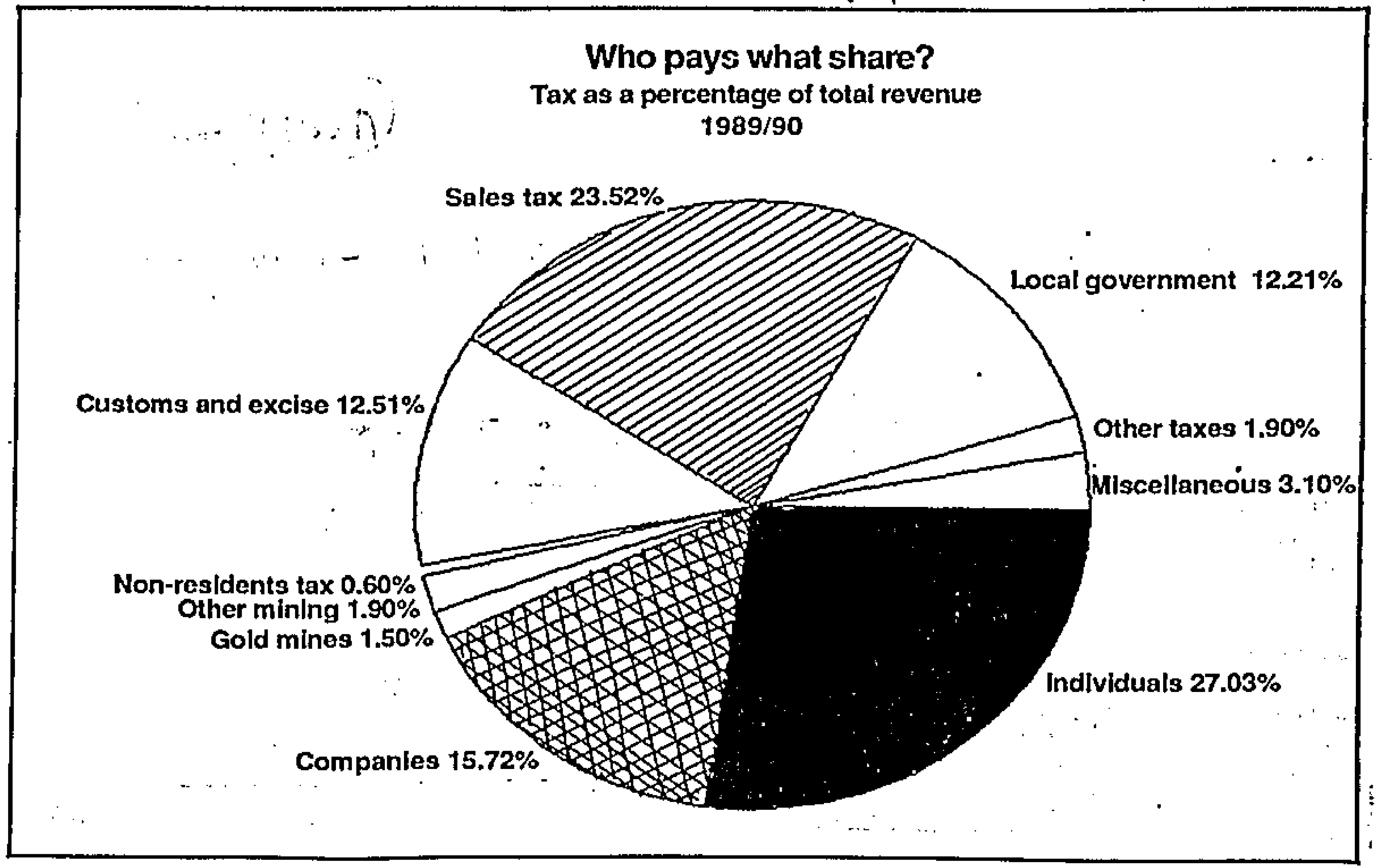
☐ **McCrystal is chairman of the Board of Trade and Industry.**

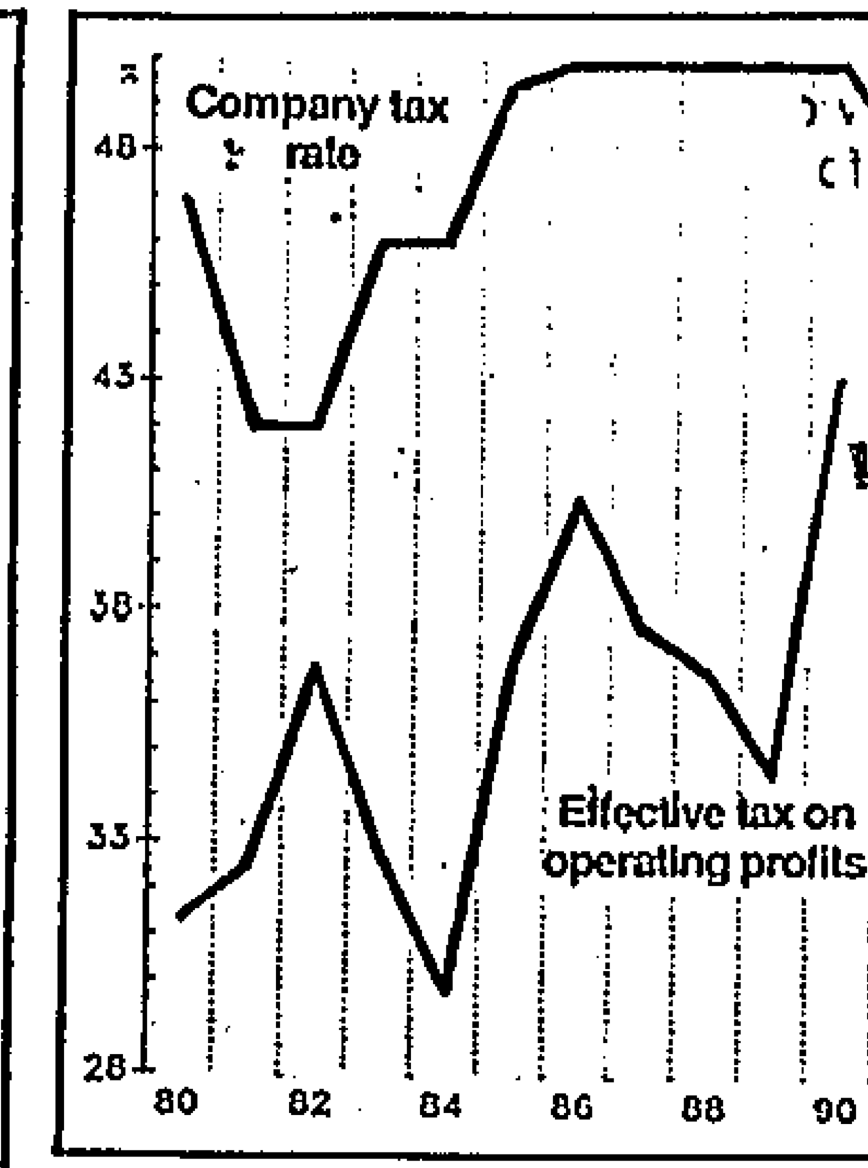
BUSINESS

Higher company tax is not the answer

(180) W/Mail 19/7 - 25/7/91

Business says companies are taxed too highly. The ANC says company tax is too low and individuals are taxed too highly. It all depends on how you calculate the tax that companies actually pay. **REG RUMNEY** reports





TAX BURDEN ... How the South African tax cake is split up (left). Individuals make the largest contribution to the exchequer. The effective South African company tax rate (above), at 43 percent in 1990, is higher than the nominal company tax rate in almost all other countries, except Germany, Sweden, Japan and Canada

ANGLO American chairman Julian Ogilvie Thompson in his chairman's report this week went on the offensive against higher company taxes, with dire warnings that they could put South Africa out of business.

Ogilvie Thompson was probably responding to thinking in African National Congress circles that individuals pay too much tax and companies too little.

The ANC discussion document produced for the recent congress (and still to be debated) says: "The incidence of the present tax burden rests disproportionately on both personal taxes and indirect taxes. The ANC supports shifting more of the tax burden towards corporations and applying principles of progressive taxation."

Far from being too low, Ogilvie Thompson said, Reserve Bank figures show that direct taxes as a percentage of a company's operating surplus, have risen to just over 43 percent in 1990.

Indirect taxes made the overall tax burden higher still — when company tax in the rest of the world fell appreciably.

This was despite the reduction of the nominal company tax rate to 48 percent, the phasing out of import surcharges, VAT being reclaimable on capital and intermediate goods, and higher depreciation allowances for companies involved in beneficiation.

JOT's remarks on the corporate tax rate are backed up by Rand Merchant Bank economist Rudolf Gouws who notes that our effective tax rate — measured in terms of direct tax as a percentage of operating surplus — at 43 percent is higher than the nominal tax rate in almost all countries except Germany, Sweden, Japan and Canada.

"All the countries we consider as competitors for trade and foreign investment have lower nominal rates than that." He includes most European countries.

SA Fiscal Association's Marius van Blerck comments that eight or nine years ago the effective corporate tax rate was probably on the low side, though big foreign exchange losses at the time would have accounted for this.

The pendulum has, he believes, swung too far the other way.

While policing of tax has been increased, various allowances have been progressively reduced, and this will continue. More usual types of allowances have been ditched with allowances which may have been abused. The promised decline in the nominal corporate tax rate, which should accompany the scrapping of tax allowances, is taking a long time.

University of the Western Cape economist Lieb Loots disputes that corporate tax is too high though he doesn't think it should be increased.

"I do agree personal income tax is too high." The Budget cut of one percentage point in the top marginal rate from 44 percent to 43 percent did little to counter the effect of fiscal drag, ie getting salary increases to cope with inflation only to be bumped into a higher tax bracket at the same time and pay more tax. Also, the tax benefit of having a housing subsidy was phased out, so many who benefited before from subsidies are now paying more tax without their income necessarily having increased.

Loots believes some form of indexation should be introduced to escape fiscal drag. He also thinks the personal tax income gradient should be rationalised. Now middle-income earners bear the brunt of tax.

The matter of whether corporate tax is too high is rather speculative, he says, because it depends on how the effective tax rate is calculated.

Calculated as a net flow between government and the private sector of funds the effective rate looks rather different. This takes into account not only tax breaks such as depreciation allowances, but also direct cash injections to companies, such as are available via the government's General Export Incentive Scheme. This kind of tax alleviation is not available to individuals.

Loots says he's seen it estimated as high as 16 percent of companies' gross income, and as low as 10 percent.

Loots reckons that what is arguably more important to foreign investors than the actual tax rate is certainty to help their tax management. (Indeed, this was the subject of a few of the papers at an international tax conference organised by the *Financial Mail* and Ernst & Young.) Payment of an effective tax rate of say 16 percent in South Africa can be offset against taxes in other countries to bring down tax overall.

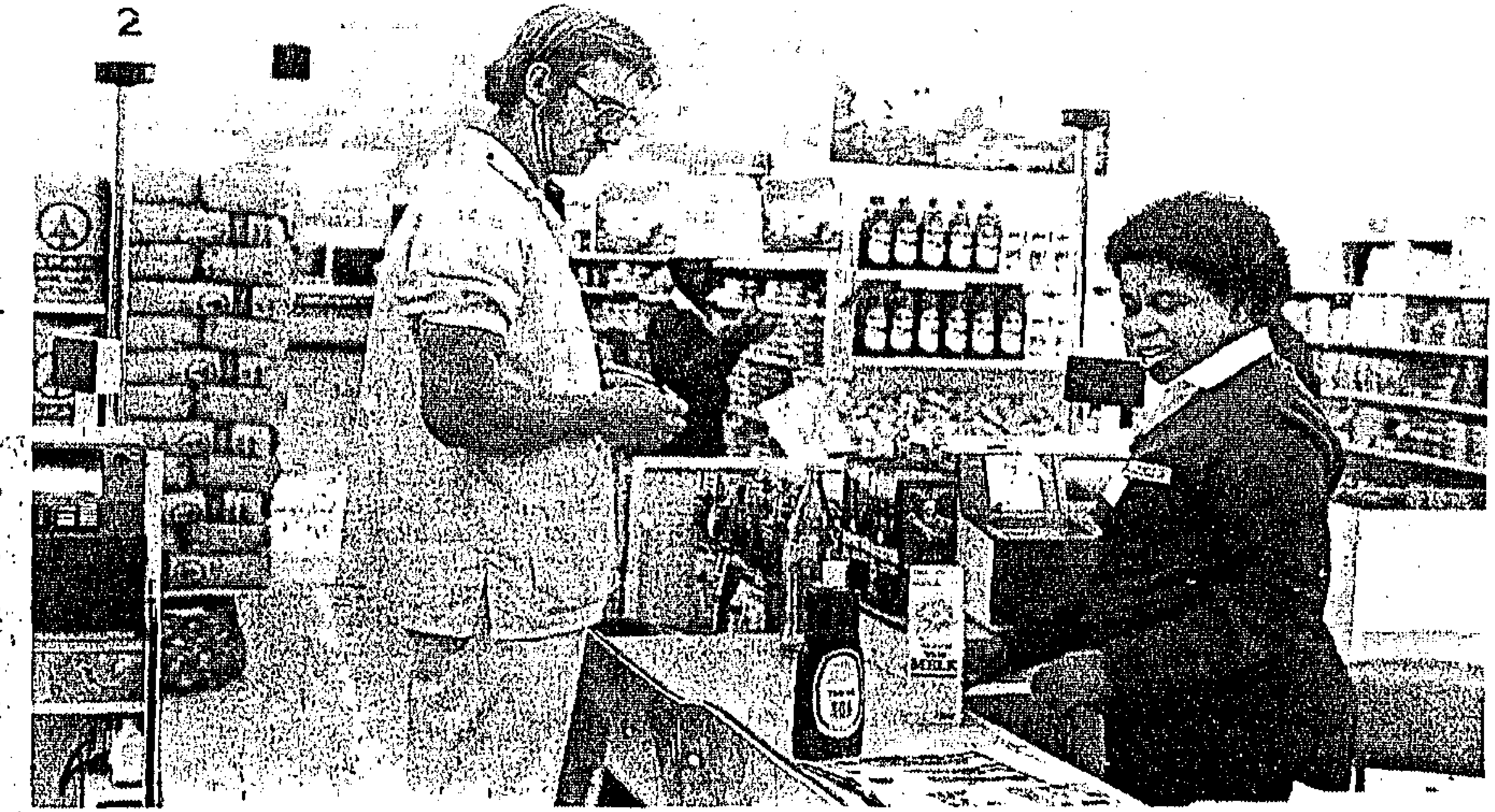
For companies, Loots advocates a minimum business tax to penalise inefficient companies (or companies which are efficient at minimising tax) to favour efficient companies and bring down the amount of tax they pay.

Debate rages over role of the big five SA conglomerates

(180)

W/Mail 19/7 – 25/7/91

Should South Africa's giant conglomerates be broken up? A new pamphlet stirs up this thorny debate again, reports MONDLI MAKHANYA



END OF THE QUEUE ...Food prices are in the hands of two major players and if margins are low, losses are passed on to consumers Photograph: AFP

THE debate over economic concentration is set to rage afresh. A pamphlet produced by the Durban-based Trade Union Research Project (TRPU) repeats claims made about the deleterious effects of economic concentration.

It attacks the five South African conglomerates for directing investment — through their control of financial institutions — into unproductive projects.

"The conglomerates are able to finance subsidiaries and reinvest profits throgh the financial institutions," the pamphlet claims. It accuses the conglomerates which have offshore interests of doing this in order that "they may be used to transfer wealth to counter the threat of nationalisation".

A further point inthe pamphlet is the interlocking directorships so prevalent in South Africa.

It states: "The conglomerates use these webs of interlocking directorships to influence and control decision-making in companies. These individuals are in a powerful positon regarding the restructuring of the South African economy."

The pamphlet calls for ways to be examined to deal with conglomerates. It suggests nationalisation of the conglomerates but cautions against this seeing as this option might result in a flight of capital from the country. Anti-monopoly laws and levying taxes on dividends that companies receive from subsidiaries are also suggested.

Use of the state's power as a major consumer in order to influence policies of conglomerates and compelling conglomerates to have trade union and government representation on their boards are also possible options.

Finally, the state could compel the conglomerates to invest in projects which it deems to be in the interest of the country's growth.

The recent inexplicable surge in food prices has added new fuel to the debate. The food industry is one of the most monopolised in the country — with just two major players — Premier Milling and Tiger Oats. The spiral in food prices has resulted in the Competion Board launching an investigation into food prices. Simply put: if margins are low monopolies tend to pass losses on to the consumer.

What is going to make dealing with the monopolies even more difficult is the fact that their growth was forced on them by historical circumstance. In the heyday of sanctions, isolation and exchange controls, large companies were compelled to direct their investments to acquiring smaller companies domestically.

Also fueling the concentration drive was the tax structure and rampant inflation, which drove savings into financial investment rather than fixed assets, thus pouring increasing amounts of capital into fewer companies on the Johannesburg Stock Exchange.

Director of the Econometrix think tank Azar Jammine blames the conglomerations for a number of the ills in our economy, the perpetuation of spiralling inflation being one of them.

"What happens if you have such powerful conglomerates is that if they cannot resist the power of trade unions they pass (wage increases) on to the consumer," says Jammine.

Jammine maintains that such concentration is also undesirable because it harms entrepreneurship. This is especially true in the light of Reserve Bank governor Chris Stals's tough monetary policies aimed at curbing inflation.

"The harsh interest rates have mainly hurt the small businessman, the giants have hardly felt anything."

Jammine supports the TRPU pamphlet's assertion that investment is directed towards unproductive projects. He points to the recent recent Genmin announcement that it is to spend R3-billion on on an alumium project.

"This project wil only generate 8 000 jobs. Used more efficiently this money could do much more than that."

An opposing view coming from the business community is that our big companies will be an asset when we try to penetrate foreign markets. Conglomerates and monopolies do not necessarily harm competition. This can always be checked by relevant government bodies, they say.

Says South African Chamber of Businesses chief economist Ben van Rensburg: "When we think about doing anything about the conglomerates we should look at the internal failures and also external benefits. In international trade we will need big companies if we hope to compete. Those who talk about inefficiency should take a look at the Philips multinational, which is a monopoly in its own country."

ANGLO AMERICAN (180)

UPBEAT REVIEW

FM 19/7/91.

The size and diversity of Anglo American Corp puts its operations in close contact with almost every facet of life within the country. That makes the optimism voiced by chairman Julian Ogilvie Thompson in his 1991 statement extremely good news for the man in the street.

He is upbeat on both economic and political developments, putting emphasis on the positive underlying trends at work in the

FM (180) FOX
19/7/91

country which tend to get obscured by the day-to-day social turmoil. It is also clear that Anglo, which has already committed itself to capital expenditure of more than R6bn for the period 1991-1994, is close to ploughing even more money into projects like the R3bn Columbus stainless steel plant.

Says Ogilvie Thompson: "I believe that SA's achievements are more remarkable, and its prospects more encouraging, than anyone had a right to hope. If one can look for a moment beyond the problems and discount the politicians' instinct for exaggeration and tactical manoeuvring, one can discern a steady momentum of progress on almost all fronts. That is a tribute to the country's leaders in the broadest sense."

Ogilvie Thompson's one concern is that there should be no marked swing towards a socialist economy at the expense of the free market. He goes to great length to stress the point that economic growth, not higher taxes and massive State spending, is the solution to meeting "the deeply felt and justified grievances, as well as aspirations, of those South Africans whom apartheid pushed aside."

He points out the international economy is on the verge of a renewed upswing from which SA should benefit greatly, given its increasing readmittance to the world and access to resources.

"Growth targets of four, five or even six per cent a year are well within reach," he says. "Just six years of five per cent growth could well create jobs in the formal and informal economy for up to 2,5m more people. Simultaneously, it would generate an additional R55bn of State revenue — in 1991 money — for social investment alone, without any increase in taxes."

Continue →

FOX FM 19/7/91. (180)

He indicates the Columbus project, which would employ about 1 500 people, earn R2bn a year in foreign exchange and be commissioned with three-and-a-half years of starting work on site, is being held up purely by tax considerations.

"The project is too risky under SA's prevailing rates of inflation and tax, and the reason for delay is that government, while fully supportive of the project in principle, has not yet decided how best it can bring the risk within acceptable bounds." Even so, it's understood that a positive announcement can be expected by the end of the month.

Brendan Ryan

BUSINESS CONFIDENCE 180

TREADING WATER

FM 19/7/91.

The strength of the dollar and disturbingly high May inflation rate helped to keep SA Chamber of Business's June Business Confidence Index unchanged from May's 88,6 (1990 average: 92,3). Sacob sees this as further evidence of depressed economic conditions with businessmen cautiously awaiting the next upswing.

Other negative influences were:

☐ Lower imports and exports;
☐ Lower physical volume of manufacturing production; and
☐ Higher unemployment and insolvencies.

Their impact was tempered by:

☐ A surge in the JSE overall index;
☐ Increased new car sales;
☐ Stronger real retail sales, seasonally adjusted;
☐ More new companies registered; and
☐ Rising net immigration.

The lifting of trade and commercial sanctions is unlikely to improve export performance until next year but gross domestic fixed investment is expected to show a relatively sharp increase in the fourth quarter — after the imposition of VAT. This could provide the initial impetus for an upswing.

Despite continued sales optimism, Sacob's survey of the manufacturing sector suggests stock levels will fall over the next 12 months because of continued tight monetary policy and uncertainty about the length of the recession. But, while employment may be cut to improve profitability, a small majority of manufacturers expects to increase investment in plant and equipment. ■

Manufacturers locked in supply battle with retailers

ARGT 20/7/91

CLAIRE GEBHARDT

Weekend Argus Correspondent

JOHANNESBURG. — Manufacturers this week hit back at claims that they were responsible for supply shortages that push up food prices.

They accused the retailers of forcing them to spend thousands of rands on confidential rebates, to subsidise their advertising and of holding back money due for months on end.

This made it more economic to export than supply the local market, though this was not the case to any large extent at present, they claimed.

Suppliers did not want to be named, such is the power of the three retail giants, Pick 'n Pay, Checkers and OK.

But they claimed that manufacturers were totally at the mercy of the supermarket chains, which accounted for 70 percent of their sales.

Pick 'n Pay managing director Hugh Herman denies that the retail giants are squeezing the manufacturers: "Payment is 60 days, not 90 or 120."

He admits confidential discounts are taboo in America, where trade has to be open.

"But there is nothing sinister about a volume discount which, though it doesn't appear as a separate item in our accounts, is costed into our prices."

He says food products are distributed by huge conglomerates and they would be hard to coerce. "Primary sources or manufacturers are at the nub of food-price increases."

Pick 'n Pay chairman Raymond Ackerman said last week manufacturers were taking advantage of crumbling sanctions to push food outside the country.

This was translating into supply shortages and higher prices for certain products.

Manufacturers, however, deny they are responsible for upward pressure on food prices, the single largest contributor to an accelerating Consumer Price Index.

They cite instead:

- Confidential rebates — paid in a cash lump sum by suppliers to retailers, these run into thousands of rands and are determined by the quantity of goods sold by supermarkets.
- Co-operative advertising — a bit of a misnomer, retailers are the biggest ad spenders but manufacturers foot the bill through the arbitrary allocation of costs.
- Listing costs — to get a product on to the supermarket's computer and on to shelves runs into six figures.

Manufacturers negotiate prices initially, then have no say over what price the public is charged, barring some major catastrophe such as the coffee crop being wiped out.

- In-store promotions and birthday bashes get the cheque books out again;
- Loss leaders — they get the public tramping through the stores but they represent losses to the manufacturers who again have to make up any shortfalls; and —
- Inefficient and costly distribution channels push up vehicle and driver costs.

Jeremy Hele of the Grocery Manufacturers' Association confirms that supermarket chains are served by individual deliveries from individual manufacturers, sometimes several times a day — except for the OK which has its own centralised warehouse.

Each day, delivery trucks pile up behind supermarkets, competing to offload goods in spaces often designed for one vehicle.

Trucks can sometimes wait days to deliver 20 boxes.

"Retailers can't afford to lose sales by being out of stock, but storage space is kept to a minimum because of capital considerations so they tend to order uneconomic quantities.

"This means that the average truck will be loaded at just 38 percent of its capacity."

Supermarkets receive 20 deliveries a day and hypermarkets as many as 80 a day, he says.

Pick 'n Pay's Mr Herman agrees that distribution problems have to be dealt with but says everyone must play their part in coming to a solution.

Spotlight on SA business prospects

Star 22/7/91

(180)

By Kaizer Nyatsumba
Political Staff

South Africa's prospects of attracting international investment will be discussed at an international business conference in Frankfurt, Germany, in October, says an advertisement in the British publication The Economist.

The conference, organised by Business International, will be attended by senior representatives "from all sides of the negotiating table" and high-ranking business executives from leading international corporations involved in South Africa.

Standard Bank of South Africa has sponsored the conference.

The advertisement, headlined "The New South Africa: Open for Business", says the repeal of apartheid will lead to many countries lifting sanctions on South Africa.

However, it says, before overseas businessmen can re-establish links with South Africa, they will want a few questions answered.

Speakers

These will include whether or not the atmosphere here will be conducive to good business. It was for this reason that Business International organised the conference.

Speakers will include Constitutional Development Minister Dr Gerrit Viljoen, ANC international affairs chief Thabo Mbeki and Inkatha Freedom Party president Chief Mangosuthu Buthelezi.

Asked if Standard Bank's involvement in the conference meant the bank was facilitating the negotiation process in the country, a Standard Bank spokesman said the bank was merely a sponsor of the event.

She said the UK-based Business International organised these conferences annually and Standard Bank had sponsored both last year's and this year's conferences, the purpose of which was to inform overseas businessmen about SA developments and investment opportunities.

State aided reign of terror against us, claims Cosatu

B Day 23/7/91

VERA VON LIERES

COSATU alleged yesterday that government had financially backed a "reign of terror" waged by the Inkatha-aligned United Workers' Union of SA (Uwusa) against Cosatu members.

In a statement, Cosatu said disclosures of government funding to Uwusa and Inkatha proved that government had been involved before and after February 2 last year in funding and supporting efforts to undermine and destabilise the ANC and Cosatu.

The exact amount of government funding was unimportant. "What is clear is that the government has been backing and financing the reign of terror which Uwusa has been conducting against workers, particularly Cosatu members, in the factories, hostels, communities and trains."

Cosatu members living in hostels in the PWV area had repeatedly told the federation since last July that they had been forced to resign from Cosatu and the ANC and join Uwusa and Inkatha.

Uwusa members had taken over the KwaMadala hostel in the Vaal Triangle, which was being used as a base to attack non-Uwusa hostel dwellers and neighbouring communities, Cosatu said.

In PWV factories and industrial areas, Uwusa vigilantes had since the beginning of the year demanded that workers produce their membership cards.

Cosatu said Numsa last week reported that members who were voting on strike action in the metal, vehicle assembly and tyre industries, had been harassed and attacked by Uwusa.

Numsa northern Natal regional secretary Mike Mabuyakhulu said yesterday large-scale intimidation had recently taken place in the townships of Enfeleni and Nqwelezane.

He claimed the Transport and General Workers Union had experienced a 20% drop in membership through Uwusa intimidation.

Efforts to reach Uwusa yesterday for comment were fruitless.

Cosatu also claimed that Uwusa was implicated in train attacks.

"Available evidence clearly points to collaboration by the security forces in these attacks.

The federation called for an independent judicial commission of inquiry into "government involvement in violence and destabilisation of anti-apartheid organisations".

Cosatu also demanded the public disbanding of all special counter-insurgency units and "death squads" of the SAP and SADF.

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Business helped fund Inkatha

Business Day Reporter

BEACON Sweets chairman Arnold Zulman confirmed yesterday that he and other businessmen had given R100 000 to the same Inkatha rally which government sponsored to the tune of R150 000.

Zulman said he arranged for the money to be paid into the Inkatha "peace fund" through which government's money was channelled. B Day 23/7/91

The money was collected from 16 or 17 businessmen, Zulman said. He added he had been a personal friend of Inkatha president Mangosuthu Buthelezi for more than 20 years.

He said a Buthelezi staff member told him he was concerned about the cost of hiring a stadium and equipment for the rally.

He was surprised to learn on his return from overseas that he was not the only sponsor.

SA firms are going green, for their own good

(180)

Star 25/7/91

By James Clarke

A couple of years ago if a company "went green" it was usually because its public relations people said it was good for the image.

Nowadays South African companies are being driven to it by their overseas customers. They have started asking for details regarding the environmental policies of their South African suppliers.

A few weeks ago a South African furniture manufacturer was formally asked by his British buyers for a certificate to prove his factory was not fouling the environment.

The British also wanted proof that its raw material was obtained from forests managed along sound environmental lines.

The firm, in mild panic, went to the CSIR which, fortunately, had recently inaugurated a service to help industry and commerce conduct environmental assessments.

Exploiting

The service advises firms on how to conduct "environmental audits" and set up environmental management policies. The Germans too are seeking assurances from South African suppliers regarding their environmental ratings.

Behind it all is growing international concern for curbing environmental damage, particularly to the atmosphere. There is also concern about the way some industries might be exploiting Third World environments.

Another stimulus causing South African companies to turn green is the desire to reduce risks and the costs associated with risks. Sappi, after the collapse of one of its settling dams at Ngodwana paper mill last year, knows all about that one.

Yet another stimulus is the very real threat that sooner or later global laws will come into force forcing South Africa to join in a universal clean-up of gasses and other pollutants, or face sanctions.

International pressure and local public pressure for better environmental behaviour has led the CSIR to establish the new division called Environmental Services.

Going green . . . CSIR's environmental boss Dr Dirk Grobler.

Heading it is former Water Affairs scientist, Dirk Grobler (42).

In an interview he explained the recent radical change in the CSIR's role.

The CSIR was established almost 50 years ago as a statutory research and development establishment to advise Government and industry on how to make the best use of South Africa's natural resources. Until recently 90 percent of its funding was from Government.

Today the CSIR receives only 45 percent of its income from the State — the rest is earned from contract work on the open market.

The CSIR Environmental Services has access to the various strategic units which have all been renamed: Aerotek (Aeronautic Systems Technology), Boutek (Building Science and Technology), Ematek (Earth, Marine and Atmospheric Sciences and Technology), Foodtek, Forestek, Watertek and so on.

Its new role has led to a much slimmer CSIR which still, nevertheless, employs some of South Africa's top scientists and technologists.

Manager of Environmental Services, Dr Grobler, after years as a water quality hydrologist in Water Affairs, now finds himself running a fast growing business unit.

Under him are a dozen professional environmental project managers and their support staff. The unit includes heavyweight scientists such as ecologist Dr Graham Noble who for years was involved in the running of the national cooperative science programmes.

Another staff member is project manager Tina James who was behind the CSIR's recent bombshell report on the parlous state of South Africa's waste and pollution control measures.

The biggest call Environmental Services gets from industry is for help in applying the "integrated environmental management" (IEM) process, and for environmental policy development as well as for advice on conducting environmental audits.

"International and public pressures are making it almost obligatory for firms to agree to environmental audits," says Dr Grobler.

"These are similar to financial audits except that they assess the firm's progress against its stated environmental objectives.

"Big corporations such as Eskom can audit themselves. They can afford to employ their own full-time environmental experts as, in fact, Eskom does. They then bring in outside auditors to do checks.

"Smaller firms obviously have to use outside auditors."

Dismantled

CSIR's Environmental Services is gearing itself to assist firms in applying environmental principles which control and monitor a development's impacts from cradle to grave.

Take a power station: it should ensure that all negative environmental and sociological impacts are monitored and limited from the time the first sod is turned to when the structure is obsolete and has to be dismantled.

Some generating companies now publish exactly what they will do at the death. Some, for instance, intend to remove all structures except the reactors which will be buried under artificial landscaped hills.

Dr Grobler commented: "What firms are realising is that environmental care is cost-beneficial and not non-productive spending... everybody benefits."

Barlows leads pack in companies listings

B/Day 25/7/91 (180)

BRENT VON MELVILLE

FOR the 19th year running Barlows has topped the table in the Financial Mail's top companies listings.

The diversified industrial and mining conglomerate has not looked back since displacing Rembrandt as SA's top company in 1972.

This year Barlows led in both total assets and turnover. With assets worth R18bn, Barlows was more than double the size of its nearest rival, SA Breweries, while its turnover of R29bn exceeded that of CG Smith and SAB together.

However, in terms of market capitalisation Barlows slipped from first to fourth, surpassed by SAB with market capital of R10,8bn, Sasol at R8,1bn, and Remgro at R7,8bn. It was third on the net profit list, which Sasol headed with R1,1bn. The only other company with net profits exceeding R1bn was Iscor.

One of the biggest movers on this year's list was Engen. Following its acquisition of Mobil from parent Gencor, its total assets increased from R360m to R2,5bn, pushing its overall ranking from 81st to 16th.

Asset growth for the top 10 companies during the year was: Barlows 10,7%, SAB 24,9%, Amic 11,9%, Iscor 8,9%, Remgro 53,9%, CG Smith 13,5%, Sasol 10,2%, Sappi 18,6%, CGS Food 15,9% and Safren 17%.

Rankings are based on total assets, market capitalisation, pre-tax profit, turnover, return on assets and return on equity.

□ The Top 100 Companies survey has for years been the FM's biggest single money-spinner. Its 25th anniversary edition is no exception. Total revenue generated this week by the FM, including Top Companies and Computer Mail, was about R2,3m.

Zimbabwe fails to cut deficit

B'Day 26/7/91

HARARE — Zimbabwe has not yet been able to reduce its budget deficit, estimated at more than Z$1bn, and figures contained in the estimates of expenditure tabled in parliament yesterday indicate increased public spending, the domestic news agency reported.

Senior Finance Minister Bernard Chidzero outlined a programme last year to reduce the deficit to 5% of gross domestic product (GDP) by 1995, a development which is central to Zimbabwe's economic structural adjustment programme (ESAP), Ziana reports.

Among the steps proposed to achieve this were a reduction of the civil service by 25%, and scrapping of subsidies to parastatals and on some commodities.

However, this year's estimates reflect an increase in the vote for the public service, as well as subsidies to parastatals, with some of them being allocated almost three times that of 1990-91.

In addition, the controversial Ministry of Political Affairs, which houses one senior minister, two ministers of state and four deputy ministers, although showing a reduction of almost Z$15m, has an increased salary, wages and allowances bill of more than Z$23m, compared with Z$21,5m last year.

The president's salary has been frozen at Z$125 000 a year.

The nearly Z$15m cut in the Political Ministry's vote is largely accounted for by the drastic reduction of the allocation for national service, which plummeted from Z$20m last year to Z$1,5m, Ziana said.

The public service, which has an 180 000-strong work force, has been allocated an additional Z$9m.

Subsidies

The perenially loss-making national flag carrier Air Zimbabwe had its subsidy increased from Z$9m to Z$26,7m this year, while the allocation of public funds to struggling Zimbabwe Iron and Steel Company (Zisco) has risen to Z$139m from Z$100m last year.

National Railways of Zimbabwe, one of the few parastatals that have managed to reduce losses, this year received a subsidy of Z$148,6m, compared with Z$255m last year. Agricultural subsidies remain almost constant at Z$270m.

The hosting of the Commonwealth heads of government meeting represents a Z$1,8m bill.— Sapa.

SA firms show goods in Zambia

B'Day 26/7/91

LUSAKA — Thirty SA companies will take part in the Zambia Agricultural and Commercial Show, which kicks off ~~in Lusaka on~~ August 1.

The record SA presence confirms that Zambia is in fact trading with SA.

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Ministry of Commerce and Industry officials said yesterday that the 30 firms had been given permission to exhibit their products at Zambia's largest agricultural and commercial show.

Zambia Agricultural and Commercial Show Society chairman Andrew Hamaamba has appealed to the Zambian business community to take advantage of the presence of SA businessmen who will be exhibiting.

"This is your chance to make hay while the sun is shining," Hamaamba said.

Many Zambian shops are flooded with SA products.

SA products ranging from machinery to household goods will be on display at the show next week.

Asked last week why Zambia could not normalise trade relations with Pretoria — especially in the light of the availability of SA products in Zambia — Commerce and Industry Minister Crispin Sibeta said: "The time is not yet ripe for us to do so. When the opportunity arises, we shall make a formal announcement about trade links with SA." — ANO.

Violence 'scaring off buyers'

B'Day 26/7/91

LINDA ENSOR

CAPE TOWN — The volume of residential property sales to foreign buyers has dropped considerably because of violence and political uncertainty, says Seeff Residential Properties MD Samuel Seeff.

Seeff does not expect the lifting of sanctions to have much effect on the local property market in the short term. Traditional foreign investors — people from the UK and Europe who had previous involvement with SA — have continued purchasing with a view to acquiring holiday homes or places to retire to.

Seeff's London-based international property manager, Adele Beare, says the easing of the UK property market could release new buyers for SA's market.

"One of the factors that would result in greater movement from potential immigrants from the UK is the lowering of interest rates by 2% in the past two months. This has led to a greater number of sales than in any similar period in the last two years, so buyers waiting to sell in the UK before coming to SA will be able to move that much more freely."

Seeff says that in the medium to longer term new investors will be brought to SA as companies return to do business here.

SA's property market remains undervalued compared with the rest of the world. Should SA overcome its problems and move toward political settlement, "we can expect a great resurgence" of foreign investors, he says.

On the domestic front, Seeff says Transvaal buyers have shown much interest in Cape Town property, and that sales in white areas have increased noticeably since the Group Areas Act was scrapped.

Azapo will attend talks on patriotic front

B'Day 26/7/91

THE Azanian Peoples' Organisation (Azapo) yesterday cleared the way for a patriotic front when it dismissed speculation that it would not attend talks with the ANC and PAC in Cape Town next month.

Azapo projects co-ordinator Lybon Mabasa told a news briefing in Johannesburg: "There has been speculation that Azapo is pulling out of the patriotic front. There can be nothing further from the truth."

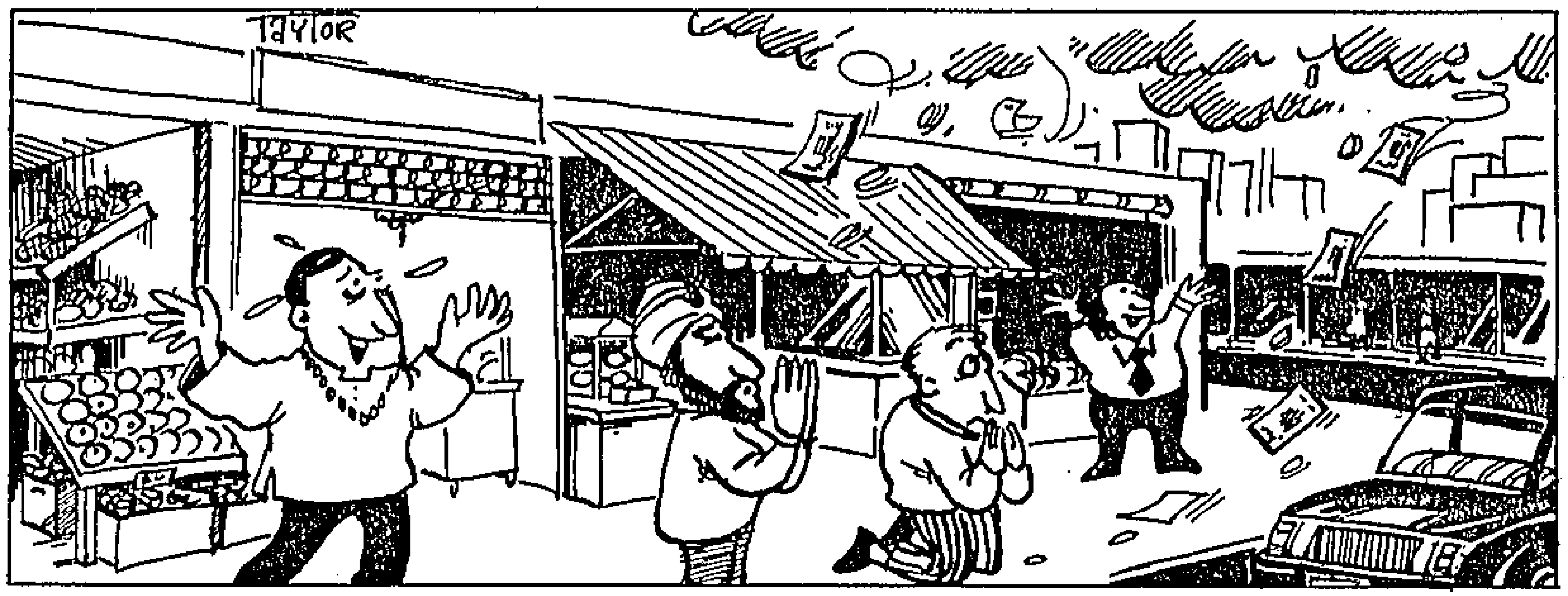
But Mabasa acknowledged there were problems surrounding the concept of a front, "and we hope to find solutions".

Asked to identify the problems, he said agreement on a front was reached outside SA's borders by the ANC, PAC and the OAU — which recognised only these two organisations. — Sapa.

Outlook for upturn brightening — Stals

Star 27/7/91 (180)

DEREK TOMMEY



THE Governor of the Reserve Bank, Dr Chris Stals, has answered a question many businessmen are asking: When will the economy start picking up?

Dr Stals said yesterday he expected things to start looking better later this year when manufacturers and retailers began restocking, expanding and replacing production capacity.

However, he ruled out reducing interest rates to stimulate the economy.

He said that in order to do this the Reserve Bank would have to create even more money. But with inflation and the growth in the money supply still high, this would only aggravate inflation.

Dr Stals said the local economy was different from stagnant economies elsewhere in Africa.

It had probably reached the bottom of the business cycle and was moving towards the recovery stage.

He said inventories had been declining for more than 20 months and the present level of stocks was relatively low.

Business would soon have to start rebuilding stocks, which should lead to some recovery towards the end of the year.

Another stimulatory factor was the continued high level of consumer spending, which had grown throughout the recession.

Some manufacturers were approaching the stage where they would have to increase capacity to meet demand, he said.

Another factor was that much equipment was wearing out or becoming obsolete and needed replacing.

But more than this was needed to get the economy moving strongly ahead. A difficult question to answer was where the necessary additional stimulus would come from.

The Reserve Bank would prefer it to come from an inprovement in the balance of payments, he said.

This could arise from growth in exports or an inflow of investment capital.

Its second choice for stimulus would be an increase in domestic investment arising from improved local confidence.

The third choice would be a scheme similar to that proposed by Bob Tucker, formerly with the Perm, to get things moving by building large numbers of houses for lower-income groups.

● His hopes that the main boost to the next upturn would come from an improvement in the balance of payments seem likely to be fulfilled.

Although accurate figures are not available, most large manufacturing companies are gearing up for export markets.

Developments at the FSI conglomerate seem typical of the manufacturing sector as a whole.

Jeff Liebesman, chairman and chief executive of FSI, said this week that all the company's subsidiaries, other than retailers, were gearing up for export.

Form-Scaff, which makes scaffolding, and National Bolts, were already well established overseas.

The group now intends exporting hosiery from its Burhose factory and tyres from its Gentyre investment.

Reinhard Kunstler, MD of BMW, said last night his group would export more than R100 million worth of cars and components this year, while the motor industry as a whole is forecasting exports worth R1 000 million this year and double this figure next year.

Further evidence that businessmen were looking for export markets came from Ben Smith, deputy general manager of the IDC's industrial finance division.

He said that in the past three months 37 companies had applied for the IDC's special nine percent export finance.

So far, eight applications for a total of R69 million had been approved. The money was expected to generate R392 million in exports and create 260 new jobs.

The balance of the applications for a total of R125 million was still being considered, he said.

Exporters expect major increase in dollar revenues

B Day 29/7/91

JONATHON REES

SA's top exporters were confident of a major increase in dollar revenues from export sales over the next year, Safto economist Bruce Donald said at the weekend.

A recent survey of the top 100 exporters showed optimism in anticipating a steep increase in export sales, he said. Exports totalled R65bn in the last financial year.

Safto CE Wim Holtes said that an export-lead economy was the only solution to real economic growth in SA.

However, a senior researcher warned that SA manufacturers planning major export drives would need to improve quality and boost productivity if they wanted to compete in newly-opened markets.

SA Institute for International Affairs senior research officer Gary van Staden said sanctions, besides restricting export markets, had deprived SA of critically needed technology.

He said SA could never compete, for example, with Pacific Rim countries which had minimal labour costs and unrestricted access to technology.

Donald said SA had a strategic advantage in certain commodities, but needed to decrease reliance on traditional exports and diversify in the manufacturing sector.

Van Staden said that although new markets were opening up to SA, sales would not follow if quality was not upgraded and productivity improved.

He said exporters should initially look to regional and African markets before expanding abroad, adding that recent huge percentage increases in African trade figures were deceptive.

A recent 500% increase in trade with Kenya, for example, was calculated from exports last year of only R10m, he said.

Holtes said consistent growth could only be attained through an export-lead economic policy.

The World Bank, IMF and Organisation for Economic Cooperation and Development had consistently concluded that countries that opted for export-lead economies were the most successful.

Tell people where money goes — Sacob

(180)

Star 31/7/91

Staff Reporter

The South African Chamber of Business last night welcomed the President's steps to address problems which arose from the funding controversy.

But Sacob said it believed there should be greater accountability in such matters and that taxpayers should be assured that their money was being spent wisely.

"Whatever the reasons for the previous decisions in respect of outside political funding, in the changed circumstances now it is essential that in future these issues be handled in ways which maintain and build confidence here and abroad."

Sacob hoped attention would once again focus on the need for a stable and prosperous future South Africa.

"Peace and stability are the vital objectives.

"It is essential that South Africa now proceed with the urgent task of economic growth and job creation."

It said the country had to give itself a fresh chance to restore credibility and trust as a basis for proceeding with political negotiations as soon as possible.

It also did not wish to see any delay in the normalisation of South Africa's external economic relations and in the removal of remaining sanctions.

Referring to planned mass action and strikes as a result of the recent revelations, Sacob said it would discuss these threats with bodies such as Cosatu as a matter of urgency.

While recognising the right to peaceful protest, Sacob said no benefit could be expected from such actions and that they would be counter-productive.

"Most businessmen would have no choice but to take a firm attitude towards such actions under present adverse economic conditions."

Ramaphosa: businessmen must stay

Star 2/8/91

By Kaizer Nyatsumba
Political Staff

The ANC's economic policy, to be finalised within the next six months, will be "fair and just" and the business community will be happy with it, according to ANC general-secretary Cyril Ramaphosa.

Addressing the South Africa-Britain Trade Association in Johannesburg yesterday, Mr Ramaphosa said the ANC did not want local and international businessmen to pull out of the country at a time when they were most needed, and the organisation would keep this in mind.

He said economic success in the country could be attained if companies committed themselves to the future.

Companies which were now planning to pull out of the country were guilty of "economic treachery".

These companies were leaving at a time when they should be applying pressure on Pretoria to change.

Mr Ramaphosa said this view did not contradict his organisation's calls for the maintenance of sanctions.

The ANC, he said, while it called for the maintenance of sanctions to put pressure on Pretoria, also realised that those foreign companies already operating in the country could play an important role in getting the Government to change.

Mr Ramaphosa said the ANC looked forward to the time when South Africa's present trading partners, of which Britain was the second biggest, would invest in a democratic South Africa.

There would be an investment code which would make it easy for foreign companies to invest here.

He said South Africa's economic future was "clearly intertwined" with that of southern Africa and that an ANC government would play an important role in the region.

Mr Ramaphosa also called on the international community to maintain sanctions and reimpose those which had already been lifted.

Sanctions, he said, should be used to get the Government to agree to an interim government and a constituent assembly.

Small firms in cash crunch

GERALD REILLY

PRETORIA — Latest Central Statistical Service figures paint a gloomy picture of the economy and of the plight of many small and medium sized businesses according to the Information Trust Corporation (ITC). B Day 2/8/91

ITC CE Tony Leng said yesterday judgments against businesses involved average sums of about R5 000 for the first four months of the year. By May this figure had grown to an average of R10 000.

The number of judgments against businesses in May totalled 3 775, for R40,2m — the largest sum yet recorded by CSS in one month.

Leng said the figures reflected the crunch facing small- and medium-sized businesses. Greater care would have to be taken in managing credit risk to avoid a further worsening the situation. 180

Leng said the value of rent judgments for May showed a 48% increase over May last year.

The average value of such judgments increased to about R3 500 against an average of R2 000 in the first four months of the year. Landlords were apparently taking a tougher line against tenants in suing for retrospective debt.

However there were signs of an economic turnaround.

SA companies show little interest in Kenyan show

BDay 2/8/91 (180)

JONATHON REES

KENYA has granted permission for SA companies to exhibit at the Nairobi International Show in October, but initial interest from SA business is reported to be poor.

The SA Foreign Trade Organisation (Safto) had been invited by the show's general manager Alex Kambona, Safto's international trade fair division marketing executive Ann Matthews said yesterday.

Matthews said the invitation was a breakthrough as the Nairobi show was one of the biggest and most successful on the continent.

She speculated that local companies were wary of previously unfriendly markets.

The Nairobi show attracts 400 000 visitors annually, with 300 companies from 20 foreign countries displaying their goods.

Safto African trade intelligence programme manager Andrew Maggs said although SA was still officially a sanctioned market, the Kenyan government was starting to selectively issue import permits for SA goods.

Kenya was set to be a major market for SA, Maggs said. He warned that it would not be easy to break into traditional lines of supply.

However, with SA's weak rand and proximity to Kenya, SA exporters eventually should be able to steal a large chunk of Kenyan business from its European trading partners.

FM 2/8/91 (180)

Eskinazi

Lombard

ECONOMIC OUTLOOK

FM 2/8/91 (180)

Cap to growth

The major challenges facing post-apartheid SA will be to provide employment for a growing number of economically active people and to compete on world markets with value-added products. At present, we cannot meet either objective. Though sanctions are falling away, industry is hampered by structural weaknesses that were described by former Reserve Bank Senior Deputy Governor Jan Lombard to the Midrand Chamber of Commerce this week.

"Important relative costs and prices have become distorted over the past two decades; too much of our resources has been spent on uneconomic public expenditure programmes that produced little or no sustained employment and income opportunities."

He argues that policy interventions made many kinds of businesses too cheap and many others too expensive "compared with what a more open market economy, able to face open international participation, would have dictated. The neutrality of company taxation on enterprise has been shattered by too many particular tax concessions."

He suggests cost-push inflation has its roots in the conditions of pricing and wage determination in the product and factor markets and the effect of taxation on these.

Lombard identifies two important underlying weaknesses. One is that a corporate tax rate of 48% is out of line with SA's trading partners. Says Ernst & Young's Ray Eskinazi: "The corporate rate is 33% in the UK, 34% in the US, 35% in the Netherlands, 37,5% in Japan and 34% in France."

The other is that business planning has been bedevilled by the uncertainty that flowed from a series of ad hoc changes to the tax structure and tax practices. Loss of confidence, because of chronic political unrest, was exacerbated by a lack of certainty regarding industrial policy. This inhibited new investment, thereby reducing efficiency and increasing costs. Simultaneously, of course, it constrained job creation.

Says Nedbank economist Kevin Lings: "A decision to undertake new investment is based on the relationship between expected future return and the cost of capital funds. If investors perceive an unacceptable risk factor, investment will be subdued."

One of the many damaging results of this sequence was a "disappointing performance" by manufacturing, on which growth essentially depends. Employment in manufacturing, up 5,2% a year in the Sixties, rose at annual rates of only 2,5% in the Seventies and a negligible 0,2% in the Eighties.

Remedial action, says Lombard, was first taken only towards mid-1984, when SA was faced with a balance of payments crisis. Corrective measures coincided with the start of a capital outflow which Lombard says totalled R30bn over six years. This policy brought temporary relief to the foreign exchange reserves but suspended the chances of domestic industrial growth and deflected attention "from the need to attend to the serious decline in the cost-effectiveness and productivity of the engine of production."

Lombard suggests that, when the drain on domestic savings through the capital account of the balance of payments is stemmed, there will be "macro-economic scope for expansion." Real resources will double the rate of new capital formation and the rate of sustainable growth in output should rise to something like 2,5% a year.

However, he says, if micro-economic reforms are speedily carried out, the improved productivity of investment should push sustainable growth to at least 4%. ■

citizens.

So if the MRA's survey was attempting to show how rich (or poor) whites are, it should have taken a sample of urban blacks as well.

ment was serious about simply redistributing wealth it could nationalise the banks and reallocate the debt.

The consequences might be disastrous, of course, as the international

Few firms willing to take the 'high road' to survival

Wiwar 2/8 - 8/8/91. (180)

By GAVIN EVANS

SEVENTY percent of South African companies are pessimistic about the future and have chosen the "low road" path to survival — corporate takeovers rather than capital expenditure plans, extreme caution regarding social responsibility programmes and a fear of innovation generally.

This is the conclusion reached from a research study involving detailed interviews with more than 60 of South Africa's leading businessmen from 24 industrial sectors conducted earlier this year by New Products Laboratory.

NPL director Tony van der Schyf said the survey was originally not intended for publication and was conducted to obtain the views of top companies on anticipated trading conditions in the short term.

"But the results were so startling and disappointing — showing, in short, that South Africa's businessmen have a bad attitude — that we decided to release the results."

The 30 percent of company chief executives adopting the "high road" approach were primarily from private or unlisted public companies — meaning that they were less vulnerable to the whims of large numbers of nervous shareholders.

"Among most of the businessmen interviewd there's a focus, for example, on insurance and pension funds, acquistitions and mergers, a scepticism about the role of unions, a marked reluctance to introduce innovative management strategies, and a strong sense of digging in and hoping for an upturn in the economy.

"Part of it is the recession and the uncertain political climate, but there's a more general resistance to change which is extremely worrying. One gets a real sense that South Africa's businessmen have lived of the fat of the land too long, and will not be in a position to compete globally. There will have to be major attitude changes if they want to survive."

The survey states 70 percent of interviewees were pessismistic on the country's short-term prospects, and 25 percent remained negative about conditions beyond 1992.

There was unanimous agreement that real future growth would would have to come from increased market share, new products and new markets, and an acceptance of the need for innovation — though a concern that not enough was being done in these respects.

12 big firms pledge R500m for blacks

S Times (Bus Times) 4/8/91 180

By DAVID CARTE

TWELVE of the biggest companies in South Africa have pledged to donate R500-million to black education in the next five years.

They have asked the Urban Foundation to administer and expand the Private Sector Initiative.

The Urban Foundation will raise and administer funds and try to involve more companies in the initiative. It will select schools and tertiary educational institutions deserving support.

An equally daunting task for the Urban Foundation is to persuade all sorts of community organisations to co-operate.

If the project gets off the ground, it will be the biggest corporate social responsibility project ever in SA.

First hint of the existence of the plan was a statement by Meyer Kahn, chief executive of SA Breweries, in his annual report that his group would contribute to the fund.

Urban Foundation spokesmen say the proposal is so sensitive and delicately balanced that they cannot disclose more.

But sources in the private sector say 23 organisations, including the ANC and even the PAC, are involved in putting the plan together.

Main motivator of the initiative is Michael Rosholt, retired chairman of Barlow Rand. Mr Rosholt is reported to have gained foreign support for the initiative.

Standard and First National banks are known to be taking part, but the names of other sponsors will be announced only when the whole project is officially launched, probably next month.

ANC 'realism' welcomed

B/Day 5/8/91

THE Johannesburg Chamber of Commerce and Industry has welcomed what it calls "the more realistic attitude towards the importance of the economy" shown by ANC secretary-general Cyril Ramaphosa last week. (180) (11a)

The chamber was encouraged that Ramaphosa recognised the necessity of economic success in SA, which could be achieved only if companies committed themselves to the future of the country, JCCI CE Marius de Jager said in a statement.

"The chamber, though, is concerned about how the ANC fails to see that the use of boycotts, stayaways, and politically motivated strikes, is as much 'economic treachery' as business planning to pull out of SA. Labour stability is one of the prerequisites for such a commitment, and it is incomprehensible to us that the ANC continues to use the instruments of the economy for political purposes and maintains its call for sanctions."

The JCCI looked forward to the publication of the ANC's economic policy and hoped it would address the issue of economic stability.

He said recent labour agreements had made it clear that one of the goals of the unions was to maintain employment, which was "irreconcilable with the maintenance of sanctions". — Sapa.

'Aid will defuse VAT opposition'

B/Day 5/8/91

180

SUSAN RUSSELL

SACOB has warned government that unless it provides a R1,2bn aid package to assist the poor with basic foodstuffs after the introduction of VAT, opposition could be such as to threaten the implementation of the new tax.

This follows growing opposition to government's handling of VAT which comes into operation in eight weeks' time. The DP has called for its implementation to be postponed.

Sacob's recommendation of a R1,2bn aid package is contained in a memorandum sent to Finance Minister Barend du Plessis and National Health Minister Rina Venter last week, just days after Cosatu announced it would use mass action to oppose the tax.

"Unless a suitable programme is announced for the alleviation of extreme poverty, the implementation of VAT stands under threat," the memorandum warns.

The business community is concerned that if government does not accept its recommendations, the VAT issue would become politicised and the whole system be derailed.

In its memorandum Sacob said it believed measures should be taken to offset the immediate short-term disadvantage of VAT.

It proposed a food assistance programme be set up, initially in rural areas where the need was greatest. School feeding and food stamp schemes also could be phased in.

The chamber emphasised that the estimated R1,2bn needed would cover an entire fiscal year.

Therefore, launching the programme in what remained of the present fiscal year should be possible with the R220m allocated as a "safety net" in the March 1991 Budget.

A reassessment of funding needs would have to be done in 1992/3.

Such a scheme "to an extent would defuse some of the opposition that is building up toward VAT", Sacob said.

Meanwhile DP leader Zach de Beer reiterated yesterday that while his party supported the introduction of VAT, it felt the rate of 12% was too high. Not enough had been done to alleviate the burden the system would place on the poor, he said.

The Vatwatch organisation is being flooded with calls from the public, reporting suspected cases of misleading advertising and alleged incidents of unwarranted VAT-related price increases, Sapa reports.

Vatwatch chairman Prof Louise Tager said on Friday Vatwatch — the independent body set up to monitor the effects of the introduction of VAT — had already referred a number of cases to the Advertising Standards Authority.

In all cases consumers were being encouraged to "buy now, before VAT", implying that prices would rise after September 30. This would be unnecessary for products already carrying GST, as the VAT rate was lower than that of GST.

Tager said some complaints had also been received from business people alleging their suppliers were increasing prices and blaming the imminent introduction of VAT.

New overall concept of business needed

Sowetan 5/8/91

By ALI MPHAKI

SOUTH Africa needs a new overall concept of business which will take account of the traditions and culture of the African participants in commerce and industry.

This suggestion by Mr Reuel Khoza, managing director of Coordinated Marketing and Management, was made at the first annual national Diversity conference held at the Carlton Hotel this week.

Khoza said the business world as currently conceptualised and structured in most South African corporations is generally cast in a Euro-centric mould.

"Little or no account is taken of what contribution indigenous African world-views can make in better shaping the world of work," he said.

The two-day conference drew speakers and panelists who are internationally and nationally recognised as being in the forefront in recognising and working with the complex issues of work force diversity and change.

If anything, the conference was a good first step toward an understanding that diversity in the work force contributes to a strong economy. Equally important, it shed light not only on the differences in South Africa but also the vast areas of common interest.

Khoza, speaking on the theme "The need to develop a South Africa-based approach to management", said Western managerial ploys such as strategy, organisational structure, systems, and so forth, function optimally in a conducive environment.

"It is to that which would make for a conducive environment in South African commerce and industry that we turn our attention," he said.

Referring to his South African-based approach to management as the "community concept", Khoza said this type of management has a strong philosophical base in the concept of Ubuntu.

"This requires that management be approachable, not to say overfamiliar. After all, in African villages the chiefs are highly dignified personalities but yet very approachable."

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Belonging

"An atmosphere of informality must overhang the chores and procedures of business if employees across the board are to feel a sense of belonging. The managing director who is unable to engage in occasional informal chats along the corridor with the young trainee several rungs below him cannot hope to generate espirit de corps in the organisation," Khoza added.

Another speaker, Mr Eugene Nyati, director of Centre for African Studies, said he has found "immense" institutional resistance from corporate South Africa to lending to blacks or black management advancement.

"While companies pay lip-service to equal opportunity, promotion of blacks in line management is so insignificant as to be virtually non-existent."

Nyati called for the creation and support of a black middle-class, although ready to caution that such a middle-class should not be large enough to threaten its white patrons, and yet be visible enough to act as a psychological and physical barrier between the whites and the angry and hungry black masses.

Early detection is the key to rescuing ailing enterprises

B|Day 6/8/91

TOM GRIEVE (180)

WITH liquidations in the year to date running at some 15% higher than the corresponding figure for 1990, companies exposed to financial loss must consider ways of safeguarding their investments.

This is beneficial to the borrower as well as to the creditor because early detection of financial problems can substantially reduce the threat of liquidation.

Internationally, there has been a marked change in the manner in which lenders react to the cash flow problems of borrowers. A number of years ago, insolvency would often have followed on the heels of a cash flow crisis because the symptoms of a borrower's financial difficulties were recognised too late to mount a rescue programme.

Nowadays the early detection of problems has led to a higher proportion of ailing companies being turned around.

The rate of liquidations in SA (in May alone of this year they were 56% higher than the same month last year) indicates that local businessmen have not yet learned the lessons being applied abroad.

The problem for investors is to know what signs of failure to look for. The balance sheet is the most obvious source, but often, this can be misleading. Classical indicators such as acid test, capital structure, cash flow and forecasts tell an historical picture of the company at a particular point in time. Well publicised failures, both in SA and abroad, have occurred soon after the publication of financial statements that appeared to give a green light.

How can the concerned investor detect warning signs? Are there any reliable indicators?

Numerous failure prediction models have been produced over the last decade or so. These purport to provide a template which is imposed on certain known aspects of the company.

The resulting score of these predictors is supposed to indicate the current health of the firm. While these are useful in identifying some of the signs of failure, they have not been particularly successful in practice. Post-failure tests to see if they would have worked have, generally, been disappointing.

There is evidence that failing companies do exhibit some common signs and investors should familiarise themselves with these and use them as a basis for their judgement and subsequent action.

They can be divided into four categories:

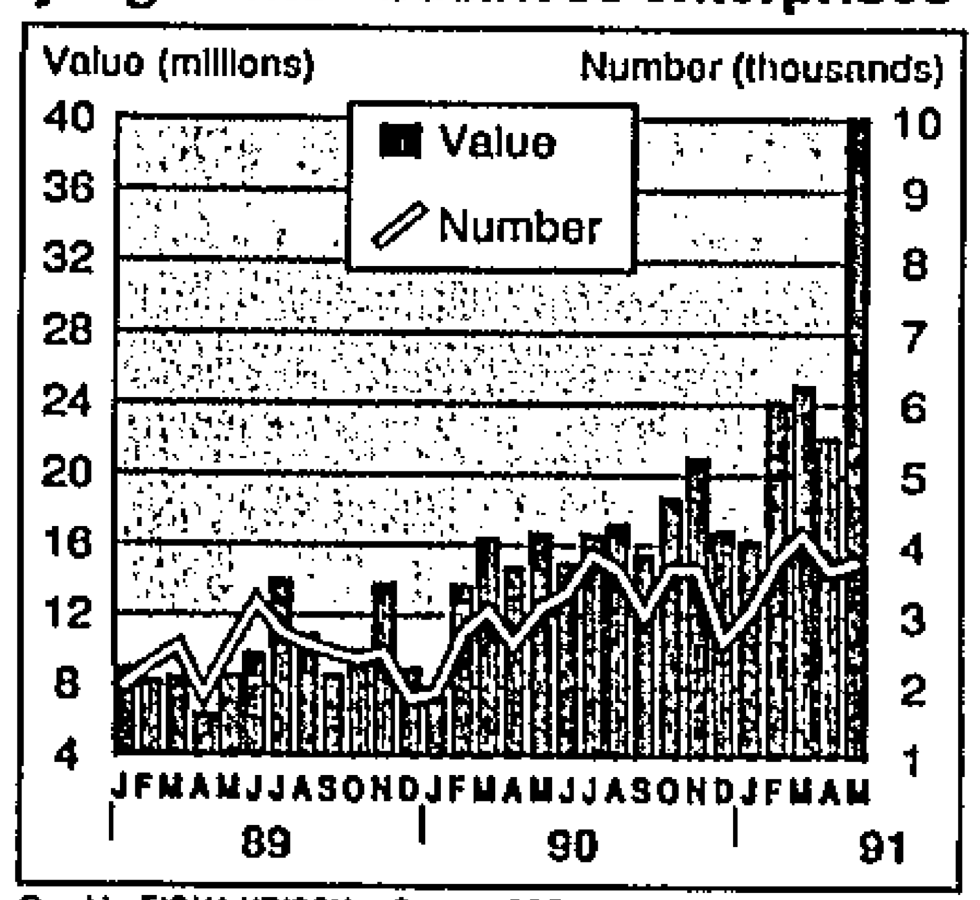
☐ Performance: This refers to the company's performance in the marketplace. Are sales falling, orderbooks diminishing, deliveries lengthening, products being rejected and returned? Is the market becoming more competitive with share being lost to newer and more vital entrants to the market? Conversely, some major firms have failed through growth that was too rapid. Have sales been increasing by large annual percentages, or doubled in the last year?

☐ Financial: Is the firm overborrowed, are creditor days rising and the debtors' book extending? Cash flow remains a critical determinant of success and failure. Is it healthy? Does the company have and apply realistic costing systems?

☐ Physical: Are there plans to build, or has the firm recently moved into lavish new buildings? Are the published financial statements nonstandard and extravagantly produced? Does the number and price range of company cars conform to the profile of the firm? and;

☐ Human: Is the CEO also the chairman and is he autocratic? Are executives spending undue time overseas? Have there recently been boardroom defections or resignations?

Civil cases: default and consent judgments - business enterprises



Graphic: FIONA KRISCH Source: CSS

In addition investors should listen careful for rumours and keep abreast of court listings to spot writs and summonses.

From a lender perspective it is necessary not only to understand the causes of a company's problems but also to assess its prospects for survival and return to profitability. Without realistic prospects, the merits of continuing to trade must be limited.

The lender should review the borrower's trading forecasts. These may cover only the very near future, or they may cover a period of up to a year or more. He should concentrate on those areas of the forecast that have a major impact on cash flow.

Where short-term liquidity is limited, a review should be done of the immediate cash flow requirements of the business — if necessary, on a day to day basis — to ensure that it can survive while its prospects are being evaluated.

If the prospects of the business appear reasonable, a recovery plan should be developed that will preserve the business. Of course sometimes the extent of the risk is too great and insolvency is the only realistic way forward.

The terms on which further support by the lender may be provided are often affected by the extent of the security available.

During a financial crisis it is important to keep the morale of the organisation as high as possible. This is easier said than done when expenses and head counts are being cut and, possibly, parts of the business are being sold. The importance of having a clear recovery plan and communicating it to all staff with honesty cannot be underestimated.

The resolution of cash flow difficulties may involve both the operational and the financial restructuring of a company. In such cases, different interest groups such as lenders, shareholders and suppliers need to negotiate a satisfactory basis on which to proceed. These negotiations may take place either within the framework of a formal scheme of arrangement or, informally and therefore with less publicity.

The effective implementation of the recovery plan is central to the success of a rescue programme. Frequently, the steps considered necessary to restore the company to financial health can be taken by the borrower's own management without outside assistance. In more complex circumstances it may be appropriate to engage the services of specialist consultancy teams.

Companies will continue to go under and investors will burn their fingers. But information is available to permit a better understanding of the cause of failure, the symptoms of the pending problem and the steps that can be taken to turn around the failing company.

☐ **Grieve is a senior partner with KPMG Aiken & Peat and MD of KPMG Management Consultants.**

☐ **Simon Barber's column will not appear this week.**

Strategy 'could boost growth rate'

B Day 7/8/91

(180)

PETER GALLI

THE SA government had embarked on a new industrial strategy which, coupled with the economic upswing, could boost the country's growth rate in the next two years from an expected 2%-3% to 4%-5%, Finance Minister Barend du Plessis told the Conference on Trends in Steel Structures for Mining and Building in Johannesburg yesterday.

The strategy was based on the assumption that financial stability with a lower rate of inflation was needed for a durable expansion of the manufacturing sector, and that expansionary forces must not lead SA into a balance of payments crisis that would mean cancelling a still undeveloped expansionary phase.

"Government regards the industrial strategy for the next few years as one of its main pillars for meeting the many economic demands of the country. The pending cyclical recovery must be boosted by a few special incentives, by sound monetary and fiscal policy and especially by foreign participation."

Implementation of government's new strategy had already seen a new tariff protection policy, a revised export incentive scheme, a major review of the existing regional industrial development programme, a new tourism development strategy, revision of the tax structure and switchover to VAT, Du Plessis said.

"Foreign participation must be encouraged, not only because of the balance of payments needs, but also because of our need of the skills and technology of foreign participants."

At the conference banquet last night, the Mossgas Offshore Project was awarded the South African 1990 Steel Construction Award.

State spending masks recession

Citizen 7/8/91. (180)

SHARON WOOD

GOVERNMENT spending is halting a slide into deep recession and disguising the battering the private sector has received.

Private sector economic activity plunged by 5,2% in the first quarter of the year — far worse than the relatively mild 0,9% fall in total economic activity reported in the Reserve Bank Quarterly Report.

Private sector activity is calculated by excluding government consumption expenditure from the Reserve Bank figures measuring economic performance. It includes fixed investment, exports, private consumption expenditure and inventories.

The reason for the large disparity between performance in the overall economy and the private sector was a large 19,5% rise in government consumption expenditure in quarter one.

Private sector activity was depressed by a 21,7% fall in exports and a 3,5% drop in gross domestic fixed investment in the first quarter.

All rates of change are quarter-on-quarter (seasonally adjusted and annualised) and measured in constant 1985 prices.

The recession in the private sector has been consistently deeper than the general economic recession since mid-1990.

Private sector activity fell by 2,4% in quarter three as opposed to an overall 1,5% drop, and by 3,6% in quarter four compared with a slight 0,3% fall in the overall economy.

Government will probably underpin economic activity again during the second quarter. Statistics released by the exchequer recently show a 21% rise in government expenditure in the second quarter, well above the budgeted 13,7%.

Economists are divided on the state of the economy. Some say it turned at mid-year, while others believe the turning point will only occur towards year-end or next year.

Statistically this recession is relatively mild when compared with previous recessions, but economists say some sectors have been particulary hard hit.

Compulsory company liquidations rose by 21% in the first half of this year from the same period last year.

Credit Guarantee senior economist Luke Doig says the figures reveal the wholesale and retail trade sectors are faring the worst.

"These figures dovetail perfectly with the stringent monetary policy and the regime of high interest rates which has endured for longer than expected," he says.

But growing calls for lower interest rates to ease the burden on the private sector are unlikely to be answered. Reserve Bank governor Chris Stals remains firm in his commitment to maintain the high level of interest rates despite a seemingly expansionary fiscal policy.

Inkatha scandal will hurt for months, says Parsons

B Day 7/8/91

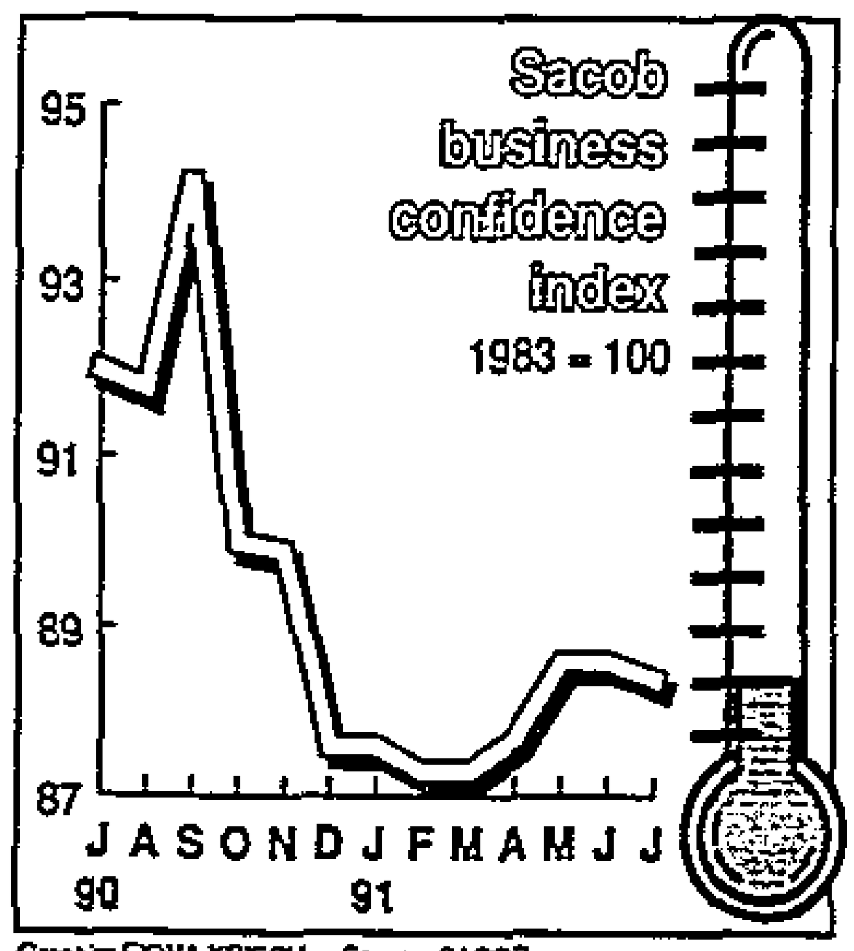
180

SYLVIA DU PLESSIS

THE Inkatha funding scandal would continue to rattle the SA business mood in the months ahead, SA Chamber of Business (Sacob) director-general Raymond Parsons said yesterday.

It was clear business sentiment would remain hostage to political developments until negotiations gave rise to a new constitution supported by the business community and a truly representative government.

Parsons was addressing a news conference on the release of Sacob's latest business confidence index, which slipped to a level of 88,4 in July from June's 88,6, due in part to disclosures that government had helped fund Inkatha rallies. The index was prepared prior to President F W de Klerk's statement on the issue.



Graphic: FIONA KRISCH Source: SACOB

Parsons said the "minor" extent of the index's decline and the fact many of its sub-indices reflected an improvement tended to support the view that the economic downswing had bottomed out.

But while all the major parties seemed prepared to put the political scandal behind them and continue with the negotiation process, there would be a need to restore credibility and trust as a basis for talks.

"While this does not mean that a negotiated settlement is no longer possible, it could result in more protracted negotiations because of an increased level of mistrust between the parties," Parsons said.

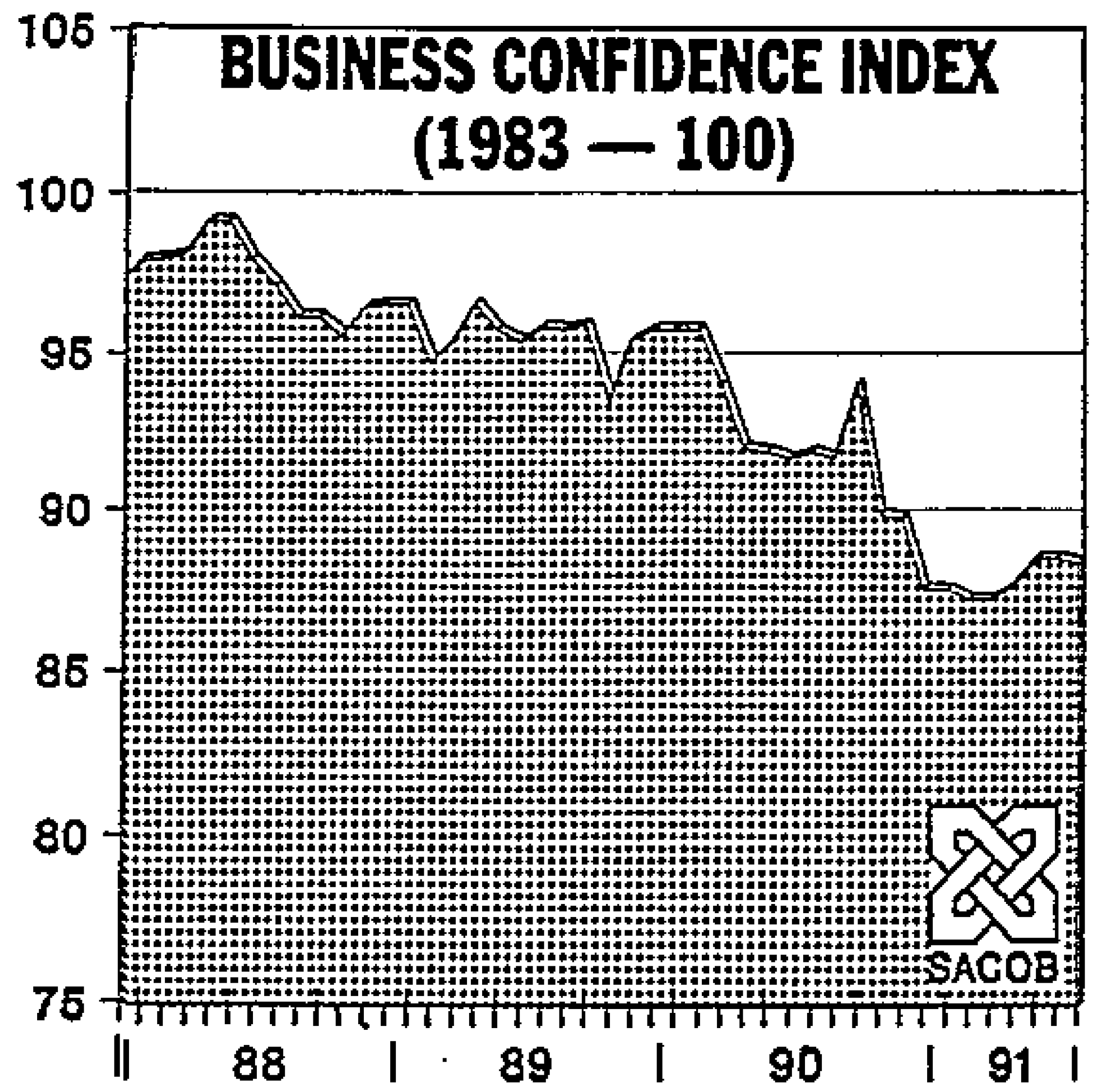
If this occurred, it would inevitably lead to an extension of the period of uncertainty experienced by business decision-makers.

Business confidence remains hostage to political outlook

Star 7/8/91.

180

By Sven Lünsche



Business confidence continues to be hostage to political developments although there is mounting evidence that the economy has bottomed out.

The SA Chamber of Business's (Sacob) reported yesterday that the Business Confidence Index fell slightly in July by two percentage points to 88,4 from 88,6 in June.

But Sacob added that the "minor extent of the decline and the fact that many of the sub-indices showed an improvement tends to support the view that the economic downswing has now bottomed out".

"Nevertheless," adds Sacob's chief economist Dr Ben van Rensburg, "the recent Inkathagate scandal has once again served to emphasise the vulnerability of the political climate.

"It is clear that, until negotiations give rise to a new constitution that will enjoy the support of the business community, and a truly representative government, the business mood will continue to be hostage to developments on the political front."

However, in other spheres prospects for the economy are improving, notably on the external front, where the recent lifting of sanctions and the mild recovery in the world economy "means that SA is well placed to take advantage of the opportunities that may arise on world markets".

The high rate of inflation continued to depress business confidence and it seemed clear that the monetary authorities would not relax the reins on monetary policy until meaningful progress has been made in the fight against inflation.

The manufacturing industry is clearly at the forefront of those who belive that the economic downswing has now bottomed-out, says Sacob economist Keith Lockwood, who conducts its survey of confidence levels in the industry.

"The level of optimism about sales and production prospects in the coming twelve months is now at its highest level since February 1990, indicating a broader consensus that a new upswing in near at hand," he says.

But he cautions that short-term activity levels had failed to show any significant improvement in recent months, and it was doubtful that the upswing had already begun.

The more optimistic sales expectations are also not expected to flow through to increased employment opportunities, with employment of both skilled and unskilled workers expected to decline over the coming years.

More companies and people going broke

180

By Sven Lünsche Star 7/8/91

Liquidations, insolvencies and the level of civil debt continued to surge in recent months as the high level of interest rates took their toll.

"The rising liquidations dovetail perfectly with the stringent monetary policy and the regime of higher interest rates, which has endured for longer than expected," says Credit Guarantee economist Luke Doig.

He believes the econ omy will get worse, as the indications are that most sectors of the economy are labouring under high interest rates.

Central Statistical Service figures show that in the second quarter of this year liquidations rose to 482 from 399 in the preceeding quarter and 355 in the last three months of 1990.

However, the monthly June figure of 150 liquidations was down on the May figure of 182 liquidations.

Civil debt

Mr Doig says companies in the retail and wholesale sector had been particularly hard hit by the stringent monetary policy.

A similar trend was reflected in the level of civil debt, which had risen to record level in the first five months of this year, with a total of R236 million and R216 million in April and May respectively.

With regard to insolvencies Mr Doig says that the preliminary figure for May this year of 283 was above the 267 insolvencies recorded in May last year but marginally down on April 1991's 295.

The three months figure to May this year of 869 was 25 percent higher than the number of insolvencies recorded in the three months to end-February.

SOWETA

Business is now looking to Maputo

Sowetan 8/8/91

180

SOUTH Africa's best-kept secret - business in Mozambique - is now being discovered by local entrepreneurs.

Mozambique's move to a multiparty democracy and the privatisation of businesses has created hundreds of trading opportunities - and South African companies are queuing up to make business contacts in the country.

Guidance

According to the president of the Mozambique Chamber of Commerce, Mr Americo Magai, business in the country is improving under the guidance of the International Monetary Fund and the World Bank programmes instituted as part of Mozambique's economic recovery programme.

He stresses, however, that if local industries are to survive they will have to compete with imported goods - and in the world market - with products from industrialised countries.

By ALI MPHAKI

"Although the free market principle has improved the quality of goods available on the local market, there is a need in Mozambique to work with foreign investors on quality, technology, financial skills, production skills and export promotional skills so that the local industries can compete effectively in these markets," he says.

Priority areas cited by Magai for the country's economic recovery programme include:

* Unit parts and spare parts for road transport equipment goods, and for the collective transport of passengers;

* Raw material, equipment, parts and spare parts for the clothing manufacturing industries;

* Equipment, raw material and spare parts for the shoe industry; and

* Equipment, parts and spare parts for the agricultural industry and construction industry.

A major boost to Mozambique's trade prospects has been planned for October with the launch in Maputo of Mobex '91, the country's first "business to business" exhibition.

Organised by Sandton-based Exhibition Management Services in conjunction with the Mozambican authorities, Mobex '91 has been specifically designed to introduce outside suppliers of products, services and technology to the country's rapidly re-emerging business community.

Products

Unlike conventional exhibitions where displays of products are expected, "business to business" utilises exhibition stands as "offices" or "neutral communication zones" where the emphasis is on business contact rather than the immediate sale of products.

The response to the exhibition has been overwhelming, with hundreds of inquiries from South African businessmen eager to make contact with their Mozambican counterparts.

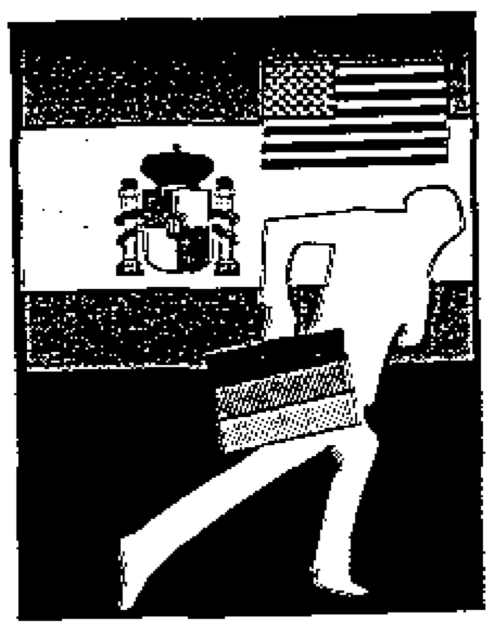
EXECUTIVE PAY

Show and tell time

FM 9/8/91

180

Unions say SA bosses pad their salaries — but world figures suggest otherwise



Sauntering into his club for a quiet drink last month, a JCI director (who shall remain nameless) was momentarily confused by the raucous welcome. This consisted largely of cries of "Make mine a Castle!" Then the penny dropped. The Cosatu-affiliated Labour Research Service (LRS) had just revealed that he and his fellow directors took home an average R11 058 a week, compared with the R157 wage of a lowly mineworker.

Do SA public companies pay their executive directors too much? The subtext of the LRS survey, which analysed directors' remuneration at the Johannesburg Stock Exchange's Top 100 industrial companies, was that they do. Their figures, based on scanty disclosure by the companies themselves, will doubtless cause some poignant executive discomfiture during the next wage round.

Trade union politics aside, it is certainly time for a closer look at top executive pay — even if not for the reasons the LRS has in mind. High-level management skills will be a valuable and, sadly, all-too-scarce component of the intellectual capital resource in a new SA. The correct question, perhaps, may not be are we paying them too much but are we paying them enough?

Before that question can be answered fairly we need to know a lot more about what and how public companies pay their executive directors. They can no longer argue that this is nobody's business but their own.

Certainly, shareholders have a right to know whether their appointed representatives are being fairly rewarded. It could be argued that every insured or pensionable South African is an indirect shareholder in most of the largest SA companies. Either way, in a changing SA, apparently excessive remuneration is bound to be a matter of public concern. So demands for more information will inevitably come from beyond the shareholder constituency — from workers, from political parties and, ultimately, from government itself.

Disclosure obligations in the US and the UK are far more demanding than ours. Annual accounts of London-listed companies must detail the pay of the highest-paid director, together with the approximate income of all other directors and any employees paid above a certain level. They must also list, by name, all directors' shareholdings and share options. International Stock Exchange regulations require disclosure every time a director buys or sells shares in his or her own company.

In the US, enough information is available for *Fortune* magazine to publish an annual ranking of 200 best-and-worst-paid executives, comparing their pay with a computer model. The pay valuation includes an estimate for stock options, while the model takes into account company performance, size and industry.

SA public companies are obliged merely to publish an aggregate of directors' pay and stockholdings. Stock options, which usually make up a substantial part of a director's pay package, need not be made public at all. And so they never are. It is ironic that in a society where even a reluctant government is becoming more open, one of the last bastions of obsessive secrecy should be the business community.

Those directors awarding themselves pay rises while their profits and share prices fall and dividends are cut will not wish to abandon this veil of secrecy. They should not be afforded its protection. Those with more realistic pay policies have little to fear and something to gain. The obligation to disclose — which will eventually become mandatory — imposes a useful discipline. It forces directors to develop a rational compensation policy, which is properly suited to their industry and their pace of development — and which can be defended confidently in public. If the international experience is anything to go by, the recent prod from the LRS will prompt more catholic pressures to justify executive pay.

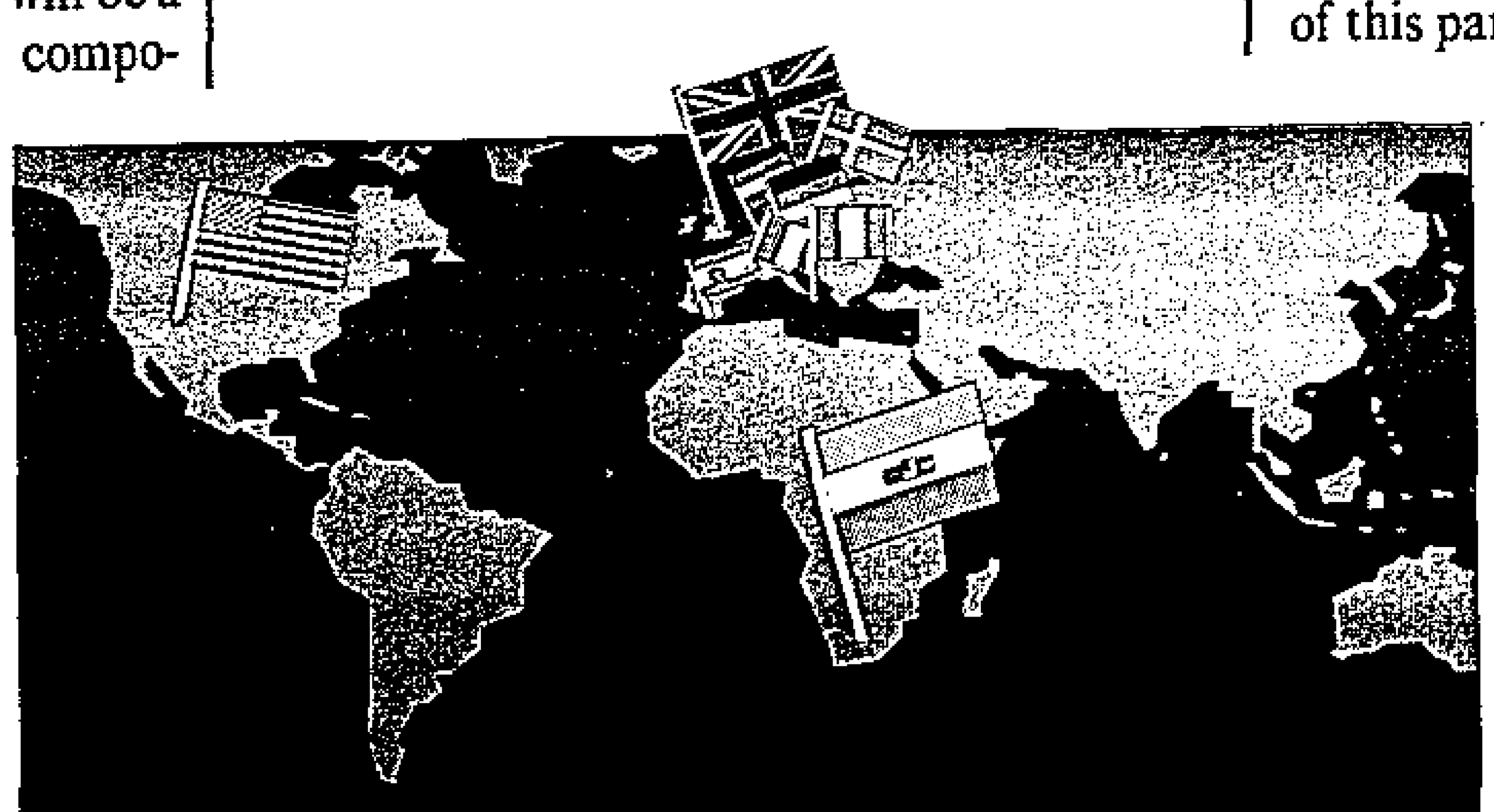
Elsewhere, we have already seen the kind of remuneration rumpus that companies prefer to live without. This year alone, the salaries of Rolls-Royce chairman Lord Tombs, advertising mogul Maurice Saatchi and Prudential chief executive Mick Newmarch (not to mention the governor of the Bank of England) have caused commotions in newspaper columns and AGMs.

SA board members may view the prospect of such attention with alarm. But in each quoted corporate case, shareholder discontent was justified. While profits fell, executives were paying themselves more. SA directors can take comfort from the other side of this particular coin: none but the ideologically jaundiced complain about high pay for high performance.

What shareholders do object to, more and more, is guaranteed high pay irrespective of corporate track record. This has not been entirely lost on local companies. Headhunters report a growing trend in SA to link directors' remuneration to performance. However, this has a lot further to run. One of the UK's best-known proponents of performance-related pay was Sir Ralph Halpern, former executive chairman of the Burton Group.

"The profit-related portion of a top executive's compensation may be three times the base salary in a great year," he once said of his own team. "At times of recession there are interested parties who complain when pay does not fall with profit. A good scheme makes sure it does."

It is unlikely that many SA executives have the opportunity to triple their basic pay by bonus alone. Indeed, annual bonuses of local chief executives rarely amount to more than 50% of annual salary and most companies with incentive bonus schemes limit them to 25%-30%.



Top drawers
What senior executives get paid

MEDIAN FIGURES	Total cash package incl. incentives R000	Basic salary R000	After tax R000	Cost to employer R000
Germany	871	658	475	891
Spain	684	608	433	710
Italy	629	547	366	842
Netherlands	587	462	264	605
US	553	429	382	569
France	485	425	338	611
UK	404	359	265	443
Sweden	367	324	176	511
South Africa	247	305	188	387

Conversion to rand as at August 2 1991
SA cost to employer figures exclude car
Source (excluding SA figures): HAY GROUP UK
Source (SA figures): FSA-CONTACT

Continue →

AFTER 'INKATHAGATE'

Silent knights

FM 9/8/91

The ANC has been remarkably restrained over the issue of government's funding of Inkatha. The pious recriminations it left wisely to the putative guardians of its virtue, the homegrown representatives of foreign Western newspapers — or "stringers." Their behaviour over it can hardly be described as having much finesse.

At the two major press conferences that this unfortunate affair provoked, they came in hordes less to ask questions than to air their opinions. These conferences must have been heaven-sent for the correspondent of the *Christian Science Monitor*, circumscribed as he must be in reflecting on the unreality of the matter of violence in our black cities. The answers given were not, in his view, "satisfactory" — as if that meant anything.

There were probably two reasons for the ANC's good sense. First, it knows that (like the Nats themselves) it has no alternative to negotiations. The prospect of going back to a bush war simply does not exist.

Second, the ANC cannot afford to be too indignant about its own funding and record on human rights. Indeed, the morality of some of its donors simply does not bear scrutiny. It has accepted support from some of the world's worst, most cruel and notorious thugs; Nelson Mandela's foreign trips are as much to express gratitude as to solicit funds.

Of course, it was extreme folly for the De Klerk government to even countenance a police request to fund Inkatha. And it was equally so for Inkatha to have accepted the money. But that does not reduce the importance here of the Zulus and the role of Inkatha in both the forthcoming constitutional negotiations and the future government of the country. It is typical of this sort of media outrage that the perpetrators try to squeeze as much advantage as possible out of it, using innuendo to create suspicion. In the process the net becomes very widely cast indeed.

And so the National Students Federation (NSF), a modest body of mostly sensible students, who support free enterprise and libertarian ideas, has been tarred with a similar brush as Inkatha.

And it doesn't stop there. *The Weekly Mail* is seeking also to identify the *FM* as an NSF financier along with some other companies and the police. The facts are that at the *FM*'s request some years ago, several SA companies joined us in contributing to two economy-class tickets so that two NSF students could participate in an international students' conference in Switzerland.

According to the same newspaper, the NSF stands condemned because the police attempted to manipulate it. To be sure, if the SAP has been so metamorphosed that it is prepared to finance and propound libertarianism, we have to regard that as welcome progress.

The Weekly Mail has twice itself requested and received financial support from the Anglo American Corp. It carries some corporate advertisements that smack of covert subsidy. And the newspaper, manifestly ineptly run, exists today by courtesy of its printers, another Anglo associate.

We leave *The Weekly Mail* to explain whether its own funding and circumstances detract from its credibility as a socialist mouthpiece and collectivist tool which encourages the maintenance of financial sanctions — with all the institutional violence and hardship that implies. ■

BUSINESS AND GOVERNMENT

FM 9/8/91.

From watchdogs to lapdogs

The idea that a committee of businessmen can guide State President F W de Klerk's Cabinet through the pitfalls of its clandestine endeavours is both naive and dangerous — especially for the businessmen.

There will be no shortage of business egos willing to serve on the committee, particularly if what passes now as an economic advisory council is anything to go by. It is no more than a forum of special interest that the wise and knowledgeable studiously seek to avoid.

Businessmen, moreover, are notoriously inept and unsophisticated in political judgment and, in the cloak-and-dagger matters that fall within the ambit of this committee, they will be mere babes in arms. Professional spooks will run rings around naive and sentimental entrepreneurs.

By the very nature of the men willing to serve, De Klerk will be surrounding himself with the fawning and flattering. He will get neither the independent advice nor the sensitivity to public attitudes on these secret affairs that he is seeking and to which he believes himself entitled.

Those businessmen foolish enough to join the committee will have great difficulty in the new SA to live down the impression that is bound to arise — namely that they were party to a conspiracy between government and business to suppress open discussion on the consequences of the dark side of apartheid. That could be a very real danger.

The answer is, of course, to scrap the entire parliamentary vote and use it to pension off those involved with what has been described as "continuing contractual obligations" — in short, putting them out to grass. Then let businessmen get on with what they know best. ■

Headhunter Redelinghuys ... *a stake in the heart*

The great unknown, of course, is the executive share option scheme. In line with international practice, a substantial and often overwhelming amount of top SA executives' compensation comes from exercising share options at an agreed strike price. Earnings surveys in any country seldom take these proceeds into account.

Share options are a legitimate, even desirable, way of rewarding executive effort. As headhunter Johann Redelinghuys points out, equity motivates by giving executives a sense of participation. "The moment he becomes a shareholder he starts to think very differently," Redelinghuys says. "It's like the difference between buying and renting a home."

This is not to say that executive share and option schemes always benefit the shareholder. Manipulation of the option strike price can allow executives to benefit when shareholders have actually seen prices fall. During the recent stock market boom, some company chairmen were alarmed by the number of executives who exercised their rights to sell their shares or cash in their options. "We set up our scheme to encourage executives to work for sustained profit growth," says one. "We did not want them to sell the shares. Their long-term commitment might now be in question."

RES International's Ted Weare, an acknowledged authority on executive compensation, argues that in such a case the board never communicated its real intent to scheme participants. The scheme rules, he says, did not reflect what was desired. "The underlying reason for a share scheme is to benefit shareholders and part of the benefit accrues to scheme participants," Weare insists. "It is not the other way around."

Too much pay or too little? As we have established, that judgment must wait until we are better informed. At least one local headhunter maintains that comparisons of any kind are meaningless. "How long is a piece of string?" he asks. Even so, the sparse available evidence suggests the SA director fares no better than his foreign peers. Excluding the value of equity rewards — which are undoubtedly considerable in many cases — he is not outrageously remunerated by international standards.

Trevor Woodburn of executive search consultants Woodburn Mann suggests that a SA chief executive is unlikely to earn less than R150 000 or more than R1.5m a year. (This reflects the cash element of the package and excludes bonuses or stock dividends.) Woodburn believes that a handful of top SA executives — probably no more than half a dozen — have basic salaries of between R800 000 and R1.5m a year. A chief executive of a small- to medium-sized SA company, with a turnover of R100m to R150m a year, is more likely to get between R220 000 and R250 000 a year.

That compares with an average UK top level base salary of R425 000, according to UK management consultants, Hay Group; a German average of R658 000; and a US mean of R429 000. While Hay Group research shows that the UK has one of the lowest pay rates in Europe (see table), CEOs of blue-chip UK companies are routinely paid R1,5m a year and more. Amerada Hess's Leon Hess was the worst-paid executive in this year's *Fortune* survey. His pay lagged the computer model by 87%. Even so, he earned R858 000 last year.

Exchange rates and purchasing power in different countries make comparisons highly subjective. This week, human resource consultants FSA-Contact published a survey suggesting that SA executives are not as badly off as they may think once their pay is adjusted for tax and cost of living. Even so, in a list of seven countries including the UK, US and Japan, SA executive purchasing power was second-lowest — better only than Australia.

The issue of purchasing power is complicated by taste and lifestyle and is, up to a point, a matter of swings and roundabouts. In Germany, white goods and cars are relatively cheap, but land is expensive. In SA, the reverse is true. SA executives live in the real world and must pay international market prices for imports, holidays abroad, overseas university fees — all those things their foreign counterparts take for granted.

Renwick's Rowlinson ... *alert to a quiet brain drain*

Woodburn Mann's Woodburn ... *nothing outrageous, really*

Some experts argue that SA salaries must become more competitive in order to attract international talent and experience. "The ratio between directors' pay and workers' pay needs to be right," acknowledges Redelinghuys. "But the ratio between overseas directors and local directors needs to be right too."

There is a more pessimistic version of that argument. This holds that competitive salaries are vital, less to attract foreign talent (which has generally proved immune to attraction) than to keep existing talent from leaving the country. "Top performers must be paid according to world markets," insists Charles Rowlinson, MD of the Renwick Group. "The sad thing is that we will not retain many of our potential top performers — the good and well-trained 35-year-olds who are quietly going off to Sydney."

The LRS will not, we may assume, be put off the scent by any of this. But directors will always be paid considerably more than workers and apple-for-apple comparisons are very difficult to make. Their respective worth to an organisation may best be measured in a negative way. If a worker fouls up a piece of machinery, it could cost the company hundreds of thousands of rands. If a director fouls up a corporate decision it could, on occasion, cost a billion. The correct decision will generate rewards for shareholders and job security, in some cases, for thousands.

This fact is reflected in worker:director pay disparities around the world. Unsurprisingly, the gap varies. Ib Ravnsborg, MD of Johannesburg's Hay Management Consultants, recalls a five-year-old survey suggesting that the gap widens as a society becomes more entrepreneurial. Ratios ranged from 4-1 in Scandinavia, 6-1 in Germany and France and 8-1 in the US, to 30-1 in Third World countries like Mexico and Singapore.

"In SA, the ratio was 10-1 — more or less where it should be, between the First and the Third World," Ravnsborg says. "The figures probably relate to entrepreneurship. President Gorbachev earns four times a worker's salary." Take your pick. ■

FM 9/8/91. (180)

From watchdogs to lapdogs

The idea that a committee of businessmen can guide State President F W de Klerk's Cabinet through the pitfalls of its clandestine endeavours is both naive and dangerous — especially for the businessmen.

There will be no shortage of business egos willing to serve on the committee, particularly if what passes now as an economic advisory council is anything to go by. It is no more than a forum of special interest that the wise and knowledgeable studiously seek to avoid.

Businessmen, moreover, are notoriously inept and unsophisticated in political judgment and, in the cloak-and-dagger matters that fall within the ambit of this committee, they will be mere babes in arms. Professional spooks will run rings around naive and sentimental entrepreneurs.

By the very nature of the men willing to serve, De Klerk will be surrounding himself with the fawning and flattering. He will get neither the independent advice nor the sensitivity to public attitudes on these secret affairs that he is seeking and to which he believes himself entitled.

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The answer is, of course, to scrap the entire parliamentary vote and use it to pension off those involved with what has been described as "continuing contractual obligations" — in short, putting them out to grass. Then let businessmen get on with what they know best. ■

McCrystal to leave BTI next year

180

By Sven Lünsche Star 9/8/91

Dr Lawrence McCrystal, the controversial chairman of the Board of Trade and Industries (BTI), will leave the BTI in March next year.

The Minister of Trade and Industries and Tourism, Dr Org Marais, said in a statement yesterday that Dr McCrystal had requested that his term of office be terminated. He said no decision had yet been made on Dr McCrystal's successor.

Dr McCrystal said he would be joining the short-term insurance broking arm of Pro Regno, a wholly owned subsidiary of the Christian Foundation.

His announcement comes amid long-standing and fundamental differences between the BTI and the Department of Trade and Industries (DTI).

The previous Minister of Trade and Industries, Kent Durr, and the chief of the DTI, Dr Stef Naude, openly propagated more laissez-faire trade and industrial policies.

In contrast Dr McCrystal is well known for his interventionist views on both industrial strategy and trade policy.

Since being appointed chairman of the BTI in 1987 he has launched a number of tariff and rebate programmes which have often been sharply criticised by the industries concerned, most notable among them Phase 6 for the motor industry.

The BTI also implemented a structural adjustment programme which provides financial support and protection for 16 industrial sectors.

An investigation by Mr Durr into tariff policy and the functions and missions of the BTI late last year, led to an extensive expansion of the DTI at the expense of the Board.

Dr McCrystal . . . controversial.

BUSINESS CONFIDENCE (180)

Turn around FM 9/8/91

Optimism in July about sales and production in the manufacturing industry for the coming 12 months was the highest since February 1990, according to Sacob's monthly survey. Though short-term activity has not improved much in recent months, Christmas season orders are expected to increase capacity utilisation in the next quarter.

But Sacob's July Business Confidence Index (BCI) shed 0,2 percentage points from June's 88,6, to 88,4. Negative influences include:

- A decline in expected retail sales;
- Rising unemployment and insolvencies; and
- A considerable drop in exports.

It was buoyed by:

- A rise in merchandise imports;
- An increase in the JSE overall index, despite nervousness towards month-end;
- Rising manufacturing production volumes and numbers of building plans passed; and
- More new cars sold. ■

BUSINESS

Renewed scramble for Africa

W/Mail 9/8 - 15/8/91.

As sanctions fade away, more and more South African businesses are looking to the rest of the continent for expansion, reports **MONDLI MAKHANYA**

SOUTH AFRICAN business is looking north again.

Despite sanctions posturing by most African countries in the past, trade with Africa is already quite substantial — estimated at R10-billion during 1990. While many companies did terminate their dealings with Africa, others maintain their operations there at low-key levels.

Now that secrecy is no longer required there has been a spate of renewed interest in the markets across the Limpopo. The South African Foreign Trade Organisation (Safto) says there was a 22 percent increase in trade last year.

Major South African corporations such as Premier International, JCI, Anglo American, De Beers and retail chain Metro are exploring markets to the north.

Infrastructural development projects in African countries has aroused a lot of interest among South African companies. War-ravaged Mozambique and Angola have attracted particular attention.

Safto regional trade manager Angela Self says although there has been a surge of interest in Africa among local businessmen, there has been little fixed investment yet. Construction is paving the way for South African involvement.

"Our great asset is our construction and engineering skills. In a lot of these countries infrastructure needs to be rehabilitated," she says.

The Council for Scientific and Industrial Research (CSIR) is also planning to step up its involvement in Africa. The organasation — which is already involved in 13 countries — is also doing a lot of work on the restoration of the African infrastructure.

The CSIR boasts of having Africa-specific technology which will be in demand as the continent picks itself up. Director NicoWalters feels the task of his organisation and others involved in reconstruction is to create an "enabling environment" for regional trade.

Steel and Engineering Industries Federation of South Africa spokesman Mike McDonald makes the point that certain engineering projects are necessities rather than mere marketing opportunities.

"We no longer need to build Sasols and Mosgasses anymore. We need to use our know how and technology elsewhere. Our technological equipment will lie idle if we don't do this."

Murray and Roberts and Dorbyl have gone into Africa in a big way. M&R has procured construction contracted in a number of countries, notably Angola and Mozambique.

Dorbyl is involved in agricultural projects and diesel generating schemes.

Dorbyl marketing manager Mike Smytheman says the lack of hard currency in African states has slowed down investment. "They they have to prioritise the projects they embark on. So we either have to wait a long time until they earn foreign currency or until a foreign aid grant is given," Smytheman says.

Premier International — whose chairman Albert Nillesen is reputed to have extensive contacts in Africa — has its foot deeply rooted in Africa. The company's African interests are bakeries in Zimbabwe, food exports to many countries and it has established itself as the main supplier of food relief to Mozambique.

Motor manufacturers are also making inroads into Africa. Nissan and the South African Motor Corporation have established special divisions entrusted with exporting to Africa.

Samcor managing director Spencer Sterling says the absence of motor industries in Africa means there is a great demand for South African cars there. At present the company exports about 800 cars annually — mainly to Zambia and Zaire — and is gearing up for bigger business. He concedes, however, that poor economies in African states put a ceiling on trade.

"Vehicle exports are increasing because of the great demand for our cars. But the biggest problem is the shortage of hard currency in these countries."

International aid to these countries alleviates the foreign exchange crisis. For instance, a lot of the CSIR's payment comes from foreign aid.

Protectionism, too, is an obstacle. Spencer points out that Malawi has tried to protect its fledgling motor industry but "it is unable to meet demand so our cars are needed there too".

Most ventures undertaken by South African companies in Africa have been joint ventures with other local firms and foreign operations. These foreign interests are usually from the former colonial powers — such as Portuguese firms in Mozambique and Angola.

Penetration of the African market by South African companies is likely to have spinoffs as other local companies get subcontracted for specific projects.

A classic example of this is the restoration of the Polana Hotel in Maputo. Three South African companies are involved in this R25-million venture, with hotel chain Karos spearheading the project. South African architects Osmond Lange and construction company Concor are also involved.

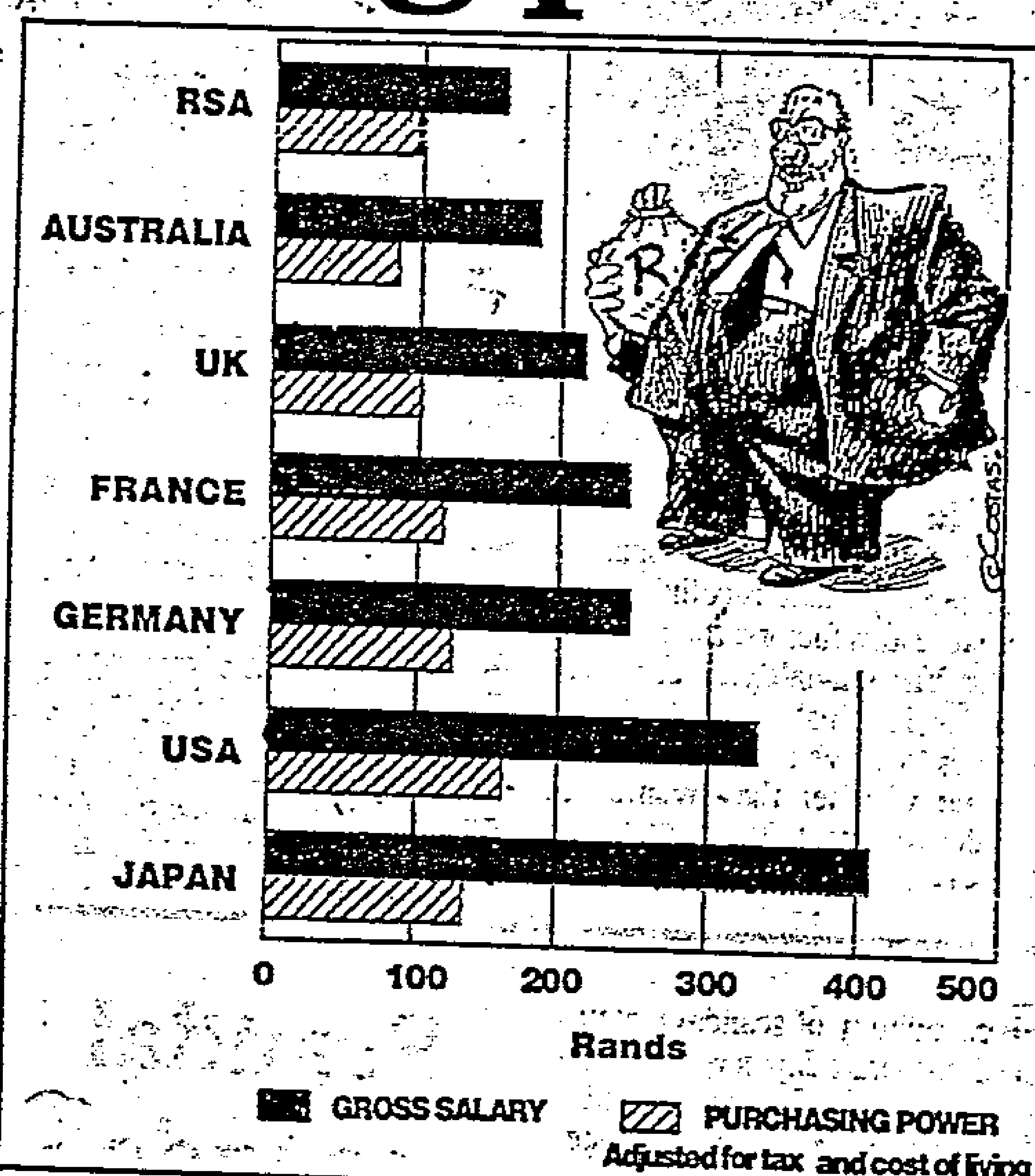
Small salary, big purchasing power

(180)

W/Mail 9/8 - 15/8/91

Being a boss may not be a bed of roses in South Africa — but it's no hardship either. Two surveys show local executives are really not badly paid compared to execs elsewhere in the world.

REG RUMNEY reports



ON a straight rand-for-dollar basis (or most other currencies) South African executives seem to be hard done by compared with their counterparts in the industrialised world.

Compare the buying power of various execs in their own countries and you get a different picture entirely.

As *The Weekly Mail* indicated in its own survey — using information supplied by headhunting firm Woodburn Mann — some months ago (May 10), local executives are on a par with many of their counterparts elsewhere. In some cases they are better off. Our survey roughly stripped out the undervaluation of the rand in terms of its buying power in South Africa to get a better basis for comparison than using remuneration in, say, dollars.

The Top Executive Survey soon to be published by human resource consultants FSA Contact more or less confirms our survey in that the difference in buying power is not large.

But it does show US executives have the highest buying power, followed by Japan, with Australia last, below South Africa.

The buying power of local and UK execs are similar, and South Africans fall just below France and Germany.

Our survey did attempt to use the total package, including perks. The presence of perks does distort an international salary survey. Non-taxable perks will give a bad impression of countries where they decrease the marginal tax rate. Pay in those countries which have decreased the marginal rate and clamped down on perks won't look as good.

A note of caution is that such surveys generally don't take into account another substantial form of remuneration, that is, share options.

Also, issues such as the cost of housing, transport, health care and to what degree there is a social welfare net come into play when comparing an executive's lifestyle here and abroad. The execs polled by *The Weekly Mail* were largely positive, despite big drawbacks such as crime and political uncertainty.

Naomi Brehm, of PE Corporate Services, reckons that the buying power of net disposable income (ie after tax and adjusted in terms of purchasing power parity) is about the best measure for comparison.

Brehm says PE Corporate Services' September 1990 survey, which had detailed comparison of executive pay in various countries, is out of date.

That survey found that in buying power of net disposable income local execs did as well as their counterparts in Holland and Belgium. And they did just as well as their counterparts in the UK, France and Germany.

But Brehm also stresses that comparisons are odious. "They don't tell you about the quality of lifestyle in different countries." They also leave out cultural differences. So a South African exec may live in a ranch-style house with four rooms, two cars, at least one servant etc. His counterpart in France will not have these possessions, but will be living well anyway, with the rich culture of France and Europe available to him.

What is important, Brehm notes, is the relative quality of life of the exec in comparison with other wage earners in the same country.

All other things being equal, how much better off an executive is than, say, a labourer is important.

Balancing this to a certain extent is the common wealth of the citizens in a country represented by social security and general environment.

So in social democratic Sweden directors earn only five times as much as labourers as opposed to 20 times in South Africa. But the benefits for both exec and worker of the Swedish state, even thinned down from their present high levels, far outstrip anything South Africa has to offer.

The relative earnings within a country are the real focus of interest — and one which international comparisons may be used to fudge.

Disparities in incomes and wealth in South Africa may not be as great as some people imagine, given the degree of redistribution of wealth that has occurred since the spotlight first fell on those inequalities. But they are big enough to cause the "haves" a great deal of discomfort. In the end this must mean, as we have stressed (Aug 2) that there will be pressure for redistribution, either through increased tax or some other means. And executives will indubitably suffer.

However, countering the extent to which the disposable income of executives will fall is their high mobility. Many white South African executives are believed to have dual passports. Professional skills, as has been shown by "chicken runs" in the past are passports in themselves.

Saccola, Cosatu to lobby Cabinet

Rebuff for FW's covert security plan

(180)

B/Day 12/8/91

ALAN FINE

A JOINT management/labour initiative has been launched to urge President F W de Klerk to scrap his plans to appoint a private sector committee to advise him on covert security activity.

It was disclosed at the weekend that employer federation Saccola and Cosatu agreed at a meeting on Tuesday to approach Cabinet jointly with a proposal that the committee be replaced by a more broadly based group representing all key sections of civil society, including organised labour.

They are to seek a meeting to discuss the issue with Deputy Constitutional Development Minister Roelf Meyer (soon to become Defence Minister).

The rationale behind approaching Meyer would be that he is government's chief representative in the church/business-initiated peace process. The parties hope to arrange a meeting with him this week.

The Saccola/Cosatu scheme — according to sources at the meeting and others briefed on its proceedings — would incorporate the entire issue of covert activity into the church and business-initiated peace summit which has made good progress in drawing up codes of conduct for political parties and the security forces.

Cosatu and the ANC have already stated their opposition to an advisory committee comprising senior businessmen. Cosatu has drafted a written proposal for government's consideration.

It is understood that the type of people De Klerk plans to appoint to the private-sector committee would be chairmen and chief executives of the country's largest corporations. Initial aproaches have apparently been made already, although identities of those approached could not be ascertained.

The consensus between the union and management groups is that a committee comprising representatives of such groups as business, organised labour, and civic and local government groups should be appointed to examine the covert activity issue.

The most important consideration was that its composition should be broadly acceptable to and inspire confidence among major opposing groups.

Its primary purpose should be to establish guidelines as to when the public interest would be served by covert activities, and to determine what control mechanisms should exist to ensure that these guidelines are adhered to.

An important consideration would be that the guidelines should be made public. If details of covert activities were then "leaked" again, it would generally be clear to the public whether the guidelines had been contravened. It was further suggested that these guidelines could also be incorporated into the review of legislation related to covert activities promised by De Klerk for next year.

It is understood that, apart from the Cosatu/Saccola initiative, several businessmen have already asked Cabinet contacts to try to convince De Klerk to drop his private sector committee scheme.

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Security

B Day 12/8/91.

☐ From Page 1

(180)

The ANC recently described De Klerk's proposed committee as "a face-saving measure designed to embroil others in dirty tricks to preserve the power of the NP". The ANC appealed to the business community not to permit itself to be drawn into such "dubious schemes".

And a senior business representative, who did not want to be named, said many business leaders opposed the scheme.

"The last thing we need is an arrangement which unions would see as confirming their suspicions of a conspiracy between the 'apartheid' government and big business," he said.

In his statement on the Inkatha funding scandal on July 30, De Klerk said the committee would be asked to advise him on the requirement that secret funding should not benefit political parties, and to advise on whether continuing secret projects were in the "national interest".

He said the advisory committee, in order to permit it to "restore trust", should comprise well-known personalities accepted as people of integrity.

Meyer had no comment to make yesterday.

SA needs vision to win space in the world marketplace

BDay 12/8/91 (180)

LESLEY LAMBERT

EXPORT-LED growth has been offered as a solution to SA's economic woes. But do our policymakers and industrialists have the imagination and discipline to create new comparative advantages of the type that transformed small Pacific Rim nations into export giants?

The challenge is immense. Almost a century of inward-looking trade policies, strengthened by the siege mentality of the past decade, have built an industrial sector which is structurally uncompetitive. Overreliance on the export of raw materials has marginalised the manufacturing sector and lulled the innovative instincts of the nation's industrialists. Apartheid has left our human resources, the basis of many of the export success stories, unskilled, demotivated and largely unemployable.

However, the foundations on which these weaknesses are based are breaking down. Sanctions are being lifted, removing the need for obsessive self-sufficiency. SA leaders are preparing new industrial and technology policies aimed at encouraging outward-oriented trade.

But the transition will not be easy, nor will it happen overnight.

Not only has our share of world trade declined over the past three decades, with the trend exacerbated by the loss of markets during sanctions, but the distortions created by the over-emphasis on import replacement and export of raw materials has left the country trailing behind changing world trends.

During the past 30 years, raw material exports have risen as world trade in raw materials has declined, while manufactured goods exports have declined as world trade in manufactured goods has increased.

The manufacturing sector is an obvious target for export development. But SA manufacturers are at a disadvantage. Their capital costs are higher than those of their major international competitors because of relatively high tax rates, interest rates and inflation; their labour costs exceed those of the newly industrialised economies of the Pacific Rim and productivity levels are low.

Import tariffs, which are outdated compared with international efforts to liberalise trade policies, add to the burdens of many. And while a weak rand has driven export upsurges of the past two years, it is a double-edged sword for capital-intensive exporters who rely on imported plant and machinery to expand and upgrade their operations.

Sacob economists have identified two relatively minor cost advantages: mining inputs and electricity. They estimate that, to be profitable, local manufacturers have to charge an average 15% more for their exported goods — 25% more if transport costs are included.

One of the companies that has managed to break out of SA's insular culture is Bell Equipment, the Richards Bay heavy duty truck manufacturer, which has doubled its exports in each of the past four years and plans to increase annual turnover from R350m to R1bn by 1995 with exports to South America, the US and Africa. Another company worth mentioning is Unifruco, the deciduous industry's international marketing arm, which has maintained strong growth in fruit exports despite sanctions.

Barlow Rand consultant Paul Hatty, who has researched exports and beneficiation, argues that the successful export nations have had one thing in common: industrial development policies with specific strategies for targeted sectors.

The economic restructuring programme, initiated by late Administration and Economic Coordination Minister Wim de Villiers, emphasised the development of manufacturing into a competitive export sector. The Department of Trade and Industry (DTI) has established a support network with upgraded foreign trade missions and incentives to encourage the export of manufactured products with a high local content.

But, while incentives will provide impetus, the authorities concede that it will take fundamental restructuring to transform the fair weather attitude of SA exporters into sustainable, long-term commitments.

Beneficiation of raw materials and production of more sophisticated products with a high value-added content for export are central to new technology and industrial strategies on the drawing board. Tax breaks to kick-start these processes are being considered by DTI.

The potential value of beneficiation is enormous. Hatty has calculated that while a ton of chrome ore would fetch only R568 (using 1989 prices), its value would increase to R2 340 when converted into ferrochrome, R49 246 if the alloy was used to produce stainless steel and about R113 000 if the stainless steel was used for manufactured products.

Successful examples of beneficiation and diversification are the new material (3CR12) Middleburg Steel & Alloys has developed as an exportable alternative to coated carbon steels, and the catalytic converters for motor exhausts which are being developed by a handful of local producers. Johnson Matthey, Algorax and Bosal are using local platinum and stainless steel to produce the "clean air" exhaust systems exported by the motor manufacturers.

But the only local industry to have mastered the entire process of beneficiation from start to finish is the oil industry which prospects, refines and then markets its finished product at the pump.

In spite of the massive world markets in jewellery and woollen garments, and growing demand for catalytic converters, for example, SA still exports the bulk of its gold, wool and platinum in its raw form.

Local producers appear to be discouraged by the traditional support channels for unprocessed and semi-processed exports and the additional capital and marketing costs associated with diversification.

Hatty suggests they are short on entrepreneurial instinct. He says a new industrial policy should be multifaceted, incorporating other measures alongside beneficiation. There seems to be consensus among most of the parties involved in the formulation of the new policy, that SA can learn valuable lessons from the Pacific Rim countries' use of sectoral targeting, niche marketing and subcontracting.

Export successes achieved by Phase VI of the motor industry's local content programme show how effective sectoral targeting and niche marketing can be, particularly in small economies like SA's which have neither the capacity nor the competitive edge to take on the bulk conventional product markets. Export earnings from components and assembled vehicles have grown from about R25m five years ago to a forecast R1bn this year.

Manufacturers are using local steel and technology to make body panels for vehicles which are no longer produced elsewhere, while BMW produces 60% of its parent company's leather seat cover and trim requirements. Samcor has created a prototype Mazda for a specific sector of the UK market.

The Japanese refer to this as finding the "loose brick" in an otherwise competitive market. Pepkor has done something similar in the clothing market, making inroads into the inexpensive clothing market in Britain.

International subcontracting and joint ventures — a driving force behind Pacific Rim successes — are other options worth developing.

Joint ventures with foreign companies, like those established in Europe by pulp and paper manufacturers Sappi and Mondi, provide instant benefits to both participants — the use of SA raw materials on the one hand, and inroads into foreign markets on the other.

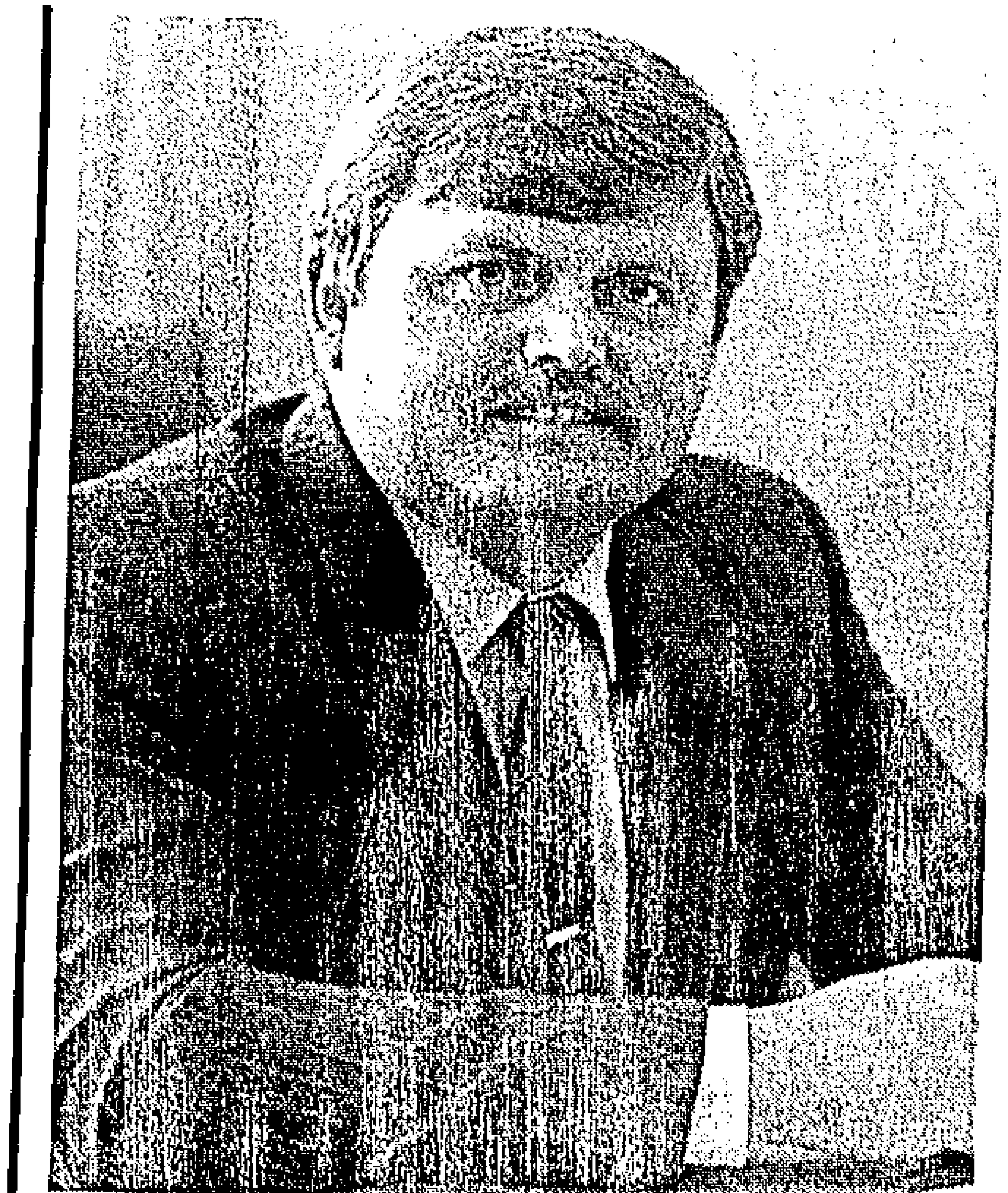
SA industry is poised between its insular past and its export prospects. Trade strategies being explored now are likely to enhance the competitiveness of SA exporters. But ultimately, success will depend on the ability of individual industrialists to develop existing opportunities and create new ones based on comparative advantages.

LETTERS

Jo'burg's image under the spotlight

B/Day 12/8/91 (180)

TANIA LEVY



Collin Wright, Johannesburg's new commerce and industry director. Picture: CATHERINE ROSS

JOHANNESBURG has to convince overseas investors that the city is a good long-term investment opportunity and a launching pad for trade with the rest of Africa, says the city's new commerce and industry director Collin Wright.

Wright, an international business consultant, has been appointed by the council to promote Johannesburg's economic development locally and internationally.

In an interview last week he said he would go out of his way to bring investors from Japan, Taiwan, Europe and the US to SA in a bid to counter SA's poor image overseas.

In the short term SA could not compete with the Far East or Eastern Europe, where labour was skilled, relatively cheap and abundant. But in the longer term SA had large untapped markets and prospects for industrial development, he said.

As the commercial heart of SA, Johannesburg had business experts with specialised knowledge in SA conditions. It also had First World commercial infrastructure such as banks, the stock exchange and facilities to arrange foreign exchange.

Wright said he was holding discussions with several major overseas groups that were considering reinvesting in SA. Their return would be significant to other potential investors.

Johannesburg had to define innovative development themes for the city, along the lines of the financial district taking shape to the west of the CBD. Other specialist areas that could be developed included a mining area and a concentration of jewellery-related industries.

Wright said he would act as a middleman between the council's planning department and private developers and would try to involve Johannesburg residents and workers in future development.

He acknowledged that the existing ratepayer base was not representative enough and that involving wider interest groups would be essential.


Achib Marketing MD Gerhard Visser, right, and research consultant Kay Brugge discuss the firm's progress. Picture: CATHERINE ROSS

Achib's marketing arm boosts turnover by 200%

(180)

THEO RAWANA

ACHIB Marketing, established last year as a division of the African Council for Hawkers and Informal Business (Achib), had helped boost the council's turnover to more than R1m a month, MD Gerhard Visser said yesterday.

This is a 200% increase. Visser said that since June the company had raised about R250 000 in a capital expansion programme which involved selling shares to the private sector.

The 40 000-member Achib, which set itself the task of opening up new markets in black areas for the private sector, had built five storage houses since May, where goods could find easy passage to the informal sector, he added.

"Among companies with which we have signed agreements are Port Elizabeth-based Marina Salt, Superwax of Industria, Tongaat Foods and Barcep — Barlow Rand's electrical appliances division.

"Other firms have made commitments to pump money into the programme, and this should see us meeting our target of R1,5m," Visser said.

In a programme with four Durban-based textile companies and one from Cape Town, Achib Marketing has raised about R200 000 towards opening a textile warehouse.

Visser said: "Here again we can mention companies like Tongaat Textiles, Butterick (SA), BMD Knitting Mills and Singer sewing machines.

"Under the agreements, the companies are to supply goods to the warehouse which will be a hive of activity, including haberdashery, dressmaking and like trades.

B Day 13/8/91

With training programmes — from marketing to dressmaking — and promotion of the entrepreneurs' services available from a central site, the companies were set to open more markets than was previously possible, Visser said.

(180)

Dealing with crises 'vital'

8 Day 13/8/91

COMPANIES are not adequately prepared to communicate with the media in a crisis situation, public relations director Sue Creighton says.

In the event of a "corporate nightmare", such as the recent strikes in the motor industry, the sinking of the Oceanos and mine accidents, the company's ability to handle the situation could make or break its image.

With increasing sophistication and growth of the electronic media, news is often communicated at the instant that it happens, and coverage can be extensive. "A response is demanded almost as fast", she says.

Creighton says handling the crisis well also means that the company does not give its opposition the opportunity to capitalise on its misfortune.

Creighton and partner Anne Jamotte are consult senior executives on how to handle communications in a crisis.

progress on the Numsa demand on training, and settlement is possible on that issue," Kettledas said.

However, talks on Sunday ended in a stalemate on the question of a moratorium council on Sunday, where it was decided to refer the dispute to mediation, he said.

Numsa represents about 5 000 striking workers out of a total workforce of 8 000, he added.

Business looks at the future

B Day 13/8/91 (180) (IRA)

THEO RAWANA

CO-OPERATION between big and small business is necessary for a better economy in the new SA, says Business Challenge CE Phil Khumalo.

With this in mind, his organisation is hosting a conference where representatives of companies, financial institutions and insurance houses will share views on the best way to approach the changing SA business environment.

The conference, with the theme "The present and post-apartheid economic outlook — the challenges that face business in the new SA", will be held in Johannesburg on August 30.

Speakers will include Finance Department special adviser Japie Jacobs, who will speak on the "economic perspective of the government" and Nafcoc executive director Mofasi Lekota on "conflict between big business and small business: what is the possible solution?".

Charter Life senior GM Martin Sweet will talk on "the Income Tax Act and tax in the new SA — white fears", the SABC's new TV-2/3/4 head Madala Mphahlele on "the role of the media in facilitating changes in attitudes", and Free Market Foundation's Leon Louw on "new political implications for the post-apartheid climate".

Fabcos general-secretary Joas Mogale will speak about "existing opportunities for big and small business structures" and Black Management Forum president Don Mkhwanazi will deal with management integration.

Mugabe calls on SA to reduce its arsenal

B Day 13/8/91 (IRA)

HARARE — SA must reduce its massive military arsenal to assure its neighbours of their security in the sub-region, Zimbabwean President Robert Mugabe said yesterday.

Ziana national news agency said Mugabe, who is also commander-in-chief of the Zimbabwe armed forces, was addressing thousands of people celebrating the country's Defence Forces Day in Harare.

Mugabe said while political developments in SA had provided hope of an end to apartheid, they fell short of assuring Zimbabwe of its security.

Mugabe added Zimbabwe was perturbed that the superficial reductions in SA's defence budget did not in any way reduce the threatening size of the SA Defence Force. It was also concerned that Pretoria was developing more "awesome" weapons.

He said the Frontline states should maintain vigilance and continue with the measures necessary to further strengthen their collective defence. — Sapa.

Business judgments soaring

By Derek Tommey (180)

After 30 months of recession and slow and often no payments, business is getting its house in order. Although firms are desperately seeking new business they are no longer prepared to do this at any price.

Ivor Jones, managing director of Kreditinform, says he has been investigating the creditworthiness of a record number of firms for his clients.

In July his company checked on the ability of customers to pay a record R250 million of credit.

This represented a 15 percent increase in the number of reports handled over the same 1990 month and a 25 percent increase in rand value.

Suppliers recognise the need to monitor debtors while the economy is still in a recession in order to set up remedial slow payment and bad debt policies.

Star 14/8/91

Upswing

"At the same time, they want to capitalise on the anticipated upswing, and are taking the opportunity to review credit limits and set new, realistic levels based on their customers' ability to pay."

Mr Jones says many firms are still not paying their debts. Business judgments were up by 67 percent in the first four months of this year to a cumulative total of R87 million by value compared with R52 million for the same 1990 period.

He says: "Business judgments are continuing to run at between R20 million to R25 million by value each month — at the highest levels in the past four years — and show little signs of easing."

Mr Jones warns that these figures are a reason for caution. "In spite of growing optimism about an upswing in the economy, these indicators suggest there is a lack of liquidity in the economy and that the recovery will still take time."

IDC investment earnings dip

180

Finance Staff Star 14/8/91

The two investment companies of the Industrial Development Corporation's (IDC) companies, Industrial Selections and National Selections both reported lower earnings, but unchanged dividends for the year to end-June.

National Selections recorded a drop in after-tax income to R37,9 million (R43,1 million), which translated into earnings a share of 16,47c (18,74c).

A unchanged final dividend of 7,5c was declared making a total of 14c for the year.

Industrial Selections reported a decline in taxed income from R42,7 million to R38 million, while earnings a share fell to 13,88c (15,61c).

Both the final dividend and the total dividend for the year were unchanged at 6c and 11,5c respectively.

SA business equipped to compete with the best

Star 14/8/91 (180)

By Frank Jeans

During the cold years of economic isolation, many companies used the time well to build up expertise and knowledge and were now ready to compete with the best in world markets.

This was the message which Warren Clewlow, chairman of Barlow Rand gave to the South African-German Chamber of Commerce and Industry in Johannesburg yesterday.

Referring to "international trade which has become evermore competitive", Mr Clewlow said many South African businesses now had efficient distribution mechanisms which ensured that goods placed in distribution networks arrived at the right place, at the right time and the right cost.

Recognising German attitudes towards South Africa which saw companies "staying involved and making a difference here rather than leaving in protest", the Barlow chairman said big opportunities were opening up for business in search of manufacturing and distribution bases in other parts of the world.

Warren Clewlow . . . Big opportunities opening up for business.

"South Africa is ideally suited to be at least on your shopping list for such projects for we are now well placed at the world's economic crossroads," he said.

"We find ourselves re-entering a world economy which is not in the best of health and doesn't promise to improve in the immediate future.

"This means that now, more than ever, prices are very competitive, quality and service are of utmost importance and our commitment to these markets must be complete so that there is no impression that we are simply opportunists making the best of once-off chances."

Noting the enormous market of southern Africa waiting to be tapped, Mr Clewlow said that the area south of the equator, which has a population of 190 million, presented an ideal opportunity for South Africans to participate in partnerships.

"These partnerships would take the best of your products, your investment, your expertise and your research and development ability and combine them with our resources, like production, marketing and distribution, to create wealth-generating companies, not just for South Africa but for the entire sub-continent," he said.

Govt considers major IDC plan to replace export incentive scheme

(180) B Day 14/8/91

LESLEY LAMBERT

TOP-level Industrial Development Corporation (IDC) proposals are being considered by government as part of an overall industrial strategy likely to be unveiled during the next session of Parliament.

The IDC report, which emphasises the improvement of SA's international competitiveness, is being studied by government and organised commerce and industry. However, a Cabinet decision is likely to be delayed for about a month while Sacob formulates its response, a Department of Trade and Industry (DTI) spokesman said yesterday.

The report emphasises the reduction of protective import tariffs in line with the liberalisation of international trade. But it also contains a comprehensive package of economic recommendations aimed at improving SA exporters' competitiveness.

The IDC suggests in its report that if its proposals are implemented, they should replace the General Export Incentive Scheme (GEIS) introduced by the DTI in April last year.

This, and the fact that the GEIS incentives contradict GATT rules, has caused concern among exporters who fear that they may lose the financial assistance without adequate warning.

But in a statement yesterday Trade and Industry Minister Org Marais reassured exporters that the GEIS programme would remain in force until April 1995 and then be comprehensively reviewed.

Marais said the programme, which will have replaced all previous export incentives by March 31 next year, would be continually monitored and evaluated to ensure that it remained cost effective.

A senior Trade and Industry official confirmed yesterday that the five-year limit had been placed on GEIS because of its contravention of the GATT subsidy code.

He said SA hoped to justify the short-term measures on the basis that they were necessary to help overcome the distortions sanctions had caused in the economy.

The IDC report supports moves towards lower company tax and greater savings. It urges the authorities to maintain exchange rate stability and to address low productivity and market overregulation.

IDC proposals for tariff policy include the abolition of import surcharges and the reduction of customs duties, coupled with the improvement of anti-dumping legislation. Draft anti-dumping legislation is expected within weeks.

The proposals are expected to dovetail with new technology and industrial policies which are being formulated. They emphasise the need for industrialists to produce more value-added products with a high local content for export.

The draft technology policy has been revised to include input on developments in foreign technology and research and development. It should be released soon.

But the industrial policy appears to have been delayed by resistance to DTI proposals for tax incentives to kick-start new beneficiation projects. If these proposals are rejected by Cabinet, other stimulatory measures will have to be found to replace them, says a DTI spokesman.

Barlow Rand chairman Warren Clewlow addressing the SA-German Chamber of Commerce and Industry. Picture: CATHERINE ROSS

Clewlow sees new challenge ahead

DARIUS SANAI (180)

SA BUSINESS is facing serious threats to its future, but could recover to become the economic crossroads of the world, says Barlow Rand chairman Warren Clewlow. B|Day 14|8|91

Speaking to the SA-German Chamber of Commerce and Industry yesterday, Clewlow said that a SA that had become isolated through the years faced a challenge in re-entering a world economy that was flagging.

"The threats (to SA business) are uppermost in my mind."

But a concerted long-term effort could help establish SA as an international manufacturing and distribution base and the major point of entry for international firms into Africa.

Ie appealed for widespread co-operation between German firms wanting to invest and sell in Africa and SA firms which had expertise in dealing with other African economies.

Peace and stability were beginning to pervade sub-equatorial Africa, he said, and the 150-million people in the subcontinent — excluding SA — presented an enormous and untapped market which world companies would increasingly want to develop.

SA was equidistant from the three major poles of word economic power and was an ideal location for companies wanting to expand and diversify their interests in the rest of the world.

He said he envisioned a future for SA like that of Germany after the Second World War, a country that could be non-racial, economically strong, socially compassionate and politically independent.

IDC proposal key to new strategy

(180) ET 14/8/91

From LESLEY LAMBERT

JOHANNESBURG. — Top-level Industrial Development Corporation (IDC) proposals are being considered by government as part of an overall industrial strategy likely to be unveiled during the next session of Parliament.

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Govt reassures exporters on GEIS

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If these proposals are rejected by Cabinet, other stimulatory measures will have to be found to replace them, says a DTI spokesman.

Protectionism is harming SA's economic future

BIPAY 14/8/91.

HENNIE VAN ZYL

(180)

POWERFUL industrial lobbies continue in their attempts to counter the trend towards a more free and democratic economic system in SA and, in doing so, are causing great harm to the country's economic future.

They are seriously eroding the economy's job creation potential, and its ability to ensure a more equitable distribution of wealth.

A case in point is the textile industry, and the article by textile industry executive Nicola Magni, "SA manufacturers' survival depends on tariff protection" (Business Day, May 6) which contains a host of grossly misleading assertions.

Most SA manufacturers are efficient in terms of their investment in labour (wages, training and so on), in research and development, in management development and training, in equipment, in professional marketing and in social programmes.

Instead of growing fat behind high protective walls, these manufacturers welcome and thrive on competition. They know that only through real competition will they remain lean and fit. But numerous clothing manufacturers will also bear witness to poor fabric and yarn quality, constantly late deliveries and other problems.

I cannot agree with the implication behind Magni's statement that "new reborn economic policies are being formulated by theoreticians, few of whom have ever run a business". To have run a business in itself does not mean much. Research undertaken in the US has shown that efficient businessmen are usually the least vociferous, and make more use of advisers (consultants or theoreticians) than their less efficient counterparts.

The efficient businessman is always looking for ways of improving himself and his company, while the inefficient merely blames others for less than optimal performance.

The so-called theoreticians said to lack business experience include, among others, GATT, the IMF, the World Bank, the IDC, the Department of Trade and Industry, the Board of Trade and Industry (which, in its structural adjustment programme for the clothing and textile industries published in April 1989 undertook that protection levels would be frozen for the next five years and thereafter gradually reduced) and the President's Economic Advisory Council. It is difficult to identify one reputable organisation which argues that survival depends on protection.

One should also guard against accepting Magni's glib statement that SA's cost of labour is very high and its productivity extremely low. Research conducted by Sacob consultant Paul Hatty shows that labour costs constitute only 15,7% of manufacturing inputs. Capital constitutes 13% and materials/services the remaining 71,3%.

Hence, not only does labour not have a decisive impact on final cost, it is far from the highest priced. NPI research has found that labour costs in some rural areas of SA are among the lowest in the world.

Productivity, apart from being largely a management and not a labour responsibility, is similarly very far from the lowest in the world. Figures to support these statements are available from, among others, the World Bank, GATT and the NPI.

This does not mean that labour is blameless. However, managers, especially those who regard labour as opposition and not as a partner, often point fingers at labour to divert attention away from their own performance deficiencies.

Another widely abused notion is that foreign competition is, by definition, unfair. Foreign competition is unfair only when imports are at prices below those existing in the exporting country. In such cases — actual or potential — a local manufacturer need merely apply to the BTI for the immediate imposition of a provisional charge, to be followed by an anti-dumping investigation.

We in the clothing industry also do not subscribe to Magni's statement that "export giants such as Japan only achieved their positions from behind almost impenetrable trade barriers". This is a one-sided, parochial US-European view.

Also, while protective barriers which did exist in Japan may have assisted manufacturers to lower unit costs as a result of the large domestic market, SA's smaller domestic market severely limits the benefit to be obtained from economies of scale.

In addition, economic miracles such as Singapore and Hong Kong have occurred in an environment of low barriers (if any) and free trade.

Another popular misconception is that tariff protection preserves jobs. Numerous case studies around the world have proved that high tariffs can, at best, save jobs in the short term, but eventually result in massive unemployment.

A 1987 World Bank report on managing the industrial transition provides the following "lessons of OECD experience":

☐ While trade protection has lengthened the time available for adjustment and has maintained incomes in the textile sector, it has failed on two counts. It has not protected jobs in the industry and it has been extremely costly. It has not prevented the industry from relocating away from the regions that were supposed to be the beneficiaries of the protectionist measures. By weakening the incentive to upgrade, innovate and invest, protection can become a problem rather than be a solution;

☐ Those segments of the industry which have prospered are those where the need for protection was least — where genuine comparative advantage was available;

☐ The high volume, standard product, mass market strategy has been a failure because of quick diffusion of advanced technology to competitors and continuing rise in labour costs. The large integrated companies of the UK, France and Germany have been unsuccessful in achieving economic viability without government support; and

☐ Small-scale units which have emphasised process flexibility, product diversity, and product quality have been very successful. In the clothing industry, the most lucrative segment has been the high quality fashion and design-intensive segment.

Finally, Magni's statement that "almost any consumer product produced locally could be obtained at a cheaper price from a foreign supplier, and therefore that it would mean that most of SA's manufacturing industry must be shut down", reveals ignorance about the fundamentals of international trade, in particular the law of comparative advantage.

This simple but basic law states that although country A may be able to produce everything cheaper than country B, both countries will benefit if country B specialises in manufacturing those commodities in which country A has a comparatively smaller cost advantage (even if country A has an absolute cost advantage).

In SA we have had endless commissions and investigations which produce comprehensive and authoritative reports whose recommendations are seldom implemented.

In the clothing and textile industries we have, in the past decade, produced the Steenkamp Report, the Kleu Report, the DTI Technology Report, various reports from the Economic Advisory Council and others. All held the view that protection levels were too high and should be gradually reduced to stimulate growth and create job opportunities.

To date very little has been done. Indeed, through very effective lobbying (such as Magni's article) not only are protection levels at an all-time high, but the local textile industry is using the current impasse to apply for even further increases in protection which, if granted, would cost the SA consumer billions of rands.

☐ **Van Zyl is executive director of the National Clothing Federation of SA.**

Move to keep out of Soweto slated

THEO RAWANA (180)

THE Greater Soweto Chamber of Commerce has condemned a project designed to accommodate companies doing business in Soweto in premises just outside the township.

The venture, initiated by property development and marketing company Investomark, was advertised in Business Day on Friday and Monday.

It calls for companies servicing Soweto, Lenasia and Eldorado Park to take up office space in a three-storey complex "strategically located" at Midway. The advertisement reads: "You can reach offices without driving through Soweto." B/Day 15/8/91

Chamber publicity committee member MacDonald Temane said Soweto needed companies which did business in Soweto to set up offices and warehouses in the township so a healthy rate base could be developed.

"Soweto has no industries and has to depend on housing for a rate base.

"We condemn the idea of people who do business in Soweto placing themselves outside the area. These companies need to be party to the chamber's plan to change Soweto from a labour reservoir into a city."

Investomark spokesman Matodzi Lephosa said his company was trying to attract clients who sought to establish a market base in Soweto but were scared of possible violence.

Positive mood buoys W Cape

180

CT 15/8/91

By AUDREY D'ANGELO
Business Editor

THE level of confidence is higher among manufacturers in the Western Cape than in the country as a whole, according to a survey by the Cape Chamber of Industries (CCI).

The SA Chamber of Industries (Sacob) countrywide manufacturing survey in July showed the index of expected sales at 127 — its highest level since February last year.

The CCI survey shows confidence among local manufacturers is even higher. Their index was 140.

The CCI weekly bulletin suggests this is because of the wide industrial base in the Western Cape and its focus on consumer goods and exports.

"Because of prohibitive transport costs to markets in the interior, which are often serviced by production on the Reef, manufacturers have in many cases been forced to focus to a greater degree on exports.

"It remains to be seen whether this greater export orientation is sustained once the local market starts to pick up again."

The CCI points out that local engineering firms are still working short time and the number of retrenchments has increased.

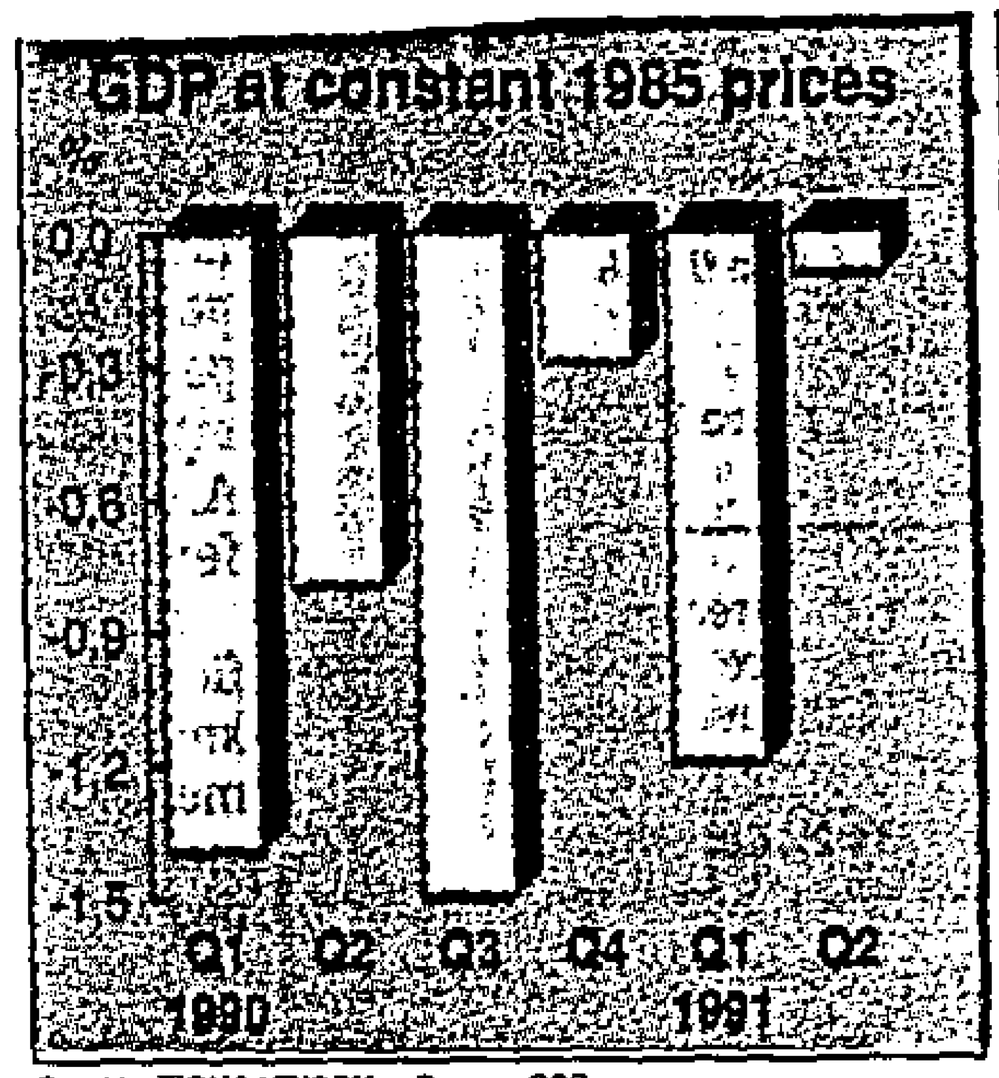
"But there is some expectation of an improvement once value added tax (VAT) is introduced."

Discussing the Sacob survey, the CCI says manufacturers "are clearly at the forefront of those who believe the economic downswing has now bottomed out, although it is still not clear to what extent this view reflects wishful thinking rather than improved conditions."

The results of the survey "show a broad consensus that a new upswing is near at hand.

"However," the CCI points out, "short-term activity levels have failed to show any significant improvement in recent months and it is therefore doubtful that the upswing has already begun.

"It is nevertheless to be expected that orders for the festive season will be placed soon. As a result, increased activity is likely in the coming months."



Graphic: FIONA KRISCH Source: CSS

Manufacturers still deep in recession

SHARON WOOD 180

SA's manufacturing sector is still in the throes of a deep recession, although strong agricultural production limited the contraction in gross domestic production (GDP) to a fall of 0,1% in the second quarter this year.

Preliminary figures released by Central Statistical Service yesterday showed it was the smallest decline in the seven-quarter recession and up on the 1,2% quarter-on-quarter (annualised) decline in the first quarter.

Total GDP fell to an annualised R131,6bn in this year's second quarter from the first quarter's R131,6bn.

A 2,4% slump in manufacturing production pushed the total non-agricultural sector into an official recession in the second quarter for the first time in this downswing. B/Day 16/8/91

A recession is technically defined as two consecutive quarterly declines in production. Activity in this sector fell by 0,4% in the second quarter after a 1,7% drop in quarter one.

Conditions in the agricultural sector brightened as the sector moved further away from last year's severe drought.

Agricultural production rose by 7,3% in the second quarter after a 5,2% increase in agricultural production in the first.

Improved agricultural conditions in the first half of the year contradicted recent price movements which suggested supply had been limited. Agricultural food prices surged by 42,1% year-on-year in June.

Mining production crept up by 0,3% in

☐ To Page 2

Recession

B/Day 16/8/91.

180

☐ From Page 1

the second quarter, following a 3,4% fall in the first quarter.

SA gold output rose by 1,2% year-on-year to 1,64-million ounces in July from 1,62-million ounces last year. Total output to July rose by 0,18% to 11,19-million ounces from 11,17-million ounces.

Simpson McKie economist Graham Boyd said the figures provided "tentative confirmation of other early indications that the the GDP is bottoming out. Barring further setbacks, such as the recent slide in the platinum price, the economy can deliver mildly positive growth later this year".

But he added: "With population growth at about 2,3% a year, any growth in the economy less than this really reflects the continuation of recessionary conditions."

The improvement in agricultural production was a result of a mild improvement in rainfall patterns and because it came off a low base.

United economist Hans Falkena said the economy would continue "slowly tapering off because monetary policy is not very stringent and fiscal policy is expansive".

He projected the economy would turn only in the second quarter of next year.

This is more pessimistic than First National Bank economist Cees Bruggeman's forecast that the economy turned at mid-year.

Economists generally expect economic activity to pick up towards the year-end.

Govt 'expected to amend VAT' as ANC joins flood of objectors

BDay 16/8/91

180

PATRICK BULGER
and GERALD REILLY

THE ANC yesterday called for VAT — which it described as "completely unacceptable" — not to be implemented, immediately prompting Finance Minister Barend du Plessis to invite an ANC delegation to discuss the matter.

At the same time, a source close to government indicated amendments to VAT were "likely".

The source was commenting on a flood of objections to the introduction of VAT from a variety of organisations this week, including Sacob, Cosatu, the Federation of Salaried Staff Associations (Fedsal), the Medical Association of SA, Operation Hunger, Nactu, the Consumer Council and the Johannesurg Child Welfare Society.

One of the lobbyists, Pick 'n Pay chairman Raymond Ackerman, said he had told Du Plessis it would be suicidal to impose VAT on basic foods at this crucial stage in efforts to restore peace in the country.

The R220m poverty safety net would be insignificant measured against the impact of VAT on basic foodstuffs, he said.

Housewives' League president Lyn Morris said the league had asked Du Plessis to zero-rate basic foods and exempt medicines and medical services.

Much of the opposition to the tax could have been defused if government had worked out mechanisms for the distribution of the R220m poverty net fund, she said. The committee responsible for planning its distribution and deciding who would qualify for aid would meet for the first time on September 5, she added.

Sacob said yesterday many businessmen were "deeply concerned" at the turn of events regarding VAT and at the extent to which VAT had become politicised.

"This stems partly from a failure by government to timeously address the need for poverty assistance to offset the impact of VAT. The current controversy is also the regrettable result of inadaquate prior consultation with extra-parliamentary groups and trade unions.

"Sacob appeals to the government to make an early definitive announcement on VAT which will allay the growing uncertainties in business circles about (its) implementation."

The Finance Department is considering the objections and Du Plessis will respond at a comprehensive media conference on August 23, a Finance spokesman has said.

A government source said yesterday that Cabinet was aware of the potentially disruptive economic consequences if there was an uncompromising "no" to VAT objectors, and concessions were likely.

Fedsal's general secretary Pier Heymans said virtually the entire trade union movement, to the right and left, was opposed to important aspects of the tax. It would be unwise for government to ignore the demands of the whole movement.

The ANC said yesterday it opposed VAT on medical services, building supplies, trade union subscriptions and basic food-

☐ To Page 2

VAT

BDay 16/8/91

180

☐ From Page 1

stuffs, and also the rate at which the tax is to be levied. It said VAT would increase the hardships of the poor and push up inflation by 2,5%.

ANC economics department head Tito Mboweni and information director Pallo Jordan told a media conference in Johannesburg yesterday government had no moral right to impose the tax on the eve of SA's democratic transformation.

An ANC statement said in its present form, VAT would increase the suffering and hardship for the poorest sections of the population. "Low-income households will pay, on average, between R26 and R38 per month more under VAT, thus reducing household expenditure on other essential goods and services by approximately 5%.

"For a large proportion of South Africans, probably as many as the poorest 40% of the population, such an increase in the real cost of living will have serious consequences."

The Budget allocated R220m for what the government called "targeted aid schemes to the severely indigent". Researchers had calculated that these "severely indigent" people would be paying at least an additional R546m in tax with the introduction of VAT, the ANC said.

In response to the ANC's allegation that it had not been consulted, Du Plessis said in a statement yesterday: "Both the Deputy Minister of Finance and National Education, Dr Theo Alant, and myself, as well as senior members of the Department of Finance have been consulting with a very large number of interest groups and organisations ever since March 1991. The ANC is therefore most welcome to also send a delegation for discussions on both the details of VAT and the pivotal role it will play in the reconstruction of our economy in pursuing high and sustained growth."

It's boom or bust on the industrial market

(180)

Star 17/8/91.

DEREK TOMMEY

ANYONE who bought industrial shares or invested in a general equity unit trust this year should be a happy person today.

Since the beginning of this year industrial share prices on the Johannesburg Stock Exchange have soared and increased the wealth of investors by hundreds of millions of rands.

Since December the industrial index has risen by about 37 percent making the JSE one of the world's top performers.

But there is an increasing concern in the market about whether these prices are justified in current tight money and world recessionary conditions.

Profit expectation

The majority of market analysts seem to believe that current share values are pretty solid as they reflect the "weight of money" seeking investment in shares and the expectation that business profits will start improving next year.

But there are others who feel that industrial share prices have risen far too fast, and are outrunning profit expectations.

If the economy does not start picking up soon, share prices could start retreating, they say.

Those supporting the "weight of money" theory refer to the proposals to allow life offices and pension funds to increase their holdings of shares from 65 percent to 75 percent of their portfolios.

Reserve Bank figures show this would enable the life offices, which at present have R45 billion shares, to invest some R85 billion in the market, while pension fund investments could go from R19 billion to R41 billion.

In addition to these sources of funds the state pension fund is also considering investing in the share market.

However, neither the life offices nor the pensions are anywhere near their present maximum limit of 65 percent, and it is regarded as highly unlikely that they will increase their investments in shares to anywhere near 75 percent when the regulations are changed.

But the proposals do indicate that substantially more institutional money will be invested in shares.

In fact much of the latest rise in industrial shares is believed to be the result of institutions and pension funds buying ahead of this expected greatly increased inflow into the market.

This led a broker to comment that the market is not based on value but simply on the level of funds available for investment.

Supporters of the "weight of funds" theory say that the industrial market is not really overvalued. The current tight money conditions are forming a firm base for a major take-off in the economy, and industrial earnings in the next three or four years could easily average 15 percent a year compounded.

"The market is just discounting further ahead than it normally does," was one comment.

But other analysts point out that share earnings have not increased anywhere near the increase in share prices.

Given the collapse in the world commodity markets, there is also little sign of a strong rise in earnings for some time to come.

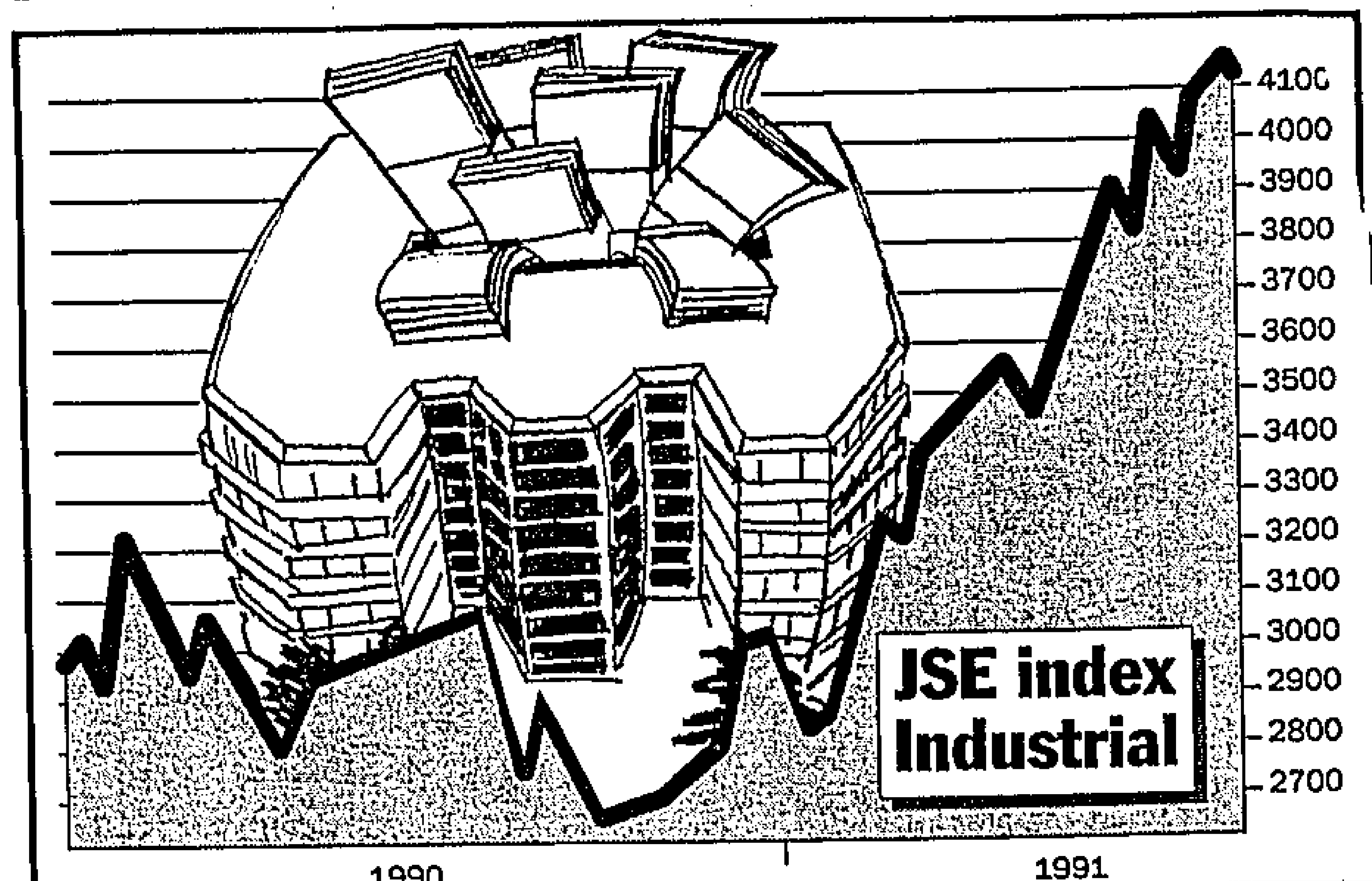
Although the industrial index has risen around 37 percent since December, industrial earnings are about 5 percent lower than in December, according to JSE figures.

An analysis of 22 industrial and semi-industrial sectors (see table) shows that earnings in 14 have dropped since December, while the greatest increase in earnings in the other eight was only nine percent.

Looking ahead, there is also considerable concern about the effect of the slide in commodity prices on the South African economy.

While these low commodity prices could help the world economy pick up fairly quickly, it will be a "low inflation" revival.

This means that South Africa could miss the recovery unless its 15 percent inflation rate is reduced to international levels. And this suggests that the Reserve Bank's tight money policy is likely to continue for some time — and therefore company profits might not show the growth expected, say these analysts.



Changes since December 31

INDEX	PRICE %	EARNINGS %
Motor	108	6
Tobacco	65	8,4
Pharmaceuticals	62,6	-13,8
Transport	54,4	3,2
Building	50,2	-3,7
Insurance	49,6	-0,3
Bev and Hotels	44,7	9,6
Printing and Publishing	42,7	-12
Stores	42,5	5,8
Paper and Packaging	42,1	-9,3
Industrial holdings	39,6	-4,5
Banks	38,2	9,3
Engineering	37,1	-110,3
Industrial	36,8	-5,3
Sugar	34	-5,8
Property	30	5,1
Steel	30	-21,5
Food	26,2	-0,4
Chemical and Oil	16,2	-1,5
Clothing and Footwear	7	-32,2
Furniture	0	4,4
Fishing	-2,2	-18
Electronics	-12,4	3,7

Shrinkage estimated at R2-bn a year

Star 28/8/91

Finance Staff (180)

Corporate losses stemming from theft and other crime soared by 50 percent last year.

Shrinkage alone costs the economy R2 billion annually.

That is the estimate of Fidelity Guards (FG) marketing director Johan Schoeman, who says some companies which spurn proper security measures have lost as much as 35 percent of turnover through shrinkage, armed attacks, burglaries and other crimes.

He expects such losses to increases sharply as unemployment forces more people to turn to crime in order to survive and estimates 70 percent of all companies do not have an integrated and professional approach to security.

FG is aiming to increase its share of the market from seven to 12,5 percent.

Nafcoc rejects plea for black business unity

180

B/Day 21/8/91

THEO RAWANA

SUN CITY — Nafcoc yesterday rejected calls by political organisations for it to unite with the other major black business grouping, Fabcos.

Nafcoc managed to get leaders of the three major black political organisations — the ANC, PAC and Azapo — to share the stage at its 27th annual conference.

There was a chorus of calls from the politicians for the chambers to merge.

But Nafcoc deputy president Archie Nkonyeni told the 2 000 delegates: "Political parties will not be allowed to prescribe to Nafcoc whom its bedmate should be."

He said unity for the sake of unity would not do for black business.

"There must be commonality of values," he added.

On Monday ANC secretary-general Cyril Ramaphosa, PAC president Clarence Makwethu and Azapo president Pandelani Nefolovhodwe all laid stress on the importance of black business's role in the cause of black liberation.

Nefolovhodwe said a major white business strategy was to keep black business where it was by further segmenting its ranks.

Cloak

"Big business will be the first to encourage Fabcos to compete with Nafcoc on every venture, under the cloak of competition within a free market system," he said.

Warning that this strategy was designed to keep Nafcoc from challenging big business, he said: "Despite your differences, Azapo would like to see greater co-operation between Nafcoc and Fabcos."

Key leaders join advisory council

(180)

B/Day 21/8/91.

LESLEY LAMBERT

PRESIDENT F W de Klerk has appointed leading businessmen to the State President's Economic Advisory Council (EAC).

However, representatives of two major union groupings and Nafcoc are noticeably absent among the names of the 52 appointees.

Business heavyweights such as Gencor chairman Derek Keys, Old Mutual chairman Mike Levett and Sanlam CE Pierre Steyn were among new names announced yesterday.

Invitations have been sent to Nafcoc, Cosatu and Nactu. They are considering the invitations and are expected to respond next month. Indications yesterday were that Cosatu could refuse the invitation.

The EAC advises De Klerk on economic issues and is regarded as the most influential economic forum in the country. Earlier this year, it approved the Industrial Development Corporation (IDC) report on economic restructuring.

Other leading new members include IDC chairman Koos van Rooy, Sacob director-general Raymond Parsons, tax expert Michael Katz, AECI MD Mike Sander and outgoing Board of Trade & Industry chairman Lawrence McCrystal.

Barlow Rand executive chairman Warren Clewlow and Transnet and Iscor chairman Marius de Waal have been re-appointed as chairman and vice-chairman, respectively, for the new three-year term.

The EAC contains a strong contingent of private sector members. It is also widely represented by economists, academics and public sector leaders.

Among the heavyweights whose terms were renewed for another three years are: Reserve Bank Governor Chris Stals, Finance Department director-general Gerhard Croeser, Eskom chairman John Maree, SAB chairman Meyer Kahn, SBIC group MD Conrad Strauss, Volkswagen chairman Peter Searle, Gold Fields chairman Robin Plumbridge, Development Bank of Southern Africa chairman Simon Brand, Wesgro MD Elizabeth Bradley and Sankorp CE Marinus Daling.

Provision has been made this year for greater representation of organised commerce and industry, while the representation from organised labour has been expanded further with the possibility of appointments from umbrella employees' organisations.

De Klerk indicated that the role of the EAC would remain unchanged in the new term of office, with the executive, comprising the chairman, vice-chairman and eight elected members having regular discussions with the Cabinet.

Barend's plan draws support

BIDay 22/8/91 (180)

Business Day Reporters

THE speed of Finance Minister Barend du Plessis's reaction to mounting criticism of VAT took commerce, industry and labour by surprise yesterday.

Although unprepared for the announcement, most sectors reacted positively.

However, Cosatu said government's action smacked of tinkering and taking unilateral decisions without consulting interested parties.

Sacob's Ben van Rensburg said the positive steps announced by government should adequately address many of the pressures that had built up against VAT. "The substantial broadening of the relief programme should also make the introduction of VAT more acceptable to those who are in need of social assistance."

Cosatu spokesman Neil Coleman said the trade union body would react in full later today, after the summit meeting of all interested organisations had discussed Du Plessis's decision.

ANC spokesman Gill Marcus said the organisation would react later today.

Saccola chairman Anton Roodt said: "The decision to lower the VAT rate seemed to be a concession, but I'm not sure it meets all of the trade union demands. I would have thought some prior consultation by government would have alleviated some concerns," he said.

Transport and motor industry sources described petrol and diesel price increases as "acceptable under the circumstances."

Transport sources said the 10c increase in the fuel levy was the only realistic means for government to compensate for VAT coming in at 10%.

A transport analyst said that the public was relatively insensitive to fuel price increases and government had taken the safest route in attempting to counter the effect of reducing VAT. However, commuters could expect further increases in bus and taxi fares.

National Association of Automobile

☐ To Page 2

Barend

BIDay 22/8/91 (180)

☐ From Page 1

Manufacturers of SA (Naamsa) director Nico Vermeulen welcomed the new measures on the basis that VAT at 10% represented a far better form of tax than GST.

Vermeulen said the lower rate would provide a much needed boost to economic growth and with relief programmes, benefit the poorer sections of the community.

SAA said it would cut its domestic airfares proportionately in line with the VAT decrease.

The 13c a litre petrol price hike would not have any effect on the jet fuel price.

Chamber of Mines CE Tom Main said the chamber welcomed the exemption of Krugerrands.

Sapa reports the Consumer Council welcomed the decision to reduce the rate to 10%, which, a spokesman said, was a more equitable rate than the proposed 12% and would make a big contribution to the distribution of income.

The council also welcomed the direct aid and other relief measures for the needy.

Company tax cuts at risk

ANDREW GILL 180

GOVERNMENT's VAT revamp may have delayed the proposed reform of individual and company tax.

Finance Minister Barend du Plessis said this week the proposed reduction of the maximum marginal tax rate of companies and individuals to 40% over three years may have been placed at risk unless other revenue sources could be exploited. BDay 23/8/91

If the fuel price levy and excise duties had not been implemented the risk of delaying tax reform would obviously have been very real, he said.

However, Finance Department deputy director-general Estian Calitz said yesterday the reform programme had not been abandoned. Progress depended on economic growth and how successful revenue collection was this year.

Sacob economist Keith Lockwood said Du Plessis' statement did not mean the end of tax reform. Current economic performance put pressure on government's ability to lower tax rates. A lower VAT rate may improve performance, increasing overall revenue.

R & D: manufacturing's neglected key

BDay 23/8/91

180

MICHAEL CHERRY

AN EXPANSION of SA's manufacturing sector is dependent on three factors: a technologically competent workforce, effective technology transfer and, ultimately, technological innovation itself.

One of the major constraints on technological innovation is funding. The realisation of the importance of the link between spending on research and development (R & D) and economic performance has led to large increases in R & D spending in Western countries.

Expenditure on R & D as a percentage of GDP has increased in Italy, France, Germany, Japan and the US in the past five years.

In the UK it has remained constant: a relative decline in government expenditure has been matched by an increase in funding from the private sector and international agencies.

Unlike Thatcher, however, the SA government has been unsuccessful in persuading the private sector to pick up the tab.

During the first half of the 1980s, R & D spending in SA as a percentage of GDP grew by small but significant amounts.

It rose from 0,74% in 1981/2 to 0,96% in 1985/6.

But in 1987/8 this figure dropped to only 0,88% of GDP. And the state is not the major culprit: although both state and private sector contributions dropped relative to GDP, the private sector's contribution has dropped by more.

The proportion of R & D financed by the private sector has remained constant at 41,3% since 1985/6, but has dropped since 1983/4, when it peaked at 51,2%.

In successful manufacturing economies like those of Japan and West Germany, the private sector finances 67% of research and development.

The central problem in the private sector is a lack of in-house industrial R & D.

At a colloquium on Technology and Reconstruction held at UCT in May, Hennie Smith, chief director, Technology and Industrial Strategy, at the Department of Trade and Industry, explained a scheme initiated last year in terms of which government funds half the costs, for five years, of R & D projects in the electronics industry. But he had to admit that only half of the R40m set aside for the project in its first year of operation was utilised.

At the same meeting Bernie Fanaroff of Numsa interpreted the lack of industrial R & D in terms of "management in SA being obsessed with short-term returns". He stressed that the union movement was not opposed to technological advances, provided they were accompanied by retraining programmes.

But government also has an important role to play. While it has made some attempt to facilitate technology transfer, urgent government intervention is required in fiscal measures to stimulate R & D spending by the private sector.

In SA at present no portion of R & D spending can be written off against tax. By comparison, 20% to 150% tax concessions exist in the manufacturing economies with which SA needs to compete.

Perhaps the biggest obstacle to SA expanding its industrial capacity remains the technological proficiency of its workforce. In 1989 only 5% of the 200 000 black matriculation candidates were offered mathematics or physical science (on account of there being no teachers), and only 1% passed each subject, combining higher and standard grades.

The recently announced Education Renewal Strategy seeks to provide a vocational education for the majority of secondary school pupils. But unless the vocational stream receive a thorough grounding in these subjects, productivity levels in the workforce are likely to remain low. It is time for the government to face up to the fact that it is going to have to recruit large numbers of teachers in science and mathematics, and that the only way to do this is to remunerate them properly.

□ **Cherry heads a research department at the South African Museum.**

REVIEW

operty

PE's last industrial space finds a buyer

THE last piece of big industrial space on the market in Port Elizabeth has found a buyer — seeming to confirm predictions that the area is on a roll for prosperity.

The old Ford factory, comprising some 64 000m² of space under cover, has lain empty for six years since Ford disinvested and left the city in a shambles.

Now it has been acquired for R18m by Volkswagen to accommodate a planned expansion programme.

Phillip Bowman Properties MD Phillip Bowman says: "This development is encouraging for the region.

"PE is no longer as dependent on the motor industry as it was when Ford pulled out, but expansion by any major industrialist has to have a ripple effect on the city."

B Day 23/8/91 (180)

Levelled off

The Volkswagen acquisition brings industrial space vacancies close to zero, with only minor pockets remaining on the market.

Industrial rentals have levelled off over the past six months at around R4,50-R6m², with an escalation rate of 10-12%.

But PE industrialists are getting into gear for a boom period expected to follow the lifting of sanctions and the revitalisation of export trade — and pressure of demand could see rentals start to rise.

But before development can get underway, some rezoning of land will be called for.

"PE is running short of serviced industrial land," says Bowman.

"The city council owns serviced land at Markman Township, which is on the market, but it has not met with much favour because it is some distance outside PE."

Shortage of land blocks development

180

B/Day 23/8/91

INDUSTRIAL property development in the greater Durban area is hampered by a lack of suitable land, which could be alleviated if large tracts of underused state-owned land were made available.

JH Isaacs industrial division head Greg Elliot says: "A substantial site owned by Spoornet lies opposite the new Makro site in the Springfield Park complex.

Substantial

"If opened for development it would do much to alleviate the demand for space in the area."

Springfield — which has proved enormously successfull — is now 80% developed. Recent prices achieved are from R200-R220/m².

Further afield there is a wider choice of land in townships such as Verulam, Phoenix and Morelands, where prices are pitched between R65m² and R90m².

The future could see an increase in demand for space from foreign investors and businessmen.

Elliot says the recent visits by President FW de Klerk to America and Europe have sparked a number of fact-finding tours and trade missions to SA, which augur well for future industrial prospects.

Violence

"The major concern remains black-on-black violence which, if not curtailed, will affect the introduction of foreign capital," he says.

"On the other hand, should the negotiation process continue peacefully, we can expect demand for industrial and commercial property from foreign businessmen."

Era of vacancies and softening of rentals

(180)

B/Day 23/8/91.

THE Cape Town industrial property market slumped early this year, heralding an era of growing vacancies and softening rentals.

Only Montague Gardens and a few southern suburbs townships such as parts of Retreat have held their own, says Divaris Real Estate marketing director Philip Upton.

"Montague Gardens has been developing slowly for several years and has only recently come into the limelight," he says.

But the market is moving towards being oversupplied and landlords are tending to put together more creative deals, for instance, incorporating free rental periods in an effort to attract tenants.

Present industrial rentals in the Cape Town area vary from the R6,50-R12/m² range in Montague Gardens down to R5,90-R6,95/m² in Bellville South; R5,50-R8/m² in Bellville/Strickland; and R5,50-R9,50/m² in the Bellville Triangle.

Creeping up

Despite the softening in rentals, however, land prices are creeping upwards — with top prices hovering around the R140/m² to R160/m² mark.

Demand for land from owner-occupiers is increasing as businessmen tend to invest in property as a hedge against long-term rental increases.

Industrial land is in relatively short supply, however.

"There is quite a lot of space available in Montague Gardens, but once that has been taken up the next industrial area is Atlantis," Upton says.

"There is a huge tract of vacant land between Tableview and towards Melkbosstrand, but it is not zoned for industrial development.

"Industrialists seem to have accepted Atlantis as a long-term option and it is not likely the zoning on the vacant land will be changed in the foreseeable future."

Institutional buyers also have a strong presence in the market — although their requirements are for well-located, well-tenanted buildings or properties with good development potential.

This side of the market is experiencing some shortage of acceptable stock.

R & D: manufacturing's neglected key

BDay 23/8/91

180

MICHAEL CHERRY

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☐ **Cherry heads a research department at the South African Museum.**

Pretoria mulls total strategy for industry

(180) ARG 24/8/91

RORY CHANNING
Reuters Correspondent

SOUTH AFRICA is looking to sustained industrial growth rather than "kick start" ventures such as mass housing to revive its sanctions starved economy, says Dr Japie Jacobs, special economic adviser to finance minister Mr Barend du Plesis.

Such an approach would dovetail with structural reforms initiated last year by the late Wim de Villiers, he said this week.

Government policies have already tilted in this direction, and a total strategy is currently under review, he said in an interview. "It's rather urgent," he added.

Mr Du Plessis said last week further measures would be announced soon to give momentum to the process, especially with a view to export orientated growth.

Steps taken so far included reforms initiated to cut nominal company tax to 40 percent over five years from 50 percent in 1990, and 48 percent now, and tax incentives to encourage investment in export ventures.

And exports and capital and intermediate goods will effectively be exempt from a value added tax system taking effect next month.

The state power and transport companies Eskom and Transnet had agreed to hold tariff rates well below inflation to help industry and the State Industrial Development Corporation was evolving a role to promote export projects.

South Africa's economic fortunes traditionally have relied heavily on its gold industry. The world's top producer of the yellow metal, along with other precious and base metals, and agriculture.

But Dr Jacobs explained the shift in policy aimed at nurturing manufacturers and value added enterprise such as minerals beneficiation in a post sanctions, post-apartheid economy.

There has been barely any growth in real terms in international trade in raw materials, or minerals. The growth has been in industrialproducts. We want to participate in that growing market, he said.

The economy expanded on average by only 1,5percent ayear during the 1980's, seriously lagging the growth in population estimated at 2,5 percent or more annually.

With more than four tenths of the potential workforce without formal employment, analysts envisage a need for sustained economic growth of five percent or more annually to prevent the queues of jobless from growing.

A sustained economic revival, economists and politicians say, is vital to ensure a successful transition towards a viable, non racial democracy.

Dr Jacobs said efforts to promote export led growth implied more resources would have to be directed to research and technology that double digit inflation must be tamed, and that fixed investment should be stimulated.

Technical education and training had to be stepped up, Dr Jacobs said, adding that inadequate skills and limited access to capital had been major development bottlenecks, bacxklogs in health, housing and education had also to be tackled.

But despite a need to devote extra resources in these areas, Dr Jacobs indicated it was unlikely that Pretoria would seek to "kick start" the economy back into life through mass housing programmes favoured in some circles.

A scenario exercise sponsored by the Nedcor banking group and Old Mutual Insurance giant proposed as a first phase for the next four years, 200 000 low cost houses a year and electricfication of one million houses a year.

This would cost R7,5 billion a year, and create much needed jobs, they argued.

"You've got to have a proper strategy for housing. That is a point we're working on at the moment," Dr Jacobs said. "But you know the so called kick start policy using housing as a platform for growth. We don't subscribe to that."

"You do create work and income, but not sustainable growth,' he said.

The country's net savings last year barely covered the estimated cost of the kick start proposal.

Despite the current recession Dr Jacobs played down prospects for any significant easing soon of current, relatively conservative fiscal and monetary policies in order to reflect the economy.,

"The easy thing to say : Let interest rates fall, let the Banks expand credit (but) if you stimulate consumption at the expense of saving, your ability in the longer term to invest and expand capacity is restricted,' he said.

DR JAPIE JACOBS: No kick start

"We are however concerned about the plight of the impoverished and are constantly considering ways to assist them."

While South Africa ought to re-establish trade ties and access to capital blocked by sanctions, he said, efforts should also be made to forge a social accord between political business and labour leaders.

The aim should be to moderate wage demands and to promote productivity in order to enhance the competitiveness of South African firms in export markets, he said. — Reuter.

Share analysis and accurate forecasting

Star 26/8/91

(180)

This is the first of 10 articles in a series by Jacques Magliolo on the methods JSE analysts use to predict company performance.

The JSE analyst's task is not easy. He has to keep track of a multitude of factors that could influence a company's performance during its financial year.

Yet the analyst's work is sometimes viewed with a degree of scepticism.

Analysts are sometimes perceived — incorrectly — as yuppies who take two-hour luncheons, leave work early for the pub and spend a fortune on their appearance and luxury cars.

Expensive

Some directors of stockbroking firms consider them "expensive extras".

So why do the larger firms still have research teams?

The answer lies in the numerous, although not always obvious, benefits gained by precision forecasting.

Firstly, accurate analysis warns directors of changing market trends and, thus, a more professional service can be offered to existing and prospective clients.

Secondly, but more important, if the firm employs a rated analyst, it can lure financial institutions to trade through them.

An analyst is rated by these institutions when he is perceived to be the most knowledgeable and accurate in his particular field.

This is the true reason for employing analysts. They effectively become marketing tools to expand the brokers' institutional client base.

Given the importance of research, what factors would the analyst take into consideration before making this final findings public?

The aim of this series is to outline this process in greater detail.

A variety of tasks need to be completed before an analyst can begin his investigation.

Historic

These include:

- Gathering information on the company.

This involves accumulating five years of historic financial reports, the latest interim and year-end results, the past year's media cutting and corporate information released by the company.

- The figures from the five-years of annual results are typed into a computer model, which the analyst has created to assist him in determining his forecasts.
- Market trends and share sentiment are investigated.
- An interview with the directors of the company is set up.

Although analysts differ in their approaches to forecasting, there are common elements which have to be analysed.

Variables

Short-term variables include:

- How economic factors could affect the company.

Research teams usually include an economist, and the analyst would use such data as the CPI, PPI, prime rate, exchange rates, GDP and private consumption expenditure in his predictions.

- Fundamental factors.

All pertinent events are considered, including political and social unrest, wage demands, restructuring, consolidations or expansion plans, competition and debt levels.

- Ratio analysis, which includes cash flow projections.
- Technical analysis.

This is computer-generated analysis which can provide the analyst with insight into bullish and bearish sentiment, whether shareholders are still accumulating or about to sell shares, moving averages and daily trading volumes.

- Long-term factors.

Different risk variables are determined and decisions are made on whether these could worsen in future.

- Similarly, a decision is made on rates of return.
- The company is evaluated relative to its sector and to the industrial index.

Recommendation

Once all these factors have been considered, a recommendation to buy, sell or hold a share can be made.

Although this series is not intended to be a comprehensive course on how to find profitable investments, it should provide a better insight into the numerous factors involved in analysing companies.

COMPANIES

GDM clients feel the economic pinch

B Day 26/8/91

Business Day Reporter

GDM Finance is again set produce increased earnings for the coming financial year, says MD John Cowper.

Speaking after the annual general meeting held in Johannesburg on Friday, Cowper said that while the economy continued to slow the company was well financed and had sound credit granting policies.

"However, it is extremely difficult for anyone in business to withstand the multiple onslaughts of boycotts, strikes and unrelenting inflationary pressure.

"These are the pressures with which our clients have to contend daily.

"Our clients, spread across South African commerce and industry, are naturally feeling the pinch of the downturn as well as the uncertainty of SA's current socio-political situation." (180)

Cowper said that in spite of the downturn the company was confident that it would be able to increase earnings and dividends again in the next financial year.

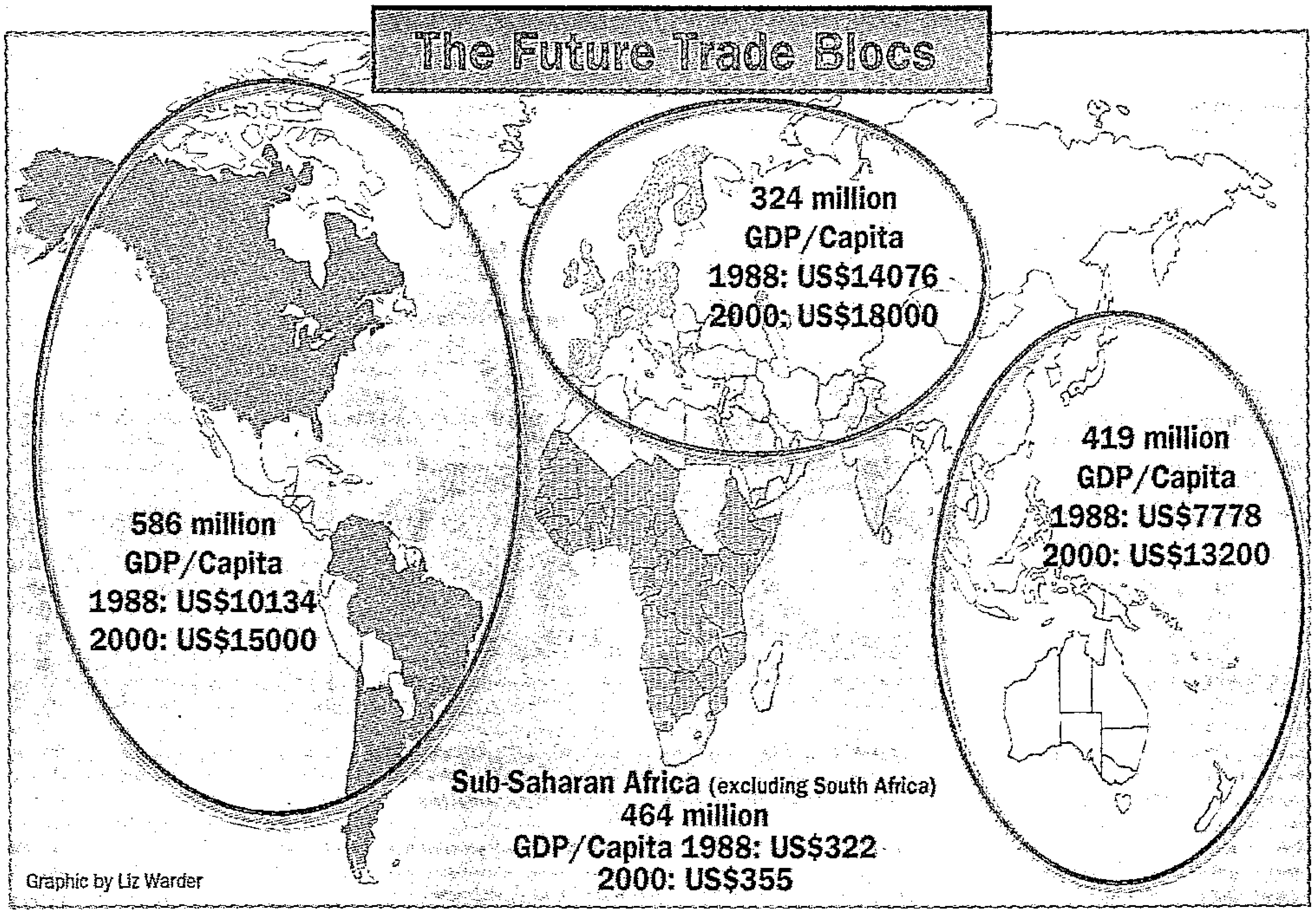
Since its listing in September 1987, GDM has achieved an average annual increase in earnings a share of 45% and dividends a share by 35%.

Tough battle for trade lies ahead

The South African Chamber of Business is having behind-the-scenes talks to persuade the Government to treat new industrial strategies as urgent — or not be able to break out of the sanctions laager, reports MICHAEL CHESTER.

180

Star 27/8/91.



Discovering the new world . . . a world map shows the new giant economic blocs that look set to alter the pattern of international trade. The SA Chamber of Business is fretful that South Africa may be locked out unless it finds radical new industrial strategies.

THERE is a new version of the world atlas in circulation inside the SA Chamber of Business b) now that the sanctions .kade has started to fall y and South Africa can lay is to seek new footholds in ld trade.

n various colours, the global p shows how entire contits have started to draw sive circles around thems to form international ecnic blocs.

ach intends to make special de deals between neighbour ions huddled inside the bounies — with high ambitions ut their futures when they nbine their industrial mus-

utsiders, it becomes obvi-, will find it hard going to etrate the boundaries — un- they have tremendous spe- talents or else offer prods and services that cannot be nd inside the trade clubs.

he circles have been suimposed on the world map studies into the new trade nario. The research team s headed by the chairman of Sacob industrial policy comtee, Paul Hatty, and Sacob nomist Keith Lockwood.

"The trains of future econom- rowth are being assembled," y report back. "And South ica does not have a ticket on one of them."

Rather than gush with rhapies about trade prospects, h of them have alerted exters to expect a hard slog en they try to break out of sanctions laager.

The new trade blocs painted their atlas compound the nplexities of the longer-term look:

The European Common Market (ECM), sprawling from ndinavia to the Mediterran., and from Britain to Gerny, due to be launched in 2, will create one of the lart free trade areas on Earth.

ts population of 324 million been promised that the avge gross domestic product, a per capita basis, will grow m $14 076 (about R40 320) to 000 (R51 560) a year by the of the 1990s.

cross the Atlantic, the United States and Canada plan to ke a free trade agreement of r own — and President rge Bush is determined to and the zone to embrace tral America, and the whole uth America, too.

e envisaged trade club nises a combined popula- of 586 million a boost in P per capita from $10 134 out R29 000) to $15 000 (about 3 200) a year by the turn of century.

n the Far East, the economic ers of the Pacific are proing a trade bloc of their . If Australia and New Zead join in, it would have a ulation of 419 million, with an annual per capita GDP aimed at $13 200 (about R38 000).

● Africa, south of the Sahara, has been given a tentative tint of its own. It allows Sacob to see what would be entailed if a sub-Saharan economic union should ever emerge.

Leaving South Africa aside for a moment, the subcontinent is shown to have a population of 464 million. Less impressive, though, are the figures for GDP, the popular measure for living standards. On a per capita basis, it was a lowly $322 (about R1 000) a year in 1988. And even by 2000 it is estimated that it may be no higher than $355 (about R1 000).

"The way world trade patterns are being reshaped," says Sacob deputy director-general Ron Haywood, "it is becoming more and more pressing for South Africa to hammer out new economic policies — and radical new industrial strategies.

"It's obvious that progress is essential towards the creation of economic co-operation inside sub-Saharan Africa as a first objective. But we may be even crowded out of neighbour markets unless we become more competitive to ward off trade invasions from outside.

"At the same time, it is equally essential that South Africa becomes a global player in international trade to earn more foreign exchange to oil the wheels of the post-apartheid era.

"That means we need a much larger and stronger industrial home-base. In turn, that means attracting a lot more foreign investment.

"Far more important than financial investments joining the paper chase, we need investment by overseas companies coming in to build new production resources, with an eye not only on our home market, but also on using South Africa as a springboard into world export markets.

"But can we attract them? At the moment we are saddled with problems — high inflation, high taxation, high capital costs, high interest rates and low productivity.

"We have got to offer them a far more attractive package — otherwise we shall be overlooked. Without far more dynamic strategies inside more vibrant economic policies, our home-grown companies will also find the going tough."

The sort of current deterrents that dampen enthusiasm about economic expansion in South Africa at the moment have been listed in a special video tape that Sacob has prepared as a thunderbolt aimed at complacency.

The camera opens on a businessman weighing the potential of investment in South Africa from an office far away in Hong Kong.

First, he asks himself, what happens to the selling prices of new products? South Africa, he sees, has a company tax rate of 48 percent — one of the highest in the world.

He calculates that that alone would mean price tags being set at no less than 23 percent higher than the identical product made in Hong Kong.

Next, inflation. The stubborn 15 percent inflation rate in South Africa would mean he would have to set prices at least 20 percent higher than he need charge if he produced in one of the European countries where the rate is nearer 5 percent.

Couple that with high interest rates, and high tariffs and import duties, and costs look horrendous.

The mythical potential investor looks puzzled. "You could be the Hong Kong of sub-Saharan Africa," he says. "If South Africa got its act together it would be fantastic." Sacob agrees.

"It's become glaringly obvious that South Africa must give urgent priority to radical new thinking about a total economic package," says Mr Haywood.

"We are not going to the Government cap-in-hand to ask for massive protection from the realities of keen competition. What we need are new strategies.

"Unless our industrial base stands on solid foundations, we can wave farewell to all *our* high ambitions about the *new* post-apartheid era." □

Business must open up to world competition

B/Day 27/8/91.

(180)

EDDIE CROSS

BUSINESS has a unique and special contribution to make to the welfare of society. In business we have considerable freedom to mould the conditions under which our people live and work.

Free markets are democratic and responsive to individual need. There is no alternative to competition to establish fair returns. We need to believe these things and to translate them into practice. We must face up to the fact that all too often we in the business sector have sought privilege and protection to the detriment of the consumer. The new SA deserves better.

How the business community in SA reacts to the changing situation is of vital importance. If you react with the negative elements in society, and reinforce the spirit of conflict rather than compromise, you will make it that much more difficult to secure the future you all desire. If on the other hand you act with confidence, lead and inspire your staff and support the process of change and adaptation, you will help ensure a positive and negotiable outcome. Never underestimate the power of ordinary people acting in concert.

If you look at examples of successful societies, they are all characterised by a sense of patriotism and national pride. The Japanese, the Germans, the French and the Americans are all clearly recognisable as people who have a deep and emotional commitment to their countries.

Black political leaders in southern Africa should be careful to give due recognition to the role which white nationalism has played in the development of our countries.

In Rhodesia, white Rhodesians were intensely patriotic. We reacted to the challenge of sanctions by throwing our entire weight into the battle for economic stability and growth. We succeeded. The economy of Zimbabwe was established by business organisations which were committed to the country. For us, home was not somewhere in another part of the world but a place to which we returned every evening.

However, since the transfer of power in Zimbabwe, the government has done little to encourage white patriotism. This is a serious mistake as, even though there are only about 120 000 white Zimbabweans left in the country, they play an important part in the economy.

For those whites who have had the courage and commitment to remain in Zimbabwe, life is very different to what it was. Whites are now actively discriminated against. Our young people find it difficult to obtain jobs, bursaries and scholarships. Our young business people are denied promotions and find it difficult to secure concessional financing for new ventures. Scarce resources such as foreign exchange and motor vehicles are allocated on a discriminatory basis. Very few whites remain in the public sector.

I can accept some of this as being necessary to balance the books against many years of discrimination against blacks. However, the danger is that this process will destroy what is left of white patriotism. If this happens, a powerful force for promoting development will have been lost and all Zimbabweans will be poorer as a result.

The situation in SA is potentially even more precarious. If the black leadership undermines the patriotism of white South Africans towards their country they will be doing not only themselves and their country a disservice but they will be, in many respects, jeopardising the future.

It is important to establish and maintain the commitment of all South Africans to the future of the country. It is important that that commitment be maintained not only in economic and political terms but also in emotional and cultural terms.

☐ CROSS

We must accept that it will be necessary to have a period of positive discrimination after political transition, to redress decades of discrimination against black South Africans. With the transfer of power, black South Africans will legitimately demand full participation in the SA economy. This can be only at the expense of the other communities in the short term.

To minimise the damaging effects of such pressures, you will need a period of rapid and sustained economic growth. It is time that African leaders recognised this and stopped playing political games with the sanctions issue. Nobody can really deny that SA is on the new road, and what you need now is help, not hindrance.

There are also things that you can do — you need to accelerate the privatisation of state enterprises, open up your economy to competition and, now that the gap between the commercial and the financial rand has closed, make the rand convertible.

This will not only have the effect of keeping the value of the rand down but will also give your business community confidence and encourage international companies to recognise that SA is back at the table and ready to play.

The future of this continent is in our hands. Others can help, but only we can deliver. Trust and empower the individual working within free markets and your new democratic structures. Lead from the front and you will have nothing to fear.

☐ Cross was the first MD of Zimbabwe's Beira Corridor Group Company. This is an edited extract from his speech at the Business Day Business Achievement Award banquet in Sandton last night.

LETTERS

Monitoring the economy

SER 25/8/91

Share analysis and accurate forecasting — 2. A 10-part series by Jacques Magliolo on methods used by JSE analysts to predict company performance.

The analyst's first task is to understand how the economy affects a particular company's future performance.

Stockbroking firms usually employ an economist to monitor the volatile and unpredictable market.

This information, which helps the analyst to understand the macro-economy, includes:

● Gross domestic product (GDP).

This helps to detect movements in the overall business cycle and, thus, prospects for future growth.

Present indications are that GDP will not improve this year and therefore analysts believe a more aggressive state fiscal policy could be implemented.

This policy might be in the form of capital expenditure on social infrastructure, which would result in houses being built and in turn would mean an increase in the sale of furniture and other durable goods.

An accurate estimate is essential to forecast a company's future turnover growth.

● Exchange rates.

A forecast change in the commercial rand warns analysts that the cost of importing and exporting goods will be affected.

A prediction that the rand will weaken against the dollar would indicate higher costs for importers, while exporters would benefit from such changes.

Conversely, a stronger rand benefits importers, but raises exporters costs.

Analysts say there is also a long-term effect of exchange rates on retail unit costs.

For instance, the recent weakening in the rand should result in manufacturers paying more for imported raw materials, which will be incorporated in prices charged to retailers, who in turn are expected to push up their prices.

● Prime rate.

The Reserve Bank has intimated that a drop in interest rates is imminent, which would release some pressure on companies with high debt ratios.

However, companies with positive cash flows and no debt would receive lower income from interest.

The extent of a reduction in the prime rate would be reviewed and the findings applied to the company being analysed. If the drop is minimal, benefits to companies with excessive debt will not be significant.

● Private consumption expenditure (PCE).

This indicator helps the analyst to detect possible changes in consumer spending patterns.

More specifically, he would investigate a breakdown of PCE to determine changing demand for services and semi-durable, durable and non-durable goods.

An historic comparison between a company's turnover and PCE often produces a trend. In this manner, it is possible to detect whether the company's turnover will be affected and by how much.

While marginal overall growth is forecast for 1991 and implies no improvement in spending patterns, a breakdown shows continued negative growth for semi-durable and durable goods, but positive growth in services and non-durable goods.

● Consumer price index (CPI).

Commonly known as the inflation rate, this factor is widely discussed in South Africa.

Although the universal definition for inflation is "a general increase in the price of goods," analysts are aware that the different sectors of the JSE are affected by varying CPI rates.

This effectively means that to forecast turnover growth accurately it is essential to know what the price structures are for companies operating in a particular sector.

For instance, the Central Statistical Service reports that the May 1991 CPI figure for non-durable goods rose by 17,5 percent, compared with the same month in 1990.

Other goods rose by only 14,4 percent.

● Production price index (PPI).

This figure should provide a guideline to expected changes in CPI as it is usually a leading indicator of between three and six months.

Analysts believe there could be a substantial fall in PPI to about 13 percent from 1990's 15,8 percent.

This is due mainly to a slower rate of increase in salaries than last year and more realistic wage demands by unions.

Another reason for an expected fall in PPI is an inflation-related wage increase for civil servants.

This is in line with the Reserve Bank's objective of reducing the inflation rate to single digit by the end of 1992.

After the economic variables have been investigated and it has been determined how these affect a company, the analyst has a solid foundation to start predicting future performance.

R1-bn handout the wrong approach, says business

(180)

By Helen Grange
Pretoria Bureau

Star 28/8/91

The Government's allocation of R1 billion to alleviate poverty has been cautiously welcomed among beneficiaries — although the business sector has spoken out over the "ad hoc" manner in which the handout was planned.

Dr Ben van Rensburg, chief economist at the SA Chamber of Business, said the Government's action had been an "ad hoc" approach when the country's need for social upliftment least needed such an approach.

"It should have been strategised along the lines of a socal accord, which would have defined and calculated the needs over a specified time period.

"By throwing amounts of money out, expectations are not going to be toned down, as they should be.

"It is only when everybody understands the degree and size of the problem relative to what is affordable that people realise the earnest attempts made to address the problem. The fund should have been planned with broad consultation among the various bodies concerned," Dr van Rensburg said.

Democratic Party spokesman Louis de Waal said the funding was a very positive move and the various allocations seemed to constitute a good mix. He added that this type of funding would undoubtedly be an ongoing feature of Government spending.

It was known that with the impact of VAT, there would have to be considerable amounts channelled into community projects — although a lot more was required.

Conservative Party spokesman on trade and industry Daan Nolte said it was unfair and economically absurd that the Government had sold its belongings to provide a R1 billion donation to the poor. "They are only doing this to win the support of the ANC."

The ANC's economic officials were still analysing the allocations yesterday afternoon.

Sam van Coller of the Urban Foundation said the money to be spent on housing sites was welcome and desirable, but emphasised that the issue of location of the sites as well as the question of ownership was important.

The Afrikaanse Handelsinstituut said it particularly supported the proposal to spend about half the amount in the current financial year and the creation of 59 000 jobs over 15 months.

Few industrial sites vacant despite tough times

THERE is surprisingly little vacant industrial land and buildings available, considering the country is in a recession, the latest Russell Marriott & Boyd Trust (RMBT) quarterly review says. (180)

It adds that ~~although~~ rentals have levelled off recently, certain industrial areas have shown good rental growth over the past two years. Only pockets of property are available round the country.

Director David Alcock says: "On the Reef, the only industrial area where land is in good supply is Clayville." BDay 28/8/91

The position in Durban is even tighter, with little land available for industrial development and few buildings with large vacancies. There are also not many vacant industrial buildings to choose from in the western Cape.

The review says that on the Reef, areas such as Jet Park, Isando, Sebenza and Route 24 have seen rentals rise by about 50% compared with a 25% increase in the areas on the western edge of Johannesburg.

While there have been rental increases of 30% in northern areas like Wynberg, Kramerville and Eastgate, they have been as much as 35% in southern areas like Benrose, City Deep and Denver.

"Rentals in prime industrial areas, such as Denver, have improved on average by 13,5% over the past five years compared with 15,75% for CBD offices and 16,5% for prime shops."

Industrial investments are generally less costly to run in terms of management and building maintenance expenses.

NEWS FOCUS

Action needed from 'complacent' business

B Day 28/8/91

(180)

Business Day Reporter

SA had to translate rhetoric about private enterprise into a policy which established a true free market system because this was the only way to ensure the country's future prosperity, Zimbabwean businessman Eddie Cross said in Johannesburg yesterday.

He was elaborating in an interview on his speech to Business Day's Business Achievement Award banquet in Sandton on Monday night.

Cross had told his audience that SA business, protected from international competition, had grown complacent and sluggish. It depended too much on exports of commodities and gold, and there was an unhealthy concentration of economic power in a handful of large corporations.

"In Zimbabwe 70% of industrial output is produced by monopolies," he said yesterday. "There is price-fixing throughout the economy, and real competition is confined to a few sectors like retailing.

"In SA the position is probably worse. Some of the practices here would be illegal in Western countries."

Cross said a simple needs analysis would show what ordinary people really wanted. They would not be too concerned about who wielded political power provided those in authority could deliver a reasonable standard of living. Only free markets could meet these needs. Anything else would be second best.

Asked about an apparent contradiction in his speech, in which he deplored discrimination against whites in Zimbabwe, but also assured businessmen they had no need to fear majority rule in SA, Cross said a big proportion of blacks would certainly want to "square the slate" through active discrimination against whites.

"I think it is inevitable that a new government will act in the interests of its constituency. Many whites will certainly lose jobs to blacks, and this could go on for a long time.

"There is nothing sinister about this. SA will just have to come to terms with it. But as SA squares the books it will need a whole new economy — a rapidly expanding economy based on real competition."

Cross said after years of dependence on commodities and gold exports, SA's industrial sector was not competitive. Countries which relied on commodities were all in deep trouble, and that was why new emphasis was being placed on value-added production.

Trade with southern Africa offered the starting point for SA's industrial expansion.

"The region can generate \$6bn to \$8bn a year in industrial sales, yet SA's trade with Africa is valued at only \$4bn.

"There is great scope for growth, and it provides an ideal opportunity for the country's industries to build up a base in a reasonably sheltered environment to the point that they can survive in world competition."

Cross told his audience on Monday that SA was likely to resolve its political problems much sooner than people thought — by the end of 1992, or even earlier.

Asked the reasons for his optimism, Cross said yesterday: "I think the government has realised it has most to gain from a quick transition, and at the same time the parties on the left are concerned they are losing ground. A settlement is in everyone's interests.

"They are also going to come under increasing pressure from an international community that wants a speedy resolution of regional conflicts."

☐ The Achievement Award went to Engen.

Zimbabwean dollar slipping against rand

Star 28/8/91

By Michelle Mallepaard

Zimbabwe's dollar, not so long ago on a parity with the rand, is slipping fast and will affect the economy of that country owing to its limited foreign exchange supply, says Nora Hill, MD of Export Marketing and Management Consultants.

The Zimbabwean dollar has slumped against the rand. Yesterday it was quoted at between Z$1,30 to Z$1,325 to the SA unit.

"We do not import a lot of goods from Zimbabwe, but rather export a fair amount to it — so we should benefit," says Mrs Hill.

However, she says, if it becomes too expensive, the orders from Zimbabwe will fall off and trade decrease.

Unofficial exchange rates of the Zimbabwean dollar to the rand are far removed from the published rates.

One source says the introduction of the Open General Import Licence a few weeks ago has resulted in the black market exchange rate sliding to alarming proportions.

"We can now get up to Z$2,75 for R1 on the black market and we are expecting it to go up to around Z$5 by the end of the year," he says.

The effect can be seen in the price of goods in Zimbabwe. A car bought in SA for R50 000 can fetch up to Z$180 000.

"Deprived of certain goods for a long time, Zimbabweans are prepared to pay high prices for scarce commodities," he says.

Share analysis and accurate forecasting — 3

Directors with vested interest inspire confidence

Star 28/8/91

180

A 10-part series by Jacques Magliolo on methods used by stock exchange analysts to predict company performance.

The groundwork has been completed when the analyst has collated all relevant data and assessed economic trends.

He is now ready to start determining the company's future prospects.

Before beginning analysis of the financial results, he needs to investigate factors which are not quantifiable but could affect a company's performance.

These include:

- **Management.**

A continuously changing board of directors and senior management team is likely to undermine the confidence of shareholders and the share could be adversely affected.

The recent problems experienced at furniture retailer Rusfurn when chief executive Geoff Austin resigned saw the share drop to 80c from a previous trading band of between 120c and 140c.

A long-term association between directors and the firm always inspires confidence, especially if the directors have a vested interest in the company through personal share holdings.

- **Demographics.**

It is essential to understand the company's target market.

This provides a better insight into the business's cyclical nature.

For instance, if it targets the middle to upper income group, the firm's sales turnover will be evenly distributed throughout the year.

It becomes easier to forecast results if the stage of the company's business cycle can be determined.

- **Product cycles.**

In assessing possible changes in turnover growth, it is important to know how demand for the company's product range is affected by cyclical movements.

Retailers experience the greatest volume of sales during the last three months of the year, while service companies are less cyclical and turnover growth is evenly distributed throughout the year.

Another variable that requires investigating is long-term product cycles, such as companies producing fashion garments.

The problem of determining the effect of cycles on turnover growth becomes more complex when the company has trading partners in another country.

This partner is likely to be in a different cycle phase, making demand and supply predictions more difficult.

- **Spread of investments.**

Most companies have a number of subsidiaries which are also listed on the JSE, although they do not necessarily produce the same goods.

It is imperative, therefore, to complete the same analysis on all the listed subsidiaries.

The analyst compiles an organisational chart of the entire group, including major shareholders, percentage control of each listed and non-listed company and in which sectors these companies are operating.

This highlights the diversification of group investments, strengths and weaknesses in organisational structure and whether its shareholders could provide a "safety net" through financial assistance during recessionary conditions.

- **Mission statement.**

A review of the company's past financial statements should reveal whether it is conservative and methodically achieving its targets;whether its main aim is growth through acquisition or if it is simply not attaining its goals.

Although it is difficult to place a value on these factors, they do provide an indication of a company's inherent strength and ability to overcome financial problems.

And, they are essential when forecasting financial results.

Share analysis and accurate forecasting — 4

Star 29/8/91

More on fundamentals

A 10-part series by Jacques Magliolo on methods used by JSE analysts to assess company performance.

Although numerous methods are used to forecast future company results, most analysts prefer to start by assessing changes in turnover and margins.

The latest set of financial results, either year-end or half-year, are used to establish company trends. Recent performance is compared with the previous year and any significant change in policy is noted.

The following methods can be used to forecast change in turnover:

Method 1: Percentage turnover achieved at interim stage compared with year-end.

Although this first step is not scientific, it does enable the analyst to place his initial forecast "in the ball park."

If a company does not significantly change its product mix over the years, a pattern tends to form in relation to that product's business cycle.

This is best illustrated by the following basic example:

Half of a retailer's annual turnover is achieved in the first half of the year and the remainder in the latter part of the year; and if this retailer achieves an interim turnover of R1 million in 1990, the analyst — based on fundamental details discussed in the previous article — can assume a year-end total turnover of around R2 million.

Fundamental and technical factors would indicate similar or radically changed rates for the period under review.

Method 2: Assessing the complete breakdown of all contributions to group turnover.

Most companies include this information in their annual report and it enables analysts to detect any changes in product mix over the past year and whether any acquisition is likely to alter this mix.

The following example highlights the significance of a breakdown of turnover:

A footwear company has a number of wholesale companies and its own retail outlets.

Up to two years ago this group has been buying more retail outlets and, thus its wholesale operations have contributed less to turnover.

Fundamental factors point to the group going into a consolidation phase and, therefore, the analyst can assume that the product mix will not change significantly in the current financial year.

A historic comparison between the group's two operation and details released by the association which collates information for the sector shows that the company has continually outperformed other wholesalers and retailers by two percentage points.

The company's cycle can be compared with the sector trend and future market movements can be extrapolated, with the company two percentage points above that of the market.

At times the company will find it to its advantage to change its product mix to take advantage of market movements. Footwear companies operating their own retail outlets would benefit from a general rise in de-stocking in 1990 and further expected sales in 1991.

Method 3: Changes in volume and price.

Turnover in this method is calculated by multiplying expected changes in volume by expected changes in prices.

The following assumptions are made:

If the company is not expected to outperform the market, volume is assumed to equal the average rate of private consumption expenditure for the sector or using the same details as in method one.

There are two prices to consider. These are as follows:

Retailers raise the price of goods sold to consumers by more than the expected CPI level to cover future increases in the cost of purchasing goods from manufacturers. This is done to cover both the local and the inflation rate of its international suppliers and devaluation of the rand against these countries.

However, any company increasing its mark-up during recessionary conditions could price itself out of the market.

Therefore, changes in turnover can be estimated.

The infrastructure provides good place to make money in

B/Day 30/8/91 (180)

FOR an increasing number of small to medium-sized businessmen, Bloemfontein is a good place to make money.

Industrialists give it a good ratings for location and availability of land, labour, water, infrastructure and potential markets.

In addition, the Bloemfontein sub-region enjoys the highest level of government incentives for regional development.

Bloemfontein has five industrial areas apart from the relatively new Bloemdustria.

These comprise a total of 833 sites — 155 with siding facilities.

The largest and oldest of these is Hamilton.

This is almost fully developed, apart from 15 new sites.

Available

Some 280 sites are still available for development in the new Ooseinde industrial township.

Sakekamer executive committee member Berrie van Niekerk says: "The fact that it is so central — at the hub of road and rail networks reaching all the major centres of SA, Lesotho and Transkei — makes Bloemfontein an excellent location for national distributors."

The area also boasts a larger local market base than is commonly realised.

Bloemfontein is the sixth largest city in SA — and it continues to expand.

In addition, more than 50% of the spending power of Lesotho — amounting to a market of around 750 000 people — finds its way to Bloemfontein.

Mixed bag

The region boasts a fairly mixed bag of businesses — most of them on the small side.

Agriculture-linked businesses are well positioned to serve the OFS/Northern Cape region, and there is potential for more business development in this sector.

Spoornet is the largest operator in the city, which is home to the biggest railway workshops in the southern hemisphere.

Apart from that, while the city fathers would welcome the presence of a major anchor business from the private sector, Bloemfontein's mixed economic structure is probably more stable than it would be if it depended on a single industry.

The ready supply of cheap, serviced industrial land close to the city centre is another drawcard.

Development plan must be based on a social accord

B Day 30/8/91.

RONNIE BETHLEHEM

180

THE need for a social accord which would create consensus on a national economic strategy, has arisen as a result of continuing economic stagnation in SA, against the background of a rapidly increasing population and major demographic change.

Economic stagnation and demographic transformation together increase unemployment, aggravating problems of socio-political stability.

Formal unemployment today is estimated at around 6-million compared with 1,5-million in 1960 — about 43% of the economically active population compared with 25% 30 years ago. In the '90s it would increase by 1-million every three years were SA's growth experience of the '80s to be repeated.

The needs of the economy are urgent. They cannot wait for constitutional negotiations to begin, let alone to be successfully concluded.

It is common cause between organised business and labour, and between government and black liberation organisations, that a major restructuring of the economy is necessary. Agreement on restructuring is linked to the need to redress racial imbalances, to the problems of poverty and inequality, and what to do about them. But it is also linked to the requirement for growth.

Sacob's view is that redistribution and growth cannot be separated. In dealing with these problems the state is going to have to play a major role. Disagreement with the ANC and PAC and other liberation organisations relates mainly to the nature and extent of that role.

Sacob would favour a role which does not crowd out the private sector and which gives full recognition to the need for market-related policies. The limits of benevolent interventionism have to be acknowledged. However, this does not get away from a great deal of common ground which has already been established between business, labour unions, government and the liberation movements on what needs to be done to get the economy onto a new growth path.

The ANC, in the words of its president Nelson Mandela, has acknowledged that poverty and inequality have to be addressed in the context of a "national development strategy". Sacob has called for a "10-year socio-economic programme".

A national growth and development strategy will have to be comprehensive, specifying objectives and what needs to be done to achieve them. Objectives have to be classified as short, medium and long term.

Such a strategy, furthermore, will have to be phased. If phase one is concerned with a kick-start of the economy, phase two and subsequent phases will have to give attention to the process's sustainability.

Also, any growth and development strategy will need to take account of the market nature of the global economy and SA's dependence on that economy. The major variables relating to the export sector — commodity prices, interest rates, exchange rates, demand levels — are exogenously determined. They are beyond the control of this government, or a future one.

SA, therefore, will have to implement its strategy in the context of a market economy. Central planning command economy techniques will be out of place. Today there is common cause about that between all parties.

Who should formulate such a strategy? In a normal society, the central agent would be the government. SA, however, is not yet a normalised society. On the contrary, the nature of government is in dispute and negotiations are necessary to draw up a new constitution. This precludes the state from acting alone now in drawing up a strategy for SA.

Also, the state would be precluded from taking such an initiative in SA today because it is controlled by one of the political parties contending for power in the "new SA". The danger exists of even the best possible plan or strategy being rejected were it to be advanced by one party and be seen by others as an attempt on the part of the first to seize the moral high ground for itself. Any national plan or strategy must be commonly owned if it is to succeed.

This is where a social accord has a role to play. It would constitute an understanding reached between all major players — government, organised business, labour, political organisations and community groups — as to what needs to be done to get the economy growing again.

An accord has to be distinguished from a compact or contract. A contract implies something too rigid and binding to be able to work in a rapidly changing world. A prices and incomes policy would probably be rejected by organised business and labour, for example, even were government and political organisations to accept it.

In broad terms, the country's development objectives have to concern the problem of mass black unemployment — until now something which has lacked compelling political focus because blacks have not had the vote. With democratisation that will change. An accord would provide a formalising of the understanding of what would be required in restructuring state expenditure.

It would also make clear what would be needed in the conduct of other economic agents if the objectives of the accord are to be realised. It would specify the outline of an indicative economic plan accommodated to a market system where critical price movements are indeterminate, and the possibilities of commandist resource allocation are excluded.

Further caution would be required in any "top-down" approach that ignored what was happening on the ground. But a succesful macro-accord would also be unlikely to emerge from a purely "bottom-up" approach which took insufficient account of macro-economic linkages and requirements.

While what happens at grassroots level is critical, it has to be given coherence and logic in terms of balance of payments management, inflation control and broad monetary and fiscal policy formulation.

In SA, much progress has been made at the micro-level. Mini-accords in different industries, regions and areas (such as those concerning gold mining, the eastern Cape, education and the problem of political violence) already exist which demonstrate the possibilities of consensus-seeking.

However, such mini-accords (bottom-up) need to be linked to macro-strategising (top-down) to achieve a breakthrough in the economy. If a social accord can be reached it could contribute in an important way to advancing progress in political negotations.

A social accord on the economy could be helpful to political negotiations directly in that the parties to the accord would be the same as those involved in the political discussions. And it could help indirectly to improve economic performance, reduce the pressure on the unemployed and so also reduce negative socio-political feedbacks.

☐ **Bethlehem is chairman of Sacob's economic affairs committee. This article has been adapted from a statement recently issued by the chamber.**

Bloemdustria seen as a 'mistake'

B Day 30/8/91

THE newest of greater Bloemfontein's industrial centres is Bloemdustria, some 15km east of the city on the Thaba Nchu road.

But while this township has proved successful in terms of industrial development, it is criticised by some as a legacy of apartheid.

Councillor Professor Voet du Plessis says: "It was a mistake for the council to get involved in Bloemdustria.

"It was designed under apartheid to separate Botshabelo and Bloemfontein — but it's too far from both to be effective."

VOET DU PLESSIS

Fellow councillor Danie Bosshoff says the township has proved an expensive mistake.

The township comprises 507ha of industrial ground which the council acquired from the state and started developing in phases in 1987.

Under the council, it has been possible to offer a number of incentives to businessmen.

The land prices are subsidised at R15-R33/m² and their first three years in operation are tax-free.

Despite the poor economic conditions at that time, it succeeded in leasing all but one of its buildings, but efforts to sell land have been less successful.

Continues 180

Meanwhile, development continues, with the last of 10 factories under construction.

The area houses a wide diversity of businesses, producing goods ranging from locks to condoms and from shoes and textiles to portable kitchens.

About 800 people — most of them from Bloemfontein and Botshabelo — are employed in 10 council-developed factories.

Mangaung township virtually borders Bloemdustria and supplies the bulk of the industrial area's labour.

It is largely due to Bloemdustria's influence that Mangaung's squatter population is growing.

Mangaung town clerk Thomas Mkaza says: "A number of the people working in Bloemdustria live in Botshabelo, but it is far away and the cost of transport is so high they prefer to live in informal housing during the week, going home for weekends."

In contrast with Bloemdustria, he says, Botshabelo is a "white elephant" with limited growth prospects.

"Bloemdustria has struggled to get under way, but in the long run it will be successful."

Share analysis and accurate forecasting — 5

180

Assessing margins and productivity

Star 30/8/91

A 10-part series by Jacques Magliolo on methods used by JSE analysts to predict company performance.

In this final section on fundamentals, changes in profit margins are investigated and other factors affecting final company profits are described.

Before assessing changes in margins, the following basic definition and explanation should be reviewed:

- Margins effectively indicate whether the company is operating at a high or low productivity level.
- *To calculate margins*, operating profit is taken as a percentage of turnover.

There are many factors which can seriously affect productivity and can often be assessed only after a "factory tour".

To prepare for the excursion, the analyst carefully looks at the company's value added statement, which enables him to determine three fundamentally important issues.

Frist, this shows historic dividend and interest payments. If interest payments have been rising rapidly and this trend is not expected to abate, it could leave less capital available for future expansion and to strengthen reserves.

Secondly, it shows the amount of funds used for maintaining and expanding operations. The latter figure enables the analyst to ascertain changing company policy — for example, there may be a move away from being labour intensive.

Thirdly, and more important, the high cost of employee remuneration is shown. In the past two years there has been a major move towards reducing the wage burden through mechanisation.

Labour disputes

Another reason for aiming at being more capital intensive is to offset the negative affects on productivity and sales of prolonged labour disputes, strikes, go-slows and stayaways.

A walk through the factory floor enables the analyst to inspect personally how smoothly factory operations are carried out, whether any serious problems exist and how new the machinery is.

Before making his final forecast on profit margins and, thus, future operating profit, it is essential for him to look at the effects of possible future consumer boycotts, international sanctions, government interference through tariffs and duties and the availability of raw materials resulting from scarcity or monopolistic control.

Once all these factors have been assimilated, a decision on profit margins is made using the following formula:

★ Change in turnover (outlined in part 4) is multiplied by expected changes in margins, which equals forecast profit margin.

The next step is to forecast the following factors and to show how they will affect operating profit:

★ Interest payable, which is calculated on the expected level of borrowing, debt policy and objectives of the firm (ratio analysis will be discussed in part 6).

★ Tax rate. The future rate can be determined based on accumulated losses and decentralisation and other benefits.

★ Profit before extraordinary items, minority interest payments and preference share issues.

The latter is the easier of the three to calculate. The company would have made a press announcement of any further preferential share issues or amounts redeeemed.

Extraordinary items and minority payments have to be estimated, but discussions with directors helps produce an accurate figure.

★ Attributable profits. This is the net effect on operating profit of the above and is used to pay a dividend to shareholders, while the rest is transferred to reserves.

The attributable profits enable the analyst to calculate earnings per share (EPS), by dividing this amount by the number of shares in issue, which can also be assessed from press cuttings and discussions with the directors.

★ Dividends per share (DPS). Once EPS has been calculated, this figure can be worked out by reviewing the company's dividend policy and historic dividend cover (EPS divided by DPS).

If the cover remains constant over a number of years, it is highly probable that this policy will remain in force.

Part 6 on Monday will deal with ratio analysis and cash flow projections, which, are used to determine company strengths and weaknesses, such as solvency, liquidity and financial leverage.

MANUFACTURING – GENERAL

1991

SEPT. — NOV.

Rough side of end to sanctions

(180)

(Business Times 1/9/91)

CONSOL group managing director Piet Neethling foresees a dilemma for his company that is likely to face every industry as sanctions are lifted.

Presenting the glass, plastics, paper and tyre group's results for the year to June 1991, Mr Neethling referred this week to the assistance with which many of South Africa's manufacturers were established.

Considerations such as sanctions and strategic reasons led to State provision of protection against cheap imports and initial incentives when establishing a business.

Now, says Mr Neethling, with sanctions crumbling the Government appears to want an overnight flip by SA's sheltered industries to global players of competitive magnitude.

"It cannot be done so quickly. After so many years of protection, our industries cannot easily become competitive overnight."

He referred to two areas in particular — glass tableware and tyres. I heard the counter-argument from a would-be importer of glass tableware a few weeks ago.

"We can compete against American and European imports, but the Far East undercuts us. It is difficult to prove a case of dumping," says Mr Neethling.

I have also heard dumping charges from a textile manufacturer who described the contrast between SA's First-World labour laws and the position in the East where workers' rights were few.

There is no reason to believe Eastern glass workers earn more than do its textile employees. The clothman outlined his worries for SA's textiles, fearing the industry's demise and predicting a much tougher protectionist policy under a future SA government.

Mr Neethling says Consol will look at improving its competitiveness in the two areas to combat the desire or necessity for imports, but it will take time.

Consol's results are a credit to everybody in what was a demanding year of recession.

Turnover rose by a third to top R2-billion. A strong influence in this respect was the accounting of a whole year's contribution from distribution arm Tredcor compared with only six months' in the 1990 year.

Rubber company Tycon was also affected by a three-month strike in the 1990 year.

Operating profit of R319-million was 49% up and there was a 13% climb in financing costs to R31-million. Changes in the initial tax allowances on capital investment from 50%-30%-20% to 20% a year over five years meant Consol's tax rate hit 46%.

Taxed income was a third up at R156-million, but the share going to outside members of the rubber interests jumped to R24-million and the bottom line was 23% higher at 194c a share.

The dividend was raised in line to 55c. At the current share price of R40, Consol rates 20 times historic earnings and yields 1,4%.

Mr Neethling says the strength of Consol's share has prompted the group to consider a rights issue. Gearing is only 29%, with debt at R150-million and another R50-million of prefs due for redemption in 1992.

He says that depending on the cost of borrowing, the group could easily cope with higher gearing. The motivation for the rights issue is opportunity.

Government heading for serious cash crisis

Star 2/9/91 (180)

By Derek Tommey

If the alarm bells are not already ringing at the Department of Finance, they soon will be.

An analysis of revenue figures and recent company results suggests the Government is heading for a serious crash crisis.

The figures suggest it might have to consider reducing expenditure next year, if not this year, if it is to have any hope of balancing its books.

Governor of the Reserve Bank, Dr Chris Stals, with his tight money policy, and the international recession, which has lowered the price of many major exports, appear to have achieved between them what many thought impossible: to force the Government to start counting its pennies.

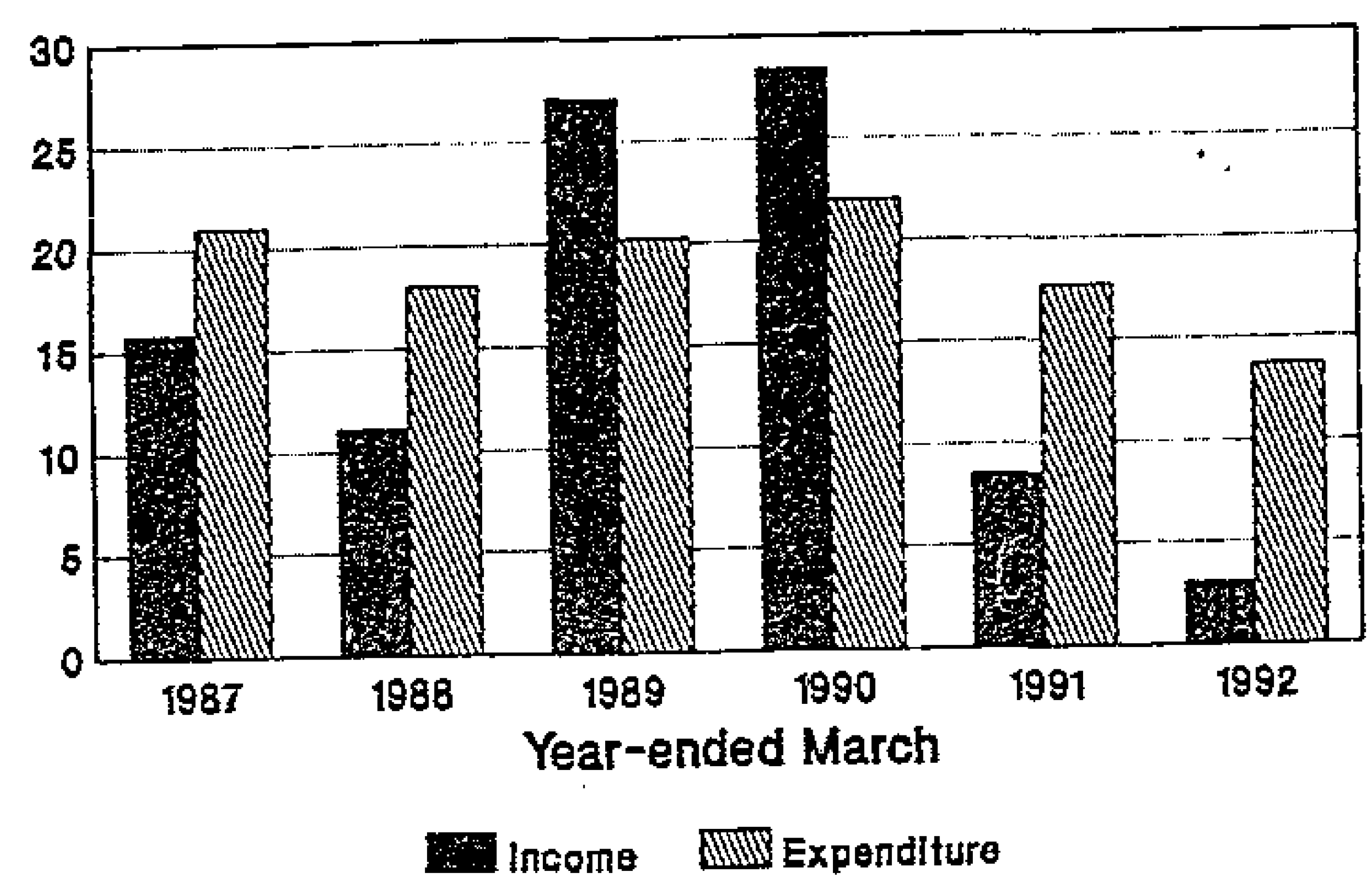
Such a move would also help in the fight against inflation.

The Government's failure to limit expenditure has been one of the major factors behind continuing high inflation. Now that the Government is about to be squeezed, the prospect has been greatly improved for a reduction in inflation in the next 12 to 18 months.

Government difficulties were highlighted by Dr Stals in his annual address last week when he said revenue had risen only three percent in the four months to July.

This is well below the 11,1 percent rise expected for the full year and well down on the 13,7 percent forecast rise in expenditure.

State finances
percentage growth



Revenue rose three percent in the four months to July, against a projected 11,1 percent for the full year

No doubt the Government is hoping revenue in the remaining eight months of the fiscal year will improve sufficiently to make good at least a significant part of th shortfall. But one cannot be to sanguine about this.

Times are tough in the business world, with profits — and tax payments — under pressure.

Last week two major companies said their tax payments for the year to June would be substantially lower than last year.

Samancor reported that owing to a drop in profit, its tax payment had been cut from R388,8 million to R210,8 million — a drop of R177,7, or 45 percent.

Iscor had an even bigger shock for the Receiver when it said its tax payments had fallen from R259,0 million to R32 million — a drop of R227 million, or 88 percent.

Together, the two are paying R400 million less than they did last year — an amount which could have a significant impact on government finances.

But these figures are for the year to June, and included results for the six months to December when times were not quite so hard.

What has been happening since then to company profits, and especially to those of mining companies, must be causing serious concern at the Treasury.

Impala Platinum paid R555,6 million in lease considerations, royalties and tax in the year to June. But that was achieved on earnings from an average platinum price of $424 an ounce and a rhodium price of $3 715 an ounce.

Platinum and rhodium are now some 20 percent lower at $340 and $3 000 respectively. The result is that Impala would be having the same problems as a marginal gold mine but for rhodium revenue, Impala chairman Brian Gilbertson said last week.

It is clear that Impala and fellow platinum producer Rustenburg will be making smaller tax payments in the current six months than they did a year ago.

This must apply to a great many other mines, including coal producers.

What is the Government going to do if revenue does not recover? It has already been attacked by Dr Stals for borrowing 55 percent of its loan requirements in the first four months of the year.

If it continues to borrow heavily it will drive high interest rates even higher. Its only alternative would be to cut its spending.

It certainly looks as if 1992 is going to be a difficult year for the public service.

should not be an advisory committee, but lege," Mayekiso said.

Right wing forms investment group

DAVE LOURENS

A RIGHT-WING investment company which will deal only with selected conservative white businesses is to be floated by CP supporters to mobilise right-wing capital. (180)

CP trade and industry spokesman Daan Nolte said an invitation-only meeting in Pretoria on Saturday decided to float the company, and a steering committee had been chosen to lead the project. BDay 3|9|91

The meeting was called to determine how to utilise conservative white Afrikaners' economic and consumer muscle to their best advantage in a changing society, and to express concern about the impoverishment of conservative whites and rampant inflation.

Nolte said CP supporters did not want socialist programmes, but viable, profitable economic policies. They did not want to see their funds nationalised or used by the NP to finance a new SA they did not agree with.

He said redistribution of wealth was not necessarily bad in itself as the richer members of the community had long helped subsidise the elderly and the poor by paying high taxes, but there was danger in a redistribution of wealth based on socialist principles.

Under a socialist system everybody would receive the same, regardless of their skills, productivity and efforts. The CP viewed this as unjust because a person's rewards should be linked to the contribution he made to society.

Boustred defends the role of corporate giants

Star 4/9/91

(180)

By Des Parker

DURBAN — Anglo American deputy chairman Graham Boustred fired a broadside yesterday at trade unionists and politicians who advocated breaking up corporate conglomerates.

Opening the rebuilt paper machine at Mondi's Merebank mill in Durban, Mr Boustred — who is also chairman of Anglo American Industrial Corporation (Amic) — said critics of Anglo's size and its monopoly of the economy were "dead wrong".

"As our chairman Julian Ogilvie Thompson has pointed out, South Africa needs more Anglos, not fewer, if wealth-creating measures are to be taken," he said.

A new deep-level gold mine would cost R6 billion to R10 billion to develop, a stainless steel mill or a pulp and paper mill from R3 billion to R4 billion.

"Investments of this magnitude are not going to be created by tinpot companies or dismembered Anglo Americans, but by large, well-capitalised and well-managed groups with the necessary knowhow and expertise," he said.

"Political leaders who have never been part of the wealth-creating process, but who spend other people's money should realise this.

"Unless we can bring about new grassroots Mondi-type developments, producing jobs and domestic and export-earning growth, the economic future of our country is bleak."

The executive management of Anglo and Amic was determined to make this type of progress and would do so "once counter-productive obstacles to growth and job-creation" were removed.

"I appeal to our trade union colleagues — who aren't here, although they were invited — to assist us by sending the right messages to their leaders."

Mr Boustred said Anglo strongly supported the investments in pulp and paper manufacture by Mondi in Britain and he regarded as ridiculous the view expressed by black leaders that this type of spending was "tantamount to economic treachery".

"These important links we have and are continuing to develop are very important for the future of Mondi and the rest of South Africa."

- Mondi executive chairman Tony Trahar told guests that the paper machine — developed in the early seventies at a cost of R17 million — had cost R220 million to rebuild.

"Our aim (with the rebuilding) was to make uncoated mechanical papers matching the standard of Scandinavian manufacturers," he said.

The increased production would meet domestic requirements and leave a surplus for export, he said.

Graham Boustred ... Critics of Anglo's size are dead wrong.

Boustred: SA needs big groups

BDay 4/9/91. 180

SHARON WOOD

SA needed more Anglo Americans if the wealth-creating ventures necessary for the country's economic future were to be developed, Anglo deputy chairman Graham Boustred said yesterday.

Speaking at the opening of the R220m improvements to Mondi's Merebank Mill paper machine in Durban, he said that unless more such development could be brought about to create jobs and generate exports and domestic growth, the economic future was bleak.

Criticism levelled at Anglo for being too big and too monopolistic was quite wrong, he said.

"Political leaders who have never been part of the wealth-creating process should realise that large projects... can only be created by powerful groups with the necessary management, technical skills and financial resources," Boustred said.

SA's people could work together to create wealth and build world-class industries.

"Provided we are not conned into believing there is a free ride if we spout the correct political slogans, or support now completely discredited ideologies, we can build the future together."

He said about R6bn was needed to bring a new deep-level gold mine into production, about R4bn for a stainless steel plant and the same for a new pulp mill.

Projects of this size were not going to be developed by "tin-pot" organisations or a "dismembered Anglo American".

Mondi Paper Company executive chairman Tony Trahar said the main objective of the R220m investment in rebuilding the Merebank machine was to improve the quality of supercalendered magazine papers.

JCI maintains profits but faces tougher year

Star 5/9/91 (180)

By Derek Tommey

Johannesburg Consolidated Investment's (JCI) earnings for 1990-1991 can be considered satisfactory when set against the difficult trading conditions the company experienced, says chairman PJ Retief.

Profits are only slightly lower and the dividends have been maintained.

However, he is uncertain about earnings in the current year.

He says it promises to be another difficult trading period, with metal prices currently under severe pressure.

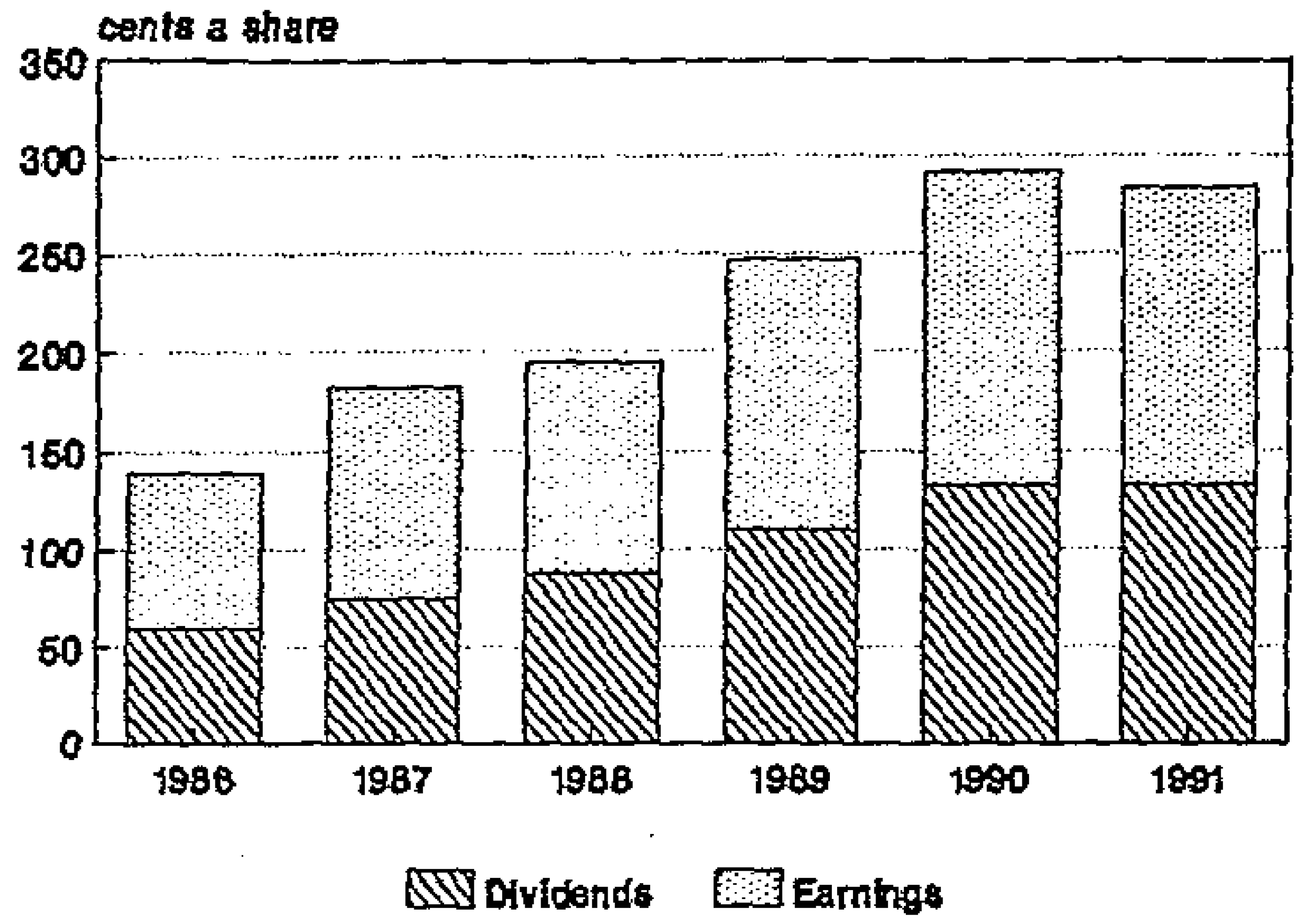
He is particularly worried about the low platinum price and the effect it could have on Rustenburg Platinum, one of JCI's major investments.

JCI is optimistic that with a turnaround in the world economy early next year, South Africa will come out of the current recession.

But this is unlikely to be in time to make a material difference to JCI's 1991-1992 earnings, which at this stage "are difficult to forecast with any confidence".

Attributable earnings in the year to June declined 2,7 percent from R430 million — equal to 291c a share — to R418 million, equal to 283c a share.

Equity-accounted earnings dropped 6,1 percent from R602 million — equal to 408c a share — to R565 million, equal to 383c a share.



JCI dividends and earnings (adjusted for 1989 share split).

These figures are before an extraordinary R42,1 million write-off arising from the sale of Lennings.

A final dividend of 90c has been declared, making an unchanged total of 132c.

Platinum, coal and industrial interests performed well, says Mr Retief.

A higher rhodium price helped increase earnings from platinum group metals by R16,1 million, or about nine percent. Earnings from coal rose 41,7 percent to R48,9 million.

Mr Retief believes coal is a good business to be in, and the group is looking about for further opportunities.

He says JCI has attractive mineral rights and could join forces with other companies unable to fill their Richards Bay coal quotas.

Income from industrial interests (mainly SA Breweries, Premier, Toyota and printing) rose R3,9 million, or about 2,6 percent, to R193,2 million.

Income from diamonds dropped R2,6 million to R78,8 million.

Income from gold declined R7,6 million to R11,3 million as a result of companies following a more cautious dividend policy to conserve cash.

JCI's biggest setback was the swing of ferrochrome interests from a contribution of R35,5 million last year to a deficit of R11,3 million this year — a net loss of earnings of almost R47 million.

Mr Retief is reasonably confident of a turnaround in the ferroalloy interests this year because of signs that there could be an improvement in the price of ferrochrome.

He feels JCI will have no problems financing any major investments it might embark upon in the next few years.

AVI set for return to the limelight

(180)

B Day 5/9/91.

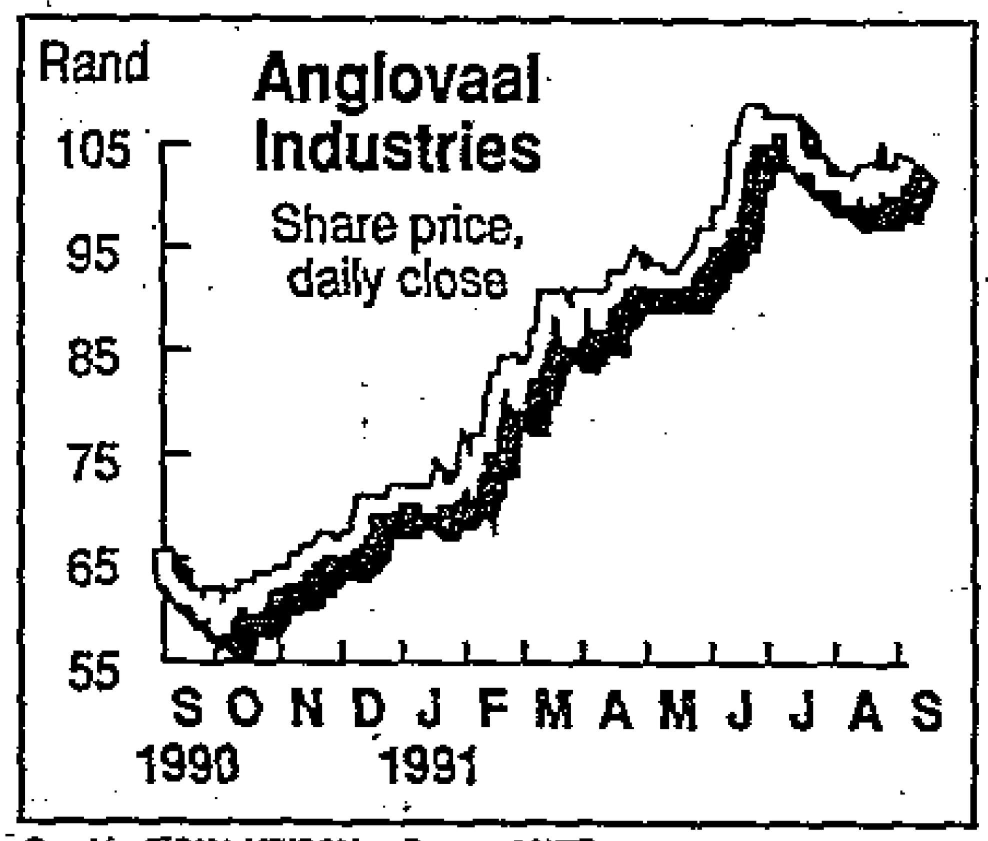
BRENT VON MELVILLE

ANGLOVAAL's fast track industrial nucleus, Anglovaal Industries (AVI), has slowed its growth pace during the past few years but the market is expecting the group to return to the limelight.

Analysts yesterday said they expected a 10% increase in earnings to about R230m (about 806c a share) for the year to end-June, but that the strength in the group's profit mix, its strong cash base and rationalisation benefits would allow higher gains in coming few years.

The comeback is likely to be led by the group's biggest provider to the bottom line, the packaging and rubber division headed by Consol, which this year bumped up operating profits an impressive 48%.

Consol has also alluded to a rights issue soon, the proceeds of which will be used to reduce its borrowings of about R200m. Consol financial director Keith Forgan said it would also be used to fund capex to keep up with volume growth in the buoyant beer and beverage markets.



Graphic: FIONA KRISCH Source: I-NET

Vigour

Forgan said the numbers still had to be worked out but a major consideration would obviously be the potential dilution of AVI's 56% holding.

Analysts have pegged the issue at between R300m and R500m. They said the current R2,5bn market capitalisation of the group made R500m a good level, although dilution worries might prompt a lower share issue to one in seven, translating to about R360m.

Analysts expect a strong showing from the consumer brands division, which incorporates National Brands, Bakers, Cadbury Schweppes and Pleasure Foods. The market rating of Pleasure Foods has shown vigour lately, rising 40% to 105c in a week.

The jump came largely on the back of very tasty results. The fast food group showed a tremendous turnaround for the year, with earnings more than quadrupling to R5,2m from R1,2m the previous year. But analysts also suggest there may be an impending deal involving a buy-out of minorities. It would cost AVI about R14m for the outstanding 28% of the company.

A buoyant international seafood market during the last year saw Irvin & Johnson prop up earnings 20%, and chairman Jan Robbertze believes the current year will show another improvement on the back of appropriate quotas in Namibian waters and healthy conditions in the frozen vegetables and prepared foods market.

Diversified holdings are likely to push up its contribution by about 22% this year, and AVI will benefit in coming years from rationalisations and mergers. During the course of the year the division sold its 89% holding in Universal Knitters, and negotiations are underway for the sale of the underperforming Claude Neon.

Corrective action has also been taken at Grinaker Construction, the main component of the construction and electronics division. For the year to end June Grinaker suffered a 24% earnings drop in electronics holding company Grintek.

Analysts said the action, which involved discontinuing certain unprofitable operations in electronics distribution and the housing division would likely help the division's bottom line next year.

Assuming AVI meets market expectations this year, the current share price of R103 would put it on a p:e of 12,8 times, which analysts believe is a fair rating considering the quality grouping of AVI's interests, and the steps it has taken to buck the dismal economic situation.

BUSINESS DAY, Thursday, September 5 1991 3

Business 'should buy from informal sector'

B Day 5/9/91

THEO RAWANA

BUSINESSES should complement schemes to develop entrepreneurs' skills by serving as a market for informal sector products and services, JCI gold and uranium division chairman Kennedy Maxwell said last night.

Addressing the opening of the Matchmaker Services trade fair at Nasrec Maxwell said the unemployed should be helped to help themselves. (180)

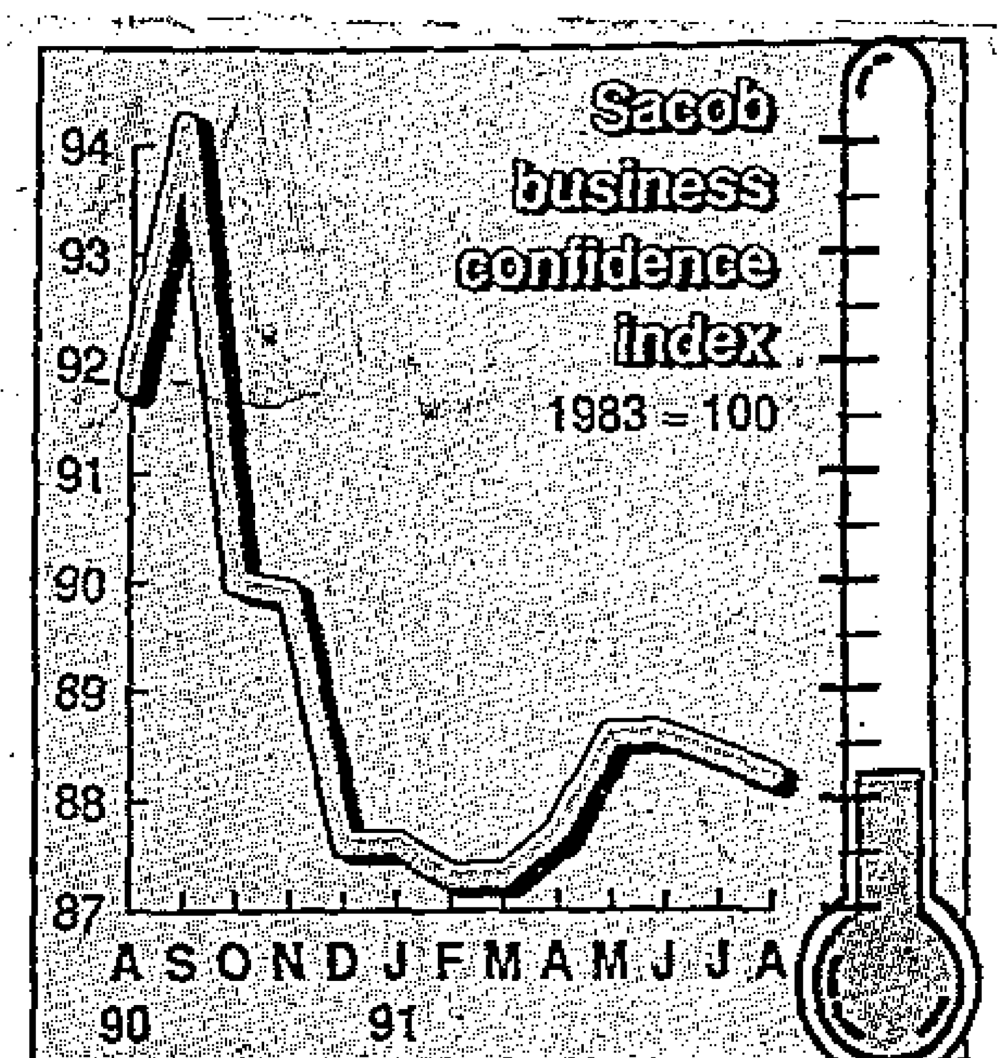
SA needed overseas investors, but these were concerned at the level of instability which reflected the level of unemployment and homelessness in SA, he said.

The annual Matchmaker fair, at which small entrepreneurs exhibit their products and services to big business, was a good example of linkages between the formal and informal sectors as they encouraged sub-contracting.

"The process demonstrates clearly that wealth creation through this 'flow-through' system is the best form of social welfare that can be achieved," Maxwell said.

Investment in education, training and the development of the poorer segment of the SA population was the answer to the question of wealth creation, he added.

The vast number of unemployed should be helped to help themselves. It was in the interests of the formal sector to provide basic skills training to the unemployed, procure goods and services from the informal sector and facilitate this by teaching this sector how to quote, produce and run a business efficiently, Maxwell said.



Graphic: FIONA KRISCH Source: SACOB

BDay 10/9/91

Confidence index still on the slide

(180)

SHARON WOOD

SACOB's business confidence index slipped again in August, dipping to 88,2% from 88,4% in July and 88,6% in June.

Sacob chief economist Ben van Rensburg, speaking in Johannesburg yesterday, said there was scepticism about government's tight monetary policy bringing down inflation — particularly when government spending remained high.

SA's unemployment situation was serious and becoming graver by the day.

He said the fall in real disposable income was hitting the retail sector, which had been comparatively buoyant for most of the downswing.

Van Rensburg said uncertainty was affecting the business mood, and this would be made worse if the introduction of VAT was postponed.

"Changes to the system at such a late stage, and the possibility of further changes prior to the introductory date, have served to increase the level of uncertainty still further and have made business decision-making still more difficult.

"It is now extremely important that VAT's introduction take place as scheduled, if further damage to the economy and a deepening of the recession is to be avoided," he said.

The situation was complicated by the fact that some sectors were starting to anticipate the upswing while others were experiencing recessionary conditions.

"This phenomenon is common around the turning points of the business cycle.

☐ To Page 2

Confidence

BDay 10/9/91 (180)

☐ From Page 1

But the disparities in sectoral performance are probably being exacerbated by other, non-cyclical influences such as the pending introduction of VAT, which has seen a large scale postponement of corporate purchases.

"There continues to be a great deal of uncertainty among both the consumer and business about the impact of VAT's introduction on prices in the short term."

In spite of negative factors such as continued high inflation and its implications for interest rates, he said there was still some basis for optimism that a new upswing was imminent.

There were clear indications that when the upswing did get under way its sustainability would have been improved by factors such as SA's relatively low gearing.

"The fact that the upswing seems to coincide more closely with an upswing in the international business cycle will also mean that this country's export performance will increase at the same time."

Mollycoddling will not breed entrepreneurs

B Day 12/9/91 (180)

ERIC LOUW

IT IS a truism that entrepreneurship is the backbone of a healthy economy, and that SA needs to encourage entrepreneurial activity. It is widely held that red tape and a lack of capital are the major barriers to entrepreneurship, with the corollary that subsidised loans and appropriate legislation will stimulate entrepreneurship and revive the economy.

Does this argument hold water? In other countries, there are noteworthy cases of entrepreneurially driven economic growth and, by examining them, we may gain some insight into this question.

Over the past three decades, the economic performance of a handful of provinces in northern Italy has far outpaced that of the rest of the country. They have played a central role in Italy's transformation from an economic straggler to one of Europe's leading economies. In the latter half of the 1980s, Italy's industrial output grew faster than that of Japan, the US, West Germany, France or Britain. By 1990, Italy had become the sixth largest exporter in the world.

The engines of export-led growth in these successful northern provinces are vibrant economic districts composed of clusters of small firms working in close co-operation with one another. It is particularly interesting that these small firms are invariably undercapitalised. They also have to deal with an often chaotic bureaucracy and fierce international competition. Although a lack of capital may have dampened the growth of individual firms, it has not prevented these regions from achieving remarkable economic success. What is their secret?

On a superficial level, it is because the industrial districts have chosen to engage in the sort of economic activity that is best at generating wealth — the production of manufactured goods with high added value, such as textiles, toys and jewellery. But the key to their success lies deeper than that — it has to do with the way in which these industrial districts are organised. In particular, it has to do with specialisation, co-operation and competition.

Each district focuses on a particular industry, and the individual firms within the district specialise in a single activity performed by the industry. Thus, there are firms specialising in research and development, manufacturing, marketing, distribution and every other activity along the value chain. This high degree of specialisation enables the firms to achieve economies of scale and learning normally associated with very large companies.

Enhancing the effects of specialisation is the practice of inter-firm co-operation to further collective interests. This produces benefits such as bulk purchasing facilities, pooled R & D funds, joint training programmes, professional import-export and legal services, access to high-tech machinery and the capacity to tender for large contracts.

Not only are the industrial districts exposed to powerful foreign competitors, but the firms themselves compete with one another. Importantly, they compete on factors such as design, innovation, productivity and quality — the true sources of long-term competitive advantage. This forces them to develop world-class products and devise cutting edge marketing strategies.

They reap the benefits of honest competition, rather than hiding behind tax concessions, resource stripping, the exploitation of cheap labour, tariff barriers, lax pollution and safety regulations or other artificial (and short-lived) sources of competitive advantage.

Naturally, there are many other factors which have contributed to the region's remarkable success, such as a good supply of skilled labour, an inherently entrepreneurial culture and co-operative relationships with trade unions and local authorities.

But there are similar examples elsewhere in the world, like the furniture manufacturing industry in Denmark and the information technology industry in Silicon Valley, California. The specific conditions differ, but they are all characterised by a high level of of specialisation, co-operation and competition. And all have managed to dominate sizeable global market niches.

The implications of these success stories are obvious, and perhaps it is time for policymakers and entrepreneurship promoters in SA to pause and consider whether what we are doing here makes sense.

Are subsidised loans for small businesses really what we need to stimulate wealth-creation? Is all the commotion about removing red tape and helping the informal sector merely a red herring? Has import substitution, protectionism and subsidisation hurt our economy more than it has helped it?

Whether we like it or not, it is a tough, competitive world out there. Firms in the more successful countries have spent the past few decades sharpening their claws with innovation, design and productivity. They have honed their fighting skills through intensive sparring in local markets and mortal combat in the global arena.

In the meantime, we in SA have spent a lot of money and energy trying to breed flocks of sheep, and protect them from the wolves. It has not helped and we should stop doing it. What SA really needs now is a few wolves.

☐ **Louw is senior consultant at the Wits Business School's Centre for Developing Business.**

LETTERS

Tembisa puts problems in focus

180 Sowetan 12/9/91

THE Tembisa Industrial Association has called for a meeting of industrialists, local political leaders, clerics and local principals to discuss problems facing the township.

An association spokesman said the meeting was due to take place at the Tembisa Industrial Park hall yesterday.

Representatives of the TPA, Eskom, the North-East Rand Chamber of Commerce and the East Rand Industrialists Network had agreed to attend, according to the association.

The association was also keen to involve others, with an interest in the Tembisa area, in the meeting.

Subjects for discussion include the power switchoff to some 50 businesses in the area - which the association believes affects both black and white businessmen - and boycotts and stay-away actions.

Those needing further details should contact Frank Tshetla on (011) 926-2802 or 926-2700.

- Sapa

AVI, subsidiaries seeking R786-m

(180)

Star 13/9/91.

By Jabulani Sikhakhane

Anglovaal Industries (AVI) and its subsidiaries, Consol and Irvin & Johnson, are to raise a total of R785,7 million through the issue of unsecured automatically convertible subordinated debentures.

Ultimate holding company Anglovaal will contribute R242 million, AVI R234 million. The minorities will fork out R309 million of the total funds to be raised.

The rights issue has sparked rumours that the AVI group may be on the acquisition or expansion trail.

But AVI said yesterday that the matching an acquisition or major expansion to raising funds to the best advantage was frequently not possible.

It said that current conditions in the capital markets were favourable.

AVI is issuing 4 001 839 5 percent debentures at R97 on a ratio of 14 debentures for every 100 ordinary shares held, which will raise R388,2 million.

Anglovaal has agreed to take up its rights (2,40 million debentures) and is underwriting the balance.

Proceeds

Of the total proceeds, R234 million will be used to follow rights in Consol and I&J, leaving AVI with cash resources of R154 million, which will be used to enhance the group's capital base and position it for future growth.

Group borrowings at end-June of about R480 million will be eliminated.

After the issue, group consolidated cash resources will rise by R551 million.

Of this, R242 million will be contributed by Anglovaal.

Consol is issuing 8 345 415 5 percent debentures at R36, making a discount of R4,50 to market price.

The ratio is 13 debentures for every 100 ordinary shares held.

About 78 percent of the debentures have already been taken by AVI, its subsidiaries and other institutions. Anglovaal is underwriting the balance.

Consol will use the proceeds to pay-off debt of R159,31 million at end-June and redeem R50 million of preference shares in August and December 1992.

Saving

Based on the 5 percent interest payment, or 180c a debenture, Consol's cost of servicing the debentures will be about R15,02 million a year, compared with the taxed interest payment of R18,53 million in the past financial year.

This translates into a saving of R2,51 million.

I&J is raising R97,1 million through the issue of 2,86 million 6 percent debentures at R34 (the share price closed at R37 yesterday).

For the year to June, AVI reported a 13 percent increase in earnings to 825c and dividend growth of 11 percent to 150c.

The calculation of earnings does not take into account extraordinary items of R24,9 million.

Consol, I&J and National Brands were the major contributors, accounting for 71 percent of AVI's attributable earnings.

Turnover rose 14 percent to R7,39 billion, but reduced profit margins in many of the group's markets cut this growth in pre-interest profit to 12 percent at R772,8 million.

BUSINESS AND THE CONSTITUTION

Lifelines to survival

180

FM 13/9/91

Business fears that certain constitutional safeguards have been ignored

The business community's view of a new constitution is unambiguous. In June, the SA Chamber of Business (Sacob) published detailed proposals compiled by a team of 15 lawyers and economists, including Unisa's Marinus Wiechers, as a contribution to the constitutional debate.

They centre on economic aspects that Sacob believes must be considered and, in some cases, entrenched in a new constitution. The chamber's director-general, Raymond Parsons, said at the time that if businessmen and investors were going to take a "vigorous interest" in the quality of the political system that will emerge from the negotiation process, they had to make their views known.

Since then three key political parties, the National Party, the Democratic Party and the ANC, have published or finalised (in the case of the ANC) their respective constitutional plans — and apparently given scant attention to Sacob's proposals.

None of the three documents contains a message of particular hope for businessmen. Those who were looking for a champion will have been disappointed.

It's not that the proposals exclude specific rights business believes should be entrenched in a new constitution to create a climate conducive to growth; but they don't include them either. At best, they're there by implication only, hardly an assurance on which to plan the future.

The fear, of course, is that pressures for such short-term goals as job-creation, transport subsidies and expanding welfare packages — even leaving aside the issue of nationalisation — will prove an unsustainable drain not only on the Treasury but will impede growth through confiscatory taxes. And the problem is that the NP hardly has a sound record when it comes to fostering free enterprise. The huge bureaucracies with which SA remains saddled were the product of just such social engineering.

However, there's little doubt that both the NP and the DP adhere — broadly speaking — to free-market principles and will negotiate a new constitution on that basis. The ANC on the other hand, wants a "mixed economy" with, it seems, considerable State intervention. In doubt are what the parties regard as the specific constitutional rights as they affect business on the basis of the Sacob document.

Some would argue that these are issues for negotiation — but are they? A clear and detailed statement of fundamental rights is surely the foundation on which to construct a broader constitutional plan. It leaves little doubt as to where a party is coming from or going to. Business would then know where it stood.

The ANC's Bill of Rights is of little comfort. If anything, because of its emphasis on so-called "third generation" rights, such as the right to a job, it could undermine what businessmen regard as some of the fundamental rights important to their own enterprises.

The DP has tried to meet the need. Its economic policy, published earlier this year, mentions a Bill of Rights to protect, inter alia, "the right to private or co-operative ownership of property and the right to embark on individual or collective enterprise." But there's no further reference in the party's constitutional proposals published last month.

The Nats — past-masters at ignoring business needs — included, somewhat ironically, as one of 10 "basic points of departure" for a new constitution the need to "promote a market-orientated economy, coupled with private initiative and social responsibility," but gave no further details. The plea for "social responsibility," coming from such a source, is particularly rich — but there must be the suspicion that when it comes to paying for the programmes which must arise out of such an ideal, the business community will be required to dig deeper into its pocket. Increase the tax burden, and you discourage investment — whether here or from abroad.

Sacob's Parsons ... *concern at what's been left out*

None of the plans refers specifically to the constitutional protection of business, property or contractual rights (key issues of principle according to Sacob). And while all three support a Bill of Rights, only the ANC's has been published in any detail — but comes nowhere near the sort of assurances Sacob sought in its June document.

Sacob neither wants nor expects a direct role in negotiations, but believes certain "broad constitutional questions" must be addressed by the business community. It wants a constitution that upholds "certain key values" important to business and society as a whole and inspires confidence in foreign investors and bankers.

It accepts that an economic system can't be constitutionally entrenched, but wants certain concepts fundamental to a market economy and business confidence safeguarded, including the law of persons, property and contract. To acquire direct constitutional meaning, Sacob believes these principles have to be taken up as specific articles of the constitution and should be entrenched in a Bill of Rights.

It also wants an independent Reserve Bank (a principle supported by both the NP and DP) and some form of entrenched constraint on taxation without which the benefits of ownership could be rendered meaningless.

Judged against the plans of the three parties, Sacob may well ask why it bothered publishing its proposals (copies of which were sent to all the main political groups). Alternatively (and its most likely course), it can knuckle down and try even harder to have its views heard and acted on.

Ken Warren, Sacob's legal manager and a member of the team that drew up the plan, agrees that against the background of the chamber's needs as set out in the document, the proposals of the three parties require "further refinement" to inspire business confidence in a new constitution.

He accepts that the issues of concern to Sacob are usually dealt with in a Bill of Rights, but would like to see more detail from the parties on what and who they plan to protect.

However, the fact that all three groups agree on the need for a constitutionally entrenched Bill of Rights is encouraging. "The crux is — will attention be given to the issues we have raised?" In any negotiations or consultations regarding a Bill of Rights, Sacob will insist on the inclusion of the principles in which it believes, he says.

Ken Andrew, head of the DP's national advisory policy committee, has a different approach: "In terms of constitutional proposals, business in the first instance needs to look at whether they are practical, workable, reasonably efficient and conducive to creating a climate for growth. To expect more than a Bill of Rights in relation to business needs is unreasonable."

He believes the negotiators will have to be careful not to tie the new constitution too tightly to current economic thinking because of the changes in policy that obviously occur depending on priorities. "What we should look at is protection of the basic rights needed to create the climate in which business can get on with its work."

He believes Sacob can and should ask political groups for details of their policies on specific issues and agrees that business, like all interest groups, should lobby for its views to be taken up at the negotiations.

James Selfe, a member of the committee that drafted the DP's constitutional proposals, believes they come closest to meeting the broad parameters of the Sacob document.

The ANC, he says, appears to favour excessive State interference in the economy and the NP, though advocating blocks on government manipulation, has a credibility problem, having itself manipulated the economy for so many years in favour of its own constituency.

The NP's Stoffel van der Merwe says the party has not ignored the concerns of the business community. Initially, the NP considered including economic guidelines in its constitutional proposals, but eventually realised they would either be so broad as to be meaningless or so narrow that they would hamper a future government, so ditched the idea.

The party is currently considering a set of specific economic principles which it hopes to publish soon. They will "firmly establish" the integrity of private ownership and free enterprise and, coupled to a Bill of Rights, should address business concerns.

Van der Merwe says the NP is waiting for the final report from the Law Commission on a Bill of Rights before finalising its own proposed Bill of Rights which will probably include specific economic rights to be read in conjunction with the party's constitutional proposals.

At this point, none of it is much comfort to businessmen. The lack of commitment by the political groups to the safeguarding of specific rights is worrying. Expediency could drive a coach and horses through vagueness.

The lesson for business is that it must keep pushing for the inclusion of those constitutional guarantees it believes are essential to the maintenance of free enterprise and the promotion of economic growth.

It must also be aware that it could be alone. The fickle nature of politicians, particularly in times of transition, means that allies taken for granted in the past may find new friends. ■

Anglovaal lifts earnings 13%

(180) CT 13/9/91

JOHANNESBURG. — Anglovaal Industries lifted earnings by 13% to R234,1m for the year ending June 30 and turnover exceeded R7bn for the first time.

Dividend increased by 11% or 150c a share on earnings of 825c a share compared to last year's 733c a share.

AVI and subsidiaries I & J and Consol are to raise R785,7m by way of a rights issue.

The company has now attained a five-year compounded earnings per share growth of 28% annually, and the board forecasts a further rise in earnings during the current year.

Strong profit gains, particularly by Consol, Irvin & Johnson and National Brands, were offset to by reduced contributions from Grinaker Holdings and the Avtex textile businesses.

Turnover rose 14% to R7 386,4m (R6 485,9m), but reduced profit margins attainable in many of the group's served markets limited the rise in profit before interest paid to 12% at R772,8m (R687,4m).

Lower borrowings and stringent working capital management reduced the interest charge to R88,8m (R100,2m), but the tax bill rose to R299,8m (R248,5m).

Capital expenditure during the year was reduced to R206,4m (R232,2m).

However, a total of R1 100m is planned over the next three years for expansion and replacement.

The debt/equity ratio declined to 25% (31%) at the year-end and the company anticpates a further reduction over the next three years.

The board says the government's attitude to protection of chosen industries needs to be clarified urgently to help with timeous and appropriate business decision-making.

AVI to raise R785m in rights offer

● Meanwhile AVI, Consol and I & J intend to proceed with rights offers of unsecured automatically convertible subordinated debentures to raise R785,7m — R388,2m for AVI, R300,4m for Consol and R97,1m for I & J.

According to an AVI announcement here yesterday, the rights issues will have a positive effect on respective share earnings.

The net effect of the rights offers will be that the AVI company will have about R154m in cash resources, while the consolidated cash resources will increase by about R551m. Of this, R242m will be contributed by holding company Anglovaal Limited.

I & J, which intends to issue 6% debentures, and Consol, which will issue 5% debentures, state their offers will ensure that adequate funds will be available for future business opportunities, as well as strengthening capital bases.

AVI has a 55,7% shareholding in Consol and a 68,6% investment in I & J. To maintain these interests, it has to undertake its own rights offer — with a 5% coupon — to raise sufficient funds to follow its rights which will absorb about R234m. The balance of the proceeds (about R154m) will be used to stregthen capital base. AVI group borrowings at the end of June totalling about R480m — equivalent to 25% of shareholders' funds — will be eliminated, making available cash resources for expansion.

AVI plans to issue 4 001 839 convertible debentures at R97 each (par) in a ratio of 14 debentures for every 100 ordinaries held. This will raise R388,2m before expenses.

Consol will issue 8 345 415 debentures at R36 each (par) in a ratio of 13 for every 100 ordinaries held, which will raise R300,4m before expenses, while I & J will issue 2 855 700 debentures at R34 each in the ratio of 10 for every 100 ordinaries to raise R97,1m before expenses.

All offers will be made to shareholders registered at the close of business on September 27, the lead underwriter being Anglovaal. — Sapa

'Encouraging' rise in AVI's income

180

B Day 13/9/91

BRENT VON MELVILLE

DIVERSIFIED industrial conglomerate Anglovaal Industries (AVI) turned in a fair set of results for the year to end June, bettering market expectations with a 13% rise in earnings to 825c (733c).

The performance of the Anglovaal-controlled group came on the back of bolstered sales for the packaging, rubber and consumer products divisions, which contributed to a 14% rise in group operating profit to R722m (R631m) off a rise in turnover to R7,4bn (R6,5bn).

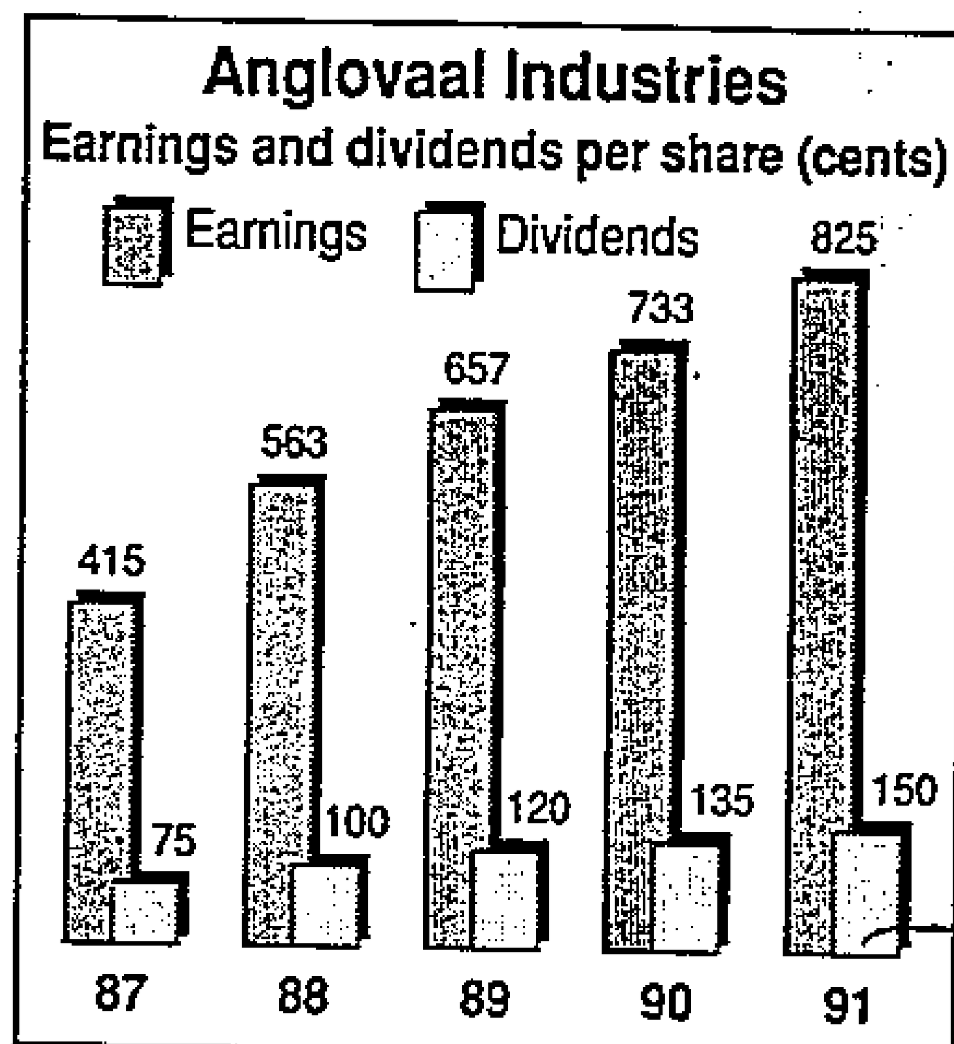
MD Jan Robbertze said yesterday the results had been encouraging in light of the prevailing economic conditions and that AVI would now be looking to real earnings growth with significant expansions and attention to operating efficiencies in the group's divisions.

The dividend was up 11% to 150c (135c) a share, covered 5,5 (5,4) times by earnings, which have grown by an average annual growth rate of 28% over the past five years. This year's performance also pushes up AVI's contribution to parent Anglovaal to well over 60% from last year's 56%.

Robbertze said the major rubber diversification at Consol last year had paid handsome dividends, as Consol came in with a 107% increase in operating profit. Profits for national brands moved up on the strength of biscuit manufacturer Bakers and tea and coffee business Becketts while Pleasure Foods also pushed up results significantly.

I & J benefitted from good vegetable crops and has entered into a joint venture with a Russian fishing organisation to catch the horse mackerel quota awarded to I & J by Namibia. He added negotiations on establishing a joint fishing venture in Mozambique were under way.

Diversified holdings were hampered by the textile division under Avtex, which suffered from lower demand, reduced margins and competition from inexpensive imports. Earnings from Grinaker Holdings were down as both the construction and electronics sectors were hard-hit by the current downtrend.



Graphic: FIONA KRISCH Source: ANGLOVAAL INDUSTRIES

Divisionally packaging and rubber, under Consol, turned in the best performance, pushing up its contribution to the bottom line up to 29% from 22%, while National Brands contributed 20%, up slightly from 19% last year. Fishing and frozen foods group I & J also showed a stronger performance, adding 22% (19%) to attributable profits.

Capex during the year was reduced to R206,4m (R232m) although Robbertze said spending over the next three years would amount to about R1,1bn, primarily for expansion and replacement and to be funded exclusively from cash-flow.

Gearing fell to 25% from 31% the previous year and Robbertze said that a further reduction would take place over the next three years.

No concrete plans for extra cash

AVI sell-off and issues to realise R1bn

B/Day 13/9/91

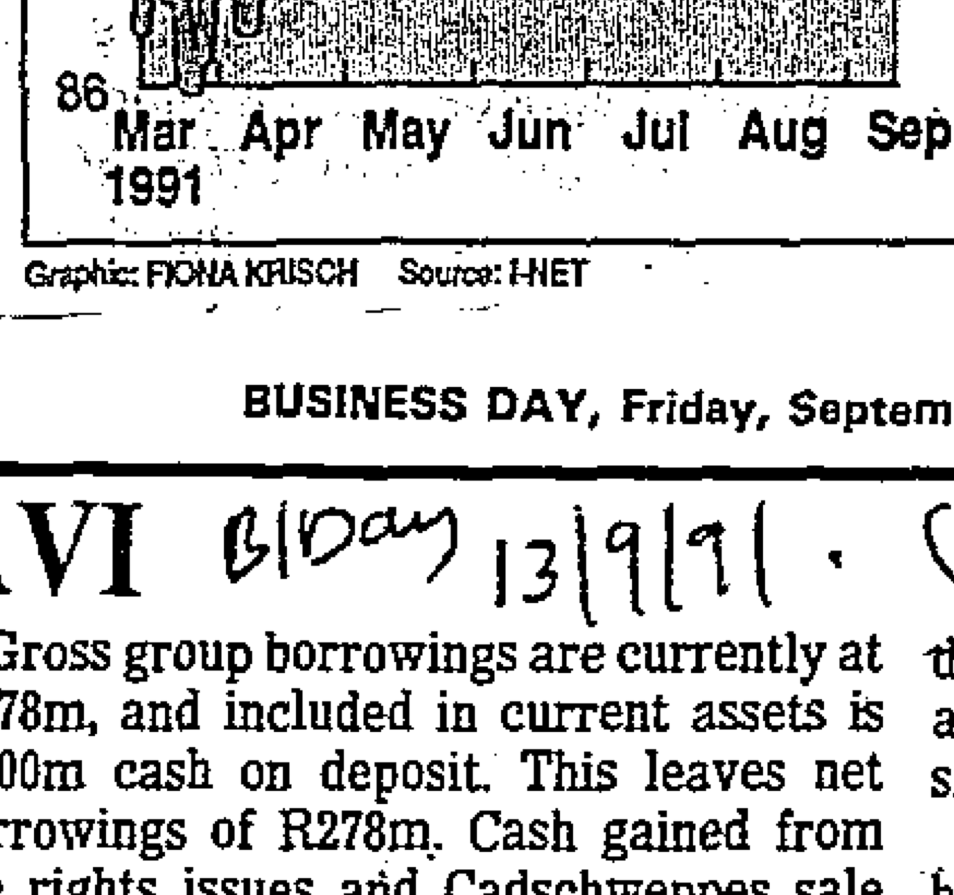
(180)

ANGLOVAAL Industries (AVI) and two of its subsidiaries will bank almost R1bn in three separate rights issues and the sale of AVI's holding in Cadbury Schweppes SA.

AVI, as well as subsidiaries Consol and I & J, are to proceed with rights offers of convertible debentures to raise a total of R785,7m, while AVI's sale of the 16,2% interest in Cadschweppes to Suncrush's Tempora Investments for R31,50 a share will net the group an additional R177,1m.

Announcing the offers yesterday, AVI MD Jan Robbertze said the group had no specific plans for the proceeds other than to eliminate debt and expand the group's capital base for possible future growth opportunities.

In terms of the deals, underwritten by Anglovaal, AVI will issue 4-million 5% debentures at R97 each in a ratio of 14 per 100 ordinaries to raise R388,2m. Consol will issue 8,3-million 5% debentures at R36



Graphic: FIONA KRISCH Source: I-NET

BRENT VON MELVILLE

each in a ratio of 13 per 100 ordinaries to raise R300,4m, and I & J will issue 2,9-million 6% debentures at R34 each in a ratio of 10 per 100 ordinaries to raise R97m.

The cost to AVI of maintaining its 55,7% stake in Consol and 68,6% holding in I & J will be about R234m; the balance, about R154m, will be used to expand the operational base of AVI.

The three offers will increase group cash resources by about R551m, of which R242m will be contributed by Anglovaal in order to follow its rights. Anglovaal will source its contribution from the proceeds of its R830m rights issue last year, which, analysts said, was originally destined for the Free State Sun gold mine project.

Robbertze said the group felt it was an opportune time to come to the market as the market ratings of Consol, I & J and AVI had moved ahead significantly in the past few months. Consol and I & J are currently on highs of R40,50 and R37 respectively while AVI is at a near-high of R107.

The R177m sale of Cadschweppes will net AVI a book profit of R154m. The holding in the beverage and confectionary group was acquired in 1986 for R23,3m. Robbertze said the stake was bought on the understanding that it could be increased.

As this was no longer possible, it had been decided to dispose of the shareholding. Proceeds from the sale will go towards the National Brands division, leaving about R60m cash after paying off debt.

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AVI

B/Day 13/9/91 · (180)

☐ From Page 1

Gross group borrowings are currently at R478m, and included in current assets is R200m cash on deposit. This leaves net borrowings of R278m. Cash gained from the rights issues and Cadschweppes sale will amount to R728m, leaving about R450m cash, with no borrowings.

Executive director Richard Savage said once the transactions were completed the group would be left with a total shareholders' interest approaching R2bn and R450m cash on deposit.

He said if the rights offer had been in ordinary shares, because of the high price-to-earnings ratio there would have been no dilution of earnings. "But because it was a debenture offer earnings would have actually increased by more than 10% per share."

In terms of the offer the debentures will be converted into ordinaries when the dividend yield equates to an interest rate of 5%. That equates to 485c in the case of AVI, 180c for Consol and 204c for I & J.

Savage said that effectively the cost of the money to AVI after tax would be 2,5% and the group should enjoy this benefit for more than five years.

He said the shares would probably not convert until 1998, based on a compound dividend growth rate of 15-20%.

● See Page 9

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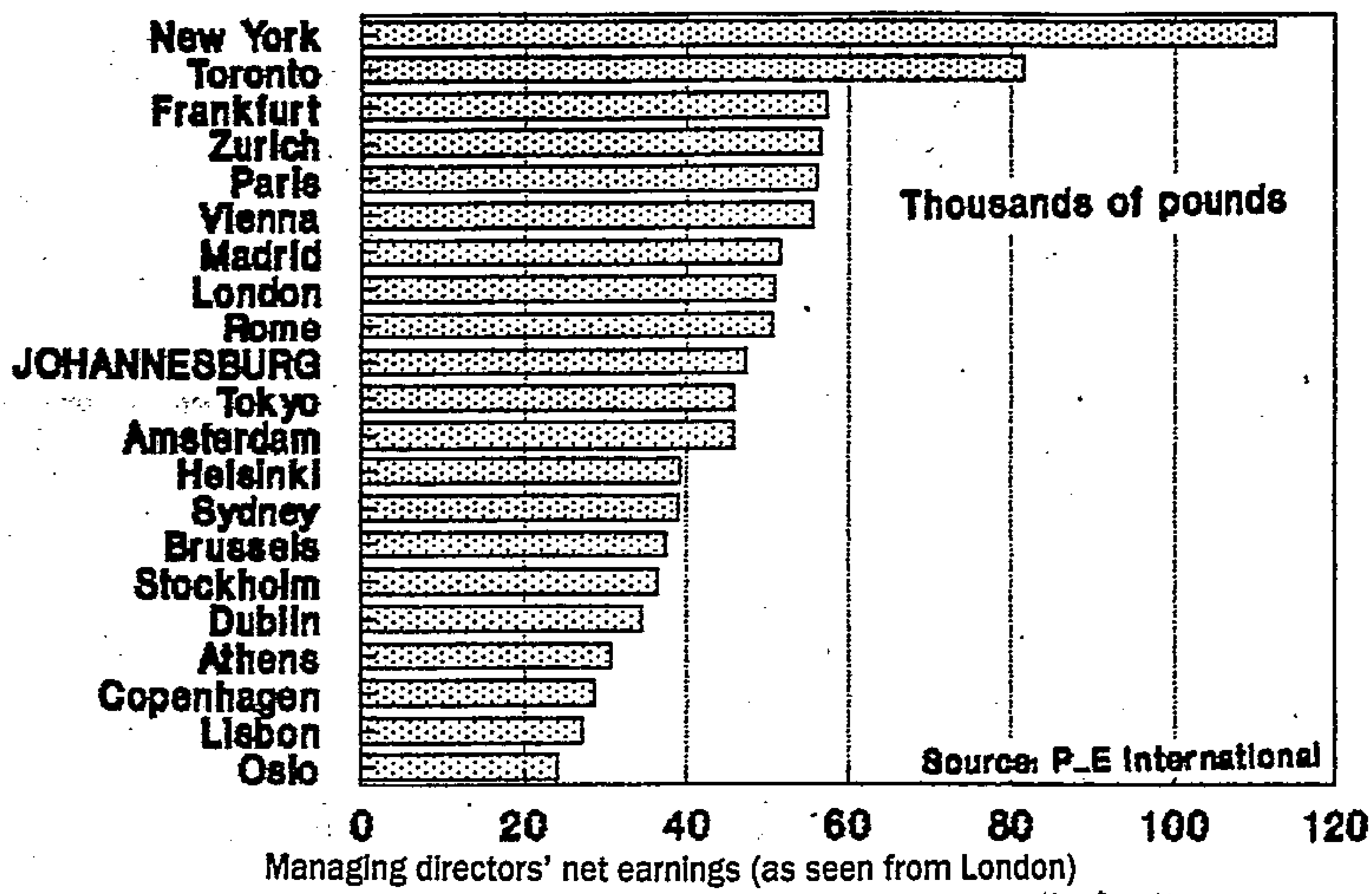
Money market

South African MDs riding the gravy train

180

Star 16/9/91

By Derek Tommey



When it comes to reading the figures on the salary cheque, managing directors in South Africa are among the worst paid in the Western world, according to a survey by the London-based management consultants P-E International.

But do not shed too many tears for South Africa's business high-flyers.

After taking into account the tax they pay and more importantly, the differences in living costs (excluding housing) in South Africa and other countries, the survey found that our chief executives were not doing too badly after all.

In fact, it found that their living standards were higher than those in similar jobs in 11 major Western countries and were not too far below those of their counterparts in a another seven.

Only chief executives in New York and Toronto are substantially better off than those in Johannesburg when tax and living costs are considered.

The survey was of managing directors of manufacturing companies with an annual turnover equivalent in British pounds to R250 million a year and employing about 500 workers.

New Yorkers had the biggest pay cheque. They received on average about R808 000 a year, or about three times what a Johannesburg MD received.

Toronto MDs ranked next with the equivalent of R607 000 a year.

Average gross earnings slowly dwindle as one works through executive pay in Europe, Australia and Tokyo, until fourth from the bottom of the list of the 21 major cities surveyed you find Johannesburg.

Here the average earnings of MDs is estimated at R268 800 a year.

Smaller annual emoluments are received only by executives in Oslo (R268 000), Athens (R204 000) and Lisbon R128 000).

But after adjusting these figures for tax and differences in living costs a very different picture emerges.

Chief executives in New York are still the best off, but now receive just over twice the sterling equivalent of a Johannesburg MD.

The net earnings of a New York MD are estimated at £112 400 a year, while the Johannesburg MD receives the equivalent of £47 300 a year.

This compares with the £50 600 earned by a Rome MD, the £50 700 by a London MD and the £51 100 by a Madrid MD.

MDs in Vienna, Paris, Zurich and Frankfurt have a slightly higher level of earnings, receiving on average just over £56 000 a year.

On the other hand, Tokyo MDs, despite Japan's reputed wealth, earn only £47 300 a year.

Worst off of the lot is the Oslo MD; his earnings work out at about half those of a Johannesburg MD.

The fact that the net earnings of a Johannesburg MD compare fairly favourably with those of counterparts elsewhere might come as a surprise to some people, particularly as the economy has been suffering the depressing effects of sanctions for some years and has recently been restrained by the Reserve Bank's tight money policy.

But management consultants point out that as the world increasingly becomes a global village, and people find it easier to move from one country to another, a "rate for the job" tends to be established.

This is especially so for those people with high-level skills and specialist experience because there is a significant shortage of people in these categories.

Such knowledge is spread by surveys of the kind prepared by P-E International.

These surveys ensure that local executives know what their counterparts are receiving.

The existence of international head-hunters such as P-E International also makes it fairly easy for local chief executives who believe they are not getting a fair deal at their present companies to move elsewhere or to another country.

The result is that boards of directors who want to retain their skilled and experienced people have to offer them a living standard reasonably commensurate with what they could get overseas.

This is something that should also be borne in mind by those politicians who are critical of what they consider the excessively high salaries paid to top executives and who are calling for a redistribution of wealth in the "New South Africa".

They must be aware that any move to reduce the living standards of top earners — who are also its most highly skilled and experienced people — could see many of them quickly moving overseas to countries where they believe their abilities will be more fairly rewarded.

That development would have serious repercussions on the South African economy.

Appeal for lower corporate tax rates

B/Day 10/9/91. (180)

SHARON WOOD

INVESTORS in new projects are significantly disadvantaged by SA's high inflation and corporate tax rates, says a recent report by stockbroking firm Davis Borkum Hare. The broking firm drew heavily on research by AECI, although the chemicals group did not authorise its publication.

The broking firm's report says that SA inflation and tax rates lead to cash margins on goods made in SA having to be significantly greater here than abroad if returns on new investments are to equal those in countries with less punitive tax regimes and lower inflation. The dilemma is that higher cash margins — defined as residual revenue left after all the cash costs of manufacturing have been met and which is used to increase working capital, pay tax and appropriate returns on capital — affect the price competitiveness of SA goods in export markets.

The study, which is being examined by government, says total tax burdens on new projects here are about two-and-a-half times those on comparable ventures in the UK or the Netherlands and as much as six times those in Taiwan. It suggests the corporate tax rate be cut to 35% if foreign investors are to be persuaded to invest here in job-creating projects.

One example cited in the report indicates that an SA venture whose selling prices are competitive with others worldwide, and whose input costs are the same as those of foreign competitors, can generate an internal rate of return on investment of 4,5% against 10,2% in Taiwan, 8,0% in the UK and 7,4% in the US. Conversely, the cash margin on SA-made goods needs to be 60% higher than on comparable Taiwanese products if comparable investment returns are to be generated. In contrast, the report says, Swedish investors invested in other countries because punitive taxes rendered domestic investment unattractive.

The report stresses the need for certainty and credibility in corporate taxation. It adds that if foreign investors are to be attracted to SA, certainty and credibility need to be endorsed by the present government and other parties investors believe may be in power in the future.

It suggests that the corporate tax rate be reduced to between 35% and 40% to facili-

☐ To Page 2

Tax

B/Day 10/9/91. (180)

☐ From Page 1

tate international competitiveness of new manufacturing ventures here, though it points out that reductions have to take into account the needs of government faced with heavy social spending commitments.

The study found that SA companies were more competitive in 1980 than they were at present because in 1980 SA had better investment incentives than in other countries, that SA's inflation rate was in line with those of its competitors and that SA's corporate tax rates were lower. In the intervening decade, foreign countries have switched the advantage and attracted new international investment by cutting corporate tax rates and by curbing inflation. They also gained by the fact that SA reduced its investment incentives.

The study says the solution lies in reducing tax because inflation is being addressed and will be controlled over time.

☐ In his 1990 Budget, Finance Minister Barend du Plessis announced plans to cut the corporate tax rate to 40% over the next five years. Recently he said that reaching that target might be delayed because VAT's initial rate had been cut to 10%.

Incestuous corporate boards need more outside directors

BD 16/9/91. TREVOR WOODBURN (180)

THE impact of prolonged recession on company profits and growing shareholder militancy abroad are just two of the factors that could bring the role of independent non-executive directors increasingly to the fore in SA boardrooms.

Contrary to trends in the UK and the US, outside non-executive directors in SA are still found mainly on holding company boards rather than on the subsidiary company boards. This is particularly the case with large conglomerates like Anglo American Corporation, Barlow Rand, Gencor and Anglovaal.

By drawing directors from too small a pool in SA we put people on too many boards, and make it difficult for them to deliver solid value or be much more than figureheads. This situation creates the impression that SA boards tend to be incestuous.

All too often the non-executive directors come from head office or the holding company board and are too steeped in the group's culture to be independent. Obviously, those voted in by major shareholder groups to look after their interests must do so, but balance requires a sufficient number of directors who have no allegiance to any particular shareholder group.

Militant shareholders in the UK and the US are demanding better corporate governance with greater accountability to shareholders. Many want to separate the roles of chairman and CE and others want a balance of non-executives and executives on boards. They are increasingly challenging professional managers of poorly performing companies on high pay packages and the way they run companies.

Major shareholders such as institutions and pension funds have made it increasingly clear they are not necessarily willing to wait for merger or takeover situations to arise before they exert their influence for management change.

There are many reasons why independent counsel is needed at board level. Boards dominated by strong executives can be dismissive of new ideas and resist the need to review strategies and structures to meet changing market trends. Companies with successful track records often raise their traditional formula for success to the level of unchallengeable dogma. Big and small companies can become inflexible, introverted and insulated against reality.

The recent case of UK supermarket chain Asda is a case in point. Its chairman and CE were sent packing by restive investors because the board was perceived to have become so wedded to its success formula that it could not change strategy to adapt to changing industry trends and fell behind rivals in developing the next generation of superstores.

Boards composed entirely or largely of cronies of the chairman and superannuated and current executives risk becoming hidebound. A very general rule of thumb suggests terms of about seven years for CEs and three for non-executive directors to ensure optimum performance.

Shareholders need a champion at board level who can question a company's tenets and values and exert influence, sometimes contrary to the views of powerful executives.

Ideally, non-executive directors are recruited from the ranks of the professionals, academics and successful executives from other companies or groups. Because they are not absorbed in the company's culture and day to day activities, they can play an invaluable role. Their relative detachment can give them a broader overview and receptiveness to new ideas as well as enhance executive awareness of realities outside the company — such as how they are perceived and what their competitors are doing.

It is not a question of foisting know-it-all outsiders on a company to tell management how to run the business. But there are areas where, because of strong vested interests, a special effort must be made to achieve impartiality. The growing awareness of the value of disinterested audit and remuneration committees is an acknowledgment of this.

Clearly, being beholden to those who put them on the board must at times make it hard for outside directors to take an independent view. Recent UK research showed 70% of non-executive directors were known to their chairmen before their appointments. There is now a growing school of thought in favour of composing boards of three sorts of directors — executives, independent non-executives and professional non-executive directors.

The third category is mooted because not all non-executive directors have the necessary independence, motivation, time or skill for monitoring of management performance, especially when they were selected by management on whom they rely for tenure. Directors drawn from the ranks of professional advisers such as company lawyers may have the experience and insight to play useful roles, but their reliance on fees could temper their willingness to offer unpopular advice.

The professional non-executive director is also needed to bring total impartiality to issues like top management succession, remuneration of the top team and conflict of interests arising from restructures, mergers and management buyouts.

A Stanford Law School paper titled Reinventing the outside director: an agenda for institutional investors suggests how to design a position to attract professional non-executives with the time, skill and independence to help and monitor performances of managements.

A potential professional non-executive could, for instance, be a partner at a big auditing firm, or a business school professor. He would devote fulltime attention to five or six directorships in order to derive sufficient income so as not to need additional compensation.

"Any issue that divided management and the professional directors would leave the balance of power with the traditional outside directors," say the authors. "In effect, the traditional outsiders would assume a quasi-adjudicative function — a role that, unlike the monitoring function, they might be expected to perform capably."

In considering the need to reconstitute SA boards, we have these and other factors peculiar to our situation to consider — such as the high incidence of interlocking directorships, the concentration of institutional ownership and the disparity between the racial composition of boards and society at large.

In a new, possibly socialist-leaning SA, it would be up to companies to demonstrate they have balanced boards representative of the people they serve. Companies should be proactive in this regard and make sure they have directors who empathise with workers and society at large — rather than wait for political pressure to force them to capitulate. Merit must, however, continue to be the overriding consideration.

SA chairmen and CEOs should take the initiative in ensuring they have the right combinations of directors at holding and subsidiary company levels. Each board should be tailored to the specific needs of the company. The composition of boards should be approached systematically by auditing the suitability of board members and identifying strategic skills gaps. The same care needs to be taken in appointing replacement or additional directors as is the case when seeking senior executives.

In the UK and the US, it is increasingly being ensured that shareholders get boards that best serve their interests. It is just a matter of time before pressures for reform begin to build up in SA.

☐ **Woodburn is a search and management consultant and MD of Woodburn Mann.**

AVI rights issue greeted with a positive response

B 10 ~~~ 16/9/91

MERVYN HARRIS 180

THE investment community has given the thumbs up to the proposed rights issue by Anglovaal Industries (AVI) and two of its subsidiaries to raise about R786m.

The positive response was reflected in AVI shares being bid at a new high of R110 on the JSE on Friday, R3 up on the last traded price of R107.

Subsidiary Consol traded at a fresh peak of R40,50 and Irvin & Johnson was bid at its current high of R37. Normally, shares tend to ease on news of rights issues.

In terms of the proposals, underwritten by Anglovaal, AVI will issue 4-million 5% debentures at R97 each in a ratio of 14 for every 100 ordinary shares held. Consol will issue 8,3-million 5% debentures at R36 each in a ratio of 13 for every 100 ordinaries, and I & J will issue 2,9-million 6% at R34 each in a ratio of 10 for every 100 ordinaries held.

Analysts said the investment community was content with the 5% coupon rate on the instruments.

However, another leg of the deal, involving AVI's sale of its 16,2% holding in Cadbury Schweppes (Cadswep) to investment trust Tempora, was received with less enthusiasm. The deal valued Tempora at R17,50 for purposes of financing the acquisition of the Cadswep stake. Tempora shares subsequently fell from the last traded price of R24 to R19,75 on Friday.

Tempora is a subsidiary of soft-drink bottler Suncrush, controlled by Dalys, in which Tempora holds a stake of almost 21%. Suncrush and Dalys shares have been among the top performers on the market over the past year. Suncrush and Dalys, up more than 100% to R410 and R45 respectively, look set to move to even higher ground.

LETTERS

Case for appropriate rules

B/Day 17/9/91.

(180)

KEITH FOSTER
and GWYNNE MAIN

IT WAS gratifying to see Eric Louw take a shotgun to the enemies of entrepreneurship ("Mollycoddling will not breed entrepreneurs", Business Day, September 12), but he hit one of his own men in the process.

Louw implies that the drive for appropriate regulation goes hand in hand with subsidised loans; he also links it to negative economic policies like import substitution, protection and subsidisation.

The fact is that appropriate regulation has nothing in common with these discredited policies, and rather promotes all the desirable factors he discusses. Most of the parties who have been arguing in favour of appropriate regulation in SA have also argued against such false "incentives".

To evaluate SA entrepreneurs' performance, Louw draws comparisons with successful provinces in northern Italy. It may be true that Italy has a "chaotic bureaucracy" and is fairly heavily regulated. But a closer examination would reveal that Italians have effectively deregulated themselves by ignoring the rules. For example, Milan, which is the fashion world's leading producer of leather goods, especially shoes, has only one officially registered shoe factory.

The complete absence of regulation is as undesirable as excessive regulation. The goal is appropriate regulation — a level of regulation which maintains standards where necessary, provides protection against sharp practice, and lubricates the relationships in business.

But the Italian example does illustrate the need to re-examine obsolete regulatory frameworks. When legitimate businessmen in great numbers resort to civil disobedience (and we have plenty of this in SA) they are showing us that the regulations are inappropriate.

Italy is a sophisticated, educated, relatively wealthy country with a developed commercial infrastructure more or less equally accessible to all in a homogenous population. Black SA entrepreneurs, by contrast, are emerging from three centuries of deliberate undereducation, artificially imposed poverty and unfair obstacles in business.

Yet, in asking for appropriate regulation, they are not asking for privileges or compensation; they only want equality of opportunity and the removal of bureaucratic obstacles which mostly have their origin in an ideology which no longer applies.

This will have positive effects for the economy as a whole. Appropriate regulation means that an inefficiency in the economic system is eliminated; state expenses are reduced and resources previously tied up in non-productive and counterproductive policing become available to be employed usefully.

Louw says "it is a tough, competitive world out there. Firms in the more successful countries have spent the past few decades sharpening their claws. . . ." Once again, he is unwittingly making a strong case in favour of appropriate regulation, because this stimulates the competition he recommends for SA.

Much of the existing regulation inhibits the establishment of a new small enterprise, and in so doing, protects established businesses from competition.

If our small enterprises were relieved of all the inappropriate regulation that strangles them, the very wolves Louw calls upon to shake up the sheep of the existing business community would emerge from their ranks.

Finally let us address the successful specialisation and global marketing he refers to. We are a little vague on the Danish furniture industry, but certainly the example of Silicon Valley supports our case. The personal computer boom began with one person, Stephen Jobs, who dropped out of college when his garage business, Apple Computers, started to succeed. Apple, as well as the rapidly emerging software companies, had the advantage that their industry was developing faster than anyone could hope to regulate. It is the classic example of the potential of individual entrepreneurship and small enterprise.

In Hernando de Soto's book The Other Path, which has become a widely used "bible" on Third World development, there is a photograph which perfectly captures the essence of what the drive for appropriate regulation is all about. It shows a group of research students holding up a printout of the procedures to set up a small industry in Peru. The printout is 30m long.

We have plenty of local examples: before deregulation started in SA, Nafcoc showed that a black businessman had to go through more than 40 processes before he could start a retail business. Bureaucratic absurdities like this have no useful purpose. They are the product of regimes which generated regulation in huge volume to give themselves a purpose, to defend ideological principles, or to create advantages for those in or allied with power.

The removal of these costly, unproductive restrictions is not "mollycoddling", it is simply bulldozing the rubble of previous structures before starting afresh.

☐ **The authors are chairman and co-ordinator of the Sunnyside Group, a coalition of 50 agencies actively lobbying for the introduction of appropriate regulation for small enterprise.**

Big and small are now looking for business links

Star 19/9/91 180

The Star

The closeness of links between corporate giants and budding mini-business ventures has played a major role in the economic miracles of countries in the Far East. South Africa is being urged to follow the pattern reports MICHAEL CHESTER.

ONE phenomenon that has always struck South African researchers as common to the economic miracles of several Far East nations in recent years has been the close interdependence between the giant corporations and the thousands of mini-business operations that have been spawned.

Dr Ben Vosloo, managing director of the Small Business Development Corporation (SBDC), found one of the most spectacular examples inside the Sony electronics empire in Japan.

He discovered that the Sony production lines relied on the supply of no less than 70 to 75 percent of all components from scores of outside mini-factories handed orders on a sub-contract basis.

Rather than engage in competitive combat, the Davids and Goliaths were pooling their particular roles and talents to develop new products that regularly take world markets by storm.

"They have discovered that brain-power and the best production methods are not the exclusive preserve of industrial giants," says Dr Vosloo. "Small informal and semi-formal businesses have a lot to contribute as well."

The joint approach to production exercises was similar at most, if not all, of the big corporations in Japan. The pattern has now been copied with success by neighbours, who form a growing list of economic tigers emerging around the Pacific rim — from Singapore and Taiwan to Hong Kong and South Korea.

"Every time one delves into the secrets of success," says Dr Vosloo, "the identical pattern is found — a central business core, packed with research and marketing know-how, surrounded by scores of small companies that act as supplier satellites.

"It's significant that virtually all the Western industrial nations, from the United States and Canada across to Britain and Germany, are now following the pattern.

"The formula, of course, is ideally suited to South Africa now that bureaucratic red-tape is being removed to release the full potential of the latent talents of a new generation of small entrepreneurs."

The first impetus has been provided by the SBDC with the creation of a special unit at its Pennyville industrial hive, between Johannesburg and Soweto, to concentrate on the single assignment of developing closer links between big and small business and more sub-contract work.

The order books are already fattening as the corporate giants learn the value of the budding entrepreneur, especially an increasing number of black small businessmen struggling to find a toehold in the economic mainstream.

SBDC central region chief Jo Schwenke can immediately name such business titans as the Anglo American Corporation, Barlow Rand, Anglovaal, Iscor, Eskom, Gencor, JCI and Anglovaal among the new customers coming to small business operators with sub-contract orders.

"The concept is spreading with enormous speed," he says.

"On recent counts, the value of sub-contract orders has already climbed as high as R36 million — and it seems the sky is the limit.

"Our projections show the total could soar into hundreds of millions of rands inside the next few years. There is even talk of hitting a R1 billion jackpot by the mid-1990s."

Mr Schwenke says the list of sub-contracts already stretches from overalls and maintenance services, to engineering components and transport networks.

Exchanges are so brisk that the SBDC now produces special publications such as its own "Contact-maker" and "Business Link-up Directory" to encourage more contact between big and small business.

The potential of sub-contract work has been selected as one of the main themes of the Small Business Week that starts on September 30 with a nationwide programme of events to highlight the role of the informal and semi-formal sector.

Experts from both the Anglo American and De Beers conglomerates, who have formed their own small business initiative unit, will be joining SBDC executives to run special workshops in Johannesburg to examine ways of cultivating many more small/big business links.

The first workshop will be held at the SBDC City Hive on October 1, and a second at Pennyville on October 3. □

180

IDC extends low interest loans

Finance Staff

The Industrial Development Corporation (IDC) is increasing the amount of low-interest money it will lend to potential exporters.

Star 20/9/91

Since launching its low-interest scheme in April it has approved loans of R138 million and is considering applications for another R90 million.

But although the first year's budget of R100 million has been exceeded, the IDC is still prepared to consider applications from small and medium businesses with total assets of less than R100 million.

The IDC is lending money at nine percent for three years for investment in machinery and equipment, provided at least 30 percent of output of the additional capacity is exported.

It says the scheme has given rise to additional investment of R1 billion.

It will create 800 new jobs and should lead to additional exports of R970 million.

FM 20\9\91 180

PENSIONS FM 20|9|91 180

ANC guidelines

Liquor and tobacco shares will be banned from retirement fund portfolios if ANC secretary-general Cyril Ramaphosa has his way. In an off-the-cuff speech, at a seminar arranged by consultants and actuaries Alexander Forbes, he reeled off a list of "proscribed assets" which also includes any company that has sinned against the trade unions.

His audience in Sandton last week, mainly actuaries and investment fund managers, alternated between laughter and disbelief as Ramaphosa rammed home his views. "You might know that the trade union movement is committed to a smokeless SA and believes that people should be healthy and should smoke as little as possible."

After Ramaphosa had added to the list any company that had bashed unions, the fund managers mentally tallied the score of pale-blue chips which might be acceptable to their portfolios.

Ramaphosa ... *no beer or baccy in the new SA*

Yet, earlier, Ramaphosa had adroitly sidestepped the issue of nationalisation of pensions and provident funds. He also expressed some views that broadly agreed with those which Finance Minister Barend du Plessis was delivering to a Cape Town conference of the Cape Assurance Industry Liaison Committee. Du Plessis was urging pension fund managers to be innovative and channel funds towards projects that would create jobs. Specifically, he suggested outlets such as the Small Business Development Corporation, the Development Bank of Southern Africa and the Independent Development Trust.

Du Plessis seemed unimpressed by steps the life industry has taken to free retirement funds for home building. "More needs to be done to tap the resources available to finance socio-economic projects." He trod the non-interventionist line nimbly by adding that no funds should be invested in such a manner that the interests of fund members were prejudiced.

No such niceties constrained Ramaphosa. "We believe that we should develop strategies that can unlock (capital) and help us create a new SA. The money is there and we argue that, instead of the money going towards the building of fancy office blocks, the money should be put to productive use.

"We would argue that such investments should not go into companies that are trade union bashers, companies that do not recognise trade unions, companies that do not have a good trade union or industrial relations record. We would also argue that such investments should not be invested in overseas companies. We would also argue that those investments should not go to companies that are privatised, the Iscors of this world ... where the trade union movement believes that privatisation should not take place, we think it is immoral for the monies of the workers to be used to go against the very principles that they stand for."

Retirement funds, Ramaphosa emphasised, could productively be channelled to housing, education and job creation. The question would arise, he conceded, that the investment returns would not be as high as investment in "a glass building somewhere."

He needs to sell the idea to a larger audi-

continue

Cleaners' strike disrupts classes

VERA VON LIERES

THE number of Natal schools affected by the more than week-long wage strike by about 7 000 cleaning staff rose to 300 yesterday, the Transport and General Workers Union (TGWU) said.

TGWU assistant general secretary Randall Howard said it was not yet clear how many schools had closed as a result of deteriorating health conditions.

The Phoenix area in Durban was the worst hit with about 64 schools severely affected. Other badly affected areas included Verulam and Chatsworth.

The strike, which started on September 5, has affected mainly Indian schools.

Howard said parent, teacher, and student bodies were pressing the House of Delegates to ensure workers were given decent wages.

The union said earlier this week some pupils were sent home because of the unhealthy conditions, some had not attended classes for the past week and others attended morning classes only.

Workers — who are employed by subcontracting companies — are demanding a monthly minimum wage of R1 000. Companies affected by the strike include Sneller Cleaning Services and Supercare Cleaning. B/Day 20/9/91

Howard said the union was also campaigning for the establishment of an industrial council in the contract cleaning industry to ensure wage agreements were extended to the whole industry.

Monthly wages, currently set by the Wage Board, ranged between R400 and R500, he said.

A meeting with employers was expected next week.

Big business asked for aid

PATRICK BULGER 180

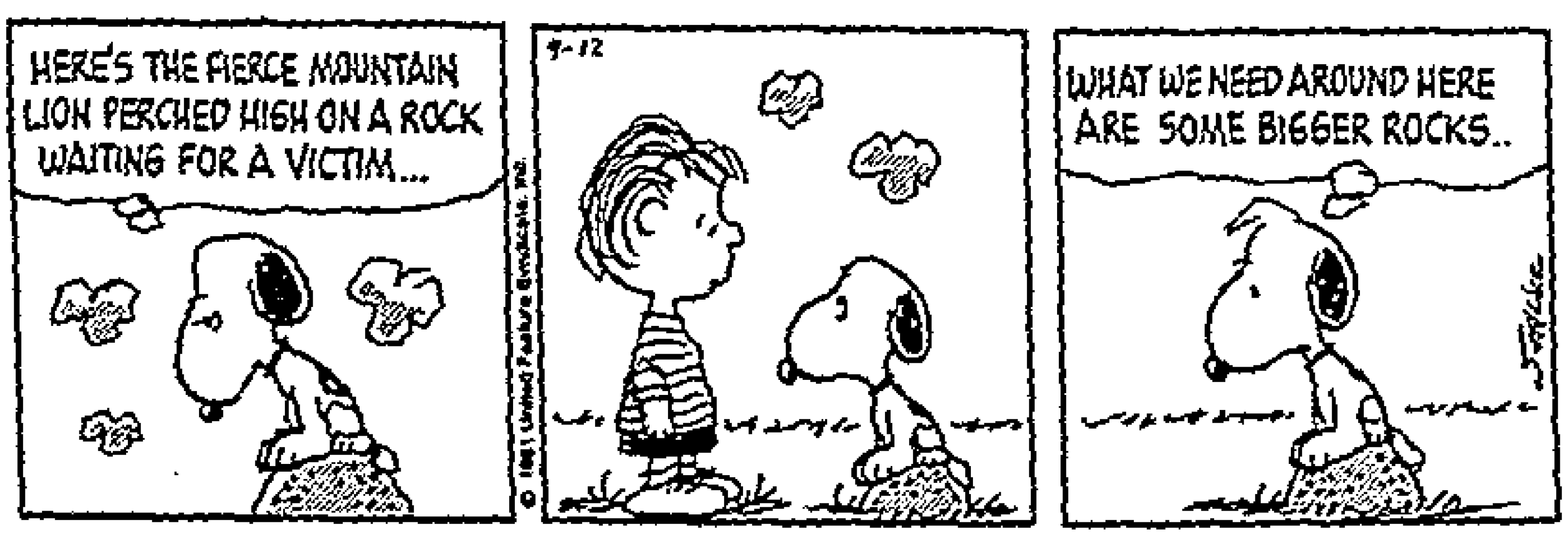
BIG business is to be approached to provide immediate relief for returning exiles, says National Co-Ordinating Committee for the Return of SA Exiles (NCCR) executive member Moss Chikane.

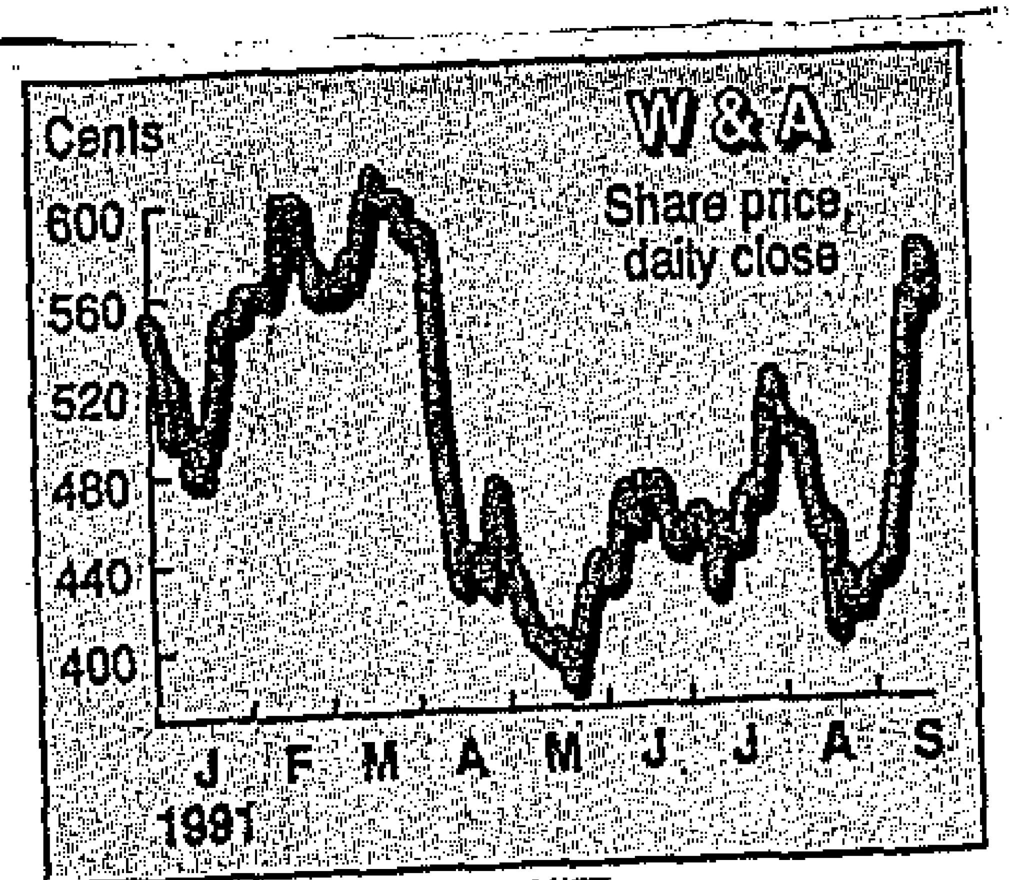
Although he would not put a figure on the amount needed by the NCCR, ANC welfare department official Dali Mpofu has estimated that about R2m would cover the immediate needs of exiles who have already returned. B/Day

Chikane was speaking after a day-long meeting yesterday between the ANC, Azapo, a UN High Commissioner for Refugees (UNHCR) representative, and businessmen. The meeting was hosted by the Development Bank of SA.

Chikane said the meeting had helped develop an understanding of the constraints business faced in providing new jobs. He said it would be followed by more meetings. 20/9/91

PEANUTS By Charles Schulz





Graphic: FIONA KRISCH Source: I-NET

W&A borrowings dilute earnings

(180)

BRENT VON MELVILLE

THE effect of W & A Investment Corporation's high level of borrowings has again been a major factor in its financial performance. B/Day 20/9/91

For the half-year to June the diversified conglomerate reported improved returns at the operating level, but high finance charges and more shares in issue diluted earnings to 34,8c (36,7c) a share, 5% down on the comparable period last year.

In addition, executive chairman Jeff Liebesman has warned that earnings were likely to be down by about 10% by December, as trading conditions were not expected to improve into the second six months. This translates to earnings of about 85c (95c) for the year.

The decline in earnings came off a doubling of attributable profits to R57m

□ To Page 2

W & A earnings

B/Day 20/9/91. (180)

□ From Page 1

(R27,6m), largely due to the low tax rate of 9,4% (23,3%), which was attributed to capital allowances in certain subsidiaries.

Turnover was up 34,8% at R1,7bn (R1,2bn), while operating profit climbed 24,8% to R172m (R137,7m).

Interest paid slashed R88m (R53,5m) off current liabilities, which were up to R963,7m (R809,2m).

Liebesman said the rise in interest charges related mainly to the acquisition of offshore businesses with AAF Investment Corporation, and the increase in working capital.

He said, however, that the level of increase in interest was expected to be lower as cash flows came through to JD Group from the sale of the JD debtors' book, and as a result of lower gearing, currently at 59,9% (67,4%).

Interim dividends across the group were left the same, with W & A declaring a dividend of 15,5c, Waicor 6c, FSI Corporation 12c and FS Group 6c.

Liebesman said the total dividend for the year would remain at 42c.

Goliath loves David

(180) Sowetan 20/9/91.

The closeness of links between corporate giants and budding mini-business ventures has played a major role behind the economic miracles of countries in the Far East. South Africa is being urged to follow the pattern, reports MICHAEL CHESTER.

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Combat

Rather than engage in competitive combat, the Davids and Goliaths were pooling their particular roles and talents to develop new products that regularly take world markets by storm.

"They have discovered that brain power and the best production methods are not the exclusive preserve of industrial giants," says Vosloo.

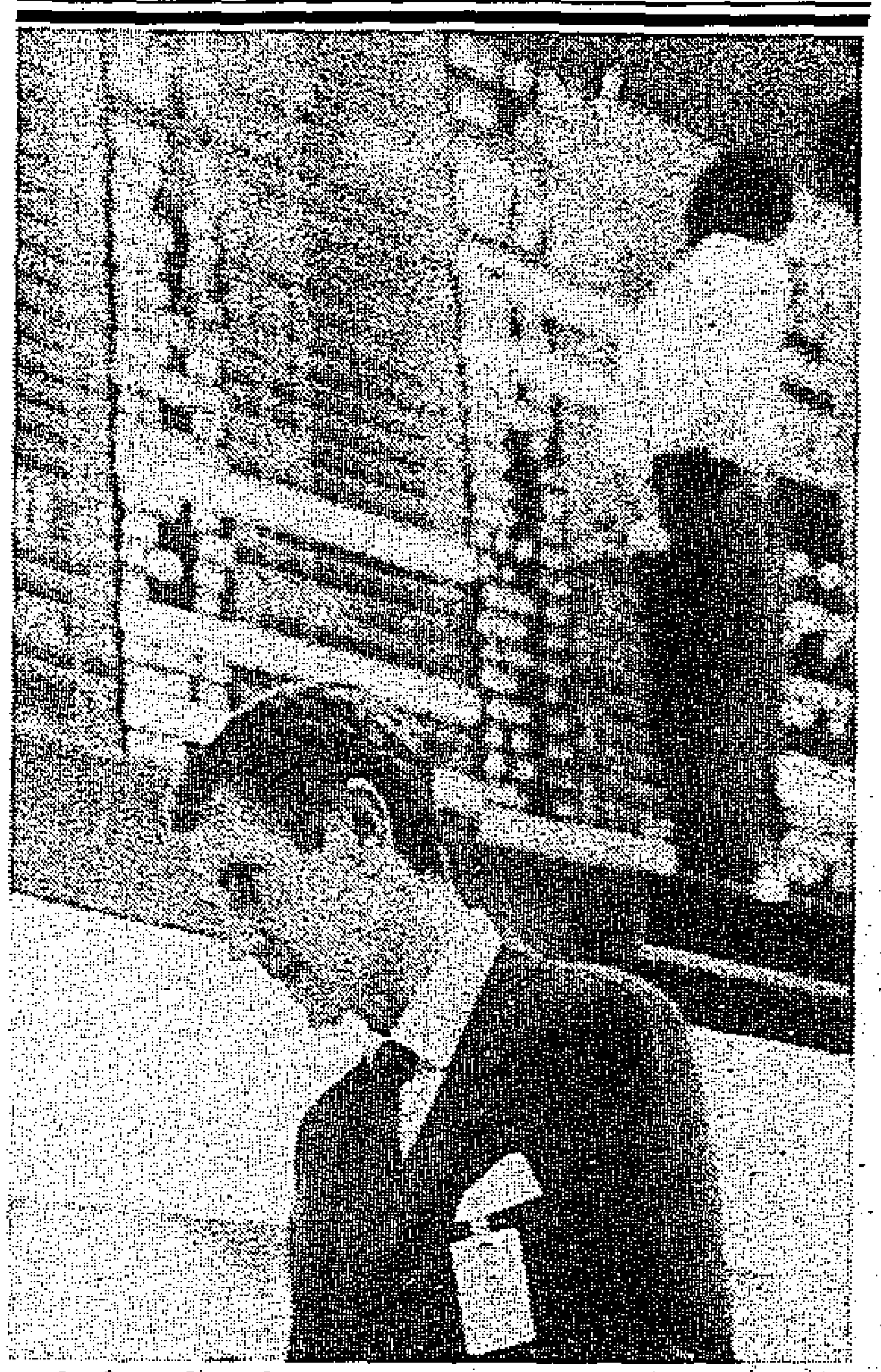
"Small informal and semi-formal businesses have a lot to contribute as well."

The joint approach to production exercises was similar at most if not all of the big corporations in Japan. The pattern has now been copied with success by neighbours who form a growing list of economic tigers emerging around the Pacific rim - from Singapore and Taiwan to Hong Kong and South Korea.

Secrets

"Every time one delves into the secrets of success," says Vosloo, "the identical pattern is found - a central business core, packed with research and marketing know-how, surrounded by scores of small companies that act as supplier satellites.

"It's significant that virtually all the Western industrial nations, from the United States and Canada across to Britain and Germany, are now following the pattern.



Industrial giants and small businesses are working together.

"The formula, of course, is ideally suited to South Africa now that bureaucratic red tape is being removed to release the full potential of the latent talents of a new generation of small entrepreneurs."

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The order books are already fattening as the corporate giants learn the value of the budding entrepreneur, especially an increasing number of black small businessmen struggling to find a toe-hold in the economic mainstream.

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Schwenke says the list of subcontracts already stretches from overalls and maintenance services to engineering components and transport networks.

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Back in franchise fold

180

S Times (Bus)

Business Times Reporter

THE SA Franchise Association (Safa) has been readmitted to the Washington-based International Franchise Association (IFA).

Membership of the international body of franchisors was suspended at the height of the sanctions campaign in the mid-1980s and SA was cut off from the mainstream exchange of franchise information.

22/9/91

IFA president Bill Cherkasky confirmed SA's readmission this week.

Safa director Kurt Illetachko says: "Our policy of cultivating relationships with companies and individuals around the world has paid off."

Leon Smith, chairman of Safa's international relations sub-committee, says membership of the world organisation will help SA to learn from foreign counterparts and to import and export concepts under master licence.

"This will benefit emerging black business people who need proven business frameworks."

Economy could decline further

(180)

B/Day 23/9/91

LINDA ENSOR

CAPE TOWN — The economy has not bottomed out yet and a lower turning point could be reached during the fourth quarter, a manufacturing survey conducted by Stellenbosch University's 's Bureau for Economic Research (BER) suggests.

The survey, conducted among 835 manufacturers representing 21 subsectors, also forecast a further decline in the number of factory workers employed, and in the average hours worked per worker in the third and fourth quarters.

"It needs to be stressed that expectations of short-term manufacturing leading indicators such as new orders received, unfilled orders and general business conditions were not realised in the third quarter and forecasts for the fourth quarter indicate lower levels than last year," BER says.

It forecasts that new orders received and unfilled orders will remain in the doldrums for a while, though it expects the bottoming out in general business conditions over the next 12 months to be rapid.

Levels of manufacturing production and sales are likely to continue to be relatively low until the end of the year, especially in view of the decline in real consumer spending and the relative lack of anything in the manufacturing pipeline to boost sales in the short term.

"Currently 13% net of our respondents are experiencing worse conditions than during the same period of last year. It is significant, however, that the number of respondents satisfied with business conditions has not declined further."

The poor conditions are, however, not evenly spread with eight of the sectors on higher levels compared with the first quarter of 1989 and some sectors still continuing to project erratic growth.

"Projections are that production in 10 sectors could be on higher levels at the end of the year,"BER adds.

The durable goods sector has seen a 12,7% decline in production volumes since the start of the recession in late 1988 compared with the non-durable goods decline of 2,1%.

Utilisation of production capacity has dropped to 82,7% from 84,5% with only 19% gross of those surveyed using their full capacity. Current stocks of both raw materials and finished goods remain too high.

During the recession the manufacturing workforce has dropped by 0,8% while overtime worked has fallen by 30%. Most of the layoffs were in the unskilled category.

BER expects the trend for the volume of manufactured exports to increase at a faster rate than imports of manufactured goods to continue over the next 12 months, despite the fact that sanctions are being experienced as a constraint by 46% of the manufacturers surveyed.

Vat guidelines for industry

(180) Star 25/1/91

The imminent application of value added tax (VAT) on September 30 has spurred the property industry to issue guidelines.

Last week saw the publication by Ampros of a booklet on VAT and its implications for players in the market.

Though admittedly an administration hassle, most people associated with the property market have welcomed the introduction of VAT.

Summing up its major thrust, Laurence Kaplan of Werksmans says most sales of commercial or industrial property will be subject to VAT, as the seller would generally be a vendor as defined by the VAT Act.

A vendor is defined as a person or entity who or which conducts an enterprise with a turnover exceeding or likely to exceed R150 000 a year.

"Commercial or industrial property which has not been developed and which is sold by a person or entity not defined as a vendor by the VAT Act, will not be subject to VAT."

"If the purchase is a vendor as defined by the Act, however, he will be entitled to a notional input credit payable either by that credit being set off against his output taxes (for the tax period in question), or at latest, within 21 days of the submission of his VAT return for the tax period in question," he said.

It needs to be said that the VAT system requires frequent submissions to the receiver by "vendors" of a return setting out their output taxes and input credits.

Mr Kaplan says it is important to note that where an industrial or commercial property is being sold through the sale of the close corporation or company owning it, no VAT will be payable on the sale of the shares (unless it is a shareblock), nor on the sale of the members' interests — or on the cession of the loan accounts, if applicable.

There will, however, as has always been the case, be a stamp duty of 1 percent of the consideration attributable to the shares.

Mr Kaplan highlights one of the major advantages of VAT for the property industry: "The effect of VAT is that whereas in the past, transfer duty of 5 percent would have been payable on the sale of a commercial or industrial property to a company or a close corporation, a transaction of that nature is now subject to VAT and is tax neutral from both the seller's and the purchaser's point of view.

"The reason for this is that the seller will pay 10 percent VAT on the purchase price which he will usually build into the purchase price, and thus collect from the purchaser, and the purchaser will obtain an input credit in respect of the transaction."

According to one real estate agent, the neutralisation of transfer duty in most commercial and industrial property deals is a great plus for the industry as there will be higher returns on commercial and industrial property.

Safto sees benefits in SA trade figures

BDay 25/9/91 (180)

SAFTO says SA's economy could benefit significantly from an improvement in world markets expected around mid-1992 if recent trends are maintained.

Commenting on the latest trade figures for August, it noted in a statement that SA's exports surged to R6,1bn for the month — the highest level achieved since October last year.

Total exports for the first eight months of 1991 rose to R43,2bn — 8% up on the same period a year ago.

Base metal exports were up by only 5% and mineral products fell by 1% over this period.

"However, considering the poor conditions prevailing in international commodity markets, SA's performance is outstanding," Safto said.

If the decline in commodity prices was taken into account, it was likely that SA producers were increasing, or at least maintaining market share in these two major categories, it said.

It said even more startling was the strong performance of the manufactured categories in assisting the diversification of SA's trade away from a dependence on traditional commodities.

The following categories experienced major improvements: chemicals (35%), plastics (50%), prepared foods (22%), transport equipment (36%), and miscellaneous manufacturers (49%).

"If these trends are maintained, the SA economy could stand to benefit significantly from the improvement in world markets expected about halfway through next year," it said.

Export revenue was assisted by a steady decline in the rand exchange rate this year.

The poor performance of vegetable product exports (-9%) reflected the recent drought. This category was set to improve in the light of a better maize crop yield this season, it added.

Knock

Cumulative imports for the first eight months of the year compared with the same period a year ago climbed by 9% to R32,6bn, indicating that the current recession was a mild one, it said.

However, month on month, imports dipped significantly to R4,2bn in August from R4,9bn in July as domestic demand took a knock.

It said the stronger rise in consumer imports during the first eight months of 1991, compared with the same period a year ago, suggested that the recession had been felt less among consumers than producers.

Machinery imports rose by only 3%, while vehicles and transport equipment rose by 10%, textiles by 21%, footwear and accessories by 66%, and miscellaneous manufactures by 21%.

The net result of these trends had been a marked improvement in the trade account this year. The cumulative trade surplus for the first eight months of 1991 was R10,6bn — 4% higher than the trade surplus for the same period last year.

Annualisation of this figure suggests a trade surplus of R15,8bn for the year, and a current account surplus of at least R3bn.

"Given a healthy current account surplus, combined with improved access to foreign funds (as displayed by the successful re-entry of SA into the European capital market), it appears that limited foreign reserves are no longer an obstacle to economic growth in SA," it says. — Reuter.

Industrial decline deepens on JSE

Star 26/9/91

Finance Staff

Industrial shares on the Johannesburg Stock Exchange came under pressure yesterday with leading shares recording steep declines despite a further firming in the gold price.

The industrial index dropped by 66 points to close at 4085. This follows the previous day's decline of 22 points. (180)

The decline was mainly as a result of the strengthening of the financial rand, which yesterday rose by another 2c to R3,09c against the US dollar. But some analysts have indicated that the industrial index may have commenced its long-awaited correction from recent record levels.

Recent poor results from blue-chip companies like Pick 'n Pay and Sappi, together with the increase in the prime overdraft rate, has had a noticeable effect on investors' sentiment.

Capital projects

Government moves could foreshadow era of expansion

BDay 27/9/91 (180)

AFTER the boom years of the late '70s and early '80s, capital spending slumped, but recent government moves could stimulate some R30bn of projects over the next five years.

Recent initiatives include government announcements on short-term tax incentives and the Industrial Development Corporation's (IDC) planned R10bn funding of export projects.

Government has estimated the reduction of the import surcharge on capital goods from 10% to 5% and on intermediate goods from 7,5% to 5%, as well as the introduction of VAT, will save industry and commerce an estimated R8bn.

New tax incentives will provide substantial bridging relief during the risky start-up periods of capital projects.

The capital spending perks are a welcome respite after a decade of near-stagnant growth.

During the boom years, the private sector spent feverishly in an attempt to come to grips with public sector demand.

The pace slowed dramatically over the past several years, with the result that most of the big multibillion rand projects were put on hold or scrapped altogether.

Kick-start

But with beneficiation a key concept within the new "industrial" SA, sanctions on the way out and government committed to its new kick-start package for multi-billion rand projects, there is much to be optimistic about.

After nearly two years in the pipeline, the multi-billion rand Columbus project is on the go, with only specific tax benefits to be ironed out with government.

The joint Anglo-American/Gencor project will dovetail with the R1,1bn purchase of Middelburg Steel & Alloys, propelling SA into position as the fifth largest producer of stainless steel in the world.

Petrochemical group Sasol has commited itself to spending more than R5bn over the next few years and aluminium producer Alusaf has a R3bn smelter in the pipeline.

Engen, AECI and Sentrachem are considering a R4,5bn chemical plant or naptha cracker to produce downstream chemicals.

According to the three groups, plans for the ethylene plant will qualify for assistance from the IDC and government.

Eskom, while it has curtailed plans for further power stations, has embarked on a new "electricity for all" programme and is expected to spend heavily on low cost electricity over the next few years.

Eskom CE Ian McRae says the utility is considering constructing more nuclear power stations early next decade.

Iscor is continuing its multi-billion rand programme intended to add value to its primary steel products and spending is ongoing at the R6bn Lesotho Highlands Water Project, which continues in spite of recent legal hiccups.

Suffering

Capex in the motor industry, which is suffering from declining sales, is moving to higher levels.

Industry capex last year amounted to over R500m and is expected to exceed that this year.

The electronics industry is beginning to invest — with an eye to exports — even though it is expected to take a knock after 1995, when the Post Office ends its preferential agreement with local suppliers.

BUSINESS DAY, Friday, September 27 1991 3

SAB to sell Heineken

MARCIA KLEIN

SA Breweries (SAB) has pipped potential competitors at the post by announcing the introduction of world-renowned Heineken beer to SA.

SAB said yesterday the international brand, which sells in more than 150 countries, would be available in mid-October.

The beer industry has been frothing with talk by various international and local players of plans to bring major international brands to SA.

Louis Luyt announced his re-entry into the market backed by substantial foreign investment, and Heineken was among many international brands mentioned as the beer he was to challenge SAB with.

Upmarket German beer producer Bavarian Brau announced that it would start production of "a world renowned international brand" early next year.

(182)

Top executives of British brewing giant Guinness have also been to SA to hold discussions.

SAB beer division MD Graham Mackay said although the SAB range had remained unchanged for many years, research had revealed a niche in the market. It was also opportune to introduce Heineken as the peak season approached, said Mackay.

SAB would import the beer directly from Holland as the market size did not justify local brewing, he said.

27/9/91 Business Day

Zionism move signals end of Third World defiance

WM 27/9-3/10/91 (180)

colossus

at the opening of a new paper mill at Mondi — had lashed critics of Anglo's size and economic power, and said projects such as a pulp mill or a $3-billion stainless steel plant "are not going to be developed by tin-pot organisations or a dismembered Anglo American, but by powerful groups capable of putting together the management and technical skills and the financial resources necessary to support such projects".

Gilbertson said a project of the scale of Columbus could only be brought about by large, financially sound companies.

That agreement between giant conglomerates Gencor and Anglo goes beyond the need for size, to actual co-operation on a project has not escaped the eye of the Competition Board.

CB chairman Pierre Brooks has noted before that in South Africa's environment of high economic concentration there must at the very least be competition between the conglomerates that dominate the economic landscape.

The CB has announced an informal investigation of the deal, noting:

"Certain meritorious aspects of the transaction are self-evident. However, the board is also obliged to take cognisance of its impact on economic concentration and potential restrictions on competition that could arise."

Brooks tells *The Weekly Mail* that the finding will be published for public debate.

It is moot at this stage whether the matter will be taken further.

But it is vital that this and other deals whose effect is to increase the economic concentration which was such a feature of the "old" South Africa do not quietly slip into the new" South Africa.

Figures produced recently by Robin McGregor of McGregor's Online Information puts the matter of size into perspective.

McGregor adopts the strategy of looking not merely at size, expressed as control of fixed assets or worth on the Johannesburg Stock Exchange. He takes the measure of a country's economic output, the gross domestic product (GDP), produced by the country's conglomerates as a percentage of the fixed assets that produce the GDP.

"What is significant is that the tightly held companies with virtually hands-on management are using capital to the best advantage of the country and themselves. Conversely, those groups that manage at arms length, either by virtue of their size and complexity or, like Rembrandt and SA Mutual, whose policy is to 'leave it to management' do not fare as well.

"Director-controlled companies, of which there are 364 listed on the JSE perform commendably. They only enjoy control of five percent of the market capitalisation of the JSE, but they produce 12,1 percent of the JSE's GDP."

McGregor further remarks that South Africa still relies on the poor old mines to generate the major part of our GDP. They are followed by the banking sector, retailers, beverages, engineering, etc.

"However, GDP as a percentage of fixed assets shows mining near the bottom of the list. We cannot afford to rely on the fortunes of mining and gold mining particularly, as they are dependent to an alarming degree on sentiment and absorb a considerable proportion of our limited capital.

GROUP	GDP % FIXED ASSETS
Venter Group	195
FS Group	188
Anglovaal	178
Liberty	155
Directors	150
Rembrandt	103
Sanlam	99
Anglo American	93
SA Mutual	85
Foreign	80
Unallocated	62

Small-scale winners ... Director-controlled companies fare much better than conglomerates in using capital to the best advantage Source: McGregor's Online

"The high-performing sectors are printing and publishing, fishing — which produces almost no GDP in total — tobacco and match, retailers and wholesalers, etc."

The long-term insurance industry itself ranks 15th out of a total of 23. The generation of GDP by the companies controlled by insurance firms is another matter. Companies in the Sanlam, SA Mutual and Liberty stables account for 31 percent of the GDP of all listed companies.

"We have already seen, however, that the bigger the group is the poorer its use of fixed investments. Liberty with its small but powerful portfolio has a creditable 155 percent GDP/fixed asset ratio, whereas Sanlam and SA Mutual are only 99 percent and 85 percent."

The question of concentration is not the only worrying aspect of the Columbus deal.

The project depends crucially on tax incentives to encourage beneficiation, or the processing of primary products with increasing value, recently unveiled by the government.

Should taxpayers foot the bill?

Also, rationalisation of Samancor's and Middelburg Steel & Alloys' (MSA) interests mean a lower level of effective subsidy for the Columbus project.

But Econometrix chief economist Azar Jammine, while supporting the deal, is concerned about the underlying principle of using taxpayers' money to finance huge capital intensive projects which create relatively few jobs.

Columbus will directly create, at cost of R2-billion or R3-billion or even more, 1 500 jobs.

Jammine notes that no less a person than Rembrandt chairman Anton Rupert reckons the R1-billion financed by the SBDC for small business has created 300 000 jobs since 1985.

Of course, it will be argued that the Columbus project will have a multiplier effect. "But," says Jammine, "one would need one heck of a multiplier effect to match the SBDC job records." He adds his concern extends beyond Columbus to other large capital projects, such as Mossgas, which may have created around 5 000 jobs.

Gilbertson also said the project would contribute to the growth of the national economy.

However, being capital intensive it will initially necessitate an outflow of money to buy capital equipment. Jammine reckons tax money should go on projects such as housing, which are comparatively less import dependent and are labour intensive.

Another question is: Is this really the kind of beneficiation which South Africa should be encouraging?

Stainless steel is one up from ferrochrome but it remains a commodity.

Ironically in the light of the sale of MSA to the new Columbus project, Barlow Rand executive director Evert Groeneweg had some apt comments to make some time ago about beneficiation.

Groeneweg noted that in international competition innovation was the name of the game. Stainless steel pots, he said, once a novelty, are now a commodity market product.

South Africa needs to make goods of high added value for sale to end-consumers.

It remains to be seen if the production locally of even more stainless steel than there is now encourages such beneficiation downstream.

The production of paper locally by two companies, one in the Anglo stable and one in Gencor, has arguably not spurred local publishing.

● See PAGE 1 of the book supplement

SA: going nowhere?

Cit Press 29/9/91 (180)

MONEY TALK

IT is no secret that new investment in South Africa's crucial manufacturing industry has reached an all-time low. Yet it is this sector that must provide new job opportunities for our rapidly growing population.

Various reasons are being advanced for this, including political uncertainty, unrest, stayaways, low productivity, sanctions, the poverty of our neighbours – which makes trade difficult – and even the long distances between South Africa and the world's big markets.

Pepkor group chairman Christo Wiese pointed out that high company taxes are another serious problem. At a maximum of 48 percent, this is one of the highest rates in the world and compares, for instance, with a maximum of only 32 percent in Britain.

Wiese says our rate is too high to stimulate investments in new manufacturing facilities and cripples efforts to compete on world markets.

A British factory can sell a product on international markets at eight percent less than a similar local organisation.

Wiese believes the country needs an umbrella strategy to make all sectors of the economy internationally competitive.

He says the new South Africa is confronted by massive problems that will not simply go away if a new government, acceptable to the outside world, gains power.

"The problems will continue to exist and the degree to which the new South Africa will bring about an improvement in quality of life will be determined by the success with which a new government tackles these problems."

He warned that while the new South Africa could become a wonderful place, "it could just as well develop into a hell on earth if it simply exacerbates poverty and the disintegration of social services, accompanied by even greater violence".

These are strong words from one of the country's top business leaders. Yet if people in his position are unwilling to invest because of our high taxes, politics or whatever, one should pay attention.

The scarcest "commodity" in underdeveloped areas such as Africa is entrepreneurs with capital. They are the people who take risks to start new factories and other businesses. If we cannot regain their confidence, we may well turn out to be just another poor country going nowhere.

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Team-work for productivity

By ADRIAN HERSCH

S/Times (Bus) 29/9/91 (180)

A SURVEY of 150 medium to large SA companies shows that 20% have implemented some form of team-based productivity improvement scheme.

The survey was conducted by Frank Horwitz of the University of Cape Town Business School, who is also a management consultant.

Flexible reward systems are being introduced in negotiations with trade unions.

But Professor Horwitz says productivity will not necessarily improve simply through an agreement.

A crucial area is the supervisor-worker relationship. If it is not good, the chances of a productivity deal's succeeding are slight.

Professor Horwitz says the Ergo-NUM settlement was concluded after a long time in which the company worked on improving relationships.

He spoke at the Institute of Personnel Management (IPM) convention at Sun City this week.

A previous survey conducted by the UCT Business School indicated that productivity was regarded by managers as the most important issue in industrial relations.

Yet its multi-faceted aspect is often not appreciated.

Professor Horwitz says: "Invariably when the issue of productivity is raised, managers refer to labour productivity and not to the productive use of capital."

He urges management to give priority to this aspect of productivity.

Anti-monopoly laws applauded

Star 30/9/91. 180

By Patrick Laurence

South Africa needs effective anti-monopoly legislation, Anglo American chairman Julian Ogilvie Thompson has told The Star.

"It is extremely important (to) have strong anti-monopoly, anti-restrictive practices legislation," Mr Ogilvie Thompson said.

"We think this ... must be continually reviewed and, if necessary, revised."

Mr Ogilvie Thompson's assessment was made, coincidentally, on the eve of a critical finding by the Competition Board on the acquirement of shares last year by Anglo American and its sister company, De Beers, in Gold Fields of South Africa.

The board found that the purchase of shares by Anglo and De Beers did not constitute a restrictive practice or amount to acquisition by the companies of Gold Fields.

Nor did it signal an end to competition between Anglo and Gold Fields in the gold mining in[illegible], nor the establishment of a monopoly.

The board calculated that Anglo American and De Beers had acquired more than the

Julian Ogilvie Thompson . . . review laws against restrictive practices regularly.

18 percent share in Gold Fields necessary to block special resolutions in Gold Fields. However, it said the power to exercise a veto did not in itself constitute a restrictive practice.

But, in a postscript to its specific finding, the board noted that concern over the extent of corporate conglomeration in South Africa was "widespread and covers all shades of political opinion".

Mentioning Anglo American and Rembrandt specifically, it concluded that the time was opportune for them "to focus on the wider implications of ... the substantial network of formal relationships that exist between the major conglomerates in South Africa".

Commenting on the Maintenance of Promotion of Competition Act, Mr Ogilvie Thompson said: "I think it must be effective, and I think it is effective too."

Asked whether he was opposed to the law being given more teeth, he replied: "If it needs more teeth, certainly it should have more teeth. We have consistently said so."

But he added: "What you can't do is pick up the legislation, say, in the United States and plonk it down in South Africa and say it'll work. You've got to adapt your legislation to the realities, facts and possibilities of the situation."

Developing his point, he said: "You can't say that no one in South Africa can have more than 20 percent of the market, because then you won't get the economies of scale (to compete on the world market)."

In the United States it was possible to limit the share of the market in any commodity to 20 percent and "still have the five biggest producers in the world".

South Africa, Mr Ogilvie Thompson said, could not afford to do so "any more than ... Switzerland, Holland and Sweden".

These countries, like South Africa, had companies which were very large in relation to their own economies, but quite small on the world scale.

In a related development, Anglo American spokesman Michael Spicer has reacted sharply to a renewed call by ANC president Nelson Mandela for the nationalisation of mines and financial institutions.

Responding to a speech made by Mr Mandela at a banquet in Somerset West, Mr Spicer expressed disappointment at the ANC leader's "archaic and bankrupt thinking", warning that it would stifle initiative, block investment and lead to a flight of capital and skills just as surely as a rise in taxes.

He noted that an invitation to the ANC to discuss economic policy had still to be accepted after two years.

BUSINESS

Stocks 'set to weaken'

B Day 30/9/91 (180)

LINDA ENSOR

CAPE TOWN — Share prices may continue to exhibit weakness in the short term as no significant turnaround in company earnings can be expected until well into 1992, Board of Executors' chief portfolio manager Rob Lee says.

Writing in the latest Investment Outlook, Lee says the industrial board will continue to look more vulnerable than mining shares but adds that buying opportunities should arise from major weaknesses in share prices.

Lee believes that accumulating property investments is a good strategy at the present time and that long bonds will generate respectable returns over the next year.

"The dividend yield on the property trusts remains just above the 10% level. With prospective earnings growth of the order of 10% likely over the next year, in spite of the current recessing conditions in the commercial property market, the total returns available on property trusts could compare quite favourably with those on equities over this period."

Surprise

Regarding the economy generally, Lee believes an inflation rate of 12% is possible by mid-1992 ,based on trends in the annual producer price inflation which is likely to be about 9%-10% by the year-end.

He expects sufficient progress to have been made in bringing down inflation by February/-March next year to motivate a reduction — albeit a cautious one — in the Bank rate.

Lee warns that companies and individuals relying on a traditional consumer-led economic upswing financed by collapsing interest rates are in for a "rude surprise".

"Our expectation is that this time the upswing will be led primarily by rising exports and by increased investment and in the shorter term by fiscal stimulus arising from the increased budget deficit in this financial year.

"We expect economic conditions to remain tight for several more months and that the initial upswing phase will be muted. However, precisely because the upswing is likely to be export and investment led, it has a high probability of ultimately achieving higher economic growth and being more sustainable than recent economic recoveries."

Socio-political changes will have a profound effect

B (Day) 30/9/91

THE socio-political changes in SA will have a profound effect on credit management within the business community.

It will be challenged to formulate a credit policy to meet the needs and aspirations of the new SA and at the same time ensure sound financial criteria are applied.

Information Trust Corporation director John Malone says the challenges facing credit grantors will be to offer credit to all SA businesses and individuals.

"In few countries in the world do we have such a close interface between so-called Third World and First World cultures and ethics, each with its own values and norms.

"Both cultures will need educating in order to understand the role and function of credit in the new SA.

"In order for SA to develop and survive in the '90s, businesses must become export/import replacement orientated.

Trained

"To advise on this and other issues, such as the critical issue of communicating and understanding credit needs, the industry will need trained, qualified and experienced staff.

"Indeed, credit will offer increasingly exciting career opportunities," he says.

Other challenges facing the credit industry include:

- The definition of a credit policy flexible enough to meet the needs of the emerging business culture;
- A more realistic framework for the credit industry which meets the needs of suppliers and users of credit; and
- An educational programme which will make the consumer aware of his areas of responsibility as well as the rights of all concerned.

Business Day SURVEY

The United Institute of Credit Management (UICM) was formed in 1988. A major role of the institute is to enhance the status of members and the profession and one of the most efficient methods of achieving this is to ensure members undergo professional training. ***MELANIE SERGEANT*** *reports.*

Effective debtors' book control is vital to survival

B Day 30/9/91 180

RICHARD SMITH

MANY companies believe credit control is a part-time job which can be slotted in with other tasks such as bookkeeping or salaries.

This is far from true, because every company which runs a debtors' ledger needs top-class credit control and asset management, says Commercial Union Trade Finance (Cutfin) operations director Richard Smith.

Poor credit control is a recipe for disaster and is the reason why the cash flows and profitability of many companies are far from healthy.

Prime

"A company's debtors' book is its prime asset and should be managed as such.

"If handled properly, debtors can be the key to solving many problems, such as tight cash flow, bad debts, expensive discounting or forfeiting discounts from suppliers."

Being in the business of factoring and invoice discounting, as part of its factoring facility Cutfin has a range of credit control and debtors collection services.

"Apart from the flexible funding line, our credit control service helps clients in various ways.

"Services include loading invoices onto our computer, mailing statements to debtors within 48 hours of each month-end and assessing the credit worthiness of each debtor's account.

"We also mark a credit limit on each debtors account and set goals for monthly collections and ageing of debt.

"Debts are collected on due date in line with sales terms."

He says a typical example of disciplined credit control was shown to one client who had a debtors' book of R12m turning on 126 days.

Since Cutfin's involvement, the book turn has been reduced to 67 days, improving the company's cash flow while increasing turnover levels and reducing borrowings.

"In today's business climate, effective debtors' book management can mean the difference between survival and failure."

Moves to simplify disclosure rules

B/Day 3/9/91 (180)

LESLEY LAMBERT

PRIVATE companies will have to disclose their financial statements while rules enforcing disclosure by public companies will be relaxed if proposals by the Standing Advisory Committee on Company Law are accepted.

The proposals, which were published for comment on Friday, aim to remove the distinction between private and public companies.

If implemented, they will simplify increasingly complex company law, ease the Registrar's workload and substitute criminalisation of corporate offences with personal liability, says committee chairman Mr Justice Cecil Margo.

An important consequence of the proposals is that private companies will have to disclose their annual financial statements within nine months of their financial year-end.

The statements will have to be available for public inspection at the companies' registered offices.

This proposal will obviously benefit parties such as creditors and competitors, but it may meet with some resistance from private companies.

While public companies will have to continue issuing annual statements within three months of their financial year-end, they may not be required to issue interim statements and may also not have to submit their documents to the Registrar.

If the proposals are accepted, private companies will no longer have to restrict the right to transfer their shares, although they will retain an option to do so.

Public companies, on the other hand, will not be allowed to limit the transferability of their shares.

Their memorandum of association and incorporation will have to be signed by only one person instead of seven.

One person will be allowed to operate a public company without incurring personal liability for company debts and the present prescribed minimum of two directors will be reduced to one.

Specific provision will be made for joint and several liability of directors for company debts.

The minimum membership of private companies will remain one. But, like public companies, they will also be able to

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Disclosure

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have an unlimited number of members, instead of the present limitation of 50.

These proposals will be discussed at symposiums in November and the first quarter of next year. If they are accepted, they will be submitted to the legislature in 1993, says Margo.

The proposals are in line with changes elsewhere in the world where the two forms of company have been maintained but are treated with a greater degree of equality.

The need for separate private companies has been reduced by the development of other business entities, such as close corporations, which are often a cheaper and more flexible option for one-person or small operations.

The message for budding entrepreneurs is: go for it!

Star 1/10/91.

180

Small Business Week has drawn new attention to the massive potential role of small companies and black entrepreneurs, reports MICHAEL CHESTER.

THE SA Chamber of Business yesterday outlined plans to build a series of new bridges to ensure a faster flow of black mini-business ventures into the economic mainstream.

A main objective is a dynamic boost for the budding informal and semi-informal small business sector as a new generation of entrepreneurs breaks through red-tape barriers and emerges in the post-apartheid era.

The new initiatives were confirmed by Sacob deputy director-general Ron Haywood at a conference at Sun City that was among the highlights of a nationwide programme of special events marking Small Business Week.

Heavy emphasis is also being placed on the potential role of the small business sector in providing more job opportunities to help crack the chronic unemployment problem.

Mr Haywood said Sacob had formed a Small Business Forum to make certain that the development of the sector was higher on the agenda when new economic strategies were under discussion at national level.

The Department of Trade and Industry was being pressed to establish a special new division that would be assigned to focus specifically on closer liaison between all Government departments on issues that affected small and medium business operations.

Sacob wanted the Cabinet to consider following the British example of creating the special portfolio of Minister of Small Business to guarantee more encouragement of budding entrepreneurs.

Emphasis was also being placed on the need for big firms to plan the allocation of more subcontracting work to mini-companies, buying more supplies from small manufacturers and funding more joint ventures with small businesses.

If proof were needed about the massive potential of the small business sector, said Mr Haywood, South Africa should examine the role of thousands of mini-firms behind the economic miracles achieved by countries around the Pacific Rim.

Unemployment solution? . . . Ben Vosloo (left) and Ron Haywood seek end to economy's bias towards big business.

In Japan, 60 percent of industrial firms were run by small businessmen, most of whom were supplying components to the giant corporations. In Taiwan, as many as 90 percent of all manufacturing companies were mini-operations.

South Africa needed to consider not only the potential economic clout that could be wielded by the small business sector, but also the number of new jobs that would be created by more entrepreneurial ventures.

In Britain, through a range of state assistance schemes, new small businesses were launched at the average rate of 100 a day during the 1980s and created no fewer than 1 million new jobs.

A bigger role for small and medium enterprises (SMEs) in future economic planning has also been demanded by the Small Business Development Corporation.

SBDC managing director Dr Ben Vosloo told the Sun City conference: "It is absolutely essential that economic policy should not continue to be biased in favour of large corporations."

SMEs deserved at least equal opportunities in economic development. At the moment, their political influence was not even remotely commensurate with their combined contribution to economic activity.

The Government, he argued, would do well to examine the real shape of the South African economic machine.

No fewer than 700 000 out of 800 000 companies in the formal sector were in the small/medium size bracket. Between them, they provided 2,4 million jobs and accounted for at least 30 percent of South Africa's economic muscle.

Also to be considered was the phenomenal growth of the informal sector since the relaxation of barriers that long held black entrepreneurs at bay. The small informal business ventures that had emerged had already created 4.4 million jobs and provided about 15 percent of total gross domestic product.

Dr Vosloo said a cohesive strategy to nurture entrepreneurship and job creation had become crucial in a search for solutions to avert a potential catastrophe in terms of unemployment and social unrest.

Yet in the 1991 Budget, the Government had allocated more than R1 411 million in export promotion schemes — which would largely benefit only big companies — compared with only R75 million towards the SBDC small business development programme.

"We need to redress the imbalances that at present exist between policies aimed at supporting the activities of big business and policies aimed at the small and medium enterprises," Dr Vosloo said.

"No economic miracle is going to happen through foreign investment and export promotion schemes alone. There will be no kick-started short cuts to a more prosperous and equitable society.

"We must refocus on the true nature of economic development — a do-it-yourself process at grassroots level in the cities and towns and villages.

"We need to rediscover the enterprising individual who takes risks, who breaks new ground and who plays an innovative role in our economy." □

Left's policy puzzles Anglo chief executive

Sowetan 2/10/91

FOCUS

180

AS THE head of South Africa's biggest corporation, Anglo American chairman Julian Ogilvie Thompson is - to use the idiom of the street - a man who packs a hefty clout.

But, when he makes a point about which he feels strongly, he does so in an understated manner. The untutored may mistake his tone and phraseology for diffidence.

"I hope that the new South Africa isn't moving into a situation where it proposes to penalise success," he says.

Ogilvie Thompson's point is made amidst growing concern in South Africa over the concentration of economic power in the private sector in the hands of a few companies, of which Anglo American is pre-eminent.

It is manifest in a Competition Board report on Anglo American's acquisition of shares in Gold Fields of South Africa.

Collude

The report finds that Anglo American's share in Gold Fields does not enable it to control Gold Fields or collude with it and Rembrandt, another of Gold Fields' corporate shareholders, to establish a monopoly. But the report contains a strongly worded caveat.

"The concern over the extent of corporate conglomeration is widespread and covers all shades of political opinion," the report says. It goes on to warn of drastic measures - "akin to those introduced by the Supreme Commander for the Allied Powers in Japan after the Second World War" - if the major corporations do not take remedial action.

Another sign - and danger signal for the big corporations - comes from the African National Congress and its allies, the South African Communist Party and the Congress of South African Trade Unions.

Their pronouncements are permeated with threats and pledges to curb the power of, and even nationalise, the corporate giants.

ANC president Mr Nelson Mandela has dispelled illusions that the ANC, heeding developments in Eastern Europe and the Soviet Union, is edging away from nationalisation.

He reaffirmed the ANC's commitment to nationalise mines, financial institutions and monopoly industry as recently as last weekend.

Ogilvie Thompson does not shy away from admitting that Anglo American is a big company. "There's no denying that," he says.

But he adds: "You might ask why we are a big group."

He offers two reasons.

The first, and perhaps the foremost, reason is that Anglo American has been successful: its huge size is a measure of its success.

The second is foreign exchange regulations: Anglo American has been "forced to reinvest pretty well only in South Africa".

The concentration of Anglo American's power is "mostly in mines and largely in export industries".

Thus, he reckons, the power of the big corporations does not work to the detriment of South Africa - it operates to South Africa's advantage by making them more powerful competitors on the world market.

Ogilvie Thompson's point becomes clearer when he talks about the recent acquisition of Middelburg Steel and Alloys from Barlow Rand by Highveld Steel (an Anglo subsidiary) and Samancor (a subsidiary of another corporate giant, General Mining).

The acquisition will give the new company, Columbus, a monopoly of the production of stainless steel in South Africa and make it - and South Africa - a force to be reckoned with on the world stainless steel market.

"I mean, you asked specifically if it can be justified. I think not only can this be justified but it's the only way you'll get things like this," Ogilvie Thompson says.

"Once we've got a larger stainless steel industry in South Africa, you will find that downstream manufacturers will get their products at more or less a world price but without the transport (costs)."

Ogilvie Thompson is perplexed by the left's resistance to privatisation of State industries and its continued commitment to nationalisation.

Object

"If the State privatises (its) businesses they'll be more efficiently run ... the Government would then be able to rearrange its assets and use the capital from the sales to spend money in the socio-economic sphere ...

"But some people on the left object to that. I don't quite follow this. Is it that they hope that when they come into power they'll be able to fill State industries with all their chums on a very inefficient basis?

"This is, of course, what has jolly nearly destroyed Africa north of South Africa. Nationalisation and overcrowding State-controlled companies with too many people, has failed totally in Eastern Europe, failed totally in Africa.

"That is why all these countries are turning round the other way. So I find it really rather curious that the people in South Africa should still be thinking along those lines. It's a total muddle. Or is there a hidden agenda which is not economic but political?"

The conversation turns to alternatives to nationalisation and to Mandela's challenge to big business to come forward with alternative methods of ending the racially skewed distribution of wealth in South Africa.

"The trouble is there's no quick fix," says the Anglo chief.

"If there was a quick fix, people would have thought of it long ago in many countries."

Quote

He goes on to quote from a study by the Indian economist Deepak Lal, who researched the economies of 21 underdeveloped or developing countries.

"The conclusion is that the only way to improve the lot of the poor is to increase economic growth in the country.

He elaborates on political stability: "Only that is going to give investors, local and abroad, the confidence to invest."

Investment is, in part, a "function of consumer spending," he says. "When consumers are uncertain about the future, they don't spend. There is either a virtuous or vicious circle here again." - *Sowetan Correspondent*

SA firms impress at Kenyan trade fair

(180)

Star 3/10/91

NAIROBI — South African companies seeking business in black Africa have turned out in force for the first time at the Nairobi international trade fair which opened yesterday.

"Even South Africa is welcome," President Daniel arap Moi said in a speech at the start of the five-day event.

Trade fair organisers said 16 SA companies were exhibiting, 11 under the auspices of the South African Foreign Trade Organisation.

Safto representative Andrew Maggs told reporters that South African companies were anxious to export goods to Kenya.

"We want to have tangible business projects established at the end of the fair," he said.

The Premier Group won first prize for private foreign exhibitors at the fair.

"You have done well. It is very good, delightful," Mr Moi said after visiting Premier's stand.

Last month Kenyan Chamber of Commerce and Industry officials toured South Africa and held talks with Safto. — Sapa-Reuter.

ANC calls on small businesses to meet their social obligations

By David Canning Star 4/10/91

DURBAN — Small businesses will soon be called upon to meet their responsibilities for social upliftment, Don Mkhwanazi, president of the Black Management Forum, said in Durban.

Mr Mkhwanazi, convenor of the ANC economic task force in Natal, told The Daily News/SBDC Small Business Conference that small business had largely escaped attention regarding social upliftment and black economic empowerment because the main focus had been on large companies.

This would be short-lived.

"If small businesses do not take a pro-active approach, the might and pressure of the disadvantaged masses will be felt sooner rather than later," he warned.

There was a general impression that small businesses were the worst employers and exploiters of the people.

Yet small to medium-sized businesses were well poised to make black economic empowerment a reality. This included potential for joint ventures and partnerships, hands-on management training, and worker empowerment.

Worker empowerment would include educational assistance for employees' dependants, training of the workforce, sharing of information, housing subsidies and loans.

There was no reason why small business should not also be involved in social upliftment.

Turning to the SBDC, he said the organisation had to correct a perception that it was a "white" institution serving white interests.

Its non-racial approach must be reflected in its management structures, number and value of loans and assistance to black-owned business.

Whites accounted for about 74 percent of loans in value terms and blacks for only 14 percent.

Another criticism was that the SBDC was no longer a lender of last resort but was directly competing with, and no different from, the conventional banks.

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AGUTTER FOR *FM* CONFERENCE

(180)

FM 4/10/91

Many South Africans are too young to remember when we had solid business links with Europe. Some have simply given up trying to forge ties abroad.

But, as sanctions disappear, new opportunities present themselves daily. It is important to consider what skills local businesses will need to develop to keep themselves from remaining on the outside looking in on "Fortress Europe."

Agutter

Richard Agutter, of the London office of KPMG Peat Marwick McLintock, will speak on the need for SA companies to form alliances with companies abroad when he addresses the *FM* Investment Conference next month on: "Opportunities for South Africans in Europe."

He will discuss possible openings for SA firms and how to go about exploiting gaps in the market. He will also cover how to raise capital on world markets.

Agutter has been with Peat Marwick since he qualified as a CA in 1964 and became a partner in 1977. He has been involved in the UK and internationally in company restructuring and sales since 1967.

For the past two years he has chaired the KPMG International Merger & Acquisition Network. Much of his time is spent assisting client companies in cross-border transactions.

☐ The *FM* Investment Conference will be held at the Carlton Hotel, Johannesburg, on October 31 and November 1. The fee is R1 295 per delegate.

If a company sends more than one delegate, each pays R1 195. To book, phone Fiona Vigliotta at (011) 497-2134/5.

NEW TAX BRINGS IMMEDIATE SAVINGS FOR MANUFACTURERS

180

S/Times (Bus) 6/10/91.

By TERRY BETTY

WHOLESALE prices of furniture should drop by 2%-3% with immediate effect due to VAT.

The furniture industry is one of many where production costs will be reduced because of VAT. Manufacturers are now eligible for rebates on the VAT they pay on the expenses which previously carried 13% GST.

Others which have already announced reduced prices as the result of VAT savings include beer, cement and newspapers. The steel and engineering industry is also to reduce prices by between 1% and 2%.

Federation of Furniture Manufacturers executive director Winston Smith says these benefits will be felt within the next few weeks, as the furniture industry makes only to order.

Competition

Dr Smith explains that the savings come about because wooden furniture is a capital-intensive industry. It also uses a large percentage of consumables on which GST was previously paid.

He says competition is tight, which will ensure that the benefits are passed on.

The news is not so good for the appliance and electronic sector. TEK managing director Richard Ferrer says VAT benefits are minimal as they did not pay much GST before.

The benefits are partly offset by the 2,5% increase in excise duty on luxury goods, announced to compensate the drop in the VAT rate from 12% to 10%.

He points out that manufacturers are burdened with a negative cash flow as their average debtors book is 60-70 days. This means they will be paying the Receiver VAT they have not yet collected, and incurring interest charges.

He says there will not be the usual October increase as it could be misconstrued as being VAT-related.

Dion financial director Mannie Chaimowitz says 15% of Dion's costs incurred GST, half of which is advertising. He says the tax saving on this is substantial and will release funds for more advertising.

Mr Chaimowitz says VAT has produced savings. But they are not as great as expected, and he warns the benefits can only be passed on to the consumer once they filter through the system.

But retail customers will still benefit from the fact that the old GST, which added 13% to the untaxed price of the item, has been replaced by VAT, which adds only 10%.

Pick 'n Pay financial director Chris Hurst says VAT will have a negative effect on retailers' cash flow. Under GST they paid the tax collected over to the Receiver on the 20th of the next month. They will now have to pay VAT to suppliers.

He says they pay on average 40 days after delivery.

Post-sanctions SA must be ready, says Hersov

8/10/91 (180)

BRENT VON MELVILLE

GOVERNMENT's attitude towards local protection of chosen industries needs to be urgently clarified to assess timeous and appropriate business decision-taking, says Anglovaal Industries (AVI) chairman Basil Hersov.

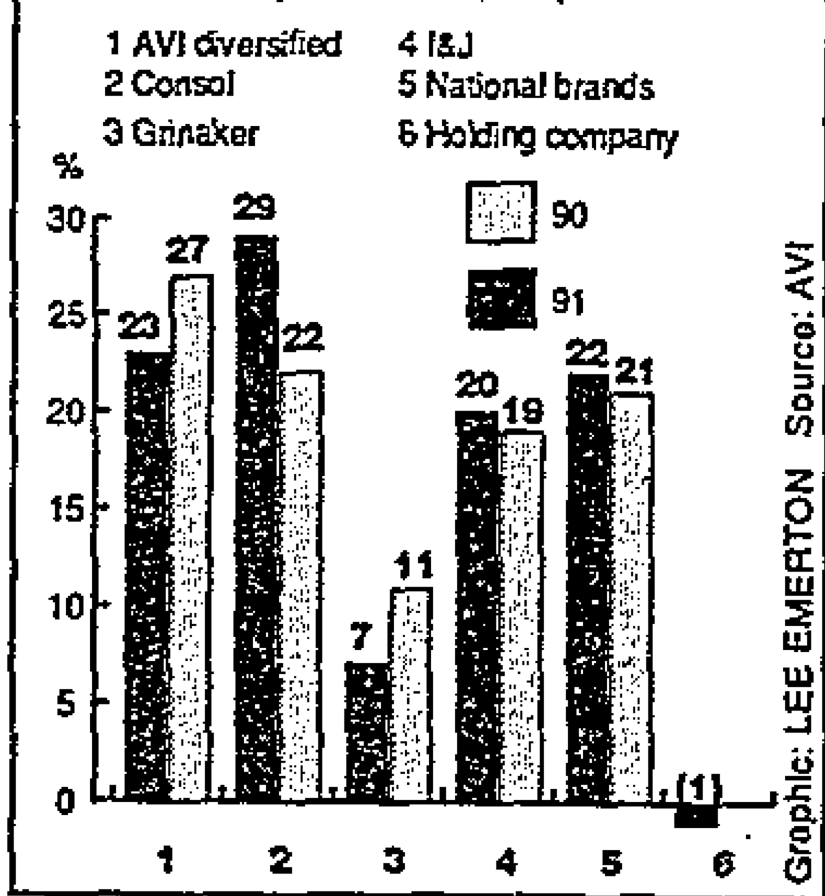
Hersov says the prospect of global competition in the wake of the removal of sanctions will be challenging, but SA business will have to be properly prepared. "Future pay awards will increasingly have to be related to productivity to enable the best SA goods to compete in world markets, and thus to preserve and increase employment," he says in his annual review.

Despite these intangibles, Hersov says he fully expects an improvement in AVI earnings for the current year. AVI showed a 12,6% rise in earnings to 825c (733c) for the 1991 financial year.

Divisionally, packaging and rubber company Consol Limited turned in the strongest performance, pushing up pre-tax profit 54% to R288m (R187m), and improving its contribution to AVI earnings to 29% (22%).

Hersov, however, warned that government policy with regard to the relaxation of the conditions governing the importation of tyres could have a significant negative effect on the industry.

AVI earnings (contributions)



Irvin & Johnson (I & J), which markets and distributes frozen and chilled foods, also turned in a stable performance, with a 12% rise in pre-tax profit to R101m (R90m). Its contribution to earnings moved up slightly to 20% (19%).

Subsequent to the year end both Consol and I & J announced their intention to raise a total of R397m in separate rights issues. In tandem with the announcements and in order to follow its rights, AVI indicated that it would raise R388m by way of a share issue.

The issues will erase net group borrowings of R278m, as well as expanding the group's capital base for growth opportunities. Consol currently has net borrowings of R159m. I & J's borrowings are at R44m.

The consumable goods division, represented by 98%-held National Brands, put in a relatively healthy performance for the year, bolstering its pre-tax profits 23% to R91,5m (R74,4m), and leaving contribution to AVI earnings at 22% (21%).

Hersov says the divisionalisation of the operating entities of the division is now complete. Subsequent to the year-end this division disposed of its 16,2% interest in Cadbury Schweppes (SA) for R177m, resulting in a capital profit of R153,7m. Of the proceeds about R90m will go towards paying off the division's debt.

The improved net results of the engineering activities of AVI Diversified Holdings offset the reduced profits of the Avtex textile operations to some extent. Profit before tax showed a slight gain to R106,5m (R105,7m), although contribution to group earnings fell to 23% (27%).

Hersov warns that the profitability of the textile industry and its role as a major employer will be determined by the action government takes "in respect of the dire need for the creation of an environment in which the industry can develop and grow."

The Grinaker division also showed slumping markets, with a decline in contribution to group earnings to 7% (11%). Hersov attributed the decline to the vulnerability of both construction and electronics to the present economic environment.

Sacob warns against hasty removal of trade barriers

Star 9/10/91 (180)

By Sven Lünsche

The SA Chamber of Business (Sacob) has warned against the hasty breakdown of protectionist policies proposed by the Industrial Development Corporation (IDC) earlier this year.

The recommendations of the IDC are set to form the basis of SA's trade and tariff policies and are expected to be unveiled in the next session of Parliament.

The response from Sacob, which represents many companies in sectors currently enjoying tariff protection, could well force the Government to reconsider key aspects of the IDC's landmark report.

But it is unlikely to see a major shift in the emphasis on moving away from protective import tariffs to a broad industrial policy to boost SA's export competitiveness.

The IDC's recommendations include a phased removal of most tariffs over a number of years, applicable to all industries, an end to tax concessions designed to favour exports and significant anti-dumping measures.

While Sacob welcomes the emphasis on export-oriented growth, it sounds a serious warning:

Environment

"If SA industry is to be cut adrift through trade liberalisation in an economic environment of high inflation, an unstable exchange rate, a debilitating tax regime and without protection against predatory pricing, the vaunted efficiency and higher growth of export-orientation will not result."

The chamber says that in order to remove the tariff protection from local industries, a policy has to be in place consisting of appropriate macro-economic measures and a viable industrial development strategy.

"Much more than a decrease in tariff protection is required to launch an economy on the road to export-oriented growth," Sacob says.

It stresses that the newly industrialised countries of the Far East did not rely on trade liberalisation alone to facilitate outward-looking growth.

"If fact, there is evidence that industrial targeting and dirigiste policies that sought to create neutrality in production, with protective barriers initially in place, played an important part in the growth strategies of these countries."

Sacob is particularly concerned about the IDC's proposed removal of selectivity when it comes to removing protectionist measures from industrial sectors.

It says that tariff reform should set overall targets for tariff reductions, "but with built-in flexibility through a system that allows appeals on the basis of selectivity".

Sacob advocates that appeal procedures should be in place to allow for a more selective approach on the extent of tariff reductions and the time scale involved.

The chamber warns that "the spirit of trade liberalisation should not draw attention from the devastating effect dumping can have on SA industry".

"Therefore, effective and proven measures to counter dumping must be in place when protection is lowered and formula duties are removed."

Business confidence now hostage to political process

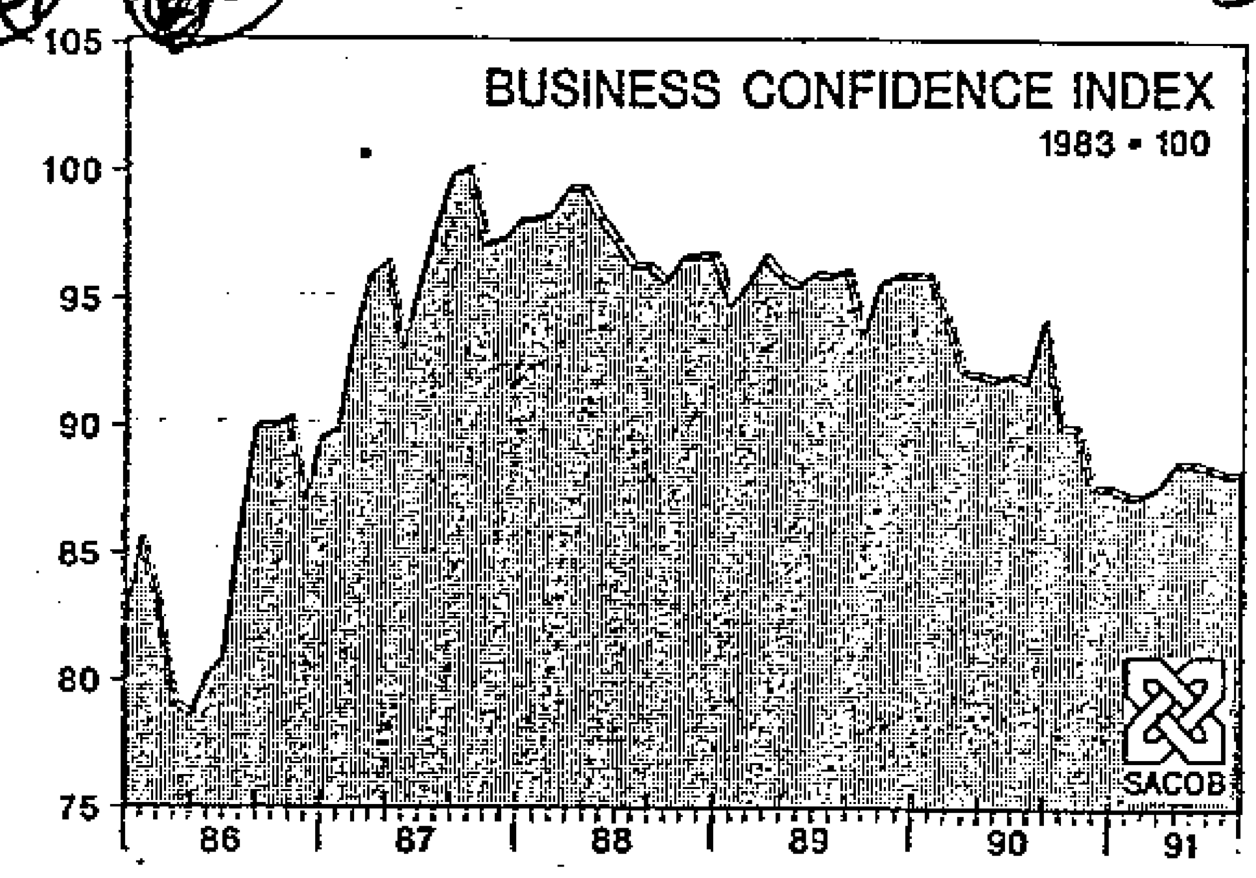
Star 9/10/91

By Sven Lünsche (180)

The economic upturn could be held back by recent political developments, particularly the confusion surrounding the ANC's economic policies, the SA Chamber of Business said yesterday.

• Presenting the Chamber's September Business Confidence Index, chief economist Dr Ben van Rensburg said business confidence "has recently been a hostage of the political process".

The BCI remained unchanged in September at 88,2. (see graph)



Business uncertainty had been heightened in recent weeks by renewed talk of nationalisation, reconsideration of international debt obligations, as well as the introduction of VAT, Dr van Rensburg said.

"The political posturing by key players appear to have negated much of the progress that had been made in narrowing the ideological gap in the economic debate.

"The statements by the ANC have undoubtedly served to make both foreign and local investors jittery, and could dampen the recovery in investment spending anticipated following the introduction of VAT."

As such they may have served to prolong the economic recession, Dr van Rensburg says.

There were also fears that opponents of VAT will use further industrial action to change the government's policy.

"It is now essential that the necessary poverty safety nets are rapidly put into place, so that targeted assistance to the people who really need it can be introduced before the temporary zero-rating of the additional foodstuffs comes to an end in six months."

On the economic front business confidence has been dented by the lower gold price and the decline in retail sales and employment figures.

On the other hand business confidence is being boosted by prospects of an upswing in exports once the world economy picks up.

"SA's improved international relations are undoubtedly starting to pay dividends in the form of an improved export performance, in spite of depressed commodity prices and lower world economic growth.

"It seems clear that the next economic upswing will be export-led," Dr van Rensburg says.

Another salvo fired at conglomerates

w/mail 11/10 - 17/10/91 (180)

By REG RUMNEY

THE Competition Board has given the green light to the Columbus Stainless Steel Project — but warned that it might take action in future.

This is the second occasion in recent weeks when Competition Board (CB) chairman Pierre Brooks has issued an apparently favourable finding about an acquisition or merger, but added his note of caution and disquiet about the state of affairs.

The decision was there will be no formal investigation of the deal in which Barlow Rand sold Middelburg Steel & Alloys and Barlow's chrome interests to a "consortium comprising companies in the Sanlam and Anglo American/De Beers groups".

But Brooks concludes: "In view of the potential negative effects the transaction could eventually have on competition between these two groups the clearance thereof perforce only signfies qualified approval of the venture."

In the Board's Report No 30 which investigated Anglo and De Beers building up their share stake in Gold Fields of SA, it was found that no monopoly situation had been created, and no further action needed to be taken by the board or the minister.

But the GFSA report has an extensive postscript, apparently to spur debate, which notes "the indications are that both from an economic and poltical point of view the degree of concentration in this country is probably too high".

In his latest report, Brooks, outlining a possibly more active role for the board, notes: "... it is important for competition policy to be directed not only at arresting the drift towards coalescence of the different groups but also at purposeful group disentanglement and the identification and elimination of restrictive practices spawned by an excessive concentration of economic power."

In clearing the Columbus deal, the CB struck a compromise between the desirability of domestic competition and industrial development. This Anglo spokesman Michael Spicer identifies as one of the problems with the CB's approach. In reference to the successful newly industrialised countries, he poses the rhetorical question: "Why do small countries have big companies?"

There are a number of issues which he says are not dealt with adequately in the purely theoretical framework of the CB's views. How to deconcentrate? To whom to sell off companies? Since big foreign investors would probably be frowned upon, only other conglomerates would be able to buy. What to do with the money? For example, a conglomerate investing money abroad from sold-off companies here would be accused of being unpatriotic. But if it bought new South African companies with the money it would be accused of spreading its tentacles again.

Spicer reckons a corollary of deconcentration would have to be liberalisation of markets.

SA FOUNDATION

Keeping their heads

FM 11/10/91 (180)

The foundation's very success leaves it uncertain about the future

Controversy has always dogged the steps of the SA Foundation — that band of redoubtable business worthies who kept SA's economic interest alive in the important capitals of the West during the long, dark years of apartheid. In the new SA it has its critics, as it had in the old. Those that once questioned its veracity now doubt its need.

In the past it has been harassed by the Left as an apologist for government and hence apartheid. But the fact that it has maintained a credible presence where SA diplomats have not been welcome suggests that this view was not shared abroad.

Von Schirnding

Moreover, it is a matter of record that SA business, by emphasising both the need for economic growth and enlightened business practices, mitigated and helped to remove many of the sharper edges of apartheid.

The real question facing the foundation today, however, is not what it was but what it will be in future, if it has one. Peter Sorour, the former director-general who steered the foundation through its most difficult period, says it has always been conscious that it could one day work itself out of a job. "All the years of the foundation's existence we have been aware that the time might come when SA was free of political polecatism, and we could say, well, we have done our job," he acknowledges.

Sorour doesn't believe the time has yet come to dismantle the foundation's network. But there are those who believe that, as a child of the apartheid years, it has outlived its use and is now an expensive bureaucracy seeking its own perpetuation.

The foundation was established in 1959 by a small group of businessmen who felt that the economic interest was not being adequately served by SA embassies. They could see the economic pitfalls of apartheid, so manifestly at odds with free enterprise and economic growth.

They took the long view that apartheid ultimately would have to be reformed out of existence if prosperity were to be maintained, let alone fostered.

A leading light in its establishment was Major General Francis (Freddie) de Guingand, who had been Montgomery's chief-of-staff in North Africa and Europe, and who had the reputation of having been the most popular general in the British army. He brought considerable diplomatic talents and a wide range of contacts to the fledgling foundation. By that time he had settled here and become a prominent member of the local business community.

It was a time when business was dominated by English-speaking interests and nationalisation, especially of the gold mining industry, was being threatened by the Nats. The Nats, for their part, were busy sandbagging apartheid's defences. De Guingand and his associates were keen to tell the world that SA commerce and industry did not necessarily support this process and that they were capable of mitigating its excesses.

The foundation's funds come solely from its membership, which embraces most of the country's largest companies — 1 500 in all. Kurt von Schirnding, the present director-general and himself a distinguished former ambassador, is adamant that the foundation has never received government funds. "I am sure that on many occasions it would have been possible to get government money," he admits. "But the foundation has never accepted any. It always felt that would be counterproductive, and recent events have proved that view was right."

The budget has never been limitless, and remains a source of internal concern. Today, according to Von Schirnding, it is "equal to the cost of running one consulate abroad." That, in terms of recent guesstimates, means about R7m a year. With that, the foundation maintains a staff of around 35; its Johannesburg headquarters; small offices in London, Paris and Bonn; and a slightly larger one in Washington. It also researches and publishes various reports and periodicals, including a monthly newsletter, a quarterly journal and irregular executive briefings.

Former D-G Sorour ... *not yet time to dismantle*

These formal information services aside, the foundation's mainstream activity is lobbying and networking — activating and maintaining international contacts with business people, journalists, politicians and lobbyists. In its early life there were those who believed it appeared less concerned with communicating the facts about SA than with putting an acceptable gloss on the status quo. During the Sixties one commentator liked to describe the typical foundation guest in SA as a retired bicycle manufacturer from the south of France.

But that, as even its critics will agree, soon changed. It has valuable connections with our main trading partners in the highest places and its stock in trade is credibility. Visitors included Douglas Hurd (now UK Foreign Minister) and the president of the Austrian parliament. The foundation's network is greater and more penetrating than Foreign Affairs can offer.

It has sustained its wide international contacts only by being perceived as an objective alternative to official channels as an information source. For at least 40 years SA diplomats have been seen abroad primarily as representatives of the ruling party, and their credibility remains correspondingly suspect.

For the past decade, the foundation has pursued what one former employee describes as a programme of constructive engagement. Its message was that things weren't as bad as they seemed, that eventually SA would move away from apartheid as its depredations were better understood, that the economy was viable and that government could best be nudged along a reformist path in an expanding economy. It has also operated as an internal lobby, keeping government in touch with what foreign capital would like to see happening in SA — a task it claims will remain important in future.

Quantifying its past successes is not easy, particularly since much of its work relied on discretion to be effective. "You can't look at the profit and loss," concedes Von Schirnding. "Only in terms of achievements in the overall SA context can you say that, here and there, the foundation played a key role in maintaining a foothold in difficult times."

Foundation officials organised contacts with the ANC in London a full year before a group of senior SA businessmen flew to Lusaka in 1985. Some who would not have accepted invitations from the SA government were willing to visit SA as guests of the foundation. They included a recent delegation from the Japanese business chamber, the Keidanren, on a visit which has already borne fruit in the lifting of certain sanctions. The organisation has done pioneering work in establishing contacts with China, and its Bonn representative has been extremely active in eastern Europe.

Much recent effort has been devoted to combating sanctions, which has led to the foundation's renewed vilification in some quarters as a government apologist. It is still preoccupied with the lifting of remaining sanctions, notably those imposed by US cities and states.

Domestic sensitivities over sanctions underscore one of the foundation's most awkward anomalies. It has no black constituency to speak of, something of which it is uncomfortably aware. Key black council member Sam Motsuenyane resigned in the wake of the township violence of the late Seventies and officials claim that other black business people have come under pressure from the ANC and other groups not to associate with the organisation.

"We don't want surrogates," Von Schirnding says. "We don't want people who are not leaders in their own communities. We don't want to force the issue and co-opt people — that would be disastrous. But I see no reason why, in the new SA, we should not have a representative number of blacks on the council."

Though attitudes to sanctions remain a sore point, the foundation is now discussing its future role with the ANC. "Once sanctions go there is little to divide us," says foundation director Gavin Lewis. "We are not a party political organisation. But we are skilled at digesting information and presenting it in a format accessible to foreign financiers."

If the foundation's complexion is decidedly white, its age profile is firmly on the far side of the mid-life crisis. Its hierarchy is dominated by the older business generation, including Basil Hersov, Jan Marais, Gavin Relly, Dick Goss, Robin Plumbridge and Chris Saunders. Some argue that this has been a strength and not a weakness.

"The captains of industry who carried the foundation through the difficult years formed collegial relationships, and so give the impression of being a cosy group," says David Willers, a former director of the foundation's London office and now editor of *The Natal Witness*. "But it was because of the cohesion and confidence they developed over the years that the foundation was as effective as it was."

He adds: "Collectively, over the yeras, the presidents of the foundation have made an input equivalent to a score of ambassadors at no cost to the taxpayer whatsoever."

Be that as it may, the foundation is less in touch with a younger generation of businessmen. This may prove an expensive oversight in years to come, as it tries to boost its corporate funding and stay independent. "We pay our annual membership fees but, apart from that, we don't hear from them from one year to the next," complains Chris Seabrooks, chairman of SA Bias. "We have not felt any direct effects of their activities and if they disappeared I don't think we'd notice any difference."

Seabrooke acknowledges that the foundation may have made a contribution in the past. But he says that he and others like him believe, as SA business regains its international respectability, that they are quite capable of maintaining their own external links. "We have been received in a totally different light over the past two years — the change has been unbelievable," Seabrooke says, adding that the foundation is part of an old order which is now disappearing.

Von Schirnding argues that negative perceptions of SA in the international community are deeply entrenched and that they will outlast sanctions. The foundation's continuing task, he says, will be to address such perceptions and, in particular, to deal with the concerns and reservations of potential investors and the banking community.

"Everything that has happened since February 1990 is an exoneration of what we have stood for," he says. "Now is the time to capitalise on our long investment overseas, much of it *sub rosa*. We must tell the overseas community not to lose faith, that there may be hiccups, but that as a business community we are working for a stable SA."

Part of the job will be to defuse concern over rhetoric from the maverick Right and the Marxist Left — and to communicate other international concerns and promote the free enterprise ethic to a new democratic government. "I believe the business community will ensure a moderate middle way," Von Schirnding insists. "But people won't necessarily invest on the say-so of the ANC. We will come into our own in a new SA only with the help of a lot of business diplomacy overseas — diplomacy that we are very well placed to handle."

It would be comforting to believe that SA business no longer needs the services the foundation provides, and that its interests could be represented satisfactorily by, say,

Seabrooke

Relly

Goss

the SA Chamber of Business (Sacob). But a new government, particularly one with a heavily socialist bias, may not guarantee an end to economic isolation.

"The foundation has built up an exceptional communications network, one that should be looked on as a national asset," insists former director-general Sorour. "We shouldn't throw it overboard — things can always change back again. Politicians tell stories to their own benefit. If you have a private sector communications channel, business people are more inclined to believe it, even if it is telling the same story."

That may not ensure the foundation's survival as an independent institution. Its members, who find themselves funding an unnecessarily large variety of business associations, may well reconsider its stand-alone status. The foundation itself accepts that it needs closer ties with other business organisations, particularly to help pinpoint and market specific investment opportunities in SA. To this end it is already exloring closer links with Sacob, the SA Foreign Trade Organisation (Safto) and the Afrikaanse Handelsinstituut (AHI).

But that may not necessarily be a good thing. Sacob, young and with a thrusting bureaucracy itself, may be skilled at domestic lobbying, among other things. It has, however, few manifestly diplomatic skills and certainly no diplomats are conspicuous in its ranks.

Safto is for the hard-sell trader of limited size and the AHI is an eccentric cultural organisation. The foundation's endeavours have transcended with some advantage the sort of blatant commercial self-interest that is characteristic of these groups. There would always be, moreover, a difficulty over the apportionment of resources.

Perhaps the most telling argument for the foundation's continued existence is that a future SA government that leans too much towards a mixed economy will place this country's economic interest in much the same sort of jeopardy that apartheid has done. In terms of centralised control and inability to create wealth, an apartheid economy and one that is heavily socialist have too much in common to set foreign investors at ease. ■

SECURITY POLICE FM 11/10/91

(180)

More secrets

Another labour organisation has been infiltrated by the security police. At the same time that security police Major Derick Botha, with the co-operation of Rand Afrikaans University professor Kobus Slabbert, controlled the Auckland Park-based Liaison Bureau with slush funds, Botha's colleagues set up a Cape Town operation (*Leaders* September 27).

A memorandum, marked "top secret" and dated September 11 1989 (the *FM* has a copy), deals with the launch of a Cape Town labour organisation, Management Services Coordination Employers (Manco). The memorandum was sent by the Western Cape branch of the security police to their Pretoria headquarters.

According to the document, "an employers' forum" was formed on August 30 of that year after Cape Town security policemen had various discussions with company directors and managers in the area. It further states that "a five-member committee, under the chairmanship of the Cape Employers' Association's former chairman Frank Lighton, was elected by 35 representatives."

During the meeting, Lighton, according to the memo, informed those present that the forum did not replace existing employer's organisations. Its aim was to inform members on labour law, union strategies, actions during labour unrest and legal aspects, including industrial court decisions, and to

Continue →

(180)

assist smaller firms.

A Captain Brink of the western Cape Security Police commented to his superiors that it was clear from the meeting that more firms were interested in joining the forum. "Members of this office (the Security Police) — without getting involved personally — will maintain the necessary contact with committee members and will receive a report-back of the most important decisions," wrote Brink.

He added: "In order to dodge undesirable elements, as well as newspapers, the matter is regarded as confidential at this stage."

Various handwritten notes are visible on the memo. One written comment on the document states that the forum will improve the security police influence in the western Cape. At the bottom of the page the name "Maj Botha" is handwritten.

In a follow-up memo, dated September 19 1989, also stamped "top secret" with the certifying signature of one P J J du Preez, a meeting of the elected committee on September 6 1989 is discussed. The memo states that 15 new members joined the forum at a meeting held on September 13 and that possible stayaway actions were discussed as well as the possible consumer boycott expected later that month.

Again Captain Brink reported to his superiors in Pretoria. He said that contact between the Cape security police and various companies had increased.

The name "Maj Botha" again appeared at the bottom of the document. As was earlier reported, Major Derick Botha, the controller of Liaison Bureau, had also been involved with the R1,5m funding of the Inkatha union, Uwusa.

The *FM* called Major Botha to inquire whether he and the Botha mentioned on the security police memo were the same person. "I am not interested in talking to you," he said before slamming the receiver down. The *FM* has also not received any response from an earlier request to interview Law & Order Minister Hernus Kriel about his department's involvement in labour organisations.

Manco's Frank Lighton, however, expressed his "astonishment" when told by the *FM* of the two memoranda. Describing himself as an honorary administrator, Lighton said that he had never before heard of Botha. He knows a Captain Brink, said Lighton, but he could not recall that Brink had been present at the inaugural meeting of Manco.

"We have never been involved with the security police," he said. "I cannot speak about secret documents."

Meanwhile, the Commission for Administration, which has been investigating and negotiating labour legislation for civil servants, has cancelled a contract with Liaison Bureau and terminated the services of Vanderbijlpark attorney Hugo Pienaar, a former member of the close corporation. (See *Not guilty*).

Pienaar, a partner of law firm Du Plessis Pienaar & Swart, had been a member of a committee representing the commission

Said commission chairman Danie du Toit: "We did not know about Mr Pienaar and Liaison Bureau's involvement with the security police," he said. "If we had known, we would not have contracted him."

Pienaar told the *FM* on Monday that the first contact with the security police had been made by Kobus Slabbert and that he (Pienaar) initially had no knowledge of it. Thereafter, he attended a meeting with the Security Police at Slabbert's request to advise them on legal matters. Liaison Bureau CC was formed afterwards, said Pienaar. He was involved only to conduct legal work for Liaison Bureau and the company which was later formed. It must be stressed, however, that the company Liaison Human Resources had never been involved with the State and that it only aimed at assisting clients.

"The partners of Du Plessis Pienaar & Swart were at all times informed about the company's clients, but from the nature of the sensitivity of the close corporation's (Liaison Bureau) client (the security police), were not fully informed as far as that client was concerned."

Pienaar added that he had been informed about the cancellation of the contract between Liaison Bureau and the Commission for Administration, but was awaiting instructions from his client (Liaison Bureau).

Eddie Botha

Manufacturing volumes increase

$|pay 14/10/91. (180)

SHARON WOOD

MANUFACTURING production volumes showed a mild recovery in the second quarter, rising by 0,5% compared with the first quarter, acccording to figures released by Central Statistical Service (CSS).

The most important contributors were the food, "other" chemical products, "other" non-metallic mineral products, iron and steel basic products and machinery and equipment industries.

At the same time retail trade sales began to bottom out and rose by 14% year-on-year in July. Although the trend shows retail sales reaching a plateau after declining gradually since the beginning of the year, on a monthly basis sales eased by 0,7% in July.

The monthly decline was mainly due to decreases in retail sales in the Cape, said CSS.

Economists were divided on whether the apparent turnaround in manufacturing production and flattening out in retail sales was the beginning of a revival.

Rand Merchant Bank economist Rudolf Gouws said he did not expect the figures to herald an upturn in manufacturing production.

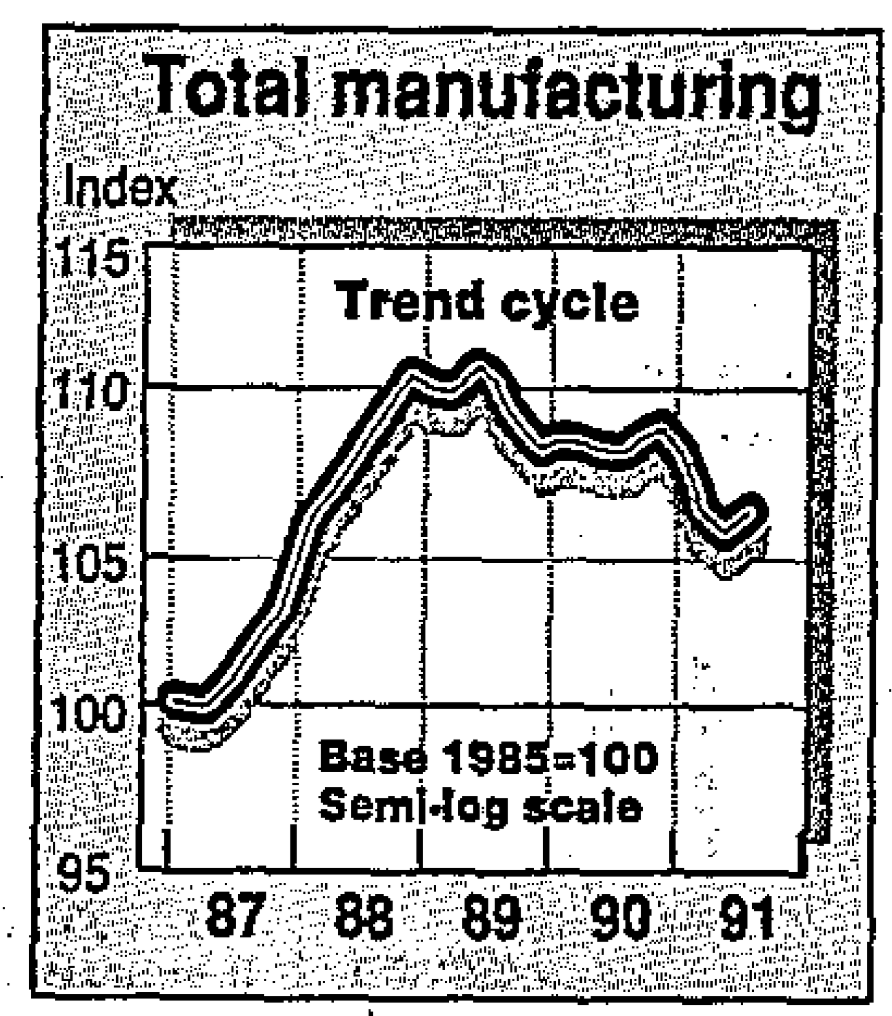
"The economy has reached the bottom," he added.

This was confirmed by flat retail sales and there would have to be a sustained improvement in retail sales before manufacturing production would start to improve.

Bankorp economist Jacques du Toit said he foresaw an upward trend in manufacturing production for the rest of the year because of a build up in inventories following high rates of destocking during the last two years.

Manufacturing was expected to continue improving next year because of better economic conditions. Retail trade sales and private consumption expenditure were expected to decline for the rest of the year because of negative factors such as inflation and interest rates, he said.

Private consumption expenditure was expected to level out in the first half of next year and then increase.



Graphic: LEE EMERTON Source: CSS

Manufacturing volumes show mild recovery

(180) CT 14/10/91

Own Correspondent

JOHANNESBURG. — Manufacturing production volumes showed a mild recovery in the second quarter, rising by 0,5% compared with the first quarter, acccording to figures released by Central Statistical Service (CSS).

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Breaking down the old barriers

BDay 15/10/91. (180)

THE adage "trade follows the flag" is being rewritten in South Africa by the business community to say "the flag follows trade", says Sacob deputy director general Ron Haywood.

Developing

Chambers have long been involved in developing trade with foreign countries and with new markets opening up — particularly in the East Bloc — Sacob's relationship with chambers in other countries has facilitated many connections which otherwise would not have been possible, he says.

"Chamber networking enables interplay with specific businesses and businessmen.

"An example of this is the recent bilateral agreements concluded with the chambers of commerce in the USSR, Kenya, Hungary, Romania, Belgium, France and Spain and the contact which has already taken place between some of these countries and SA businessmen," Haywood says.

As chambers are seen to be non-political, it has been an easy avenue through which to open doors into countries which formally had no contact with SA.

"Through Sacob," Haywood says, "SA has been able to obtain observer status in the Preferential Trade Area Federal Chamber of Commerce and Industry, as well as the business council of SADEC.

"But not only Sacob, as a voice of business, is involved in opening doors.

"Other business organisations, such as Nafcoc and Fabcos, are also involved in these organisations."

Encouraging

Politicians are no doubt using the chamber movement and encouraging businessmen to go into new countries because business is unfettered by politics and can move about freely, he says.

"The apolitical nature of the chamber movement has been crucial in its success in breaking barriers and forging new ties. Business and trade is an invisible support system to the general public, but among businessmen it is a viable communication source to the greater business community.

"None of this takes into account the invaluable publicity, public relations effort and Press coverage given SA by such delegations and forays into foreign markets," Haywood says.

The primary interest in making contact with businessmen in foreign countries is to develop trade, identify investment opportunities, set up joint ventures and exchange technical information.

"This is particularly so for African countries as they see SA as understanding the African needs and having developed technology suitable for African conditions," he says.

The latest in the long line of delegations going abroad to take advantage of warming relations with SA were delegations from the chambers of commerce in Cape Town and Durban.

Both tours have gone to Europe.

Visited

Earlier this year, Sacob, with the Department of Trade and Industry and the Afrikaanse Handelsinstituut and various businessmen visited the Soviet Union, Hungary and Czechoslovakia.

Sacob director general Raymond Parsons visited Australia and Oslo.

While in Sydney, Parsons oversaw the establishment of yet another link in the chamber movement, the Australian/SA Chamber of Commerce, which added to the numbers of bilateral chambers of commerce already existing, such as the ROC/SA Chamber of Commerce and, says Haywood, another such chamber will be established soon.

Foreign delegations to SA have been swinging through Sacob's doors at an astounding rate since the emergence of the "new" SA, Haywood says.

"We received 59 delegations in the first five months of this year, including British, French, Canadian, Finnish, numerous African countries, the entire East bloc and even Red China."

RON HAYWOOD

Labour is showing a spirit of consultation

DEVELOPMENTS on the labour scene during the past year have seen dynamic changes, Sacob says in its annual report released this week.

"The adverserial climate has abated and there is a new spirit of consultation arising out of the successful conclusion of the Saccola-/Cosatu/Nactu accord of last year, which culminated in the Labour Relations Act of May, 1991.

"The past year has seen a continuation of the trend for social policy issues to become part of the relationship between employees and employers.

"This has led to the addressing of issues such as AIDS, a new strategy for urbanisation, health care and social responsibility.

"The supply of skilled manpower to meet the challenge of SA's need for economic growth continues to be cause for concern," Sacob says.

"Changes to manpower policy on a broad front will be to address this problem.

"Sacob is also strongly promoting the closer integration of education, training and career guidance.

"As it is unlikely, however, that a restructured education and training system will meet certain immediate manpower needs, Sacob has proposed changes to current immigration policy designed to encourage those immigrants with qualifications, skills and capital that are needed to come to SA."

Chambers now more relevant

B/Day 15/10/91 (180)

IT IS becoming difficult for business to operate in isolation and Sacob and its constituent chambers are becoming more relevant, says Sacob regional organiser Eric van Dyk.

"But because of the apolitical nature of the chamber movement and the wide range of members it represents, the role of the chamber is of considerable benefit to the business sector as a whole," he says.

Countrywide

Apart from its constituent chambers countrywide, Sacob has more than 120 direct members, the top conglomerates as well as national associations representing specific sectors, affiliated to it.

"Sacob in turn, is represented on no fewer than 60 outside bodies, where it makes the view of the business community known," he says.

"Some of the reasons forwarded by Sacob for the existence of chambers include:

- Assessing and evaluating the needs of the local business community;
- Monitoring development at a local level;
- Mobilising business opinion on local issues;
- Promoting and encouraging the pursuit of a high standard of busines ethics;
- Dissemination of information useful to the business fraternity;
- Creating opportunities to improve business skills;
- Creating opportunities for business contacts;
- Acting as a private sector agent promoting and upholding a private enterprise economic system;
- Eliminating as far as possible obstacles that may hinder the conduct of business in one way or another;

Network

- Providing means to allow individual businessmen to latch onto a huge business network at national level allowing them a share in the decision-making process of the country;
- Acting as a facilitator in bringing together various interests to address a specific problem of concern; and
- To be the voice of business.

Convention programme

THE SA Chamber of Business National Convention 1991 will be held at the Sinodale Conference Centre, Visagie Street, Pretoria, from October 14 - October 16.

The programme of events, which are open to the public, is:

- Tuesday, October 15, noon-1pm: Motion calling for an appropriate negotiating forum; 2pm-4.40pm: Motions on road funding and subsidisation of road transport;
- Wednesday, October 16, 9am-12.30pm: Economic Debate — Economic prospects for 1992 by Standard Bank MD Dr Conrad Strauss; Economic prospects and business opportunities by African Development Bank vice-president M Sangowawa, Abdijan; Investment in human capital by Independent Development Trust chairman Jan Steyn; 2pm-4.30pm: Motions on government spending and judicial reform; 7pm for 7.30: Gala black tie banquet at the Rembrandt Hall, Tukkies Sports Centre.

IDC to raise R2bn to fund projects

B/Day 25/10/91 (180)

THE Industrial Development Corporation (IDC) is expecting to raise about R2bn for new and existing industrial projects this year, following a massive 41% increase in the funds it approved during the 1991/92 financial year.

LESLEY LAMBERT

The corporation, which provides subsidised loans and import credit facilities for industrial projects, increased its funding from R835m to R1,2bn during the year to June 1991 despite the economic downturn, the annual report disclosed yesterday.

It hoped to boost this amount by 30% during the current financial year, which meant it could approve up to R2bn in low-rated loans and import financing, IDC MD Carel van der Merwe said yesterday.

"We are very hopeful that the expected economic upturn, coupled with new tax incentives for beneficiation projects and the exclusion from VAT of new capital purchases will accelerate industrial development next year," Van der Merwe said.

He confirmed that the IDC had the capacity to mobilise about R10bn over the next six years — an amount expected to contribute to new projects worth about R30bn.

The IDC had developed an appropriate strategy to achieve this objective. If it succeeded, the strategy would contribute to a quantum increase in exports and foreign exchange savings, he said.

This, in turn, would facilitate the changeover to a new market-oriented industrial policy which the IDC had recommended to government, he said.

The financial assistance provided last year represented an average 22% of the projects' requirements, with the balance provided by owners and other financial institutions.

An estimated 8 300 jobs would be created by the projects, which tended to be small to medium-sized, and 60% of their new production capacity would be targeted for export markets.

Apart from major projects in the pipeline such as the joint IDC-Sasol acrylic fibre plant and the Samancor and Highveld Steel and Vanadium Columbus stainless steel project, the IDC had targeted a number of other natural resource beneficiation projects for special assistance, the report stated.

Van der Merwe said the massive increase in last year's funding was attributed largely to import financing — foreign

☐ To Page 2

IDC funding

B/Day 25/10/91. (180)

☐ From Page 1

bank loans channelled through the IDC for imported equipment.

There was also an increase in new medium-term borrowings on the Swiss and German capital markets — the first since the 1985 debt moratorium.

Offshore borrowings would increase further this year as existing import financing commitments were drawn down and additional foreign bond issues were made, the report said.

This would be in line with the IDC's efforts to raise the bulk of its capital requirements on foreign markets in order to relieve pressure on the local capital market.

The targeted investment strategy would also require significant sales of existing investments, the report stated.

It was announced earlier this year that the IDC would pay an annual R500m dividend to the Development Bank of Southern Africa this year and next.

But in order to raise sufficient capital for its development programme it would be able to keep the proceeds from the sale of its subsidiaries which included the SA Micro-Electronic Systems, Industrial Selections and National Selections.

Europe's free trade plan will benefit SA

Star 25/10/91 (180)

By Neil Behrmann

LONDON — The agreement on a 19-nation European free trade zone is expected to benefit South Africa's own dealings with the region.

The pact between the European Community and European Free Trade Association (EFTA) countries paves the way for a super trading bloc which will create a market of 380 million consumers stretching from the Arctic to the Mediterranean.

The move can only help South African exporters, says Nick Mitchell, director of the UKSA Trade Association. He doubts whether the treaty which combines the 12 European Community countries with seven (Switzerland, Austria and Scandanavian) nations that make up EFTA will become a protectionist "fortress".

As a result of sanctions, South African trade with EFTA is minuscule. In the first six months of this year exports to these nations including, Switzerland (by far the largest in the group), Austria, Sweden and Norway totalled around $350 million (R1 billion). Imports from these nations were around $200 million (R5,6 billion).

Inclusive of the Common Market nations where Germany, the UK, Italy, France, Netherlands and Belgium are the largest traders with South Africa in that order, total first half exports to the region were $4,5 billion (R12,6 billion). Imports amounted to $3,4 billion (R9,5 billion).

Barriers will fall

If individual nations ratify the pact, it will progressively abolish many of the barriers, national standards and other protectionist measures. Once formed in 1993, the bloc will account for 40 percent of world trade.

In this vast new market, consumers will benefit from a freer flow of goods, people and services. Goods will be priced more competitively, there will be greater consumer choice and easier travel.

From 1993 individuals should be able to live, work and offer services throughout the 19 countries.

Products, capital and services will be able to move freely, and will avoid customs duties, discriminatory tax and quotas.

This has considerable implications for South African goods. Once passed by a single state, the product should be acceptable to other member states. Its packaging, for instance, can be identical in all 19 nations.

The platinum industry, for example, is already benefiting from European environmental legislation. The EC agreed with Austria to cut truck noxious emmissions by 60 percent.

South African coal, fruit and vegetable and wine producers will be able to market their products aggressively.

Companies can set up representative offices to market their products. Cullinan Holdings and Dorbyl are recent examples.

South African commercial attaches throughout Europe have been inundated with trade enquiries in the past few months. The new pact will only improve prospects.

American and Japanese executives, for example, say that their companies will "reap benefits". The pact will spur economic growth in the region and attract international investment.

On the other hand, European corporations will now find business far more competitive. So South African manufactured products must demonstrate excellence in terms of quality, after sales service and pricing.

IDC earmarks R10-bn for industrial ventures

Star 25/10/91.

180

By Sven Lünsche

The Industrial Development Corporation (IDC) will be able to mobilise up to R10 billion over the next six years for backing industrial projects valued at R30 billion.

As part of this expansion the IDC is currently investigating a R3 billion project which would make SA self-sufficient in alumina and magnesia and a major producer of potash.

In its latest annual report the IDC says the cash for such projects would be raised through its normal cash revenues and a continued sale of assets to the private sector.

In the current financial year alone the IDC plans to raise R2 billion to fund projects.

The IDC says it intends to borrow larger amounts on foreign capital markets after establishing a $150 million Italian credit line recently.

It will focus investment on natural resource beneficiation projects, which are feasible in an internationally competitive environment.

Turning to the alumina, magnesia and potash project, the IDC says it has developed a process to recover these minerals from phlogopite, a waste product of its Foskor phospate operation, near Phalaborwa.

"Studies indicate an economically viable project with an annual capacity of 350 000 tons of alumina, 300 000 tons of magnesia and 220 000 tons of potash."

The next phase of the project is a demonstration plant costing R95 million and discussions are under way with interested parties for participation in the project, "which could ultimately involve an investment in excess of R3 billion".

The report details a number of other projects under investigation by the IDC.

It has been approached by Samancor and Highveld Steel for financial assistance in the R4 billion Columbus project and will consider participation once the go-ahead has been given.

The IDC confirms its decision not to take up a 20 percent stake in the Mossgas project, but says "it intends playing an active role in promoting the downstream optimisation of Mossgas' petrochemical production. Discussion on the establishment of a cracker (chemical plant) are ongoing as the first step in down-stream beneficiation."

The IDC says most of these projects will require its assistance to spread the risk inherent in large-scale undertakings dependent largely on international markets.

In the 1990/1 financial year, the IDC's industrial financing authorisations rose 41 percent to R1,18 billion, representing 22 percent of total project requirements.

Industrial financing totalled R600 million, while R580 million was approved for credit facilities for the import of capital equipment.

An estimated 8 300 new jobs will be created by these projects and 60 percent of the capacity is targeted for exports.

Despite the high profile of its larger projects, 65 percent of authorisations were for smaller industrial undertakings with assets of less than R10 million.

In its attempt to assist in the financing of broader development needs the IDC will continue to pay annual dividends of R500 million to the Development Bank this year.

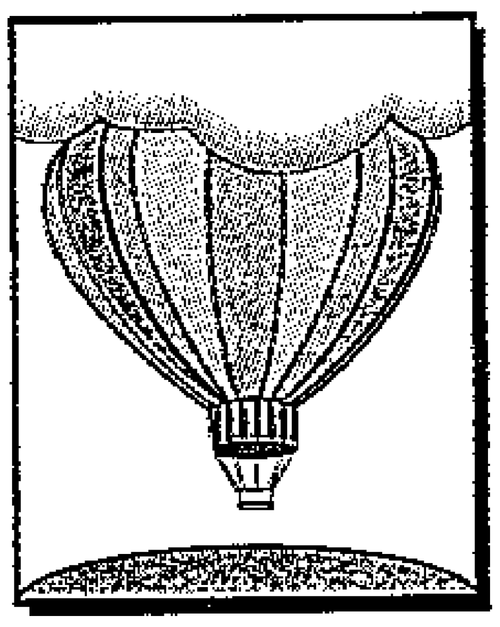
Despite the higher investments, IDC profits fell by nine percent to R414 million in financial '91 as a result of lower dividends received from subsidiaries. A further drop in profits is expected this year as the IDC will lose out on interest payments following a R1 billion dividend payment to the state.

ANGLOVAAL INDUSTRIES

Minding the store

FM 25/10/91 (180)

The companies must provide quick returns with durability — and have done so



Precious metals may be a more glamorous and traditional measure of wealth — but over the next few years, Anglovaal's main sources of earnings growth will come from rather more mundane products. Like glass bottles, biscuits and cold fish.

Basil Hersov, chairman of both Anglovaal and Anglovaal Industries (AVI), will rarely have been so grateful for the group's investment in basic but cash-rich industries. The spread is rather wider than the commodity-driven and often capital-hungry projects — such as explosives or pulp and paper — often favoured by other mining houses.

Under stocky CE Jan Robbertze, AVI's earnings and dividends have trebled since 1986, while the share price has increased almost tenfold. It has outperformed the JSE actuaries Industrial index, the Industrial Holding sector and — for much of the period — major diversified groups such as Barlow Rand, Malbak and Amic.

There was a further boost to the share price recently, when AVI beat the downtrend in industrial holding companies and lifted earnings for its year to end-June by 13%. This proved a favourable time to announce a large rights issue; the share price increased from R107 to R120 in two weeks, though it has since eased back to around R106.

The rights issue is virtually certain to improve earnings in the short term. If the trading performance remains merely static, AVI's earnings in 1992 will rise by 12% from its proceeds and the sale of its 16% interest in Cadbury Schweppes.

Anglovaal is the smallest of the major mining houses and its industrial interests are particularly important. Hersov says that Anglovaal's founders — his father Bob Hersov and Slip Menell, father of deputy chairman Clive Menell — used to talk of the "golden parameter" in which half the income was derived from mining and half from industry. In the 1991 year, industry provided R150,4m, or 54%, of Anglovaal's total earnings. That compares with R132,7m, or 56%, in the 1990 year; there was also a sharp boost in finance income after some well-timed rights issues.

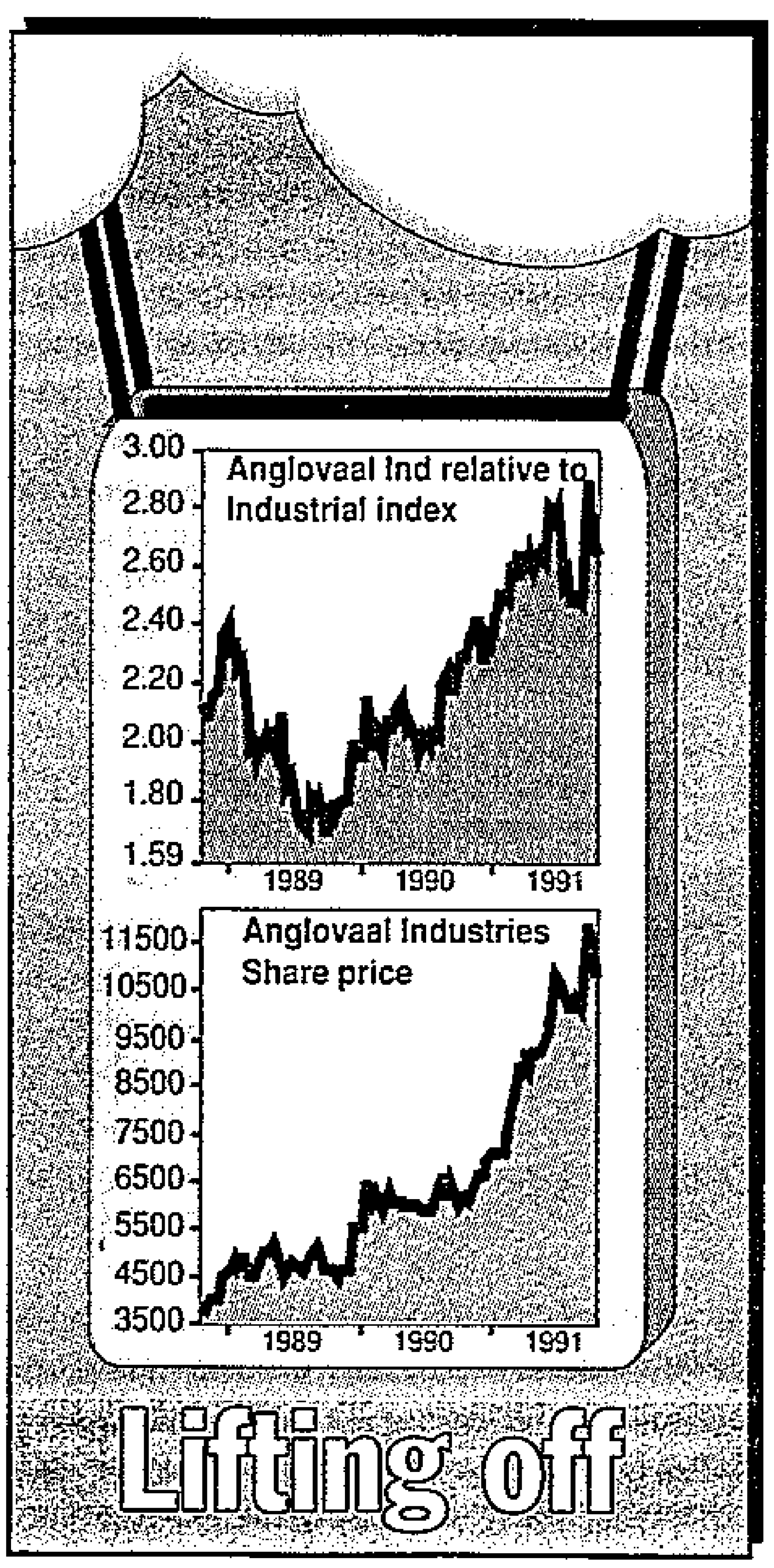
Anglovaal, and ultimately the Hersov and Menell families, have clear shareholding and management control; with a few minor exceptions they hold a majority interest in all group companies. This is a tenet underlying the way Anglovaal is structured and run.

Judging by the market's enthusiasm for the rights issue, AVI could have sought an even larger sum — but this might have threatened the existing control structure. Instead of issuing paper willy-nilly, Robbertze and his team are forced to maintain tight financial disciplines. Most funding is expected to come from internally generated cash flow and borrowings.

None of the proceeds of AVI's rights issue will be needed to fund the R1,1 bn in capital expenditure planned over the next three years. This will all be financed by cash flow and borrowings at operational level. AVI has been criticised for its high dividend covers, usually about five times, but this has been more than compensated by the dividend growth and capital gains.

AVI's own gearing has not exceeded 31% in the past five years and is not expected to rise above 30% in the medium term. Yet low gearing is no dogma: when the packaging subsidiary, Consol, acquired Goodyear in 1989, its gearing rose to almost 100%, if goodwill is excluded.

A decade ago, AVI did not look so promising. In the early Eighties, prospects for food and packaging were unexciting as consumer spending suffered from recessions as much as capital spending. The black consumer market was then considered to be more synonymous with basic foodstuffs. The group also had some troublesome companies, such as National Bolt and Sintronics, which were players in the increasingly cut-throat fasteners and consumer electronics industry. They were disposed of and the remaining businesses diversified successfully.



The years of pedestrian results ended suddenly in 1987, when earnings increased by 111% and EPS by 71%. Little increase in fixed investment was present in the economy; the upturn almost exclusively reflected consumer spending.

In the recession, consumer spending has held up relatively well, enabling Consol, I & J and National Brands comfortably to meet AVI's minimum target of 20% growth in earnings.

AVI companies have reached their potential in recent years partly because of an increased emphasis on marketing and adding value. The idea of brands and trademarks clearly enthuses the generally soft-spoken Robbertze.

"Trademarks give a lasting franchise with the consumer and strengthen our bargaining position with the retail trade," he says.

Market leaders which AVI has nurtured include I & J frozen foods, Bakers biscuits, Koffiehuis instant coffee, Five Roses tea and Wimpy and Pizza Hut. Consol has piggybacked on the major soft drink and beer brands.

Robbertze says AVI prefers to be weighted towards consumables rather than capital goods — and this applies to industrial products such as ball-bearings and tyres, as well as consumer lines. AVI courts companies with the strongest international brand names, to persuade them to bring their brands into the stable. Before the Goodyear acquisition, Hersov had long held a seat on the American company's board and took the opportunity to cement relations with its US shareholders and management.

In the case of Hewlett-Packard, Siltek's place in the AVI stable may have played a decisive role. Says Siltek chairman Jack Saulez: "I am sure that Hewlett-Packard would have been reluctant to deal with a company which was a paper tiger. AVI has nurtured strong brand names. Hewlett-Packard knew their business would be safe in the long term."

Indeed, Robbertze says, under AVI, the new HiPerformance Systems has been refocused from a distributor of products which made its profits in America, to a self-standing SA operation.

Quality acquisitions have made a vital contribution to AVI's recent earnings performance. Because of disinvestment, AVI could pick up good companies relatively cheaply in the past. The electronics and

Continue →

NEGOTIATIONS

A bigger picture

FM 25/10/91

The unfortunate cooling in personal relations — or at least the perception that this is so — between Nelson Mandela and F W de Klerk should not obscure the possibility that SA's major parties to a new constitution may yet meet this year to formally map out a path to the future. Mandela has spoken of a "Christmas present" for all SA — a far more refreshing and constructive thing to hear than that De Klerk has unleashed his "hounds" upon the people.

Alas, the verbal spats between the leaders of government and the main liberation grouping signal wider and possibly more intractable discontents: over the ambivalencies of the ANC's economic policy; the dreadful repetitiveness of violence; ethnic rivalries; and the imminence of a national strike which, whether it succeeds or not, will be disruptive and polarise attitudes. Yet perhaps these wider discontents are thrown up by the fear which rules political behaviour on all sides.

The fear is fear of the future.

This is why it is important for the multi-party talks to be seen to be going ahead — to validate a logic of optimism regarding the big picture. Nothing scares off investment so surely as uncertainty — and if the ANC has been prepared to create uncertainty as a means of consolidating its support, that would at least be comprehensible. Better than the suggestion that it is merely blithely proceeding into the new era with nothing more constructive to offer on the economy than nationalisation and asset confiscation.

Participation in a real body with the mission of constructing a real constitution should bring the ANC closer to the realities of the modern world — closer to a realisation that scarce resources cannot be infinitely diluted in a non-enterprise, centralist State. After a while, there would be little capital left — and those with the skills to create it would have left.

As the multi-party talks move the ANC towards such a perception, so too should they have an effect on the level of violence. Unfortunately, in the short term, this level will not necessarily abate. If the mainspring of the violence is the desire of unknown people for negotiations to fail, progress and compromise could themselves trigger mad-dog behaviour. There will be tremendous pressure on the participants in the talks to get it all over with in a hurry — to carry their constituencies along — which shouldn't happen.

Modern SA has been through the torments of two failed constitutions — and it should never be allowed to happen again. The constitution should be both a strong and a sensitive instrument; it should not be a piece of paper which can be thrown away by politicians. Every step and clause must be scrutinised. And if this takes time, that is no bad thing. The ANC — frustrated because the world has not been given to it on a platter — and government, facing the steady blood-rhetoric of the Right, must both become considerably more conscious of how much they actually need each other. ■

LIBERALISM

Azapo's revealing indiscretion

FM 25/10/91

When the communists took power in eastern Europe after 1945, their first targets for elimination were not the Nazis and their fellow-travellers. They could wait; indeed, were often painlessly assimilated by the new power structure.

No, what had to go first were the liberals, whose unremitting protests against fascist dictatorships were rewarded by extirpation by their equally intolerant successors.

This is not really surprising. If classical liberalism means anything, it is a belief in personal liberty and justice and the primacy of the individual over the structure. Political structures are there to serve the individual, not vice versa. Injustice is not made justice by the nobility of the cause.

Hardly a message that absolutists and ideologues of any complexion can find palatable.

It is not surprising, therefore, to find Azapo — in its notorious letter to would-be participants at the Patriotic Front conference (see page 47) — being so dismissive of "liberals and puppets." The juxtaposition of these two in fact incompatible bedfellows says far more about some elements of the so-called "liberation movement" than it does about liberals and their principles.

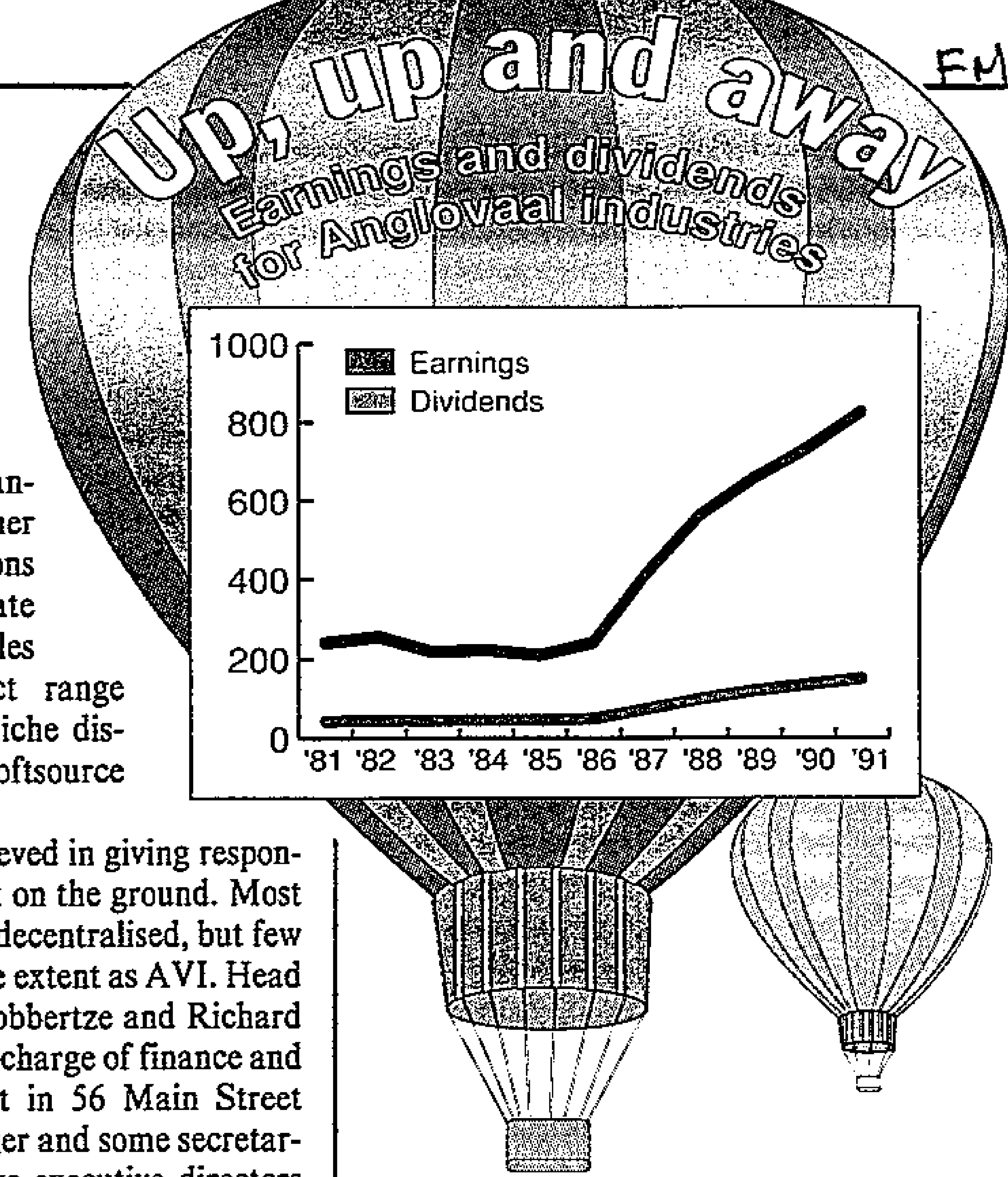
The exposure of the philosophy behind the remark is actually more important than whatever short-term impact it may have on this weekend's proceedings. Anyone who is still blindly confident that the new SA will be more solicitous of individual rights and freedoms than the old, should take note.

To its credit, the Institute of Race Relations came to this realisation some time ago.

Of course, it does not follow that all government's radical opponents are tarred by the same brush. The necessity to suspect all politicians' motives should not be extended thoughtlessly into an automatic assumption that all politicians are despotic blackguards.

But, equally, it does not follow that all those opposed to the injustices of apartheid are working selflessly towards a liberal democracy. Azapo's unguarded indiscretion will thus serve a beneficial purpose if it awakens liberals to the danger of being co-opted by essentially illiberal radical bodies, to be exploited while convenient and then cast aside — or worse. ■

FM 25/10/91 (180)



computer sector should still offer opportunities. Saulez says that Siltek, because of its decentralised structure, can take over a small software company and leave management in charge rather than absorb acquisitions into a stifling corporate culture. Siltek straddles the computer product range from mainframes to niche distributors, such as Softsource and Select Software.

AVI has always believed in giving responsibility to management on the ground. Most companies claim to be decentralised, but few can claim it to the same extent as AVI. Head office is very small. Robbertze and Richard Savage, the director in charge of finance and corporate planning, sit in 56 Main Street with a financial manager and some secretarial staff. The other five executive directors are the hands-on CEs of the five operating divisions.

Apart from Savage, who joined AVI from Altron four months ago, the line-up has not changed since the present divisional structure was set up in 1985. There have been very few changes in senior management. Unlike, say, Barlow Rand, AVI does not believe in giving managers a grand tour around its operations; it prefers companies to be run by specialists in their fields.

Yet Robbertze does not regard himself as a passive portfolio manager. "A group the size of AVI cannot be micromanaged from the centre, but my job is to sit and debate with my co-directors their three-year plans, with particular emphasis on the first year," he says. "This is not management by committee; it is a sharing of problems and ideas."

Consol MD Piet Neethling says AVI sets demanding targets but shows considerable trust in operating management. He says AVI is smart on planning, but it does not impose a corporate blueprint.

Robbertze says he has to decide if the AVI portfolio is appropriate to the market opportunities which will arise. AVI is disposing of its interest in the advertising signs company Claude Neon, because the industry is fragmenting into a lot of smaller shops and, as the business moves from rental contracts to cash payments, it may not be appropriate for a corporate business.

AVI has never liked commodities. Bakers had the largest bread-baking business in the Durban area, which was growing and profitable, but it did not meet AVI's branding criteria and so it was sold. Many of the businesses are in basic goods and maturing industries. Among these are frozen food, packaging, biscuits, tea and coffee. Robbertze sees considerable growth even here.

Markets which would be mature in developed countries — in dry groceries and beverages, for example — still offer considerable growth opportunities in SA. The humble glass bottle is a very old product, yet there is still real growth in it. Consol could probably have remained profitable in glass. It once made two kinds of bottles — any colour you liked as long as it was brown. Then it diversified into plastic and paper packaging. Under Neethling, Consol has been turned into a market-driven group with a constant stream of new products. In the 1991 year, it contributed 29% of AVI's earnings.

Another key contributor, National Brands, has a range of options. It expanded its brief from dry groceries when it acquired the Yardley toiletry brand this year.

Robbertze believes that starting a grocery or beverage brand from scratch is high-risk, so AVI is seeking licences from major international food companies. Most likely partners include General Foods, which AVI used to work with in the Seventies; and the confectionery and petfood group Mars, which Robbertze says has very strong brand names and with which AVI has had informal contact. The French food company BSN is also a candidate.

At least two groups, Royal Corp and Rembrandt's Hunt Leuchars & Hepburn, have an equally aggressive approach to acquiring brand names and are often prepared to pay more than AVI. Food majors such as Tiger, Premier and Fedfood are also becoming more marketing and brand-driven — so the field is by no means open.

Moreover, some multinationals already have relationships with other groups, such as that between Heinz and Anglo American Farms. But much of the smart money must be on AVI, as its acquisition record has been consistent and solid — and it has plenty of cash available.

AVI will be choosy — Robbertze rules out the purchase of one of the Coca-Cola franchise holders, such as Peninsula Bottlers. The quoted franchises, ABI and Suncrush, are trading on earnings multiples around 25 and private bottlers would come no cheaper. He says he would require cast-iron guarantees that the franchise would last and notes that Coca-Cola is assembling its own company-owned bottling plants in SA. As for backing Pepsi, or starting a new soft drink, the group has a huge self-interest in supporting Consol's existing beverage customers.

A listing for National Brands is unlikely unless a super opportunity arises to acquire a company which is at least 70% its size. Smaller acquisitions could be accommodated without a listing. The proceeds from Cadbury Schweppes will be directly attributable to National Brands. Instead of just R2m in dividends from Cadbury Schweppes, AVI will receive R14m after-tax in interest and be well poised for acquisitions.

Of course, some AVI acquisitions, in retrospect, do not look so hot. Mooi River Textiles was bought for a demanding price of more than R78m. It was considered strategically important to Avtex, but the group may yet regret the purchase. The textile industry is in decline as government policy moves away from import replacement to exports. The AVI textile companies are still making money, despite the opening up of the market to more foreign competition — but planning, Robbertze comments, is not easy.

Tyres are also an import replacement industry which needs to adjust. The industry was built up to make use of local input materials, such as isoprene, and the industry has been unable to buy its raw materials on the world market. Robbertze argues that the industry needs a period of adjustment if it is going to compete with imports.

One perceived disadvantage of AVI has always been its lack of a currency hedge. Robbertze says this factor is constantly debated. There are increased exports of frozen fish and apparently of some "sensitive" branded products. But generally, an export-orientated business needs considerable capital expenditure.

It is difficult to see AVI starting a really capital-hungry business. Unlike some other groups, AVI specifies short-term profits along with long-term resilience as a goal. It likes rapid cash generation and the ratios management watches most are operating margins, stock-turn, debtors' days and the percentage of working capital to sales.

AVI acknowledges that it will never have the huge profit swings which tend to be brought about by a Mondi or a Middelburg Steel & Alloys, but in most years since 1986, its earnings growth has comfortably beaten inflation. Its strong financial position and marketing orientation have helped ensure above average growth. The market is looking for 22% to 24% earnings growth this year, and growth could well be better in 1993 and 1994 if the upturn is underway by then.

As long as consumer spending continues to rise and profits are sweetened by shrewdly chosen acquisitions, AVI could remain a leader.

Stephen Cranston

Glasnost on the way for SA business

180

W Mail 25/10-31/10/9

Weekly Mail Reporter

SOUTH AFRICAN business may be on the way to greater openness.

The latest document released by the Standing Advisory Committee on Company Law, *Review of the distinction between Public and Private Companies* recommends treating public and private companies with a greater degree of equality.

This is welcomed by Andrew McGregor of McGregors Online Information.

Particularly welcome, he says, is the proposal that all private companies should make their annual accounts available for public inspection at their registered offices.

The international norm obliges private companies also to lodge annual accounts for public inspection. In South Africa this information is unobtainable without the consent of the company.

However, the recommendation doing away with public company interim reports is less welcome as it takes away yet more information from an already information-starved investing public.

McGregor suggests company law governing disclosure should follow that of Western nations to the benefit of the investment and business community as a whole.

The hangover from the securocrat era has left South Africa still obsessed with secrecy.

Use of section 15a of the Companies Act, which allows companies to conceal public information for "strategic reasons", is still prolific, claims McGregor.

SA businessmen head for Cameroon

TIM COHEN

A DELEGATION of about 110 businessmen, politicians and journalists leaves today for the first all-Africa business conference in Cameroon's capital, Yaounde.

The group included a wide range of businessmen from company directors to Soweto entrepreneurs, organiser and Bairds CM Jacques Verster said yesterday.

Both Eskom CE Ian McRae and Safair MD Braam Loots will be speaking at the conference, which has attracted up to 500 businessmen.

Representatives from Southern Life, AECI, Sasol, Caltex and Senbank will attend as well as representatives from political groupings, including the PAC.

The conference is being organised by the Paris-based Movement for Dialogue and Co-operation.

□ KIN BENTLEY reports that an economic forum' bringing together South and southern African cabinet ministers, World Bank and African Development Bank representatives, leading ANC and Inkatha figures, SA and world business leaders and prominent academics, started in Geneva yesterday.

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SA group abuzz over Africa talks

Star 28/10/91

History will be made today when a delegation of 180 South African business people leave for Cameroon to attend the first all-African business conference.

The conference starts in Yaounde, capital of Cameroon, and will be attended by business leaders from all over Africa, as well as a number of business and political observers from the US and Europe.

Known as Sidco '91, the conference has been organised jointly by two SA firms, Baird Communications and Network International, on behalf of the Paris-based Movement for Dialogue and Co-operation.

(180)

Effective

"With all the exciting news the past few days about new trade, sports and cultural links, Sidco could not have happened at a more appropriate time," Baird chairman Jacques Verster said yesterday.

Safair managing director Braam Loots, who will be in the South African delegation, said yesterday: "For South Africans trading in Africa, the conference provides a golden opportunity for bringing key customers and trading partners together in one place at one time.

"This is far more effective than travelling from country to country. I'm really looking forward to a few days of important discussions with business leaders who are gearing up for a new dispensation for this continent." — Staff Reporter.

Sacob predicts more job losses

8 Day 11/10/91 (180)

LINDA ENSOR

CAPE TOWN — Uncertainty over the timing of the next upturn was permeating the economy and could result in further job losses, Sacob economist Keith Lockwood told a Cape Town Chamber of Commerce seminar earlier this week.

Businessmen were uncertain over the state of the economy, possible labour action and political developments.

Lockwood said that over the next few months businessmen would be unsure whether any increases in sales were the result of pent-up demand pending the introduction of VAT or signs of a genuine recovery.

It is widely accepted that the economic recovery will be export led. Lockwood said those businesses involved in the export market should see an increase in sales and profitability next year. However, domestic-orientated manufacturers would continue to experience problems.

Export volumes excluding gold had increased by about 100% over the last eight years, though had tapered off in the last six months because of the fall in the world economy. From a 3,25% world economic growth rate in 1989 and 2% in 1990, a rate of 1,25% was forecast for 1991.

However, there were signs that the world economy, and particularly the US economy, had turned the corner which boded well for SA exports of manufactured goods. A world economic growth rate of 2,8% has been forecast for 1992.

"There is no reason to expect a big turnaround in commodity prices this year so export-led growth will be problematic if reliant only on commodities," Lockwood said.

"SA has increasing exposure to world markets and is enjoying significant growth in exports into Africa. Exports of its manufactured goods will probably be more easily absorbed in developing countries."

The outlook for investment spending was not optimistic as gross fixed investment had tended downwards for the last six quarters, he said.

VAT crisis

Leading businessmen work behind the scenes to avert

B/Day 11/10/91.

LESLEY LAMBERT

LEADING businessmen are involved in private initiatives to resolve the VAT crisis, while organised business is considering collective action to avert a two-day general strike which could cost the economy an estimated R1bn.

Former Saccola chairman Anton Roodt confirmed yesterday there were "numerous diplomatic initiatives" taking place behind the scenes. A Sacob spokesman said leading businessmen — in their personal capacities — were trying to intervene with the authorities.

It is understood that organised business is also considering intervening in an effort to facilitate a settlement between government and the trade unions, which on Tuesday decided to call a two-day general strike in the first week of November.

Cosatu general secretary Jay Naidoo indicated this week that the trade union movement remained open to negotiation. Cosatu was conscious of the damage a drawn-out conflict would cause to economic prospects, he said.

Business spokesmen said yesterday there were significant obstacles to a resolution. Government and the unions had adopted tough stances. Government would neither accede to demands for additional relief nor agree to an economic forum ahead of multiparty talks, while the unions had been consistent in their demand for broad negotiation of the VAT system. If either were to back down it would be considered a political victory by the other.

Business was caught in the middle. It faced the possibility of a costly strike over demands it could not directly fulfil, labour consultant Andrew Levy said.

Organised business, employer bodies and individual companies are, meantime, preparing contingency plans in case the strike goes ahead on November 4 and 5.

Sacob is expected to release a document today with guidelines for its members in the event of a strike. It is also preparing a second document which will detail the effect of VAT on various income earners, should the strike be followed by demands for wage increases to compensate for VAT.

Levy said that depending on how Cosatu planned the strike, the rule of thumb for companies was likely to be no work, no pay and no disciplinary action.

"There have been some recent judgments in industrial relations cases which have said employers can dismiss for a stayaway, particularly if it is unrelated to labour matters and is unlawful. But there is always a distinction in industrial relations between what the law says and what a company should do. The nature of this protest is an expression of political freedom. It will hurt the economy but it is also a healthy sign of democracy. Any company

☐ To Page 2

VAT crisis

B/Day 11/10/91.

☐ From Page 1

which relies on the unique circumstances of some judgment would be unwise."

Levy believed that if there was a strike, it was unlikely to turn into a continuous general strike.

"No union will commit its members to a lengthy strike in times like this. The action will reoccur sporadically in the form of lunch-time demonstrations and demands for employers to intervene with the authorities. All companies can do is talk to shop stewards about orderly withdrawals."

In the case of a mass tax boycott, companies were likely to protect themselves by hiding behind the law, Levy said.

Seifsa director Brian Angus said the federation, which represented 3 500 companies employing about 350 000 in the steel and engineering industries, would discuss contingency plans next week.

Angus said he believed the unions might struggle to get widespread support in the current economic environment.

● Comment: Page 8

Lessons that SA must learn

B Day 29/10/91 (180)

WARREN CLEWLOW

THE period from 1989 to the present, and possibly a little beyond, is a turning point in world history. Major changes in the balances of power are taking place, perhaps the most important of these being the collapse of communism and its accompanying economic and social necessities: central planning and the denial of human freedom.

We are seeing the stirring of this revolution in Africa too. It would seem respect for human rights, the rule of law, democratic elections and market-oriented economies are beginning to receive more than lip-service.

Less prominent, but no less important, this revolution has been going on in other places. Just over a week ago I visited China. Their approach to the modernisation of society gave one plenty of food for thought.

What strikes one immediately is the work ethic of the Chinese. The system boasts full employment, but in reality millions are employed at the most menial of tasks — streets are swept by a veritable army of cleaners, and we saw a three-lane freeway being built by a combination of high technology and hundreds of workers pushing wheelbarrows, working 24 hours a day.

Houses and high-rise apartments are being built everywhere you look — by the same combination of methods. The basic housing unit measures 5m by 3m with no trimmings, but it is a home. Every home, no matter how humble, has electricity. The SABS would not have been pleased with the technical standards, but power on hand changes lifestyles.

Able to feed itself today, China is planning for 15 years in the future when this may not be possible. Travelling in the early evening we saw intensive use of all the available land — forests planted on the high hilly ground, vegetables surrounded by fruit trees, dams for ducks and irrigation and, of course, rice paddies everywhere.

We had discussions with CITIC — their equivalent of the IDC — which is investing heavily in industry, both in China and outside it to gain access to important technologies. They have a deliberate strategy of sending their best students to study outside so that, in effect, the rest of the world is educating China.

China has always been regarded as something of a sleeping giant. When it awakes it will have a huge impact. Its population is almost 100% literate and with a very high percentage that have passed through schools to the equivalent of our matric. They are going to be very fierce competitors in the years to come.

SA, of course, has not escaped the revolution. The changes within our country mean that our businesses, large or small, need to take account of the fundamental shifts in the society. Perhaps the most important of these is the fact that, in political terms, democracy of one kind or another, in which every citizen will participate, will happen.

In the social fields demands for participation in decisions about education, health, housing and a myriad of other social issues are becoming stronger and, in many cases, are being accommodated.

The same demands are being made in the economic sphere. This means that apart from running our businesses as efficiently as possible and looking for every opportunity to grow and to make them more competitive, we also need to be taking steps to include people previously excluded in economic activity and to facilitate their effective participation in ownership, entrepreneurship and management.

Having absorbed that lesson, we need to remember also that the world outside our borders is changing. We require a strong manufacturing and export-led economy to produce the growth rates we need to address the country's problems. We will be competing with some countries that have been following that kind of strategy for many years.

☐ CLEWLOW

International competitiveness is a function of world-class quality, both in terms of research, development, products, services and world-class manufacturing ability, to produce a combination of produce and service which can compete on equal terms with those from, at least, the best of the other developing countries.

The world is changing in other respects as well. The impact of information technology, particularly in the fields of manufacturing and financial services, has meant that it is now no longer necessary to be big to compete in certain sectors in world terms. Some smaller companies, which have managed to harness the power of information and turn it into agility as a competitive advantage, are competing very effectively in niche markets around the world.

We need a mix of big companies — for example Iscor and the new Columbus stainless steel project — which have to be of a size to compete in world terms. But we also need the small and agile companies. Perhaps this is a lesson we should learn from places like Germany which encourage development of small businesses and where just over 86% of Germans are employed in businesses with fewer than 200 people.

While the economic and political debates rage around us, it is the individual enterprises in an economy that create wealth and they have to be managed and run in such a way that they do produce that wealth as efficiently as possible.

☐ This is an edited version of an address by Barlow Rand chairman Clewlow to the Non-Listed Company Award banquet in Sandton last night.

LETTERS

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Lessons that SA must learn

BDay 29/10/91 (180)

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LETTERS

Dear Sir,

'Go green or go out of business'

8 | Day 30 | 10 | 91 (180)

SOMERSET WEST — Companies would go out of business unless they addressed the challenges of the current green revolution in a positive way, head of the Confederation of British Industries Environment Management Unit Andrew Blaza said yesterday.

"If their customers don't desert them, their shareholders, investors and insurers probably will," he said in an interview at the Southern Africa International Conference on Environmental Management.

"Certainly in the UK, bankers, insurers and investors are getting very nervous about putting money into organisations that have any environmental risk."

In the UK 80% of pollution was caused by smaller companies, he said.

It would be in the long-term interest of the SA business community if larger companies with the necessary resources were to form non-paternalistic partnerships with smaller companies aimed at improving their environmental performance.

Blaza said SA businesses might want to develop their own voluntary agenda on the environment without waiting for the government or other outside agencies to set that agenda for them. Such an agenda was about to be introduced in the UK.

"We've shown that voluntary action achieves much more than legislation. So if business really does mean action on the environment, it can start tomorrow."

The drive to sound environmental management would be business-led rather than consumer driven.

Companies were realising that their businesses could profit from sound environmental performance.

"We don't promote environmental initiatives as a charitable act. We promote them in terms of benefits and profits to the company."

□ The business community was uniquely equipped to spearhead the implementation of sustainable development in SA, the conference was told yesterday.

Jane Nelson, executive director of the US-based Darwin Scholars Foundation which is developing an international environmental leadership programme, said the potential for combining financial and industrial sector leadership in the promotion of sustainable development was enormous both in SA and regionally.

The ability of the financial sector to mobilise savings, both domestic and international, and the way it allocated these savings to production, consumption and investment uses, was a crucial determinant of the environmental soundness and sustainability of economic activities.

She suggested the financial sector be drawn into the recently created Industrial Environmental Forum.

She added that the global record of the financial sector in promoting sustainable development had not been particularly good. — Sapa.

'African ethos' should permeate business

BDay 31/10/91 (180)

Business Day Reporter

BUSINESS managers yesterday urged SA companies to incorporate the African ethos — ubuntu (translated as humaneness) — into their management strategies.

At the first seminar on the subject, held in Midrand, speakers told 200 delegates that incorporating ubuntu would create a stable environment and would stimulate economic growth.

The delegates, who included trade unionists and academics, were told that ubuntu involved an emphasis on caring, sharing relationships rather than formal, mechanistic ones.

Interdependence and Transformation of SA director Albert Koopman said examples of ubuntu included respect for one's elders and the extended family.

Africa worked on removing dissent rather than achieving consensus.

"At work more focus must be placed on the task to be achieved by a team than on the role a supervisor plays as individual," said Koopman.

Junior Potloane of the Development Bank of Southern Africa said South Africans should ~~not be~~ kept apart by their cultural differences; they needed to focus on similarities while retaining their cultural differences.

Business consultant Anne Newman said by learning to use ubuntu concepts — respect, dignity and mutual understanding — as "the basis for a rapprochement to a better SA, we could avoid destructive conflict and create positive growth".

But NUM official Sam Tambani said the necessary conditions for ubuntu to be a factor in employer-employee relations "simply do not exist at present".

Quality is the best policy

The adoption of quality controls by Western companies has enabled them to prolong the agony of their survival but, so far, very few have been able to use quality as a vehicle for growth, says a visiting management consultant.

Standards . . . David Hutchins to explain.

When a company can sell everything it makes, the quality of its products will be its last consideration. When it has to fight to sell in a competitive market, quality becomes its first priority.

This is why, in the face of pressure from Japan and other Pacific Rim countries, improving quality has become one of the most important consideration of Western businesses, says British management consultant David Hutchins.

He will be guest speaker at the first South African Quality Institute Conference which begins on November 6 at the CSIR in Pretoria.

"Quality is the key to being competitve on world markets. Strategies to improve quality of merchandise have become fundamental in our response to the Japanese challenge," he says.

The United States and Europe have recently set up very prestigious awards for quality, such as the Malcolm Baldrige Award, with criteria based very closely on a Japanese award that has been made for the past 30 years.

South Africa is to introduce a similar award for local businesses in the next year.

Mr Hutchins says that most attempts to upgrade quality in the West have been made via the appropriation of Japanese devices such as "quality control circles" which have been interpreted in a piecemeal way.

"This makes quality control appear as a policing activity parallel to production rather than inherently part of it, leading to a blame culture and severe alienation of management from the quality-related goals of the company," he says.

It has allowed companies to prolong the agony of survival but, so far, very few have managed to use quality as a vehicle for growth, he says.

As quality levels slide, businesses tend to take more and more of the same punitive carrot-and-stick medicine.

Mr Hutchins believes that the biggest barrier to progress towards quality has been an overemphasis on setting and meeting quality standards, for example those set by the South African Bureau of Standards and similar bodies overseas.

"While systems are important, systems do not motivate people, and if people don't really care, then no amount of system will make any difference. Also, checking product standards does nothing to improve inadequate processes," he says.

The better way, Mr Hutchins says, is to promote "total quality", as in Japan, where quality is part of everyone's job.

This means finding genuine ways to motivate staff and tap their ability and creativity.

ADAM GORDON

Star 31/10/91

180

Star

Business takes friendly look at environment

Finance Staff

The abject poverty in which many African people live is part of the environmental quandary facing business, Dr John Maree, chairman of the Industrial Environmental Forum of Southern Africa (IEF) told a conference in Somerset West this week.

Business would have to find a balance between creating jobs and hope for people and the need for development and economic growth, he said.

"We have an industrial and mining component in our society which is of the first world but we also have many people who are suffering abject poverty. The poor are forced, by circumstances which are no fault of their own, to disregard the sustainability of the environment around them. They are concerned with survival. We need to address this." (180)

Opening the Southern African International Conference on Environmental Management (SAICEM), Dr Maree said business needed to create jobs and opportunities so that the people of the region could share in the development process. At the same time, there was a need to protect the environment.

"The challenge is to find a balance between the development and economic growth and the protection of the environment. We walk a difficult tight rope in Southern Africa — it is a balance which is not easy to keep."

Dr Maree said the environmental legacy of the communist experience suggested that progress towards sustainable development was better achieved within the framework of the market economy. The framework needed to reflect environmental costs more appropriately but — by and large — good environmental management makes good business sense, he said.

Star 31/10/91.

The Industrial Environment Forum (IEF) is an example, he says, of businessmen taking greater ownership of environmental problems, accepting the challenges and sincerely addressing them in a co-operative and proactive fashion.

"In the climate of rapid change that we are now in and in the spirit of shared responsibility the members of the IEF want this conference to be a catalyst for a significant new direction in environmental awareness in Southern Africa.

"We in business are facing up to the role that we have to play in addressing environmental challenges before us. We will do our best to play our role constructively."

20 standing committees help mobilise opinion

B/Day 15/10/91 (180

SOME 500 businessmen, including many of SA's captains of industry, serve on the 20 Sacob standing committees, where the opinions of business are mobilised, says Sacob regional organiser Eric van Dyk.

"These committees formulate proposals and comment on matters affecting business and these are then forwarded to the authorities," he says.

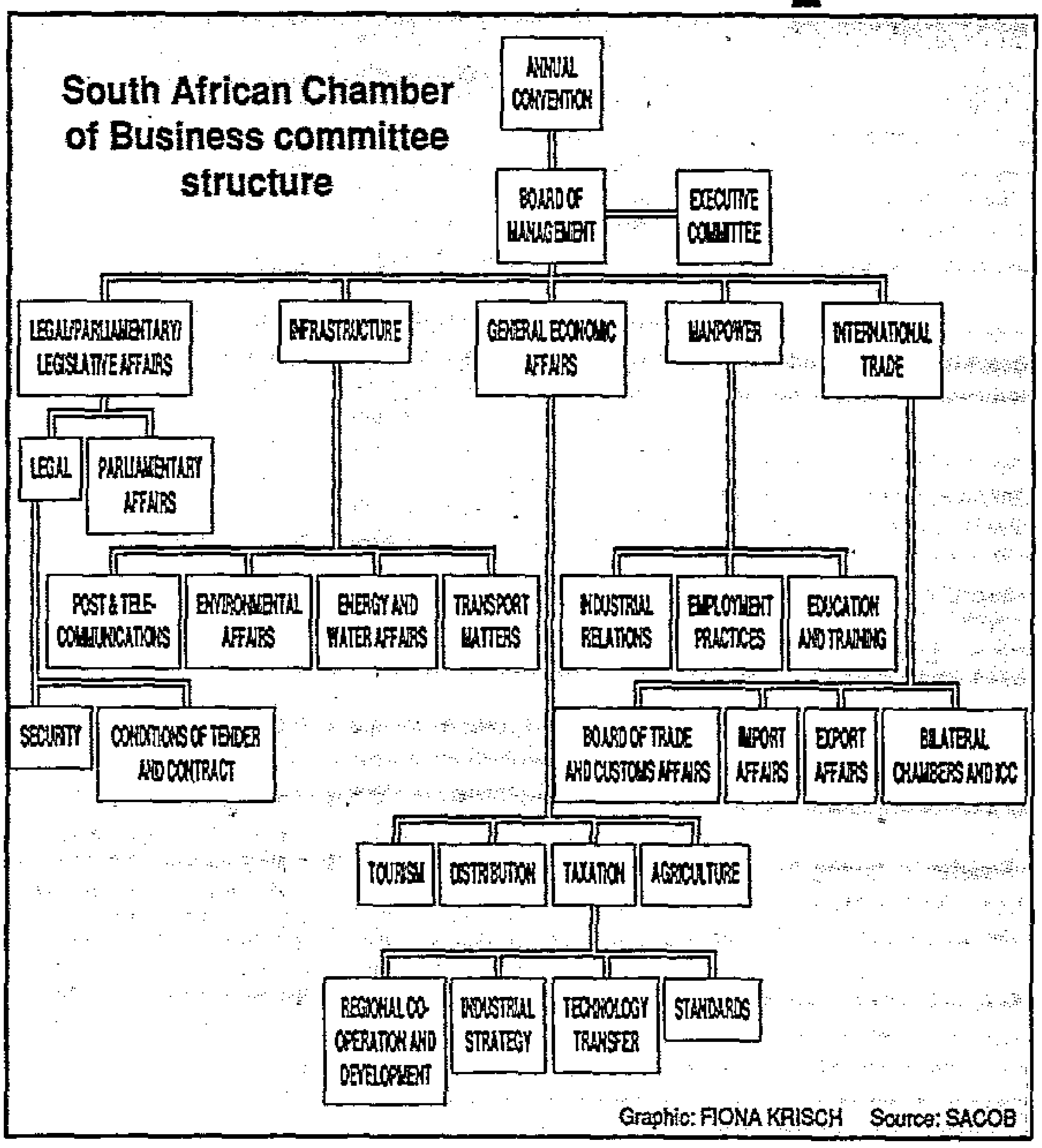
"People involved have a chance of widening their circle of business contacts, broadening their outlook and general understanding of the business environment and, in turn, feeding back information to their company for its benefit," he says.

Standpoint

The agricultural committee develops views on agricultural issues from a commodity and industry standpoint, while the board of trade, customs affairs and import control committee examines the implications for business of customs legislation and procedures, tariffs, import control and import surcharges.

This committee also monitors developments in the General Agreement on Tariffs and Trade (Gatt) as far as it affects SA's trade relations with contracting partners.

The conditions of tender and contract committee considers problems arising from tenders submitted to the public authorities and looks at all aspects of related government policy.



Graphic: FIONA KRISCH Source: SACOB

The distribution committee addresses all issues of day-to-day consequences to business, mainly focusing on the distributive trade and its relationships with consumers.

The economic affairs committee serves as a top level forum for discussing economic issues of consequence to the private sector, including inflation, privatisation, deregulation, budget procedures, economic priorities and government expenditure.

Energy and water affairs committee members consider the latest developments in terms of quality, supply and cost of various sources of energy and water with a view to ensuring the most efficient use of these resources and that business is not unduly constrained by the quality levels of supply and price of these resources.

Similarly, the environment affairs committee searches for solutions to environmental problems and examines proposed control measures to ensure they are technically attainable, economically feasible and aimed at the optimum balance between development and environmental protection.

To promote the country's export trade while giving consideration to overcoming obstacles that inhibit export, members of the export trade committee formulate proposals aimed at facilitating exports and the development of new markets.

The international trade committee takes things a step further.

It promotes two-way trade between SA and other countries and establishes and maintains ties with the International Chamber of Commerce, bi-lateral chambers of commerce, industries and economic relations, foreign trade envoys and various government departments.

The intellectual property law, legislative, security, standards and technology transfer committees pay attention to the impact developments in these areas have on business.

Given the rapidly changing industrial relations environment, the industrial policy and manpower committees have an important role to play.

Analyses

The industrial policy committee analyses the industrial environment in SA and highlights factors inhibiting development.

The manpower committee, assisted by three subcommittees, is a forum for discussing various issues and assists Sacob in developing appropriate policies and strategies in the fields of industrial relations, education and training, personnel practices, as well as social policy.

The taxation committee examines the country's taxation system and the effects it has on business.

Finally, transport, travel and tourism issues are considered by two committees of the same name.

Each takes a critical look at events and developments in those areas and formulates policies which further benefit business interests.

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Where businessmen spread their wings

(180)

SACOB offers businessmen an opportunity to become involved in and participate in endeavours aimed at creating a business environment favourable and conducive to the pursuit of profit motive and the free enterprise system. B/Day 15/10/91

According to Sacob, individual involvement and participation leads to collective action and economic progress and prosperity can be achieved through such collective action.

"It is the task of organised business to try to work closely with the authorities to bring about an overall environment in which business can prosper and optimise its performance," Sacob says.

As individuals, businessmen have little chance of achieving this. But working through a recognised national body like Sacob, much can be achieved.

According to several chamber presidents, no businessman can afford not to be a member of Sacob.

Immediate past president of the Benoni Chamber of Commerce Sam Grolman says Sacob's input is valuable.

"They are very efficient. As soon as something happens that we should know about, we are informed of the situation and kept updated. The committees cover every aspect of business and give us useful information," he says.

It is also comforting to know that one could, as a chamber member, pick up the phone to any of Sacob's specialists for advice and information, he says.

B/Day 15/10/91

Long hours spent on the tax front

TAXATION is one of the most important considerations for companies thinking about investing in SA, says Sacob taxation committee chairman Bob Wood. (180)

For this reason, hundreds of man-hours are put in by this committee to fight for the interests of business at government level.

Many issues, such as PAYE in respect of directors of private companies and members of closed corporations, share ownership and share options schemes, the valuation of trading stock and the withholding of tax on interest, have been the subject of submissions and discussions between the taxation committee and government.

One example of the influence this committee wields is demonstrated by its handling of VAT.

"Intensive work over a long period has been done by the taxation committee and by its working group on VAT," Wood says.

"During 1990, representations were made to Vatcom as to the shape VAT should take.

"These representations were largely successful as the marked changes made by the authorities to the original VAT proposals, shows."

Subsequently, close contact has been maintained with tax authorities with beneficial results, Wood says.

"For instance, Sacob submissions to the decision by government that capital goods brought into use on or before April 18, 1991 but before September 29, 1991, would qualify for an additional initial allowance of 15% for income tax purposes."

Submissions have been made on numerous other aspects of vat, including the handling of returnable containers and details on handling of exports, he says.

Following the publication of a new industrial policy for SA by Sacob earlier this year, the committee considered the impact this would have on tax structures and made recommendations regarding this.

These included lowering the nominal corporate tax rate, restoring the previous depreciation formula for industrial equipment and also ensuring stability in the tax system.

Sacob

Power of association strengthens voice of business community

B Day 15/10/91 (80) (180)

A SOCIAL analyst says: "In modern times, it is only by the power of association that men of any calling exercise their due influence in a country."

This, says Sacob director general Raymond Parsons, is the role which organised business in general — and Sacob in particular — plays in South African affairs.

Settling in

"When it was decided to merge the Federated Chambers of Industry and Assocom to form Sacob in January last year, it was agreed there would be a settling in period of two years.

"While the process is not yet complete, unity has been shown to be strength," he says.

"By strengthening its voice , the business community has been able to exercise a greater influence on the course of events."

The formation of Sacob coincided with the emergence of the new SA.

"Subsequent economic and political developments have demanded rapid responses from business and Sacob has been in a position to do so."

Sacob is today acknowledged to be a major voice for business in SA and as such is consulted by governments, extra=parliamentary groups and the media, he says.

"It has given a business perspective on events to visiting foreigners and to businessmen and governments abroad."

While Sacob's national profile may be that of a body concerned primarily with national issues, it plays an ever growing role in developing its network of chambers of commerce throughout the country, so keeping in touch with developments at local and regional levels.

But it is the challenge of guiding business down the path to a new SA that will be Sacob's real test of strength in the future, Parsons says.

"Sacob, as the largest employer organisation in SA, will have to respond to the threats and opportunities of the new SA.

"There will be major economic and social issues to be addressed on behalf of business."

But real vision for an employer organisation like Sacob goes beyond a list of issues.

"It is also a breakthrough to an understanding of the probable and desired impact of those issues on business as a whole," he says.

Knowing how trends will affect business is useful. But knowing what Sacob and its chambers should do to influence the new realities on behalf of business is critical.

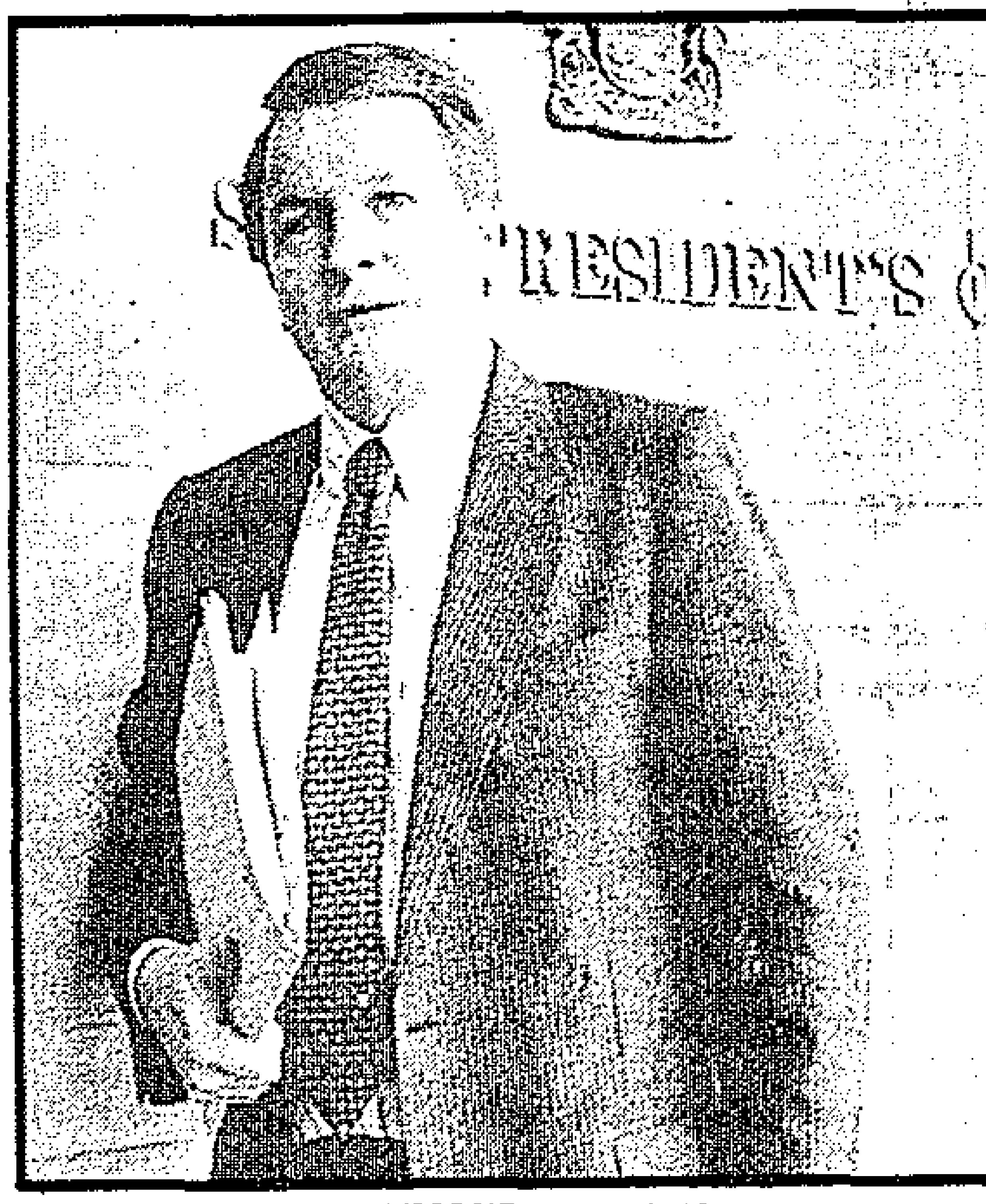
Challenge

"That is the challenge faced by Sacob and the chamber movement in the years ahead and we are changing our strategies accordingly," Parsons says.

"In this process, Sacob will continue to co-operate with organisations such as Nafcoc, Fabcos and the Afrikaanse Handelsinstituut whenever it is in our mutual interest to do so."

Business Day
SURVEY

*By strengthening its voice, the business community has been able to exercise greater influence on the course of events. The formation of Sacob coincided with the emergence of the new SA and subsequent economic and political developments have demanded rapid responses from business. Sacob has been in a position to do so. **MANDY JEAN WOODS** reports.*



RAYMOND PARSONS

Spotlight is on chambers

B/Day 15/10/91. (180)

SACOB has declared 1991 the Year of the Chamber.

The organisation, with 102 chambers affiliated to it, represents more than 35 000 members who employ between 1,5-million and 1,8-million people.

Regional organiser Johan Jacobs says: "With the merger of Assocom and FCI, a new role had to be established and the first year focused on consolidation.

"This year we needed to look inwards, at the organisational needs.

"Sacob has to ensure the chamber of commerce movement is established as the leaders in the field of business representation.

"To do this, the structures need to be in place, the service needs to be high, professionalism must rule supreme and communication be excellent."

Jacobs says a national strategy needs to be set in place to draw in grass-root opinion on issues such as tax, incentives, surcharges and daylight savings.

Flourish

"Our mission statement is to be the voice of business to create an environment in which the SA economy and its people can flourish and to provide a high level of service to its constituent chamber."

With this in mind, the following goals were established to promote the Year of the Chamber, he says.

"We aim to set up communication structures, to ensure the number of chambers in SA grows and to address issues affecting business, such as labour unrest, investment and policies.

Another goal is to improve the image of chambers .."

While membership growth in the black business community has been slow, there have been indications that black and Indian businessmen are willing to become affiliated to Sacob.

Results

"The Balfour Chamber of Commerce, for example, has 70% of its membership drawn from the black and Indian communities," he says.

The Year of the Chamber goals are already starting to show results.

Some six new chambers are expected to be established this year and a 30% growth in new chambers is projected in the next two years.

"We want to be the voice of business at local, regional and national levels," Jacobs says.

Key role in policy formulation

D [Day] 15/10/91 (180)(2)

SACOB represents more than 35 000 companies through their respective chambers of commerce and industry — from corner shops to international corporations.

These companies between them are responsible for creating some 80% of the country's GDP.

Sacob chief economist Ben van Rensburg says: "It is vital for Sacob to participate in policy formation at all levels, especially at the coal face, where the private sector has a primary interest in economic policies being followed by government."

Nowadays, he says, no important economic policy matter is considered by government or its agents without consulting Sacob.

The organisation is expected to formulate business-sector driven views on all aspects of the economy, both at a national and regional/local level.

Topic

"In formulating a policy, Sacob starts off by referring a topic to one of the standing committees or to ad-hoc committees.

"If time allows, the views of various chambers are also canvassed so by the time Sacob approaches government it can say its submission is a broadly based, mandated business view on a particular matter," he says.

Sacob, for example, annually makes a submission to the Finance Minister on what its members have indicated should be addressed in the following year's Budget.

"Sacob has almost become a stepping stone for government to exercise itself in a new SA and it has become more consultative.

"In the past, Sacob's views were often not solicited by government.

"As recently as the PW Botha era, government had a confrontational approach to business organisations.

"But there is a shift towards becoming more consultative," Van Rensburg says.

Manufacturing sector has vital employment role

180

B/Day 15/10/91

THE SA economy's performance over the past decade has been disappointing, with growth in real gross domestic product significantly lower than the growth in the population.

As a result, the ability of the economy to provide employment and improve the standard of living has been limited and poverty and economic inequality have become pronounced.

A failure of the economy to achieve higher levels of growth will make it difficult to address these problems and will tend to promote instability, according to a recent report by Sacob on the development of a new industrial policy for SA.

"While there are numerous reasons for the poor economic performance, recent political initiatives have made it possible for the country to shift its economic focus from the inward-orientated policies of the past to ones more outward orientated in order to maximise the growth opportunities."

As the biggest single sector of the economy and the biggest employer outside of the public sector, the manufacturing sector has an important role to play in generating wealth and providing employment in the new SA, the report says.

"However, it will be necessary to create an environment conducive to the sustained expansion and development of the manufacturing sector."

Research by Sacob shows the manufacturing sector's poor performance over the past few years has "probably" made a considerable contribution to the lack of performance in the economy as a whole.

Investment, the report says, declined so the volume of output remained static and the productive capacity decreased.

"An analysis of the competitiveness of the manufacturing sector shows in almost all areas of inputs it is at a competitive disadvantage cost-wise."

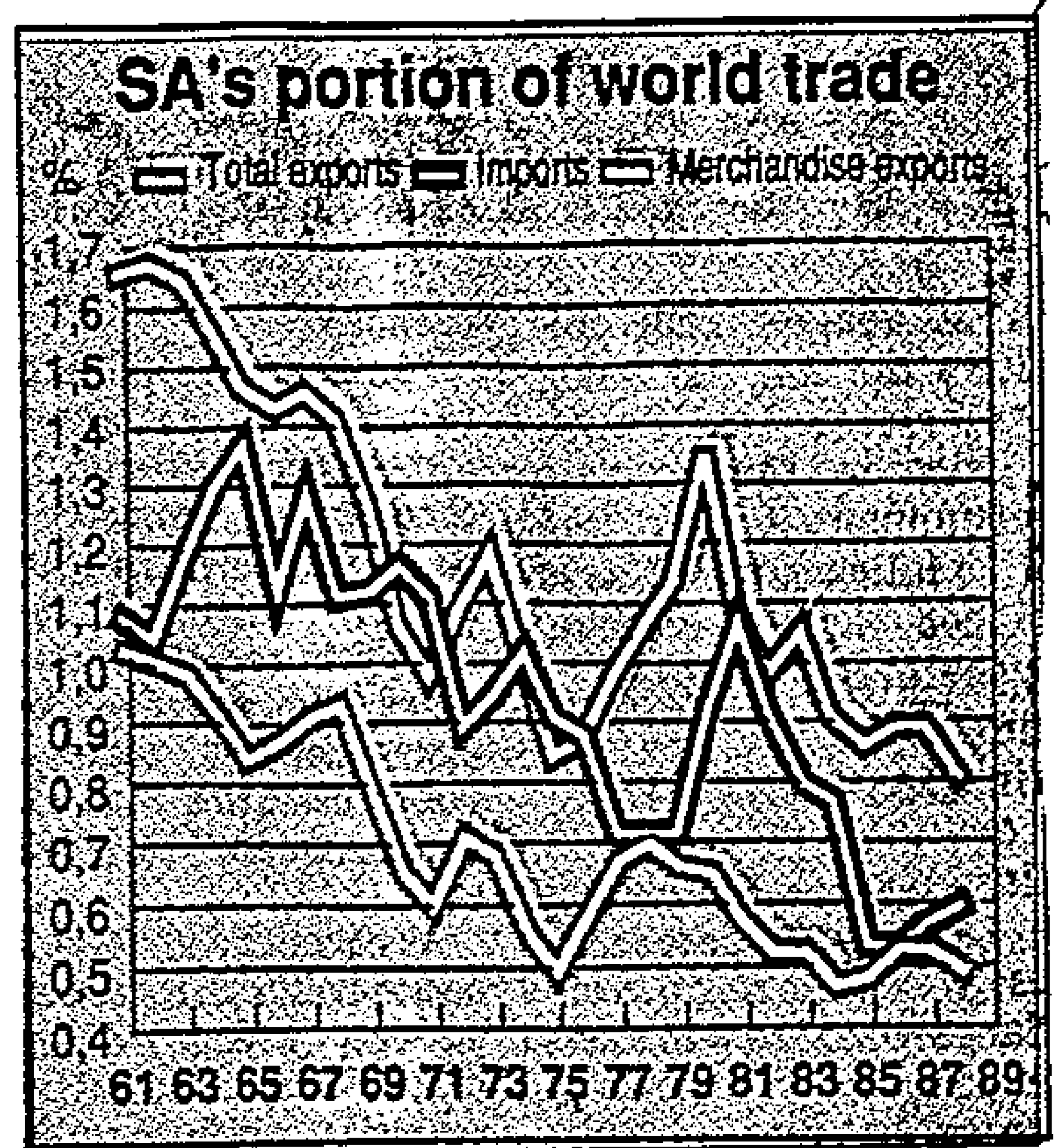
The report says if the country is to regain some of its lost market share in world markets and get manufacturing back on a growth curve, these factors are going to have to be addressed.

While some of the factors can be addressed immediately, others can only be rectified over the medium to long term.

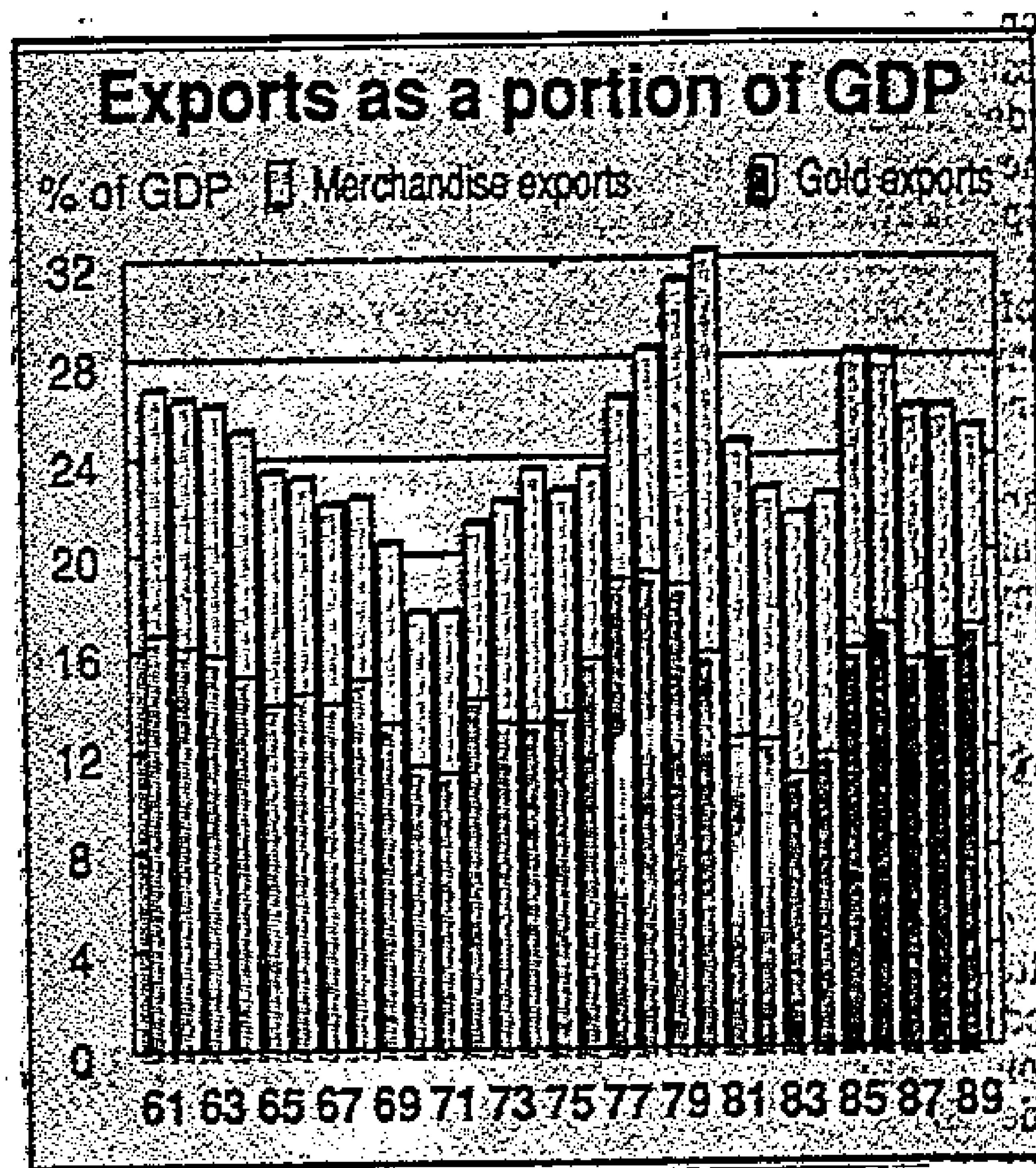
The Sacob report says an analysis of inputs to the manufacturing sector show that 70% of these are at a competitive disadvantage when compared to other countries, and only electricity and mining inputs provide a competitive advantage.

"However, they only make up 8% of total inputs. A quantification of the competitive position appears to show the SA manufacturing industry is at about a 15% cost disadvantage compared to other countries."

The four main areas which need immediate redress are cost of capital, productivity of capital, productivity of labour and cost of intermediate inputs.



Graphic: FIONA KRISCH Source: SACOB



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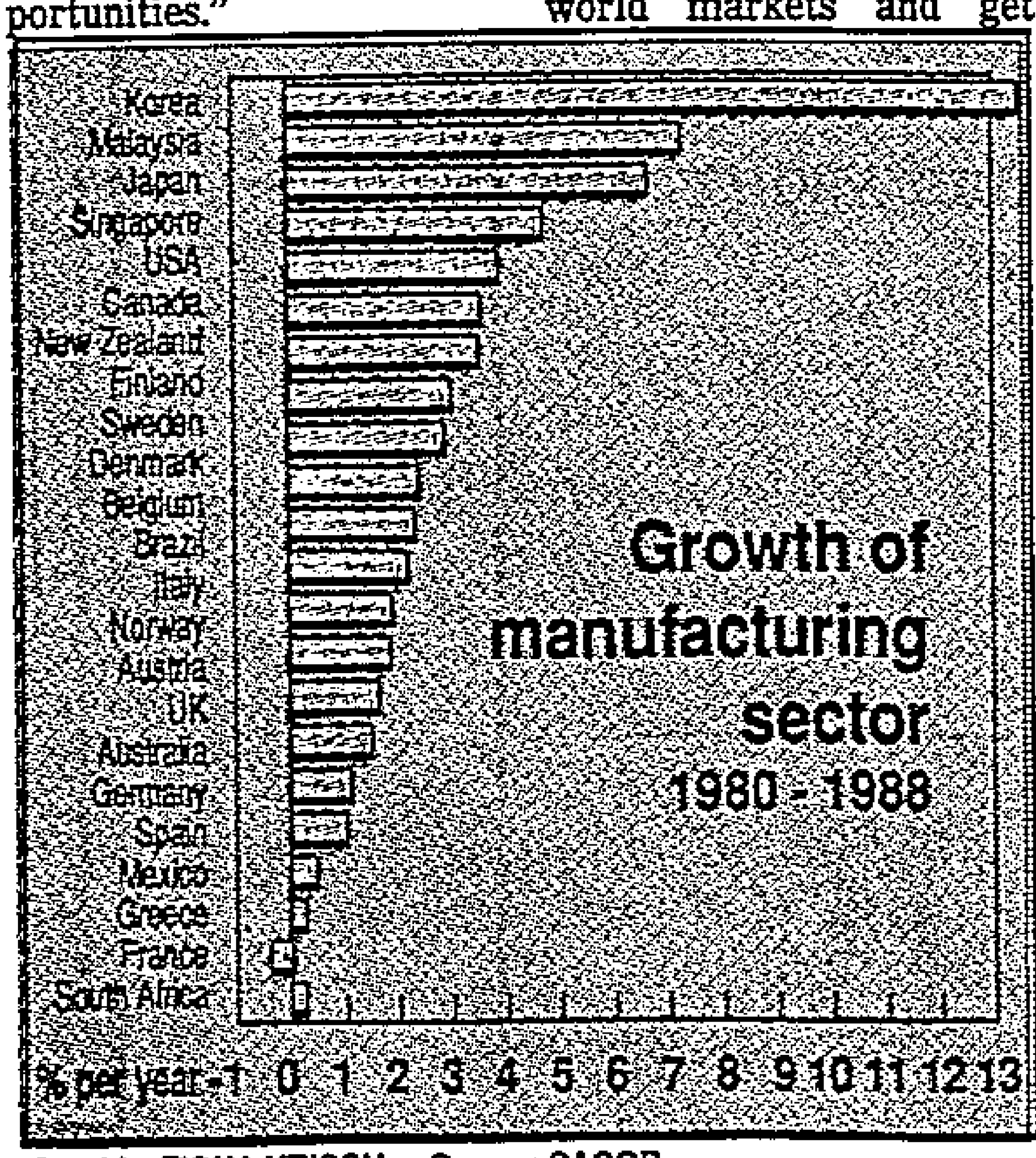

Graphic: FIONA KRISCH Source: SACOB

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Wide support for role of united business chamber

B Day 15/10/91 (180)

THE united voice of business has grown in stature since the formation of the SA Chamber of Business (Sacob) in January 1990.

This is evident when considering statements from some of SA's leading businessmen.

Nissan SA executive chairman John Newbury says: "Sacob is a vital organisation and ultimately all business organisations, such as the Afrikaanse Handelsinstituut and Fabcos for example, will unify under one body."

Nafcoc president Sam Motsenyane says the interests of black and white businessmen are different and until this changes there can be no thought of a merger between Sacob and other black business bodies.

"But as differences are minimised there will be a need for these organisations to address shortcomings in a spirit of unity."

Reserve Bank governor Chris Stals says the bank has great appreciation for the role played by Sacob.

"The Bank consults regularly with Sacob's executives and council members.

"We find Sacob objective in its assessment of monetary policy, even if monetary measures are at times unpopular with its members, but are in the longer-term interest of the country.

"Because of this objectivity and its rational approach to monetary matters, the Reserve Bank takes notice of advice given

JOHN NEWBURY

to it by Sacob.

"We believe in a viable and dynamic private sector and welcome advice from private sector representative bodies such as Sacob."

Pick 'n Pay chairman Raymond Ackerman says: "The decision to form Sacob was a good one.

"It is able to lobby for business in general and pursue the interests of business."

Sacob's influence on government policy is noticeable, as government often comes up with legislation which is not practical or thought through.

"Sacob has a history of influencing government to alter policy and adapt various laws," says Ackerman.

Newbury says: "Sacob's ability to influence government is a consequence of the seniority of its representation both at an individual and company level."

Trade and Industry acting director general Gerrie Breyl says Sacob is one of the leading employer organisations as well as an important mouthpiece of organised trade and industry.

"Close contact is maintained between the department and Sacob.

"Matters of common interest are discussed on a regular basis and it is policy to keep Sacob informed on departmental initiatives and developments that may be of interest to the local business community.

"We have an excellent working relationship and Sacob plays a constructive role in the private sector and acts as an effective intermediary between the business community and government."

Sacob's public profile has been enhanced by its representations of the business viewpoint to government and its ability to open doors for local businessmen abroad.

Tongaat-Hulett chairman CJ Saunders says a recent trip to Eastern Europe and the Soviet Union would not have been as successful as it was without the assistance of Sacob.

"Sacob made the trip worthwhile, as without the contacts made by it and the Department of Trade and Industry, it would have been almost impossible to have achieved what we did in two weeks."

Sasol director André du Toit says Sacob played an important role in breaking down barriers.

"Its relationships are valuable for all members of Sacob when they want to expand business in other countries," he says.

CHRIS STALS

RAYMOND ACKERMAN

The combined voice of big and small

B Day 15/10/91 (180)

SACOB has worked hard in the past year to consolidate its structures and develop its role as the voice of business.

It claims the right to be the voice of big and small business through its association with more than 35 000 businesses who are members of various chambers of commerce and industry.

Sacob has put together a list which highlights the benefits of belonging to a chamber.

These include:

- Access to medical aid and pension fund;
- Access to up-to-date business information;
- Association with other business people;
- Opportunities to advertise to other business people;
- Fraternising with other businessmen to gain information about modern business trends, markets, finance, influences, threats and opportunities;
- Gaining status by joining an organisation which acts as spokesman for business and has a voice in all levels of government;
- Enjoying greater negotiating power;
- Moving in influential circles and gaining business expertise through liaison and association with chamber members;
- Being taken notice of;
- Being able to meet or be introduced to the right people operating in the same field by way of social activities or involvement in chamber committees; and
- Getting access to local and foreign markets and associations and gaining import and export information.

Violence will drive away hope for future

BDay 15/10/91

(180)

WHILE there may be a degree of uncertainty and upheaval when rapid change is taking place, there should not be complacency about the current level of violence in SA, says Sacob director general Raymond Parsons.

In a recent speech, Parsons said that although the violence was confined to certain areas in SA, it had national and international implications.

"Sacob, through its widespread advertisements, has expressed the concern felt on this issue.

"The potential for conflict is high and the State President himself has warned that SA could slip into civil war.

"The violence is unacceptably high in terms of human costs as well as having a damaging impact on investors' confidence both here and abroad."

The endemic violence, from whatever quarter it comes, was undermining confidence in the propsects for peaceful change, he said.

It could eventually lead SA on a downward path to poverty and despair unless it was reversed.

"SA needs peace and political stability more than ever before if economic growth and job creation are to be achieved on a large scale.

Capital

"Without an inflow of long-term capital, the ceiling on SA's economic growth rate on the most favourable assumptions is likely to be about 2%, far too low to meet the needs of our population," he said.

There was a risk the economic upturn would be delayed if the level of violence was not reduced soon.

"This is not only because of the negative impact which the perceptions of violence is having on investment decisions, but also because consumer spending is being adversely affected."

SA had to guard against replacing external sanctions with an internal sanction — violence.

This, Parsons said, would equally place a ceiling on SA's economic performance in the years ahead.

"All South Africans should be concerned with the elimination of violence and its multi-faceted causes, which must be addressed by means of a total strategy enjoying wide support.

"Broad support is essential to implement strong security action successfully and to underpin a total strategy against violence," he said.

Top SA business team visits China

B Day 15/10/91 (180)

LINDEN BIRNS

A TOP-LEVEL SA business delegation led by Barlow Rand chairman and SA Foundation president Warren Clewlow arrived in Beijing yesterday to explore business opportunities in China.

Clewlow is accompanied by former SA ambassador to the UN and current SA Foundation director-general Kurt von Schirnding, Tongaat Group chairman Chris Saunders, Cullinan Holdings chairman Neil Cullinan and Sasol deputy chairman Paul Kruger.

SA Foundation spokesman Glenda Souter said the visit had nothing to do with Foreign Minister Pik Botha's one last week. "The delegation has gone to see how business works in China and to explore avenues of opportunity for SA businesses."

All of the delegates were travelling in their capacity as members of the SA Foundation and not as official representatives of their companies.

Last year Clewlow was part of a delegation of SA businessmen who visited the Soviet Union with the Department of Trade and Industry.

Barlow Rand was involved in a bartering arrangement with China last year, swapping undisclosed technology for rice through an intermediate party, a Barlow Rand source said.

A department spokesman and a Safto Asian trade representatives said they knew nothing about the current visit.

The delegation is being hosted by the Chinese Association for International Understanding, an organisation with close ties to the Chinese government.

According to Trade and Industry sources visitors to China who organise their trips through the Chinese Association invariably meet top government officials.

A Chinese Association delegation visited SA in June as the guest of the department.

Souter said this week's visit was the culmination of contacts between the foundation and mainland China over the past few years.

Foreign Affairs deputy director-general (overseas affairs) Rusty Evans said yesterday that while the department had no knowledge of the visit, it demonstrated that the SA business community had seen the opportunities created by economic advancement in the south China region.

SA and the People's Republic of China do not have diplomatic relations; government is loath to jeopardise its strong ties with Taiwan.

A major role in the creation of peace

BDay 15/10/91 (180)

BUSINESS is playing a *major role in creating* peace in the emerging new South Africa, says Barlow Rand mining and mineral *beneficiation division* chairman and Sacob president John Hall.

He was recently appointed chairman of the National Peace Accord.

The greatest contribution business can make is an intellectual one.

"Business has a role to play in economic terms and this is evident in the fact that its voice is being heeded to a greater extent than ever before.

"With the shortage of skills, collective wisdom will be needed and business can make a contribution here," he says.

The expertise business has to offer has to be brought to bear in all *spheres of life*, both nationally and locally, both in settling political issues and in resolving social problems like education and health care.

"*Sacob has already prov*en its worth and as it becomes more representative of business it will attract even greater weight in the business community," he says.

While it is true that business is motivated by self interest, this interest translates into national interest as well.

"Anarchy in the country will mean a sharp down-

JOHN HALL

turn in the economy, which is bad for business.

"*Business therefore has a vested interest in attempt*ing to achieve a winning situation in the country.

"One would like to say business has tremendous credibility, but politicians have their own agenda.

"We can only bring people together if they wish it."

Sacob to urge political, community leaders to talk

180

BDay 16/10/91

SHARON WOOD

ORGANISED business yesterday accepted a motion to urge all political and community leaders to begin a multiparty conference as soon as possible.

The Sacob 1991 national convention in Pretoria yesterday adopted the motion, which emphasised business's need to play an active role in negotiations.

Delegates at the conference expressed concern about a Midland Chamber of Industries proposal that business remain neutral and not be seen as tied to any political party.

A Midland Chamber of Industries spokesman said it was important that business shed the image of being connected to government. At some stage it would have to align itself with the stand made by SA's have-nots.

A Johannesburg Chamber spokesman said it was dangerous for business to adopt a neutral role. Business accepted the free enterprise system — rejected by the ANC — and business had to make this point.

Naamsa executive director Nico Vermeulen said he supported direct participation in a multiparty conference by business as the forum should be representative of all interests in SA, including the state, unions and business.

In a separate motion the Durban Metropolitan Chamber called for an urgent review of government's road funding.

Government should return to a dedicated funding system, raising funds through fuel levies or a road utility corporation, to prevent the rapid deterioration of SA's roads, Durban Metropolitan Chamber president Mike Norris said.

However, Transport Minister Piet Welgemoed said it was not possible to return to a dedicated funding system.

Stop standing in the wings, banker tells business leaders

Star 17/10/91.

By Michael Chester

(180)

A top banker has urged business leaders to play a far bigger role in helping to shape a new socio-economic era "rather than stand in the wings while the drama is played out by others".

The appeal was made yesterday by Standard Bank managing director Dr Conrad Strauss at the annual national convention of the South African Chamber of Business, held in Pretoria.

In an open rebuke, Dr Strauss said: "The failure of the business community to present a coherent view of what constitutes a desirable future economic structure for this country must be a source of concern to thinking South Africans of all shades of opinion.

"There is not one voice, nor is there one body, which can credibly claim to represent business interests as a whole in any discussions with those who purport to represent the black majority.

"Economic prospects for South Africa rest on more than an analysis of financial and economic technicalities.

"They also hinge on the response of powerful and influential bodies and individuals to the expectations of the people.

"At the moment, the stage is being dominated by players whose economic ideas and pronouncements are of dubious value, whose view of the world is coloured by the inequalities and injustices of the past and who see solutions to our problems through simplistic measures," Dr Strauss said.

"We have to present rational proposals in a timely way through a single, representative, umbrella business platform.

"Such a national business forum would represent one of the few components of South African society that is not ideologically driven and is therefore flexible enough to develop processes and structures that meet the legitimate needs of the people."

Unless this was done, there would be no peace or prosperity in the country, Dr Strauss told the businessmen.

Business must get cracking, or disgrace Africa

BDay 18/10/91 180

TONY MANNING

LIKE Rip van Winkle, SA is now waking up after a long sleep. We are finding our way back into the world, which changed while we were away.

The birth of the "new world order" involves not just nations, but industries and companies too. A massive shake-out is under way and nothing will ever be the same again. Politics, society and economics have become inextricably interwoven, and all are now in the throes of a seminal transformation. Yesterday's winning strategies are almost instantly obsolete. There is no such thing as a sustainable competitive advantage.

Today, economics drives politics. It takes serious money to wage a war. The knowledge that drags a country up by its bootstraps is also costly. So the world's rich get richer and more powerful, while the poor multiply and cry for an equal say. Technology has made the world a global marketplace for ideas, for goods and services, and for labour. It's a jungle out there. Competitors are prepared to fight to the death for capital, market share and profits.

The closing decade of the 20th century will be marked as much by a new level of co-operation between nations as by the intensity of competition between companies. Both these changes threaten the economy of the new SA.

The first is problematic because while countries once struck deals with each other to gain political clout, they now do it for access to each other's markets or labour. And SA is neither a particularly exciting market nor a competitive source of labour.

The second — inter-firm competition — is a danger because SA has few companies that can claim to be world-class competitors. Years of isolation have channelled our energies inwards rather than outwards.

Factors which make a nation competitive — a stable socio-political environment, access to capital, low interest rates, low inflation, skilled labour, high productivity — are the very ones that currently cripple us. We have to get the economy moving to rectify all of them; yet we cannot fix the economy until these critical issues are attended to.

Unfortunately, some of the steps that will be necessary will be very painful. Businessmen and politicians will find them hard to live with, but both groups are in the same boat and it's sinking fast under the weight of social demands.

Three issues — the role of the conglomerates, affirmative action, and the question of jobs versus automation — demand special attention. They affect seriously our competitiveness.

There is no doubt that the conglomerates have suppressed competition in local industries. But as government protection is removed they will feel the heat. Foreign competition will force them to sharpen up and hold down prices.

SA needs its business giants. It is impossible to compete in a growing number of industries except on a global scale. (For example, it costs around $100m to bring a major consumer product to market, $250m to launch a new pharmaceutical product, and $1bn to launch a new motor car.) Also, these firms provide plenty of jobs and put a fortune back into society in a variety of ways.

The second issue, affirmative action, is central to the redistribution of opportunities and wealth. But for decades to come, its single greatest achievement will be to blunt our competitiveness. There is no way to turn a 55% illiterate workforce into a world-class skilled force. Nor can any firm afford the passengers who will have to be carried if strategies like mentoring are adopted.

And that brings us to the toughest issue of them all: whether to create jobs or to replace people with machines. Quite clearly, we need to employ as many people as possible at the highest possible wages. But in almost every industry today firms go "bodyshopping" — using communications technology to buy the best skills at the lowest prices.

Japan exports 30 factories a week in search of a labour advantage. Taiwan is being forced to follow. The average manufacturing worker there earns about $600 a month. But in Jakarta, the minimum factory wage is just $42 a month, including an allowance for food and transport. In Shanghai only one worker in 10 earns as much as $1 a day.

But even with access to cheap labour, automation is essential for competitiveness in many industries. New technologies enable manufacturers to turn out extremely short runs of high-quality customised products. So the unkind reality is that many SA firms will have to destroy jobs in the short-term if the economy as a whole is to grow.

SA is poised on a knife edge. Yet our competitiveness is being compromised by the power games of politicians and labour leaders. And there is a dangerous level of complacency among businessmen.

We are late into the race to become world-class. Other countries and companies are sprinting into the future while we are stuck in the starting blocks. If we don't get moving, we will disgrace all of Africa. For if we cannot do it, no one can.

☐ **Manning is an independent management consultant and author.**

LETTERS

Rise in interest boosts Anglovaal

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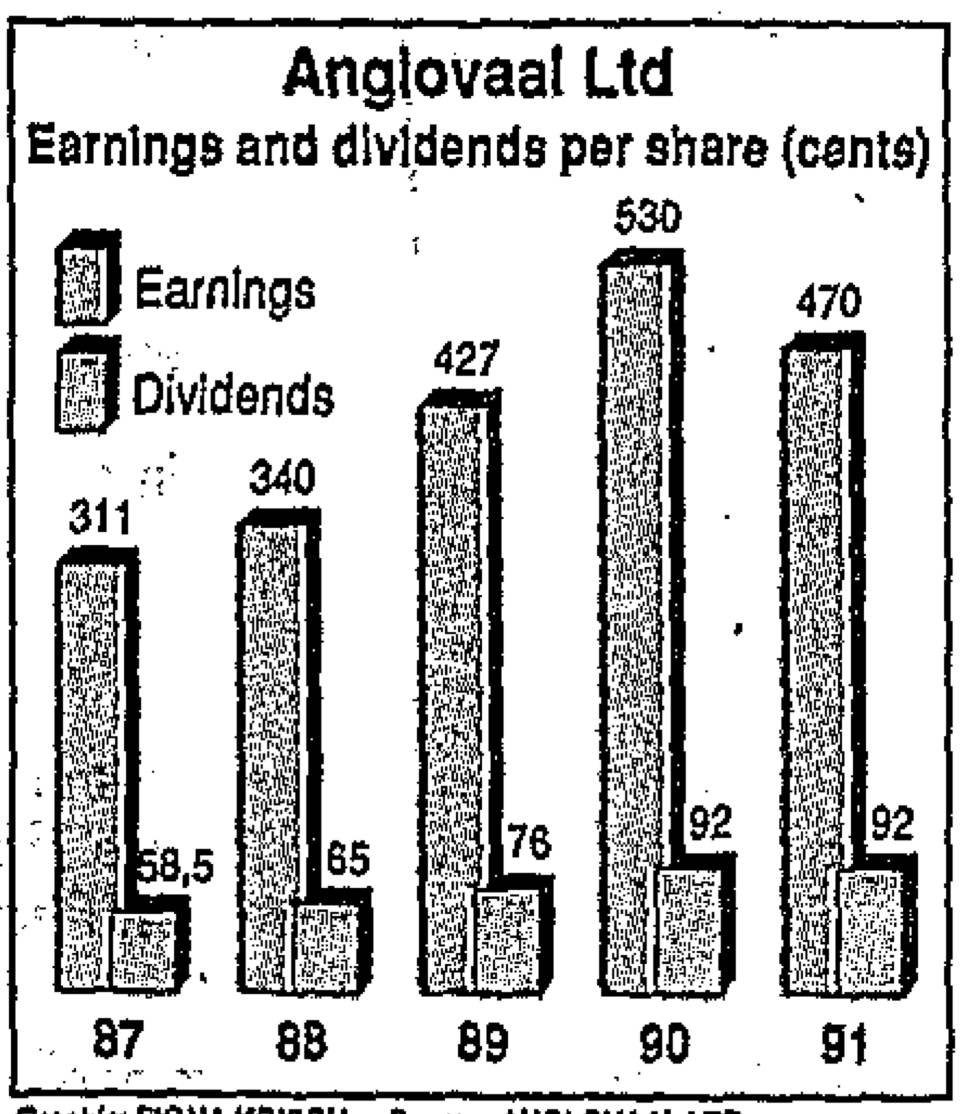
BDay 18/10/91

MATTHEW CURTIN

A THREEFOLD hike in interest earnings on funds raised through two rights issues in 1990 was the main reason behind the 18% increase in consolidated earnings from the Anglovaal Group in the year to end-June 1991.

The diversifed financial, mining and industrial group, whose activities range from gold mining to biscuit making, insurance, packaging and rubber industries, turned in attributable earnings of R280m in 1991, against R238m in 1990.



Graphic: FIONA KRISCH Source: ANGLOVAAL LTD

However, the 33% increase in the group's share capital diluted earnings a share by 11%, falling from 530c to 470c year on year.

Anglovaal's dividend was maintained at 92c a share, entailing a R16m increase in the total dividend distribution to R56m.

Chairman Basil Hersov said in his annual review that the fall in earnings a share was the first in seven years. He said the substantially higher interest earnings in the wake of last year's Anglovaal and Middle Witwatersand rights issues and the 13% improvement in Anglovaal Industries' (AVI) earnings were responsible for the overall increase in earnings.

Hersov said improved performances from Consol Limited, Irvin & Johnson and National Brands were partially offset by poorer results from Grinaker Holdings and Avtex. Consol's packaging and rubber divi-

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sions did particularly well in the year.

He said AVI's proposed R786m rights offers would ensure that adequate funds would be available to take advantage of future business opportunities as well as further strengthen the capital bases of AVI, Consol and Irvin & Johnson.

The cost/price squeeze which gripped the gold mines in the past four years continued in 1991. The group's Loraine mine was in danger of closing, he said.

"If all the group's mines are to contain increases in the rand/kilogram costs of gold produced to levels substantially below the national inflation rate to maintain already low profitability ... then the retrenchment of a portion of the group mine's employees is now more of a probability than a possibility," he said.

Weak ferrochrome and ferro-manganese demand hit Assmang's earnings, knocking the base metal division's contribution to group earnings from R74m to R49m. Base metals contributed the largest portion to earnings in 1990.

Hersov said Anglovaal would spend R87m in exploration in the current year and said the major Sun gold exploration venture in the northern Free State was continuing.

Do company directors deserve their huge salaries?

WMail 18/10-24/10/91 (180)

Are South African directors overpaid fat cats or misunderstood kingpins in the economic structure? SINCLAIR DAVIDSON argues for big pay packets for the people at the top

AMID appalling poverty (and declining profits) should directors award themselves pay increases?

Recently, there has been much debate about director remuneration. There are two sides to this debate: the first is that directors earn too much; the other is that directors do not earn enough.

The former argument stems from the recent Labour Research Service (LRS) study into director salaries. The latter is a pro-corporatist reaction to the report. The LRS is a union-affiliated body; no doubt it has its own agenda.

The strategic impact of directors is well known and understood by most. Marxists are the exception — they do not believe that directors create value as they do not produce tangible goods.

There are several determinants of directors' salaries. Human capital is scarce in South Africa: given this scarcity it can be argued that scarcity and monopoly rents attach themselves to director salaries.

The average director's value to the firm is far greater than that of the average worker, so we expect that they should earn more than workers.

A major consideration is the fact that no barriers to exit exist within the South African economy. If directors are not compensated for their human capital then various exit options are available — not least of these is emigration. At best, the director will be tempted away from the firm by competitors.

In economics, the concept of economic rent is well established. This is the payment that a factor of production receives in excess of the payment necessary to retain that factor within a particular occupation. Ensuring that the directors' services are retained is ensuring that the assets of the firm are maintained. After all, good management is probably the most important asset a firm can have.

We should not fall into the trap of thinking that this opportunity cost is constant. When the profits of the firm decline (through no fault of the director), the opportunity costs for the director increases, thus the firm needs to pay him or her more to retain his or her services. This is especially so when the director owns shares in the firm — a pay increase will partially offset losses on the market.

Once the director is earning enough to stay with the firm, we can then consider the effect of incentive structures on remuneration in the firm. This is where the pay-for-performance debate enters the picture.

Directors' remuneration can be divided into two components: the amount necessary to retain their services and that necessary to provide incentives. Incentives should include both the directors' and the shareholders' interests.

It has been argued that director remuneration should be tied to performance — but how to do this?

An obsession with accounting profits can and does lead to that favourite bogey man of the corporate critic — short-termism.

On the other hand, if performance is measured by the stock market a myriad of other problems arise.

The most important consideration is that the market evaluates the firm as a whole, it does not evaluate the performance of individual directors. Directors cannot be held responsible for the crash in 1987; having their pay linked to such occurrences seems unusually cruel.

Having said this, we should also recognise that there is scope for abuse of the system. In the final analysis, directors set their own salaries.

If shareholders feel that the system is being abused, their only recourse is to fire the director(s). In the United Kingdom, we have seen examples of this. To my knowledge, no South African director has been fired for paying himself too much. Similarly, no director has been castigated for paying himself too little.

If directors are abusing the system, how are they getting away with it?

It is generally held that there are three mechanisms that will monitor directors.

The first mechanism is corporate control. The second is the market for managers.

Both of these market mechanisms need active competition in order for them to operate successfully. In their absence, the scope for opportunism can be quite high.

As for the third mechanism, the relationship between outside directors and boards has recently been described as incestuous.

The pyramid structure within our economy inhibits shareholder activism and ensures an almost complete separation of ownership and control. The pyramid structure has the same effect as issuing dual-class shares.

While some academics have argued that pyramids are an alternative monitoring mechanism, the present corporate structure provides few incentives to maximise wealth. (With the pyramid structure all the directors have to do is to meet the objectives of the parent company — these objectives need not be wealth maximisation.) It is for this reason that investor power is not well developed.

The whole debate in South Africa is exacerbated by the lack of shareholder power.

If there were constraints on directors, or at least, if constraints on directors were perceived to exist, then the debate would not be a ferocious as it is.

This is an example where the perceived lack of legitimacy in the South African corporate world becomes apparent.

If we wish to avoid non-market intervention, we need to address the question of corporate legitimacy. This is a perfect example of where perception, valid or not, can have a far-reaching impact on our environment.

● **SINCLAIR DAVIDSON is a junior lecturer in the Department of Business Economics at the University of the Witwatersrand**

Institute of Directors 'dedicated to service'

Star 20/10/91

(180)

THE Institute of Directors in Southern Africa (IOD) has shed its "comfortable club" image and is set on a new course of service to members and leadership for SA, says recently elected chairman Dr Pieter Kieser.

The IOD is the only organisation in southern Africa to represent leaders of the free enterprise system as individuals. Its membership includes many decision-makers in commerce, industry and the professions, who contribute in large measure to the success of private enterprise.

Dr Pieter Kieser ... new IOD boss

Dr Kieser says under the chairmanship of Glynn Herbert and his successor Brian Hawksworth, the IOD has been transformed from what was perceived by many as a "club for wealthy gentlemen" into an organisation dedicated to service to its members and leadership for this country.

"By modelling itself on the IOD in London, our organisation aims to be a body of business leaders of standing and with great influence with government, labour, commerce, industry and banking whose members have access to a comprehensive menu of excellent business-orientated services and a home of their own."

Dr Kieser notes that the IOD's intention is to more aggressively recruit women directors and blacks in business and the professions, to broaden its influence and collective opinion.

Bid to draw business closer to the 'greens'

(180)

DAVE LOURENS

OVERSEAS environmental experts have been arriving in SA for a high-level conference designed to put businessmen in closer contact with the "green" movement. B/Day 21/10/91.

Conference convenor Jonathan Hobbs says 50 international environmental experts will join 280 SA delegates in taking stock of international trends and developments, and assessing their relevance for SA businessmen.

The Southern Africa International Conference on Environmental Management (Saicem) will be held at Somerset West on October 28 and 29. Sir Laurens van der Post will deliver the keynote address.

Hobbs says the business community is perceived as vital to environmental management because it has the power to effect immediate policy changes and the financial muscle to implement them.

Working groups will be held to highlight key issues. This will afford business leaders the opportunity to hear and debate the views of international experts.

Hobbs says the critical issues identified by Saicem will be presented to the Business Council for Sustained Development in Geneva, the International Chamber of Commerce in Paris and the International Network for Environmental Management in Hamburg. These organisations will add the results to a global business report to be presented to the UN Conference on Environment and Development in Rio, Brazil, in June 1992.

Pharmaceutical giant Glaxo Holdings' group environment officer Mark Rhodes will lead the workshop on tools of environmental management, focusing on problems facing developing countries, such as a limited knowledge base and the cost of modern techniques.

He believes the key to solving these problems lies in ensuring the health and safety of workers and the environment and effective risk management.

SA businessmen invited to Czechoslovak forum

(180)

PAUL ASH

THE Czechoslovak government has invited SA investors to attend the country's first investment forum.

The invitation to the conference, which will run in Prague from November 4-6, was sent to SA businessmen by the Czechoslovak consul in Pretoria on Friday.

The forum is being organised with the help of the UN Industrial Development Organisation (Unido) and the UN Development Programme (UNDP), a consul spokesman said in a statement. B/Day 21/10/91

Delegates will be able to survey 200 projects chosen by Unido out of 500 submitted. Profiles on each project will provide information on the company, its human and physical resources, markets and financial performance.

Under new legislation enacted by the Czech and Slovak Federal Republic (CFSR), non-nationals may now hold 100% of stock in a new enterprise in the republic.

After nearly 45 years of one-party rule and central economic planning Czechoslovakia in 1989 declared its commitment to a government-guided market economy.

The economic reform process, which began in January, has resulted in the registration of about 3 400 joint ventures with an investment inflow of over $3bn.

About 65% of this is accounted for by six major investments including Skoda-Volkswagen and the Netherlands-based Evrotel.

● See Page 14

SA's cost of capital near a historic low, says Kantor

BDay 22/10/91 (180)

SA's cost of capital on offshore markets was almost at an historic low, UCT School of Economics director Brian Kantor told an Investec seminar in Johannesburg yesterday.

He said if SA was looked at from abroad there had been an improved rating on capital markets, which would influence the cost of capital and investment spending.

Business Day Reporter

"The offshore value of SA's assets is well ahead of fundamentals, there is a strong sentiment in favour of SA shares and the risk premium is way down," he said.

Kantor based his cost of capital measure on the dividend yield of SA companies on the New York stock exchange and the declining SA political risk premium.

Another way of calculating the cost of capital was the formula-based one, which took into account depreciation costs, interest rates, corporate taxes and the debt/equity ratio. Based on the formula the cost of capital had gone up.

Kantor forecast healthy growth in investment spending until 1993, which he said could reach 5% real annual growth by the end of 1993 if sentiment remained at current levels.

"The market believes the future is going to be the same as the present. There is no politics in the market right now.

"The violence is more concerning to us. Foreigners thought it would be worse than it has been," he said. This was shown by the difference between SA dividends and the Dow Jones index.

There had been fantastic growth in earnings and dividends since 1986, despite obstacles.

Latest statistics on industrial earnings showed a turning point had been reached, and he expected inflation to come down to about 11,5% by the end of 1993, Kantor said.

Star 22/10/91.

Jo'burg trade mission strikes gold in Europe

(180)

A Johannesburg Chamber of Commerce and Industry trade mission to Europe has generated between R20 million and R30 million in immediate business, the group disclosed yesterday.

The delegation returned to South Africa this week, and according to a statement on their behalf, all delegates were elated at the success of the mission.

"Between R20 million and R30 million in immediate business was generated by the member delegates in their visits to Spain, Portugal, France, Belgium and England," the statement explained.

The mission leader, JCCI president Mike Cato, said he was excited about the reception they had enjoyed.

"It is true to say that they were very pleased to see us again after an absence of six years."

He was convinced there was "business out there" for South Africa, "but we will not get it unless we go out and fight for it. We have to get over there, and be prepared to meet international quality, cost and delivery standards".

Another delegate, Marius de Jager, said the JCCI had renewed links with sister organisations.

"In a number of instances, chambers were keenly interested in formalising relationships by means of the signing of agreements of co-operation.

"These will be pursued and finalised in the next year," he said.

Mr Cato addressed several gatherings of influential businessmen in Lisbon, Brussels and Paris, at which he argued that South Africa was the gateway to trade with sub-Saharan Africa. — Sapa.

Doubt deters investors

LINDA ENSOR (180)

CAPE TOWN — There was a reticence among foreign business to invest in SA because of the political uncertainty, Cape Chamber of Industries president Ernest Wilson said in his presidential address at the chamber's general meeting yesterday.

Wilson, re-elected president for another year, said there was a lack of confidence inside and outside the country, and the question mark over SA's constitutional future would inhibit the recovery of the economy.

Several foreign delegations had visited SA recently, but while they were willing to trade, there was a reticence about investing here. BDay 23/10/91

"Investment needs are urgent in almost every sector of our manufacturing industry but neither local nor overseas investment is likely on the scale we require until the future constitution has been hammered out by the new and old constitutional players."

Wilson said the country was in a "catch-22" situation in that economic growth was impossible without stability and stability depended on economic growth. Industry was concerned about the increasing burden being placed on its thin line of middle and senior management.

Private backers set up organisation to promote foreign investment

BDay 23/10/91

SIMON WILLSON

PRIVATE investors have set up an organisation to promote foreign investment in SA, particularly in small- and medium-sized businesses.

The Centre for the Promotion of Foreign Investment is scheduled to start operations in Johannesburg next month. Funded by five individual backers, the centre is intended to be a non-party political and profit-making venture.

Heading the centre as executive director will be current American Chamber of Commerce executive director Wayne Mitchell, who is leaving Amcham at the end of the month.

Although funded by private individuals, the centre will subcontract high-profile companies to provide consultancy services to potential foreign investors.

Mitchell said last night that major corporations had initially been approached to underwrite the project, but had sought too much direct involvement in its operations.

"Our backers will essentially be sleeping partners unconnected with the day-to-day running of the centre. Although we now have the start-up finance, we will be looking for additional funding further down the line through equity participation."

"We are sensitive about the affirmative role we will have to play. We have identified companies in SA that are looking for foreign joint-venture partners, and our objective is to match up foreign companies with these SA enterprises."

Top of the centre's list for investment promotion is the Pacific Rim, specifically Hong Kong, Singapore, Malaysia and Japan.

Mitchell said this week's decision by the Japanese government to lift trade and investment sanctions had been foreshadowed several months ago by an increasingly favourable Japanese perception of SA's prospects.

Subsequent promotion drives would be targeted at EC countries which have traditionally had relatively low levels of involvement in SA, such as Spain and Portugal.

The centre aimed to include previously hostile territory for SA investment promotion — such as the Scandinavian countries — in later marketing efforts.

The centre would hold regular SA investment seminars at home and abroad. It also planned to conduct feasibility studies on investment opportunities in SA.

"The centre could play a meaningful role in helping to identify and exploit opportunities for the medium-sized entrepreneurs who operate outside the arena dominated by the handful of major conglomerates in SA," said chamber CE Klaus Volker Schuurman.

Sacob international trade manager Bess Robertson warned, however, that SA's foreign trade was likely to perform better than foreign investment in the short term.

180

Malbak benefits from interest cut

(180)

B/Day 24/10/91.

BRENT VON MELVILLE

INDUSTRIAL conglomerate Malbak, which has turned its attention to the consumer market, gave a stable performance for the year to end-August, with bottom-line earnings up 10% to R256m (R233m).

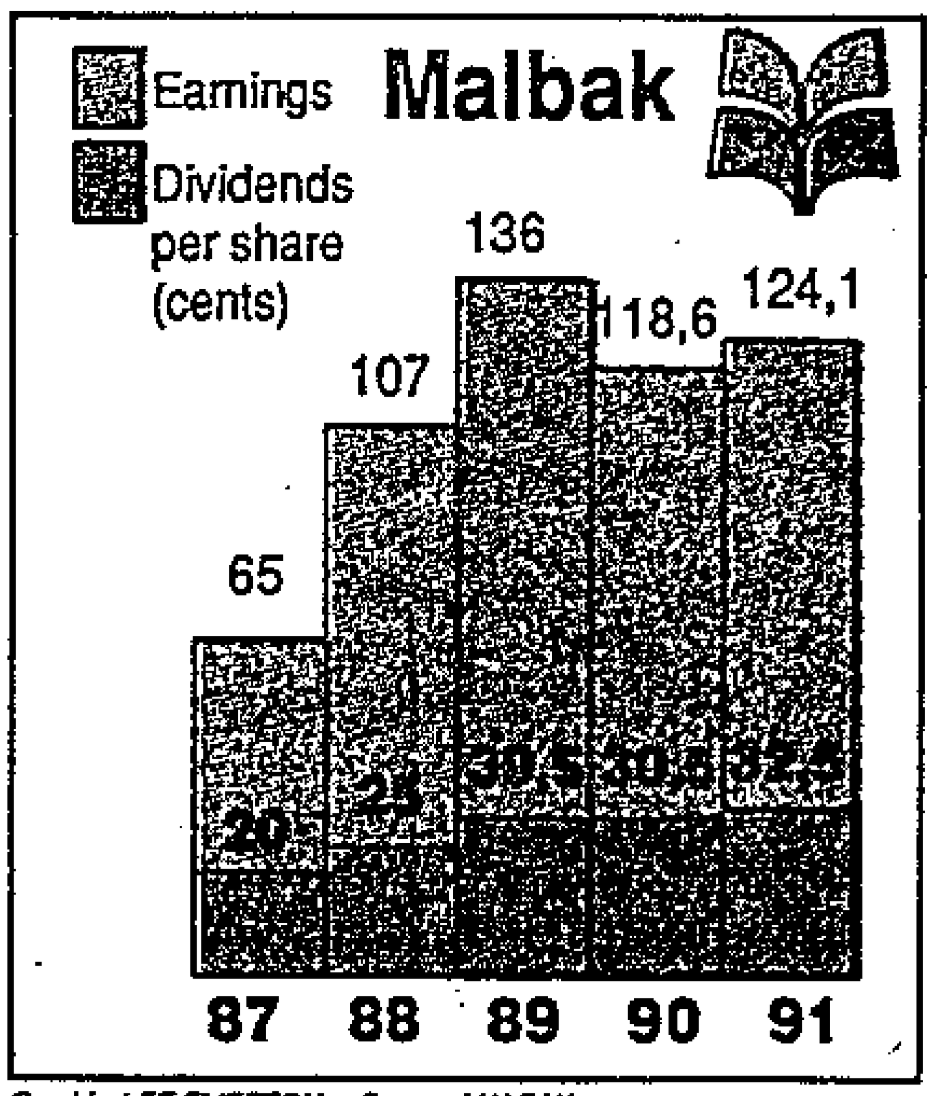
The results, which saw a total dividend for the year of 32,5c (30,5c), put the group on a p:e rating of 9,9 times and a dividend yield of 2,7%. Malbak shares climbed 35c (3%) to R12,25 yesterday.

The performance was largely the result of a reduction in interest payments, which fell 19% to R176m (R218m) on a decline in borrowings to R739m (R827m). The reduced interest bill saw profits before tax improve 7% to R544m (R506m) despite static turnover and operating profits, at R8,4bn and R720m respectively.

Executive chairman Grant Thomas attributed the reduction in borrowings to improved asset management. Interest cover climbed to 4,1 (3,3) times and gearing was reduced to 35,3 (45,8) times.

Moves during the financial year under review included reduction of the group's holding in paper and packaging division Holdains and food division Kanhym.

Thomas said gearing would fall further, to about 20%, following the group's recently announced acquisitions of Fedfood and SA Druggists, and the sell-off of its 50% stake in Standard Engineering and 61% holding in Darling & Hodgson.



Graphic: LEE EMERTON Source: MALBAK

Had the transactions taken place at the start of the year under review, the effect would have been to reduce earnings by 5,4% to 117c a share, and increase net asset value by 10,7% to 758c a share. Cash proceeds on the sales amounting to more than R400m would go towards reducing borrowings.

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Malbak

B/Day 24/10/91. (180)

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During the year the group wrote off goodwill on acquisitions of R89m, and losses of R17m on the sale of Malcomess, R11m on the disposal of Crescens Bushill and R10m on the sale of Quality Tyres.

Divisionally the group's branded consumer products division, led by improved performances from Ellerines and Tedelex, upped its contribution to group bottom line to R70m, or 27% (25%).

Engineering and mining supplies, under Standard Engineering, contributed R57m, leaving its percentage to bottom line at 22%, while packaging and paper (housed under Holdains) saw its contribution drop slightly to 23% (R59m). During the year Holdains acquired control of the Sun Packaging group and increased its stake in Carlton Paper Corporation to over 50%.

The group's food division under Kanhym, in which Malbak reduced its holding to 70% from 85%, increased its contribution to group attributable profits slightly to R27m (25m), leaving its percentage contribution at 11%.

The motor retailing division, which operates Mercedes and Toyota franchises, has, subsequent to the year-end, acquired the Market Motors Group, expanding its operations to the western Cape and becoming SA's second largest Toyota dealer.

Malhold, which holds 56,2% in Malbak, saw earnings up 8,9% to 350,3c (321,7c) a share, and increased the dividend 6% to 91c (85,5c).

As to prospects, Thomas warned that the second half of the financial year under review had seen an acceleration in the economic downturn, and even if the high level of interest rates was reduced, it was unlikely any benefit would be seen before the second half of next year.

PR facade hides true state of SA's development efforts

B/Day 24/10/91.

ERIC LOUW (180)

WHILE it is widely acknowledged that entrepreneurship plays a vital role in the economy, there is not much agreement regarding how, or even whether, entrepreneurs should be assisted in the process of starting and growing their businesses.

With the possible exception of lobbying for appropriate regulation, attempts to stimulate entrepreneurship amount to interventions in a complex socio-economic system, the full effects of which are difficult to control and measure. If development organisations really knew what they were doing we could safely applaud their efforts. Unfortunately, this is not the case.

Present-day entrepreneurship promoters are rather like 19th-century physicians, who understood but poorly their patients' bodies and their diseases. They based most of their treatments on supposition, heuristics and trial and error.

Through lack of knowledge and skill, many doctors did far more damage than good. Happily, succeeding generations of doctors learned from the mistakes of their predecessors and from research. The fruits of their learning are obvious.

If entrepreneurship promotion succeeds in traversing its own learning curve, it will become a genuinely useful instrument with which to pursue goals such as job creation, economic growth and the equalisation of wealth. Perhaps one day it will be possible to prescribe, with confidence, specific entrepreneurship-promotion measures to treat specific economic ailments, but we are nowhere near the point at present.

Despite what many entrepreneurship promoters would like their sponsors to believe, and despite the fact that there are many dedicated organisations trying to assist entrepreneurs, it is not possible to claim that entrepreneurship promotion has had a positive net effect on job creation, economic empowerment and growth. It is important to understand why the impressive statistics trotted out by development organisations are not to be trusted, and why this misinformation can be damaging.

First, the opportunity costs of funds channelled to a particular programme are seldom brought into the equation. In the light of this country's resource crisis, it is not enough to demonstrate that funds are being well used — it is imperative that the funds be used in the most effective way possible. It is inexcusable to tie up funds in a programme that is inching towards a goal when there may be other programmes that could race towards that goal. In this regard, it is important to distinguish programmes that address the causes of SA's economic problems (such as Bantu education and mercantilism) from those which merely patch up the symptoms.

Second, the question of marginality is seldom discussed. It would be easy to quote examples of less-than-scrupulous organisations claiming to be able to transform our economy. However, it is more instructive to examine the position of a major player with a high degree of integrity, such as the Small Business Development Corporation.

The SBDC claims to have "promoted 280 000 job opportunities at an average cost of R3 831 per job" since its inception (Marketing Mix, September 1991). This devalues the entrepreneurs' contributions in terms of creativity, effort and their own money. It also ignores the possibility that many of the entrepreneurs who were given subsidised loans could have funded their businesses in some other way.

Are we to believe the SBDC has single-handedly created more than 5% of the formal jobs in SA? If that is the case, then the commercial banks, which lend vastly more money to small businesses than does the SBDC, must have created the rest of the jobs — an absurd conclusion. And if the SBDC is really so good at creating jobs, perhaps it would be wise to give them a few billion rands more so they can wipe out unemployment completely. In reality, while some development organisations may make useful contributions, these contributions are marginal at best.

Third, many organisations avoid tackling the really difficult problems. They inevitably take the line of least resistance and help clients who are accessible and easy to work with. They thereby exclude clients who may have a greater need and excellent potential, but who are difficult to serve.

It is, for example, easy to provide subsidised loans to white clients who come close to meeting commercial loan criteria. It requires a more innovative approach to set up a viable lending operation for black clients not able to get bank loans. Organisations which shy away from this challenge and channel most of their funds to white entrepreneurs cannot claim to be a vehicle for black economic empowerment. They, however, often make such claims, using smoke-and-mirror tactics to conceal rather than reveal what they are doing. For example, while the SBDC supports more black than white entrepreneurs, it channels close to two-thirds of its funds to whites.

Finally, interventions can distort markets, displace jobs, create dependency and shield beneficiaries from competitive forces — to the ultimate detriment of the economy, other businesses and even the beneficiaries themselves.

The real problem with these distortions is not so much that development organisations are less effective than they might be, but that the motivation to improve their effectiveness is blunted. Because their "customers" (the beneficiaries) have far less power than conventional customers, development organisations are less sensitive to market forces than commercial organisations. Development organisations do not need to be good at development in order to survive — they need to be good at fund-raising and fund management.

Any genuine attempt to evaluate the effectiveness of a development organisation's work is a direct threat to its management's vested interests. As a consequence, evaluation projects are sometimes rigged to produce results that support the organisation's propaganda.

Alternatively, when objective independent evaluations are performed, the results are seldom made available to the public. It would be useful if evaluations of Development Bank of SA programmes were more widely available. As it is, however, the net effect is that learning grinds to a halt, old mistakes are repeated when they can ill be afforded and stakeholders are lulled into believing the country's problems are being taken care of.

This article is not an attempt to criticise the work of development organisations — it is entirely possible that some excellent work is being done. But little effort is devoted to discovering what is being done well and what poorly, while a great deal of time and energy is devoted to shaping perceptions.

The article also implicates the funders of development organisations whose first priority is often to get as much PR mileage out of their sponsorship as possible. Even though research may be the best tool for helping development organisations to become more effective, who wants to sponsor such an unphotogenic activity, especially when it cannot be translated into a specific number of grateful beneficiaries? Worse still, the results of research may take some of the warmth out of the glow induced by other activities.

The time has come for development organisations and their sponsors to drop the PR facade and start building on what is of real value behind it. If they fail to do this, then the facade will be torn down anyway, together with anything of value.

There is a growing cynicism among the purported beneficiaries of entrepreneurship development. Unless development organisations can demonstrate the value of their work, "entrepreneurship promotion" may become a dirty phrase in the SA of the future.

☐ **Louw is senior consultant at the Wits Business School's Centre for Developing Business.**

PAC puts blame on SA business

(180)

THE PAC has blamed domestic business rather than sanctions for the poor state of the country's economy.

PAC first deputy vice-president Johnson Mlambo told journalists after a conference in Botswana - aimed at drawing up an economic policy for a non-racial democratic South Africa - that sanctions should be maintained for the meantime.

But he added: "Sanctions played only a minor role in the poor performance of the South African economy."

Mlambo said the PAC believed South Africa had suffered over-reliance on primary production and too little emphasis on other sectors, particularly manufacturing.

"An important issue we learned from this conference is that the very people who call out against sanctions, the domestic business corporations, are the ones who practice sanctions. They externalise the country's assets and come back as external investors." Sowetan 25/10/91

Mlambo said South Africa's external assets had grown to R56 billion in 1988.

But he said foreign sanctions against Pretoria should stay until a constitutional assembly was elected to draw up a new constitution.

He said the PAC was undaunted by the demise of communism in Eastern Europe.

"We are in no way intimidated by the collapse of totalitarian systems in Eastern Europe. The PAC believes that socialism can be practised within the framework of a democracy," he said. - *Sapa-Reuter.*

BUSINESS

SA companies: Take the money and run?

W Mail 25/10–31/10/91.

(180)

Are the big companies getting their cash out in case they're nationalised? Maybe not, but money has been flowing out of the country.

REG RUMNEY reports

A COMMONLY held belief is that — never mind foreign companies disinvesting — local firms themselves have been "disinvesting" from South Africa.

They have, according to this view of things, pre-empted nationalisation by funneling huge amounts of money into subsidiaries overseas.

Worse, there is a belief that big companies have somehow circumvented South Africa's exchange control regulations to get money out.

One shibboleth has to be disposed of immediately: some South African-owned companies abroad have been there for so long it is fairly pointless asking where the money came from originally. For instance, De Beers has been an international operation since the 1930s. So while its separation into a South African arm and a foreign one was clearly aimed a wrong-footing any sanctions attempts, it does not represent disinvestment.

Economix director Azar Jammine notes that because of the devaluation of the rand over the past 10 years sums held overseas that did not seem large when they were taken out now seem huge in rand terms. This might give some the idea that huge amounts of money were taken out.

But the perception that companies are either ready to ship their money out, or have already started doing so, isn't helped by the culture of secrecy that pervades South African business.

For instance, section 15 a of the Companies Act allows companies to apply to the Registrar of Companies to hide from public scrutiny certain information for strategic reasons.

Companies registrar Mossie Janse van Rensburg admits, though he cannot say how often, this provision is used to suppress information about offshore subsidiaries and associates of South African companies.

Also, permission would be necessary from South Africa's exchange control authorities.

Given that offshore companies about which the public may know nothing have been set up, have these been used to ship large capital sums out of the country to pre-empt nationalisation or in anticipation of a black government coming to power?

Jammine reckons that the moment it became obvious large sums were being moved out the government in power would move to block the exit.

This is not to say money has been taken out of the country. Jammine surmises the reason the wealthier citizens of South Africa haven't emigrated is that they have already feathered financial nests in other countries.

But there has been a big "capital flight" from South Africa during the past 20 years — or rather it is estimated there has been a big flight of capital, for by the nature of the phenomenon it isn't easy to determine.

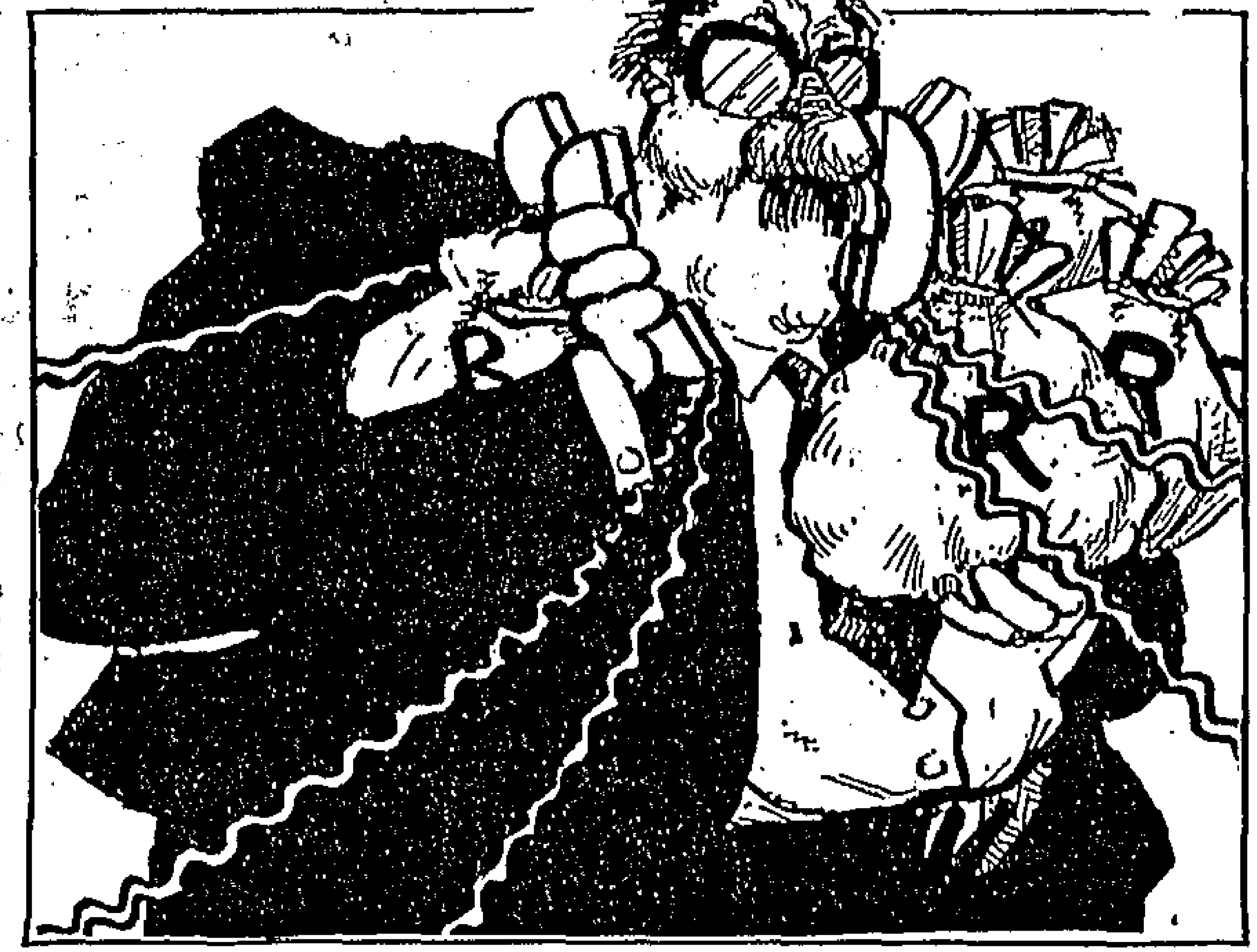
That throws up another problem: when a company takes money out a country to invest it elsewhere, when is it a commercial decision to maximise profits and when is it capital flight?

Is capital flight caused only by political fears or economic factors?

A paper by BW Smith and EA Mocke, published in the latest *SA Journal of Economics*, discusses the definitions and the measurement of capital flight. They estimate — depending on means of measurement — capital flight from 1970 to 1988 to be between $13-billion and $22-billion.

The authors conclude, through the use of a complex econometric model, that both political and "pure" economic factors are important in explaining capital flight from South Africa.

The economic factors include exchange rate overvaluation, poor macro-economic conditions and the availability of foreign exchange.



"The results also provide for the explanation of 'normal' capital outflows, particularly trade-related flows, included in the capital flight measures."

How to stop capital flight? Thinking in African National Congress circles is that the government hasn't acted purposefully or strictly enough in preventing capital-flight.

But here the focus should shift to individuals and smaller companies.

Anglo economist Gavin Keeton argues outflows from bigger companies are easily traced, because they have to present public accounts. Individuals, he says, have much more latitude to dodge exchange control.

It has been remarked that without exceeding civilised norms of policing it is difficult to act against phenomena such as over and under-invoicing — ie getting a friendly overseas company (or one you own) to charge too much for something you import into the country, and then having that company deposit into your (illegal) foreign bank account the difference between actual worth and amount paid; or charging a company too little for something you export, and once again having that company deposit into your foreign bank account the difference.

Exchange control itself has had bad side-effects.

Jammine reckons it was a mistake for the government not to allow companies to invest funds abroad in the early 1980s when money was flowing in because of the high gold price.

The conglomerates would then not have been forced to buy up local companies, so increasing economic concentration in South Africa.

All of which points up the desirability — the practicality is another matter — of liberalising the investment environment rather than tightening controls again.

Industrial index 'will rise despite signs of a slump'

B/Day 1/11/91

ROBERT LAING

INDUSTRIAL share prices will continue to rise next year despite signs pointing to a slump, Sanlam MD Jan Calitz told the conference.

Allotted the tough task of forecasting the industrial index at the same time next year, Calitz punted a rise to between 4 600 and 4 800. Yesterday's close was 4 263, after Wednesday's record 4 269.

"I am by no means suggesting that the market will move ahead rapidly or without interruption. The volatile political environment in which we operate must be expected to lead to periodic setbacks and a good measure of uncertainty," he said.

According to historical criteria, the market should not rise much further — its average dividend yield of 2,6% was at a low level similar to that before the 1987 and 1969 crashes and its price-earnings ratio of 13,9 was exceeded only before substantial bear markets.

However, the previous market peaks had been associated with frenzied interest and high turnovers — "features noticeably absent in the current market as every stockbroker will testify", Calitz said.

Over the past year the earnings of companies making up the industrial index had increased by 2% while dividends rose by 5%. Calitz estimated earnings and dividend growth over the next 12 months for the top companies making up the bulk of the index would be 16% and 14%.

The SA economy was bottoming out after a long but relatively mild downturn. The expected higher growth rate in developed economies augured well for a new upturn in SA next year, he said.

The shortage of quality scrip against increased demand from institutional funds was another factor which should boost the index.

180

Abolition

Calitz said his prediction depended on three major factors: offshore markets would not experience collapses reminiscent of October 1987; SA's political negotiations would not be derailed and the financial rand would not be abolished.

Calitz estimated this year's institutional cash flow would be R33,2bn and next year's R40bn. As a result of the abolition of prescribed assets in 1989 and recent changes to prudential investment regulations, at least 50% of this should be invested in equities.

GENCOR FM 1\11\91 (180)

Back to the market

Gencor's plans for another big rights issue — probably as much as R2bn — have again drawn attention to the number of chunky projects the house has on its books. Most of the funds will go towards ventures already announced or known.

If all of them come off, the balance sheet will be left with a similar level of liquidity as at present. This issue, coming only a couple of years after the house's last rights issue of some R1,5bn and after a period of steady growth in retained earnings, again emphasises Gencor's high rate of investment in ventures that should ensure long-term growth.

Five major projects, all relating to large or burgeoning holdings in the Gencor stable, are cited as likely to require funding in the months ahead. Most are for commodity or export-orientated ventures, with emphasis on production of more value-added, or beneficiated products. Only one relates to a new mine.

Pulp and paper producer Sappi, in which Gencor has a 50% interest, is holding a R1bn rights issue, of which the house's share will be about R500m. If the second phase of Engen's expansion of the Genref refinery goes ahead next year, as is likely, it would probably require about R600m from Gencor.

After the acquisition by Samancor and the Columbus consortium of Middelburg Steel & Alloys, that group's chrome and ferrochrome business will be moved into Samancor (held 41% by Gencor) and the stainless steel business in Columbus. Chairman Derek Keys says Gencor will invest about R280m in an enlarged Samancor, which in turn will be "well placed to embark on Columbus with every prospect of seeing it through without further recourse to its shareholders."

The new gold mine, Oryx, will need bridging funds to see it through to April 1994, or until conditions in the gold sector have improved enough for a rights issue. After reducing its stake earlier this year, Gencor still holds about 63% of Oryx. Gencor's share of the bridging funds is about R500m.

Another potential project for next year is an expansion of Alusaf's smelting capacity, at a cost of around R3bn. Gencor holds an effective 31% of Alusaf and the house is assuming that a go-ahead for the expansion would involve Gencor injecting upwards of R800m. Keys notes that Eskom has agreed to consider entering into a long-term power supply contract with Alusaf, which would make new smelting capacity competitive with the world industry. A decision could be taken in the first half of next year.

In total, Gencor could thus put about R2,7bn into these five companies. Its own balance sheet currently holds about R1,3bn cash, plus about R600m in marketable securities, giving net liquid assets of R1,4bn after loans of R500m are offset. If a further R2bn in equity funds is brought in through a rights issue, that would leave a safety margin of R500m-R700m that could be available for other investments.

"It doesn't hurt me to raise cash before we need it," says Keys. "Running this group with a large cash resource at the centre has a very good effect on people. It lends credibility to our view that we want to generate growth." The last issue was placed at 20-for-100. Keys feels that a R2bn issue at 15-for-100 would be "fairly received."

At this stage, however, the earnings growth lies in the future. EPS for the 1991 year were down by 5%. Attributable income from Genmin fell by R142m (largely due to a R74m drop by Samancor, a R30m drop by Gengold and a R44m fall in the minerals division), while Sappi's contribution was down by R86m.

However, the group has safely weathered

Gencor's Keys ... *downward pressure on profits will continue*

a severe swing in the pattern in income contributions. A few years ago, nearly 70% of earnings was from Sappi and Samancor; their total has now dropped to about a quarter. Malbak was up by R12m; but the real boost again came from Engen (up by R34m, excluding the previous year's attributable income), and from Genbel and investments, whose contribution rose by R106m, or about a third.

LOSING GROUND

Year to August 31	1990	1991
Income (Rm)	1 098	1 056
Consolidated income (Rm)	937	766
Equity accounted retained income (Rm)	542	639
Attributable (Rm)	1 479	1 405
Earnings (c)	125,8	119,5
Dividend (c)	40	43

There have been encouraging signs, such as the recent improvement in the gold division. Overall, though, Keys says the downward pressure on profits will continue, probably for the entire 1992 year. With the dividend, nevertheless, increased by 7,5%, the share yields 3,4% on the 1 285c price, about in line with the average for the mining house sector.

Andrew McNulty

20% of repair costs 'wasted'

DAVE LOURENS

SA COMPANIES wasted a fifth of the R25bn they spent annually on plant maintenance and repair work, it was claimed yesterday.

P-E Corporate Services MD Martin Westcott said yesterday this was the result of poor staff utilisation, the unavailability of skills, wastage and poor inventory control.

Economic success, he told the Maintenance Management Convention in Johannesburg, required high productivity and a sound education system.

"We are finding new job opportunities for less than 10% of our aspirant workers," said Westcott.

"The causes have included a static or no-growth economy, an education system which has almost collapsed, unrealistic salary and wage inflation and international sanctions.

"The results have included more visible and violent trade union activity, a severe economic recession and rising levels of crime and violence.

"Performance improvements in the years ahead will depend on our ability to achieve a balance between our First World needs and Third World realities," said Westcott.

Engineers would become increasingly concerned with several key issues. They would need to implement job deskilling schemes to maximise the use of a diminishing pool of technically skilled resources. 180

Semi-skilled resources would need to be trained to assume more meaningful and productive tasks and responsibilities.

Engineers had to design workable, cost-effective maintenance policies, and implement simple but effective management and control systems.

A more structured approach to deciding when to use sophisticated technology had to be adopted.

ANC women hit at UCT attitudes

CAPE TOWN — The ANC Women's League has rejected black male University of Cape Town students' defence of sexual violence against women as "blatant oppression".

League spokesman Nomatyala Hangana said a new revolution — for the liberation of women — had started in SA.

The league was reacting to claims by black men students in a UCT report on sexual harassment that it was their "customary right" to control women, even through physical violence.

Hangana said: "It puzzles one to hear men say that it is customary to discipline wives by beating them. It is not our tradition. It is nothing but blatant oppression. A massive task lies ahead of us." — Sapa. B Day 1/11/91

MALBAK FM 1/11/91 (180)

Second-half pick-up

In his last annual review, chairman Grant Thomas listed, among Malbak's strengths, an ability to adapt to change. This seems to have been a significant factor behind the results for the year to August.

Against a continuously deteriorating economy, there are two outstanding features. The first is the 18% EPS gain in the second half-year; the second is that this improvement is broadly based among the seven main operating divisions.

The 18% earnings gain in March-August is the best half-yearly performance since 20% in the same portion of financial 1989, when EPS peaked at 136c. Even then, however, it was obvious that the group was starting to feel the effects of the downturn, as growth had slowed from 40% in the preceding six months. This deterioration continued through 1990, with earnings dropping 4% in the first half followed by a 24% plunge in the second six months.

From then on, things started looking up. There were signs in the first half of the year just completed that the group was starting to find its feet again. EPS was up 1%. This is, in a large measure, confirmed by the latest results, which benefit significantly from lower finance charges, attributed to a tightening-up of asset management and consequent reduction in borrowings.

The second point supporting the premise that, as a group, Malbak has adapted well to current business conditions, is the broadly based nature of the second-half recovery. Running through the major operating divisions and comparing interim performance with year-end results, it is apparent that packaging/paper and engineering/mining supplies both performed steadily throughout the year with, in the circumstances, satisfactory improvements in earnings.

The remaining five divisions all performed significantly better in the second half than in the first. Particularly noteworthy improvements were recorded by food, whose contribution to group earnings rose 8% for the year, after being down 13% at the interim

cont

OVER THE WORST?

Year to August	1989	1990	1991
Turnover (Rm)	7 329	8 374	8 441
Operating profit (Rm)	683	724	720
Attributable			
Earnings (Rm)	251	233	256
EPS (c)	136,1	118,6	124,1
Dividends (c)	30,5	30,5	32,5

FM 1/11/91

stage, and the development sector, where there was a sevenfold increase in 1991 profits. (180)

Also supporting the view that Malbak (if not the economy) has seen the worst of the recession is that the final dividend is raised 2c, to give a total of 32,5c (1990: 30,5c).

On earnings alone, the increase is hardly justified, given that latest EPS of 124c are still 12c below the 1989 peak (when the payout was raised to 30,5c) and that, on a pro forma basis, this year's earnings will be diluted slightly by the asset shuffle between Sankorp, Malbak and Murray & Roberts (*Fox* October 25). But it is justified if management believes it can see light at the end of the tunnel as a result of efforts to structure the group to suit current conditions and, more particularly, if the effects of the asset shuffle turn out to be more positive than is indicated by the pro forma calculations.

On this front, Malbak's sale of D & H and half its stake in Standard Engineering to Murray & Roberts for just over R399m involves, in effect, the sale of R49,3m earnings on a p:e ratio of 8. On the assumption that the proceeds are banked at an effective net return of 8,6%, the resulting R15m reduction in group earnings fully accounts for the envisaged 7c EPS dilution on existing issued capital. This, in turn, means that attributable earnings from the acquisition of SA Druggists and Fedfood, on the 46,9m new shares that Malbak is issuing, will also be the equivalent of about 117c a share.

The actual outcome will depend on how quickly Malbak can put its newly acquired cash pile to full productive use and the extent to which it can generate additional profits from the two new group members.

For the moment, the group is saying nothing more than that it expects 1992 earnings to be maintained at the diluted 1991 figure of 117c. But the way the share price has been run up suggests that the market is counting on this forecast — like that of last year — being conservative. *Brian Thompson*

SA equity set for Europe (180) (44) (48)

Star 1/11/91

South African stock will be appearing on European markets in the near future says Richard Agutter of accounting firm KMPG Peat Warwick of London.

He said that the general impression was that there was no interest in South African paper in overseas markets.

"However, I can see situations arising in the near future when paper in a South African company is issued to the seller as part of a financial transaction.

"The new paper is then quoted on a European market and this gives a South African company a quote on a European exchange.

"Currently such a route would require SA Reserve Bank approval and this could take time.

"I am not necessarily advocating this route as being a quick one but I believe it will come."

He told the conference that once the debt market had been tapped, then equities could follow.

"Investment cash to SA companies may be expensive and I believe that finance for such an aquisition should be raised on the European capital market."

Mr Agutter said that for a South African deal to be succesful there has to be considerable added value from the transaction.

He suggested that joint ventures between SA companies and European groups should be considered as a means of operation. — Sapa.

Investment and skills needed — Ramaphosa

Star 1/11/91

180

South Africa would be unwise to alienate investors or drive out skills, says ANC secretary-general Cyril Ramaphosa.

He told the conference: "The ANC has been unwavering in its commitment to a non-racial, non-sexist South Africa.

"It is these commitments plus our acceptance of the link between investment and redistribution being critical for future stability that will enable the ANC as a political organisation to unify a divided society around common objectives."

Mr Ramaphosa said South Africa had a potentially dynamic private sector and that the government of the future had a duty to ensure the potential was fulfilled.

"But this is not an invitation to complacency on the part of the private sector. It does not mean business as usual.

"It means we have to face new challenges and find new ways of meeting those challenges.

"The private sector, in co-operation with the public sector, must go out and create job opportunities, especially for those people, the black people of South Africa, who through no fault of their own were sent off the field before the economic game started."

Mr Ramaphosa added: "At present in the public debate one side fears that redistribution will stop investment, while the other side fears the pursuit of investment will be at the expense of redistribution.

"Both are legimate fears, but we must go beyond expressing our fears as if they were iron laws of economics."

Mr Ramaphosa told the delegates that the ANC was concerned about the additional and potentially serious long-term obstacles to investment.

"This is a concern that is very strongly shared by our alliance partners," he said.

Participation

"Addressing these problems requires a very high degree of participation by all the key actors in society and the economy.

"The Nationalist Government is not capable of either addressing these problems alone or of involving all the key actors."

Mr Ramaphosa said that the overwhelming proportion of investment in South Africa came from domestic sources and that this would continue for economic reasons.

"However, foreign investors can, and we hope will, play a valuable role in taking a democratic SA along the path to prosperity.

"Our general objective is to revive investment within a framework that maximises our capacity to eradicate poverty." — Sapa.

Star 1/11/91.

Vital role for business

Stoep Talk

MICHAEL SHAFTO

180

More and more these days it is being accepted that the active role of business leaders in the development of the economy, is an issue vital to all of southern Africa.

AIESEC International, through its eastern Cape (Rhodes) branch, believes the issue of business playing an increasingly active part in stimulating the general economy to be of such importance that it is already doing long range planning for a symposium for southern African delegates to be held in Durban towards the end of July next year.

Acronym

The congress is to be styled Symposium of Future Southern African Business Leaders.

AEISEC is a French acronym for the International Association for Students interested in Economics and Commerce.

First launched in 1948, it is a non-profit making organisation with 70 000 members on more than 800 campuses in 71 countries.

Says AEISEC Rhodes spokesman, Toni Hugill: "The purpose of the symposium is to further the trend towards economic unity and to address the need for continuing business development in southern Africa."

Quoting the publication, "Leadership" (1991), the AIESEC project document underlines that, "In Africa, relations with neighbouring states will remain a top priority in the years ahead.

The interests of individual African states, together with the logic of a constructive regional policy on the part of southern Africa, should bring about a climate conducive to co-operation."

Mission

The project document further states: "AIESEC's mission is to contribute to a future changing South Africa by striving to develop students interested in economics and the management process to be more aware and effective participants in the environment, while fostering international perspective."

One of the means of doing this is to offer people "the opportunity to interact with their social and economic environment".

It is proposed to have students and young future business leaders of 21 nations at the symposium.

There will be some 200 delegates, with each country limited to about 15 representatives.

Besides South Africa, Namibia, Angola, Zimbabwe, Zambia and Mozambique, invitations are to be sent to countries as far afield as Kenya, the Commores, Tanzania and Uganda.

Needs

The symposium will aim at clarifying the development needs of future business leaders of southern Africa who can, in turn, have an impact on the region.

It will provide action plans for developing the business sector within the countries, and attempt to bridge the gap between students' theoretical studies and the practical world.

The manifesto emphasises AIESEC's belief in mutual respect for cultures and the equality of all people.

For more information on the symposium, Toni Hugill's address is AEISEC Rhodes, c/o SRC Building, Rhodes University, Box 94 Grahamstown.

More company tax cuts likely

(180)

S/Times (Buss) . 3/11/91.

INDICATIONS are that the Government is trying to find ways to accelerate reduction of company tax from 48% to 40%. Originally it was intended to lower the rate from 50% in 1990 to 40% over several years.

But a bigger than expected reduction may be made in next year's Budget. Trade and Industry Minister Org Marais says a drop from 48% to 40% would be the best way to promote industrial investment.

He says such a measure would cost the Government R1,4-billion in revenue and the decision lies with the Department of Finance. "It would be an incentive for foreign investors to look at SA instead of countries such as Malaysia and Thailand."

By CURT VON KEYSERLINGK and DIRK TIEMANN

First National Bank senior general manager Jimmy McKenzie says: "It would be wonderful for the economy if it were to happen. It would stimulate investment and create jobs, the country's most urgent economic need.

"But I do not know how the Government would make up for the revenue lost from the reduced rate."

An economist says the Government is already falling behind on tax collections because of weak corporate profits. One way of making up future shortfalls would be to increase fuel taxes.

Fuel taxes are still relatively lower than those in many other countries. A report by the Bureau of Economic Research this week speculates about the possibility of a hefty rise in fuel taxes next year.

But such a measure may not be necessary.

Anglo American group tax consultant Marius van Blerck says: "Virtually all the Organisation for Economic Co-operation and Development countries have shown that where taxes were reduced quickly, economic growth soon followed.

Rich

"Tax cuts resulted in increased revenue in some OECD countries. Collections at lower rates now account for a bigger proportion of gross domestic product than they did when taxes were higher.

"In the UK, when Harold Wilson was 'soaking the rich', tax on income and corporate profits accounted for 11,2% of gross domestic product in 1965. In 1987, at the height of Thatcherism, the figure had risen to 14%.

"In the US tax on income and profits accounted for 12% of GDP in 1965. In 1987 in the Reaganomics era the figure had risen to 13,2%."

A businessman says: "The Government so bungled the introduction of Vat that it almost lead to a war.

"If it tries to reduce company tax, it will cause another outcry and provoke allegations that it is taxing the poor more with Vat while making concessions to fat-cat businesses.

"So it has no chance of reducing company tax unless it gets at least qualified approval from all political groups."

Company tax cuts form part of the proposals formulated by the Industrial Development Corporation on a new national industrial strategy soon to be handed to the Cabinet for approval.

Sustain

The strategy aims at making industry more competitive by measures such as the reduction of import tariffs and company tax. The document argues that manufacturers cannot survive with lower import tariffs unless their taxes are reduced.

Corporate tax rates of 40% are common among OECD countries.

Lower import tariffs should help bring down the cost of SA-made intermediate products used by manufacturers.

Such a strategy would have the approval of the International Monetary Fund and the General Agreement on Tariffs and Trade.

It could help sustain the economic growth expected to begin next year.

Mr Van Blerck says Mr Reagan and Mrs Thatcher instituted tax cuts at the start of an economic upswing. This is the best time to do so because it adds momentum to the positive factors already lifting economic activity.

"The same favourable conditions for tax cuts now prevail in SA," he says. "But such a move now could be counter-productive unless it were introduced properly."

Another step the Government may take to sustain the upturn is to sign agreements with other countries that investments by their nationals in SA will not be nationalised without adequate compensation and that repatriation of dividends will be guaranteed.

But whether or not a future government would honour such commitments remains to be seen.

Reserve Bank Governor Chris Stals told this week's Financial Mail investment conference in Johannesburg there was optimism that the economy could grow by between 1% and 2% next year after negative figures in 1990 and 1991.

Among the positive signs he sees are:

- Current low inventories. Some replenishment or even a cessation of depletion will

□ To Page 3

Tax cuts

(180)

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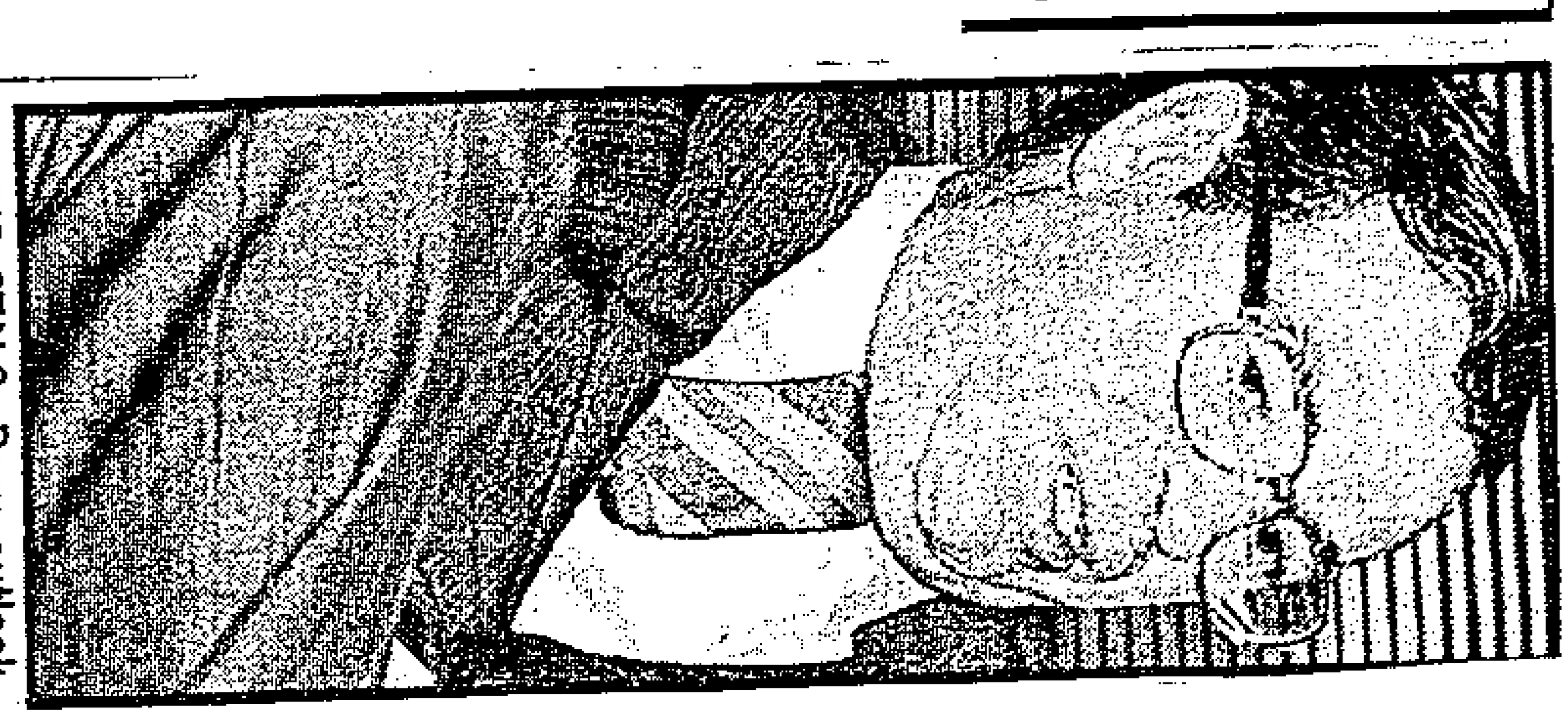
□ From Page 1

stimulate overall demand.
- An acceleration of government spending, especially on social expenditure projects.
- Low fixed investment may lead to capacity expansion to keep up with expanding demand.
- The lifting of sanctions.
- Improving prospects for the world economy which could lead to firmer commodity prices.
- Higher foreign reserves which will provide greater scope to accommodate a sustainable upturn, particularly if foreign money is used for the import of capital goods.

He says that in this time of social and political reform SA needs to break out of the economic stagnation of the past decade. Proposals for a "kick-start" to the economy have merit.

Dr Stals says inflation remains a problem and the Reserve Bank will not adopt an accommodating monetary policy. To do so would lead to stagflation and fewer jobs.



CHRIS STALS: Rosy outlook

Industrial policy delay

180

S[T] Times (Buss) 3/11/91.

Business Times Reporter

GOVERNMENT will probably only make a decision on the Industrial Development Corporation report on industrial policy in February, says Minister of Trade and Industry Org Marais.

The report was released in April, but the Government advisory committee met for the first time this week after collecting private-sector comment on the document.

Issues

The recommendations from this committee will go to one of the ministers under the chairmanship of Dawie de Villiers, Minister of Public Enterprises and Economic Co-ordination.

Dr Marais says the Cabinet is unlikely to take a decision before November because it is busy with next year's Budget.

The report covers issues involving incentives and a new industrial policy. It recommends an across-the-board reduction in tariffs to encourage an export-oriented economy.

The recommendations affect several government departments.

The report says that to set up and maintain a package aimed at export promotion depends on policies affecting economic stability, a realistic and stable exchange rate, higher domestic saving, a tax system encouraging investment and saving and increasing the supply of goods for sale abroad.

Tax breaks bring R10bn investment

S/ Times (Buss) 3/11/91 (180)

3/11/91

By DIRK TIEMANN

THE Government's special tax concessions to new investors in mineral beneficiation is expected to generate investment of more than R10-billion in the next two years, says Trade and Industry Director-General Stef Naude.

None of the projects has been given the final seal of approval and the construction and engineering industry, still in the doldrums, has not received firm orders.

The concessions are in Section 37E of the Income Tax Act 1962, promulgated in September.

Dr Naude says major groups are putting together projects to meet the requirements of Section 37E. Most involve mineral beneficiation.

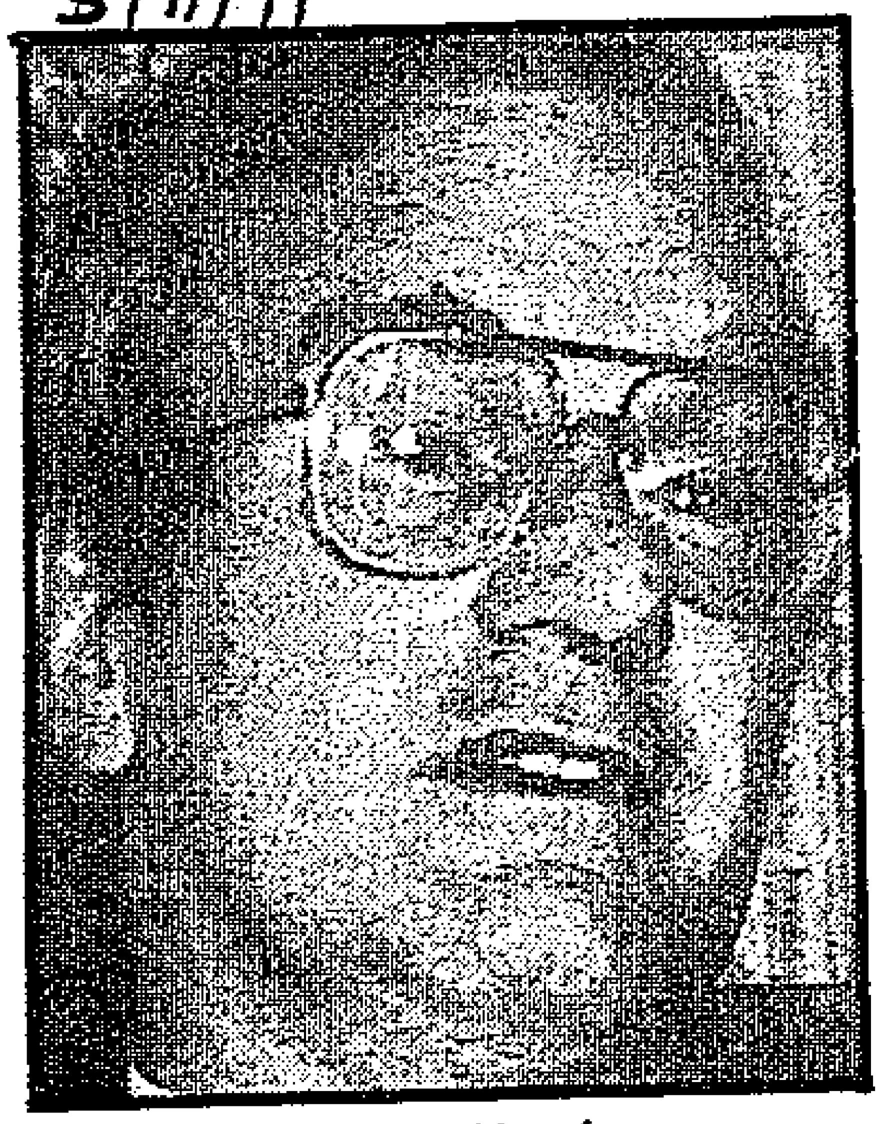
Balance

He stresses that 37E is not only for huge corporations, but applies to small and medium companies which add value to intermediate products.

Section 37E can give qualifying companies accelerated capital write-offs on plant and equipment instead of the normal 20% annually over five years.

Dr Naude says 37E and other measures are short term and designed to balance disadvantages in the SA economy.

A more comprehensive package of long-term investment incentives, still to be approved, is contained in a report prepared by the Industrial Development Corporation.



STEF NAUDE: Something for everyone

Dr Naude says it will provide a stable macro-economic environment with lower tariffs and export subsidies, a supply of suitable labour, market deregulation, lower company tax, higher domestic saving and stable exchange rates.

Dr Naude says 37E has been criticised because of its selectivity.

"Responsible selectivity is necessary to encourage industrial growth. International competition is too strong to leave it all to the market.

"We must selectively support those areas where our chances to become internationally competitive are better."

Dr Naude says protection and subsidisation will have to be removed gradually because the rest of the world does not play fair either.

But at least the cost of incentives to SA can now be quantified — it was impossible under the old rules, he says.

Section 37E provides for a committee to designate companies that qualify for the benefits on the grounds of mineral beneficiation, exports and international competitiveness to exploit the comparative advantages SA enjoys.

According to guidelines for investors on how to apply for the benefits, projects that qualify must add 200% value and export 60% of the product.

The committee will also consider the "supportive" effect on downstream industries, the costs to the Treasury and the extent to which the investor uses SA products and expertise in a project.

Dr Naude says: "We will be less likely to favour projects with a large proportion of imported costs."

The committee will also consider the effect on small and medium businesses and the "degree to which processed products will be made available to SA processors."

Lost

Dr Naude says it is being done in an attempt to eliminate export parity pricing whereby SA companies are sometimes forced to pay higher world prices for this country's products.

This has long been a complaint of users of some mineral and chemical products.

Dr Naude says it is impossible to quantify the concessions in terms of lost revenue.

Industrial Development Corporation senior general manager Malcolm McDonald says the new projects will generate work in construction and engineering.

Housing seminar

180

S Times (B455) 3/11/91

OPPORTUNITIES for employers to help provide staff housing will be examined at a seminar in Constantia on November 7. It is sponsored by the Institute of Personnel Management and the Social Involvement Association. Subjects will include sources of finance, education, and community needs and concerns.

Foreign firms poaching SA business

BY DON ROBERTSON

A MOVE by foreign construction companies into markets in neighbouring countries is raising the ire of South African groups.

Many foreign firms receive help and incentives from their governments.

Charl van der Merwe, chairman of Murray & Roberts, says Scandinavian companies enjoy benefits, particularly if they bring in finance.

"It will become an issue and if SA should qualify for international aid, it could affect activities in this country as well," says Mr Van der Merwe.

Managing director of Group 5 and president of the SA Federation of Civil Engineering Consultants (Safcec), Peter Clogg, disagrees that it is a major problem.

But he concedes that it is more difficult for SA companies to qualify for Government assistance.

Geoff Price, a consultant with project manager Philip Loots & Associates, says the problem arises in countries such as Botswana, Mozambique and Lesotho, where foreign construction groups are able to submit low tenders as a result of Government assistance.

"This is particularly true of Italian companies.

"Iraqi firms are operating in Botswana and Taiwanese groups are able to offer deferment of national service to workers on large railway and road contracts.

"Brazil is also encroaching on Sub-Saharan Africa."

Mr Price says unsuccessful approaches have been made to the SA Government for help.

In addition, most incentives for SA companies doing work in other countries will be scrapped in March.

Mr Clogg insists that if SA

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companies are able to negotiate at least 75% of a contract in a neighbouring state, they could qualify for assistance from the Industrial Development Corporation.

Other countries are not so strict and assistance is more easily obtainable.

180

Bigger

Mr Van der Merwe says that in countries such as Botswana, where there is considerable construction activity, foreigners have the advantage, particularly if the aid emenates from their country.

Barry Sawyer, director of Design, Planning International, a division of Stauch Vorster, agrees that foreign groups enjoy an advantage over SA companies. But he says SA does not have the export finance to compete against them.

Like Mr Van der Merwe, he believes that with increasing foreign activity in SA, companies here will face a bigger problem — particularly from the Italians, French and Germans.

The offer he hugged for a week put Derek at the top

By IAN SMITH

DEREK KEYS was 55 when he was offered the top job at Gencor.

He could look back on a successful business career which included formation of the vibrant Malbak group and he could look forward to a fulfilling retirement with golf once a week, two bridge schools and more time for the family.

On the other hand, Gencor was a diversifying giant which threatened to make huge demands on his corporate skills as it consolidated its position in strategic industries very different from its mining roots.

"I knew I wasn't going to take the Gencor position, but I was so damned flattered I had to take the offer home. I had to hug it for a week," says Mr Keys.

The outcome is history. A few days later Mr Keys called Sankorp's Marinus Daling to accept the post of chief executive of Gencor.

(180)

Looking back, after marking five years at the helm of Gencor with another set of sterling results this week, Mr Keys says he has not regretted his decision for a minute.

Mr Keys, also chairman of Gencor, turned 60 at the end of August and has agreed to stay with the group until August 1994.

Before then he will appoint a chief executive to ensure that there is continuity when he retires.

There is no shortage of candidates.

Mr Keys says: "One of the most rewarding aspects of my time with Gencor has been the calibre of the people I have worked with — those who were with Gencor when I joined and those we persuaded to come on board."

He plays the role of an appreciative audience for the divisional managements.

"I applaud when the right decisions are made, but like a good Jewish momma, I let people know when I disapprove. Fortunately I have been able to do a lot of applauding."

(280) DEREK KEYS

Although Mr Keys has had great job satisfaction and has earned many kudos from professional and academic organisations and the admiration of many business peers, the trade has not been all one way. S/TIMES (BUSS) 3/11/91

Gencor has never been more highly rated and there has been no shortage of investor's money for the group's rights issues in spite of their size and frequency.

Its divisions are firmly established at, or close to the top of the sectors in which they operate. Genmin, which produced 35% of Gencor's R1,4-billion attributable income in the year to August 31, is SA's second-biggest mining house and is the only one developing a major gold mine — Oryx — in the price slump.

Sappi, which dominates SA's pulp and paper industry with Anglo's Mondi, has broken into European markets with the acquisition of five UK paper mills. It contributed 11% of the parent's income in spite of depressed markets.

The birth of Engen through the acquisition of Mobil's SA operations has given Gencor a well-rounded energy group which contributed 17% of its income. Engen has a large stake in offshore exploration in the North Sea and could have a share of West African exploration.

It seems destined to become a major supplier of fuel and oil products to Sub-Saharan Africa and the Indian Ocean islands.

Conglomerate Malbak, which kicked in 9% of group earnings, has been restructured to focus more finely on consumer markets and is now a major player in the in the food and pharmaceutical sectors.

Investment arm Genbel, which contributed 30% of group income, inherited a "rag bag collection" of investments from General Mining and Union Corporation, but has turned into a star performer by moving from gold to more promising areas, says Mr Keys.

His confidence in Genbel is such that Gencor pays it a fee for managing its own investments.

"We have contracted out one of our main management functions. It is decentralisation carried to a point which no other group has achieved," says Mr Keys.

That willingness to hand over responsibility is given much of the credit for Gencor's success under Mr Keys' control.

When he moved into the hot seat, Gencor had a chequered leadership history and a reputation for being managed by committee.

He delegated authority and allowed down-the-line management to develop.

"I try to be a loving, critical audience," he once said. "The only way to develop an excellent manager is to give him that kind of setting."

Mr Keys is the son of a country town bank manager who died at the age of 46, when Derek was seven.

He gained a BComm degree at Wits and qualified as a chartered accountant. But he says his real business education started when he joined the Industrial Development Corporation.

"I went there for three years for the experience and stayed for nine."

The two major projects on which he worked were the establishment of the Discount House and the IDC's acquisition of a stake in Safmarine.

"The first taught me something about money markets and the second introduced me to international business," says Mr Keys.

In 1965 he left the IDC to go into business on his own as a financial consultant, but he spent half his time as managing director of the Discount House.

His first customer as a consultant was agricultural equipment dealer Malcomess, which was suffering from the effects of the worst drought since 1933. He was invited to become chairman of the company, and after exercising an option to acquire unissued shares he merged the company with Bakke — the start of Malbak.

Sanlam came on the scene when it was persuaded to put Protea into Malbak.

Mr Keys' position as non-executive chairman of Malbak gave him his first direct contact with Sanlam — an association which has flourished.

"I have had nothing but support from Sanlam and Sankorp ever since," he says.

Gencor has R1,8-billion in cash — "I like to have a pile of cash in the middle," says Mr Keys. "We have good uses for all of it. We are looking to augment that with a rights issue next year."

Ahead lies the R2,5-billion Columbus stainless-steel project. All divisions are well positioned for growth.

"Gencor is poised to become a true world player. I am not mad on foreign investment for the sake of diversification, but you cannot be a world figure if your activities are confined to one country," says Mr Keys.

THE JSE WEEK

By JULIE WALKER

AS talk of retrenchments by stockbroking firms because of low turnover resurfaced, the market had one of its best weeks ever.

Barring golds, almost every sector ran. The reasons were several — a weaker finrand and stronger Wall Street gave market leader De Beers a leg-up to a 12-month high of R95. The diamond counter also ran on speculation of an announcement — one came on Friday about the conversion of the S shares to ordinaries.

Another was Reserve Bank Governor Chris Stals' mildly bullish speech on bank policy. Perhaps the most important was the realisation that the millions of rands in public-sector pension funds were coming to the market.

Institutions, which only last week looked as though they had closed for the rest of the year, suddenly came back after the market had undergone a bit of a correction.

The Government Service pension fund bought 10% of Sasol from the IDC at R17, but not through the JSE. Sasol lost 90c to R19,10 after a sustained run.

Food shares were in favour, CG Smith, Tiger Oats and ICS all strengthening. Even HL&H and Rainbow shone.

Tax breaks bring R10bn investment

S/Times (BUSS) 3/11/91 (180)

3/11/91

By DIRK TIEMANN

THE Government's special tax concessions to new investors in mineral beneficiation is expected to generate investment of more than R10-billion in the next two years, says Trade and Industry Director-General Stef Naude.

None of the projects has been given the final seal of approval and the construction and engineering industry, still in the doldrums, has not received firm orders.

The concessions are in Section 37E of the Income Tax Act 1962, promulgated in September.

Dr Naude says major groups are putting together projects to meet the requirements of Section 37E. Most involve mineral beneficiation.

Balance

He stresses that 37E is not only for huge corporations, but applies to small and medium companies which add value to intermediate products.

Section 37E can give qualifying companies accelerated capital write-offs on plant and equipment instead of the normal 20% annually over five years.

Dr Naude says 37E and other measures are short term and designed to balance disadvantages in the SA economy.

A more comprehensive package of long-term investment incentives, still to be approved, is contained in a report prepared by the Industrial Development Corporation.

STEF NAUDE: Something for everyone

Dr Naude says it will provide a stable macro-economic environment with lower tariffs and export subsidies, a supply of suitable labour, market deregulation, lower company tax, higher domestic saving and stable exchange rates.

Dr Naude says 37E has been criticised because of its selectivity.

"Responsible selectivity is necessary to encourage industrial growth. International competition is too strong to leave it all to the market.

"We must selectively support those areas where our chances to become internationally competitive are better."

Dr Naude says protection and subsidisation will have to be removed gradually because the rest of the world does not play fair either.

But at least the cost of incentives to SA can now be quantified — it was impossible under the old rules, he says.

Section 37E provides for a committee to designate companies that qualify for the benefits on the grounds of mineral beneficiation, exports and international competitiveness to exploit the comparative advantages SA enjoys.

According to guidelines for investors on how to apply for the benefits, projects that qualify must add 200% value and export 60% of the product.

The committee will also consider the "supportive" effect on downstream industries, the costs to the Treasury and the extent to which the investor uses SA products and expertise in a project.

Dr Naude says: "We will be less likely to favour projects with a large proportion of imported costs."

The committee will also consider the effect on small and medium businesses and the "degree to which processed products will be made available to SA processors."

Lost

Dr Naude says it is being done in an attempt to eliminate export parity pricing whereby SA companies are sometimes forced to pay higher world prices for this country's products.

This has long been a complaint of users of some mineral and chemical products.

Dr Naude says it is impossible to quantify the concessions in terms of lost revenue.

Industrial Development Corporation senior general manager Malcolm McDonald says the new projects will generate work in construction and engineering.

Big business has new beat

Star 4/11/91 (180)

There have been radical changes in the list of priorities on many business agendas since South Africa began the climb out of apartheid according to new research, reports MICHAEL CHESTER.

FOUR years ago, when South Africa was manacled to the international whipping post over its apartheid regime, a survey around the executive suites of big business found that the profit motive dominated all else on most agendas.

The relative simplicity of the theme was noted in detail by Robyn Levin, a graduate researcher at Wits Business School, in a special study that won her a Master of Business Administration degree.

Now that the outside world has started to remove the manacles in exchange for pledges about political reform, Miss Levin has revisited the boardrooms to take a new measure of the business pulse.

The changes in the batting order of priorities on the agenda have been as radical as the changes on the political scene.

Nowadays, she finds, the list is often topped by the company's progress with social programmes — with the profit motive still intact, of course, but now more likely to be regarded as the vital lubricant needed to keep the business motors running not only to satisfy shareholders but also, equally important, to finance a wider new corporate role in society.

Social issues, such as employee housing and education schemes, rank alongside the balance sheet as priorities.

The subtle but profound shift in business thinking has been set out by the Corporate Research Consultancy (CRC) in a study entitled: "Business in the New South Africa: Impressions from the Top".

In interviews at managing director level with 21 of the Top 100 companies listed on the JSE, the researchers found that only one of the giants still considered profit the single principal objective.

"A couple of years ago, most businesses liked to project an image that linked them with popular buzz words about 'social responsibility' but reckoned their role started and ended with tossing a bundle of rand notes into the kitty," says Iske van den Berg, head of the CRC research unit.

"Today, they are far more earnest about programmes that make a true impact on the whole social environment."

However, social issues are not the only new items that pack the modern boardroom agenda. Moves toward political reform have by no means solved all the headaches. The dawn of a post-apartheid era has created new conundrums.

One major concern is the verbal capitalism versus socialism battle that has broken out, and in particular, the frequent mention of nationalisation by various ANC leaders.

Many businessmen say even passing reference to nationalisation as an option is anathema to the chances of renewed flows of the foreign investment they believe is crucial for economic growth.

The researchers found businessmen deeply concerned about a number of pronouncments from the ANC. "They obviously listen very closely to everything being said by the ANC and even if they realise that a lot of it is rhetoric to please followers, it still causes a great deal of concern ..."

Also listed on the negative side were violence in the townships, the general volatility of the political scene, and high taxation and tax rules that put investors off.

There was general concensus that new wealth must be created to finance socio-economic programmes — rather than a mere distribution of existing wealth.

"Overall," say the researchers, "the businessmen interviewed had quite a pessimistic short-term outlook and looked towards employees and trade unions to assist them in creating the wealth needed to put SA on the high road.

"However, they had quite an optimistic long-(term) view of the economy, especially if foreign investment would start flowing into the country in a few years' time — and the social programmes undertaken by individual companies could be widened into a collective drive by the business world.

Most saw the inevitability of a black government, with the ANC in control or else one of the main players. "Many also believe that whites will still play a prominent role ..."

They were equally convinced that the government that finally emerged would be run in a responsible manner.

Meantime, most big companies had launched affirmative action programmes, particularly in the training and promotion of black managers.

"The exercise is no longer regarded as ... window-dressing," adds Mrs van den Berg.'

Many businessmen forecast that the major problem lying ahead for any new government, whatever its composition, would be to fulfil the high aspirations that have been encouraged by political rhetoric — and to keep the economy on an even keel.

"Few businessmen felt able to predict what will happen next in the whole reform process or lay out an ideal formula for the future," says Mrs van den Berg. "Nevertheless, it's highly significant that the majority feel quite confident that all will come well after South Africa goes through the bumps and eventually releases its huge longer term potential." □

JCI director wins annual achiever award

Star 6/11/91

Staff Reporter (180)

Democratic Party leader Dr Zach de Beer last night blamed the "50 percent unemployment rate" on the spread of violence to the northern suburbs.

Speaking at the Business Achiever of the Year function in Sandton, at which JCI executive director David Kovarsky was chosen as the Herald Times Chivas Regal Business Achiever of the Year for outstanding achievements of prominent entrepreuners in the Jewish community, Dr de Beer deplored the violence and political instability in the country which he said were deterring foreign investment.

Dr de Beer said he highly acknowledged the Jewish contribution in the country's economic growth.

Sweet success . . . JCI's David Kovarsky.

Dr de Beer told the audience that the function took place at a time when there was "a great deal of hope, promise, fear and despondency in our country".

Barlows faces losses in Zaire

CHERILYN IRETON

BARLOW Rand, which is due to report its final results on Tuesday, could be facing losses, involving write-offs totalling as much as R20m, from a trading operation in Zaire. It is believed that other write-offs might also be necessary in the US where subsidiary Fuchs Electronics is caught up in a row over illegal arms sales.

According to a senior source within the group, Barlow Rand was operating an import/export trading house in Zaire. The operation was devastated by recent rioting and unrest, and stocks had been looted.

Barlow Rand spokesman John Cammell was reluctant yesterday to disclose details of the Zairean operation. "It's too soon — we just don't know," he said.

Zaire's political upheaval started just before Barlow Rand's September 30 financial year-end, and it is unclear whether the issue will be addressed in the announcement of results next week.

Although a R20m loss or write-off would have little visible effect on Barlow Rand's net profit or balance sheet, it adds to a gloomy outlook for the conglomerate, particularly as there is the possibility of another write-off by the unlisted Fuchs Electronics subsidiary. Fuchs has been indicted along with Kentron and Armscor for allegedly shipping illegally obtained US arms technology to Iraq. (358) (180)

Barlow Rand spokesman Clive Parker had no comment on the possible effect on profits. Chairman Warren Clewlow was not available for comment. (3220)

There are no details of Fuchs's offshore activities in the 1990 annual report, but companies are permitted not to disclose certain strategic information while SA is affected by sanctions.

Eleven of Barlow Rand's 16 listed companies have already announced their results and there seems little doubt that profits will be down for the second successive year. Last year the group reported attributable profit of R859m — a decline of 14% — and shareholders' funds of R3,8bn. This year, stock market analysts are pro-

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Barlows

Bloem 6/11/91. (358) (180) (3220)

☐ From Page 1

jecting a decline in earnings of between 12% and 16%.

The main causes of the decline will be companies in the mining division. Rand Mines' R485m loss — after writing off R735m — is already documented and PPC's modest 7% rise in earnings, announced today, was expected by Barlow Rand watchers.

The unknown factor in the mining division remains Middelburg Steel & Alloys. Expectations are that the stainless steel and ferrochrome producer's losses will exceed the reported estimate of R30m. These figures will not be available until Barlow Rand reports.

Still awaited are the profits from C G Smith. At the halfway stage the company was the biggest contributor to earnings, chipping in 32% of the R348m total. Analysts are again looking for a strong performance, and better than expected results from Nampak and ICS should offset the moderate performance from Tiger Oats and the 77% decline in contribution from Romatex.

Romatex earlier reported sharply lower earnings of R8,6m, but this did not reflect an R8,7m below-the-line write-off from discontinued operations.

Although the company is a minor piece of the Barlow Rand puzzle, the write-off will nibble away at shareholders' capital.

NEWS

Business losses varied 'from thousands to millions'

Star 6/11/91.

180

By Louise Burgers and Helen Grange

Losses to business during the strike varied from millions to a few thousand rands.

The motor manufacturing industry alone suffered production losses of about R135 million, sacrificing another 3 000 vehicles to the backlog, according to the National Association of Automobile Manufacturers of SA (Naamsa).

Sacob economist Keith Lockwood said it was difficult to quantify the cost to the economy as it was possible for business to make up losses in time.

"The economy did not close down for two days. Every business would have been hit in a different way. The real loss was in worker salaries and job opportunities."

The Johannesburg City Council transport department was hard-hit, losing close to R2 million. Transport director Stan Verrier said about 70 percent of bus drivers took the time off, leaving the council with only about 50 percent of its service.

Many passengers were transported on the municipal buses for free, as relief drivers did not know how to operate the ticket machines, he said.

Putco was virtually non-operative, said managing director Dr Jack Visser. Losses in turnover totalled R3 million in the two days.

Rail Commuter Corporation manager Roelie Snyders estimated that the company lost less than R500 000 in fares during the strike as a high percentage of regular passengers had weekly or season tickets.

Pick 'n Pay director Mike van der Merwe said the company had lost about R5 million in sales, but this would be offset by savings in staff wages.

Those that incurred the most losses were small businesses, forced to close early as they had no customers.

Dions marketing manager Howard Davidson said, however, that his stores showed no losses during the strike.

Motor manufacturing plants will be shutting down over four weeks in December, causing a further backlog in certain vehicle models, according to Naamsa spokesman Nico Vermeulen.

"It may be difficult to make up the production losses."

According to Sacob, a long weekend would have more impact on the national economy than the two-day stayaway.

A public holiday on a working day costs the economy between R400 million and R600 million, Sacob estimates.

MPANIES

Barlow Rand's UK conglomerate slips

BIDay 7/11/91 180

JOHN CAVILL

LONDON — Falling sales and a slump in its most profitable division have put the brakes on earnings growth at J Bibby, the UK mini-conglomerate 79% owned by Barlow Rand.

In spite of acquisitions totalling £24m in 1990, Bibby's sales dropped £1m to £547,3m in the year to the end of September while pre-tax profits rose 5,4% to £35,3m. After recovering from three years in which profits fell by 20%, Bibby's pre-tax earnings rose 17% in fiscal 1990.

Earnings a share (adjusted for the £14,6m rights issue in May) rose 3,5% to 20,8p in spite of a lower tax charge against a 23% gain the year before. The dividend was increased from 9p to 9,75p.

Bibby's science products division — lasers, optics and laboratory equipment — which accounted for 40% of 1989-90 operating profits ran into problems of recession and intense competition in the US and UK. Operating profits slid 27% to £11,4m.

This depressed the impact of strong performances elsewhere. Paper and converted products were boosted by the £13,7m takeover of Eurofilters of Belgium. Operating earnings from this division leapt by 116% to £7,6m.

The material handling business — expanded by the £8,3m acquisition of Lamson — increased its contribution by 14% to £15,4m even though it was hit by falling levels of activity in the American and British markets.

And agricultural products — animal feeds to seeds — achieved an improvement of 12% to just under £7,6m bringing total operating profits to £42,1m, up 6,8%.

Chairman Richard Mansell-Jones said confidence in an economic recovery was growing. US business was showing "tangible evidence of an improvement" and while there was no material increase in orders in the UK, lower interest rates should benefit the group towards the end of the current year.

Time to show some action in affirmative process

B/Day 7/11/91 (180)

KARL HOFMEYR

"DEPEND upon it sir, when a man knows he's to be hanged in a fortnight, he concentrates his mind wonderfully." The likelihood of affirmative action legislation in the future is causing companies to have a hard look at their employment profiles.

There are precedents. In Zimbabwe, affirmative action was directed at the public sector rather than the private and today most jobs in the public service are occupied by blacks. In Namibia, draft legislation proposes affirmative action in both sectors.

The most well-known case of affirmative action legislation has been in the US, where it dates back to 1965. The presidential directives aimed to make up for past injustices, overcome continuing discrimination, and ultimately to provide equal job opportunities for blacks and whites.

Today the issue is still debated hotly in the US, but many would argue that affirmative action has produced major gains for blacks. The percentage of blacks in the US workforce has risen by half in the past 25 years. About 5% of all managers in the US are black, representing a fivefold increase since 1966 and a 30% increase since 1978.

Given these precedents and a need to do something deliberate to normalise occupational structures in SA, opposition groups are calling for affirmative action.

The ANC argues that legislation is needed to redress imbalances and inequalities imposed by apartheid. Affirmative action is seen as a process "which would make black economic empowerment a reality".

The possibility of affirmative action legislation is only one reason why SA companies are looking seriously, perhaps for the first time, at the need to integrate their workforce. But it is a particularly compelling reason and is prompting companies to debate in earnest the need to pre-empt legislation by starting to act "affirmatively" sooner rather than later. This is particularly noticeable in some of the parastatals — perhaps not surprisingly.

Other reasons are also persuasive. Some of them are "business" reasons. Black consumers represent a dominant share of the market for many products. Companies realise that to understand and to have credibility in those markets their structure has to be more representative of that society. Another reason is that black supervisors and managers arguably have many advantages over whites in managing a predominantly black workforce.

Companies also recognise that as other sectors such as health, the church, sport, and government itself become fully integrated, business will be out of step and a target for legislation if it does not adapt. A company which finds itself out of step with more progressive rivals also runs the risk of becoming a target for consumer boycotts or action by a future government.

The leadership of some companies accepts that the viability of a new society depends not only on a more widely accepted constitution and a stronger economy, but also on the advancement and incorporation of blacks into the mainstream of business at all levels. This makes integrated employment a strategic necessity for the survival of a business and the economy as a whole.

The need for integrated employment is pressing. Over the years there has been considerable rhetoric but very little has changed. Blacks still occupy only 2,4% of management posts and less than 1% of executive positions. There has been almost no change in these statistics in the past five years.

In their responses to the problem, some companies have recognised the need to apply "affirmative action" although many of them prefer to call it something else. They realise that "equal opportunity" is not enough.

If a company has a policy of "promotion on merit" without affirmative action, then the many advantages enjoyed by whites will ensure that they continue to be promoted ahead of blacks. Thus these companies' plans include targets and increased training for employees who have been disadvantaged. Some are actively recruiting black graduates, returning exiles, and others who have been studying overseas.

Companies which are integrating their workforce are adopting a holistic and participative approach. Top management is committed and line managers are responsible for developing their employees. They are setting goals and holding managers accountable. They have abandoned the arrogant view that "whites know what is best for blacks" and are involving black employees, unions and community groups in drawing up plans.

These companies are still in the minority. And it still has to be seen whether the companies which are formulating affirmative action policies and plans have the perseverance and creativity to make them work. What is clear, however, is that the debate within companies has a new urgency. But words must be translated into action if the business sector is to be part of the solution and not part of the problem.

☐ **Hofmeyr is Professor of Organisational Behaviour at the School of Business Leadership, Unisa.**

LETTERS

FM 8/11/91

MALBAK'S OPPORTUNISTIC FUND-RAISING

(180)

Barely a fortnight ago, Malbak's preliminary statement referred to the "strengthened balance sheet" as having permitted an increase in the final dividend *(Fox* November 1). Now it's coming to market with a R440m rights issue (15-for-100 at R11). As recent reshuffles initiated by Sankorp left it with R200m cash, this will build the cash mountain to R640m.

Executive chairman Grant Thomas says the proceeds will be used to eliminate net gearing and expand the potential of the core businesses, in packaging, food, pharmaceuticals and consumables.

There appear to be no immediate plans in any of these directions. But, with its latest earnings of 124,1c a share, Malbak needs to earn only 11,3% net on the new money to avoid diluting earnings. In any event, 63% of the money will be put up by Gencor ~~and Sankorp (who~~ are underwriting the balance); to that extent, the issue is little more than formalising the rechannelling of group cash flow.

Against a market price of R12,75 (unlike fellow-subsidiary Sappi, whose share price weakened ahead of its recent rights issue, Malbak is close to its year's high), R11 is a fine but reasonably pitched take-up price.

The shortage of quality industrial scrip should also preclude any significant shortfall in acceptances.

But, given the lack of any pressing need for funds and the net ungeared position which will follow, one can only detect a touch of opportunism in this latest instalment in Gencor's succession of fund-raisings — not that there is necessarily anything wrong with that. *Michael Coulson*

CRIME AND MANAGERS (180)

Calling the shots

FM 8/11/91

Crime is hitting home — literally. Escalating violence could achieve in a few years what government failed to accomplish in decades: a boost in decentralisation. Millions of tax rands were lost trying to break up the natural processes of urbanisation and industrialisation. Now other brutal forces are at work.

That is the view of property economist Neville Berkowitz. He believes skilled and senior managers will opt to move from the country's economic powerhouse — the Johannesburg-Pretoria corridor — in search of a better, safer, family lifestyle, and that business and industry will have to follow.

Berkowitz says: "It may sound far-fetched but skilled management is this country's scarcest resource and companies will have to locate their offices and factories where the skills are."

He says a survey of the top 50 companies, public and private sector — ranked by assets and extracted from the *FM*'s *Top Companies* report — shows that 43% have their head offices in the Johannesburg CBD.

Sandton is next with 14%, followed by Pretoria — primarily as host to the public sector — and then Cape Town, Braamfontein (Johannesburg), Durban, Parktown (Johannesburg), Kimberley, Stellenbosch, Rosebank (Johannesburg), Verwoerdburg and Midrand.

"This shows 84% of the top companies have their head offices in the Johannesburg-Pretoria corridor," he says.

He points to the drawing power of the cities in the aftermath of influx control and greater freedom of movement to sell labour, a factor which draws 500 000 blacks to the cities each year.

"That is where the jobs, offices and people are but, with limited new jobs being created, many of the migrants are being forced into a life of crime. During 1990 nationwide there were 15 000 murders, 125 000 serious assaults, 61 000 robberies, 20 000 rapes and 225 000 housebreakings.

"Regrettably, 1991's crime statistics are well up on last year, and most of us in the Johannesburg-Pretoria corridor live behind perimeter fencing topped by razor or similar wire. Most of us have security alarms connected to rapid response security firm control rooms. Today, when going out, one phones a restaurant not just for a booking, but to ensure that it has a security door. Most of us live in fear."

He believes the result will be a wave of emigration: "Not necessarily abroad, but to parts of the country where the crime statistics show that living is safer and they have the bonus of more attractive recreational amenities.

"That means places like the Natal-KwaZulu area and the western Cape, which a few years down the line will be considerably safer than the corridor. That doesn't mean property in the Johannesburg-Pretoria area will collapse. There will still be growth, but not as much as in the past."

Berkowitz believes skilled management will be calling the shots — and skilled management will be in Ladysmith, Richards Bay, Paarl or Stellenbosch.

This has already happened to some extent with the decentralisation from Johannesburg's CBD to places like Sandton.

"Employment agencies will tell you CBD employers have to pay a premium for executive secretaries because they prefer to work in the safer, more pleasant environs of Rosebank or Parktown," Berkowitz says.

Translated into property terms, he believes management will have to take the skills migration into account when considering the future location of factories.

"There will be a higher demand for industrial property in these lower-risk areas as industrialists are forced to follow senior managers who say, 'I want to be where I can work and live peacefully, with good schools for my children, and pleasing recreational facilities, even if it means a drop in salary'."

While Berkowitz's analysis of the situation may be an oversimplification of very complex economic, political and social problems, there is little doubt that unless the crime wave is curbed, demographic changes will take place. Alas, it seems more likely that industrialists will be following the skilled managers abroad rather than to other parts of the country, however safer they appear at present. ■

RESIDENTIAL

Sugar coating

FM 8/11/91

Moreland Estates, a subsidiary of the giant Tongaat-Hulett Group, is to establish a new town north of Durban, centered around two golf course estates.

The development will be an expansion of what is now the company village of Mt Edgecombe.

The development's first phase, of about 240 houses, is scheduled for completion by the end of next year. The second phase will include a new golf course adjacent to Mt Edgecombe Country Club course. About 740 houses in total will be built around the golfing facilities. An application to establish Mt Edgecombe as a separate local authority is being processed and proclamation is expected before the end of the year.

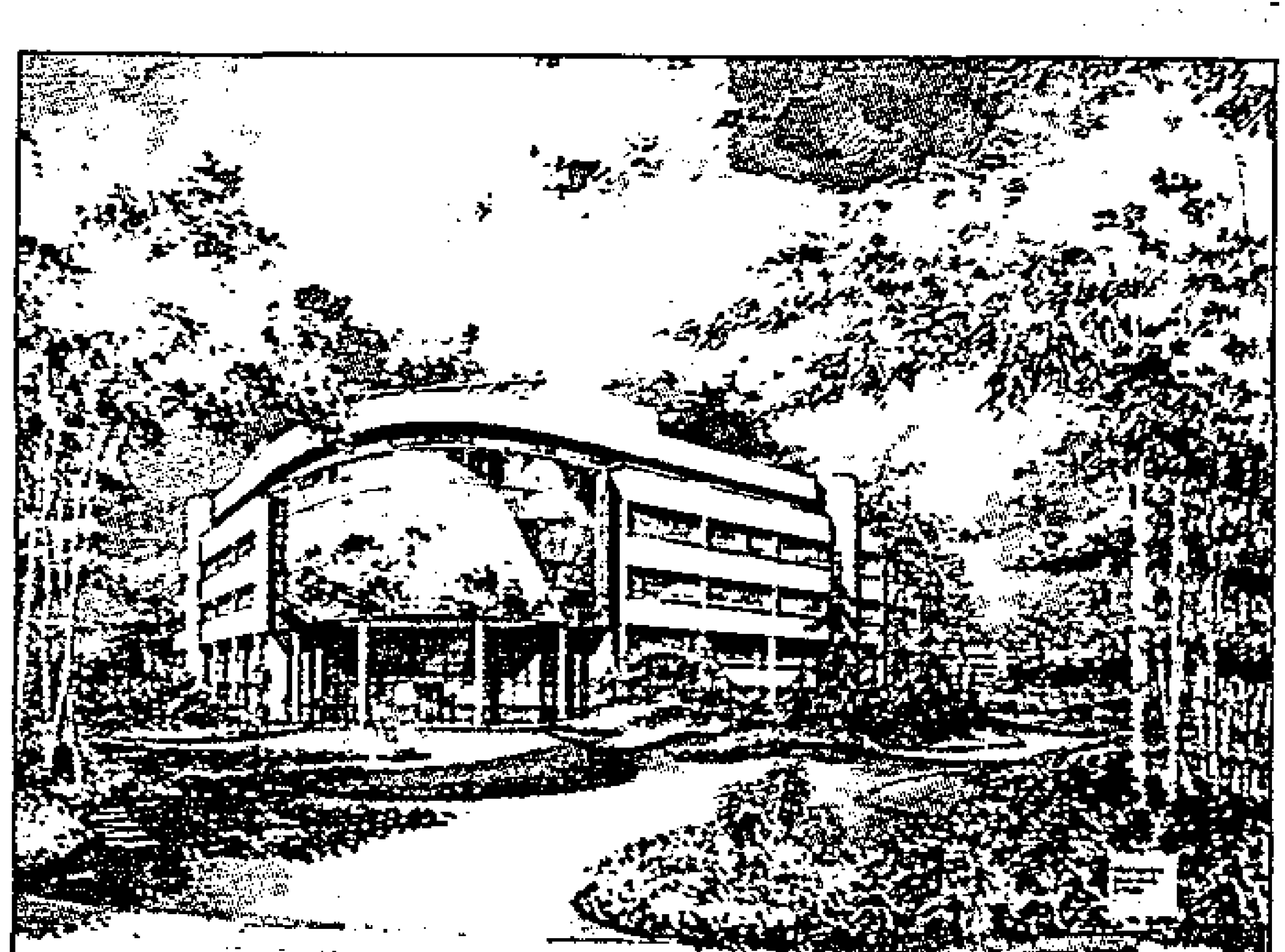
At the same time, the group's property development company, Moreland Estates, is selling prime sites overlooking Umhlanga Rocks, probably the most sought-after land

Cont'd

BANKING ON LAND

In spite of continued tough trading conditions in the office property market, Liberty Life Properties has bought, for R1,8m, the site next to its Parkway Place development (pictured here) being built on the Bedfordview-Johannesburg boundary.

The 4 783 m² stand with a bulk of 6 700 m² — and labelled a "gateway to Johannesburg" — was bought through public tender from the Johannesburg City Council. It will be developed at a future date, according to Liberty.



Liberty Life says both the stand and neighbouring Parkway Place are well located at the junction of the R22 and Marcia Street.

The five-storey 9 000 m² (net) Parkway Place is due for completion and occupation early next year.

Floor sizes will vary between 1 500 m² and 2 000 m² each.

Business index down, says Sacob

BDay 8/11/91 (180)

SHARON WOOD

LOWER business confidence in October had given rise to fears that the downswing had not yet reached its bottom, Sacob economist Ben van Rensburg said yesterday.

Sacob's monthly Business Confidence Index (BCI) released yesterday eased to 88,0 in October from 88,2 in November and had fallen for six successive months.

Speaking at the release of the index in Johannesburg yesterday, Van Rensburg said the business mood in SA continued to be buffeted by conflicting messages on both the economic and political fronts, resulting in heightened uncertainty.

As a result of this uncertainty, capital expenditure and new orders had not surged as expected after VAT's implementation.

The campaign against VAT had added to business's difficulties, but prospects of a multi-party conference getting under way shortly and the continued easing of sanctions had helped to stabilise business sentiment generally.

"The widespread stayaway is over and there is now a chance that businesses will be able to resume normal business operations and concentrate on expanding their enterprises to meet the new opportunities facing them," he said.

Negative developments during October contributing to lower business confidence were a fall in overall share prices, a higher commercial bank prime interest rate, falling retail sales, higher unemployment and declining exports.

On the other hand, the gold price had recovered somewhat during the month, imports were up, inflation had eased and the number of new motor cars sold rose slightly.

Manufacturers generally expected conditions to improve in the next year.

They expected sales volumes and production volumes to rise, but still anticipated lower stock volumes.

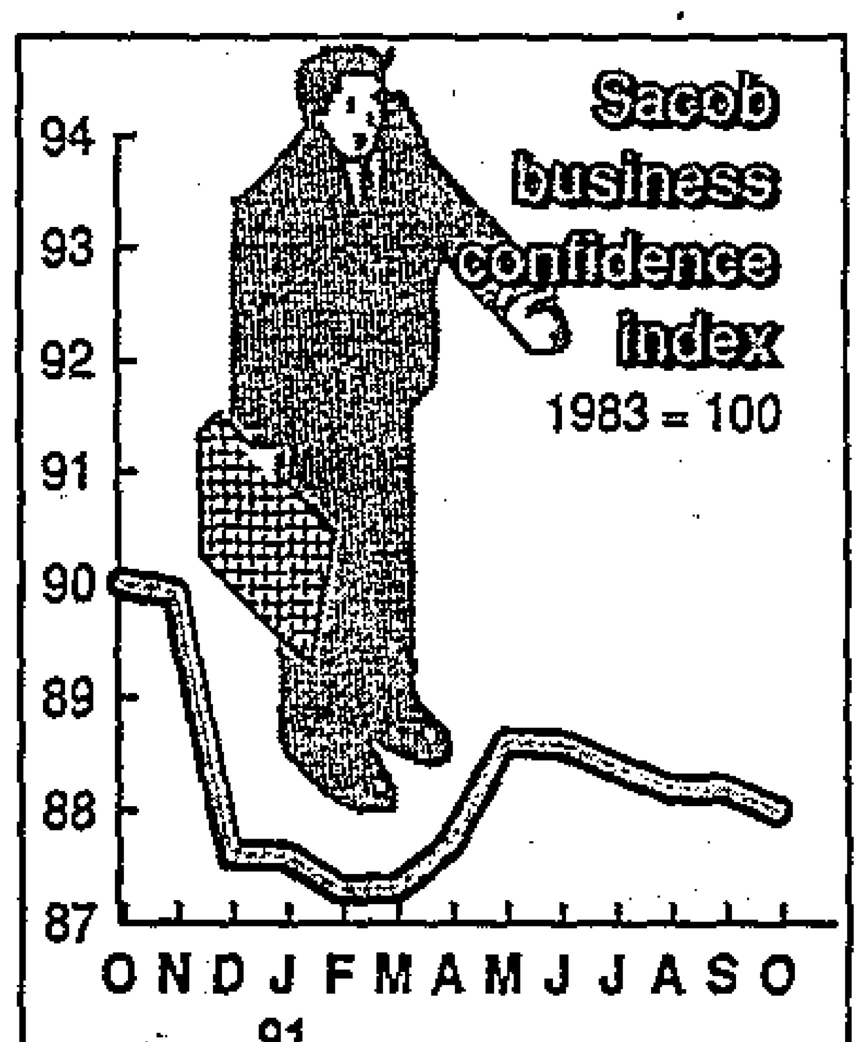
Sacob economist Keith Lockwood said: "While SA manufacturers generally remain fairly optimistic about the outlook for the sector in the coming 12 months, there has been little evidence to suggest that the upswing has already started."

The October survey of manufacturers showed a tendency to substitute labour for capital, which was evident from the outlook for capital expenditure for the next year.

There had been a significant increase in the number of industrialists planning to increase their real capital expenditure, he said.

The picture for employment in the next year remained bleak, with a majority of manufacturers in all regions expecting to reduce the number of skilled and unskilled workers.

Sacob director-general Raymond Parsons said this was an important warning signal to labour because further labour disruptions and stayaways could intensify the trend towards replacing labour with machines.



Graphic: LEE EMERTON Source: SACOB

B/Day 8/11/92

(180)

'Ignore ANC nonsense'

REMBRANDT Group executive vice-chairman Johann Rupert yesterday urged businessmen to "stop pandering to and listening to the nonsense dished up" by trade unions and the ANC.

On a visit from London, Rupert told the Cape Town Afrikaanse Sakekamer SA would never attract overseas capital until investors were no longer told the country would go under within four years unless it was helped soon.

FM 8/11/91 (180)

CUSTOMER SERVICE

Getting at the problem

Bad service does not make good business sense. Yet SA is notorious for bad or even no service. At almost every turn the poor customer must deal with rude receptionists, incompetent clerks, unco-operative bureaucrats and lazy and devious sales staff.

Deon Nel, professor of marketing in RAU's Department of Business Management, says, "Companies know what their customers want but fail to deliver what they expect." He blames the inability and sometimes the unwillingness of employees to offer the service that customers desire.

However, the blame also lies with management. According to Don Caldwell, an author on customer service, the rot starts at the top. He says: "If bosses never thank employees who do good work, what is the point of being lively and helpful if nobody notices?"

Caldwell says another explanation is that managers have not explained basic business principles to their staff, which means that the employees do not regard the customer as being responsible for paying their wages. He points out that language barriers and a lack of training also contribute to the problem.

According to a US study, Profit Impact of Market Strategy, "the most important single factor affecting a business unit's performance is the quality of its product and service, relative to those of the competition." The results show that of 450 US companies researched, the top third in terms of perceived quality out-earn other companies by 2:1.

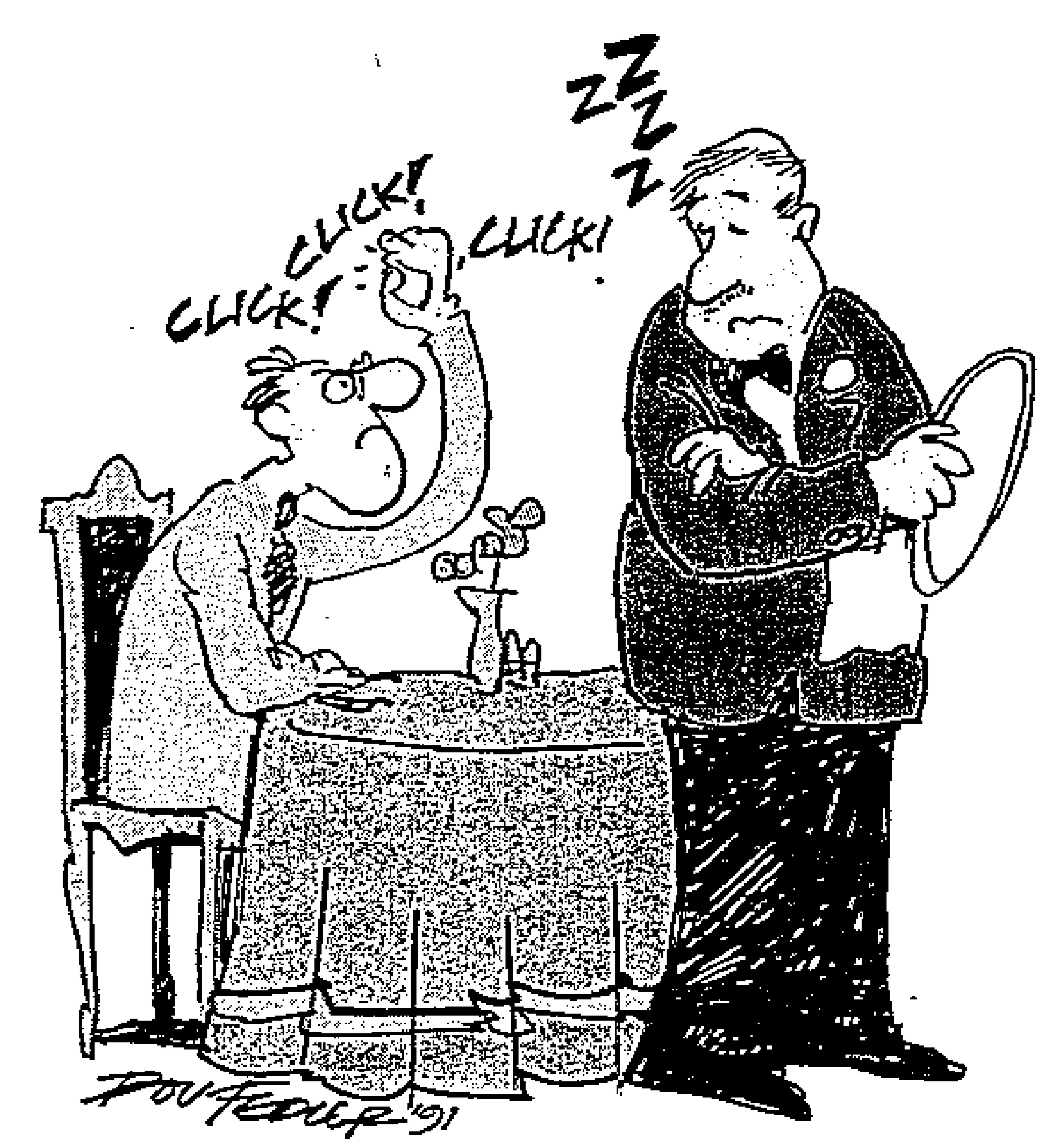
Not surprisingly, therefore, companies are realising the importance of service to their overall profitability. As competition increases, good service is often the only way to clinch sales because undercutting competitors on price is no longer viable.

Because customers, the ultimate judges of service quality, base their decisions purely on subjective perceptions, measuring service quality is not as straightforward as measuring the quality of a manufactured product. Nevertheless, scientific methods have been developed to measure levels of service.

One method is the GAPS management system, which uses a questionnaire to measure the discrepancy (or the gap) between customers' expectations and their perceptions of the service delivered.

It also provides a systematic method to identify and measure the internal organisational factors that contribute to the discrepancies. For example, gaps often occur between management's perceptions of customer expectations, the translation of these perceptions into service-quality specifications for employees and, ultimately, the delivery of service to the customer.

The GAPS system allows managers to develop strategies to address these discrepancies. By focusing on specific gaps, companies can improve their standard of customer service. Once managers know where the discrepancies are occurring they can rectify the problem by, for example, training staff on the finer points of selling.



The GAPS model has been refined for SA by a local company, Service Quality Management. Nel, who is also a director of the company, says about 25 local companies are using the model.

MD Rory Boyes-Varley says the main benefit of GAPS is that it offers an integrated approach; while most companies recognise the need to measure their service levels, too much of the research has only an external focus, which provides a measurement but no sign of the root causes of the problems inside the company.

As more organisations see the benefits of good service, and begin to train their staff to adopt the have-a-nice-day philosophy, hopefully customers will do less grumbling and more smiling. ■

VAT fails to deliver upswing in spending

Star 8/11/91

By Sven Lünsche

180

Recent political developments have delayed the upswing in spending, which was expected to follow the introduction of VAT last month.

SA Chamber of Business (Sacob) economist Keith Lockwood says the chamber's monthly survey of the manufacturing industry reveals that the expected upsurge in new orders for both consumer and capital goods did not materialise in October.

"Purchasers of capital goods, who were expected to take advantage of the cost-lowering effect of full input credits on such purchases, have been discouraged by recent economic and political developments," Mr Lockwood said yesterday.

"As a result, many capital expansion projects have temporarily been shelved."

On the retail front, he said, the recent decline in sales had given rise to a reluctance on the part of retailers to place new orders, and to stock up for the festive season.

Sacob forecasts that retail Christmas sales in November and December this year will fall in real terms by almost five percent, compared with the same period last year.

Sales of R17 billion are predicted for the two months, representing an increase of nine percent in nominal terms, but a decline of 4,8 percent in real terms.

Over the past two years real Christmas sales have risen by one percent each year. Retail sales over the Christmas period constitute roughly 22 percent of total annual sales.

Recent poor results by major retailers underline the slump in sales.

Even companies that have for so long seemed to be immune to ravages are now feeling the effects of an economy that seems to be grinding to a halt.

Last week Edgars produced very sluggish results for the six months to September.

The real damage to the group's performance was apparently done in the three months to end-September when there was no volume growth.

September, in particular, proved to be a disastrous month, with few signs of spending in any sector of the clothing market.

It was the same story at CNA Gallo. A sluggish six-month period was knocked for six by a September that just didn't happen.

Indications are that next week's results from SAB will reveal a similar grim picture at its beer division.

Analysts say this is particularly distressing because beer sales traditionally hold up well in trying economic times.

Retailers who have reported for the six months to September are pessimistic about Christmas.

Cost savings

They see little excitement in terms of sales growth and only the opportunity to make some cost savings by reducing stock levels.

Looking further ahead, however, Sacob says manufacturers are planning to step up their capital expenditure programmes in the next 12 months.

"The survey shows that a significant number of industrialists are planning to increase their real capital expenditure — both to maintain existing capacity and to create new capacity," Mr Lockwood said.

Spending on wear and tear and on new capacity are forecast to rise by 10 percent each, the survey shows.

Mr Lockwood said it was doubtful, however, whether the higher capital programmes would boost employment of either skilled or unskilled labour in manufacturing.

To the contrary. In the next 12 months the industry expected to lay off 15 percent of its unskilled workforce and up to five percent of its skilled labour.

Sacob chief economist Dr Ben van Rensburg said that while this reflected the need for companies to invest in new technology, it also showed the concern of businessmen about the impact of industrial action, such as this week's stayaway.

Recent political and labour developments had also had an adverse impact on business confidence.

Sacob's Business Confidence Index in October declined slighly to 88 points from 88,2 points in September.

Dr van Rensburg said business confidence had been knocked by the uncertain political and economic climate.

"While there are no signs to suggest the recession is deepening, there has been no marked improvement either."

Bosses threaten mechanisation

Sowetan
8/11/91

By JOE MDHLELA

EMPLOYERS may consider using machinery than people if the strikes continue at the prevailing rate, a spokesman for the South African Chamber of Business, Mr Gerrie Bezuidenhout, said yesterday.

Bezuidenhout was reacting to the two-day national strike organised by the anti-VAT Co-ordinating Committee. By mechanising jobs it was possible that less employment opportunities would be created, he explained.

Figures varying from 80 to 100 percent were given as representing workforce that took part in the stayaway on Monday and Tuesday.

Organisers regarded the strike action as a huge success, a show of strength which kept more than 3 millions workers away from the work-place.

Bezuidenhout said workers in the private sector lost more than R200 million in wages over two days.

"This figure negates to a very large extent any potential burden that may have been imposed on workers by the introduction of VAT," Bezuidenhout said.

He said by making contigency plans the private sector has demonstrated its capacity to maintain a reasonable level of activity despite the incidence of absenteeism.

Bezuidenhout said employers would in future step up efficiency and stop relying on the abundance of labour.

Natal businessmen make beeline for Nairobi

Star 9/11/91

OWN CORRESPONDENT

(180)

DURBAN — A group of Durban businessmen will leave for Nairobi next week on South Africa's first private trade mission to Kenya.

The group of 20 represent a wide range of commercial and industrial companies, from clothing and footwear to engineering, furniture, printing, packaging, steel, textiles and banking.

The party has been assembled by chartered accountants Farrar Jeena and Co in reponse to an invitation by a Nairobi-based business consultancy, Jani and Associates.

"The Kenyans made contact with us about three months ago when international attitudes were softening towards trade with SA," says Farrar Jeena managing partner Anil Narotam, who will lead the party.

The group will leave Durban next Saturday for a week's stay.

They will be welcomed at a cocktail party at the Nairobi Hilton where they will be met by a group of about 100 Kenyan businessmen and trade officials.

Mr Narotam said extra delegates could still be accepted. The cost is R3 858 inclusive of air fares, accommodation and transfers.

Big business and Cosatu may get say on economic strategy at talks

(180)

S/Times 10/11/91

By EDYTH BULBRING
Political Reporter

COSATU and the SA Chamber of Business are demanding involvement in the all-party talks.

And the demand was made more insistent by this week's successful two-day stayaway.

Despite strong opposition from some cabinet ministers to Cosatu's involvement, there are indications that both organised labour and business will be given a say in an economic sub-committee of the multi-party conference.

While business, Cosatu and the government differ on details of an economic negotiating forum, there is a recognition that economic restructuring and budgetary expenditure during the transition cannot take place unilaterally.

Cosatu general secretary Jay Naidoo said this week that the union movement wanted to take part in all-party talks where interim mechanisms and the framework of a constitution would be drawn up.

But, in addition, Cosatu also wanted the establishment of a macro-economic forum, separate from an all-party conference, equal in status and comprising all interested parties which would deal with economic issues.

The forum would identify a priority agenda, a timetable and strategy for the restructuring of the economy during the transition.

Mr Naidoo sees the forum addressing economic growth on a macro-economic rather than a piecemeal approach — addressing the issues of taxation, expenditure and budgeting.

It would also address industrial policy, socio-economic policy and trade union policy.

He says that while the forum would address the immediate economic crisis, it should also impact on the legislative process and the negotiating forum could at some stage converge with the all-party conference.

South African Chamber of Commerce chief economist Dr Ben van Rensburg said the organisation had decided at the highest level that it was important for business to participate in one way or another in the all-party conference.

Both business and labour should be involved in future constitutional discussions and suitable mechanisms to achieve this had to be devised, he said.

"This message is already being conveyed by Sacob to the main political players on the eve of the multi-party conference," he said.

Dr Van Rensburg said Sacob was also in favour of further economic discussions with Cosatu and other extra-parliamentary organisations.

Studies it had done of economic growth, industrial strategy and the challenge of poverty in SA would be at the heart of such discussions.

However, he added, no formal decision had been taken by Sacob on the structure, nature and role of any possible economic forum as had been suggested in various business and trade union quarters.

"This proposal remains to be discussed with various interested parties shortly. Sacob hopes that all groups will participate in any such discussions in good faith and without ulterior political motives."

The government had proposed the issue of Cosatu and business involvement in the all-party talks be placed on the agenda of the first meeting of the multi-party conference scheduled for November 29, senior government members said this week. It had also proposed that the issue of how economic policy was to be decided in the transition be placed on the agenda under the item of transitional arrangements.

They indicated that the government would not be averse to the idea of business and organised labour being involved in a sub-committee of the conference which dealt with economic matters.

This would be on the clear understanding that any sharing of power would also entail a sharing of responsibility.

However, ministers still rejected the Cosatu proposal for a macro-economic forum that would operate separately from the multi-party conference.

South Africa, one senior member of the government said, did not have the culture for a macro-economic accord.

The government, he added, did not trust Cosatu to abide by an agreement that might be made at the proposed forum.

● CHARLES LEONARD reports that the government's decision on Friday to extend the terms of the Labour Relations Act and Wages Act to farm workers has gone some way towards healing the rift between the government and the unions caused by the two-day stayaway.

But the decision has outraged Transvaal Agricultural Union president and Conservative Party MP Dries Bruwer who said yesterday farmers had been betrayed by Minister of Manpower Eli Louw.

Cosatu attented Friday's National Manpower Commission meeting — during which the minister also announced the restructuring of the NMC — in an observer status after it withdrew from the commission on October 1.

It withdrew then because of what it saw as delays on the government's side to implement NMC proposals and restructure the commission.

HL & H turns in poor performance

(180) Bday 11/11/91

BRENT VON MELVILLE

REMBRANDT subsidiary Hunt Leuchars & Hepburn Holdings (HL & H) was adversely affected by poor results from associates Rainbow Chicken and HL & H Timber to report a decline of 17% in earnings to 33,7c (40,6c) a share for the half year to September.

While subsidiaries spice merchant Robertsons and Transvaal Suiker turned in 31% (18%) and 35% (27%) of attributable profits of R47,8m (R52,4m), Rainbow's contribution more than halved to 9% (21%) and HL & H dropped to 25% (34%).

During the period the group acquired an additional 15% of Rainbow to 40% and the trading assets of Trimpak, expanding the operations of the catering division and providing new products for Robertsons.

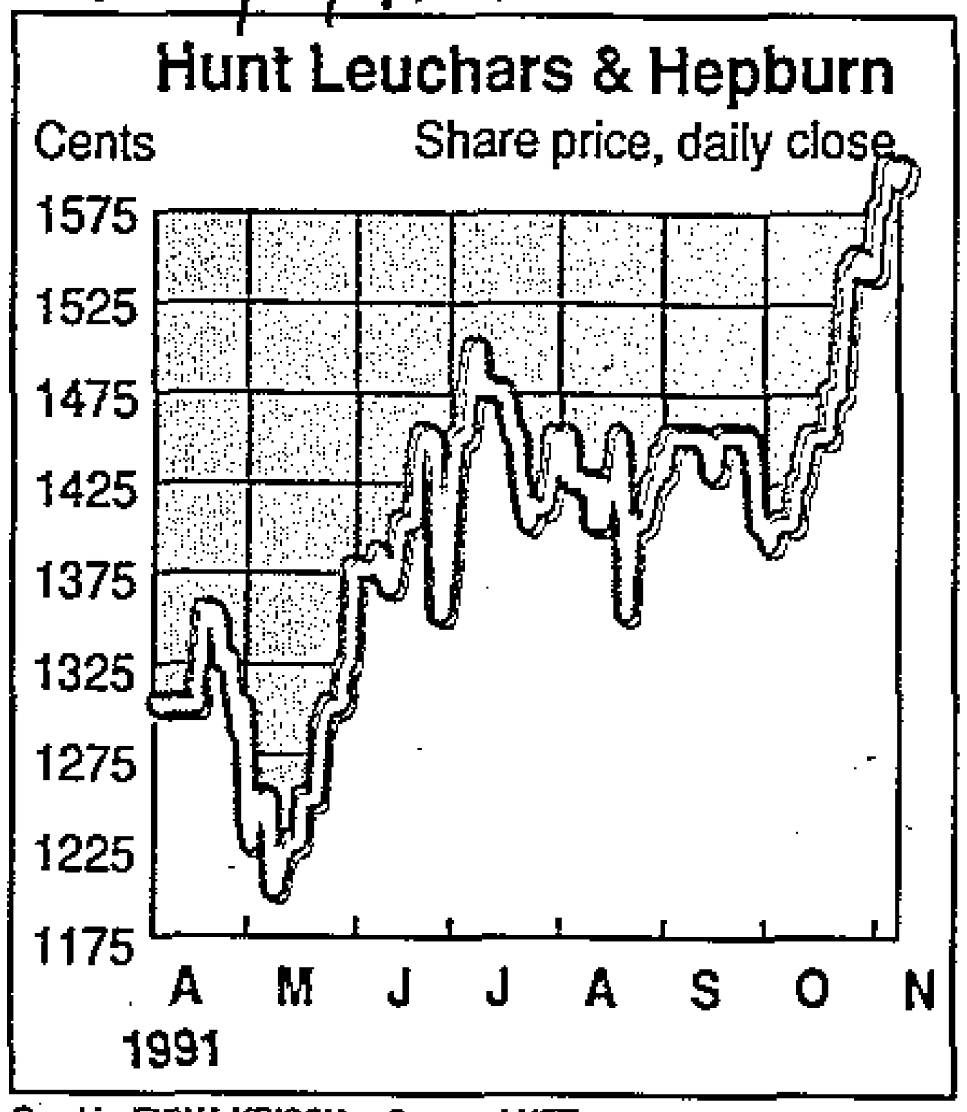
The acquisitions helped turnover to a 21% rise to R325,7m (R269,7m), off which operating income climbed 17,5% to R57m (R52m). The dividend remained unchanged at 13,5c.

Dividends and interest received, however, fell to R4,8m (R11,8m), leaving income before interest and tax at R62m, down from R64m last year.

Interest charges rose slightly to R13,9m (R11,4m), off a 43% jump in borrowings to R173m (R122m). Fixed assets climbed to R409m (R368m), while associated companies and investments jumped to R709m (R475m), leaving net assets above R1bn for the first time at R1,2bn (R917m).

The increase in fixed assets also includes the expansionary expenditure at Transvaal Suiker and the Trimpax acqusition. At the same time the level of gearing remained at a relatively low 17%.

Directors said that trading conditions were expected to remain depressed for the remainder of the year, although Rainbow Chicken was expected to up its contribution to profits, leaving group earnings to improve.



Graphic: FIONA KRISCH Source: I-NET

Reduced earnings likely for Barlows

B/Day 11/11/91 180

MARCIA KLEIN

C G SMITH, the main profit generator of the Barlow Rand group, has reported a 9% increase in earnings to 818,6c (751,0c) a share for the year to end-September, setting the stage for reduced profits from the conglomerate when it publishes its results later today.

It is the last listed group in the Barlow Rand stable to report results, and analysts now expect a 12% to 16% earnings decline for Barlows following Rand Mines's R485m loss and a poor performance from unlisted Middelburg Steel & Alloys.

Although C G Smith subsidiaries Nampak and C G Smith Foods produced good results, these were offset by a sharp decrease in earnings at Romatex in the year to end-September.

C G Smith's turnover was up 13% to R16,1bn (R14,2bn), but operating profit was up by a reduced margin of 11% to R1,3bn (R1,1bn). Pre-tax profit was only 9,8% higher at R1,1bn (R1,0bn).

A final dividend of 175c was declared, to bring the full year dividend to 286c (263c) a share — a 9% rise from last year's 263c.

Nampak's attributable profits grew by 16% to R147,7m, increasing its share of group attributable profits from 37% to 38,4%. C G Smith chairman Robbie Williams said Nampak had performed well.

C G Smith Foods increased its profits by 14% to R231,4m, providing 61% of group profits. In this division, ICS's results reflected the benefit of its rationalisation programmes as well good results from its meat division and Sea Harvest. Oats' results showed the good performances of its pharmaceutical, canning, shipping and distribution divisions.

C G Smith Foods showed an increase in earnings despite the fact that its sugar interests were affected by the decline in the world sugar price.

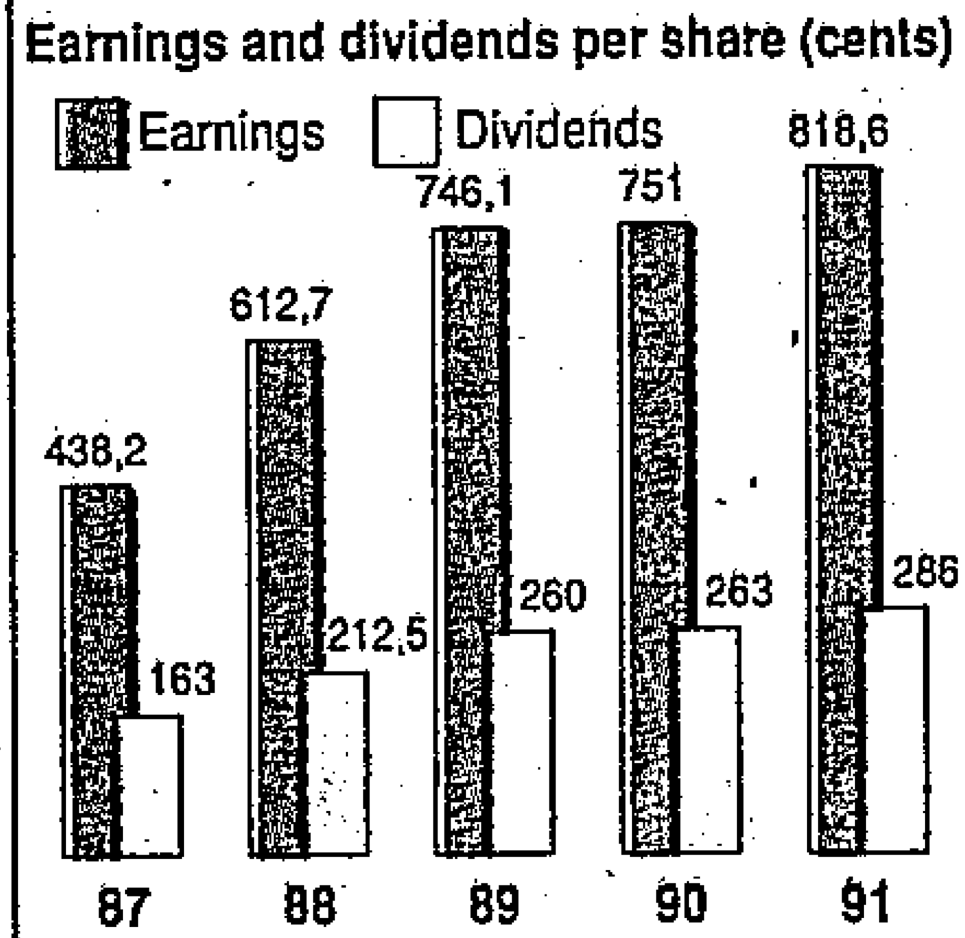
Romatex's earnings fell by 77% to R5,2m, contributing just 1,3% to the C G Smith group's attributable profits.

Extraordinary items of R24,1m (R3,6m) refer to donations to private sector initiatives.

● See Page 10

C G Smith

Earnings and dividends per share (cents)



Graphic: FIONA KRISCH Source: CG SMITH

'Cynical public servants must adapt to new order'

BDay 11/11/91

GERALD REILLY

PRETORIA — Institutionalised cynicism among public servants had to be eradicated if the country was to adapt to a new order, a top government official has said.

Commission for Administration chairman Piet van der Merwe said at the weekend that barriers in the way of public servants adjusting to a rapidly changing political and socio-economic environment had to be removed or success would be out of reach.

He said institutionalised cynicism — a feeling among government workers that there was no need for change — was a stumbling block.

Speaking at the SA Quality Institute conference at the CSIR, Van der Merwe said it was not uncommon to find senior administrators committed to change which was resisted by lower-level public servants.

Too many South Africans had for too long been on the receiving end of negative aspects of public administration flowing from discriminatory policies and legislation. The hour had arrived for all public servants to rededicate themselves to rendering quality service to all South Africans.

Government departments, like other organisations, developed cultural patterns and this militated against adjustment to change. These became entrenched if there was no change in government over a long period.

The public service needed more delegation and fewer controls. "Overregulation and excessive prescription are also barriers to change."

Whirlwind

Deregulation was a major public service management challenge. New policy directions had resulted in the removal of many laws and regulations. "However, it is also true that too many laws, regulations and prescriptions that have become outdated or unnecessary still remain."

Van der Merwe stressed lack of communication between Ministers, administrators, line managers, low-level public servants and the public was another barrier. "South Africans are in many respects reaping the whirlwind for failure to communicate effectively across language, racial and cultural barriers for many decades."

Excessive fault-finding with public servants by politicians and public servants, the media and the general public also got in the way of change. Motivation and dedication were not strengthened by abuse and indiscriminate attacks being heaped on public servants.

An important consequence of change was uncertainty and fear among public servants, because of political or other external developments. These were often seen as a threat to job security, promotional opportunities and service benefits.

Attitudes towards particular groups or communities was another barrier. Influx control, for instance, gave rise to confrontation, hatred and bitterness on a wide scale.

Hurdles placed in the way of high quality people being attracted to goverment posts was now more than ever short-sighted, costly and dangerous. Yet there was evidence of this every day, in the form of criticism based on scantily supported evidence and broad generalisation.

Appeal for renewed investment in industry

GERALD REILLY

180

PRETORIA — High-level strategic decisions on productivity and quality were needed to snatch SA industry out of its pathetic perfomance syndrome, National Productivity Institute (NPI) executive director Jan Visser said at the weekend.

Speaking at the SA Quality Institute conference, Visser said industry suffered from capital starvation as the lion's share of savings was absorbed into erecting less productive assets — such as office blocks and shopping centres.

"As much a I resent government interference, mechanisms to redirect investment to industry are urgently needed," he said.

"Last year the physical output of SA factories was at the same level as in 1980 and 1984. Zero growth in manufacturing ouput over a period of 10 years in a country that has identified manufacturing as the means of economic development is unacceptable."

Visser said SA, and specifically its industry, deserved more support than it got.

In the East it was unthinkable for government policy decisions to remain unimplemented. It was essential for SA to be technologically competitive.

A technology policy was long overdue and action was needed to bring research and development into industry, said Visser. A full commitment to education and training was also needed.

"Wealth cannot be distributed unless it has been created and unproductive people do not create wealth." BDay 11/11/91

SA was plagued by unemployment and high inflation. If these could be solved, many of SA's social and political problems would disappear.

Barlows' 7% decline betters expectations

BDay 12/11/91 180

BRENT VON MELVILLE

BARLOW RAND, SA's biggest industrial conglomerate, has reported a 7% decline in earnings to 430,9c (462,4c) a share for the year to end-September, bettering expectations of a 12% fall in earnings.

The performance comes on the back of a stronger showing than forecast for Middelburg Steel & Alloys (MS & A) and Rand Mines. Deputy chairman Derek Cooper said MS & A came in with a "small profit". None of the group's unlisted operations had shown losses for the year.

The showing, and an announcement that the group would offer its unchanged final dividend of 119c to shareholders as either cash or shares, prompted a 40c share price rise to R52.

In terms of the share offer, shareholders may take 2,48 shares for every 100 held, translating to R48 each, which, even deducting the final dividend from the current market price, represents a 5% discount. Cooper said majority shareholders had already indicated a willingness to accept the offer.

Operational turnover climbed 10% to just less than R32bn (R29,1bn). Operating profit before interest rose 4% to R2,6bn (R2,5bn). Interest charges rose 15% to R674m (R586m) reducing cover slightly to 3,8 times.

Contributions from equity accounted associated companies were bolstered 33% to R56m (R42m), although outside shareholders accounted for R799m (R716m), leaving attributable profits to ordinary shareholders down 6% at R806m (R855m).

Below-the-line extraordinary items absorbed a significantly higher R433m (R115m) related primarily to the write-off of Barplats Investments to market value. The profit on the sale of MS & A was also incorporated into extraordinary items, meaning total below-the-line write-offs amounted to about R600m.

Barlows did not disclose the loss incurred on its trading venture in Zaire, hit by riots and upheaval. Sources put it at about R20m. Barlows chairman Warren Clewlow said it was a setback in that the group was only "just getting going" in Zaire. However, this would not deter Barlows from moving further into African markets.

In mining and mineral beneficiation, Rand Mines showed a 12% improvement before extraordinary items, while Pretoria Portland Cement increased its contribution 7% with bottom-line earnings at R114m (R106m). Cooper said MS & A produced a "small profit" with a strong performance from the stainless steel division.

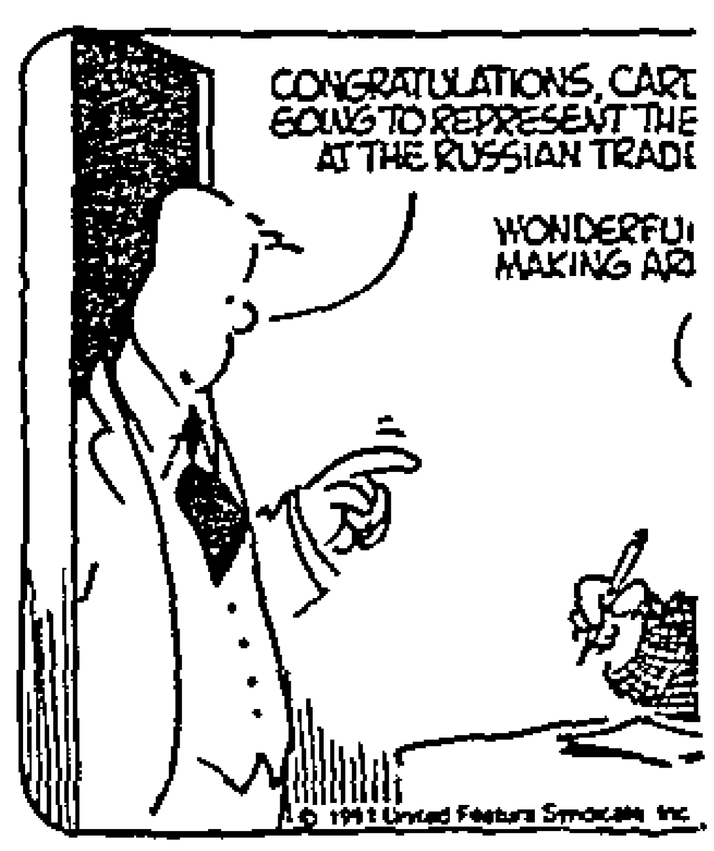
Firm demand for consumer products and a marked slowdown for capital goods saw Technology Systems International push earnings up 20% and Reunert post a marginal improvement to R74,6m in attributable earnings. Cooper said reduced Armscor orders at Reunert would be offset by the move into other markets. The recent R76m acquisition of African Cables was a step in that direction.

A good performance from Tiger Food on the back of recent acquisitions helped boost Tiger Oats's earnings 13%, while ICS showed a 24% rise. CG Smith Food recorded a 14% rise despite declining world sugar markets.CG Smith's earnings were up 9%.

Barlows' international arm J Bibby improved its earnings moderately. Cooper said the group was in a position to spend about £100m this year.

Total capex for the group would probably exceed last year's R1,4bn.

EXECUTIVE SUITE



Star 12/11/91 180

Barlows beats market expectations

By Jabulani Sikhakhane

Barlow Rand, which beat market expectations with only a seven percent drop in earnings, is conserving cash to take advantage of investment opportunities.

Shareholders are being offered the option to receive the unchanged final dividend of 119c in cash or shares.

The additional shares are being issued at R48, but the price may change in line with the movement in the share price.

Barlows' share price rose 40c to close at R52 yesterday.

The scrip dividend represents a cheap way of raising money and saving just over R200 million (assuming a 90 percent acceptance of the offer).

Taken together with the R1 billion from the sale of Middelburg Steel & Alloys to the Gencor, Anglos and De Beers' consortium, cash resources should receive a big boost.

It was announced in September that an agreement had been reached in principle for the sale of Middelburg for R1,075 billion.

Although the deal (not yet finalised) is effective after year-end, the directors say the sale of Middelburg is material and has been given effect in the financial statements.

During the review period, a better-than-expected performance by Middelburg and Rand Mines helped Barlows beat market expectations with earnings down only seven percent from 462,4c to 430,9c. The dividend, covered 2,5 (2,7) times, is unchanged at 170c.

At the interim stage, earnings dropped 14 percent and directors were expecting a similar decline for the second half, which would have meant earnings of around 397,7c for the full year.

But an improved performance from Middelburg, which was the main contributor to the 14 percent drop in the first half) saw Barlows breaking even, with earnings of 244c for the second half.

The directors say the improved performance at Middelburg was spearheaded by the continued strong showing in the stainless steel division.

This saw Middelburg reversing the first-half loss of R17 million into a small profit for the full year.

After the inclusion of abnormal profits, Rand Mines showed a modest improvement in attributable profit.

Performance from the industrial division was mixed, with consumer electrical products performing exceptionally well. Plascon increased market share and lifted earnings.

The earthmoving equipment, steel merchandising, building materials and motor vehicles subsidiaries were affected by economic conditions.

Group turnover rose 10 percent to R31,99 billion. Overall margins were under pressure, shaving growth at the pre-interest operating profit level to four percent at R2,57 billion.

An increase of R88 million in interest payments to R674 million meant operating profit was virtually unchanged at R1,895 billion (R1,885 billion).

property ownership will have to be part of that policy," he said.

The future government needed to look carefully at ways of making more land readily available for housing and the bureaucratic red tape, accompanied by sheer inefficiency in some cases, characterising

Given the extended scope of national housing objectives, important adjustments in housing technology and design will be required, in addition to adjustments in the financial and construction sectors if the housing needs and demands of the new SA are to be adequately met," Brand said.

A concentration that makes Johannesburg a power base

180

B/Day 13/11/91

THE Johannesburg CBD remains the power base of the economy with about 52% of the country's top 50 organisations, ranked by total assets in the latest FM Top Companies survey, having their head offices there, property economist Neville Berkowitz says.

"The location of these head offices determines the concentration of decision-making power and economic influences. The concentration of power is evidenced in the 50km strip from Johannesburg to Pretoria, where 84% of the top companies are located," he says.

Good infrastructure in the form of transport, parking, access to retail facilities and hotels all play a part in selecting a head office location. The suburban locations of office blocks are limited in the bulk they can supply.

"A trend among top companies is to develop head offices in out-of-the way areas near good freeway infrastructures and, in this way, achieve low- to medium-rise bulk buildings with sufficient parking provisions," he says.

The 21 head offices located in the Johannesburg CBD predominantly feature mining and banking houses, including Anglo American, Stanbic, JCI, Anglovaal, Allied and FNB.

The Sandton area is second, with 14% or seven of the major corporations having their head offices there. These include Eskom, Barlow Rand, Tiger Oats and Malbak.

"The sprawling grounds of Megawatt Park and Barlow Rand Park provide the out-of-town location large enough to accommodate the 'bulk' required," Berkowitz says.

Pretoria has six of these head offices, accounting for 12% of the total. However, most of these are public-sector bodies like the Reserve Bank, the Post Office, Iscor, Armscor and the Land Bank. Saambou is the only private sector company with its head office in Pretoria.

Cape Town, with 8% or four organisations, is the home of the insurance corporations, housing Old Mutual, Sanlam and Southern Life. Durban hosts 4% of the top 50 organisations, including NBS and Tongaat Hulett.

"Braamfontein has 6% or three head offices, with Crown Mines, Parktown, Rosebank and Midrand all housing a head office each," he says.

Business fumes at tardy Marais

(180)

BDay 13/11/91

ANDREW GILL

THE business community has criticised Trade and Industry Minister Org Marais for his late release of draft anti-dumping legislation which has left only a week for comments.

The SA Chamber of Business expressed its "regrets" that the business community had been given such a short time to comment on the draft legislation, but sources said feelings were running high in the organisation and the business community.

Marais announced yesterday that the draft legislation for action against dumping, subsidisation and other forms of disruptive competition had been released to private-sector organisations for comment by November 18.

However, he said comments received after the deadline could still be considered when the proposals reached the parliamentary joint committee stage. But business sources said that by that time the legislation would already have passed the "formative stages".

Marais said the proposed legislation, policy and procedures were aimed at effective action to protect manufacturers in the Customs Union from disruptive competition.

Sacob said in a statement it fully supported effective anti-dumping measures. The organisation had already conveyed its disappointment to Marais because it believed legislation of such importance to industrialists and importers required careful study. It would still seek to formulate a preliminary reaction to the draft proposals after consulting members.

Sacob had asked for an extension of the deadline, a source said, but held out little hope of getting one because the process was "locked into a cycle" as it had to get to the Cabinet soon if it was to make it on to the 1992 parliamentary agenda.

Marais said the tariff protection policy was being reviewed with the objective of gradually reducing import tariffs but this was subject to the creation of measures for effective action against dumping.

The effectiveness of the draft legislation lies in its definition of "disruptive competition". The draft legislation defines disruptive competition as dumping and other forms of subsidisation by virtue of export to SA, which causes or may cause material injury to established SA industries or which may retard the establishment of industries in SA.

It was intended to incorporate enabling provisions for such action in the Board of Trade and Industry Act of 1986 and amendments would have to be made to the Customs and Excise Act of 1964.

Government proposes anti-dumping measures

(180)

Star 13/11/91

By Sven Lünsche

Under pressure from various industrial sectors, the Government has announced plans to implement anti-dumping measures to protect local manufacturers.

Minister of Trade and Industry Dr Org Marais said yesterday that import tariff protection policy was being reviewed with the aim of gradually reducing tariffs.

"The reduction of tariffs is, however, subject to the creation of measures for effective action against dumping," Dr Marais said.

He said draft legislation for action against dumping, subsidisation and other forms of disruptive competition had been released to private sector organisations for comment.

It is widely believed that the proposals will take their lead from the Anti-Dumping and Subsidies Code of the General Agreement on Tariffs and Trade (Gatt).

Gatt defines dumping as the selling of foreign goods on local markets at prices below the ruling prices in the country of export.

The draft policies are in line with a proposal by the Industrial Development Corporation

Org Marais . . . procedures aimed at fast and effective action

(IDC), which earlier this year recommended a break-up of SA's extensive protectionist policies and a stronger export-orientation.

The IDC also urged that SA become a signatory of Gatt's Anti-Dumping and Subsidies Code to provide some measure of protection as tariffs were reduced.

However, the IDC report, which is set to form the basis of SA's future trade and tariff policy, has been criticised by various industrial sectors and organised business.

In its response to the report, the SA Chamber of Business warned in August that if SA industry "were to be cut adrift through trade liberalisation" adequate protection against predatory pricing from imports was required.

Recently the textile industry complained about cheap imports, particularly from the Far East, which were affecting the local industry — as was clearly illustrated by the poor results turned in by such companies as Frame and Unispin.

Chemical giant AECI last month asked the Department of Trade and Industry (DTI) for an increase in tariffs on PVC because cheap imports had slashed local prices of the product and cut profit margins drastically.

Economists said yesterday that the Government was in danger of giving more prominence to the concern of local industrialists than to the overriding need to restructure the country's outdated tariff protection policies.

SA producers are currently protected from dumping and low-cost imports by high import tariffs, which effectively create a floor for minimum prices at which imports can enter the country.

This practice is unacceptable to Gatt, of which SA is a founder member, although it does not as yet subscribe to its anti-dumping code.

In drafting new anti-dumping legislation, the IDC said SA should draw on the experience of other Gatt members, but adapt policies to specific needs.

However, the Textile Federation recently warned that the Gatt measures had largely failed and been replaced with quota systems in many countries.

Dr Marais said the proposed legislation, policy and procedures were aimed at fast and effective action to protect manufacturers in the Customs Union from disruptive competition where warranted.

While the legislation is still in its draft form and will have to be promulgated by Parliament, the Government appears eager to do so as early as possible.

Private sector organisations concerned have until next Monday to comment on the draft legislation, so as to finalise the draft Bill for consideration early in the 1992 Parliamentary session.

The provisions are set to be included in the the Board of Trade and Industry Act and amendments will have to be made to the Customs and Excise Act.

High cost of funding cuts competitiveness

B/Day 14/11/91.

CAPE TOWN — The cost of capital in SA was about 31,3% higher than in other countries and played a significant role in undermining the international competitiveness of its industry, Barlow Rand special projects consultant Paul Hatty said yesterday.

Hatty told the seminar the cost of capital in SA compared unfavourably with Australia (14,5%), US (11,4%), Germany (9,7%), Taiwan (4,2%) and Japan (3,4%) and would have to be addressed to give SA international competitiveness.

He said SA's high inflation rate, high real interest rates, high risk and high corporate tax rate put its industry out of the international race.

The high cost of capital in SA meant production costs had to be increased by 5,6% in a labour intensive industry and by 36,4% in a capital intensive industry to obtain a selling price able to service the cost of funding.

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Hatty said margins in the clothing industry would have had to increase by 9% in 1990 to service the price of capital, and by 43% in the capital intensive textile industry. The increase in the price of textile goods was not gross profiteering on the part of manufacturers but the effect of government policies on the cost of capital.

Attention would have to be given to the price of capital, the productivity of capital and labour, the cost of imported machinery and manufactured intermediate inputs, and incentives for new industry, if there was to be significant investment and growth in the manufacturing sector.

The productivity of capital in SA was much lower than in other countries. Capital productivity of 0,315 in 1988 — measured by the GDP output per unit of capital stock — was 41,3% of the weighted average GDP for OECD countries in 1986.

Hatty said one of the main reasons for this was that before the introduction of VAT SA industry paid 58% more than its counterparts in the UK for imported machinery and capital goods. VAT had reduced this to 37%.

As for labour productivity, Hatty said SA had a cost disadvantage of about 1,9% compared with other countries.

Stayaway took heavy toll

INDUSTRIAL and mass action, such as the one called by Cosatu, Nactu and 12 independent trade unions last week, have had serious and negative economic implications and may contribute to instability and violence in South Africa. Sowetan 14/11/91

This view was expressed by the South African Chamber of Business in its economic monitor released at the chamber's monthly meeting in the aftermath of the two-day national stayaway on November 4 and 5.

Sacob's deputy director, Dr Ben van Rensburg, said business had lost hundreds of thousands of rands as a result of the action, although he did not have the exact figures. 180

COMPANY LAW FM 15/11/91

Disclosure demanded

The Standing Advisory Committee on Company Law has released proposals to amend the Companies Act of 1973 to limit the distinction between public and private companies as far as possible. (180)

Many of the changes are relatively technical, relating to the requirements for quorums, proxies, maximum and minimum membership, and the number of people required to incorporate a company and to sign the memorandum of association. But one proposal is controversial: private companies will have to disclose their annual financial statements within nine months of the end of a financial year.

The committee notes in its release the great success of the close corporation (CC) as a vehicle for carrying on small businesses and argues this development has made it easier to reduce the distinction between pub-

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FM 15/11/91 (180)

lic and private companies.

Committee member Michael Katz says the need for greater disclosure has been recognised in company law in the US and UK. The obligation of private companies to disclose their financial statements was introduced in the UK as early as 1967. It is broadly considered by theorists of company law that the obligation to disclose is the *quid pro quo* for limited liability.

The requirement for disclosure of private company financials will meet opposition.

Joe van Dorsten, a manager at Arthur Andersen, says the proposal will not find favour with shareholders and directors of private companies. The requirement will make information regarded as highly confidential available to any person who cares to call at the registered office.

He argues that people who deal with private companies can get the information from them. A bank would ask for copies of the memorandum, articles and financial statements before granting a loan.

Each shareholder or debenture-holder of a private company has a statutory right to receive a copy of the latest annual financial statement.

In these cases, there is "a need to know" and, for that reason, a willingness to disclose the confidential financial information.

There is no similar need, argues Van Dorsten, for the public to know a private company's confidential financial information. There would be nothing to prevent a competitor going to its registered office and gleaning valuable information.

It can be argued the proposal amounts to retroactive legislation. People who chose to form a private company because disclosure was not required would now retroactively have to make the type of disclosure they wished to avoid.

However, Katz says accepting the argument would mean there could never be any reform of company law or any other law. What is needed is a sensible transition from the old to the new regime.

The option to convert to a close corporation, says Van Dorsten, will not be available to all private companies. This may only be done if the company has 10 or fewer shareholders, who must all be natural persons or representatives of natural persons.

In the UK, the Cohen Committee found that certain public companies used private companies to carry on activities which were not disclosed in their accounts. Their shareholders could not establish the profit made by private subsidiaries.

If SA public companies have abused private companies to withhold information, the solution is not to abolish the secrecy privilege of private companies. It would be more acceptable, says Van Dorsten, to require only those private companies which are subsidiaries of public companies to disclose their financial statements to the public.

If the secrecy privilege is abolished, he says, the remaining privileges and exemptions of private companies will be limited; the private companies will no longer serve a purpose and might as well be abolished.

The proposals also deal with the venue for inspecting private company accounts. Many private companies are managed from private residences, where the registered office is. It would be an intrusion of privacy if the public, including possibly creditors or competitors, could get their feet in the door by demanding to see the accounts. It would be more acceptable if the office of the Registrar of Companies remained the venue for inspection.

The Registrar, suffering a manpower shortage, might hope to dump some of his responsibilities on the private sector, according to precedents now well established in income tax law. These include the collection of payments under Site.

Exposing private company accounts to general scrutiny could help the exchange control division of the Reserve Bank to hunt down contraventions. Private company accounts would readily show up a running down of assets caused by the smuggling of funds abroad. ■

Cheaper export credit from UK

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B Day 15/11/91

LESLEY LAMBERT

SA IMPORTERS will soon be able to get cheaper export credit from Britain, British Trade Minister Timothy Sainsbury said in Johannesburg yesterday.

Addressing the SA British Trade Association (Sabrita) on the first day of his visit to SA, Sainsbury said the premiums which SA companies paid to procure credit for their imports had been reviewed by the Export Credits Guarantee Department and would soon be lower.

Up to now, sanctions have placed a higher than normal premium on the export credit facilities offered to SA companies.

Sainsbury gave local businessmen one of the most positive signals yet that higher levels of British trade and investment would follow the political reforms currently under way.

"British companies tell me they are already dusting off their expansion plans and generally reviewing where SA fits into their corporate strategy.

"We are not complacent. We know that our main competitors are taking a fresh look at your market as political inhibitions are removed.

"Nobody should doubt we are looking to expand our share of trade with and investment in SA," said Sainsbury.

Commenting on the current state of SA industry, he said that while some sectors were fully competitive internationally, in others technology had become dated and manufacturing methods and training systems needed an overhaul.

British industry would be able to assist in these key areas through technology transfer agreements, joint ventures and other forms of partnership, he said.

Sainsbury said it was crucial that SA did not allow delays in a political settlement to hamper its economic agenda.

Britain would try to assist the country by continuing to press for its access to the IMF and World Bank, he indicated.

SA would have to fight its corner among the growing number of countries trying to attract their share of new foreign investment, Sainsbury said.

"Political stability is a necessary but not a sufficient condition for success.

"The trading conditions must also be the most favourable possible. This means nothing less than a full-blooded commitment to a market economy and the removal of all barriers to trade," he said.

Last year, the UK was SA's second largest visible trading partner.

British exports to SA had exceeded £1bn (sterling, not dollars as Business Day reported yesterday) in each of the past three years.

British Trade Minister Timothy Sainsbury addresses the SA British Trade Association yesterday. Picture: ROBERT BOTHA

Star 15/11/91

UK trade minister offers words of encouragement

By Frank Jeans

Timothy Sainsbury . . . return to mainstream without delay

Export credit for British businessmen looking to the South African market would soon be cheaper, the UK Minister of Trade, Timothy Sainsbury, said on arrival in Johannesburg yesterday.

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At a luncheon of the SA Britain Trade Association (Sabrita), he gave encouraging pointers to renewal of trade and investment links between the two countries.

"SA must return to the mainstream of world trade without delay. Planning for the future cannot wait for a political settlement."

Mr Sainsbury, the first British trade minister to visit SA in 21 years, has come to explore new opportunities for trade and investment. He assured businessmen of a further surge of interest in the SA market.

"Here as in Britain, business has a heavy responsibility to help develop imaginative schemes and all other ways of realising the rich potential of South Africa's young people," said Mr Sainsbury.

While emphasising that SA had a sound economic infrastructure on which to build and that in some sectors its industry was fully competitive internationally, he criticised some areas of local business practice.

"In some sectors your technology has become dated, your manufacturing methods need reappraisal and training systems need overhaul," he said.

Supermarkets praise two for VAT cuts

S/Times 17/11/91

By GWEN GILL

ONLY two manufacturers have brought prices down since the start of VAT, say the three biggest supermarket groups.

But consumers are expected to benefit in January when the annual round of price increases is expected to be lower than usual to compensate to some extent for VAT.

Checkers managing director Sergio Martinengo said both Lever Brothers and Elida Ponds had decreased prices by "about five percent" on average.

Mr Mervyn Kraitzick, food director of OK Bazaars, also said Elida Ponds had dropped its prices by about one percent.

Mr Alan Baxter, general manager for foods of Pick 'n Pay supermarkets, said Lever Brothers had allowed a five percent promotional decrease for about six weeks from September 30, when VAT began.

However, Mr Brian Frost, director of foods for Woolworths, said no decreases were coming through at all.

Among the supermarket items that have gone down in price as a result of these decreases are Mentadent P and Close Up toothpastes; Surf, Skip and Omo washing powders; Shield and Ego deodorants; Geisha, Breeze and Lifebuoy soaps; and Ponds beauty products.

No other manufacturers show any sign of lowering their prices, according to the retailers.

This is despite the fact that costs should be dropping as input credits on capital goods and savings on items on which manufacturers previously paid GST, but do not pay VAT — such as advertising — are reflected in selling prices.

"Some suppliers have been offering rather larger discounts than usual, but that's because of the state of the economy, not VAT. Manufacturers want to clear their stocks," said Mr Baxter.

Asked if retailers were badgering suppliers to drop prices, Mr Martinengo said: "We say: 'Come on guys, what about decreases because of VAT?' all the time, but it's not helping."

Mr Baxter said that Pick 'n Pay was also urging manufacturers to drop prices, but all he heard was the familiar excuse that VAT would slow down future increases.

At least two of the big retailers are confident that the usual round of automatic hikes in January would either not come at all or be smaller than usual.

"So far, I've had not had a single indication of a price hike in the New Year. This is interesting — usually by now my file is full of increase details. But these could still filter through, I suppose," said Mr Baxter.

Mr Martinengo said he was expecting price hikes, but these would be "lower than in previous years".

Business needs foreign talent

B/Day 18/11/91 (180)

TREVOR WOODBURN

AT A TIME when many major companies are thinking of how best to open up their boards and management echelons to black participation it may, ironically, also be a time when they should be looking to import international talent on to their boards.

At first glance that may seem an odd thought, even contrary to the spirit of the new SA. But SA's Rip van Winkel-like re-emergence as a decent citizen on the world scene means that many companies have to take steps to ensure they have the skills, insights and contacts at top level to handle international competition both locally and in foreign markets.

The normalisation of SA's position in international trade and the long-awaited creation of a European free trade zone in 1992 pose a tremendous challenge to our boards of directors and top managements.

Years of disinvestment, sanctions and isolation have encouraged a laager mentality, not only in politics but also in business. Many companies had to withdraw from international markets or sever their ties with overseas suppliers, partners, parent companies and providers of capital.

We will find that, while doors are opening to us, it will paradoxically be harder to break into some markets. Others have taken our place as suppliers of agricultural produce, minerals and manufactured goods. World markets have changed, in come cases fundamentally. Margins have been narrowed by increasing price competitiveness and by the slow recovery of the economies of foreign trading partners.

The importance of exports in getting our economy moving again and strong international partnership to meet SA's pressing development and social needs must not be underestimated. We need directors and executives with the right contacts and understanding of markets and competitive factors to enable us not only to make up the ground we have lost but also to open up new markets.

The transformation of Europe into an effective free-trade zone is not far away, and it poses one of the biggest potential obstacles to SA exporters. European companies will find it easier to consolidate operations.

Instead of having plant in, say, three countries, it will be possible to have just one. Bigger domestic markets will open the way to greater efficiency and cost-effectiveness for these firms.

The depiction of the world as a global village has never been more apt. Internationally, there are now only three effective trade zones: the Americas, Europe and the Pacific Rim.

SA companies face tough competition in terms of price and product sophistication in export markets as well as from imports in our home market. Our vulnerability to manufactured imports has been heightened by our lack of access to overseas markets, product development and advances in production techniques.

If we are to persuade foreign investors to support development in SA we must talk their language and understand their criteria — what they are looking for. Farsighted companies are already restoring old ties and partnerships, particularly in the vital area of research and development.

The pace of change that has opened the way for SA's re-entry to the world stage has taken many of us by surprise. Our companies will have to react quickly to the opportunities and challenges that are coming our way.

Since time is not on our side, and given SA's inability to meet existing needs for executive and non-executive director skills, it makes practical good sense to inject imported talent into our boards to push and pull us out of our siege mentality and equip us for international competition.

☐ **Woodburn is an executive search and management consultant and MD of Woodburn Mann.**

BOOKS

New era requires a narrower focus for SA conglomerates

8/Day 18/11/91

MIKE PERRY

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IN THE past, mergers and acquisitions have been driven by the acquisitive nature of corporate SA and the desire to improve share prices. In the closed economy of the sanctions era, they were fuelled by the wave of disinvestment. As we move into the new SA, and towards a more open economy, corporate SA will have to make critically important investment and disinvestment decisions.

SA businesses are now having to measure up to global competition both at home and abroad. The implication for businesses is that, at minimum, they have to become regionally strong in their market or industry; at best global players.

The likelihood of successfully becoming global players will be limited to the few businesses which have declared their intentions and started to move. The remainder will be forced to concentrate on regional dominance and strengths in their industries over the next few years.

In global terms, SA businesses start from a weak position for achieving regional dominance. This can be attributed to several factors:

- The economy was characterised by low growth in the 1980s which led to over-capacity in many industries;
- Businesses have experienced low rates of investment, generally resulting in non-competitive plant;
- The absence of global competition has allowed business inefficiencies to continue; and
- A "kindergarten view" of competition has prevailed, in which a few major corporations, each with a business in the same industry, have indulged in cut-throat local competition rather than restructuring for the regional or global market.

In recent history, the SA business scenario has been characterised by the withdrawal of multinational corporations, usually on the basis of poor economic performance combined with politics. This created opportunities for management buy-outs and acquisitions for corporate SA. Now that the rules of the game have changed, many foreign businesses are investigating opportunities in the South and southern African markets. This increase in global competition provides a fearful incentive for most SA industries to conduct careful self-examination and restructuring.

The key factor in many industries in the 1990s is going to be the achievement of regional dominance. There are two major reasons for this.

Firstly, the regionally dominant players will be the most attractive partners in each industry for multinational corporations wishing to enter southern African markets. These corporations will, in general, be looking for quick access to markets, rather than product development.

Secondly, where foreign competitors seek to enter the SA market directly, and not by means of an alliance, regionally dominant players must be in a position to either hold their own or frighten off such competitors.

A fragmented industry, including one where the "industry cake" is divided between three or four players (each frequently backed by one of SA's major corporations), enhances the potential for a globally dominant player to enter the market and win major market share in a relatively short space of time. Strong financial support is not a competitive weapon against better products, marketing and technology.

To become a force to be reckoned with, SA businesses are going to have to make substantial new investment in technology and increased and more efficient capacity. Such businesses are going to have to be big enough to afford this technology and capacity, and to use it. In many industries with no clear dominant player, this is not the case.

In general, SA conglomerates are becoming more focused, and are having to conserve the valuable resources of management time and money. This does not necessarily mean putting the brakes on investment, but rather making choices as to which businesses or parts of the portfolio can do greatest justice to management input and capital investment. Those pieces of the portfolio not selected, and which may not be held for strategic reasons, will probably be disposed of, releasing capital and human resources for investment in other parts of the portfolio.

New systems of portfolio analysis which factor in changes peculiar to the new SA environment in order to revalue underlying businesses in conglomerates are now in great demand. Some of the changes are likely to be no-retrenchment clauses, increasing black spending power and newly available technology.

For these reasons, SA businesses are increasingly following their European and North American counterparts in being prepared not only to be sellers of businesses but to be seen as willing sellers. In the 1970s, the major players bought businesses to hold them, and the dominant conglomerates grew larger by acquisition. That businesses can be sold from a position of strength or neutrality, and not necessarily weakness, is a major departure in SA corporate culture, and one of the changes that will be seen in the 90s.

The restructuring of SA corporations and industries will have a major impact on the merger and acquisition business. In the first place, mergers and acquisitions will be viewed from a market point of view, rather than simply a financial one as in the past. Corporations will look to rationalisation of industry players and to changing the nature of competition, rather than merely adding the numbers together. The need to survive will create strategically sensible thinking and the recognition that there are many "win/win" acquisition (and disposal) situations.

Studies will now encompass not only the financial and accounting aspects of the businesses, but a complete strategically orientated business and market feasibility study. Such a study will focus on how the company will win in the new marketplace, and how mergers and rationalisation will fundamentally change the nature of the industry. Traditionally, studies look backward with 20/20 accuracy. The new approach requires clear strategic vision, focused on the future.

The post-acquisition period will now focus increasingly on holding a merged operation together and avoiding losing the skills which give the merger its intended value. In the uncertainty amid past mergers and upheaval, the best employees were the first to leave. SA corporations will have to change their initial focus from the so-called cost efficiencies in the period immediately following a merger, to holding on to all the assets, especially the human resources and marketplace position which made the merger make sense in the first place.

The next task will be to create substantial industry players which have the strength to fight foreign competitors, frighten them off or attract them into joint ventures, thereby becoming part of a global network which will guarantee success in the regional market.

Corporate SA is thus changing its nature, and will become leaner and meaner in the race for regional dominance. This change is touching all industries, from consumer goods to hi-tech and heavy engineering. No longer is it "un-macho" for SA corporations to trade businesses. It will be a question of assessing where added-value lies, and rationalising and conserving resources for the increased levels of competition of the 1990s.

Mediocre players whose success is based mostly on the unquestioning backing of corporate SA will not have an easy ride in the new SA economy. Their financial stolidity will be outpaced by the superior power of competition and market forces.

Business cuts university donations

BD 19/11/91 (180)

DARIUS SANAI

CORPORATE funding of universities is on the decline and could be down a further 10% this year, according to sources at Wits University and RAU.

Wits Vice-Chancellor Jerry Steele said yesterday there were "clear signs that there is a decline in the rate of private sector funding coming in to Wits".

And RAU Foundation director Christo Bredenhann said the number of private firms giving money to RAU had dropped by 10% this year. He added that "all universities are in the same situation — or even in a worse situation".

Both said an increase in competition from other educational institutions was responsible for the decline. This was backed up by figures obtained by Business Day indicating the total amount of money donated to education by the corporate sector was not dropping.

UCT Foundation director Annamia van den Heever said the university was having to work much harder than in previous years to get funds from the corporate sector.

Steele said Wits received R37,8m in corporate sector funding in 1990. But the university authorities expected to get "up to 10% less than that" this year — "a matter of serious concern."

He said some university activities would be adversely affected even if funding increased but failed to keep up with inflation.

Bredenhann said RAU was aiming to raise the same amount of money from the private sector in 1991 as it had in 1990. "We are not looking for more — there won't be any more."

He said a revision of priorities among corporate sector donors was responsible for the drop.

Corporations were not giving less money, but they were giving money to different causes, including primary education, health care and housing.

Steele said if the current situation continued until the end of the year, the university would have to abandon certain activities. He would not specify what these were.

He blamed the drop in funding for Wits on a more competitive market. Other institutions were targeting the private sector with renewed vigour, he said.

Gencor spokesman Tom Ferreira said the corporation had given more than R1,5m to universities in 1991, and would increase this amount by about 10% next year.

He said Gencor had given R970 000 to technical colleges and R430 000 to technikons in 1991. Donations to all sectors would be increasing by about the same amount next year.

Gencor would spend R5,4m on bursaries in 1992 — up from R4m this year, Ferreira said.

Thousands of companies getting down to business

Star 19/11/91. (180)

Does the business of business include the business of peace? Last week the country's biggest chamber of business — the Johannesburg Chamber of Commerce and Industry — decided that it does, and committed itself to the Peace Pledge on behalf of its 5 200 member-companies. JCCI president MIKE CATO explains why.

The major interest of the Johannesburg Chamber of Commerce and Industry is the future of business — and, like it or not, the prosperity of our country depends squarely on the ability of business to create jobs and generate economic growth.

For this reason JCCI, representing 5 200 businesses, has decided to unreservedly pledge itself to The Star's peace initiative — the Peace Train.

We have done so because peace in every sector of society is not only a basic human right, but is the only base from which business can carry out its responsibility towards the future of all South Africans.

Peace will give our investors the confidence to invest in job-creating ventures. This in turn will give overseas investors the confidence to invest in and trade with our country.

Without peace and the necessary economic growth, whatever group governs the South Africa of the future will preside over an economic wasteland and an impoverished nation.

With peace, our country can become a prosperous economic giant at the centre of a sub-Saharan trading bloc.

Already there are signs from the dozens of missions we deal with that the lack of peace is causing a growing concern about doing business with us.

We face a simple choice, really. It is unrealistic of us to expect the majority of South Africans to understand the subtleties of economics and its importance for our future — but everyone understands peace. Let's start with that.

Let us make a concerted effort tc live with one another, to develop tolerance, and get on that Peace Train for a trip into a prosperous future for us all.

TECHNOLOGY

Doubts on IT's cost benefits

Reports by
MELANIE SERGEANT

THE cost benefits of information technology (IT) are being questioned the world over; more companies are asking about the real rewards reaped from spending on computers.

At an executive briefing at the Aitec South Southern Africa Computer Expo in Harare last week, Shell SA's information and computing services MD Laurie Mutch said companies feel IT costs too much and does not work.

An analysis of European multinationals over the past four years showed business growth was 5% a year and staff numbers decreased by 5% a year, but IT expenditure increased by 50% a year. The amount of processing power escalated by 30% to 40% a year on average, so it was no wonder companies raised eyebrows about returns. B/Day 21/11/91.

"Queries are even more justified against the backdrop that over the last five years unit costs for IT have dropped by some 80%."

He said that since — and perhaps because of — the PC's introduction, white collar worker productivity in the US had declined. "Reasons for this are that PCs are used to generate more irrelevant information, leading to information overload. Also, some companies use computers to automate bad administraion and other company systems. Thus they simply cement the old way of performing tasks instead of making themselves more efficient through technology."

Mutch argued that companies often expected too much from IT. "They expect IT to sort out fundamental management problems, and may spend money on useless PC terminals."

"Too often, they are taken in by computer companies selling hardware and software and which don't lay enough emphasis on the holistic approach; they may computerise one area like accounting, but forget how this integrates with the entire business operation.

"Also, IT spenders worry too much about costs and too little about spending the right amount of time implementing the systems and ensuring they reap benefits."

Steps which can be taken to ensure better cost to benefit ratios include:

- Making IT investments a business line management responsibility;
- IT requirements and resources must be developed as part of the overall business plan;
- IT investments should be screened like any other company investments; and
- IT staff must have performance appraisal tools available for examining benefits or problems.

Looking at smaller companies in Africa, delegates felt Mutch's views were sometimes inappropriate. Smaller companies are squeezed between having no professional IT staff and being at the mercy of computer vendors.

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A solution for these problems, said Computer Society of SA vice-president Chris Guy, was to seek objective advice from other users and special interest groups.

"Too many small companies are rushed into deals and seduced by technology; it's sensible to decide on systems needed before taking the plunge."

Other major discussion points at the conference included the future of the 10-year-old the MS.Dos operating system.

Marketing director of Zimbabwe-based Infotech, John Davidson, said the past year had seen an unprecedented number of mergers and alliances, as well as link-ups to develop new chip technology.

George Wells of Rhodes University's computer science department said it would be in users' interests to watch groupings, and to ensure they stick to open systems standards, because this was the best way to protect their computer investments.

Johannesburg-based Workgroup Systems MD Dana Buys told the conference that Microsoft's stated direction was for Windows at the lower end, and Windows new technology for higher-level machines. "Microsoft will probably give IBM a run for its money in the higher-end server market," he said.

Developers' kits for the new technology were shipped a month ago, and more than 7-million copies of Windows 3 have already been sold.

Business must act decisively to help shape the new SA

LAWRENCE SCHLEMMER

180 BDay 21/11/91

IN THE apartheid era, business was seldom directly penalised; rather it was constrained, regulated and its operating terrain eroded. Bewildering forms of administrative manipulation, regulation, taxation and political experimentation distorted its internal economics and its markets.

Through the labour movement it became increasingly subject to the stress of resistance politics. It steadily adapted to narrowing opportunity. It was finally subjected to the humiliation of being used for public relations purposes in P W Botha's Carlton conferences.

The present phase is somewhat of a respite. The *stated* policies of government have turned in favour of business and investment. However, even now the practice contradicts the principle. Government expenditure is still growing and few people believe that effective taxation will be meaningfully reduced.

Massive special expenditure on projects aimed at poverty alleviation, while understandable, is planned and implemented apparently without proper consideration of the effects on interest rates, inflation and entrepreneurial opportunity. The Reserve Bank often appears to be the sole bulwark against well-meaning and unplanned profligacy.

Even prominent businessmen, driven by anxiety, or perhaps scenario forecasts, propose massive socio-economic reparation without much evidence of having considered all the unintended economic effects or the effective political return in a society in which the not-so-poor are often more militant than the very poor.

Most businessmen realise their operating conditions could become much worse. The plethora of policy documents emanating from the ANC shows the way the wind is blowing. It is not so much the detailed pronouncements which are of concern. Nationalisation on any meaningful scale is far-fetched, and the detailed prescriptions will change. The real concern is the assumption that the role of government is not merely good housekeeping — it is that of architect, quantity surveyor, contractor and landlord too.

The question is whether business can do something about securing conditions for its own future well-being and simultaneously for renewed investment, growth and employment creation. Its record in SA is not reassuring.

For example, after the 1976 Soweto protests, business leaders realised that the educational system for blacks would be a source of endless woe, economic inefficiency and destabilisation. Since then, business-funded organisations have been continuously agonising over the education issue. Yet, today — 15 years later — there is still no well-founded, coherent and concerted business lobby on educational reform.

Compared with the muscular reactions in other social institutions, business is fragmented and at times limp in its reaction to events. Many of the reasons for this are obvious.

Firstly, business is an activity, not an organisation. Its reason for being is the pursuit of individual or company objectives. Companies must and do compete with each other.

Individual businessmen everywhere tend to be ideologically divided. Businessmen are social democrats, liberals of an American colour, core liberals, conservatives and reactionaries. This is why the SACP's Joe Slovo was able to write with confidence in 1988: "Use all means, including dialogue, to weaken the unity of the ruling class."

Furthermore, business — in a social context — has "no arms and legs". Its executive functions are purely internal. Outside the doors of the factory or head office, a traffic warden or a postal official has more direct public leverage than a captain of industry.

In, for example, the US, Germany, Japan or Taiwan, business has immense social and political influence. In the US the political system is responsive to public opinion, civil society and organised lobbies; in part because all operate within the same value system. In Germany the state, business and labour aspects of civil society are all drawn into a pervasive system of social contracts. In Japan and Taiwan, business leaders, politicians and top bureaucrats are linked in complex corporatist networks. In SA, as in some other parts of the Third World, business does not have this kind of access.

The treaty of Vereeniging secured what is in effect a form of "truce" between corporate capital and the Afrikaner communal political movements, after which business adapted to apartheid, to its eventual cost. Since then, however, business lobbies and financial power have never had much purchase on SA's "blueprint" politics.

For business in general, prospects in the new SA are far from reassuring. The danger is not nationalisation, the dismemberment of conglomerates, the confiscation of property or sudden, dramatic penalisation of wealth. If these steps are taken they will be largely token in nature and the adverse lessons will be very quickly manifest.

The real danger is well-meaning regulation, prescribed assets, creeping rises in taxation, lack of fiscal discipline, rhetoric which frightens off investment, insistence on affirmative action which encourages elaborate tokenism in business practices, unions using twin-track strategies (labour-bargaining combined with leverage through the political system), subsidies which drive up prices, other short-term populist measures which stimulate inflation, and a host of lesser distortions of the market. Because all of it will be well meant, and much of it supported by the media, business will once again begin to adapt to creeping constraints and narrowing opportunity.

What might business consider as a strategy? Many business leaders have been pro-active in establishing channels for organised debate between politicians and businessmen. Some of this has been useful and has produced some convergence of views.

The debate, however, must not delay a more fundamental strategy, one illustration of which has been the uncertain but promising achievements of Saccola in the manpower field. This is the development by organised business of "institutional capacity" in the socio-political and policy sphere.

This institutional "extension" of organised business should:

☐ Allow business to respond quickly and firmly, but sympathetically, to a diverse range of relevant policy prescriptions by politicians, in a way that is sufficiently telling and sophisticated to command at least some intellectual respect;

☐ Make calculations and assessments of the possible consequences and achievable effects of all the various schemes for "kickstarts", poverty alleviation, political "pacification" and the like; and

☐ Most important, however, it should take the much bandied-about phrase, "social contract" or "compact", seriously and develop the skills and the accountability to its business constituency to seek negotiation. It should seek an input in the constitutional negotiations, not at the level of the political parties but certainly in the more specialised forums that will be created. It should seek the right to have proposals referred to it for comment. This, after all, is no more than what Cosatu is attempting to achieve in its proposed economic forum.

All of this will have less than optimal leverage unless business has some independent access to political constituencies. It should, therefore, at least have its own media organs and even consider establishing, with communities, vocational adult education initiatives to improve the skills base of the population. In a very muscular political environment something along these lines is arguably what business requires to develop "arms and legs".

☐ **This is an edited version of an article in the latest edition of the SA Foundation's newsletter. Schlemmer is director of Wits University's Centre for Policy Studies.**

W Cape industrial rentals set to soar

CT 21/11/91

By MAGGIE ROWLEY
Property Editor

180

INDUSTRIAL rentals in the Western Cape are set to take off once the economy recovers and could double within the next four years, say leading brokers and portfolio managers.

Brian Pemberton, regional property manager of the Old Mutual, said for this reason the giant life office has been significantly increasing its holdings in industrial properties in the past year.

"Prices are very good at present and we are expecting rentals to take off once the economy picks up. The rentals being achieved in the Western Cape are lower than anywhere else in the country and as such allow greater room for growth," he said.

The latest review of the industrial market by Annenberg Real Estate, also forecasts a doubling in industrial rentals within the next four years.

Dudley Annenberg says that in spite of the current economic downturn countrywide, the industrial market in the Western Cape has held up well in comparison with other sectors of the property industry.

The vacancy factor remains extremely low at around 5% — about 350 000m² of industrial buildings are presently vacant.

To realise a modest return of 12% on an investment developers had to charge a minimum rental of R10/m².

"Consequently very little new construction is taking place as landlords are presently averaging between R6 and R7/m²," he said.

Other brokers said once the economy picks up the principle of supply and demand will be back in force, pushing rentals upwards.

And developers of new projects are going to seek a reasonable return on their investments, they say.

Annenberg said there were presently only three industrial townships in the greater Cape Town area which had a reasonable supply of serviced sites for sale — Sunset Industrial Park in Ottery where 34 sites ranging in size from 660m² to 2 000m² were available priced from R126/m², Blackheath Industrial area where 2 000m² sites were available from R35/m² and Monex Industrial Park at the airport where 2 100m² priced at R75/m² were available.

He said the most popular industrial township had been Montague Gardens where prices of sites had doubled from R50/m² to R100/m² in the past couple of years.

Turning to the investment market, he said there was a strong demand for prime investment properties.

Yields remained firm at between 10% and 11% nett for commercial property and between 11% and 12% for industrial property.

Strong ties with Africa urged

Sowetan 21/11/91 (180)

By JOSHUA RABOROKO

IT is of the utmost importance that South Africa strengthes its ties with the market research industry in Africa as soon as possible after sanctions have been lifted.

Local contact with this market has been limited because of political isolation, said Mr Deon Herbst, chairman of the Marketing Research Standard Authority.

Herbst, who was recently appointed as the new chairman of MRSA, is also the director of Markdata, a division of the Human Sciences Research Council.

He said: "The opening up of international ties after a period of political isolation gives MRSA the opportunity to strengthen relations with similar associtations in other countries.

"Over the years MRSA members had close liaison with sister organisations abroad on individual and company levels. As a result of this, the general standard of research in South Africa is on a par with the standards accepted internationally.

"Contact with the market research industry in Africa has been limited and permanent relations will have to be established next year."

Bond

Herbst said MRSA's other main objective for next year was to improve the image of the industry with users in market research and the general public.

"South Africa is undergoing a definite period of change. Market-research and surveys will become prominent and relevant either for business, government, communities and decision makers in general.

"MRSA will have to play an important role to promote the significance of quality information for effective decision making.

"The generation of information in the market research industry is largely dependent on the goodwill of the general public. MRSA will address the issue of professional standards during this interviewing process."

He said MRSA would also address black advancement within the industry.

"During last year MRSA voiced its concern about the shortage of qualified and experienced black people within the marketing industry.

"It identified the vital importance of adequate resources of trained black market researchers for the future. A project has been started to identify ways and means of bringing and attracting more people to this industry by providing suitable employment opportunities and setting up appropriate training for such people. Marketing of the industry at training institutions will have to receive the necessary attention.

"The industry can only position itself in the future with the basic statistics at hand. Managers within the market research industry should have statistics at hand about the environment in which to operate.

"Statistics and information, for example, on total turnover of the industry, number of operating companies, salaries of researcher/interviewers, usage of different data collection methods and the conditions of employment of permanent/contract personnel is of the utmost importance," he said.

CEs told to unite (180)

PORT Elizabeth's Midland Chamber of Industries president Achmat Mohamed called yesterday for the chief executives of major corporations to unite in countering the influence of trade unions.

Addressing the chamber's AGM, he said the time had come for business to tell government, the ANC and trade union federations they could not deliver what their constituents demanded unless business produced wealth.

B/Day 22/11/91

Green challenge faces SA traders in Europe

S/Times (Buss) 24/11/91 (180)

By CHARLENE SMITH

SOUTH African companies which have spent the past decade becoming "socially responsible" in labour terms, will also have to put on a green hat if they wish to trade with Europe 1992.

Companies will need environmental audits for their products to avoid green tax.

The European Community is rapidly adding "green" laws for traders wishing to enter the world's most prosperous trading bloc as from 1992.

In addition to the green tax — it ensures that products have been produced in a manner not damaging to the environment — there will be a tax on carbon emissions.

The carbon tax will be initially a dollar on a barrel of oil. The tax is in response to fears that the build-up of carbon dioxide in the atmosphere, largely the product of burning fossil fuels, is causing the planet to warm up — the greenhouse effect.

Ozone

The South African Government, aware of the possible problems business may encounter, is expected to follow suggestions in the recent President's Council report on A national environmental management system.

The report says SA will have to comply with international economic and environmental requirements.

They include:

- Conforming to the global environmental standards regarding ozone as set by the Montreal Protocol.
- Adhering to environmental standards set by importing countries for products exported by SA.

Legislation is expected next year to ensure greater attention by business to many environmental problem areas.

The President's Council says the Government could "encourage or force industries to adhere to internationally accepted product and environmental norms" by "legislation (compare European Economic Community legislation); incentives (financial and otherwise); information; indirect pressure through industry associations; bilateral agreements with other countries/regions".

Vary

Claire McKinnon of Environmental Solutions Unlimited, one of the largest consortiums of environmental experts in SA, says: "If companies want to break into the European Community they will find it increasingly difficult unless they have been environmentally audited. "European companies may want the product, but to save on green tax they may ask suppliers to submit to environmental audits.

"Only by an environmental audit can a company prove it is operating correctly."

Environmental audits can vary from company to company, or the purpose for which they are desired. An audit may cover only whether or not products are green.

In its widest scope, it would include everything from the siting of the factory, including its social impact on the surrounding community, to matters such as occupational health, waste disposal, pollution control, resource management, tourism and imports and exports — depending on what applies to the industry.

Daan Malan, environmental affairs chairman of the SA Chamber of Business, says companies are slowly becoming more aware of the potential threats their businesses could face, especially from the EC.

"An environmental embargo could develop and is being promoted by countries such as Germany. Environmental audits will be important."

Giam Swiegers, of auditor Deloitte Pim Goldby, says environmental audits are a fairly new concept and few SA companies have used them.

Germany and Denmark are applying constraints on imports of non-green products, or trade with companies that do not meet environmental standards.

Few

Eskom is one of the few SA companies to have been environmentally audited.

Dries Visser, Eskom's senior adviser, environmental impact management, says: "Environmental auditing may be equated to trouble shooting in a company. It shows whether policies are adequate and if they are being properly applied.

"Few companies seem to realise the future risks of not being environmentally sound. The fines involved could be a minor part of the risk.

"Although a polluter may have to pay a R6 000 fine, it may cost him R6-million to restore clean water to a stream."

The SA Nature Foundation (SANF) says in a report on environmental auditing: "Few SA directors are aware that they can be prosecuted in their personal capacities if they are found to be negligent in allowing their companies to break environmental laws."

This follows practice in the US where the average sentence for managers whose companies break environmental laws is five years with an average fine of R75 000.

Courts

Mr Visser says environmental laws don't need thousands of inspectors. "Companies have to start looking at the financial implications. The people who will ultimately prosecute will be those at the receiving end of the problem.

"Companies should have standards better than the law demands if they want to be adequately protected. It is not a matter of looking good, there can also be cost benefits through better management."

The President's Council report makes wide-ranging recommendations for punishment and prevention when environmental laws are broken. It suggests ways of making it easier for the public to approach the courts on issues of environmental interest.

SA companies, with few exceptions, are far behind world environmental reforms. They are now under powerful pressure — in trade and legislative terms — to get their house in order.

Winners on top of losers — at last

(180)

S/Times (Buss) 24/11/91.

By JULIE WALKER

INCREASES in interim earnings outweighed the falls by companies reporting results this week for the first time in months.

Of the 18 firms reporting interims, four slackened, one returned to profit and the other 13 made more than in 1990.

Southern Life's interim earnings and dividend to September rose by exactly 20%. The directors expect more of the same in the second half.

Sage Holdings, whose yearend was changed to March, reported a 6% climb in pre-tax profit in the six months to September. A smaller tax payment led to a 17% rise in earnings a share to 53,6c.

Sage says capital restructuring that might go hand in hand with rationalisation of the interests of common major shareholders of Sage and Absa will be concluded soon.

Tongaat, which bases its group earnings on half the sugar division's estimates for the current financial year plus the unaudited results of the other arms for the present half-year, lifted taxed earnings by 4%.

The sugar and starch and sweeteners divisions shaped up, the others struggled. Textiles incurred an "unacceptable" loss.

Increased imports have hurt fabric production and the Hebox factory at Hammarsdale will close.

Group sales were up 5% at R2-billion, but operating profit shed 3% to R141-million. Higher borrowings meant higher interest. But the general cut in the corporate tax rate helped Tongaat's deferred tax balance, of which a half has been brought to account together with export incentives.

The directors expect earnings to be maintained at last year's level.

Richemont's net sales revenue in the six months to September reached £1 508,7-million — 3% above last year's. An extraordinary surplus of £33,7-million arose from the disposal of its stake in TransAtlantic Holdings.

Tobacco

Lower tax helped Richemont to show a 15% improvement to £151,70 a linked unit.

Tobacco sales topped £1-billion, yielding operating profit of £180-million.

Managing director Johann Rupert reports limited evidence to suggest that the global recession has stabilised in some countries. He believes optimism in certain quarters is premature.

Mashold, Lebowa Bakeries, Coastal Clothing, Crookes, Transpaco and Bevcon all raised the bottom line and Presto incurred a much smaller loss than previously. A trebled tax bill to R1,2-million tarnished Sondor's otherwise good performance.

The quintet of preliminary results was not so hot. Santam Insurance took the honours with a strong recovery in the year to September, total pre-tax income rising by 28% to R89-million.

Also in the year to September, Dorbyl held up, but Metkor's earnings were down 27% to 21,5c a share on losses in Wispeco, Metkor Industries and write-offs at Usko.

Without Usko, Metkor's earnings would have climbed 13%. Metkor expects better things.

Nu-World struggled against cost increases and earnings slipped 17% to 11,5c in the year to September.

Mandela hits out at monopolies

S Times 24/11/91 (180)

By JOCELYN MAKER

ASPIRING black and white entrepreneurs have more to fear from the concentration of economic power in the hands of monopolies than from a future ANC government.

This was said by ANC leader Nelson Mandela yesterday when he signed a "statement of intent" to set up a national capacity for economic research and policy formulation.

"We must reserve the right to use any economic instrument to stimulate growth and effect redistribution to redress historical economic imbalances and adjustments," he said.

It was evident that the present hysteria that characterised big business and government responses to the ANC debate on economic policy was an attempt to foreclose discussion on any option the ANC might choose.

"Nationalisation is presented as an ANC policy objective when it is in fact one among many economic instruments that may be used to achieve growth through redistribution.

"It is quite clear that by politicising the issue of nationalisation, big business and the minority government are trying to instil an element of fear into the small-business community, among professionals, the informal sector and organised labour.

"The truth of the matter is that there cannot be a climate of free enterprise as long as a few conglomerates, with the assistance of the state, maintain control of almost two-thirds of the economy.

"The biggest threat to democracy, socio-economic justice and economic growth in this country is the monopoly control of a few companies over the whole economy.

"For us, state intervention will ensure equal opportunities for disadvantaged communities and groups from all sections of our society."

New SA demands new view of board accountability

B|Day 26/11/91. **JIM JONES** 180

LAST year, the Anglo group greeted Gencor's unbundling plans stonily. Derek Keys's proposals were, as one Anglo executive put it privately, "an unfriendly move". So when Anglo recently announced it was to sell holdings in Gencor and FNB, the ground in Johannesburg trembled.

Here was the flagship of SA's conglomerates, the most determined of unbundling's opponents and one of the most influential groups, converting major investments into cash.

There were good, publicly expressed reasons for the sale. The investments were not "strategic". The Gencor holding itself was the legacy of a major shift needed about 30 years ago to accommodate Afrikaner investors in a mining industry then dominated by English-speakers. Part of the funds raised by Anglo's Gencor/FNB sales are to help finance the group's participation in the Columbus stainless steel joint venture with Samancor.

Columbus is significant as it is the Anglo group's first major greenfields venture in more than a decade. Nevertheless, behind the public utterances lies a new and significant questioning of SA corporate strategy. It represents a major reconsideration of how business leaders believe this country's private sector should be structured as we move out of the era of white domination.

How does our private sector prepare itself for profitable coexistence with a future government, when that government will be preoccupied with the demands of a black majority excluded for so long by apartheid from the opportunities private enterprise offered whites?

Democratisation of business structures is needed to complement the country's political democratisation. Monolithic ownership structures with boards of directors in reality responsible to few but themselves, not even shareholders, would appear to be inappropriate. Present control structures can block business decisions from being taken easily.

Anglo inadvertently highlighted the dilemma boards face in the new SA when it took the currently conventional line that details of the Gencor/FNB sales were confidential to the house, its merchant bankers and institutions that had bought the shares. It would not, a spokesman said, disclose how much the sales had raised, even to the shareholders who are the legal owners of the company.

The Anglo board's concern for confidentiality was mild compared, say, to the obsessive secrecy endorsed by the government for decades and seized on by other boards. Secrecy has been SA's plague, sanctified as necessary in the "national interest".

Legally, company directors are responsible first and foremost to shareholders — the owners of the company. But times are changing, and attitudes, too, will need to shift if the private sector is to remain in charge of its own destiny.

Over the next few years corporate SA is likely to be faced with rising demands for corporate accountability to a broader constituency than even companies' shareholders. Labour unions are already pushing for workers to be given a greater say in the management of firms, as is common in many other countries. SA's political climate will call for greater attention to social questions by business and industry than now.

No one seriously believes the ANC or any future black-dominated government can keep its hungry constituents happy while the conglomerates and mutuals remain obviously astride the economy. There has been too much rhetoric, too many promises made by opposition leaders, for business to be able to ignore demands for redistribution. There are

KEYS

several ways of skinning a cat, and finding a realistic means of persuading voters that "redistribution" is in progress will be crucial.

Fiduciary duties imposed on directors exacerbate the private sector's difficulties. Life assurers, which discharge their responsibilities to policyholders by investing in safe equities, are increasingly criticised for not ploughing funds into greenfields ventures that create jobs or that benefit the community at large. That sort of criticism, no matter how ill-informed or politically motivated, has increasingly to be considered by long-range planners in the mahogany rows of Main Street, Bellville or Pinelands. How does one keep SA as a growing, dynamic, free enterprise economy in the face of popular demands for socialist solutions?

Socialism and nationalisation would be disastrous for this country in the coming decades. So, too, would be insensitive private-sector domination when political expediency calls for overtly populist initiatives. Opposition politicians will find it difficult to ignore the clamour from voters persuaded that nationalisation and confiscation are the simplest means of spreading wealth.

The problem might be illustrated by reference to the mutual life assurers that straddle the SA economy. Executives of the two largest regularly say that, as the assurers are mutuals, managers and boards of directors are responsible and responsive to policyholders. By extension, it is claimed, this makes them responsible and responsive to SA as a whole. After all, policyholders and pension fund members are drawn from all strata of society.

Their claims are specious. In reality, policyholders exercise little or no influence on decisions taken in the two western Cape boardrooms. Without shareholders there is little likelihood of incompetent directors being ousted. That effective security of tenure has freed the boards of some life offices to make investments that strengthen the grip of narrow sectoral interests over the commanding heights of the economy rather than investments that help create new enterprises.

Taking over Sanlam or the Old Mutual should, in theory, be easy. A couple of hundred voting policyholders bused in to the Old Mutual's annual general meeting could oust management at a stroke if the other thousands of policyholders failed, as usual, to turn up to vote. Filibuster at the meeting would help defeat or defer an unfriendly move, but broad policyholder power could be decisive.

It must be obvious to any opposition politician that nationalisation would be unnecessary if the boards of Sanlam or Old Mutual were packed with government appointees.

Could a solution to this problem be to end the assurers' mutual status, and for the mutuals to follow Southern Life's strategy of becoming an equity-based assurer? Old Mutual and Sanlam could easily create shares and distribute them free of charge to policyholders (based, perhaps, on the actuarial valuation of each policy).

Board responsibility would remain to policyholders as, it is claimed, is the case now. But there would be a subtle shift as the assurers' newly created shares were traded. The boards would then have to balance the sometimes conflicting demands of policyholders and shareholders. That, in turn, could provide good grounding in the sensitivities needed in a new SA where legal responsibilities towards employees and society as a whole could be the equal of those now directed towards policyholders or shareholders.

More to the point, the genie of nationalisation need never be released from the bottle.

The ANC, PAC and other parties likely to form part of a broadly based future government need help in devising economic strategies that will help spread wealth and opportunities to all South Africans, and that will not founder because existing economic structures are believed to be obstructions.

We will examine some possibilities in a second article tomorrow.

Creative taxes can topple pyramids and spread wealth

B/Day 27/11/91. **JIM JONES** (180)

PRAGMATISTS among the ANC's leaders are privately eager for business initiatives that can be used to defuse popular calls for nationalisation or increased state intervention in business. They are aware that state intervention could be inimical to economic growth and job-creation in SA. Unlike the Britain observed by Adam Smith during the industrial revolution, SA has little hope of developing economically despite government.

The trend in SA is towards political democratisation. We need the same in business to allow decisions to be taken as low as possible in the management or control chain. SA's pervasive pyramids tend to stifle energies. Managers of productive firms, for example, could be blocked from raising new capital by controlling shareholders several rungs up the pyramid ladder.

It is worrying that nationalisation remains on the agenda and that popularly acceptable options have not been devised by business. This past weekend, Nelson Mandela inveighed against the groups he described as "monopolies", claiming they inhibited the development of small businesses and stood in the way of economic growth.

Presumably his comments were calculated to appeal to a particular constituency. But he made the point that though nationalisation was on the ANC's agenda, it was only one of several economic options.

One option, suggested by some businessmen and strenuously opposed by others last year, was that every quoted company should increase its share capital and donate the newly created shares to an independent trust established to uplift the less privileged and financed by dividend receipts.

The suggestion was modest — share capital should be increased by a mere percentage point, but that would represent an endowment of more than R5bn based on the market capitalisation of shares on the JSE.

Opposition understandably came from people who control firms through pyramids — the effective distribution would in their case have been multiplied by the number of blocks which make up the control pyramid.

It was also argued that donating newly created shares would dilute earnings. It would, briefly. But if it provided a face-saving retreat from nationalisation demands, business confidence would soar and, with it, economic growth. Growth from expansion of the economic base could be expected to outstrip any temporary earnings dilution.

Any future government will be faced with the problem of how to raise money for necessary social and infrastructural spending without levying taxes at rates that stifle initiative or productive investment. The tax system must be designed to encourage not only investment but a greater spread of ownership of the country's resources.

The tax system can be like a rapier — a subtle means of spreading wealth and of encouraging growth and job-creation. For that it has to be used creatively.

Unproductive investment, on the other hand, should be discouraged, particularly if it is seen as a device for protecting economic power as happens with the pyramids — frowned on elsewhere but a common feature of SA's economic landscape.

Dividends and interest represent a reward for capital, and they are essential if investors are to be persuaded to put money into productive ventures. But why should dividends remain tax-exempt as they move unproductively, through Byzantine pyramid structures? Revenues generated by productive firms are taxed as they are created. Perhaps dividends should be treated in the same way in the hands of purely investment companies, and taxed.

What, it might be asked, do listed pyramids such as Pickwick, Amgold, C G Smith, Libvest, Bevcon, Avhold, Gencor Beherende or Rembrandt Controlling contribute to the productive wealth of the country? In practice they are simply post boxes for transmitting dividends paid by productive underlying investments. Typically they exist to allow control of extensive underlying assets to be maintained with comparatively small investments.

Collapsing the pyramids, as Derek Keys suggested for Gencor, would destroy no wealth. And it could free managers whose time is taken up with routine jobs in non-productive organisations to provide consultancy services to the productive underlying enterprises. To justify their existence as productive enterprises, the pyramids might consider providing management services for a competitive fee. Consultancy departments in the mining houses do that already.

Government does not need to legislate punitive measures. It would simply need to use the tax system creatively. The aim would not be to tax the incomes of investors who provide clearly productive capital — investors in companies that directly generate operating incomes — but to tax the dividends of firms that do not exist to create wealth.

Used imaginatively, the tax system could help spread wealth rapidly without confiscation. If pyramids were to be collapsed and their underlying investments distributed to their shareholders, the stock market's liquidity (and therefore its ability to raise capital) would be enhanced. Insurance companies and others that mobilise long-term savings would be treated the same as individual investors. It would be clear that partnerships or joint ventures are not the same as pyramids.

Taxing the dividends of non-productive pyramids would raise money for the state, but would not discourage entrepreneurial investment in new businesses. Nor would it discourage mergers that might be necessary to achieve economies of scale. Furthermore, if it succeeded in making investment in expansions or grassroots projects more attractive than non-productive acquisitions, it would help direct long-term contractual savings towards real growth investments.

At present, scrip shortages and exchange controls colour the thinking of investment managers. They are understandably concerned that if they sell an investment, it may be difficult buying it back at a better price later. But if pyramids or conglomerates were to be collapsed and the shares in underlying investments distributed to shareholders, equity markets would in all likelihood become less constrained.

Uncertainty over tax liabilities on investment realisations has been an important constraint on institutional investors. We need clarity on capital gains and a fair system which does not levy tax on the illusory gains which stem from inflation.

Better to sit on an investment that might be performing poorly than sell and incur a capital gains tax liability even if the sale proceeds could be invested more profitably in a growth business. Anglo could sell its Gencor and FNB shares without fear because it had held them for more than 10 years and would not face capital gains penalties. But many firms are probably continuing to sit on unattractive investments because of capital gains tax uncertainties.

The introduction of capital gains tax payable at any stage would help clear the market — investors would no longer be persuaded to hang on to shares until 10 years had passed and no tax liability would be incurred.

Apart from the purely financial benefits unbundling could bring, there are other fundamental ones. At the weekend Mandela took a swipe at the media which, he claimed, was monopolised by the state and big business. He claimed this meant it was difficult for the ANC to put its views across.

He has a case. For years the SABC has been the slavish mouthpiece of a narrowly based NP government, and its old habits die hard. But Mandela's statement was ominous. Did he intend to imply an ANC government would decide what would be printed or broadcast? Heaven help us if he did. We have gradually been moving away from benighted Afrikaner nationalist political hegemony. It would be tragic if it were to be replaced by another hegemony and not a vigorous democracy.

The SABC's reputation for partiality is justly deserved. Sadly, though, a vigorous independent mainstream Press is often portrayed as the tool of its controlling shareholders.

In the '70s some independent parts had to be put out of the sneaky reach of a government intolerant of criticism. Pre-empting a repeat performance could again be necessary.

There have, for example, recently been suggestions that shareholdings in Times Media or Argus should be sold to a foreign media mogul. The idea was foreign ownership would deter politicians threatening nationalisation. More sensible in the new SA might be an arrangement in which ownership of the newspaper companies was spread widely and employees or an employee trust given a voice in their management.

The Press is SA in microcosm and the debate over its future management is a reflection of our larger economic debate. If we are successfully to navigate the next difficult years, we need to devise strategies that will devolve economic and political power. A vigorous economy and democracy are inseparable.

Weak rand and import levies push up costs

B/Day 27/11/91 (180)

PLANT valuations are increasingly common as local industries become capital intensive.

Property Partnership partner Dick Chapman says: "The devaluation of the rand and the imposition of import levies has increased the cost of capital equipment.

"Even industrialists who are not becoming more sophisticated are being forced to invest a larger proportion of their holdings in equipment."

DICK CHAPMAN

Increasing

This trend is increasing the need for valuations for insurance purposes and for management and shareholder records.

At the same time, the pressure of a weak economy has forced many businessmen to borrow up to the hilt on their property holdings, and they are looking at notarial bonds on plant.

There are relatively few plant valuers operating in South Africa and these tend to have a broad foundation of general knowledge.

"Plant valuers in Europe or the US work with a large enough industrial base to be able to focus on specific industries, but in SA that isn't possible.

"In SA, plant valuers need to be able to grasp the essence of an industry quickly and relate it to the economy as a whole to be able to make an accurate assessment of changing plant values.

"For example, no matter how expensive a piece of plant may be, a depressed market for the product it is used to manufacture will depress the value of the plant.

"It is also necessary to have an understanding of technological developments within the industry to determine whether a piece of plant is or could shortly become obsolete."

Local plant valuers take a wide range of factors into account when determining the market value of a machine.

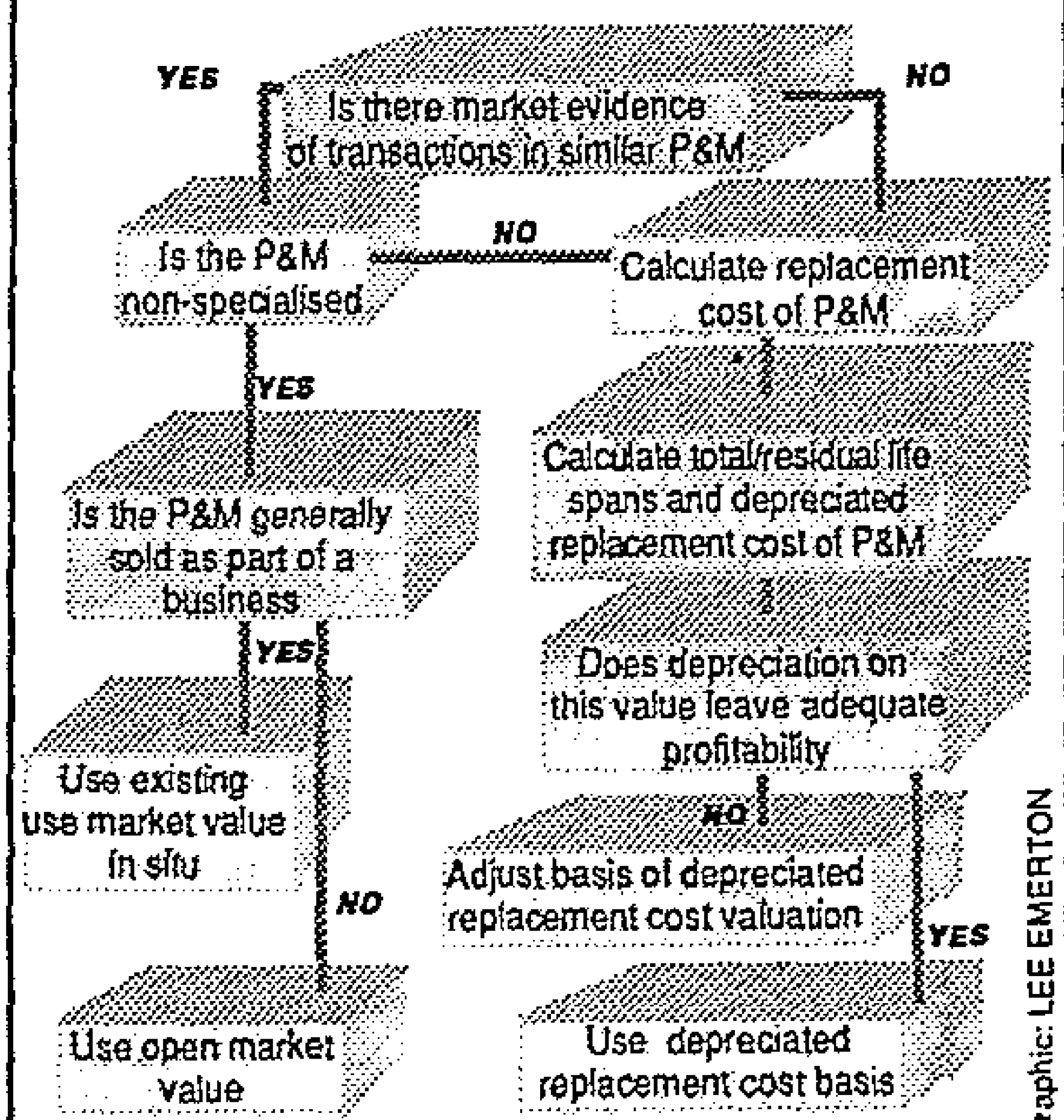
In most cases, a resale market exists and replacement value can readily be determined, but the valuer's expertise is stretched to the limit when he has to determine the value of an unusual or custom-designed unit.

Specialised

"If the plant is of such a specialised nature that there is no evidence of a second-hand replacement being available we would value it in terms of net current replacement cost.

"In other words, we determine what the new cost would be and then depreciate this on the basis of age, obsolescence, wear and tear and other factors," he says.

Arriving at an accounting valuation of plant and machinery



Graphic: LEE EMERTON

BMF to compile 'support' list

LINDA ENSOR 180

CAPE TOWN — Companies which provided a supportive environment for black advancement would be identified and their names provided to Black Management Forum (BMF) members, the new Western Cape regional chairman Humphrey Khoza said at a BMF news conference yesterday. BDay 29/11/91.

The regional organisation would also place an emphasis on the training needs of its manager members.

Khoza said practical strategies had been devised to achieve black economic empowerment.

He said the country was facing a daunting task in terms of skills and management shortages. "It is irresponsible to fold arms and let developments take their own shape," he said.

Assumptions important in corporate culture

CORPORATE culture is a glue which holds together diverse people in a coherent way through the basic assumptions prevailing in an organisation.

Assumptions are important because they will be built into the style of management, structures and systems in an organisation, says Deloitte Pim Goldby Management Consultants strategy group's Evan Dold.

Different assumptions in the case of merging organisations are likely to lead to clashes and conflict.

This is a key thread running through research conducted by consulting firm Arthur D Little in the US and Europe on a range of mergers and acquisitions over a five-year period.

Dold says the findings can be crystallised in the statement that more mergers fail for neglecting to manage the culture implications than any other reason.

"These findings fly in the face of one of the most common arguments proposed for merger integration: to realise synergy of resources, markets, technologies or people.

"In reality, a merger process can be compared to the analogy of an iceberg. Culture represents the four fifths of an organisation which lie beneath the surface.

"Merging two cultures is like merging two icebergs. If it is done without understanding what lies beneath the surface in terms of attitudes and beliefs, collision is inevitable."

Dold says managing cultural integration can be daunting, but there is a broad process which can be applied to this task.

First, measure the separate cultures, decide which culture is wanted and build these assumptions into the things done in the organisation. (180)

This involves the way people are managed, their performance measured and rewarded and training and development.

To engender a feeling of belonging to the new organisation, the involvement of people throughout the structure is essential.

Exploiting one of the world's last outp...

B Day 27/11/91

EXCITING opportunities created by the normalisation of South Africa's situation internationally and the creation of a European free-trade zone next year will favour a revival in mergers and acquisitions in this country.

Senbank senior GM Estienne du Toit says the last flurry of merger and acquisition activity was brought about by disinvestment and poor economic performance.

"Now it's a new ball game and many overseas companies are investigating opportunities in southern African markets.

"Re-investment, the lifting of sanctions and the impact of the Europe 1992 factor on world markets will prompt some companies to consider repositioning themselves by merger or growth through acquisition," says Du Toit.

Merchant and corporate bankers are in for a busy time as the regional dominance factor looms larger in the minds of SA industrialists, whether they are gearing up for sharper competition from abroad or positioning themselves as targets for acquisition by multinationals.

"Many overseas companies have told us they see Africa as one of the last great unexploited markets and SA as the gateway to Africa," Du Toit says.

"They can get a foothold in Africa by taking over an SA company or through building alliances involving a strategic stake in a local company."

Du Toit says SA companies must be re... meet the challenge ... a European free-trade zone which will favour consolidation and heightened competitiveness.

To remain competitive, SA companies may have to achieve economies of scale through merging with rivals or taking them over.

"SA companies are also looking at teaming up with overseas conglomerates to catch up on technology developments they missed out on during the sanctions era," Du Toit says.

Major changes envisaged in company law

(180)

STAR 29/11/91

More equal treatment of public and private companies is envisaged in the proposals of the Standing Advisory Committee on Company Law, which were reviewed at a symposium of the Centre for Business Law at the University of the Orange Free State in Bloemfontein yesterday.

The proposals include the removal of the distinction with regard to the submission and disclosure of annual financial state ments.

A public company will still have to distribute the annual financial statements and interim reports within three months after the end of its financial year to its members, but will no longer be required to submit these documents to the Registrar.

These documents will have to be available for public inspection at the registered office of the company.

Provided all the members agree in writing, it will no longer be necessary for a public com pany to issue interim reports.

There will be provision for appropriate penalties where financial statements are not made available as required by the Act — a fine not exceeding R100 a day for private companies and R400 for public companies, for every day the contravention continues.

Also proposed is the removal of the distinctions on maximum and minimum membership. This also involves the removal of the provisions on the different number of people required for incorporation of a private or public company and to sign the memo randum of association.

Only one person will be required to sign the memorandum of association and incorporation of a public company, instead of the present minimum requirement of seven. A public company will be able to operate with one member only, without that member incurring personal liability for company debts.

The present prescribed minimum of two directors will be lowered to one, as in the case of a private company.

Debt liability

It will be specifically provided in section 53(b) that a public company, as in the case of a private company, may provide in its memorandum of association for joint and several liability of its directors for the debts of the company.

Mr Justice R J Goldstone, Judge of Appeal and vice-chairman of the Standing Committee, said a public company will have to state expressly in its memorandum of association that it is a public company. In future this type of company will not be allowed to limit the transferability of its shares.

Private companies will still not be allowed to offer their shares to the public. The memorandum of association will have to state expressly that the company is a private company. "Proprietary Limited" will be retained as the last two words in the name of a private company.

A private company will no longer be required to restrict the right to transfer its shares, although it will retain an option to do so. A public company will now be prohibited from limiting the transferability of its shares.

An extremely important consequence for the private company will be that it will now have to disclose its annual financial statements. The statements will have to be available for public inspection at the registered office of the company from the date on which copies of the statements are distributed to its members.

This will have to be effected within nine months from the end of the financial year. The maximum period is much longer than the three months prescribed for a public company.

A private company will also be required to furnish its members with provisional annual financial statements and interim reports, but may be exempted from this requirement by a suitable provision in its articles of association.

The minimum membership of a private company will remain one. An important change is that the present prescribed maximum membership for a private company will be abolished. Like a public company, a private company will now also be able to have an unlimited number of members, instead of the present limit of 50.

A private company will still need to have at least one director, and will retain the option in terms of section 53(b) to provide in its memorandum of association for the joint and several liability of its directors for the debts of the company.

Quorums

The same quorum requirements for general meetings will apply to private and public companies. The private company will still be allowed to load voting rights.

A new provision for private companies is that a motion for the appointment of two or more persons as directors of the company may be moved at a general meeting, if the company is so authorised in its articles of association.

Mr Justice Goldstone said that the proposals retain certain limited privileges and exemptions for private companies. But the traditional most important privilege of a private company not to disclose its financial statements will be abolished, while the obligations of public companies in this respect will be relaxed to a certain extent.— Sapa.

Pyramid companies play central role in wealth creation

B/Day 29/11/91

JOS GERSON

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JIM JONES's call for "creative taxes (that) can topple the pyramids" (Business Day, November 26 and 27) is motivated by two very different arguments.

The first of these concerns the efficiency of the existing structure of corporate control and ownership in SA. "What", he asks, "do listed pyramids such as Pickwick, Amgold, C G Smith, Libvest, Bevcon, Avhold, Gencor, Beherende or Rembrandt Controlling contribute to the productive wealth of the country?"

My colleagues and I have spent two years researching precisely this question. Using data for 288 JSE industrial companies, we obtained results that fly in the face of the conventional wisdom so prevalent in Britain and the US. The pyramids (serving as substitutes for non-voting shares) enable a small number of very large controlling shareholders to play an extremely useful role as the proprietors, monitors and guardians of the country's principal firms.

This is reflected in the 45% premium to be found in the price to earnings ratios of operating companies controlled by the large dominant shareholders. That fact alone suggests the much-trumpeted discount to net asset value of the holding companies may be no discount after all: it is a discount relative to each subsidiary which stands at a premium. The premium is explained by the lower risk entailed in investing in such firms and by the much faster growth in earnings per share associated with industrial companies controlled by the dominant groups.

The findings suggest that minority shareholders actually benefit from the existing structure, perhaps, paradoxically, because of their effective disenfranchisement. How so?

The presence of powerful proprietors, be they Oppenheimers, Ruperts or impersonal institutions like Old Mutual, which have succeeded (with allies) in retaining an absolute majority of shareholders' votes, ensures that managers who step out of line can readily be replaced. With a very high percentage of their wealth committed in the form of controlling equity blocks, these large shareholders take their reputations and their tasks seriously. If a subsidiary runs into trouble, they very rarely allow it to fail, expenses notwithstanding.

Many an entrepreneur may dream of controlling several firms, each with a tiny fraction of its equity and all are free to offer shares in holding companies. But in most cases investors will not bite. Only in the case of exceptional performers (like Anton Rupert and Donald Gordon) will they subscribe at prices that make the whole exercise worthwhile. Since wealth is one of the obvious signals of a controller's reputation, our most significant econometric finding was that the wealthier the controlling shareholder, the smaller was his fraction of the underlying equity in each of his operating companies, his level of voting power being constant at an absolute majority.

Is it not true that the entire corporate structure has evolved from acts between consenting adults? The notion of imposing a "shareholder democracy" is absurd: the relationship between shareholders is contractual, not ideological.

SA's system of corporate governance contrasts sharply with those of the UK and the US, where adherence to one-share-one-vote transforms the diffuse distribution of shareholdings in large firms directly into diffuse voting power. Each shareholder then has too little say to bother. Punting becomes the name of the game. Doubtful shareholders sell their shares instead of using their votes to put matters right.

☐ RUPERT

Who benefits? Certainly not the minorities, only the incumbent managers and perhaps the stockbrokers. In the ensuing power vacuum, managers become a law unto themselves, fearing only the dreaded takeover, which with golden handshakes is scarcely the best solution. Jones is quite right to be concerned about the accountability of directors to shareholders (and perhaps even a wider public) but he is wrong to think that dismantling the pyramids is the way to obtain it. The opposite is true.

Our corporate structure has much in common with those of many European countries — Belgium, Switzerland, Denmark, Finland and, above all, Sweden where the Wallenbergs, through pyramids and non-voting shares, are reputed to control about 40% of the Stockholm Bourse. Yet the family did not obstruct Sweden's experiment in social democracy.

These systems also have much in common with those of the Netherlands, Germany and Japan where financial institutions (such as the Deutsche Bank), rather than families, dominate the large industrial companies. The task is to get some large and overarching group other than management to play the role of proprietor, trustee and "investor of last resort". Whether or not pyramids and other specific devices are used to that end is immaterial.

Lest the reader think these arguments are ideologically tainted, the Massachussetts Institute of Technology's Lester Thurow — that prominent advocate of an industrial policy about which US Democrats so often enthuse — shares our views. He and Harvard's Bradford de Long have studied the role of the great investment bankers, like J P Morgan, who between them totally dominated US industry before the First World War. Their power was destroyed by legislation in the '30s solely to appease the populists who demanded a scapegoat for the pain of the great depression. (Are we about to shoot the pianist to atone for the sins of apartheid?) De Long suggests these investment bankers added about 30% to share values and may have been responsible in part for the US's once fantastic growth rates.

Emasculation of the old investment bankers and other related policies, including the US's antitrust legacy, have been a disaster. Thurow's message is: America has been trying to run capitalism without real capitalists. Forget about monopolies. In particular, let's have more proprietors and fewer punters among the shareholders. Let's do nothing to inhibit the power of the large financial institutions over industry.

Jones's other distinct argument is that the unbundling of industry may be necessary, if only as a symbolic gesture. The answer to that is symbolic palliatives will be seen for what they are. They will fail to impress or to appease. The ANC must be made to understand that collapsing the pyramids will do nothing, in itself, to alter the existing distribution of wealth. It will merely empower the management. One or two companies, like Gencor, may increase in value. The rest will lose out and so will the economy.

Nelson Mandela does not understand these issues. Why should he? There are very few businessmen or academics who do, because research in this area is very new and embryonic. But it is growing rapidly.

We therefore need a moratorium on restructuring to save us from stupid blunders. In the meantime there will be much room for mischief because, unlike the nationalisation issue, calls for the panacea of abolishing pyramids will receive a sympathetic hearing in the UK, US and among elements of the local business community too.

☐ Gerson is a consultant economist to Davis Borkum Hare & Co and Smith New Court Securities. The research project referred to was undertaken in collaboration with professors Brian Kantor and Graham Barr. Financial assistance was received from the Anglo/De Beers Chairman's Fund.

Bad times ahead

MONEY TALK

STUDIES conducted by the South African Chamber of Business (Sacob) contain bad news for those of us hoping the lifting of sanctions will herald an era of prosperity in the country.

The studies show that South Africa's manufacturing industry has become so inefficient that our products cost up to 25 percent more than comparable products from competitors elsewhere in the world.

There are numerous reasons for this, but a key element is our low productivity, or, as one analyst put it recently, the preoccupation of the average South African worker with getting more money for less work.

However, a Sacob report says there are several other factors that will have to be addressed to make South African products competitive abroad. These include:

- The high inflation rate
- High interest rates
- High capital costs
- High tax rates

C/Press 1/9/91

The scale of South Africa's price disadvantage has been calculated by a team under the leadership of Sacob's industrial policy committee chairman Paul Hatty, and economist Keith Lockwood.

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They concluded that on average the selling price of locally manufactured products is about 15 percent higher than the average price for similar products obtainable from industrial nations around the world. To this must be added the higher transportation costs, because South Africa is far from the big world markets. This means that our prices must be loaded with at least an additional 10 percent.

Hatty warns that local businessmen and politicians seem to grossly underestimate the intensity of competition on world markets.

Our present dilemma reminds one to some extent of the position of the British motor vehicle industry about three decades ago. While management and trade unions were locked in bitter struggles on how to divide the cake, other manufacturers, mainly the Japanese and Germans, quietly moved in to fill the vacuum created by shortages of spares and components which were caused by the endless strikes in Britain.

South African manufacturers and the labour movement must realise that we are living in a tough and competitive world. It is in the interest of both parties that a long, hard look is taken at our manufacturing sector.