MANUFACTURING — GENERAL

1990

SEPT. — ~~OCT.~~ DEC.

Star 1/9/90

Jobless Afrikaners helped out

180

ADA STUIJT

A HALF-DOZEN businessmen responded to last week's article in the Saturday Star which exposed the battle for survival by thousands of impoverished, jobless Afrikaners in the Pretoria—Witwatersrand region.

Managing directors of companies, including a major plastics manufacturer, a carpenter and a clothing manufacturer, showed keen interest in given impoverished Afrikaners fulltime jobs.

Another six individual readers responded with offers of temporary gardening or house-keeping jobs for men and women.

And one manufacturer urgently required 20 men to temporarily take the place of his striking black employees.

Kleintjie Pereira of the non-profit welfare programme, "Werk and Oorleef", said all such job offers were welcomed and her organisation was happy to have heard from businessmen.

She said many men and women were still out there, without hope and often without food or shelter, and she hoped that companies and individuals with job opportunities would continue to contact the programme in future.

"Such job offers, even if they fail to materialise into permanent jobs, were more important than most people realised as it gave these people a spark of hope," she said.

"Many of the women, besides having housekeeping abilities, are also well-trained cashiers who often are asked to work during strikes but can't get full-time jobs because these are normally filled by blacks.

"And the men will do any kind of job, they often are excellent artisans who simply require some brief job training to adjust to specific tasks.

"Moreover, our people don't strike, they are too keen to work, to keep themselves and their children."

The market is littered with the walking wounded

Star 1/9/90

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Inside Out

ANN CROTTY

SOME interesting share dealing on the market this week although the underlying level of activity remained fairly dull with nobody prepared to take a firm view on gold, the finrand or De Beers.

And it was another week of some really awful company results mixed in with a sprinkling of excellent performances. But with Mr Stals (who reckons you've got to be a sadist to be a Reserve Bank Governor) seemingly determined to reduce inflation it is inevitable that in the months ahead, the walking wounded will far outnumber the able-bodied corporates.

So not much direction or hope for confused investors.

Myles was told that the reason institutions aren't buying right now is cos prices are too low — apparently they prefer to wait until there's a mad rush into the market and prices are pushed to more expensive levels.

Titaco featured on the list of the week's major price movers — up 15c to 85c. There wasn't much volume but Myles reckons that this is yet another example of how issuing a cautionary can improve a share's rating. He says there's been no good news about the company, most of the talk refers to cash constraints and the possibility of a change of control — not exactly bullish stuff.

Last week's cautionary issued by Martin Jonker Holdings is apparently to do with a small acquisition. Myles couldn't be more specific except to stress there was no change of control.

Acquisition

Buildcor's cautionary refers to the acquisition of part of PG Bison — a company that is controlled by the PG Group with Mondi and Afcol also having a stake.

No news on the Drop Inn cautionary.

Myles heard some rumours that the Namsea cautionary could involve a change of control at about 550c a share. But he couldn't get any reliable gen except that an announcement is likely to be made sometime next week.

Difficult to see who could be buying this Barlows' subsidiary (held via Oceana). The 550c is well up on net asset value but looks very weak against the 12 month share price high of 900c.

There was very heavy volume in Farm-Ag during the week with most of the trading accounted for by one or two book-overs mid-week. The share doesn't normally attract much attention and Myles was unable to track down any gen but is trying . . .

Digoco, which had a 4 for 1 share consolidation a few weeks back when the share was around 5c, is now looking at a share price spread of 5c-10c. Myles thought that even this level seems fairly generous.

With the weak institutional holder now completely sold out of Rusfurn, that share price seems better able to respond to some strains of positive sentiment — it was up to 140c this week.

Well supported

On a sortof related matter, the Tradegro share price seems to have established a bottom level of 120c which is reasonably well supported by the valuation of its listed subsidiaries. This week's grim results didn't move it below that level.

But there's growing talk in the market of the need to break the group into more manageable units. Chief executive Donald Masson, although disappointed by the financial '90 performance, doesn't seem to be entertaining these sort of thoughts.

And his views on the departure of Rusfurn? "Miss the team, miss the earnings, but don't miss the debt."

Myles heard some talk that the Registrar of Financial Institutions is not all together happy with the JSE's plans to introduce a R30 basic charge on broking transactions. This minimum charge is to be introduced some time in September.

Myles reckons that a R30 basic charge is unlikely to get the man in the street enthused about the delights of capitalism and share ownership. And what happens if Iscor workers decide they want to sell their not-so-great Iscor investment and are told they'll have to pay R30 for the privilege?

But as the Registrar has two representatives on the JSE Committee, if there had been any serious reservations on his part they should have been voiced some time ago.

Partial tax method helps raise attributable earnings

BDay 3/9/90

GILLIAN HAYNE

THE recent change by several listed companies from the comprehensive method of deferring taxation to the partial method has been responsible for softening many bad results and inflating the good ones.

Companies which have implemented the partial method of taxation have received the short term benefits of posting attributable earnings higher than would have been achieved under the comprehensive method, analysts say.

For example, this week Consol posted a 48% increase in attributable earnings, whereas without the benefit of the change to the partial method, earnings would have increased by only 25,5%.

Looking at cement company Blue Circle's results for the year ended December 1989, an analyst said earnings a share were 94,3c higher than if the taxation policy had not changed. This computed to an increase in earnings a share of 7,9% compared with 3,5% if the the comprehensive method had been used.

Under the comprehensive method, companies have to make provision for timing difference deductions which could be reversed — that is become payable — in the future, and found their comprehensive liability continually increasing.

The attraction of the partial method, analysts say, is that companies no longer have to make provision for timing differences which they believe will never be reversed.

The result is a decrease in the liability figure posted on the balance sheet, which then computes to an increase in attributable earnings. Some analysts feared the change would lead to investor confusion as many people do not take cognisance of the effect of accounting policy changes.

Forecasts

Deloitte Pim Goldby partner Pat Smit preferred to concentrate on the potential problems for companies using the partial deferred tax method.

"In a volatile economy and an environment where tax law is prone to change at short notice, forecasting future tax liabilities is difficult.

"The partial method of deferred taxation depends on reasonably reliable forecasts on timing differences. SA is prone to a boom or bust economy and companies could find themselves facing reversing timing differences which they did not expect. It could result in companies having to charge the tax against current income rather than taking it out of liability provisions."

Ernst & Young, in its magazine In Touch, warned against declaring increased dividends after changing to the partial basis.

"Companies reporting higher earnings because they have changed to the partial basis should be aware of the fact that the higher earnings are not normally represented by increased cash resources available for dividend," it said.

Thus companies who have a set dividend cover policy should be careful of increasing the dividend if the cash resources are not available.

The difficulty of comparing companies using different tax methods has worried analysts. However, one specialist said the key was that despite the move to the partial method, companies were not absolved from maintaining records on the comprehensive basis because if there was a reversal in the future they would still need all the calculations.

However, they all agreed that the comprehensive basis of deferred taxation was the more prudent method.

Flood of black industrialists anticipated

Bloem 3/9/90

THEO RAWANA

BLACK business organisation Nafcoc has established an industrial wing, the National Industrial Chamber (NIC), to prepare for the expected flood of blacks into SA's industrial sector.

NIC, which will be launched in Johannesburg on October 9, will be an independent chamber.

It will have its own administrative secretariat and will maintain its own finances, a Nafcoc statement says.

Members of the Nafcoc's dissolved industrial committee, which initiated industrial conferences and other services for manufacturers, have formed a steering committee for the launch. (180)

Steering committee spokesman Joe Mogodi says among NIC objectives are:

☐ To facilitate and negotiate for better deals on the purchase of raw materials by industrialists; and

☐ To be of service to the emerging industrialists by providing information and facilitating consultations, seminars and workshops;

More small firms failing as recession takes toll

GERALD REILLY (180)

PRETORIA — The recession is squeezing the life out of a growing number of companies and close corporations, says Information Trust Corporation (ITC) chairman Paul Edwards. B/Day 3/9/90

At the weekend he said the number of companies and close corporations being liquidated had increased dramatically in the first half of the year compared with January to June last year.

In the first six months of this year, 916 companies and close corporations were liquidated compared with 671 last year — an increase of 37%.

June's figure of 195 liquidations was the highest monthly figure since July 1987. The economy, Edwards said, was unquestionably in recession. This was borne out by the negative growth over the last three quarters.

Some industrial sectors were being hit harder than others but generally profits were under severe pressure and cash flow problems were crippling other areas.

The rate of liquidations, Edwards said, was likely to continue to rise over the next 12 months. He could not see an upturn in the economy before mid-1991.

It was sad, he said, to see businesses with full order books fail. However, unless money from sales found its way into the bank, businesses were at risk.

Import tariffs are too high say foreign businessmen

(180)

LESLEY LAMBERT

CAPE TOWN — Visiting foreign businessmen have warned that if SA companies are to compete internationally, local import tariffs will have to be reduced in line with the liberalisation of international trade policies.

The Cape Town Chamber of Commerce, which received business groups from Taiwan, Singapore and Hungary last week, reports that while the visitors were interested in doing more business with SA, they all stressed that the country faced increasingly tough competition in foreign markets.

They also warned that SA industries would be priced out of world markets and that potential foreign investors would turn to other countries if domestic wage increases were not matched by higher productivity.

To remain competitive, many foreign countries were in the process of liberalising their trade policies — a move aimed at lowering cost structures and enabling industries with a comparative advantage to compete effectively on international markets.

Hungary had dropped all its protective tariffs and was offering free entry for imported goods, while Taiwan was accelerating its programme to decontrol imports and open its markets to imported goods.

By the end of last year, 97% of all Taiwanese imports had been decontrolled and the effective rate of tariff protection had been cut from 14,4% in 1971 to 4,7% last year.

In its latest news bulletin, the chamber said it hoped an investigation by the Industrial Development Corporation into SA's tariff structure and protective policy concluded that the country needed to remove the remaining vestiges of import control and to lower tariff levels across the board.

B10/4/9/90

Queries

The Western Cape has had its fair share of the increasing interest shown by foreign industrialists and businessmen who are sizing up SA's future potential as an alternative industrial base.

Both the Cape chamber and Wesgro, an organisation established to encourage economic growth in the Western Cape, report extraordinary growth in the number of queries and offers of trade opportunities by visiting foreign investors.

Five firms go gold with NPI awards

(180) EDWIN UNDERWOOD

THE National Productivity Institute (NPI) last night awarded gold medals to five SA companies which have made important contributions to the creation and sharing of wealth in SA.

They were Eskom's Koeberg nuclear power station, Rembrandt-controlled HL & H Mining Timber, Sabax's critical health care manufacturing division, Sappi's Ngodwana nursery and Iscor's Sishen mine. BDay 4/9/90

Ten silver awards were presented to: pipe manufacturer Bartons; Railnet's Bloemfontein division; Iscor's Pretoria steelworks; Busaf's sales division; Eskom's distribution and marketing division; Concor Technicrete; the Pennells Group; Transnet's Transnet-Transtel division in northern Natal; Barlows Appliance Company's Kew factory; and the SADF's 61 Base Workshop which repairs and rebuilds all SA army vehicles and equipment.

There were 14 bronze award winners. Speaking at the awards ceremony last night, Manpower Minister Eli Louw said the political situation had been the main reason for unacceptable economic performance.

Louw said wages and salaries had increased by an average of 25% a person over the last year while output had not improved all.

He warned against excessive demands within the labour market, and growing labour unrest causing rising unemployment, lack of investment and poor returns on capital.

● See Page 3

Risks for corporate sponsors

(180) B/Day 5/9/90

GILLIAN HAYNE

FUNDING of corporate social responsibility programmes is a hazardous and high-risk affair, FSA-Contact's community affairs division managing executive Mandla Tisani says.

Major corporations sponsoring community projects have suffered embarrassment because of the failure of programmes — either through misunderstanding needs and views or due to the lack of management and training skills necessary to carry the project through.

About R200m was spent directly or indirectly on social responsibility programmes in 1989. A spokesman at FSA-Contact believed much more was being set aside in 1990.

The community affairs division was formed by FSA-Contact to help minimise the risks for both funders and community project groups by matching specific needs to corporate images.

"We try to match up the business objectives of the corporations with the funding needs of the community groups and ensure that the skills needs in the community groups are addressed and incorporated into the funding venture," Tisani said.

An education programme at the Bophelo Impilo school in Johannesburg is one such project. The school is being used as a pilot study to test the effectiveness of an SA-designed programme — adapted to the learning patterns of the Third World — to help overcome illiteracy.

"This is in keeping with the need to provide mass education strategies which can help overcome the present facilities and teacher shortage," Tisani said.

"My main function is to get communities to take the initiative so they do not become dependent on the division. I only structure proposals and then leave the parties to manage the projects on their own."

Company tax may be cut

B/Day 6/9/90

GRETA STEYN

GOVERNMENT was examining the possibility of reducing company tax rates as part of a programme of structural change, Deputy Finance Minister Org Marais said this week.

Addressing West German businessmen in Munich, Marais said SA's medium to longer term economic future lay in industrial development. His speech provided a broad outline of government's programme to restructure the economy.

The architect of the plan, Administration and Economic Co-Ordination Minister Wim de Villiers, is adding the finishing touches before the full package is unveiled in about a month.

180

Marais said the manufacturing industry offered the best opportunity for job creation. The industrial policy of import replacement had not provided the impetus needed for employment growth. In the period 1980 to 1988 the non-agricultural sector contributed to only 422 000 additional formal job opportunities. The lack of focus on export markets in the 1980s contributed to economic growth in the manufacturing sector falling to an average low

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Company tax

B/Day 6/9/90

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of 0,6%.

"The SA government has drawn up an action plan which is aimed at stimulating manufacturers to enter the export markets as well as encouraging existing exporters to expand their markets."

Forming part of this plan was the new export incentive scheme and the Industrial Development Corporation's soft loans to manufacturers working multi-shifts.

"This should boost productivity and provide more jobs. A recent SA survey revealed that the country's productive capacity stood idle for up to 16 hours a day."

He reiterated government's wish to do away with protection against imports. Import tariffs had distorted the price structure in the manufacturing sector.

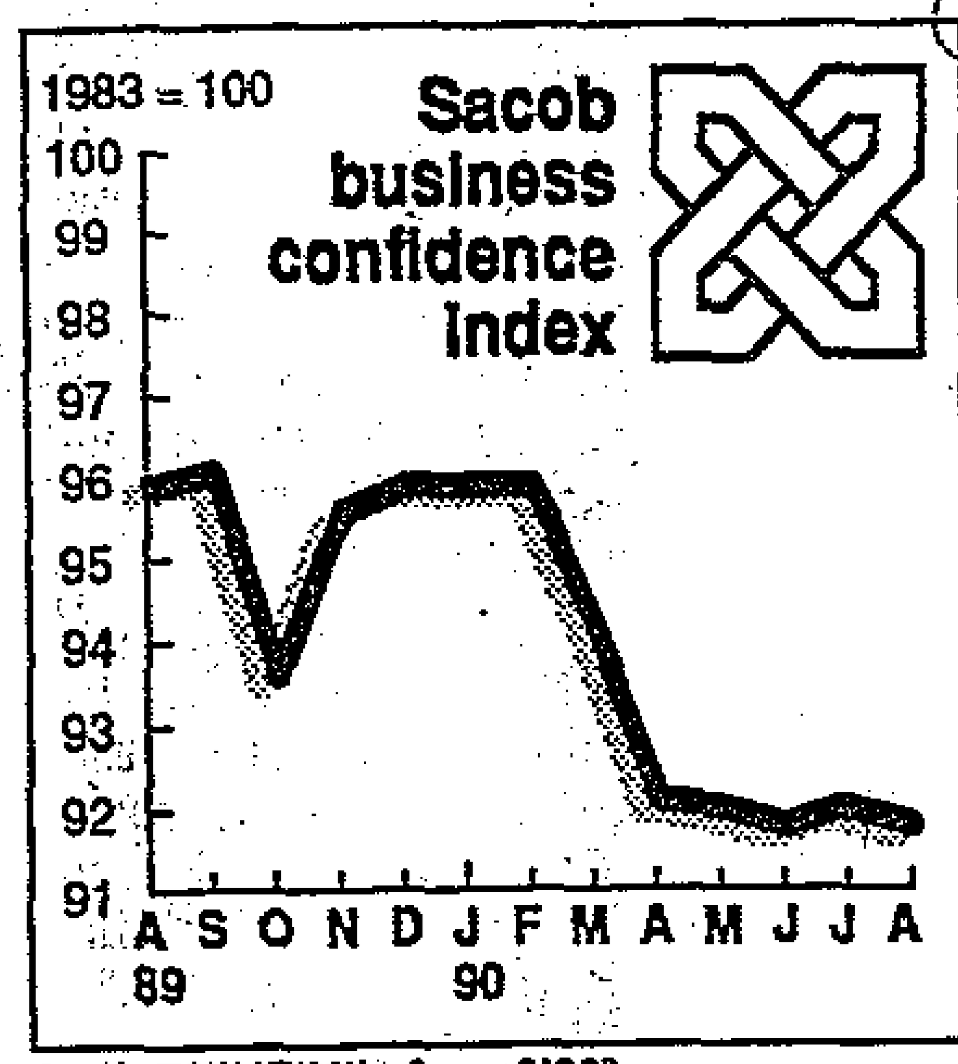
The programme of restructuring the economy was also aimed at increasing the majority of South Africans' participation in the mainstream of the economy.

Sacob backs reduction in rates

SYLVIA DU PLESSIS

THERE was a strong case to be made for a reduction in interest rates before the end of the year if present economic trends continued, SA Chamber of Business (Sacob) director-general Raymond Parsons said yesterday. B Day 7/9/90

(180)



Graphic: FIONA KRISCH Source: SACOB

This would be one of the steps taken to prepare the economy for the next upturn, he told a media conference on the release of the chamber's latest business and industrial confidence indices (BCI).

Parsons said the "overall picture" suggested business conditions had worsened as the downswing continued, with cost increases, racial unrest, consumer confidence declines and borrowing costs levels all affecting profits.

Evidence of a deepening recession could "not be ignored, and as a result, the timing of any change in the current monetary stance will be of primary importance".

Economic trends here and abroad, heightened township violence and the Gulf crisis sapped 0,2 points from Sacob's BCI

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Sacob

B Day 7/9/90

(180)

☐ From Page 1

last month to leave it at 91,8 — the same as in June and its lowest level since February 1987.

"On the positive side SA is making progress, albeit slow, in reducing inflation and gradually rebuilding its net reserves. Interest rates are likely to begin declining before the end of the year and the next economic upturn will probably occur in the second half of 1991," he said.

But if oil prices remained at current levels "for some time", growth prospects in SA's major trading partners would decline and have an impact on exports and import costs would rise.

Sacob's index of manufacturing activity reflected a slight recovery to 106 from 98 in the expectations of orders received in August, but Sacob economist Keith Lockwood said activity in the sector was historically higher in August, when Christmas orders were placed, than in July.

FM 7/9/90 (180)

EAST BLOC TRADE

SA ENTERS THE GLASNOST DOOR

Just a few years ago the Soviet Union was still SA's most sworn enemy. Now the trade and investment doors between the two are opening so wide that SA could soon have formal trade representation in Moscow.

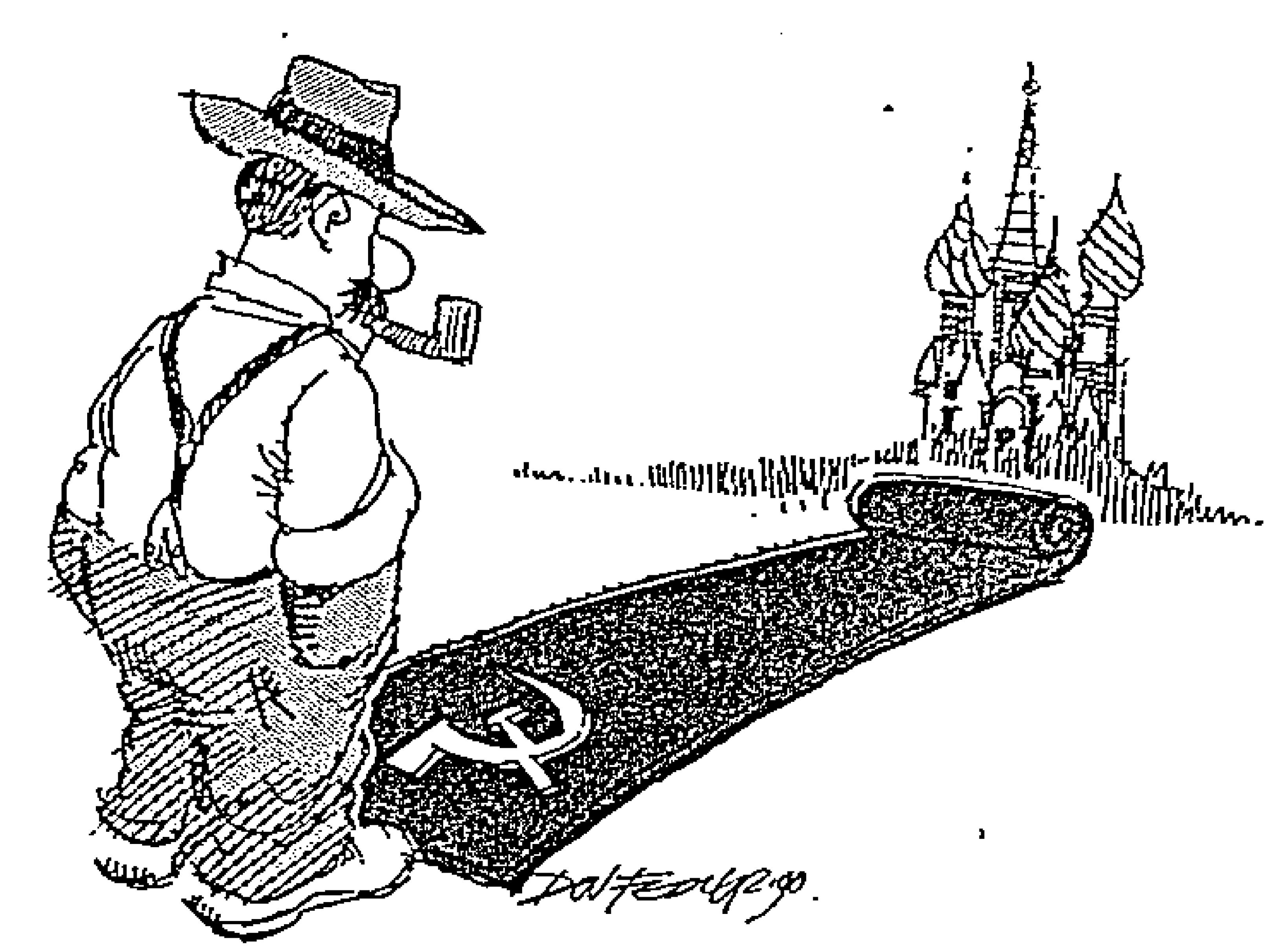
SA Foundation CE Kurt von Schirnding describes the growing links as "a complete sea change" and as "most significant" for both countries.

But while the potential for future trade and investment links seems huge, remaining political sensitivities must be removed before formal relations can be established.

This development flows from last month's visit of a high-level trade delegation to the USSR. The delegation comprised Trade & Industry Minister Kent Durr and director-general Stef Naude, other top officials from this department and officials from the Department of Finance and the Reserve Bank, as well as an industry and a banking representative.

Just a few weeks ago SA cemented trade relations with Hungary with the abolition of surcharges on Hungarian imports (*Business* August 31). Now the trend of a *rapprochement* with eastern Europe continues. However, trading with these emerging economies is difficult — they are woefully short of hard currency and Western countries have found they have little to offer in barter deals.

But the SA delegation did find that the Russians have something to offer: SA officials discussed a wide range of investment and business relationships — joint ventures, direct investment and trade — that could be established. And technological and scientific exchanges also seem to be on the table.



The SA delegation was hosted by the Soviet Ecoprom consortium, which the Gorbachev government put in charge of more than 20 large industrial concerns. The delegation was introduced to 110 top representatives of the Soviet industrial, scientific, technological, trade, finance, banking, economic and political establishments.

"Ecoprom has been given the task of focusing production of the concerns under its jurisdiction in a market-related direction," Naude says. "With company, banking and tax laws now being modernised in the USSR, Ecoprom's task is to lead these concerns in the direction of eventual privatisation."

Basically, the charge seems to be to transform former military-industrial plants into a market-orientated industrial sector. And, with the USSR's grave need for foreign currency, the focus is on developing export markets and obtaining Western know-how.

The USSR already offers a wide variety of products and know-how, which ranges from machine tools, civilian aircraft, micro electronics, special metals and materials to radiation technology, laser equipment and thermal cables. And they are looking for foodstuffs, glassware, medicine and consumer goods from SA.

"The Soviets also encourage joint venture investment projects in the motor vehicle, cigarette, tractor, mining and medical equipment sectors; establishment of packaging and processing plants; as well as assistance with cleaning up chemical and nuclear waste," Naude says.

Other possibilities include the servicing of the Soviet fishing fleet; providing technical know-how in solving ecological problems in the mining, forestry, machine-building and agricultural industries; and involvement with the USSR's tourism and leisure industries.

"The excellent relationships established and the good friends we made with top Ecoprom officials, scientists and industrialists, will stand SA in good stead," Naude adds.

Stellenbosch Sovietologist Philip Nel foresees the possibility of countertrade deals between SA and the Soviet Union involving the huge Soviet oil reserves.

And, adds SABC chairman Christo Viljoen, SABC's use of the US Cable News Network service has been made possible by an "acceptable" cash deal involving the Soviet Gorizont satellite. "We could find no other available satellite space to rent. With a willing buyer and a willing seller, both parties are happy."

Viljoen also sees huge opportunities for SA manufacturers of PABX and other telecommunications equipment in the USSR.

SA Druggists and Adcock Ingram CEs Tony Karis and Don Bodley say they are "looking at the Soviet and east European markets" — both for providing raw materials for pharmaceutical manufacture and as possible markets for SA medicines.

But, warns Volkskas Merchant Bank senior GM Izak Botha, who was a member of the delegation, it is essential for those dealing with the East Bloc not to do this on an "open account" but to use the financial services of established banks on both sides to facilitate trade. "Confirmed letters of credit and other acceptable trade instruments would ensure that the risk of lack of hard currencies would not jeopardise such deals."

Arnold van Huyssteen

MOTOR INDUSTRY FM 7/9/90

A BETTER DEAL?

Car and truck dealers are tired of playing second fiddle to motor manufacturers. From now on they want to be treated as industry equals.

They argue that with dealer investments running into billions of rands, they deserve more consideration and protection.

Representatives of SA franchise dealers and vehicle manufacturers will meet in Johannesburg next week in what dealers hope is the first step towards a more equal partnership.

In particular, they want to renegotiate the manufacturer-dealer contract. As it stands, manufacturers may give a dealer as little as 30 days' notice before withdrawing a franchise — effectively putting the dealer out of business and rendering his investment worthless.

Spencer Sterling, president of the National Association of Automobile Manufacturers (Naamsa) and MD of Samcor, recently expressed his support for a new deal. Errol Richardson, chairman of the National Automobile Dealers Association of SA, says Sterling's remarks helped pave the way for next week's meeting.

Richardson doesn't deny that manufacturers should retain the right to dismiss dealers that fail to maintain standards. But he argues that with more than R3bn invested in dealerships around SA, the notice period must be fair.

The Belgium-based International Organisation of Motor Trades & Repairs is negotiating an agreement for the European Community entitling dealers to a minimum of 12

CORPORATE DEBT

FM 7/9/90 180

FEELING THE TERMS OF TRADE

THE BURDEN OF REAL INTEREST RATES IS OFTEN FELT INDIRECTLY

Most bankers would say corporate balance sheets are generally a lot healthier than in the last recession. But ask businessmen what they think about a prime rate of more than 20% and many will say their businesses are hurting badly.

One reason for the latter response is the role that interest rates have played in dampening demand. Flagging turnover growth has probably played the biggest role in curbing earnings from listed industrial companies this year.

For some, especially smaller companies that cannot easily afford a heavy financing burden, gearing has clearly been allowed to rise excessively. The dismal results are shown up in sharply narrowing interest covers, with the inevitable squeeze on the bottom-line performance.

But these are mostly outside the mainstream. The accompanying table — compiled from ratios calculated by broker Ivor Jones, Roy — lists a cross-section of some 200 industrials, showing latest published gearing ratios, interest covers and the amount of debt held at the date of the balance sheet.

The list is not comprehensive: many companies were omitted. But the selection is intended to offer a broad summary of debt levels.

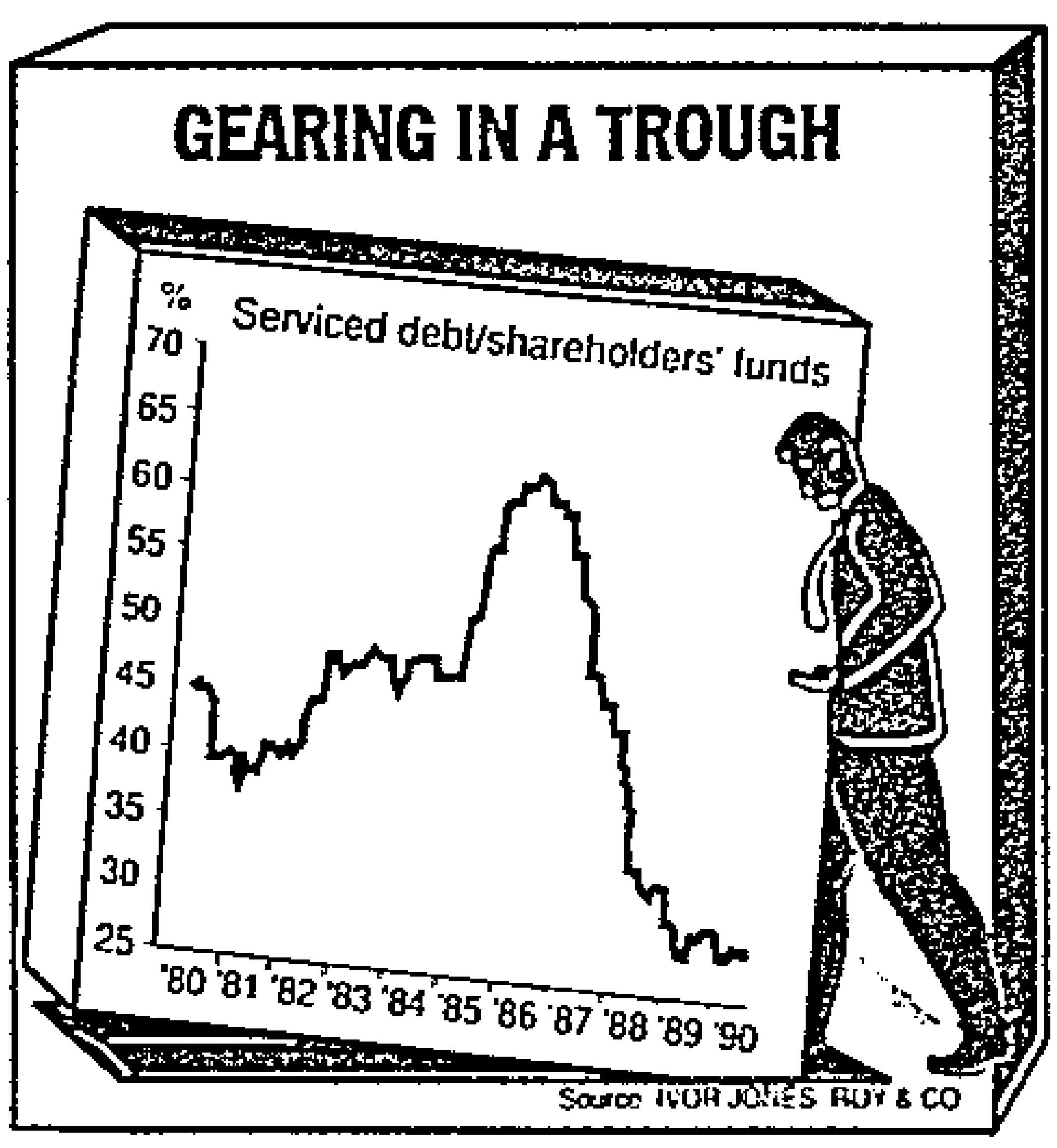
Only about a quarter of these companies have gearing ratios above 70%; a similar number have gearing of less than 20%. Roughly another quarter show debt: equity ratios of between 30% and 60% — and the bulk of major groups now fall within this range or lower.

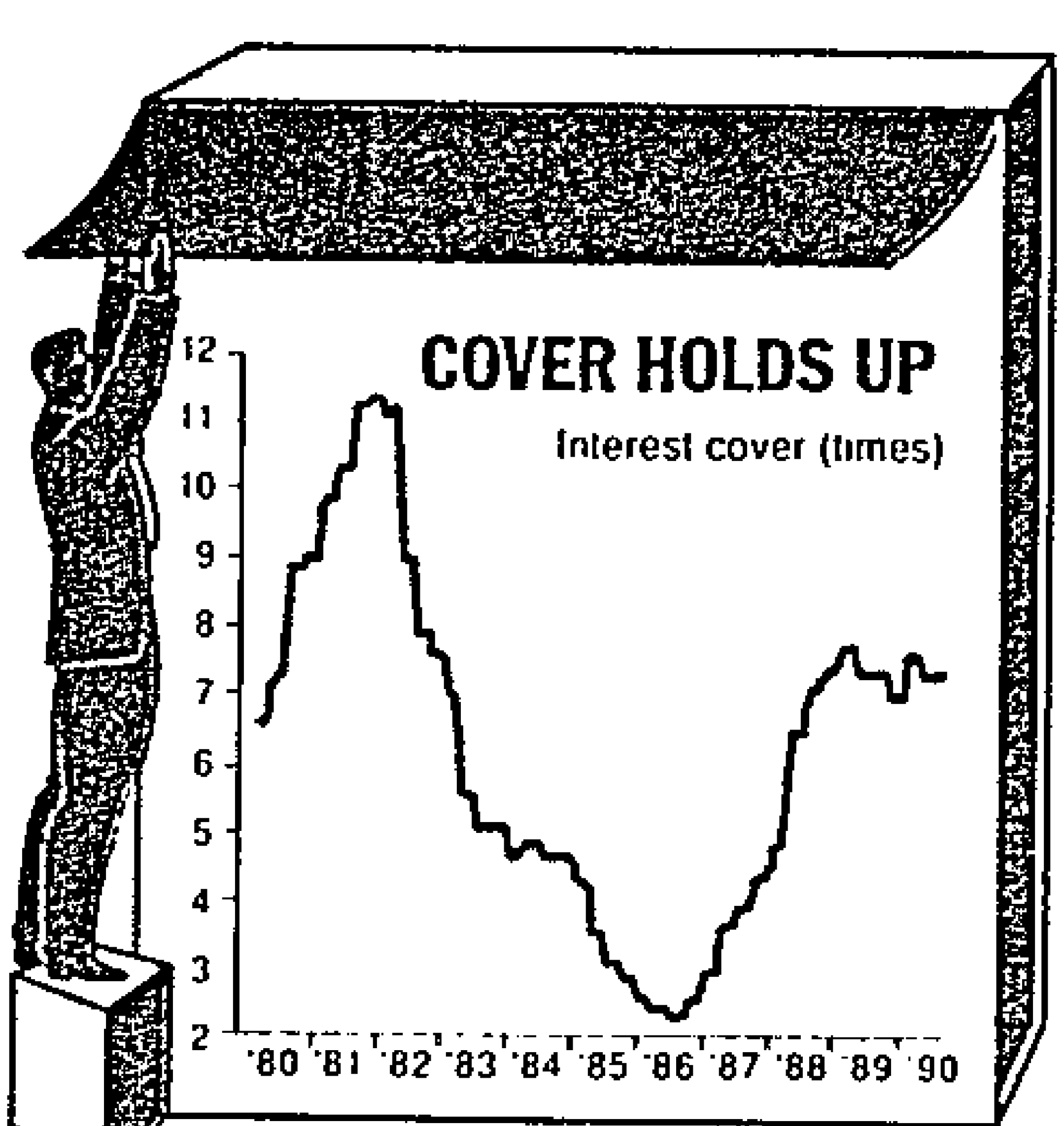
These ratios, incidentally, are conservatively calculated. Revaluation reserves, retained reserves of equity-accounted associates and all intangibles have been eliminated from shareholders' funds. Cash balances have not been offset against borrowings.

If some individual gearing levels still seem high for present conditions, though, the graph further supports the view that the mainstream is at historically low levels. Ivor Jones, Roy uses a sample of 40 leading industrials to track this trend.

For these companies, the ratio of serviced debt to shareholders' funds remains at easily the lowest level since the beginning of the Eighties — and there has been no significant upturn in the past two years. When making comparisons with peaks during the Eighties, the damage done by offshore borrowings and the resultant foreign exchange losses should be borne in mind. That hasn't happened this time. It is apparent from the relative strength of balance sheets at this stage that corporate SA has learnt one of the lessons of the Eighties. Management has little option but to take a conservative attitude towards debt when growth in the economy is at best feeble; that applies even more with real interest rates for the first time in years.

Similarly, the average interest cover for the sample used in the graph has levelled out at around 7,5 times since late 1988. While profits are no longer rising, on the basis of figures so far published the major groups have continued to cope comfortably enough with finance costs.





Reinforcing this, other data shows their ratio of cash flow to total debt has risen roughly in line with the levels seen in 1981-1982, which was the highest for the decade. The ratio of working capital to sales is far below the early-Eighties' levels, while the operating return on total assets is well above the returns achieved early in the decade.

Behind this seemingly healthy picture, though, the reality is more sombre. There is always a lag between events in the market and the general trend as shown by published accounts. Ratios of many of the companies in the table were still reflecting the momentum of more buoyant conditions in 1989. No companies have yet shown the results of a full year of conditions faced in 1990.

It should also be borne in mind that some companies "window dress" their accounts; financial year-ends may be chosen to coincide with periods when borrowings are seasonally low. For these, a more realistic position is shown in the interest cover.

One of the more positive aspects of this table is that the interest cover — which relates operating profit to finance costs — in many cases looks acceptable. But it is disquieting that many have dipped below a comfort zone of around four times. On the whole, interest covers must be in a declining trend which has yet to bottom out. When groups report for end-September and end-December financial years, many will show deterioration in this ratio — with finance costs taking an even bigger toll on the bottom line.

Some with relatively high gearing look able to carry the cost without any strain. Examples are Afrox, with debt:equity of 69% but an interest cover of 7,4 times; or SA Breweries, with debt:equity of 73% and cover of 4,7 times. But others have not been coping well even with much lower debt: such as Titaco, with 24% gearing and interest cover of only 1,9 times; or Clyde Industrial, with 20% gearing and a three times cover.

In contrast, big groups visibly under pressure from high rates and inadequate profitability include OK Bazaars, Gresham, Karos Hotels, FSI Corp, Boymans and Fintech.

Even so, many investors must now be looking ahead and asking the more positive question: which shares should be considered buys in anticipation of falling interest rates? Considering the more rigorous attitude the authorities are now taking towards monetary policy, with a new emphasis on real interest rates, that may be a risky strategy.

The last downward cycle in rates underscored how sensitive the earnings of some groups can be to shrinking finance charges. The market usually looks well ahead towards such fundamental events as a drop in rates. Groups which have proven their ability to operate efficiently could well be worth watching as potential interest rate plays. Among these may be Waltons, Scardel, SA Breweries, Laser, Hudaco, Northern Engineering and Malbak.

Bankers say money market conditions indicate a dip in rates should not be too far off. It is an open question whether rates will soften sufficiently and soon enough to compensate for further deterioration in trading conditions. Profits may yet suffer more damage from unrest, cost increases and wilted consumer confidence than from borrowing costs — and those will be bad enough.

Andrew McNulty

More debt as squeeze tightens

B\Day 10/9/90 (180)

GERALD REILLY

PRETORIA — Debt figures for the first quarter of the current financial year reflect the inability of many people and small companies to withstand the economic squeeze.

Central Statistical Service figures show that in April-June the number of summonses for debt increased by 8,8% to 234 873, compared with the same period last year.

Civil judgments also increased in the quarter by 6,4% to 177 649.

Compared with January-March this year, debt summonses increased by 0,5% and civil judgments by 1,5%.

Economists have warned that debt will get worse before it gets better.

Interest rates, according to the Reserve Bank, are to remain at current levels until there are solid grounds for easing them.

Information Trust Corporation has announced a dramatic increase in company and close corporation liquidations in the first half of the year. The increase was 37% to 916, compared with January-June last year. In June alone there were 195 liquidations.

The Star
Finance

IDC has sunk R150-m into 31 companies

Star 12/9/90 (180)

By Roy Cokayne

The Industrial Development Corporation (IDC) has approved investments worth R150 million in 31 firms, which have embarked on projects worth R280 million since the inception of Phase VI of the local content programme for the motor industry.

The projects, when completed, are expected to create 2 700 jobs and result in foreign exchange earnings/savings of R250million a year, says Deputy Minister of Trade and Industry, Dr Theo Alant.

He was speaking yesterday at a joint Foundation for Research Development (FDR) and Sepco (Scientific Engineering Performance Computers) symposium in Pretoria yesterday on large-scale computing in the automotive and related industries.

Dr Alant contended that the value-basis perspective of Phase VI of the local content programme for the motor industry was providing the impetus for a new surge of growth in high-technology areas that had previously been neglected.

He said the Phase VI programme conformed with official policy over competition and the promotion of a market-oriented economy by opening the door to new entrants and raising opportunities for subcontracting.

He said the motor industry had until now been characterised by a high level of reliance on imported components. It was essential this trend be reversed, he said. Phase VI intended to do just that.

The implementation of Phase VI would necessitate a far higher level of local content, which would be achieved by a combination of import replacement and increased exports, he said.

Dr Alant said this in turn would lead to a lower usage of foreign currency and to an improvement in the balance of trade with regard to motor vehicles and related products.

Exports of automotive components had increased substantially since the introduction of Phase VI and excise accounts showed an increase in exports from R136 million for the year to May last year to R345 million for the year to May this year, he said.

Dr Alant

"For the year to May 1991, the industry expects to export vehicles and components worth R470 million," he said.

Dr Alant said South Africa faced an extremely different economic environment in the 1990s, with continuing rapid technological change and product obsolescence, plus increased global competition for a changing world marketplace.

The technology-driven era that was now emerging would bring major changes in its wake, he said.

"Phase VI of the local content scheme encourages movement to higher levels of technology in our automotive industry. Facilities for large-scale computing have become readily available.

"The local automotive and related industries are beginning to exploit these techniques," he said.

Move to involve firms in Cape social welfare

(190)

LESLEY LAMBERT

CAPE TOWN — Local businessmen have launched a new association to encourage and facilitate greater involvement by companies in social welfare and development projects in the Western Cape.

The Social Involvement Association originated from the Warner-Lambert Social Responsibility Award and has the full support of the Cape Chamber of Commerce, the Cape Town Chamber of Industries, the Afrikaanse Sakekamer, the Urban Foundation and the Western Province African Chamber of Commerce.

The association has already signed up 100 corporate members.

Chairman of the association's interim committee and local businessman, Arthur Swartz, said the Warner-Lambert award had revealed that a number of large and small companies had active social responsibility programmes.

But, for many, expansion of existing programmes or the establishment of new ones was often inhibited by a lack of information on the specific needs to which the private sector could respond.

It became clear an association was needed to encourage, co-ordinate and guide development projects, Swartz said.

"There is no doubt that the private sector will have to bear the brunt of general social upliftment," Swartz said at a function to launch the association.

"While investing money in projects that did not earn a return for shareholders was regarded as the antithesis of capitalism a couple of years ago, now businessmen are no longer asking if they should make a contribution to social upliftment — they are asking if what they are doing is enough."

Membership of the association's committee was confined to the white private sector, but he acknowledged the need to consult with members of the communities targetted for help, to ensure the projects were the most worthy and effective.

Tough conditions put dent in Vektra earnings

Star 13/9/90

By Ann Crotty

Tough market conditions resulted in FSI subsidiary Vektra reporting a 42 percent drop in earnings from 50,4c to 29,1c for the six months to June.

An interim dividend of 15c has been declared — down from the previous interim's 15c.

The tough trading conditions were in line with expectations and it seems that Vektra management decided to go for market share at the expense of margins.

Turnover was up 14 percent to R226,8 million (R199,2 million), which was apparently above growth in the overall market and means that Vektra has picked up market share.

But operating profit was down five percent to R14,5 million, reflecting a squeeze on margins — from 7,7 percent to 6,4 percent.

The performance was also knocked by a more-than-doubling of finance charges to R8,5 million (R3,9 million).

Chairman Alan Schlesinger attributes this sharp hike to the higher interest rates and "continuing high levels of inventory".

Pre-tax profit was down 47 percent to R6 million from R11,4 million.

A lower tax rate helped soften the blow at attributable-earnings level with a drop of 39,6 percent to R3,5 million (R5,8 million.

There is an extraordinary loss of R12,7 million, which will put a dent in the balance sheet. Financial '89's balance sheet shows shareholders' funds of R52,4 million.

Mr Schlesinger says the extraordinary item arises from the write-off of goodwill in accordance with changes to the UK Companies Act.

Vektra is a 75 percent subsidiary of Teamcor. It is though the restructuring currently under consideration by FSI management will involve the delisting of Teamcor.

Paying attention to turnover

B Day 14/9/90 180

MIKE PERRY

IT IS no secret that SA's managers face a tough environment. The way that (after tax) margins have moved demonstrates this.

The graph shows how net margins have declined from from 7,38% in 1981 to 4,86% in 1989.

During strategy sessions with top management teams over the past 18 months, it has been a safe bet that among the top three strategic issues identified by managers has been "how to get real growth".

Why are companies so concerned? Probably because of the strategies that have been used to handle the recession that got under way in 1985.

Managements' performance can be measured in many ways. Turnarounds can be achieved by rationalisation, restructuring or through corporate financial structures. Once all of these remedies have been applied, it boils down to the performance in the marketplace.

An analysis of performance of the Financial Mail's top 100 companies during the past five years gives a good insight into how managers have succeeded in the face of uncertainty.

Only 66 of the FM's top 100 companies of 1984 could be analysed during the five-year period. Information provided by the annual reports of 10 companies was inadequate, four had merged, three had delisted and two had been split. A further 15 were taken over.

The 66 analysed had total sales of R168bn in 1989. We found the top 100 showed little increase in real growth once changes in turnover had been deflated by the CPI; the best growing companies achieved this through acquisitions, exports/new markets or focused strategies; companies with the best margins had substantial export businesses, prices related to international prices, or exemptions from the Competition Board; half of the 10 companies with the best profit growth were able to do this with a "turnaround" or a clear "strategic focus" attitude among managers.

When actual turnover growth was deflated for inflation (as measured by the CPI) little growth was seen. The upsurge in real turnover growth in 1988 was probably because of an increase in customer confidence and therefore inventories, or maybe an understatement of the inflation rate.

Despite the stagnant sales position, managers of the FM's top 100 companies achieved dramatic improvements in net profit growth. This indicated that a major strategy employed during the past recession was rationalisation.

The 10 companies with the best margins in 1989 were Hiveld (23,8%), Sappi (20,3%), Sasol (19,9%), Anglo Alpha (17,1%), Blue Circle (14,9%), PPC (13,9%), D & H (12,1%), BTR Dunlop (11,8%), Consol (11,8%) and Altech (11,4%).

This suggested that companies with strong export orientation, stabilised competitive environment, dominant market position or management with clear strategic vision tended to do best in a recession.

The companies with fastest growing turnover during the past recession provided some interesting observations. The sales growers were W & A (39% compounded annual growth 1984-1989), Cullinan (32%), Dorbyl (32%), Hiveld (29%), Grinaker (28%), Wooltru (27%), Adcock (27%), Sappi (26%), Plate Glass (25%) and Consol (24%). Acquisitions and export orientation for a focused strategic approach appeared to be the essential ingredients.

When it came to growth in total profit it appeared that in at least half of the cases, management had "made their own luck" during tough times. The top profit growers were Hiveld (68% compounded annual growth 1984-1989), W & A (66%), Sappi (54%), Tedelex (44%), General Tyres (36%), R I H (35%), McCarthy (34%), Tradegro (33%), Edgars (33%), and AVI (32%).

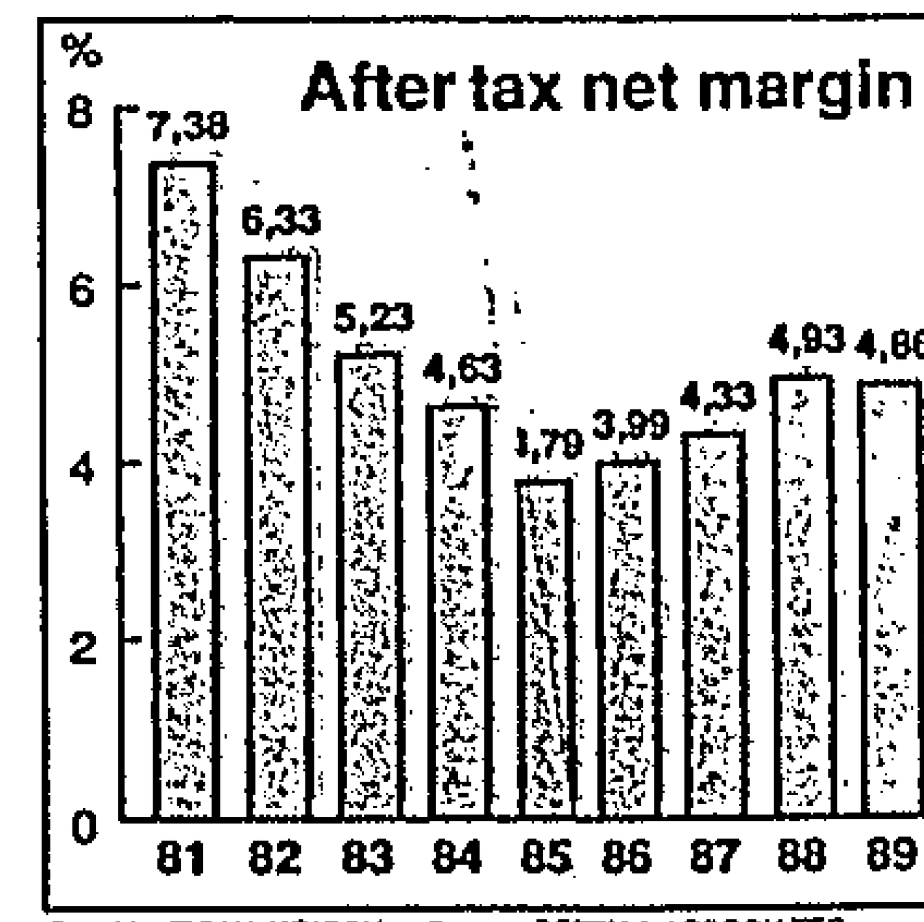
During the past recesssionary period managements were able to boost profitability through rationalisation and restructuring. Apart from companies that focused on the black consumer, real growth in turnover appeared to have been achieved by acquisitions for exports.

What are the lessons for the coming downswing? Again expense control will be important, but it is going to require new initiatives. The job of "downsizing' has been done.

Managing successfully now requires more attention to ways of growing turnover than before.

Businessmen can expect five more years of uncertainty before the light at the end of the tunnel appears — the vision of a "new SA". Having successfully handled the last recession, managers can take comfort from the probability that their journey through uncertainty is half over.

☐ **Perry is MD of Perry & Associates.**



Graphic: FIONA KRISCH Source: PERRY & ASSOCIATES

LETTERS

AVI profits soar to break new records

B/Day 14/9/90 (180)

BRENT MELVILLE

Anglovaal Industries (AVI), following four years of breathtaking growth, has managed to shrug off a R100m (R44,8m) interest bill to report sustained growth for the year to end-June.

All of the group's five business sectors contributed to the 26% rise in bottom-line earnings to R207,8m (R164,6m), although increased share capital of 28,35-million shares (25-million shares) diluted earnings to a 12% rise at 733c (657c) a share, from which a dividend of 135c (120c) was declared.

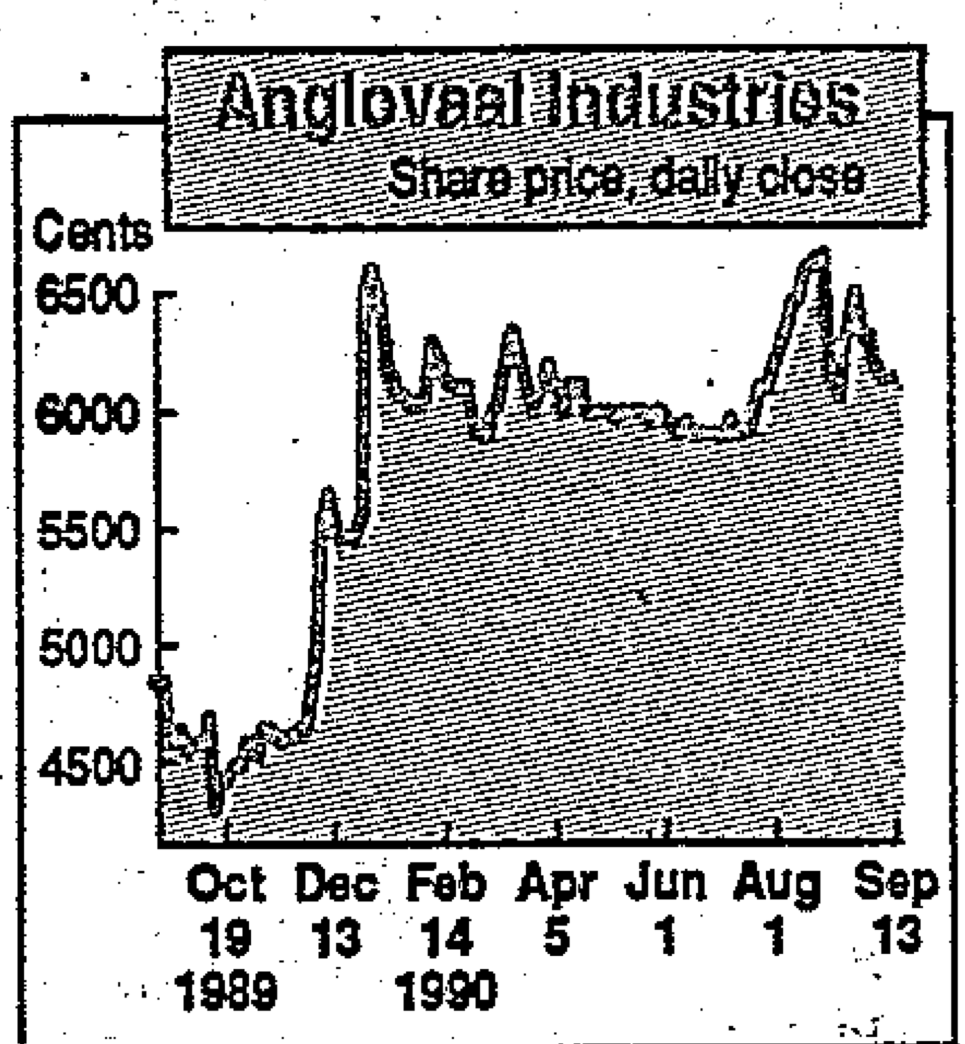
At its current share price of R61,50, off its August 12-month high of R66,50, the results put AVI on a price:earnings ratio of 8,4 times and a dividend yield of 2,2%.

The 42% turnover rise to R6,5bn (R4,6bn) places the group well within the top 10 companies in SA in terms of pure sales.

Pre-tax profit moved up 32% to R631m (R476,9m), with an additional R56,4m (R48,8m) being chipped in from investments.

Chairman Basil Hersov said the adverse business conditions, including high interest rates and reduced consumer spending, curtailed business performance, particularly over the last six months.

In the group's construction and electronics division, Grinaker Holdings put in a strong performance, following the restructuring of its electronics interests into Grintek last July. Hersov said Grintek had performed exceptionally, especially in export sales.



Graphic: FIONA KRISCH Source: JSE

Diversified businesses showed growth ahead of the inflation rate, although Hersov said market demand for textile products had declined appreciably in the second half. A mediocre performance in AVI Diversified Holdings was attributed mainly to a poor performance by Claude Neon which lost experienced sales staff who set up an opposition company.

Following the reorganisation of its grocery operations in March, the Dry Food & Beverage division, under the auspices of

□ To Page 2

AVI profits

B/Day 14/9/90 (180)

☑ From Page 1

National Brands, performed strongly towards year end, Hersov reported.

The star performer was Becketts, the tea, coffee, breakfast cereals and soft drink marketer, although fast-food outlet Wimpy also showed good profit growth. Pizza Hut sustained a substantial loss. National Brand's 16,2% interest in Cadbury Schweppes rose R36,5m to R108,2m.

In the group's packaging and rubber division 55% controlled Consol achieved a 48% rise in earnings. At the start of the year Consol combined Tycon (which it acquired last July for R176m) with Tredcor.

Hersov described Tycon's first-half profits as "insignificant" because of the 11-week strike, linked to the former American parent's disinvestment. He said production was near normal in the second half and performance had improved.

Consol increased borrowings dramatically over the period as a result of the Tycon acquisition and the installation of a glass furnace at the Clayville factory, contributing to a group gearing of 31% (30%) on interest bearing debt of R211,6m. Long-term borrowings were up to R300,2m (R226,4m).

Capital expenditure for the group to June was R232,2m (R282m), and capex amounting to a further R107,4m authorised. During the year the group made a provision of R10m in its investment in associate Control Instruments against its carrying value.

FM 14/9/90

term funds borrowed from other central banks and used to ease the burden of mid-year debt repayments. ■

CONFIDENCE INDICES (180)

HOLDING UP

FM 14/9/90

With the Middle East crisis, fears of slower world economic growth, increased township violence and a slowing economy, the business confidence index (BCI) is holding up remarkably well. The index, compiled by the SA Chamber of Business, fell to 91,8 in August, down only slightly from 92 in July.

Still, there were a number of strongly negative notes among the indicators, including an increase in number of unemployed of all races, fewer new companies registered and falls in manufacturing production, exports and new car sales.

These were largely offset by a rise in the dollar gold price, a slightly stronger rand and

FM 14/9/90 (180)

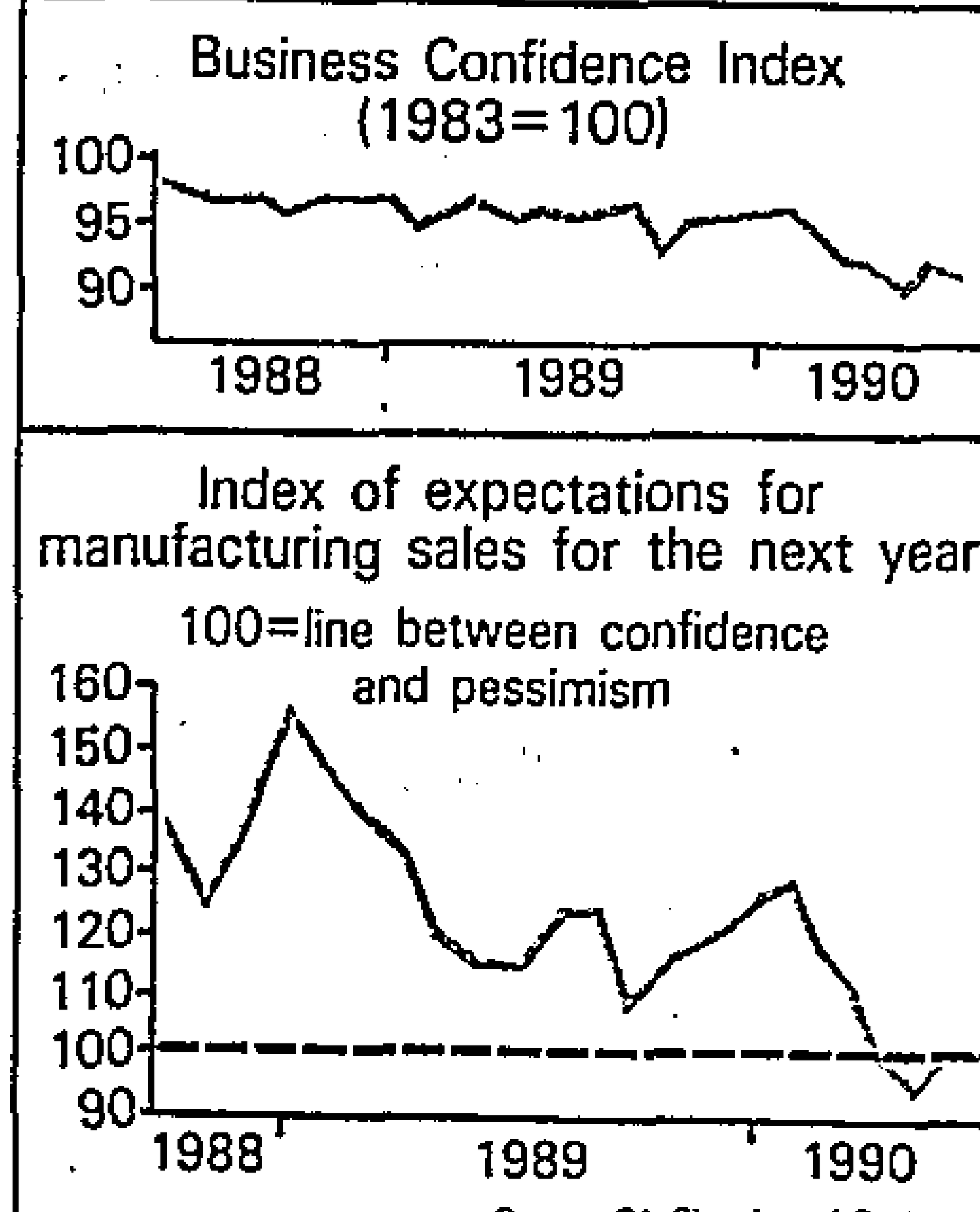
overall JSE index, a decline in consumer price inflation, and increases in retail sales, the real value of building plans passed and merchandise imports.

Chamber economist Keith Lockwood says hopes are being buoyed by the continued easing in inflation, as well as the prospect of imminent cuts in interest rates, but adds that the unresolved Gulf crisis and continued SA political violence could lead to sharper declines in business confidence.

Confidence in the manufacturing sector also remains uncertain. According to the chamber's August survey, most manufacturers expect a decline in production volumes in the next 12 months, while sales are expected to remain static (see graph). Businessmen are taking a wait-and-see attitude.

Sentiment varies among the regions. Respondents in Durban and Cape Town were fairly optimistic, possibly because of a concentration of consumer goods industries in these areas. Meanwhile, Port Elizabeth manufacturers were sharply more pessimis-

Undecided



Source: SA Chamber of Business

(180) FM 14/9/90

tic, in part due to last month's riots, as well as prospects of lower sales and continued labour unrest in the motor industry. ■

Comments called for on draft takeover code

By Des Parker

The Securities Regulation Panel's draft code on company takeovers and mergers, published in the Government Gazette, is expected to attract a considerable response from the major share-owning institutions and stockbrokers in the month allowed for comments.

The panel is chaired by Mr Justice Cecil Margo and has 12 members drawn from the ranks of merchant bankers, organised commerce and industry, insurers, brokers, accountants, lawyers and the public service.

It will consider proposals and submit them with the draft law to Deputy Trade and Industries Minister Theo Alant in the second week of October.

Mossie van Rensburg, Registrar of Companies and member of the panel, said there was considerable urgency behind legislation of the code and rules, and he hoped the Government would be able to gazette them by December.

The code, which has put players involved in securities deals on their guard in recent months, is based extensively on the City Code on Takeovers and Mergers used by the London Panel on Takeovers and Mergers.

While it has been widely welcomed as being in the best interests of small and minority shareholders, there has been criticism.

University of Cape Twon School of Business Economics director Brian Kantor said at a recent seminar that outlawing insider trading interfered with the relationship between controlling and minority shareholders and was thus harmful to the economy.

The international trend towards greater protection for minorities was politically motivated.

However, he believed controlling shareholders were invaluable in disciplining managers and were, therefore, vital to the economy.

PLAY ROLE

"It is important that they play that role and that we don't interfere with the rewards for playing that role," he said. "Insider trading may be one of those rewards.

"If insiders are trading you can be quite sure the price is the right price. All information should be in the market."

An explanatory note with the draft code says: "It is not the function of the panel to judge the commercial advantages and disadvantages of affected securities.

"These are matters for the holders of the relevant securities in the offeree company."

While the panel will not concern itself with "competition policy", it will take note of relevant rulings of the Competition Board.

Becoming ozone-friendly has cost industry millions

Star 14/9/90 (180)

Staff Reporter

There has been a 60 percent reduction in the manufacture of chlorofluorocarbons (CFCs) in South Africa, according to Ian Macdonald, chairman of the Wildlife Society's ozone assessment board.

Mr Macdonald said that since the first Ozone Awareness Day on September 15 1989, there had been remarkable changes in southern Africa and overseas.

"Millions have been spent by industries in converting to ozone-friendly gases," he said.

According to Mr Macdonald, the gravity of the ozone threat was emphasised by the amendments to the 1987 Montreal Protocol made at a meeting in London in June, which included the agreement that CFCs would be totally phased out by the end of the decade.

The process of phasing out many other chemicals known to be ozone depleting had also been accelerated.

Economists explain index performance

B Day 18/9/90 (180)

GILLIAN HAYNE

THE change in requirements stipulating the prescribed buying by financial institutions of government gilts is one of the reasons for the reasonably good performance of the JSE's industrial index, say economists.

Contrary to the popular theory that recessionary times lead to a poor industrial performance, the index is not easing as traditionally experienced.

Factors economists expected to negatively affect the index included large interest bills and a drop in demand for industrial products, and a possible move away from equities to the short-term money market to capitalise on high interest rates.

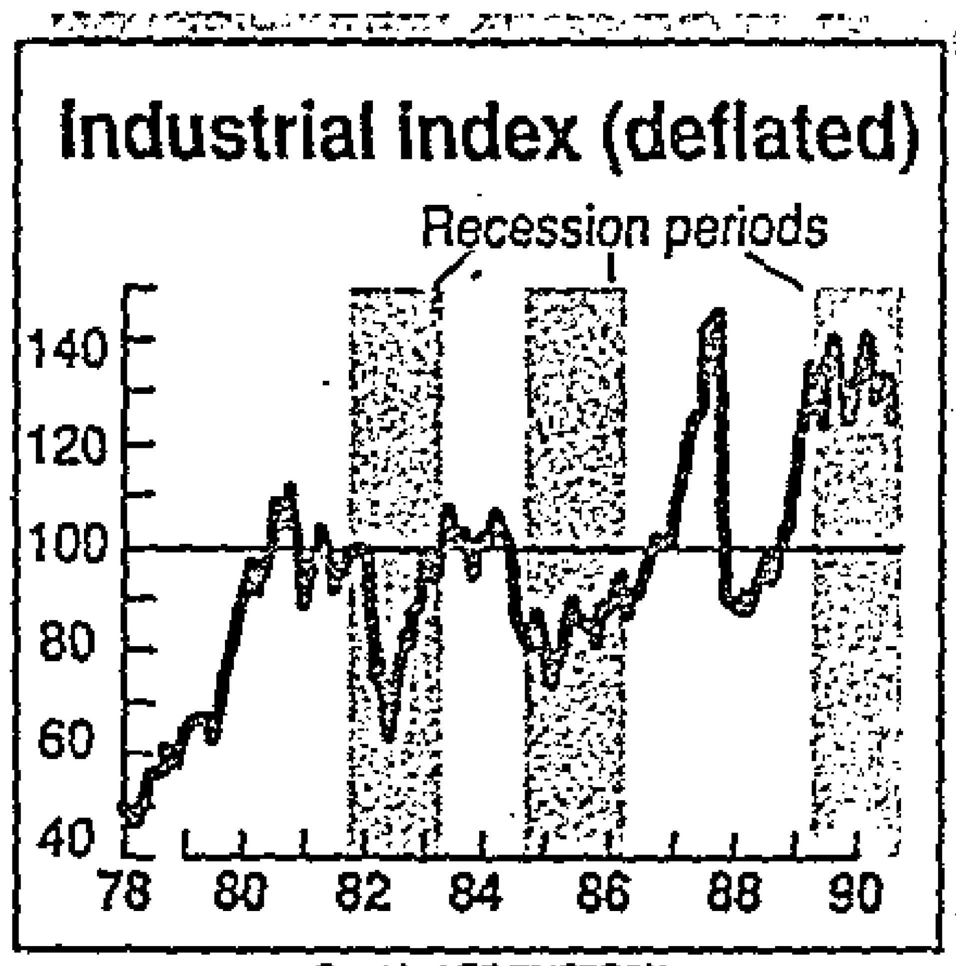
An analyst said yesterday that while institutions were not overly keen to buy industrial equities at present, they were also not selling as they wanted to keep their exposure to equities high.

A fund manager said government's move to drop the compulsory prescribed holding level of government stock had had a major influence in steadying the index.

It led to companies increasing their equity exposure at a mature time in the business cycle, and with the shortage of good quality scrip in SA they would prefer to hold their stock through rough times rather than sell and risk not being able to buy in at a later stage, he said.

Discount House of SA manager Chris Greyling said: "On average, among institutions, equity holdings rose 10% to 58% after the change in the government ruling."

Another reason given for the unexpected behaviour of the industrial index concerned the share constituents of the index, many of which, for example Richemont, operated outside the recessionary circumstances in SA.



Graphic: LEE EMERTON
Source: GEORGE HUYSAMER & PARTNERS INC

George Huysamer & Partners' Louis Geldenhuys explained that the industrial index came off a different base as it had to be read against the background of the exogenous shock to the market in 1987 and the subsequent recovery.

"Following the 1985/1986 recession, companies approached the current slowdown in a much stronger position — gearing ratios were stronger, inventories were better managed, and balance sheets were stronger — resulting in earnings growth remaining firm," he said.

Geldenhuys said the expectations of industry, following the changes in the political arena, had had a positive impact on the economy.

"But expectations are now turning sour with the increase in violence and the weakening of the world economy. The political situation with its physical disruptions to the economy and the influence of the world economy on SA could see the recession lasting longer than the average 27 months."

Redistribution within companies is PAC aim

180

LESLEY LAMBERT

CAPE TOWN — The PAC said yesterday it would seek wealth redistribution within individual companies and consider nationalisation only where firms refused to comply.

While the organisation said it was mindful of the effects of its policy on capital investment and economic growth, it proposed higher corporate taxation as a means of redistribution. It also proposed state intervention in the business of Old Mutual and Sanlam to ensure that the life offices' policyholders' funds were used to promote transfer of wealth.

A discussion paper by Zimbabwean academic Sipho Shabalala, presented by PAC spokesman Benny Alexander at the Association of Black Accountants of Southern Africa's annual convention, said "the PAC would like to see redistribution of wealth and decision-making powers at individual company levels as being more important than nationalisation. Obviously, if some individuals choose to defy redistribution measures, such companies will be considered for nationalisation."

Redistribution criteria for companies would include: creation of funds to enable workers to acquire a substantial portion of a company's shares with voting rights; job creation and wage increases favouring black workers; establishment of training and development programmes to enhance skills and provide opportunities to improve productivity and increase the number of black workers at higher salary levels; contribution to social benefits; statutorily enforced worker involvement in financing, investment and profit distribution decisions; and direct taxation.

Companies would also be called on to contribute to small business promotion and development funds, make direct loans to the state and to provide technical services to black businessmen.

The paper said government would influence the use of Old Mutual and Sanlam policyholders' funds by directing the economic policies of the companies they controlled. They were singled out because of the economic power they wielded as managers of the bulk of the nation's savings.

If nationalisation were pursued, foreign firms would be a major target. Private shares of firms targeted for nationalisation would be transferred to the state "with or without compensation, voluntarily or involuntarily". Nationalised assets would be leased back to the private sector.

The PAC conceded that "nationalisation by itself does not achieve economic equality. It often benefits the elites and urban workers at the expense of people in the rural areas." If the PAC came to power it would reserve the right to reverse the process of privatisation.

W&A now ranks among JSE giants

BDay 19/9/90 180

SYLVIA DU PLESSIS

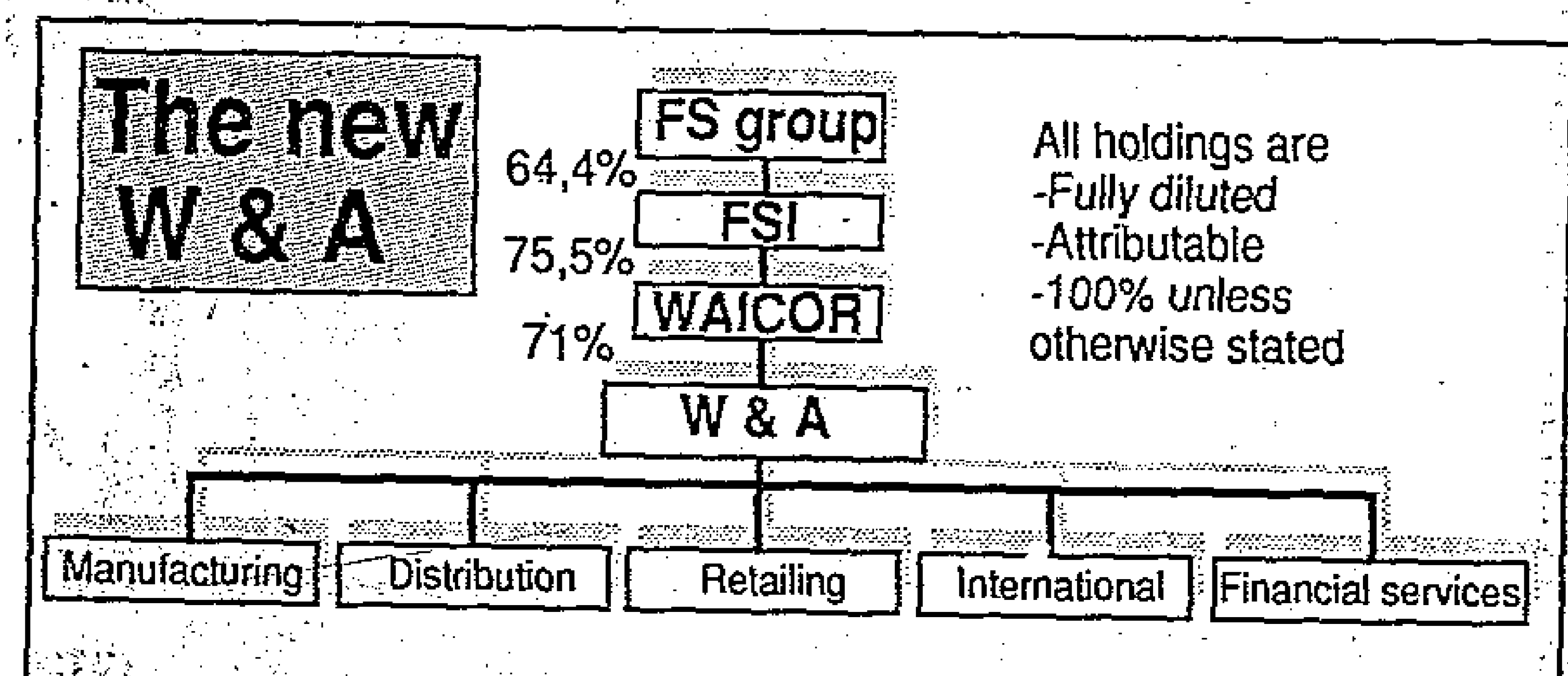
W & A INVESTMENT Corporation is to become the principal investment holding company for parent FSI's global and SA interests, with a projected market capitalisation in excess of R1bn and expected annual turnover of R2,8bn.

This follows a R550m restructuring at FSI involving a series of interlinked transactions and effective from July 1, details of which were announced today.

W & A will acquire the minority interests in three intermediate investment holding companies in the FSI stable — Teamcor, Hunts and Homemakers — and cash shell Citizens Holdings, all of which will be delisted. It will boost its existing stakes in companies including Burhose, Elcentre, Gentyre and J D Group, with its holdings in businesses such as MacPhail and Noristan remaining intact.

FSI's overhaul, widely expected, will rank W & A among the top 20 industrial giants on the JSE and ensure the FSI man-

☐ To Page 2



Graphic: LEE EMERTON Source: FS GROUP

W & A

BDay 19/9/90 180

☐ From Page 1

agement team retains control of the group.

Implementation of the proposals, which follow cautionary announcements last month from seven FSI companies, will result in a three-tier structure: Waicor will become a pure pyramid for W & A, FSI will become a pyramid for Waicor and FS Group will be a pure pyramid for FSI.

W & A chairman and CE Jeff Liebesman said in an interview yesterday the steps would enable management to "clean up the group's structure to facilitate a clearer and simpler understanding of it.

"We'll also have eliminated a lot of cost and cash-flow inefficiencies inherent in the complexity of the previous structure."

Sidney Frankel, MD of lead house broker Frankel Kruger Vinderine, said the cleaner structure addressed a number of issues which "bothered investors, and W & A must now become one of the blue chips".

Payment to minority shareholders of Teamcor, Hunts and Homemakers will be one-third in W & A shares and two-thirds in shares of its pyramid Waicor. For example, Hunts minorities will be offered 233 Waicor shares and 47 W & A shares for every 100 Hunts shares.

Minorities also have the option of a cash offer of 600c per W & A share or convertible debenture, and 241c per Waicor share.

Listings of the FSI companies suspended last week — FS Group, FSI, Waicor, W & A, Teamcor, Hunts and Homemakers — would be reinstated today.

Major FSI reshuffle leads to large share price gains on JSE

(180) BDay 20/9/96

SYLVIA DU PLESSIS

SHARES of FSI companies Teamcor, Hunts and Homemakers — relisted yesterday — registered some of the largest price gains on the JSE on news of a group restructuring involving generous offers to their minorities.

Teamcor shares, second in terms of price boosts, rocketed 40c or 18,1% to 260c, Hunts grew 60c (8,9%) to 730c and Homemakers firmed 30c to 440c.

The strong gains followed an FSI announcement detailing interlinked proposals in terms of which W & A Investment Corporation is to become the principal holding company for FSI's global and local interests.

The clean-up includes W & A's acquisition of the minority interests in the three firms, with minorities offered one-third in W & A shares and two-thirds in pyramid Waicor, or cash of 600c and 241c a share respectively.

But while it has generally been welcomed on the market, at least one analyst — Ed Hern, Rudolph's Sid Vianello — believes FSI's huge post-restructuring debt, with its possible ramifications, is cause for concern.

He said minorities would be offered fair value, and he was "particularly delighted" to see an underpinning cash offer extended to them.

However, a simpler structure would not guarantee an immediate re-rating for the shares: a "major issue" to be addressed was that FSI would remain extremely highly-geared with interest-bearing liabilities of just under R300m.

Pattern

"It's in their interests this gearing be cut and if FSI wants to see W & A's share price appreciate, management will have to give some form of reassurance they're not going to sell W & A or Waicor paper into the market in the future to liquidate their liabilities," he said.

"Further, based on W & A's financial structure on completion of the transactions and given its normal growth pattern in the past, we think it could under normal circumstances require a rights issue in two to three years time."

But this could be avoided if the group kept to its consolidation policy in the first half of the decade, rather than continue pursuing its former acquisitive strategy, he said.

Vianello said W & A's current share price represented "more than fair value", given that SA conglomerates tend to trade at a discount to net asset value, the values now placed on various assets being transferred into W & A and that the share price now recognises those in full.

He saw no reason for a re-rating now which could come later when the group had proved its investment profile could give results in favourable and difficult economic scenarios.

FSI shares closed untraded, Waicor's were unchanged and W & A's retreated 30c to 620c, more closely reflecting the value of the firm's underlying assets as determined by merchant bankers and level with the trend on the market, analysts said.

UNREST

(180)

BUSINESS SUFFERS

FM 21/9/90

Unrest is slowly strangling business activity in the townships — mainly because the risk of damage to vehicles has made suppliers reluctant to continue with their deliveries.

Both formal traders and spaza shops were running out of stocks, particularly of cold drinks and bread, by the time operation "Iron Fist" was announced.

Bakeries visibly suffered the most vehicle damage. Fedbake alone lost five vehicles in the last six weeks. Premier Foods MD Willem de Kock says Premier also lost vehicles.

However, he adds: "The good news is that it doesn't look as though businesses have been singled out for attack."

But beer is getting through. SAB's Albert Botha says bottle store owners and taverners are picking up beer from nearby SAB depots. Coca Cola is not quite so fortunate. Few seem prepared to risk life and limb to ensure continuity of mineral water deliveries.

Trador MD Albert Koopman says: "There has been a downturn and I imagine small traders are destocking during the present troubles." Makro's Mark Lamberti says the most visible effect of the unrest has been on staff morale. "Our staff is now happiest at work. People live in fear of their lives." ■

180 AVI F/M 21/9/90

STILL MOMENTUM

Anglovaal Industries (AVI)'s results for the year to end-June vindicate its premier JSE rating. Earnings grew strongly despite deteriorating economic conditions, a hefty interest burden and a fall in associates' income. Last year's earnings growth will be difficult to match this year.

Operating profit rose 32% on a 42% hike in turnover, partially the result of acquisitions. But high interest rates and lower consumption expenditure caused trading conditions to deteriorate and margins came under pressure. The operating margin fell to 9,7% (10,4%) and higher borrowings — largely due to capex and money raised to finance the Tycon acquisition — caused interest charges to more than double.

All the divisions, except Irvin & Johnson, performed well. Buoyant building activity boosted Grinaker Construction's profits and a substantial increase in exports helped lift the performace of the restructured electrical division, Grintek.

AVI's Hersov ... *expects exacting challenges*

Chairman Basil Hersov says results of the textile operations for the full year were disappointing, despite strong profit growth in the first half. This, and the poor performance of Claude Neon, detracted from the diversified holding division's profitability.

The dry food and beverage division reflected a substantial improvement but profit from Pakco, Pleasure Foods and Pizza Hut declined. Beckers and Bakers traded very well.

During the year the packaging and rubber division was expanded. Tycon, formerly Goodyear, was acquired for R176m and combined with Tredco (retreader and retail distributor of tyres) to give AVI a strategic stake in the industrial belting sector. The packaging operation, Consol, was negatively affected by lower packaging sales volumes and only reported a moderate increase in turnover. Higher financing costs, resulting from Tycon's acquisition and the installation of a glass furnace at Consol, detracted from this division's performance.

Income from associate Control Instruments (CI) was only R6,1m, half that of the previous year. Hersov says CI remains a disappointment and a R10m provision has been made against its carrying value. This provision constitutes the major share of a R17m extraordinary item, reflected below the line.

Attributable earnings grew 18% but dilution occurred at the per share level because of shares issued at the time of the group's restructuring last year.

Hersov is planning for improved earnings this year but says "the group expects to meet exacting challenges."

Pam Baskind

180 F/M 21/9/90

FSI 'will not shed holdings'

(180) Business Day Reporter

THERE was no likelihood of FSI disposing of part of its holdings in W & A Investment Corporation, Ed Hern, Rudolph analyst Sid Vianello said yesterday.

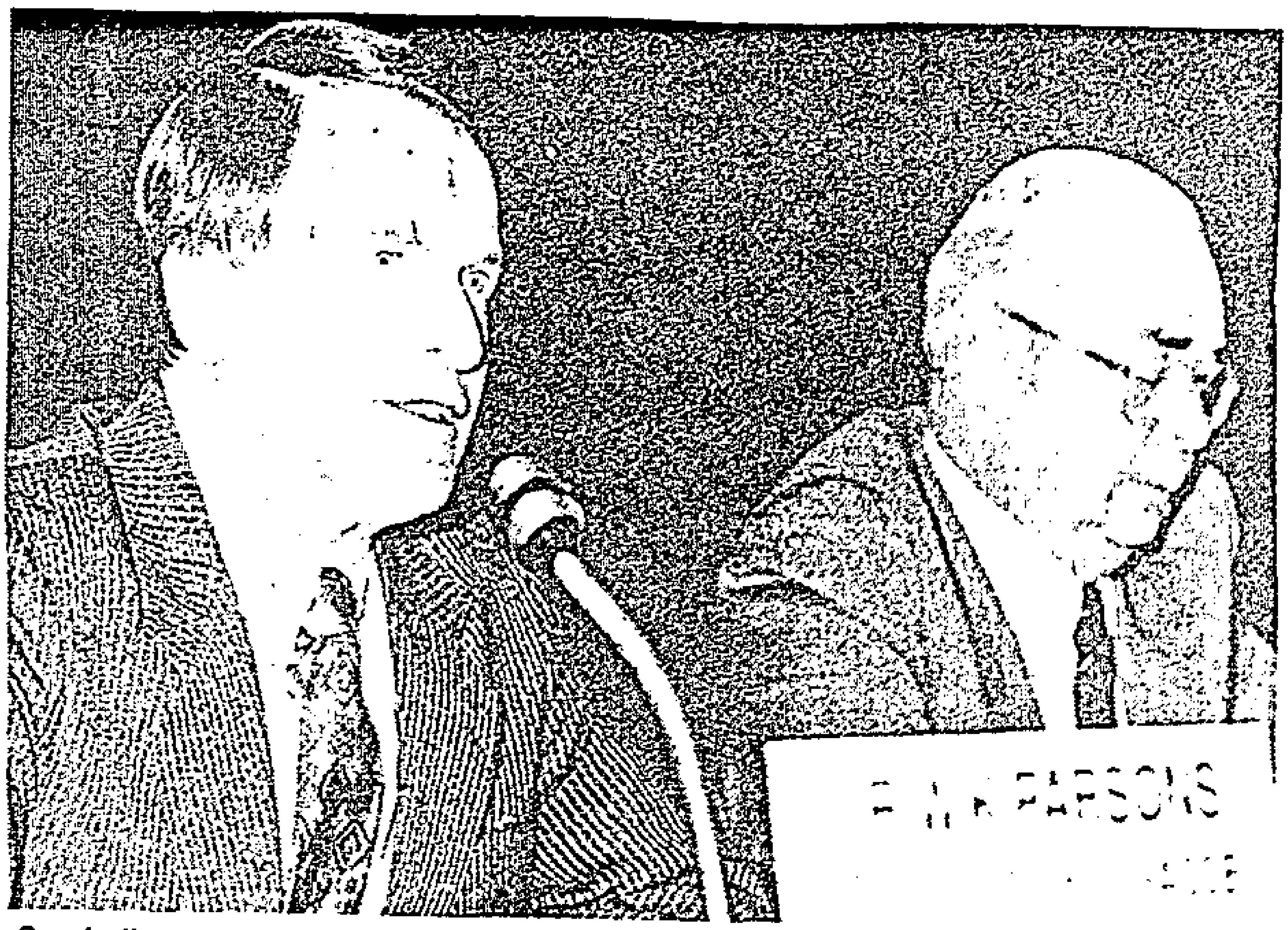
And FSI chairman Jeff Liebesman said the clarification by Vianello of the statement carried in yesterday's Business Day ("Major FSI reshuffle leads to large share price gains on JSE") was consistent with the group's policy.

Vianello was elaborating on his comment that FSI needed to give the assurance that it did not plan to sell W & A or Waicor paper into the market to liquidate its liabilities. B Day 21/9/90

"We have no doubt FSI's cash flow from the enlarged W & A is secure, so there would be no need to sell any of its holdings," he said.

"Indeed, FSI's position will be more than comfortable once the proposals announced this week have been implemented."

Vianello said the probability of lower interest rates and positive commentary from management must "surely nullify" any suggestions that such sales were imminent or contemplated. They also nullified any suggestions that any group company was contemplating any rights issue in the foreseeable future.



Sacob director-general Raymond Parsons, left, and deputy president Denis Paxton presented the organisation's suggested economic strategy for SA at a media conference in Johannesburg yesterday.

Picture: ROBYN RYAN

Sacob moots drafting of ten-year parity plan

BDay 21/9/90 (180)

SYLVIA DU PLESSIS

THE SA Chamber of Business (Sacob) has proposed the drafting of a 10-year socio-economic plan to help establish parity among black and white South Africans in terms of education, housing, health and social pensions.

This was because the cost of establishing immediate equality in these fields would amount to about R51,8bn, compared to a current expenditure of R20,5bn, the "sheer magnitude" of which cautioned against unrealistic expectations and called for creative responses, it said.

The recommendation is one of several outlined in a 35-page document, entitled Economic Options for SA: a Sacob View, details of which were released yesterday.

It has been sent to key opinion-formers and decision-makers in SA and abroad, including State President F W de Klerk, the ANC, and Inkatha leadership.

Sacob director-general Raymond Parsons told a media conference it mapped out what the chamber considered an appropriate economic strategy to underpin political change in SA.

"It is not an economic blueprint in a rigidly prescriptive sense, but sets out how Sacob believes the problems of economic growth and poverty could be tackled in a realistic way. We want an economic system which inspires business confidence both internally and externally."

The chamber says in the report SA has "extraordinary growth potential" despite not being wealthy in terms of real income per capita, and calls for economic reform within a market-system framework.

"Sacob rejects all forms of nationalisation and instead identifies roles for the state and the private sector in solving the problems of the country," it says.

It also urges development of an industrial strategy aimed at beneficiating raw materials as far as possible, restructuring the education system and creating decentralised political structures.

Parsons said Sacob would initiate discussion on the document with those to whom it had been sent as soon as they had "digested" it. It was the second in Sacob's three-phase programme addressing socio-political issues, he added. The third, on economic aspects of any new SA constitution, would be finalised early in 1991.

See Page 8

FSI GROUP FM 21/9/90 (180)

MORE EFFICIENT STRUCTURE

Anybody who compares the proposed structure for Jeff Liebesman's FSI Group with the existing one is bound to see an improvement. Investors have long complained that the group was cumbersome and difficult to understand. A major objective of reorganisation is to create a more logical structure. From that standpoint the proposals will go a long way.

All operating companies are to be placed directly under W&A, which in turn will be controlled by three pyramids. A number of companies will be delisted and the group will be left with five divisions: manufacturing, distribution, retailing, international and financial services.

The sources of W&A's profit will thus be far more apparent and cash flow should be substantially greater after the take-out of minorities in various companies. The cash siphoned off by the often large holdings of minorities in subsidiaries was a problem for top companies in the W&A group even before its acquisition by FSI, which then worsened the situation.

A question that needs to be considered now is whether the new structure will sufficiently improve gearing and cash flow for FSI Corp, where large debt is held. The arrangement does not in itself reduce borrowings at the top, so an easing of gearing will depend on how much cash flow is increased, as well as the extent to which repayment of debt later is facilitated.

To be delisted are Hunts, Homemakers, Teamcor and Citizens. This is to be funded primarily by issues or exchanges of shares, though there is a cash alternative of 600c per W&S ordinary share, or 600c per W&A "B" convertible debenture and 241c per Waicor ord. The effective cash element of the deal — which is valued at some R550m — is expected to be low.

Standard Merchant Bank (SMB), advising minorities, gives its "fair and reasonable" imprimatur to the terms so far as they affect shareholders in FSI, Hunts, Homemakers, Teamcor, Citizens and CIC. Finansbank is the merchant bank to the proposals.

SMB was also asked to evaluate the international interests, now held by FSI but to be put directly under W&A. Liebesman hopes that thorough examination of these will put to rest any concerns that may still exist in the market about their viability — though it is not intended to reveal more detail about them in the accounts at this stage.

The group continues to hold large intangibles on its balance sheet. Liebesman says it has not been decided whether this will remain. It may be written off and then assets will be revalued regularly. According to the proposal document, W&A's net tangible asset value will rise by 42%, from 264c to 375c, but would be 518c after revaluation. Earnings will rise by 4%, from 110c to 114c.

FSI's cash flow does appear to improve. A pro forma cash flow statement, had the structure been in place at end-December 1989, shows a total inflow of R68,8m: R19,6m on 105,7m Waicor ords, R13,5m on 46,7m Waicor preferred ords and R34,2m on 65,7m Waicor convertible debentures.

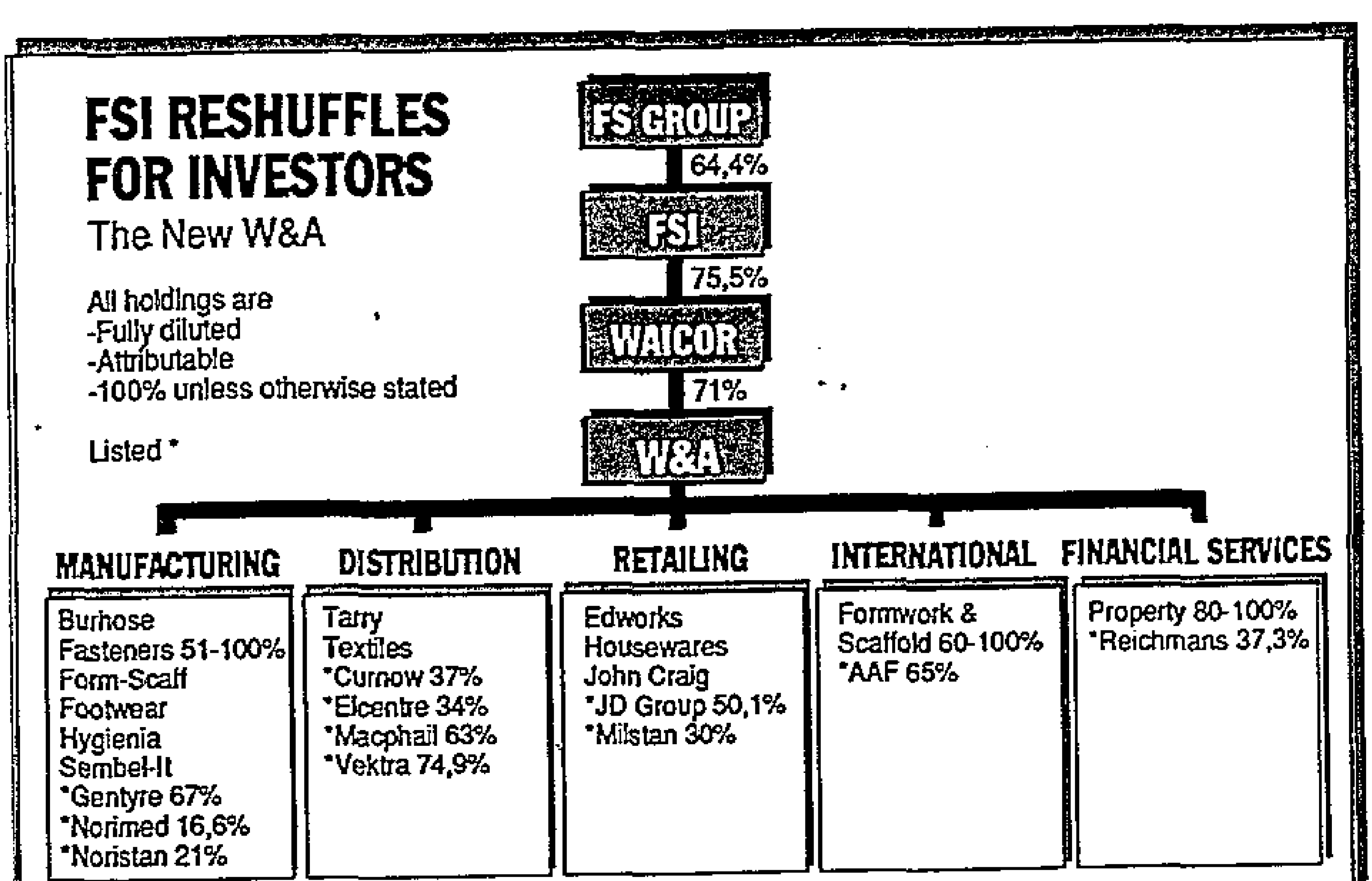
Against this, there is a cash outflow — before dividend payments — of R46,6m: R15,3m dividend on R111m redeemable prefs and R31,3m bank interest on R174m debt. After payment of R19,5m dividends, an available surplus of R2,7m remains.

That does not seem a large margin but also does not appear unduly risky. Waicor convertible debentures will bear interest at 2% below prime and should convert within about five years.

The cash flow risk to FSI Corp is eased in that the bulk of its cash is in interest on debentures, which would take precedence over ordinary dividends. And, if the CD s are rated as attractive an instrument as is hoped, FSI could place the debentures with institutions and use the proceeds to repay its debt.

W&A clearly remains the lower risk vehicle among the holding companies, while the pyramid structure leaves substantial scope for share issues. Indeed, the three-tier pyramid structure is a regrettable aspect of the reorganisation. The JSE has approved it, provided that should any offer be made for any of the pyramid companies, which will result in a change of control, similar offers must be extended to all minorities in the underlying pyramid companies and W&A. That may be within the spirit of the new takeover code, but wouldn't be allowed in London — as Liebesman admits. He is frank that the structure ensures the group can expand while maintaining its independence (or, put another way, his own control). Rembrandt is a well-established precedent; but that does not make multiple pyramids any less undesirable.

Andrew McNulty



HEADING FOR THE HIGH ROAD?

(180)

FM 21/9/90

Business school students are frequently urged to consider changing political trends when it comes to drawing up a strategic plan for their businesses.

Last year, one of the key ponderables they faced was, "What if Nelson Mandela were released." Then, on February 11, most of their assumptions went out the window when Nelson Mandela walked out of Victor Verster prison.

But far from making for a more stable and predictable business environment, that dramatic change has heightened the need for business to re-evaluate its future. Murmurings that private assets might be nationalised, talk of a radical redistribution of resources and a groundswell of support for socialism give rise to a concern that the future economic landscape might be very different from the one we are confronted with today.

Professor Grant Robinson, business strategy, Wits Business School, believes it was easier for business to plan before Mandela's release.

"Government used to set distinct policy directives — even if it seldom stuck to them. The major issue which businessmen had to second guess was the sociopolitical trends.

"The problem is that neither the ANC nor government seem to have a clear idea of where they're going. To second guess where they think they're going requires something of an act of clairvoyance."

The upshot is that both government and business planners have moved into the area of the "pure inspirational," he says. "F W de Klerk has launched us on the high seas of the politics of negotiation, which is incredibly dynamic. It's a situation in which double guessing becomes very difficult."

One thing's for certain, he says, P W Botha's approach to reform within the context of a security blanket and the co-option of ethnic leaders is no more. "Change, in future, is going to be internally driven, but yet externally influenced. Models such as Angola, Namibia and Zimbabwe are not going to be of any real relevance."

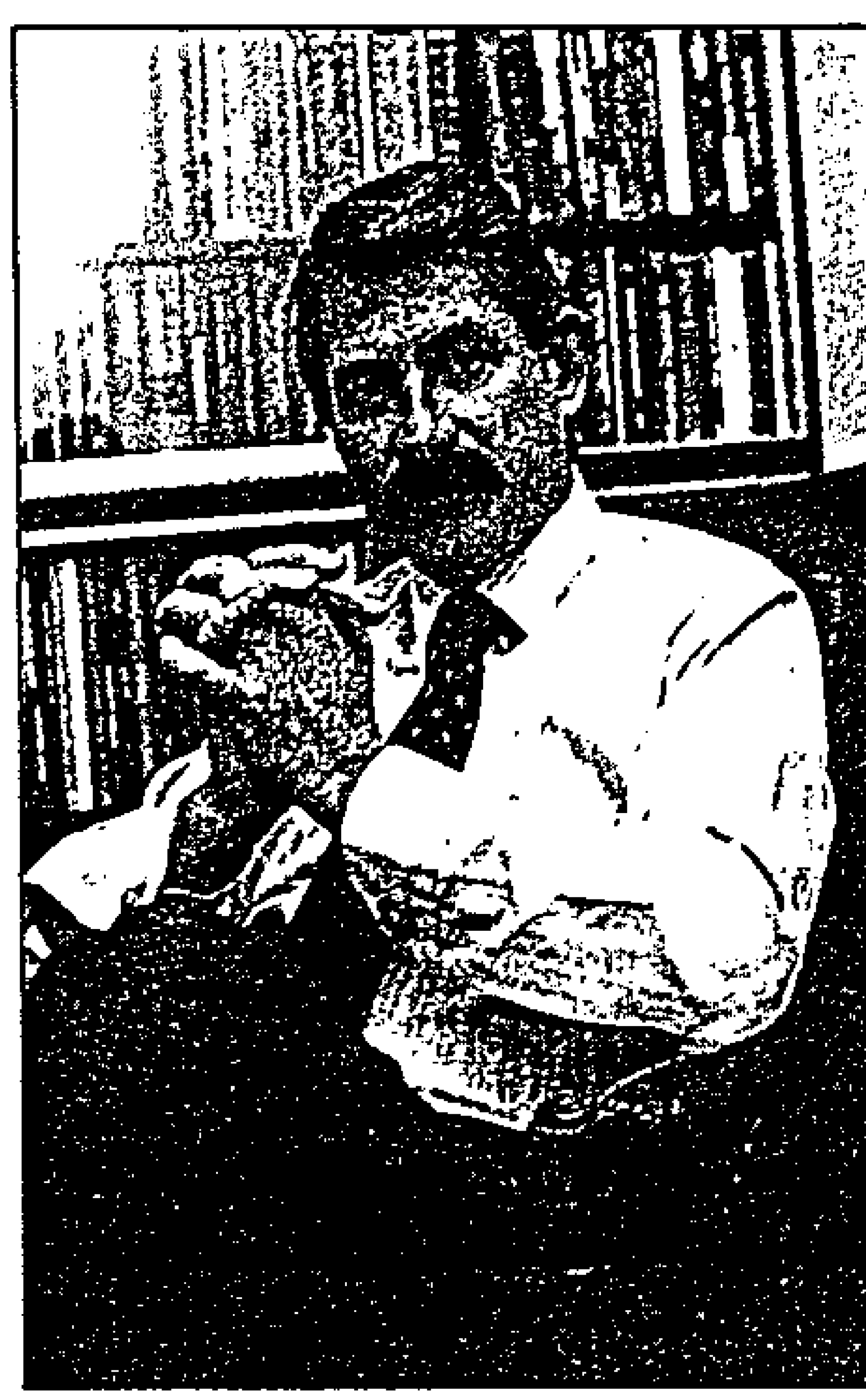
Robinson warns that the vigorous lobby in support of socialism in SA should not be discounted. While SA's Communists might have accepted that communism has failed in eastern Europe, they're busy redefining it as an evolving socialism in the SA context. The good news, if one can call it that, he says, is that at least they see a democratic future for SA.

Economically, Robinson says, the ANC and its cohorts remain confused. They're still talking of wealth redistribution and the breaking up of the mining houses and private-sector conglomerates. Yet, in the same breath, they talk of encouraging foreign investment and business confidence, then threaten to enforce legislative reinvestment and the re-nationalisation of privatised State assets.

"That's what I call the Robin Hood syndrome," he says. "Robbing the rich to give to the poor is one of the most self-defeating missions a government can embark on. The rich don't like being robbed. They'll invariably take their riches with them and get as far away as possible. We've already seen that with De Beers, Rembrandt, Sappi and Middelburg Steel. It could be the beginning of a massive movement and I can't see foreign capital flowing in to replace it."

All that sounds pretty gloomy, but Robinson does offer some encouragement to business planners — as well as some of his own forecasts on how the political drama is likely to unfold:

- SA's new political deal will not be cut by the Nats and the ANC alone. Other players want in, which will lead to an era of increasing political destabilisation (something we're already beginning to see in the township unrest);
- The PAC, for example, has yet to properly declare its political agenda. There's also, he says, real potential for a split between the ANC and the SACP;
- It's unlikely that there will be another election in SA within the next four years under the current constitution;
- More likely, there will be an interim government that will be responsible for drawing up a new constitution;
- The constitution that emerges is likely to be in the form of a two-chamber model with checks and balances to guard against the dominance of one group over the other;
- The constitution is unlikely to be based on race or the protection of group rights. Rather, group interests will be protected by a bill of rights based on the protection of individual rights and freedom of association;
- Contrary to what many believe, he says there's little likelihood of a right-wing coup. The military in SA traditionally sees itself as an extension of government rather than government itself;
- But in the run-up to a new constitution, the role of the police is going to assume a higher profile and become much more contentious.



Robinson ... *clairvoyance needed*

The good news for business is that change in SA is likely to be incremental. The reason, he believes, is that the ANC's economic policies are unworkable.

"They plan to nationalise and rule with organised labour for the benefit of the people and develop the economy at the same time. They're going to be required to pay labour better, fund capital investment and, in general, give the people a better deal. If they don't deliver, people will turn to the PAC and other groups to the left of the ANC."

The upshot, he believes, is that the ANC will be forced to compromise on nationalisation and wealth redistribution. As a quid pro quo, De Klerk will have to give up his insistance on full protection for minority rights.

"Consequently, I don't believe the economy will be markedly different from the one we have now. There won't be major step changes ahead, but business plans will, by definition, have to remain robust and flexible."

Graham Fiford

LITERACY TO THE FORE IN BATTLE FOR SKILLS

SI Times 23/9/90

MANPOWER MIRROR

By Adrian Hersch

CORPORATE social responsibility schemes (CSR) in the US — they took off there after race riots in the late 1960s — have great relevance for South Africa, says an American authority, Myra Alperson.

SA's economy, which desperately seeks higher productivity, needs to tackle its literacy problem and related skills shortage.

As part of the solution companies could encourage on-site literacy programmes in terms of CSR schemes.

A survey on trends in CSR in SA indicates that housing and education enjoy the greatest priority. The study was undertaken by FSA-Contact and covered 101 companies.

Miss Alperson says in the Innes Labour Brief that some companies in the US place such a high priority on CSR that they appoint social responsibility committees on their boards.

Corporations, such as Coca-Cola and IBM, have made multimillion-dollar grants for public education. But other methods are also used.

Some companies that are retrenching, such as Polaroid and Chevron, are funding schemes to encourage employees to become teachers. Polaroid also takes care of on-site literacy training.

Mentor

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In the automobile industry management and unions have developed on-site educational programmes. Ford employees can even obtain university degrees at the workplace.

The "mentor" system is encouraged by General Electric Company. This scheme encourages employees to volunteer — even in company time — as mentors for those interested in science or engineering careers.

Support for minority (black or Hispanic) businesses and banks is a major component of CSR, fostering support for a middle-class of minority entrepreneurs.

In 1989 General Motors spent more than $1-billion on purchases from minority suppliers. It also deposited more than $900-million in accounts of 83 minority-owned banks.

Miss Alperson is project director, corporate social responsibility, at the Council on Economic Priorities in New York. She will be in SA for two years from October, and will be attached to the Labour Brief offices. The publication is edited by Professor Duncan Innes of Wits University.

The FSA-Contact survey shows that 80% of organisations provide housing benefits, whether to their employees or to interest groups the company has identified.

Of those providing housing benefits, 38% are involved in housing schemes in the townships and with community housing self-help schemes (32%).

Priority

About three-quarters of the companies provide education benefits, whether to employees or some other interest group. About 50% assist in the development of schools in areas where their employees live, and an equal proportion help in upgrading teaching skills in the community.

Nearly two-thirds of companies place a priority on health care. But less than half place high priority on the development of small business.

Go for quality, exporters told

Star 24/9/90

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By Des Parker

DURBAN — A big quality drive in the manufacturing and service sectors is essential if South Africa is to export its way out of trouble.

So says Michael Carruthers, president of the SA Society of Quality.

Mr Carruthers told a Quality in the 'Nineties seminar in Durban that locally produced goods would sell in major world markets only if they conformed to the high standards demanded.

The small size of the domestic market necessitated exporting so industry could achieve economies of scale. This would reverse the decline in manufacturing capacity.

Chartist finds meaning in the market's moods

(180)

B Day 25/9/90

MERVYN HARRIS

☐ MARBER

BRIAN Marber is an investment guru who is not in the public domain. He is not a public letter writer like Joe Glanville or David Fuller, who charge low prices for their advice and go for mass circulation. Marber's services cost $25 000 a year.

Marber arrived in SA from the UK at the weekend to speak at a two-day Association of Corporate Treasurers of Southern Africa (Actsa) conference on technical analysis.

"I am not critical of what public letter writers do. But if you are in the public domain you begin to think you are God. It is not for technicians to play God because you fall in love with your own forecasts and your own idea of your credibility," he said.

Public letter writers were taking a back seat in the deteriorating market environment as they wielded less influence in bear markets. But they would come to the fore again in the next bull market.

Through his firm in the UK — Brian Marber & Co — investors constantly seek Marber's guidance on trends in equity markets, currencies and interest rates. His clients include six of the top 10 companies in SA.

They have chosen him because corporate treasurers are less hostile to technical analysis than the investment world.

Fundamental analysis looks at factors and economic trends likely to influence a company or country's profitability. Technical analysis deals with price movements on charts.

"Companies have been so abused by fundamental analysis in the past that they are turning to technical analysis. There is nothing wrong with alternative medicine. By and large, technical analysis works, which is more than can be said for fundamental analysis.

He said technical analysis was the most fundamental analysis. A market's technical conditions determined how it would react to any given, or new, set of fundamentals.

It was not news that mattered but market reaction to the news. How it would react would depend on the market's technical conditions. If, for instance, there was a bull market, all news was seen as good news. Similarly, if there was a bear market, all news was seen as bad.

"The starting point for any market analysis, as well as the last thing that has to be looked at before making any decision, is the price.

"Price contains all the perceptions of fundamental criteria such as people's expectations and the psychology in the marketplace. Price contains everything you need to know, so why look at anything else?"

Marber said fundamental analysis made certain people happy as it was intellectually appealing. But markets were visceral, not cerebral as fundamental analysts believed. In other words, emotions rather than intellect moved markets.

Technical analysis might be short on theory but it was long on empirical examination. It worked on the basis that history repeated itself, and technical analysts represented human psychology in graphic terms through their charts.

"A chart is nothing more than a graphic representation of a psychological state," says Marber.

Charts indicated that global equity markets had entered a bear phase.

Marber suspected it would be a long bear market — similar to the cycle of 1973-4. Investors in the market since 1975 had seen only equity bull markets, which had led them to expect that there could not be long bear markets.

The long bear market Marber foresaw had nothing to do with the Gulf crisis or oil prices.

"Markets have a tendency to do their own thing.

"People spend their lives trying to discover the meaning of life. The meaning of life is that there is no meaning. This is not a philosophy of despair. Why should it be?

"Life is about now. And that is what markets are about," he said.

SA firms join European drive

(180)

NEIL YORKE SMITH

SA COMPANIES were joining the mergers and acquisition (M&A) drive into Europe where attractive opportunities existed in a unified Europe and a more market-oriented Eastern bloc, Ernst & Young Corporate Advisory Services director Claire Herbst said yesterday. BD 25/9/90

She said SA companies were also aware of the potential offered by a market of more than 300-million people. There was "increasing scope" for international transactions involving SA.

"We expect increasing international M&A activity by local companies, as sanctions get lifted and SA businessmen are able to look abroad for markets and investment opportunities."

This trend had already started with some firms having formed European operations. "Recently we have advised SA companies looking to invest in Europe and, happily, a European company investing in SA *for the first time.*"

But she said it would take time for the international community to accept SA as a sound investment arena. "To a large extent they are still waiting on political and economic factors."

SA companies needed to think more globally, Herbst said. "We have to make our businesses more international by encouraging SA companies to invest overseas and allowing foreigners to invest in SA."

She said SA companies wanting to invest abroad were hampered by foreign exchange requirements.

Financial rands had to be used for deals of a capital nature, making overseas purchases very expensive.

"As a result, deals must be carefully structured — great emphasis is placed on cost effectiveness and tax structures."

SA investment in Europe made sense as, aside from opportunities created by social and economic restructuring, Europe was also SA's biggest trading partner, she added.

usual answer was "no", "probably not" r "that is a good question".

Angola and Mozambique, and these countries will change economically overnight."

Moun'ing debt reflects tough 'imes — Volkskas

GERALD REILLY (180)

PRETORIA – The economy's downward trend was reflected in th increase in the number of companies and individual struggling with shrinking business volumes and aounting debt, Volkskas economist Adam Jacobs aid.

He was reading to latest Central Statistical Service figures whih showed that in the three months to end-July this yer the number of summonses for debt increased by 15\ to 252 868 compared with May-July last year.

Civil debt judments also increased — by 13,5% to 127 313. B Day 27/9/90

Jacobs said emand conditions in the economy would continue t weaken and pressure on company profits would imnsify as a consequence.

Increasing nubers of companies well-equipped to withstand the presure would go under and individual insolvencies woul also increase.

"And this tren according to our calculations, is likely to go on forthe next 18 months or 24 months," Jacobs said.

Volkskas custoners complained of increasing difficulties in collectin debts — another symptom of the snowballing recesion.

Factors worsenig the debt issue, Jacobs said, included inflation ad the setback caused by the higher fuel price and th imminent threat of another increase; rising unemployment affecting consumers' ability to pay for goods and services; limited salary increases; and high interest rates.

Gold mines on wane – Zach

Sct 27/9/90 180

The gold mining industry was in all likelihood on the wane, and South Africa would have to turn to manufacture for export markets for a growing economy, said Democratic Party leader Dr Zach de Beer.

Addressing the Islamic Business Chamber on Tuesday night, he also made a plea for a minimum of Government interference in future.

"Hugely expensive apartheid structures, like 14 departments of health, must go soon."

The Government's role had to be that of a coach who refrained from taking part in the game. — Staff Reporter.

New NMC labour proposals likely to draw flak from unions, small business

W/Mail 28/9 - 4/10/90

(180)

By ALAN HIRSCH

PROPOSALS emanating from the National Manpower Commission (NMC) on modifying labour laws to suit small business development will probably meet criticism from both interested parties — small businesses and organised workers. Small business will probably think the proposals do not go nearly far enough, while trade unions may feel workers in small businesses will have even less protection from exploitation.

Trade unions, employer organisations, and small business lobby groups will soon have to respond to a set of proposals for amending the conditions under which workers are employed in small businesses.

The proposals are contained in a "working document" issued by the NMC project committee on small business, designed to provoke discussion and responses, and culminate in amendments to existing laws.

Proposals cover amendments to a wide range of laws regulating labour relations on issues extending from minimum wage measures to safety regulations and unemployment insurance.

A minority of the committee members favoured the blanket exemption of small businesses from labour laws, but most plumped for exemptions for individual firms on application. This is possible under existing law, but could be made easier for small businesses.

The other major thrust of the proposals is the simplification of labour regulations to make it easier for small businesses to comply.

Though it had a fairly open-ended brief from the Manpower Minister, the committee decided to focus on "micro-businesses".

"Independent micro-businesses" are defined as firms which are entirely independent, owner-managed, employing no more than 10 permanent employees, and having an annual turnover of up to R250 000.

NMC chairman Frans Barker, who is a member of the committee, explained that in firms of 10 or fewer people it was likely that the owner-manager would be responsible for all aspects of management. For this reason he, or she, would not have special knowledge of labour regulations, and probably would not have the time to learn them.

Larger firms were likely to have the managerial capacity to cope with the myriad labour regulations and did not need special treatment, though they would also be considered for exemptions.

One of the novel proposals of the committee is that a "facilitator" should be appointed by the Department of Manpower to receive all applications for exemption from micro-businesses, and to hear appeals on decisions by individual industrial councils on exemptions. Barker said employers and employees could draw on the services of the facilitator for advice on procedure in their dealings with industrial councils.

Another innovation the committee has put forward is subsidised arbitration in the case of disputes over dismissals. The idea is to avoid the extended and complex bureaucratic dispute settlement procedure entailed in the Labour Relations Act. If both parties agreed, the NMC could subsidise the costs of an arbitrator.

In response to the suggestion that such a system might be open to financial abuse, Barker said it might help to have a fixed-sum subsidy, and to have a register of arbitrators.

Disputes might also be settled in "small claims labour courts" which should be available in outlying areas.

Where an employee had been found to have been unfairly dismissed, the committee felt a monetary settlement might be preferable to a reinstatement order, depending on the size of the firm and "the degree of personal relationship between employer and employee".

Perhaps the most controversial element of the committee's proposal is that it be written into the Wage Act that the size of the firm be taken into account when exemptions from minimum wage determinations are applied for. This suggests small businesses may expect automatic exemption from minimum wage rules, which, as a labour lawyer pointed out, means no wage protection, as few small firms are unionised.

As far as health and safety regulations, and unemployment and accident insurance are concerned, the committee was divided between die-hard deregulationists, and those who thought the regulations could be simplified enough to make compliance by small firms feasible. The moderates generally won out, though in several cases alternative proposals were put forward without preference.

Barker said summary responses to the committee's proposals must be submitted by October 8, and that oral representations would by heard by the committee a week later.

The next step is for the committee to takes its proposals to the NMC, which will decide what to submit to the minister.

Manufacturers 'replacing workers with machinery'

180

B/Day 28/9/90

GRETA STEYN

MANUFACTURERS in sectors that are usually labour-intensive — furniture, leather, footwear, clothing — are committed to replacing labour with machinery because of perceived "labour inefficiency".

That is one of the findings of a Bureau for Economic Research study, based on surveys among manufacturers, into the reasons for the growing capital intensity of the SA manufacturing sector. The fact that manufacturing had become more capital intensive during the '80s was confirmed by 77,3% of respondents to the survey.

Study author Leon Welcher saw as "particularly worrying" the trend among smaller businesses and traditionally labour-intensive industries to replace labour with capital.

"The rising 'cost' of labour is reflected in increased union activity, rising wages, perceived low labour productivity and increased political activity. Consequently, manufacturers have opted for what was considered the 'cheaper' option and replaced labour with machinery."

But Welcher cautioned against "simplistically blaming organised labour" for the replacement of labour with capital and noted that a range of other factors had contributed to the overall capital deepening.

These were technological advancement, growth factors and concern about future availability of machinery. Capital intensity in larger manufacturers was motivated by technological developments. The prime motivating factor for purchasing new technology was to maintain cost competitiveness.

Stagnation

Welcher found that the policy of import substitution was a major contributor to capital intensity as many of the tariffs and duties imposed by government were a direct result of government's desire to develop capital intensive industries.

"The cost to the economy in 1990 is high unemployment coupled with high capital intensity."

The stagnation over the past decade of employment growth in the manufacturing sector — traditionally the main provider of jobs in SA — reflected the increasing rate at which labour was replaced by capital in the past decade.

Capital was being used to replace labour rather than boost output and that was why no job creation was taking place in the manufacturing sector.

"A startling statistic of the Central Statistical Service shows that between 1980 and 1990 there was hardly any growth in the number of people employed in the manufacturing sector. During the same period, the capital stock of the country grew in real terms by about 15,7%."

The policy implications of the BER study's findings were that policies should encourage capital investment in industries where SA had a competitive advantage.

"Perceived labour inefficiencies need to be resolved through consultation between management and workers."

Companies in brief

Star 1/10/90 180

Rentbel

In tough trading conditions, Rentbel reports earnings per share down from 122c to 70c for the year to june.

"Adverse trading conditions and high interest rates impacted negatively on the group's performance", says managing director Joggie Vermooten.

47 percent and operating profit improved, finance costs more than doubled and net profit fell to R788 000 from R918 000. Total dividends of 3c are down from 3,4c.

Worsening trading conditions and escalating operating costs resulted in pressure on margins, says chairman Selwyn Kagan.

omy and slowdown in consumer spending, railway strikes hit the Atlantis-based company by forcing it to use expensive road transport.

Small business 'has role in new society'

(180) ACHMED KARIEM

SMALL business could contribute to the building of a common society and an integrated economy, SA Reserve Bank economic advisor Sebastiaan Klen said yesterday. 2/10/90

In an address at the Small Business Week symposium, held at Sun City as part of the National Small Business Week, Klen said SA was confronted by deeply rooted structural problems.

Rapid population growth — estimated to reach 47-million by the year 2000 — would require the creation of 380 000 job opportunities a year, or 1 300 a day.

As there was an imbalance between capital and labour, this "clearly calls for a development policy to increase the use of labour relative to capital wherever it is economically efficient".

National African Federated Chamber of Commerce and Industries president Sam Motsuenyane said policy and structural adjustments to remove obstacles to greater business involvement by small entrepreneurs had to be implemented urgently.

SABS, Germans sign agreement

GERALD REILLY (140)

PRETORIA — The SA Bureau of Standards (SABS) yesterday signed an agreement with a German standards authority.

Trade Minister Kent Durr said the agreement could be the first step towards the SABS's official recognition in Europe as a certifying authority.

Durr told an SABS conference on Europe 1992 that Europe and the First World were putting up fences of quality, standards and specifications.

It was vital that SA continued to qualify for entry to European markets and that fences did not obstruct SA trade.

Durr described yesterday's agreement between the SABS and the Deutche Gesellschaft zur Zertifiziering von Qualiatsicherungsystemen (DQS) as laying the foundation for successful exports to Europe after 1992, providing industry with a head start — "an opportunity that must not be squandered". BDay 5/10/90

Durr said there were 475 companies conforming to SABS standards, which had opened doors for export business running into hundreds of millions of rands a year.

The SABS had to take whatever steps were needed to achieve nationwide quality within the present social, political and economic constraints applicable to the SABS and goverment.

Durr said industry would have to play a decisive role in creating wealth in the new SA by increasing the export of manufactured goods and beneficiating raw materials for export.

Star 5/10/90

180

Retrenchments and short-time working faces Western Cape

By Tom Hood

CAPE TOWN — Many factories in the Western Cape this year faced retrenchments and short-time working for the first time in many years, and for many businessmen on a scale not faced before, says the annual report of the Cape Chamber of Industries.

The CCI says: "These regrettable adjustments in the number of people in gainful employment has fuelled the fires not only of unrest and trade union action, but also of

the downturn in demand for the products of industry, and so the spiral continues until events occur which can reverse the process."

The CCI believes the only form of wealth redistribution which will benefit the dispossessed and the country overall is through wealth creation

and it is only by the containing of manufacturing costs and the development of increased economic potential and markets that this can be achieved.

Referring to District Six, the report says the chamber supports the ending of the Group Areas Act and does not

favour the application of Free Settlement legislation to Cape Town.

The chamber was approached "by certain large business interests" to support the Free Settlement laws being applied to parts of the city.

Large employers wanted to get housing for a

growing number of relatively senior executives who, under, present laws, could not always be housed to the standard required.

"The executive council reluctantly agreed to support the proposal, not because they were opposed to what the applicants wanted to achieve, but because it could be held to be a compromise to their already agreed view of settling for nothing less than the removal of discriminatory legislation."

Modernisation boosts Pointer

Star 5/6/90 (180)

An extensive factory modernisation programme undertaken last year has paid off in the form of improved margins for leather garment and handbag manufacturer Pointer Fashion International.

The group lifted operating profits by 27 percent to R1,9 million on sales which rose 15 percent to R15,8 million.

After allowing for an interest bill of R708 000 and taxn of R589 000, attributable profits rose by 16,5 percent to R594 000.

The directors have declared a final dividend of 2c a share, bringing the total for the year to 3,5c (3,0c) on earnings of 7,4 cents per share.

They say that the increased turnover was pleasing, in view of the downturn in consumer spending.

FSI/W&A (180)

PATCHY SHOWING

The FSI group's major holding companies have turned in a patchy set of interim trading results, while attributable performances ranged from slightly improved to sharply down. FM 5/10/90

W&A's operating result for the six months to end-June was surprisingly good, with a 27% advance — somewhat better than the improvement of 23%-odd for FSI itself. In contrast to these increases, were rises of only 3,8% for both Hunts and Teamcor.

Reassuring though the trading results from W&A and FSI may seem, the accounts underscore several points of concern. Firstly, the weak trading results from Hunts and Teamcor reflect sharp deterioration of some of the major domestic operations. W&A's operating profit was boosted partly by the 58%-held UK company, AAF, whose operating profit was up by 56% at £2,5m.

Secondly, interest costs hit the attributable earnings of both W&A and FSI. FSI Corp's finance charges ballooned from R54,9m to R92,2m, reducing the interest cover to only 2,1 times. This resulted in a R2m drop in pre-tax profit — it was only because of a sharp drop in the tax rate that attributable earnings increased.

Similarly, W&A's finance charges more than doubled. This was partly offset by the lower effective tax rate and a larger contribution from associated companies. Chairman Jeff Liebesman blames the rise in finance charges on both higher interest rates and borrowings associated with recent acquisitions. However, the Hunts subsidiary, Teamcor, and W&A subsidiary Homemakers received an aggregate R11m on disposal of certain interests.

These results again emphasise the group's need for a more efficient structure (*Fox* September 21). The share has fallen more than 35% in 12 months despite last month's announcement.

Andrew McNulty

Links benefit businesses big and small

180

BDay 5/10/90

PHILIP MAXTON

THE prime objective of big business is to maintain an acceptable level of long term profitability.

This can be achieved by controlling costs and value to customers better than competitors in a healthy economic environment.

A major avenue for achieving this in SA is for big business to link up with small business. The links should be neither benign nor exploitative, but structured to be in the interest of both big and small business.

SA needs higher employment levels, big business needs to maintain acceptable long-term profits and small businesses need to grow. Careful linking of big and small businesses can satisfy all three needs.

Small business development is required to provide employment to many South Africans. Government has accepted this in its declared policy of deregulation to stimulate the informal sector.

Given the environment of deregulation, big business can assist in the development of the informal sector by passing on the knowledge and experience necessary for commercial success. If this knowledge is transferred to informal sector participants within the correct structure of business-oriented relationships, then the growth of the informal sector will be accelerated.

The links should be formed by big business for self-interest reasons to improve directly its long-term profitability. The benefits to big business are more than purely creating an environment which has more employment; costs can be reduced by linking with a small business as a sub-contractor or as a distributor.

The key for success is to ensure that the small business is assisted with all the inputs required for growth.

A common misconception is that if finance and training are provided to informal sector participants, their businesses will flourish. It has been seen worldwide that this policy does not achieve much success; it fails because small businesses' needs extend beyond finance and training.

A successful development strategy must assist informal businesses to overcome the whole range of constraints to growth.

Small businesses in SA require the following inputs for growth:

- □ Material: the physical inputs into the production process;
- □ Premises, including electricity and telephones etc;
- □ Markets for their products or services;
- □ Training; and
- □ Finance, both short- and long-term.

To develop informal businesses, big business should link with small businesses in order to assist them with these five inputs without which they will not grow.

The formal business sector possesses the skills to assist small business with all five.

However, big business in SA is unlikely to assist black informal businesses with two of the inputs, for self-interest reasons alone.

These are finance and premises. For these two inputs, "social responsibility" schemes have a role to play — or non-profit type bodies can assist.

Big business is reluctant to assist black informal businesses with premises in the townships because of the perceived unrest situation. In addition, big business is unwilling to assist black informal businesses with finance because of lack of colateral.

Bodies such as the SBDC or charity organisations have a role to play in providing finance and premises for black informal businesses, but they must ensure that the informal businesses are receiving assistance with all five critical inputs in order for the investment to bear fruit.

An example of how the "five critical input" approach can be used is the success achieved by Corobrik in developing black informal builders in the Transvaal. These builders are supplied with an economic range of bricks suited to the particular market segment needs (material input).

Corobrik organises for the builders to enrol on building and business training courses (training).

Corobrik promotes the builders among architects (demand).

For the finance and premises inputs, Corobrik helps the builders to link with the SBDC.

By assisting black informal businesses with all five critical inputs, Corobrik has achieved a high success rate in developing this segment of the informal sector.

The benefit for Corobrik is the gowth of a new sector of customers loyal to Corobrik. With the growing black housing market this loyalty is the return Corobrik has received on the investment.

If big businesses link up with small businesses in terms of the five inputs, the big businesses will earn higher long-term profits, small businesses will grow, and employment will be created.

The current role of non-profit type bodies is to provide assistance with finance and premises to black informal businesses, and to facilitate the other essential links between big and small businesses.

□ Maxton is a development manager with the Tongaat Hulett Group, of which Corobrik is a wholly owned subsidiary. The opinions expressed here are his own.

LETTERS

Call for private sector spearhead into the EC

GERALD REILLY

PRETORIA — There was a crying need for a Brussels-based office representing SA industry and business, SA mission head to the European Community (EC) Bhadra Ranchod said yesterday.

Speaking at an SABS conference on "Europe 1992", Ranchod said a private sector lobby to promote SA's interests and monitor developments in a unified Europe would be vital.

"If such a lobby is considered critical to American, Canadian, Japanese and Australian suppliers, then there is no excuse for SA to sit back."

He warned that until a new SA was in place the country would experience a measure of discrimination in gaining access to new markets.

Ranchod said a frontier-free common market of nearly 350-million people provided additional exciting opportunities for SA.

For South Africans it was crucial to understand that the creation of a unified European market was well under way.

The EC was SA's number one trading partner and historically its principal source of capital and technology.

Ranchod warned SA exporters would have to become increasingly competitive to enter or remain in the EC market after 1992.

A robust single European market would mean many advantages for SA, which ranked as the EC's 13th most important source of imports and its leading trading partner in the southern hemisphere.

To take advantage of a prosperous united Europe, SA businessmen would have to adopt business strategies which gave them a competitive edge in a powerful EC.

(180)

25/5/90

High cost of involvement

Bday 5/10/90

MARCIA KLEIN

SA companies spent an average of 10% of net profits on social involvement, compared with an average 2% by US companies, Pick 'n Pay chairman Raymond Ackerman said yesterday.

Speaking at a Sheba event for businesswomen, he said SA businessses had to include social upliftment and social responsibility as part of the running of a good business. 180

He compared events in SA to those in Eastern Europe. In SA the effect of change would result in a power struggle rather than in economic freedom, and a company had to have a positive effect on the hopes of its employees and customers, he said.

EC calls for SA presence

S Times 7/10/90

(180) Business Times Reporter

A PLEA for SA's private sector to "get aligned with the new Europe" was made in Pretoria this week by the Ambassador to the EC in Brussels, Dr Bhadra Ranchod.

"Business in every state in the US has set up its monitoring and lobbying office in Brussels, but the SA private sector is unrepresented," he told the SA Bureau of Standards Europe 1992 National Symposium on Product Certification.

The 450-odd delegates saw the signing of an agreement which makes the SABS the first standards organisation outside the EC whose certification will be recognised by the German certification body DQS.

Calling for the SA economy to be "relaunched" like Western Europe's, Dr Ranchod did not mention bodies which he felt could lighten the load of his mission's two officials dealing with trade matters. However, when the matter was raised in question time, he named the SA Foundation, the Chamber of Mines and the coal industry.

"The coal people have offices in London and Bonn, the Chamber of Mines an office in London and the SA Foundation offices in London, Paris and Bonn. They continue to behave as if Europe is still separate nations and not an integrated place with Brussels as its capital."

Power

A private-sector monitoring and lobbying office could, for instance, produce a monthly update on developments in the EC, for which his office did not have the capacity.

Stressing Brussels' importance, Dr Ranchod referred to power wielded by EC Commission president Jacques Delors. "As chief executive of the largest trading bloc in the world he holds enormous power.

"It was a major breakthrough for SA when State President De Klerk met Mr Delors when he visited Brussels in May."

Apart from that meeting and the visit of the Fact Finding Mission to SA in April, further evidence of an improving EC attitude towards this country was a statement last week by the commission's senior vice-president in charge of development. He had even called on the SADCC countries to address their task "in a renewed light with South Africa as a partner".

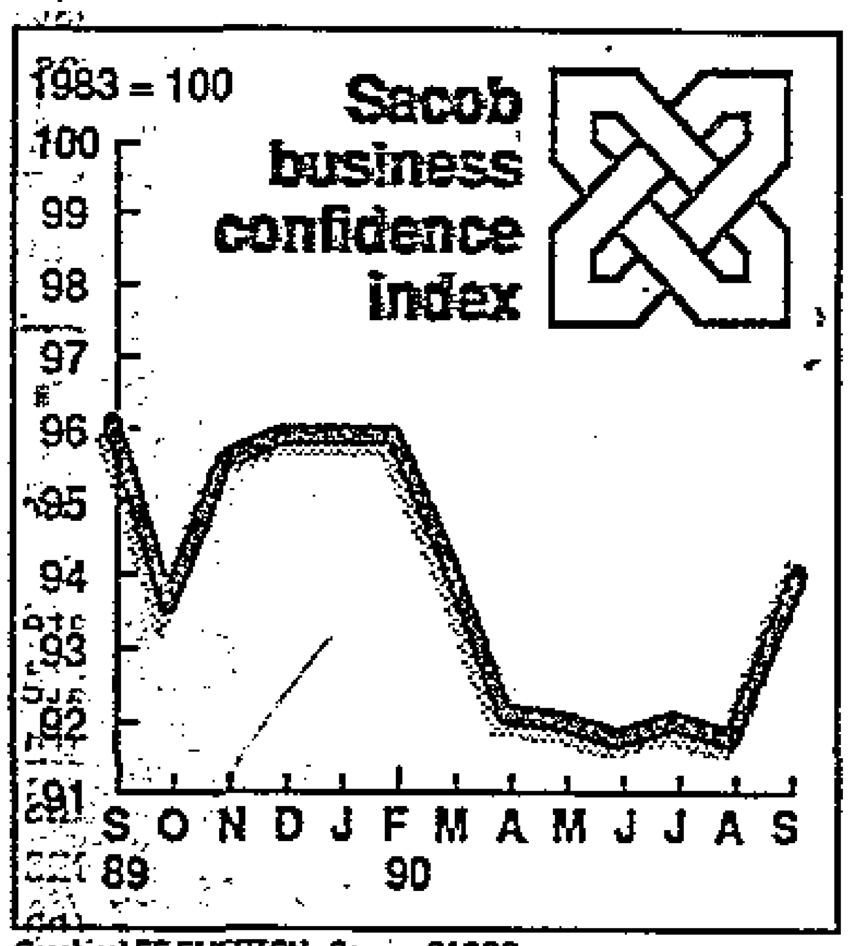
● Next week, Business Times will carry a special feature on Europe 1992.

FW's US visit buoys up confidence

5104 9/10/90

SYLVIA DU PLESSIS

THE recent meeting between President F W de Klerk and US President George Bush helped buoy up business sentiment in September, but a lack of clarity over future economic policies would continue to limit foreign and local investment in SA. (180)



Graphic: LEE EMERTON Source: SACOB

This was the warning from SA Chamber of Business (Sacob) chief economist Ben van Rensburg, who told a media conference yesterday that the ANC's new economic policy document offered little assurance to potential investors.

Van Rensburg, commenting on the chamber's latest business and industrial confidence indices, said a policy which sought to tax businesses more than at present would do little to attract investors.

In addition, it was unlikely to lead to the growing economy required if poverty and unequal wealth distribution were to be effectively addressed.

Sacob's business confidence index (BCI) — measured against the movements of 16 economic indicators — firmed 2,4 points to 94,2 last month in the face of further evidence of an economic downswing.

The rise was due in part to perceptions that township violence had been brought under control; the uneven impact of present economic conditions; and "technical adjustments" in certain raw data inputs to the index.

Sacob's manufacturing activity index, which measures the volume of new orders placed with manufacturers compared with the previous month, fell to a level of 86 in September from a revised 98 in August.

Sacob economist Keith Lockwood said it remained clear recent developments in SA and abroad had done little to reduce pessimism among manufacturers in the short term: sales and production expectations continued providing further evidence of a deepening recession.

Press records history unfairly, seminar told

Sowetan 9/10/90

THE mass media in South Africa is presenting historians with a huge problem because it is not recording day-to-day history fairly, *Sowetan* staffer Mathatha Tsedu said at a seminar in Broederstroom at the weekend.

The three-day seminar was called by the media unit of the Advice Centres Association for officials of 14 centres in the Transvaal.

The centres give free advice to township residents on issues such as legal problems, evictions and unfair labour practices.

Tsedu said liberals and their media have been *using their power as Press* barons to propagate and defend the system of capitalism.

"Any black person who does not criticise capitalism is groomed and built up as the chief spokesman of black people all over.

"On the other hand, people who speak for socialism are shunned and vilified. The barons further use their power over the media to popularise our struggle for land and social justice, as a struggle for the mere removal of apartheid.

"Those who will use these newspaper cuttings to compile a proper history, will be faced with the enormous task of looking for a lot of unpublished material to reflect the true history of this country."

Sessions

Penrose Studios' Chrissy Peter and *Sowetan* chief sub-editor Ivan Fynn conducted sessions on how the media works including editing, sub-editing, layout and design for the benefit of the ACA's *ACA News*.

Sowetan sub-editor Mike Tissong discussed sub-editing, the writing of press releases and presenting Press conferences.

Sunday Star journalist Nomavenda Mathiane discussed feature writing and Thabo Leshilo of *The Star* discussed the writing of news stories.

Mandela appeals to businessmen

(180)

By JOSHUA RABOROKO

DEPUTY president of the African National Congress Nelson Mandela yesterday appealed to the business community to "pay very careful attention" to the discussion document on the economic policy of the ANC.

Addressing a dinner held in honour of 64 South African black business people who will be going on an "observation mission to the United States", he said that the ANC wanted input on the document so that "we would have the benefit of your expertise" before it reached its final stage. Sowetan 9/10/90

He said: "We believe that this document makes it clear to all businessmen and businesswomen, in South Africa and abroad, that the ANC is honestly engaged in finding a way to end the imbalances from the policies of race discrimination in South Africa . . ."

Business confidence deteriorating

Star 1/10/90

180

STELLENBOSCH — Business confidence is deteriorating over a wide front, showing the fact that the economy is firmly embedded in a recession, says the Bureau for Economic Research (BER) at Stellenbosch University.

Its latest survey of wholesale, retail and motor sectors found that despite ostensibly good sales, confidence had deteriorated rapidly, with almost eight out of 10 participants saying business conditions were unsatisfactory.

Although there had been sales optimism, 69 percent of respondents said general business conditions had deteriorated since a year ago, and 51 percent expected a further deterioration in the fourth quarter.

In the wholesale industry, third-quarter sales volumes were down, compared with last year. This was the first time since the third quarter of 1985 that a net majority had reported a decline in real sales. — Sapa.

Industrial chamber launched for black manufacturers (180)

THEO RAWANA

THE emergent black manufacturing industry has been officially recognised with the launch of the National Industrial Chamber (NIC) by black business organisation Nafcoc on Tuesday. 11/10/90

Addressing the launch in Johannesburg, Nafcoc president Sam Motsuenyane said: "Among the specialised services in which the new industrial chamber seeks to provide assistance to emergent manufaturers are: The raising of finance, location and premises; procurement of raw materials and the pricing, marketing of manufactured products."

Although the the chamber is part of the Nafcoc family, it is autonomous, with its own office-bearers and committee, membership funds, programmes and projects.

Vital Sacob and ANC talks likely

Sowetan Correspondent

THE South African Chamber of Business hinted this week that talks with the African National Congress about a bold new blueprint for the economic future of South Africa may be imminent. Sowetan 11/10/90

Sacob director-general Mr Raymond Parsons said there had already been signals of a positive response from the ANC about weekend proposals that top-level meetings should be held to seek wider concensus on future economic strategies outlined by each side.

"We are already busy with the structure of an agenda," he told a news conference in Johannesburg. A date had yet to be fixed for discussions.

Talks between big business and the ANC hierarchy were suggested by Sacob in the wake of the release of an ANC document setting out the economic policies that should be pursued in a post-apartheid era.

The document is now expected to be debated inside the ANC at branch level before the declaration of any formal economic manifesto - expected to be ironed out in the next few weeks.

Sacob has already welcomed what it saw as more realism in ANC thinking - but voiced disappointment that nationalisation and collectivism still appeared to be high on the ANC agenda at the moment.

BLACK BUSINESS FM 12/10/90

AMERICA OR BUST

ANC deputy president Nelson Mandela and US ambassador Bill Swing were among the 400 political and business representatives at Sunday's gala send-off for 85 business leaders on an 18-day Black Business Observation Mission to the US.

They will visit five American cities, including New York, where the mayor will give them the key to the city.

Willie Ramoshaba of WR Consultants, who arranged the mission, had originally hoped to get 120 participants. The R14 000 price tag and foreign exchange limitations on would-be members from neighbouring countries kept the final total down, he told the gathering at the World Trade Centre near Jan Smuts Airport.

So as not to be seen as a sanctions-busting effort, the group is not calling itself a trade mission. But members are hoping to make contacts that will serve them well in the years ahead. One of the stops will be at McDonald's, the Chicago-based hamburger giant, where several members are expected to discuss franchising opportunities.

"We want to study at first hand how (the US) system works," says Dr Nthato Motlana, leader of the mission and chairman of the Get-Ahead Foundation. "We come from

FM 12/10/90

a country where a racial oligarchy created a socialist welfare system for the whites and virtualy enslaved the blacks to subservience in this system. We blacks are thus without an entrepreneurial culture.

"On our visit we hope to learn from both black and white Americans how to turn the 80% of our people who have always been job-seekers into creators of jobs and wealth."

Institutions just waiting to pounce

(180) Star 13/10/90

Inside Out

ANN CROTTY

SOME prices moved up, some moved down — but nobody bought or sold. It was all very quiet with just the wash of institutional funds lapping in the distance — loud enough to seriously disturb brokers who are now having to contemplate the prospect of retrenchment.

In what seemed like a fairly desperate attempt to provoke some enthusiasm, Myles pointed out that institutional investors are currently building up considerable cash reserves.

This means that as soon as the market turns up, and the first of the sheep come back to the market — prices should move up dramatically.

But in the nearer-term, given the grim outlook for industrial company results, only the most hardened contrarian would be an enthusiastic buyer of equities.

Then there's the ongoing Middle East crisis which has done nothing for gold or any of the other precious minerals. Myles hears talk of some Iraqi bank trying to sell a few billion dollars of gold — not the sort of rumour that will get gold soaring to new highs.

And as if that wasn't bad enough, there's speculation of another petrol price hike this weekend. And air fares about to go up — again. All very very grim.

Sasol is seeing some benefit. Apparently it's being punted among London investors who seem quite keen.

Myles wondered if anyone had seen Digoco's results. They were released in one of the Afrikaans papers last Saturday — a move which seems designed not to excite too much response from investors. He can't remember the details but thinks some size of a loss was reported.

Some news about the assets that are being injected into Furntech should be released this week.

Apparently Vivian Imerman will not be involved in the Graham Beck-led consortium that's buying out Union Wine. Of course no one ever said for certain that either he or Royal Corporation would be involved — but there was some speculation — now it seems he won't be in the deal.

There should be some reasonably firm news on the Spareco front, next week. The major creditors are due to have a meeting on Wednesday to discuss the various offers that have been made to the liquidators — leading the list is the one from Vaaltrucar. But there are others.

It seems ages since anything's been heard from Pepgro — almost three weeks since the talks with Tradegro were terminated and still no news of a new acquisition target. Has Mr Wiese finally come to terms with having so much cash? Myles reckons that the next target will be something like Frame ... interesting thought.

Talking of which, if Pepgro and Tradehold had got together, the latter's Fraser subsidiary would have provided a nice outlet for Pepgro's blankets — this could have hurt Frame.

It looks as though Gants is still out of favour. Myles says he's heard something about the disposal of one of their factories.

No news about the Fedfood deal. Myles is quite certain it relates to the disposal of the group's local and Namibian fishing interests. Apparently they're being sold to an unlisted company that is getting some funding from an overseas party.

And then there's De Beers. The slide continues, with talk of it going to as low as R53. Did somebody mention R135?

Big firms will 'hire exiles on merit'

Star 13/10/90

(180)

BRIAN SOKUTU

SOME of the country's major industries this week said they would employ returning exiles on merit, regardless of qualifications obtained from Eastern bloc countries.

Premier Group spokesman Barbara Bester said Premier would "welcome additional skilled people in the South African job market and would certainly give them every opportunity to join the group if vacancies exist and their skills are appropriate".

Shell said the company had not yet been approached by any organisation with a specific request to employ returning exiles.

"However, we are quite willing to look at all applicants for jobs and match their qualifications and experience against those required for the employment opportunities we have available at the time."

Toyota said it used the Human Sciences Research Council to establish the local level of competence of job applicants with foreign qualifications.

Said De Beers spokesman Andrew Lamont: "Our policy remains that we will continue to select and recruit individuals on the basis of merit that the job requires."

Fewer companies buying cars

Star 15/10/90 (180)

Corporate buyers are not confident enough to embark on any major spending spree at present, says Brand Pretorius, marketing MD of Toyota SA.

Mr Pretorius, commenting on the recent drop in car sales, said the market had benefited from some pre-buying in August in the face of uncertainties about price and supply.

"It would have been nice to see this level of activity sustained through September but the total market dropped off by 9,7 percent last month."

The market was still down by around eight percent in real terms, even allowing for the inability of Mercedes-Benz to supply cars.

The used car market had improved a bit but stock was still moving slowly.

"Corporate buying has effectively reached a plateau, mainly because the relative profitability of major companies has dropped off. They are a bit jittery about the medium-term economic prospects.

"Value for money is certainly outweighing pure status considerations. If we look at the small and light car sector of the market we find that today vehicles in this class account for almost 70 percent of sales.

In the early 'eighties small cars accounted for just 45 percent of sales.

Medium commercials were benefiting from a buy-down trend but this was to the detriment of heavy vehicles.

However in the sensitive light commercial vehicle market, year to date sales were down 19,5 percent.

In the same time span the passenger vehicle market shrank by 5,4 percent.

"Interest rates have stayed high longer than anyone anticipated and this means that we will have to wait a bit for any real upturn in demand.

"There will be price stability from our side up to the end of the year but we may not be able to hold our price increases at the same low levels in 1991." — Sapa.

Sowetan 15/10/90 (180)

Sowetan Business

Nafcoc to review sanctions stand

By JOSHUA RABOROKO

The National African Federated Chamber of Commerce is to review its policies on economic sanctions and prospects of black and white partnerships in the light of political developments in South Africa and internationally.

The chamber will hold its sixth summit at the Venda Sun Hotel between October 19-21 where it will make far-reaching decisions on these and other issues.

The chamber will also look into the draft document released by the ANC on its economic policy.

Nafcoc public affairs manager Mr Gabriel Mokgoko said the conference represented a forum for a serious and sober exchange of views among the various leaders of the chamber.

It will receive reports on:

* proposals for policy framework regarding land ownership and housing;
* proposals for policy framework regarding entry of blacks into the world of corporate business;
* proposals for an action programme geared towards the promotion of ownership and control of productive assets of certain corporate businesses; and,
* Nafcoc's continued participation as observer on the Preferential Trade Area, and Federation of Chamber of Commerce and Industries of PTA in which 15 countries of the sub-region are members.

He said unlike previous summits, all taking place against a background of systematic economic and political repression, this conference would take place against a background of events in which far-reaching changes in the life of the black man and the country as a whole were expected to take place.

At its previous summits, Nafcoc resolved that it would not take part in any future efforts to encourage new investments in the country where blacks were not meaningfully involved.

However, the chamber said it would not campaign to oppose disinvestment or sanctions. It accepted that the withdrawal or non-introduction of foreign investment would impact very strongly on the country's economic life in which the members of Nafcoc were actively involved.

It had also resolved that there was a case for selective economic pressure unless:

* all political prisoners were released;
* all black political organisations were unbanned;
* Government entered into dialogue with credible black leaders and committed itself to dismantling apartheid.

. Mandela approached Anglo (180)

ANC wants funding from big business

BDay 18/10/90

ALAN FINE

THE ANC has launched an initiative to raise millions of rands in funds from SA's corporate sector, a move that has created huge dilemmas for the business community.

It is understood that senior ANC leaders, including Nelson Mandela, have met a range of top businessmen in the past few weeks to broach the subject of monetary donations and payments in kind for activities ranging from the resettlement of exiles to the purchase of office equipment.

Indications are that the organisation is seeking large amounts — well into seven figures from the larger corporations.

Business Day has tracked down two corporations that have been approached, and one that has reason to believe it will receive a request "any minute now".

One of the former, Anglo American, refused to comment at all on the approach made by Mandela at an October 3 meeting with chairman Julian Ogilvie Thompson and former chairman Gavin Relly. The encounter was described at the time as "private and informal".

Citing the extreme sensitivity of the issue, the other two — also leaders in the SA business community — agreed to talk to Business Day only on condition that they were not identified.

Neither has yet given, or is ready to give, a firm response. They indicated requests to fund party political activities raised dilemmas in principle. Regarding the ANC in particular, there was concern about its hostile attitude to big business.

There was a general resistance towards getting involved in party political funding for the purpose of buying business or financial favours. One company's representative said he believed that if businesses were going to be involved in funding political parties, they would have to be more even-handed than they had been in the past.

He agreed there had been substantial corporate funding of the NP and the DP and its predecessors. It now had to be recognised that company stakeholders supported a range of parties.

His approach, if party funding was to become the norm, would be to support all groups that upheld values such as commitments to negotiating a new SA, to economic growth, to multi-party democracy and to the rule of law.

"There are obviously groups which would not qualify in terms of these principles — for instance, the CP, and the PAC too for as long as it refuses to participate in the negotiating process," he said.

He added it would be a cynical view to assume that providing funding to the NP and the ANC was a way for companies to "hedge their bets". If there was to be corporate funding of political parties, the goal should be to "contribute to a constructive political process".

Both he and the spokesman for the second company made it clear they would feel more comfortable if the requests were for specific social projects — such as the resettlement of exiles — rather than for pure party political activities.

The second spokesman said it was basic policy not to sponsor political parties and

☐ To Page 2

ANC

BDay 18/10/90 (180)

☐ From Page 1

his company was unlikely to fund pure political activities "although we would be foolish not to consider any request".

ANC economic policy, particularly its attitude to large businesses, would be an important issue, one spokesman said.

Few businessmen believed that nationalisation was a serious policy option for the ANC, but there was concern about its policy on dismembering conglomerates.

"We would certainly first demand answers to questions about their intentions on economic policy, and particularly whether they expect us to support a party whose strategy is to break us up," he said.

A further dilemma on the part of both spokesmen was expected anger on the part of non-exiles, should the companies make large donations to exiles.

"This would, for example, mean giving exiles privileged access to housing while many of our own employees are not adequately housed," one said.

Repeated attempts to reach the ANC's treasury department for comment were unsuccessful.

Leslie Bergman ... heading Andersen's expansion into Eastern Europe Picture: CATHERINE ROSS

SA businesses 'have upper hand' in Eastern Europe

5102 13/10/90 **ROBERT GENTLE** (180)

SA businesses wanting to operate in Eastern Europe had an advantage over their Western European rivals because the problems facing the region were similar to those in the SA business arena.

These included ethnic and language differences, and a certain Third World component which resulted in a lack of sophistication among a large part of the population.

This was the view of Leslie Bergman, the South African who in July was appointed to the Austrian office of Andersen Consulting to head the international consulting firm's expansion into Eastern Europe.

Bergman was speaking in Johannesburg during a break from his activities in Vienna and Eastern Europe.

"Western European businessmen have become used to operating in an efficient commercial environment. In SA, however, we know one does not always get everything done with the first phone call."

He said SA businessmen were culturally more in tune with Eastern Europe, and could put to use the experience gained in the complex SA business environment.

One such field was the provision of financial services like loans and automated teller services. "We have the expertise in offering such sophisticated financial products to middle and lower ends of the market," he said.

B/Day 19/10/90 180

'Baasskap' seen as strike cause

HUMAN resources specialists should address the issue of "how to deal with baasskap" as a matter of urgency, Centre for Development of Human Resources director George Negota said yesterday.

In his talk at the Institute of Personnel Management convention he said "baasskap" had been at the centre of many strikes at industries in SA.

"The fact that SA companies pay lip service to the enforcement of human resources management principles has created room for 'baasskap' to breed and expand to the level where it has become cancerous," he said.

SA needed a concerted programme of action in which technikons, the private sector, professionals and government should form a part, he said.

The role of technikons should be to respond directly to the needs of both the private and public sectors by providing tuition.

The programme should be aimed at school dropouts, particularly from Bantu Education, to provide them with job skills.

Business 'must redress housing imbalances'

p10 am 19/10/90 (180)

Own Correspondent

DURBAN — Business would have to redress the imbalances in housing and address low standards of medical treatment, Standard Bank Investment Corporation group MD Conrad Strauss said yesterday.

He was the closing speaker at the annual Building Industries' Federation of SA (Bifsa) congress.

Strauss said it was no longer enough to be a "good corporate citizen" — more was required.

The key would lie in human resources management. Inadequate training was a major constraint on development and coupled with unrealistic expectations in disadvantaged communities, serious conflict could ensue unless business took steps to redress the imbalance.

Imbalances occured in housing, low standards of medical treatment, inadequate infrastructure and communications. Management would have to take corrective action — something new for most in SA.

The provision of housing, health care, pre-primary schooling and other social services had been a feature of business operations in several leading manufacturing countries for a long time.

Small business should be promoted because it created jobs and it made people aware of the market system. Managements could spread their buying to this sector.

Discussing the trends towards increased mechanisation, Strauss said it had been promoted in the past for political ends.

However, business was faced with militancy from trade unions, which resulted in rapidly rising labour costs, while importing machinery strained the balance of payments and was costly because of a weak rand.

He said the next five years would be difficult economically for the country while it was undergoing rapid change.

... wearing 31 carats.
Picture: REUTER

Be proud you create wealth, firms are told

180

BDay 19/10/90

MARCIA KLEIN

COMPANIES should pride themselves on being wealth creators, and advertise themselves as such, says Anglo American Corporation public relations and public affairs director Bobby Godsell.

Godsell spoke on the role of companies in building communities at the third annual Sandton Community Investment Awards banquet, organised by the Sandton Chamber of Business, on Wednesday.

He said it had become fashionable for companies to speak about social responsibility. He did not subscribe to the view that making money was morally dubious, but believed a company's core role was the creation of wealth. Through that, life opportunities were enhanced.

Second role

A company's responsibility began in the "backyard", he said. There it could develop skills and human dignity and share power.

A second role for companies was in the building of communities, starting off closest to home with customers and suppliers, said Godsell.

Anglo tried to buy goods and services in small packages, "which is not easy", but companies should try to place business with small entrepreneurs and so help to spread wealth creation through the community.

There were vital ways to build SA and communities within SA through housing, health care, education and crime prevention.

Anglo, said Godsell, had by no means cracked the challenge of being able to offer secure and affordable housing to all its employees.

On crime prevention, Godsell said it was a paradox that SA was a police state without an adequate police force. Crime prevention was a priority for all South Africans and not just a suburban concern.

Companies could enhance safety for employees travelling to and from work.

In general terms, SA management was already among the most socially conscious, because "we have to be, we need to be in order to survive", he said.

Awards were presented to Pick 'n Pay for the development of human resources, to the central Transvaal region of Eskom for the development of individual potential, and to the Sandton Civic Foundation for community improvement.

The Perm, Avroy Shlain and Nissan were also finalists.

Anglovaal pushes up its earnings to R238m

BDay 19/10/90

ROBERT GENTLE

THE Anglovaal group, whose myriad subsidiary and associate companies operate in finance, mining and industry, has increased consolidated attributable earnings for the year ending June by 30% to R238m (R183m).

The R238m figure comprises minerals and other metals (31%), foods and beverages (21%), diversified business (15%), packaging and rubber (13%), finance and other (8%), construction/electronics (7%) and gold mining (5%).

Earnings a share rose 24% to 530c (427c). This translated into a 21% increase in the total dividend a share from 76c to 92c.

The group, which employs 88 000 people, thus boasts a 28% average annual growth in earnings a share over the past five years. The corresponding growth in dividends per share is 21%.

Chairman Basil Hersov said in the annual report released yesterday that the most significant factor contributing to the higher earnings had been another considerable increase in the equity accounted earnings of 60%-owned Associated Manganese Mines of SA.

The reasons included increased dispatches of manganese, iron ores and ferrochrome; higher US dollar prices for all products; and the lower average value of the rand against the US dollar.

Group earnings had also been enhanced by results flowing through for the full year from recent acquisitions.

The cessation of losses relating to the operations of the Klipspruit Colliery, sold in June last year, had been "another positive factor", Hersov said.

However, reduced profits had been recorded by most of the group's gold mines — the result of a declining gold price and escalating working costs.

This was reflected in the huge fall in gold mining's contribution to group attributable earnings — from 16% last year to only 5% this year.

Gold earnings were further constrained by the effect of expenditure on exploration and purchase of mineral rights.

The exploration programmes for gold in the northern Free State, conducted through Sun Prospecting & Mining and Oribi Prospecting & Mining, continued to account for the largest portion of such expenditure, Hersov said.

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Strategic

Total expenditure on the Sun area amounted to R205m by end-June 1990, while total expenditure for the current year was estimated at R51m.

On the foreign front, Anglovaal's associate mineral resources company Anglo Pacific Resources (APR) made "satisfactory progress" in consolidating its position and expanding in industrial minerals.

Hersov said the investment in APR was strategic and it was not expected that APR would make any significant contribution to group earnings in the short term.

On future prospects, Hersov said the major challenge of the coming year would be the maintenance of earnings a share on the increased share capital resulting from the R882m rights offer and the simplifying of the share structure.

Industrial expansion key to prosperity — Alant

EDYTH BULBRING (180)

PRETORIA — Industrial expansion ~~was the~~ lever to creating quality job opportunities, manufactured products and high value-added exports, Trade, Industry and National Education Deputy Minister Theo Alant said yesterday.

This was the road SA had to follow to ensure growth of the economy and increasing prosperity, Alant told a Naacam convention.

The policy for economic development in SA that would sustain essential growth requirements into the future was largely based on the diversification and expansion of industrial activities.

Vast opportunities for expansion were still possible through the vigorous pursuit of exports, inward industrialisation and, to a lesser degree, through import substitution, he said.

BDay 19/1/90

Investment

The motor industry was a key contributor to the economy, and with the exception of the mining industry, it was the largest contributor to industrial production, Alant said.

Motor industry exports were estimated at R470m this year, compared with R25m three years ago, he said.

To become competitive in the international market would require large investment in new technology.

However, the capital needs were so great that they could not be satisfied from internal sources alone.

While most foreign investors were waiting to see which economic system would be followed in the new SA, some involved in the motor industry were investing large sums on a continuing basis and were already reaping substantial benefits, Alant said.

Few fields left for import substitution

By REG RUMNEY (180)

ANOTHER idea put forward in the ANC document is tied in with growth through redistribution. WMail 19/10-25/10/90

The authors feel the growth path followed by the government up to now has been "orientated towards producing consumer goods for the wealthy minority". The South African manufacturing sector is uncompetitive internationally, depending to a great extent on imported machinery and equipment paid for with foreign exchange earned by exports of wasting mineral assets.

However, as former Federated Chamber of Industries' economist Roelof Botha points out, there are few areas left for import substitution. An import replacement policy has been followed in South Africa since the Twenties, though the drive to produce locally was given added impetus by World War II.

The ANC says we cannot develop as an industrial society "unless our manufacturing industries can become less dependent on imported inputs paid for by mineral exports".

However, Botha stresses that to produce the type of inputs now imported would need capital that could not be justified in the small domestic market.

Blacks debate sanctions call

(180) (20) (2885)

By MANDLA TYALA

ORGANISED black business is meeting this weekend to take some tough policy decisions.

Top of the agenda of the National African Federated Chamber of Commerce and Industry (Nafcoc) conference in Venda is whether to call for the lifting of sanctions against South Africa.

Heated debate is also expected over proposals that black-white partnerships in township business ventures be encouraged.

The sanctions resolution will be particularly controversial for Nafcoc because of the chamber's close working relationship with the ANC, which continues to campaign for sanctions to be maintained.

S/Times 21/10/90

Opposed

Nafcoc decided in 1986 that it would not take part in any efforts to encourage new investments in the country unless blacks were involved.

Nafcoc president Dr Sam Motsuenyane said yesterday he had new thoughts on the issue of economic sanctions, but would not divulge these before addressing a closed session of the conference.

For the past 12 years Nafcoc has been opposed to the injection of white capital into township businesses because the Group Areas Act prevented black businessmen from trading in white areas.

Black traders argued that they did not have equal access to sources of capital.

Noting that black-white partnerships could only exist and thrive in a climate of equality and mutual trust, Nafcoc resolved in 1978 that black businessmen trading in black areas be protected against unfair competition from their more affluent and privileged white counterparts.

Although many black businessmen now acknowledge that trading restrictions in white areas have gradually fallen away, they believe township businessmen still need to be protected from the big guns of white business.

(180) BDay 22/10/90

Corporate giants trade at low levels

NEIL YORKE SMITH

SOME of SA's corporate giants are trading at or near their lowest levels on the JSE this year — but fund managers and analysts expect prices to fall further as the threat of world recession looms.

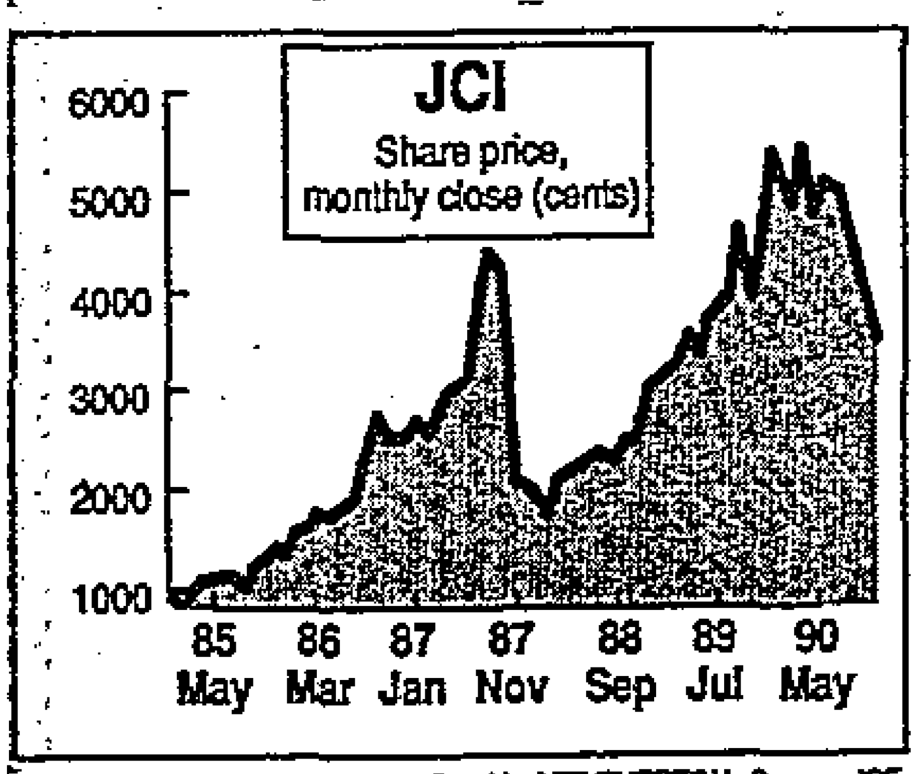
"Yields are still nowhere near levels reached in previous bear markets so shares could well fall further," a J D Anderson analyst said.

Mining based conglomerates dominate the list of "blue chips" trading at dismal share prices.

They include industry leaders like Barplats (at 500c, a fraction of the 1 800c 12-month high), Rusplats (5 875c off 9 250c), De Beers (6 150c off 11 000c), Anglo American (9 100c off 14 900c), Johnies (3 350c off 6 100c) and Gencor (840c off 1 375c).

"The outlook for precious metals is bad — the heavyweights are being sold down in favour of cash instruments which are safe and offer real returns," a Davis Borkum Hare analyst said.

But non-mining leaders have also been battered. Companies like electronics group Reunert, industrial holding company F S Group and chemicals business Sentrachem all touched annual lows recently.



Graphic: LEE EMERTON Source: JSE

"Heavyweights are more liquid — they are being sold as investors hope to buy them cheaply when the market bottoms."

"Shares in smaller companies are less tradeable and some investors are riding out the storm as they may be unable to repurchase the shares they sell when the market turns," the J D Anderson analyst said.

Another broker said clients were advised to sell holdings in diversified conglomerates and buy into more focused businesses.

"At best the conglomerates will match the indices, but some of their subsidiaries should outperform the market," he said.

Are bargains to be found at current prices was the question put to AA Life GM (investments) Stephen Meintjies. He said: "Some shares look oversold but institutions are holding back in case they move even lower."

This was confirmed by Sanlam's GM (investments) Ronnie Masson. "We are not selling equities but are withholding funds as share prices may drop further."

As usual, institutions were acting on the herd instinct, an analyst added.

"Selected shares look attractive at these prices but at current interest rates cash is still king," he said.

"The moment one institution starts buying they'll all rush in and chase the same stocks."

Pointers to sluggish growth in the manufacturing sector

(180) (KEI) B/Day 22/10/90

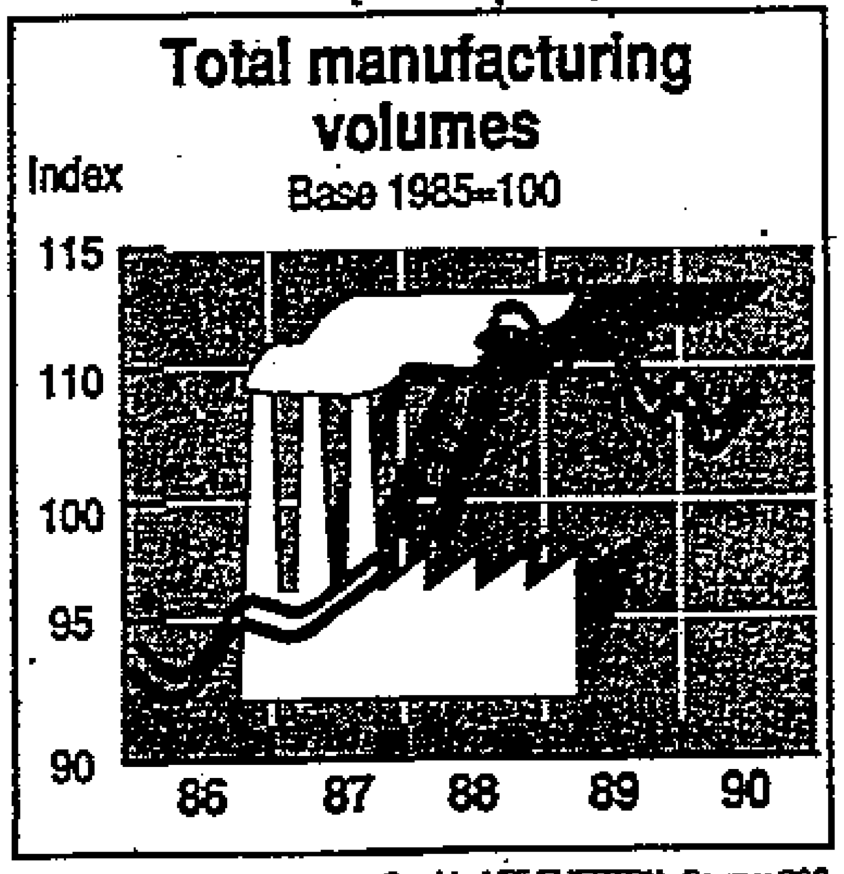
MARCIA KLEIN

MANUFACTURING production in July decreased by nearly 2% on last year with the textile, footwear, industrial chemicals and non-ferrous basic metal industries recording the largest decreases, Central Statistical Service figures show.

A Bank of Lisbon Economic Focus says over the past decade, growth in the manufacturing sector — at 0,7% — has been sluggish, falling from 3% a year in the 1970s.

And while the total growth in employment in the manufacturing sector was 23% in the 1970s, it rose by only 2% between 1980 and 1989.

The manufacturing sector is seen as the provider of direct employment opportunities, and it is "disconcerting" that the number of people employed in the industry in 1988 is 3,7% lower than in 1981, the report says.



Graphic: LEE EMERTON Source: CSS

The relationship between an increasing share of manufacturing production in the economy and rising per capita incomes — which existed for several decades in SA — has been eroded in the past 10 years.

Capital intensity has increased sharply in the same period while new employment opportunities have "virtually disappeared".

The report says the increase in capital stock per worker has only marginally benefited productivity of labour, and real output per worker increased by only 1,6% a year between 1970 and 1986.

It says this points to an underutilisation of capital in the sector.

For a long time, import substitutions in the manufacturing sector were an important aspect of economic development strategy.

However, this role has diminished considerably in the past 30 years, and future scope for import substitution is limited.

Now the shift is towards a policy of promoting exports of manufactured goods where the prospects are improving in the wake of a new political dispensation.

Commercial & Industrial Property
A Star survey

Developers warned to act with caution

Star 24/10/90

(180)

There should be "extreme caution" in the development of industrial property on a speculative basis in a market "awash with mini factories".

This warning to developers comes from Brian Langford of API Property, who has studied mini-factory growth points.

He says: "During the past year, the Robertville and Stormill areas alone have supported about 40 000 sq m of 'spec' development either completed or under construction, while on the East Rand, the area around Isando currently has about 70 000 sq m of factory space due to be completed by the middle of next year."

These ventures involve institutions. Activity by private investors in the industrial market should also be taken into account.

API's investigations into the availability of industrial land in Edenvale and Kempton Park reveal that anyone requiring large tracts of land has a problem.

"As well as being expensive, Sabenza and Eastleigh are almost fuly sold and Spartan and Isando are both almost fully developed," says Mr Langford.

In Wadeville, an area with historically low rentals, owners are find they are now achieving much higher rent levels.

Pat on the back for le entres

Businessmen who opted for leasebacks instead of property acquisition through alternative funding must be congratulating themselves in the light of continuing high interest rates.

That's the view of Ian Watt, property investment manager of Old Mutual Properties, who says: "The present situation demonstrates the benefits of known and stable costs of leaseback finance.

"Most other forms of property finance, with variable rates, are wreaking havoc on profit and loss accounts at a time when high interest rates are aimed at reducing consumer spending and, thus, impacting on production and capacity levels."

Mr Watt does not believe the leaseback tenant will pay for his choice in the long run.

Companies today have to decide what business they are really in: manufacturing, distribution or service.

"Or are they in property ownership or a mixture of the others?

"A company which does not purport to be a property owner should be maximising capital to achieve the best possible return from the business it does best."

He believes there is a widespread notion that property ownership provides an opportunity to realise remarkable capital appreciation. And while that might be true, it will occur only when the owner disposes of the property and decides to operate from a cave or cease business, he says.

Flexibility is the main advantage of a leaseback deal in the current economic climate.

The businessman can either move out of the premises at the end of the leaseback period or, through developing a long-term relationship with the institutional owner of the property, turn to it for funding various alternatives.

These may include development of new premises or alterations and additions to existing premises.

"Most leaseback agreements have a clause allowing reversion, after a period, to market-related rents," says Mr Watt.

"This has tended to worry many businessmen because rental levels over the past few years have experienced extraordinary growth.

"However, this is mainly a long, overdue correction in market rents for industrial property after the depressed economy of the mid-eighties which saw little or no rental growth."

He says it is more sensible for a business to tie itself to market rentals, which move in sympathy with prevailing economic conditions, than gearing accommodation costs to a financial medium linked to the more volatile short-term interest rates.

Star 24/10/90

(180)

Southgate open for business

By Frank Jeans

One of the most ambitious retail property assemblies in recent years has been completed, with the opening yesterday of the massive, R180 million Southgate Mall south of Johannesburg.

The Mall was designed and built in a record-breaking time of just under 19 months.

Mr Malcolm Wilson, managing director of Matrix Projects, the Rivonia-based construction management company responsible for the creation of Southgate, says:

"We estimated the contract time would be 24 months but when the financial viability was complete, the initial return on total investment was unacceptable and well below what any potential investor would perceive as an attractive return on his investment.

"A reduction of six months in the construction period meant a substantial saving in the interest bill and in cost increases arising through escalation."

Main contractors were Giuricich Brothers, Wilson Bayly Holmes and Concor Building and they have created a centre of about 84 000 sq m.

The complex has 65 000 sq m of lettable space and comprises 185 line shops and 15 national chain stores.

Included in the entertainment component is a seven-cinema Ster Kinekor spread.

The architects were Bentel Abramson & Partners.

Impressive . . . The 65 metre long barrel vault skylight over the entrance to the new complex contains 5000 glazed panels and 75 tons of steel.

BUSINESS DAY, Wednesday, October 24 1990

'Fortress Europe' unlikely to occur

b/Day 24/10/90

(180) (74)

Own Correspondent

DURBAN — SA traders did not have to worry unduly about Europe creating a trading bloc and keeping them out of "Fortress Europe", Department of Trade and Industry (DTI) director-general Stef Naude told the Afrikaanse Handelsinstituut congress here yesterday.

He said in his opinion the Common Market of the future, with its much enlarged markets, would result in a far greater demand for SA's primary products.

Fruits

Exports to Europe were well placed and had generally improved, he said.

He pointed out that some problems could only be resolved by the outcome of the current round of General Agreement on Trade & Tariffs (GATT) talks.

This included deciduous and citrus fruits where high import tariffs had been in place since 1973 but exports had improved.

● NAUDE

Other products such as coal and primary steel products had been affected by trade sanctions.

Only GATT could resolve the question of Europe protecting steel products, he said.

Naude said fiercer competition in the Common Market could produce problems for exporters of manufactured products.

This could be solved by market research to discover unexploited niches for trading where SA would not have to compete with the "big players".

A general problem facing exporters was the level of production subsidies offered by the Common Market either to European manufacturers or to special countries.

It was also only GATT which could solve, or ease, that difficulty.

Progress in the market to create standards of quality, health and safety had been slow.

About 3 000 standards had to be drawn up and accepted by 1992 and only a handful had made the rule books so far.

Progress

There was a lack of clarity as to what standards would prevail, Naude said.

This was being pursued energetically by his department, the CSIR and the SABS so that SA traders would not be caught short.

Progress on creating the single market (aimed at 1992) was slow as all 12 participating countries had to agree.

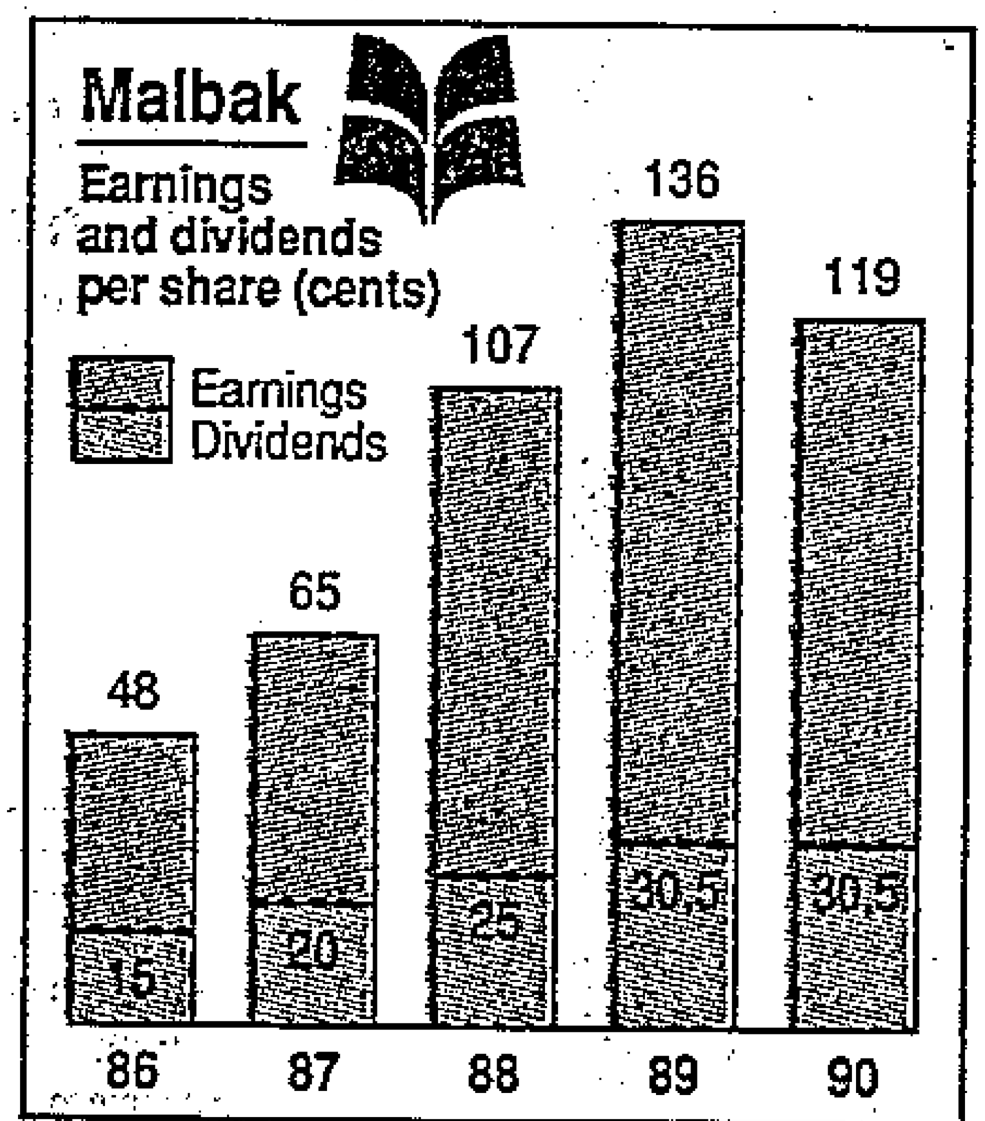
For example, the two interlocked area of customs tariffs and free travel made a true common market impossible until both were resolved.

Malbak earnings drop 13%

BDay 25/10/90

BRENT MELVILLE

MALBAK'S results for a difficult year to end-August could be a harbinger of things to come from SA's diversified industrial groups which have yet to report their financial results.



Graphic: FIONA KRISCH · Source: MALBAK

The R8bn-a-year industrial holding group of Gencor reported a 13% drop in earnings to 118,6c (136,1c) a share today, though the dividend was maintained at 30,5c — reducing cover to 3,9 (4,5) times.

Explaining the performance, executive chairman Grant Thomas said that in view of the fact that the economic downturn started accelerating last September, Malbak's financial year had comprised 12 difficult months.

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"Considering the extremely difficult conditions, it was encouraging that the group's five major divisions (which account for 97% of group pre-tax income) have had held up well, with some companies producing extremely good results," said Thomas.

He felt quite sure Malbak's performance would hold up well against other similar-

☐ To Page 2

Malbak

BDay 25/10/90

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☐ From Page 1

sized groups for the year.

Divisionally, the branded consumer products division, consisting of listed Tedelex and Ellerine Holdings, as well as unlisted Malcomess, Quality Tyres and MMH, was the largest contributor (25%) to group bottom-line profits of R233m (R251m).

Packaging and paper, represented by recently structured Holdains, contributed 24% (22%) to profits.

Engineering and mining supplies, grouped under Standard Engineering and Haggie, donated 22% (23%) to profits as assessed losses contributed to a higher tax rate. A higher tax rate also applied to Darling & Hodgson, whose contribution dipped marginally to 16% (17%).

Thomas said he expected earnings within the food division listed under Kanhym (11% to bottom line) to turn in an unchanged performance next financial year. While the international division was hit hard by the R13m loss from Abercom (holding group of London based MY Holdings), earnings were bolstered by good performances from Protea International and Eagle Freight. Bottom line profits fell from R13m to R6m.

Group borrowings increased 10% to R827m (R755m), though gearing dipped to 45,8% (48,4%) as a result of tight working capital control.

At yesterday's share price of 525c, the group is trading on a price-earnings ratio of 4,4 and a dividend yield of 5,8%, compared to Barlow's historical price-earnings ratio of 6,0 times.

Local firms seek foothold in Europe

LESLEY LAMBERT

AN INCREASING number of SA manufacturers are positioning themselves in tax-sheltered offshore bases to ensure a foothold in the EC before 1992.

Export companies in other countries began establishing European links during the 1980s in anticipation of new trading opportunities, but political considerations and sanctions inhibited similar action by SA companies.

An increasingly acceptable political environment has encouraged foreign countries on the lookout for new investment to start marketing to SA exporters.

Since March this year, a Madeiran company has been discreetly marketing the Portuguese island's 120ha industrial free trade zone which offers foreign investors trade incentives, a zero tax rate until 2011 and access to growing European markets.

Property group J H Isaac's international division, in conjunction with Pivotal Projects, recently secured a 50-year lease on 150 000m² of industrial land in the Madeiran trade zone which it is developing into an industrial park with self-contained units of between 250m² and 9 000m².

According to JHI special projects broker Billy Rautenbach, 17 000m² of the area has already been signed up by SA manufacturers of building supplies, pharmaceuticals, wooden furniture, household appliances and plastic piping. A further 50 000m² is being negotiated.

Luiza Pestana, a manager of the Madeira Development Company which is marketing the Madeiran free trade zone, has attracted two SA companies to the Portuguese island.

David Graham, an assistant GM at the SA Foreign Trade Organisation (Safto), says SA exporters are also considering Spain, Portugal, Malta and the Isle of Man, all of which offer some form of incentive.

"SA companies are no longer looking at offshore operations to avoid SA origin sourcing. They are now doing it for strategic reasons — to get a foothold in the expanding European market before 1992."

Many of the local companies which establish offshore bases use them as final assembly operations for products which are partially manufactured in S.

Other companies establish licensing or subcontracting agreements with foreign operations.

Firms urged to aid matric dropouts

Sowetan 25/10/90

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By JOSHUA RABOROKO

THE corporate world has been called upon to help matric dropouts through a process of orientation to become small entrepreneurs in the wake of growing unemployment in South Africa.

The call was made by 11 business people and merchandisers after they received certificates for upgrading their marketing and management skills through the development programme organised by the *Sowetan* and Workwise Development Group.

One of the graduands, Mr Joel Baloyi, said that the black business community, parents, teachers and pupils were concerned about the low standard of black matric results every year.

Thousands of black matric failures loitered the streets after failing their matric.

Serious

He said that the deteriorating standard of education and the 42 percent matric pass rate last year - the lowest in the past 10 years - indicated the seriousness of the plight facing black pupils.

These failures were often not allowed to go back to school and as a result were forced to seek employment, even at a tender age.

It was because of these reasons that big companies' efforts were needed to help, not only with jobs, but also in orienting pupils into the field of business.

By so doing, he said, they would help these pupils, create jobs and contribute to the mainstream economy of the country.

Fruitful

He appreciated that *Sowetan* had undertaken to improve the skills of established entrepreneurs.

Mr Rudolph Prosper, who is a merchaniser for a giant supermarket, said that the course was fruitful and aimed at building the black nation. However, blacks needed to exploit other avenues such as technology, science and manufacturing.

Mrs Lizzie Mphahlela, employed by a courier service, said she had gained a lot from the course and would put that knowledge into practice when she returned to work.

The leader of the course, Mr Mel Stamelman, said advanced tuition would be arranged for small operators next year, depending on how many sponsors pumped money into uplifting the standards of blacks in business.

The day when E

WITHIN a single day everything that industrious Vaal Triangle businesswoman, Mrs Edith Mosala, had worked her fingers to the bone for in the past 13 years collapsed, leaving her destitute.

Mrs Edith Mosala

Mosala' cafe, a butcher, a restaurant, a grocery shop, four backyard rooms and two vehicles, all valued at more than R900 000, were destroyed by faceless people when violence swept through Evaton township.

She was almost in tears as she told how goods, including furniture, clothes and jewellery, were forcefully taken out of the shops and her houses by the attackers before the buildings were set alight.

"I have nothing left. My businesses are destroyed and I have no money to start them

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Probe into consumer safeguards

MARCIA KLEIN

TRADE, Industry and Tourism Minister Kent Durr has announced an investigation into the possibility of establishing codes for transactions in the motor, furniture and advertising industries to ensure consumer protection.

The move has encounterd opposition from furniture trade representatives

The investigation will be conducted in terms of the Harmful Business Practices Act.

Durr said the motor and furniture industries were selected as priority areas because of the volume and value of consumer transactions, and "advertising is an integral element of all kinds of consumer transactions".

The investigation will be conducted in co-operation with the Advertising Standards Authority, the Motor Industries Federation, the National Association of Motor Vehicle Manufacturers and the Furniture Traders' Association (FTA).

Durr said these bodies had all "already done valuable work on behalf of consumers in terms of self-regulation".

In June, he said a system of codes would "strengthen and clarify consumer law" and ensure customers derived the benefits of private enterprise.

In his budget vote speech in May, Durr said the market could not determine the rights and interests of consumers and there was often disturbing evidence that consumers had legitimate grounds for complaint.

FTA executive chairman Frans Jordaan said the investigation into the law relating to consumer transactions was at variance with government's stated intention to deregulate the economy as far as possible.

Jordaan said while the FTA was for consumer rights, there were already several Acts which applied to the furniture retail trade, and the overregulated industry "certainly doesn't need any more".

FTA members — more than 90% of furniture stores — subscribed to a stringent code of conduct with a great deal of consumer protection, he said.

Unethical traders would not disappear but would merely attempt to circumvent any new code of conduct.

Major furniture retailers were "perplexed" and wanted to know what aspects of the industry would be investigated.

Rusfurn chairman Geoff Austin said he endorsed the views of the FTA and added that competition in the industry ensured fair play.

A spokesman for another major furniture retailer said competition and guarantees ensured fair play, and customers would shop where they got the best deals.

THE OIL CRUNCH (180) FM 26/10/90

SOME WINNERS, MOSTLY LOSERS

Transnet, Sasol and Mossgas — once attacked for being hopelessly inefficient and outrageously expensive — are coming up winners with the oil price surge. But just about every other business is suffering and industries are pinning their hopes on a continuation of the recent dip in oil prices.

Mossgas, which was seen as the last of the white elephant government synfuel projects, appears poised at last to help pay for itself. But Engen chairman Bernard Smith says it still isn't a viable proposition for the private sector to invest in such projects and government has already said it won't consider further projects. Sasol MD Paul Kruger has ruled out a fourth oil-from-coal plant, even though its revenues from fuel and chemical products are up.

Smith says synfuel is commercially viable only at very high oil prices. Besides, anything can happen to the oil price before Mossgas reaches full production in April 1992.

But Smith is convinced that the base price of oil has risen. "I believe that the price of oil won't fall below $21, as the Opec countries need to finance their national debts. And $21 a barrel would provide a positive real yield to shareholders in Mossgas."

Meanwhile, the Railways, which are heavy users of electricity and coal, are thriving. Ronnie du Plessis, a Railways spokeswoman, says that though price hikes will add R69m a year to Railways' fuel bill, they will exert a very small influence on tariffs because 65% of all rail traffic is hauled by electric locomotives, 5% by steam and 30% by diesel-powered locomotives.

This is in sharp contrast to the devastating effect of oil's spiral on road transport.

Eduardo Garcia, CE of road transport giant Unitrans, says that every time the fuel price rises, road transport becomes less competitive versus rail. "A number of road transport operators are already struggling to stay alive. They won't be able to compete. They'll be wiped out."

He fears that government will use the current high fuel price to divert traffic that normally goes by road to rail. It has already been announced that rail will hold its rates to the end of the year. Another fear is that when the world crude price comes down, government will divert some of the reduction to its coffers through increased taxes and will not allow the full reduction to percolate through the economy.

"Finance Minister Barend du Plessis said SA's fuel taxes are the second lowest in the world (see graph); I cannot see him passing up this opportunity of balancing his books by bringing SA's fuel taxes into line with the rest of the world," Garcia says.

"Several Cabinet ministers have already said that, as an instrument of policy, Railways' spare capacity will be used to keep prices down. It is not possible to fill spare capacity on the railways without creating spare capacity in road transport. A consequence of keeping Eskom tariffs down is that Railways will not have to increase its tariffs to pay for an increased electricity bill."

It isn't just transport companies that have suffered. A whole range of industries that are dependent on petroleum-based feedstocks, such as plastics and chemicals, have had to pass on sharp increases to customers.

Plastics Federation executive director Bill Naude says the price of imported polymers, used in plastic packaging, increased by 15% just a week after Iraq's invasion of Kuwait and are now selling at a premium of 28% on the pre-invasion price. However, the price of locally produced polymers — 75% of the total of 600 000 t consumed — has increased at a slower rate, though increases of at least 10% have been passed on and further increases can be expected.

Sentrachem's Johan van der Walt says most feedstocks still haven't reached their peak 1988 prices, though solvents such as benzene are an exception. They tripled in price almost overnight.

Nightmares abound for companies that can't pass on costs immediately. "Those players who are unable to pass on the full cost increase will find their operating margins shrinking and profitability depressing," says Sasol Chemicals' Andre Bedeker.

Sasol, however, will see its margins squeezed less than oil-dependent competitors because it produces chemical products from coal — and coal hasn't increased in price.

The beleaguered textile industry has been hard hit too. The price of cotton was recently increased by 30%. And now the cost of oil-based products such as nylon, polyester and dyes, which account for nearly 40% of raw material costs, have increased between 20% and 30%. These products aren't produced by the Sasol process.

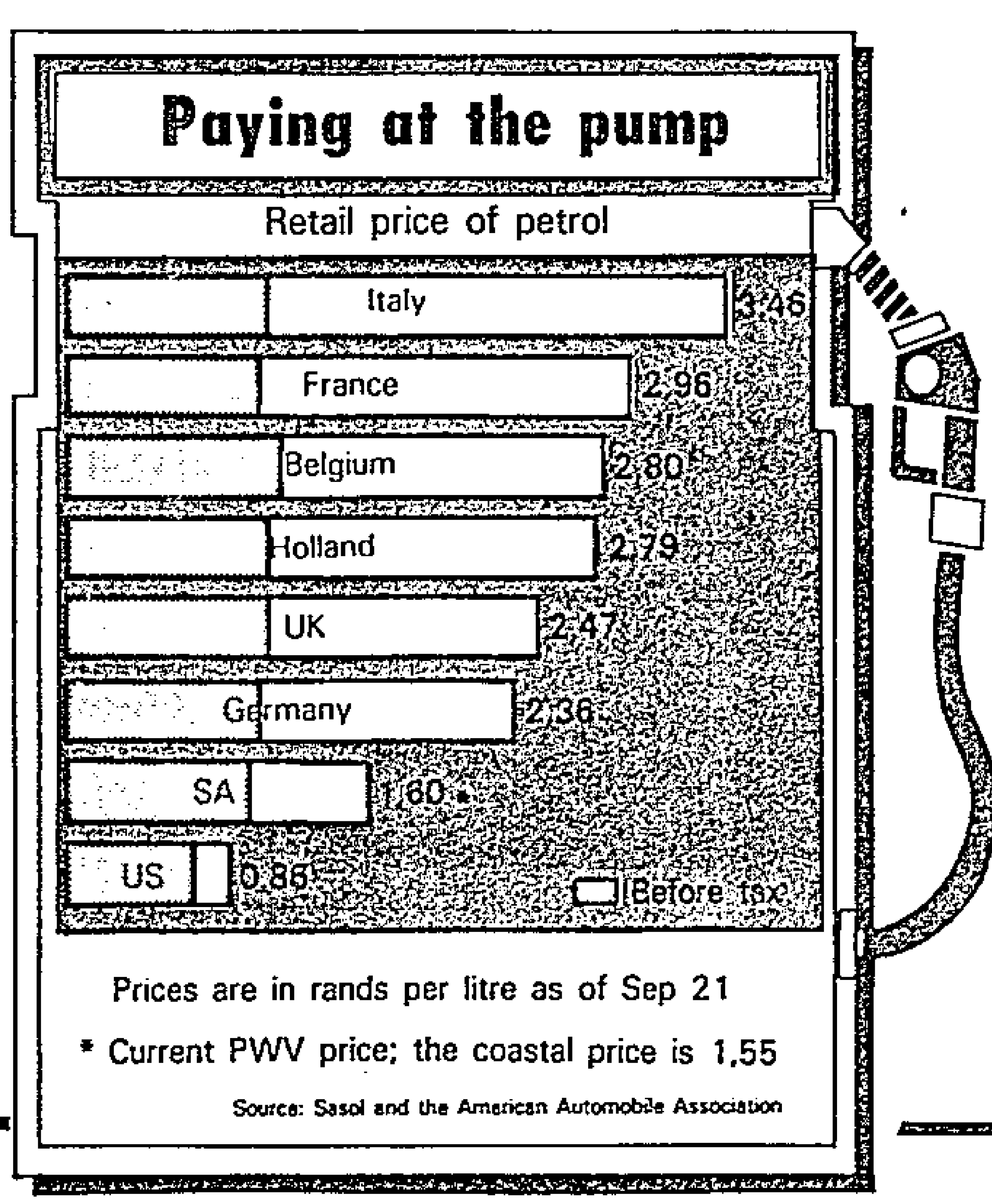
Frame Group chairman Mervyn King says overseas chemical suppliers aren't prepared to fix prices, which now often change daily. "We don't keep long-term stocks of these materials, so we've had no option but to raise our prices immediately."

Peter Boxall, MD of SA Nylon Spinners, the main domestic producer of polyester and nylon fibre, confirms that prices of their feedstocks are being changed on a ship-by-ship basis. "But we've decided to keep our prices constant until the second quarter of 1991 and take the price increases on the chin. Our customers in the textile industry set their prices on a quarterly basis so we've decided to fall into line with this."

Inevitably, the fuel increases will hit the demand for new cars. Says Nico Vermeulen, executive director of the National Association of Automobile Manufacturers of SA: "We have shown conclusively that a rise in the fuel price during a recession affects the motor industry much worse than a rise when times are normal."

But he does not see a repetition of the rush to buy small, more fuel-efficient cars that followed the 1973 oil crisis. "All manufacturers now make fuel-efficient cars," he maintains.

Stephen Cranston and David Pincus



Prices are in rands per litre as of Sep 21

* Current PWV price; the coastal price is 1.55

Source: Sasol and the American Automobile Association

ESKOM

THINKING SHORT TERM

FM 26/10/90

Short term, the decision to raise electricity rates by only 8% next year — 6,3 points below the September inflation rate — is great news for business and consumers.

Long term, the consequences are ominous. Government is back to its old trick of imposing prices, and Eskom's customers can't be sure they won't be hit with a whopping increase in following years to make up. Since

ANGLOVAAL INDUSTRIES 180

GOOD RERATING

Activities: *Holding company of Anglovaal's industrial interests.*
Control: *Anglovaal 60%.*
Chairman: *B E Hersov; MD: J C Robbertze.*
Capital structure: *28,3m ords. Market capitalisation: R1,7bn.*
Share market: *Price: R60. Yields: 2,3% on dividend; 12,2% on earnings; p:e ratio, 8,2; cover, 5,4. 12-month high, R66,50; low, R43. Trading volume last quarter, 268 000 shares.*

Year to June 30	'87	'88	'89	'90
ST debt (Rm)	80,4	116,4	258,8	211,6
LT debt (Rm)	73,9	99,1	226,4	300,2
Debt:equity ratio	0,02	—	0,12	0,22
Shareholders' interest	0,50	0,47	0,44	0,43
Int & leasing cover	8,7	42,9	70,7	12,3
Return on cap (%)	19,1	18,9	17,9	19,1
Turnover (Rm)	2 832	3 712	4 575	6 486
Pre-int profit (Rm)	273,6	395,6	487,8	634,8
Pre-int margin (%)	9,3	10,6	10,4	9,7
Earnings (c)	415	563	657	733
Dividends (c)	75	100	120	135
Net worth (c)	1 931	2 412	2 938	2 953

If the share price is anything to go by, investors are pretty confident that Anglovaal Industries (AVI) will be able to maintain — and perhaps even improve — its earnings growth rate despite the steady deterioration in the business climate.

Over the past year, the shares have gained almost 32%, in marked contrast to the industrial market; more important, the rating vis-à-vis the likes of Amic, Barlow, FSI and Malbak has soared. Whereas a year ago — as the *FM* noted — AVI was trading at a substantial discount to these companies based on p:e ratios, this situation has been completely reversed. Now, AVI's p:e of 8,2 compares with Amic's next-best of under 6, and is more than double Malbak's 3,8.

AVI's Hersov ... *enjoying the improved rating*

DIVISIONAL CONTRIBUTIONS (%)

	1989	1990	1989	1990
Construction & electronics	27	30	7	11
Diversified businesses	18	15	27	27
Dry food & beverage	15	12	21	21
Frozen food	24	19	21	19
Packaging & rubber	16	24	22	22
Holding company/other	—	—	2	—
Total	100	100	100	100

Similarly with dividends, AVI's 2,3% yield is less than half that of any of the other four. While it can be argued that AVI has traditionally been a low-yielder (partly because of its equally traditional high cover) the premium is unusually high.

The question is whether market expectations are likely to be translated into reality. Objectively, the answer must be a cautious "yes," based on two factors. First, the bottom line has yet to feel the full impact of the major expansion into the rubber industry through acquisition of Goodyear (now Tycon) and that company's subsequent merger with Tredcor. Secondly, restructuring of the group towards the end of the 1989 financial year, involving *inter alia* the elimination of intermediate holding companies such as South Atlantic, should have improved internal cash flow and could, in time, lead to a lower dividend cover — which remains abnormally high by JSE standards.

Dealing with these in order, one of the most remarkable aspects of the 1990 results was that entry into the rubber industry at a net cost of R156m had virtually no effect on the earnings profile (see table).

What is now the packaging and rubber division continued to chip in 22% of attributable earnings, unchanged from the contribution of packaging alone in 1989, despite the substantial increase in assets employed and, hence, in the earnings base. Partly, this was owing to the prolonged strike at Tycon following Goodyear's disinvestment, affecting in particular first-half performance.

This, in turn, contributed to group EPS growing by only 8% at the interim stage. In the second half, with production back to normal, EPS growth almost doubled to 15% despite a further significant weakening of the general business climate.

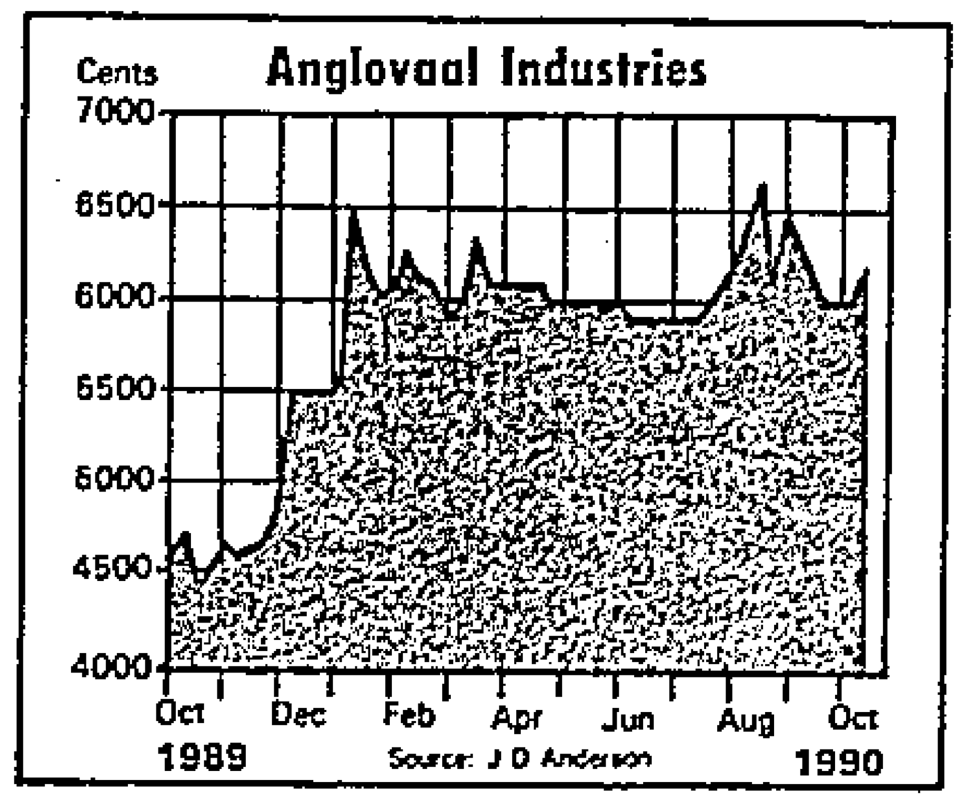
At worst, therefore, investors seem on fairly safe ground in assuming a full year's contribution from this new activity, though it can equally be noted that the positive effects are likely to diminish as the year progresses.

On dividend cover, two points are relevant. The first, as mentioned earlier, is that restructuring should have improved internal cash flow. So far, this has not been reflected in any change in distribution policy, with last year's payout still covered 5,4 times by EPS — much the same as in 1989 and 1988.

The continued conservative dividend policy could be justified on the grounds that expansion in the past two years has resulted in AVI moving from a small net cash position in 1988 to net borrowings of R312m at June 30 1990. However, the debt ratio is still only 22%, underlining that AVI remains conservatively structured. Leading to the same conclusion is the fact that interest cover is still a healthy 13,3 times.

And though the group plans to spend a further R1,1bn over the next three years, chairman Basil Hersov expects debt to moderate over this period.

Obviously, this can only happen if the group as a whole is a net cash generator; if



this is so the necessity of retaining high dividend cover is again called into question.

At the same time, however, there is no point in trying to argue that AVI can remain immune to general economic pressures, not to mention industrial and/or social unrest (the latter having affected, in particular, the performance of some textile interests last year). So while Hersov expects a further earnings improvement this year, his forecast is tempered with the usual caveat about socio-economic conditions.

EPS growth has slowed progressively from the abnormally high 71% of 1987 to last year's 12%. But unless it really becomes necessary to batten down the hatches, the financial position looks such that the group could maintain acceptable dividend growth even with a further slowdown in earnings.

This much at least is necessary if the rating of the share is to be justified.

Brian Thompson

GENREC F/M 26/10/90

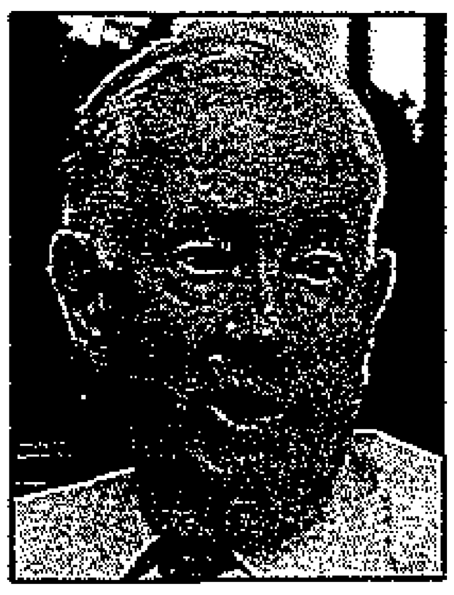
HEALTHY ORDER BOOK

After a comprehensive balance sheet restructuring some two years ago, this engineering group boosted surplus cash from R15m to

WHAT BUSINESS MUST DO

180

FM 26/10/90



Mike Rosholt is chairman of Barlow Rand, chancellor of Wits University and chairman of the Urban Foundation. This is adapted from an address he gave last week to the Institute of Directors.

I do not belong to the body that believes that companies must make reparation as atonement for the past injustices of the apartheid system. I do not belong either to the body that believes business benefited from the system. In fact, business was held back by excessive State control, restrictive labour legislation, controls on the freedom of movement and the completely inadequate black educational system.

Opinions may vary on whether business made sufficient efforts to bring about change, but, at the end of the day, it only could operate in the system in which it found itself. Now business is adapting to the new policies, which are creating greater opportunities for effective social investment and which, if properly structured, will ultimately benefit shareholders.

Social investment is a better term than social responsibility because unless a project can be classified as an investment, the expenditure cannot be justified to shareholders. What can ensure this? For a start, ask: will the expenditure contribute to economic growth and to the stability of our society, if only in the long term? Then, will it provide opportunities for more rewarding jobs, enabling people to become self-reliant and self-supporting? Will it strengthen institutions contributing to these efforts? Most important, has it the complete support of the community it is aimed at? What would certainly not be justification would be if its sole objective is to impress black politicians.

Let me give an example. Private-sector support of tertiary education, both for universities and technikons, has been impressive and must remain so if we are to recruit the skills we need to run our businesses. However, the consistently bad first-year failure rates are now showing up the deficiencies in primary and secondary education. And they are pointing to the necessity for targeted support in these areas.

Examples of targeting are the growing investment by companies in private schools and initiatives aimed at teacher upgrading, particularly in mathematics, science and English; and in supporting selected bright pupils through secondary school and on to university. But, good as business's support has been, its investment will have to be stepped up considerably if it's to ensure an adequate supply of black managers and employees.

Another example is housing. Social investment in housing must also be increased substantially and it will soon be normal practice for companies to provide housing assistance to all employees.

There is absolutely no way the traditional view that "the business of business is business" can be sustained. We can operate effectively only in a climate of stability, order, rule of law, equal opportunity and predictability in national policy, which is certainly not the case today. At this time of rapid transition, business must become much more involved in national affairs. It must influence government to take the right decisions. The corollary is that it now has to examine the social implications of its own business decisions much more carefully.

How can we contribute meaningfully? We should express our views on whatever platforms are available. There is one issue, especially, on which business must be vocal and public. That is the debate about the merits of the capitalist and socialist systems. Here we must take the lead in ensuring that an economic system in which market forces and private ownership are the cornerstones is retained. If we succeed, we will have contributed not only to the fortunes of our companies, shareholders and employees, but also to the successful resolution of the constitutional reform process.

However, until earlier this year, we concentrated on pointing out the failure of socialism in the Soviet Union, eastern Europe and Africa. It's doubtful whether this has had any effect, because as far as the majority is concerned, capitalism has done no better. Socialism is seen by the majority to be a system founded on the ideals of justice, greater equality and security, rather than individualism, competition and profits. Unbridled free enterprise is wrongly seen to favour the already economically strong.

Make no mistake, the task of making our case will be a very difficult one. There are ideologues within the black leadership who will never accept anything other than advanced socialism and extensive State control of the economy. There are others, however, who adhere to the ideals of social justice and greater equality in the distribution of wealth and income, but emphasise these ideals rather than prescribing how to attain them.

I believe that the private sector in SA is now genuinely facing up to its manifold responsibilities, that it is very much aware that these will change and increase as the national picture unfolds and that it will have to adapt. I hope that the private sector is also aware that it will have to increase substantially its allocation to social investment programmes. These are investments that cannot be avoided if we are to achieve the stable society and economy in which business can operate and all stakeholders can prosper.

Time to break the mould of being a pure businessman

BDay 26/10/90 .

(180)

MIKE ROSHOLT

THERE is absolutely no way the traditional view that "the business of business is business" can any longer be sustained. The businessman must take part in determining the policy and framework which will create the environment in which he and his employees have to work and live.

He has to become much more involved in national affairs; he has, as far as he is able, to influence government to take the right decisions. The corollary is that he now has to examine the social implications of his own business decisions more carefully.

The businessman must take the lead in attempting to ensure the retention, as far as is possible, of an economic system in which market forces and private ownership are the cornerstones. If he were to succeed, he would make a considerable contribution not only to the fortunes of his company, shareholders and employees, but to the successful resolution of the constitutional reform process.

SA will always have a mixed economy with a major sector firmly in the hands of the state. The current public rhetoric of black political groups and trade unions goes far beyond this, calling for a much greater measure of socialism in the form of nationalised mines, banks and, as they term them, large "monopoly businesses".

The capitalist free enterprise system has not benefited the majority of our population to any meaningful extent. It is this which triggers the understandable demand for a redistribution of wealth as compensation for past inequities — a demand which is building up quite unattainable expectations.

The private sector's task will be to limit the damage which, under current thinking, the new majority government would inflict on our economic system. A certain amount is probably inevitable.

There can be few businessmen who do not now accept that the economy has been skewed to the benefit of government, shareholders, employers and a limited number of (generally white) employees. And who do not accept that, with the advent of a government dominated by blacks, there will be some form of redistribution; indeed, that this process should be put in motion.

The private sector needs to get the message across that a redistribution which destroys the capacity to create wealth can result only in a redistribution of poverty.

Business has to accept that in a democracy of any hue, the distribution of national income is the sole prerogative of the government, even if one disapproves of the priorities in its allocation. The crucial debate will be around the extent to which the government and trade unions interfere in the production, rather than the distribution, process.

Black political and labour leaders have made it clear they are determined to lay their hands on the economic as well as the political levers of power. Business will have to strive for some form of compromise which will limit the damage to the economic growth of both individual companies and the national economy.

They must seek a compromise which will ensure sufficient freedom of action for the effective working of the private sector; which accepts a redistribution of income as a means of creating new opportunities for the disadvantaged; but which limits as far as possible the redistribution of assets and the extent to which government, employees and trade unions can interfere directly in management decisions.

What are the chances of such a compromise? Nelson Mandela said some months ago nationalisation was only one of the options the ANC would consider; much depended on what adequate alternatives businessmen would suggest.

Employer bodies and individual businessmen had until then been concentrating on pointing out the failures of socialism; as far as the majority is concerned, the capitalist system has done no better.

Socialism is seen by the majority to be founded on the ideals of justice, greater equality and security. Unbridled free enterprise is seen only to favour the already economically strong.

A more realistic approach has been adopted by the SA Chamber of Business in its recent document on economic options for SA. While stating that only a market economy based on private ownership and freedom of choice can accommodate the economic requirements of both growth and employment, it sets out positive steps which will ensure, over a period of time, an equal opportunity society with a fairer distribution of national income.

If business, both as individuals and employer associations, were to debate proposals such as these with all important black bodies and leaders, there would be a far greater chance of persuading them to abandon current economic philosophies.

The task will be a difficult one. There is an unspecified number of ideologues within black leadership who will never accept anything other than advanced socialism and extensive state control of the economy. There will be others, however, who, while adhering to the ideals of social justice and greater equality in the distribution of wealth and income, will be emphasising these ideals rather than prescribing the methods by which they can be attained.

The private sector argument would be immeasurably strengthened if there were many more visible examples of blacks succeeding in, and benefiting from, the private enterprise system. Greater and urgent efforts will have to be made to produce successful role models.

Business will finally have to face up to the oft-debated question of black advancement and, in my view, to accept — unpalatable as it may currently be — that affirmative action in both the public and private sectors has become unavoidable: affirmative action not in the form of handouts, but which will help people to lift themselves up and to become effective members of society.

Unless and until blacks are placed in responsible positions in key industries and companies, major and minor, and in the civil service, the present economic system will not be supported.

It is now generally accepted, I believe, that equal opportunity is a basic right. What has yet to be learned is that leaving the outcome solely to market forces will never address the inequalities of the past or the present level of expectations.

The emergence of black entrepreneurs, in the formal and, more especially, in the informal sectors, presents a better picture of black advancement than that achieved in private and public sector employment.

It is all the more important that the building up of self-employed entrepreneurs should continue and that more companies should assist, for instance, by directing their buying departments towards black suppliers and by "privatising" certain of the service operations within their organisations.

I believe the private sector in SA is now genuinely facing up to its manifold responsibilities, that it is very much aware that those responsibilities will change and increase as the national picture unfolds, and that it will have to adapt to this.

One would hope that the private sector is also becoming aware that it will constantly have to review its obligations to employees and that it will have to increase substantially its allocation to social investment programmes. These are investments that cannot be avoided if we are to achieve the stable society and economy in which business can operate and all stakeholders can prosper.

☐ **Rosholt is chairman of Barlow Rand. This is an excerpt from an address to the Institute of Directors.**

LETTERS

SA and Romania formalise trade ties

B Day 26/10/90

(180)

MANDY JEAN WOODS

SA AND Romania formally established trade links yesterday, bringing to three (with Hungary and Poland) the number of East bloc countries SA has recently set up ties with. The Romanian delegation, led by Trade and Industry Minister Constantin Fota, is the fourth to visit SA since the beginning of the year, although this is the first official delegation.

The trade agreement aimed to develop, extend, strengthen and diversify the economic and commercial relations between SA and Romania.

"The agreement in particular provides for the establishment of a joint committee of representatives which will meet annually, alternately in SA and Romania, with a view to discussing and promoting trade and related matters of mutual interest," Trade, Industry and Tourism Minister Kent Durr said yesterday.

Although trade between the two was small, its potential was "very great".

Fota said: "During our brief visit we have already identified some products for exchange and fields of co-operation, like tourism and medical treatment," he said.

He said businessmen or tourists wanting to visit Romania would be issued with visas on arrival at the airport.

The Romanian trade representative to SA would set up a permanent office in the country, and Fota hoped SA would soon have a representative in Romania.

ANC, business have 'room for agreement'

B Day 26/10/90 (180)

GILLIAN HAYNE

RECENT policy statements showed there was much room for agreement on ideas and attitudes between the ANC and the business community, DP leader Zach de Beer said yesterday.

Speaking at a function in Sandton, De Beer said the differences between the ANC and business were not as great as many would expect.

Quoting from the ANC draft economic policy document and the SA Chamber of Business (Sacob) paper on economic options for SA, De Beer conceded that although there were distinct differences in emphasis when read as a whole, there were selective quotations showing that neither organisation had refused to recognise the possible validity of the other's attitude.

The ANC stated that "it is absolutely imperative to reverse the present trend towards stagnation and to promote economic growth" without which "we will not be able to address the pressing problems of poverty and inequality".

Sacob, meanwhile, noted that "apartheid has been the cause of historical injustices and redressing these will require economic policies that go beyond the repealing of social laws and functional deregulation".

PETER DELMAR reports that De Beer told a party meeting in Johannesburg last night that the DP would have to be included in a future moderate government consisting of the ANC and NP.

De Beer said any "lurch to the right or left" which prevented the creation of a nonracial, moderate government would be disastrous for SA.

Recent developments had positioned the DP to play a more effective role "in the future than we have played in the past", he said.

A government of national unity would have to include at least large elements of the NP and ANC to hold the line against extremists.

Nafcoc gives big business 10 years to redress balance

BY MONDLI MAKHANYA (180)

BLACK businessmen have given corporate South Africa 10 years to readdress the lack of black participation in the formal sector.

This was one of the demands of the National African Chamber of Commerce and Industry which held its the sixth Summit Conference in Venda last weekend. A landmark decision was taken to open membership to all races.

Nafcoc drew up a four-point programme for big business to give meaning to the Black Economic Empowerment campaign. It recommended that within 10 years:

- All JSE-listed companies listed should have 30 percent of board members drawn from the black community
- 40 percent of their shareholdings should be controlled by blacks
- 50 percent of outside purchases should come from black suppliers and contractors Weekly 26/10-1/11/90
- 60 percent of top managerial staff and personnel should be black.

Nafcoc executive director Mofase Lekota said the organisation had "a lot of ideas" as to how this could be achieved and would discuss its strategies with big business.

Pointing out that the recommendations were based on research, Lekota said: "We are flexible about the issue of percentages. We just want them to agree about the principle of increasing the level of black representation."

Another resolution was that Nafcoc should play a leading role in designing a new economic system and its economic commission should draw up such a document "as a matter of urgency".

"However, we cannot set a deadline because it will have to be in-depth research. The whole thing may take up to two years but reports will be issued periodically," he said.

BUSINESS MAIL

W Mail 26/10-1/11/90.

SA industries sloppy in use of 'cheap' electricity

180

By REG RUMNEY

BY comparison with other countries, South African industry and mining is sloppy in its use of energy.

In the light of this, the question must be asked whether South Africa can keep its energy artificially cheap to give it an edge in exporting.

At a Press conference last Friday Minister for Administration and Economic Co-Ordination Wim de Villiers reiterated the plan first set out by State President De Klerk to boost exports.

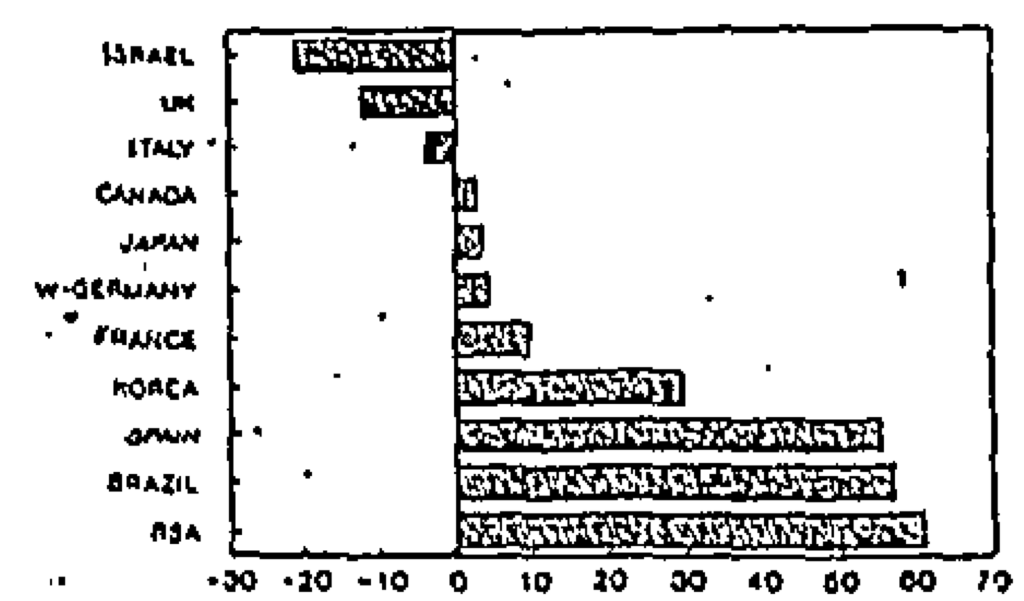
This involved cheap energy from Eskom and transport costs (through Transnet) to help South African exporters keep their costs down.

About 75 percent of the electricity produced by Eskom is used by mining, industry and commerce.

According to National Utility Services (NUS), an international electricity survey company, South African energy prices were among the lowest of 14 industrialised countries recently surveyed. The survey was done before the most recent price increase.

Industrialists and the mines may be able to avail themselves of cheaper energy

CHANGES IN ENERGY CONSUMPTION PER UNIT OF REAL OUTPUT: 1965 TO 1988 RELATIVE TO THAT OF THE USA



Source: World Development Report

and transport. But their actual use of energy leaves much to be desired.

Economist Johan Louw points out in the latest *Sanlam Economic Review* South African industry and mining uses more energy to make products than most countries in the First World and some in the Third. South Africa uses 80 percent more energy to produce a unit of output than the United States.

Hence there is scarcely room for complacency on the energy front. Cheaper energy prices won't encourage industrialists to be more energy efficient.

Mining used 3,5 times more electricity and industry almost 3 times as much in 1989 as in 1966 to produce a unit of real output. "It seems he economy has become more energy intensive in the past 25 years. This is related to an increase in the capital intensity of these sectors (owing to, among other things, mechanisation and developments in the exploitation of ore reserves) and the establishment of energy-intensive industries."

Do industrialists need to be energy efficient, if coal is so cheap and abundant in South Africa?

Louw estimated South Africa is dependent on oil for only 20 percent of its total energy requirements, and relies on coal for about 85 percent of its electricity requirements.

Despite this, the oil price shock may have a spin-off for coal exports.

This is because of the likely effect on the price of coal of a prolonged high oil price.

Louw argues there is a relatively close relationship between the prices of coal and of oil.

The price of oil has risen much faster than that of coal over the past 20 years. However, if oil prices go up coal prices must follow. Does this mean there is a hidden cost in "cheap" coal-fired energy? While South African coal reserves are abundant they are not inexhaustable.

To look at it another way, NUS South African MD George Rahr points out energy users could be said to buy units of energy like gigajoules rather than coal, gas, or oil. If so, the continuing price rise of oil and gas must be followed by coal, which is also a fossil fuel.

However, there is no direct relationship between world coal prices and the price Eskom pays for its coal.

Much of the coal used by Eskom comes from "tied" mines, and more importantly most of it is of such low quality it could *not* be exported or used in any other way.

But a hidden cost is the pollution caused by the coal-fired power stations. This and the depletion of natural resources should be weighed against keeping electricity cheap.

Again, on the other side of the scale is the need to keep electricity affordable for domestic use. Many households do not yet have electricity, and there are signs township residents have difficulty paying for electricity even at present prices.

Company bosses seek cheap loans

STimes 28/10/90

(180)

BRING down interest rates, say more than 60% of chief executives and financial directors surveyed for Business Times by Deloitte Pim Goldby.

Business Times Reporter

Deloitte asked the heads of 23 companies with sales ranging from R100-million a year to R7-billion what should happen to interest rates.

The companies are spread across the economy, four in food, beverages and pharmaceuticals, two in clothing, footwear and textiles, three in paper and packaging, two in engineering and electronics, two in building and construction, two in chemicals and oil, two in financial services, one in transport, one in motors and two in wholesale and retail.

No less than 61% call for a cut in the prime overdraft.

The others favour monetary discipline and give a definite *no to lower rates.*

Opinion varies among *those favouring rate cuts,* 27% asking for a reduction of one percentage point, 37% for two percentage points and 18% five percentage *points.*

Radical

The chief executives do not expect their calls to be heeded — 80% foresee stable rates for the next three months. The others see rates heading down.

AECI chief executive Mike Sander says: "Inflationary fears arising from higher oil prices will prompt central banks to maintain high interest rates, but weakness of demand makes higher rates unlikely in SA."

Mr Sander advocates a rate cut of only one percentage point because of uncertainty about the outcome of the Persian Gulf dispute.

Consol managing director Piet Neethling says: "With pressure on inflation upward, interest rates cannot be cut soon."

Clive Perkins of Stocks & Stocks takes the most radical view: "Cut by five percentage points. High rates are killing development of our infrastructure, which means less jobs now and in the future."

He is supported by Tongaat's Geoff Cleasby, who says: "The real interest rate is too high and political change requires a degree of prosperity to be successful. There is a basic need to boost employment."

The company bosses were asked what the inflation rate would be in a year and their average estimate is 13,5%.

Mr Perkins estimates it at 18% and Grant Thomas of Malbak hopes for 12% "provided interest rates of 4% are maintained and oil-price increases are not unrealistic."

Asked what real interest rates should be, they say on average 4,8%. A total of 47% of respondents say interest rates are either very important or important in determining the number of people they employ.

Bankruptcy

Half of the respondents *who believe interest rates* are important envisage laying off people in *the next three to six months. They* estimate that 2% to 15% of *their labour forces will have* to go.

No fewer than 61% report that customers have reduced purchases from 5% to 20% *and 13% say more of their* customers face bankruptcy.

Only 6% of the respondents say high interest rates have not caused them to reduce capital spending and 31% have cut capex by 33% to 66%.

A total of 56% consider alternative means of funding because of higher rates.

Nearly all the respondents have improved asset management to cope with higher rates. Seardel has resorted to futures, options and interest-rate swops. Malbak, Amrel and Consol are using bankers' acceptances.

Confidentiality of companies vs the public's right to know

S/Times 28/10/90 180

JONATHAN BURCHELL assesses the recent Supreme Court judgment which affects the privacy of business operations

DOES the right of the public to be informed about financial matters outweigh a company's right to have its confidential communications respected?

Under Roman-Dutch law, individual privacy has been recognised in a number of cases, but there has been a reluctance to extend a legal remedy to an artificial person, such as a company.

The reason for this reticence is that a company, so it is said, lacks a dignity, which is seen as the essence of individual privacy, and so "cannot blush" or be insulted.

Recently, the Witwatersrand Local Division of the Supreme Court reached an important decision on the conflict between the protection of corporate confidences and the right of the public to be informed on financial matters.

Bugging

The Financial Mail wished to publish an article concerning Sage Life and the relationship between this company and the Allied Group.

The source of the proposed article was based on information obtained from the bugging of telephone conversations between a director of Sage Life and other persons and a document which both the chairman of the Allied Group and Sage Life regarded as strictly private and confidential.

The Financial Mail played no part in the bugging of the telephone conversations and had neither paid for nor solicited the material on which the article was to be based.

The two applicants, Louis Shill, the chairman of Sage Life, and Sage Life itself sought an interdict prohibiting the Financial Mail from publishing or disseminating information based on this unlawful telephone tapping and the confidential document.

The Financial Mail argued that the public had a right to know of certain financial matters gleaned from these sources.

Mr Justice Joffe granted the interdict, holding that the Financial Mail did not have an overriding right to publish information derived in part from an unlawful source (none of the parties disputed that the telephone tap was unlawful) and material which the magazine had been told by the chairman of the Allied Group was strictly confidential.

The judge affirmed the right of a human being to privacy and acknowledged that, although a company did not have feelings or a dignity, it did have a right to trade without wrongful interference from others, and this right encompassed the right to have the confidentiality of its internal oral and written communications respected.

This right could be enforced against whomever was in possession of the confidential material.

The judge recognised that the public, in particular those members who had a financial or other interest in Sage Life, were entitled to be informed as fully as possible of its financial affairs, including the relationship between Sage Life and the Allied Group, but this did not entitle them to know all that was confidential to the company.

Although he accepted that in certain circumstances the public's interest could require disclosure of even confidential information, on a balancing of the interest of the public and the company in the present case, the judge held the scales were tipped in favour of corporate confidentiality.

Safeguard

The court also held that the proposed article contained material defamatory to the applicants.

Any curious reader of the judgment, when it is reported, will most probably be disappointed to find the content of the court papers and the argument advanced in court are not published.

Only the judgment of Judge Joffe will be reported. Obviously, this form of limited publication of the details of the case is an essential safeguard to prevent further publication of unlawfully obtained and confidential information.

The judgment constitutes a development of the law, as it is clearly stated that a company is entitled to protect its confidential sphere not only from intrusion by business competitors (as was previously the case) but also from the media.

The decision is important because other artificial persons, such as non-trading corporations, trade unions and universities, for instance, also have confidential spheres which may in future require protection by the law.

Yield

But the central message of the judgment is that a court has to balance the interest of the public in being informed of current issues against a natural or artificial person's interest in non-disclosure.

Even confidential information may have to yield to the public interest in disclosure in special circumstances.

The Watergate revelations, the Spycatcher trials in numerous countries and the proceedings of the Harms and Hiemstra commissions of inquiry demonstrate the need for public scrutiny of certain surreptitious activities.

Professor Burchell teaches at Natal University's School of Law, Maritzburg

Business looks to future

(180)

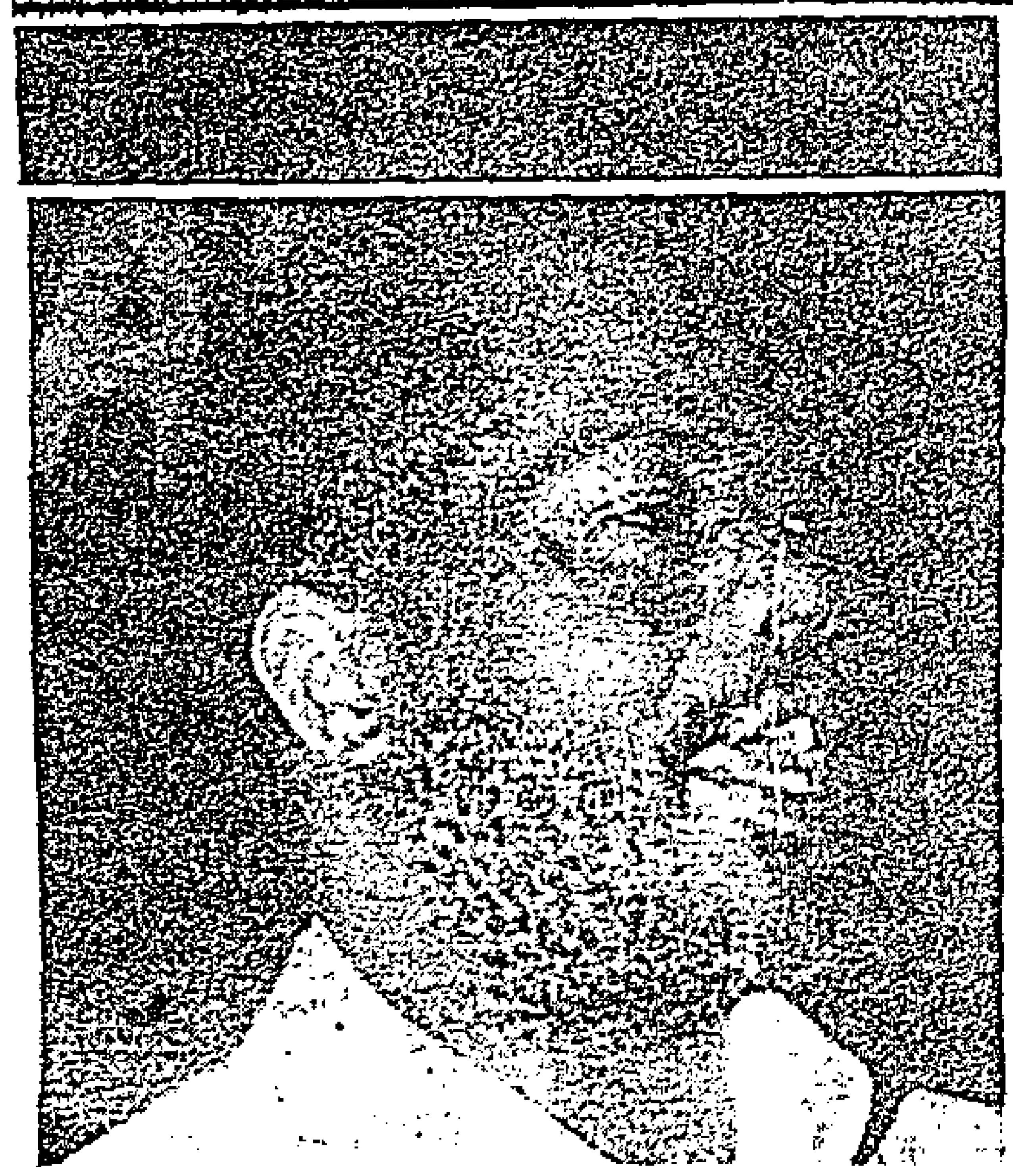
THE ROLE of business in negotiation, the need for restructuring education, local government and a new urbanisation policy will be discussed at a conference starting tomorrow.

The first national convention of the South African Chamber of Business (Sacob) will be held until Wednesday at the Carlton Hotel, Johannesburg. S/Times

About 400 men and women are expected to attend. 28/10/90

Lead-in speakers include Jan Lombard, senior Deputy Governor of the Reserve Bank; Thabo Mbeki, ANC director of international affairs; and Simon Brand, chief executive officer of the Development Bank of Southern Africa.

Two workshops will be held, one on managing industrial relations in a time of political transition and the other on value added tax.



Mr WILLIE RAMOSHABA

Mission to US was an eye-opener: delegates

Sowetan 29|10|90

By JOSHUA RABOROKO

THE 65 black business people, who went on an "observation mission" to the United States, were not used as sanction-busters, the executive director of WR Consultants, Mr Willie Ramoshaba, said when the group arrived back in Johannesburg.

Addressing a Press conference at Jan Smuts Airport, Ramoshaba, who was a cordinator of the mission, said there were many black Americans who were interested in pumping money towards the economic development of South Africa entrepreneurs but were hamstrung by the sanctions lobby in their country.

He said that the American community was sympathetic towards the plight of blacks and had indicated that they would only invest in the country once apartheid was dismantled.

The International Finance Corporation and the African Development Bank were prepared to help black businessmen develop, especially in the fields of manufacturing, agriculture, import and export trade.

The group, consisting of black entrepreneurs from South Africa, Botswana, Malawi, Lesotho, Swaziland and Zimbabwe, visited Los Angeles, Chicago, Washington and New York, where they exchanged views with their counterparts.

Among the leading personalities on the tour were Dr Ellen Kuzwayo, second vice president of Fabcos; Dr Nthato Motlana, chairman of Get Ahead Foundation; Mr James Ngcoya, president of Sabta, and Mr Philemon Makhetha, chairman of the Greater Soweto Chamber of Commerce.

There was dissappointment from some of the relatives who had come to welcome their loved ones when it was announced that through a fault by travel agencies, some of the tourists were left stranded in Zambia. However, they were expected home at the weekend.

Apartheid must end

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At the Press conference, Mr S Molefe, a member of the SADCC from Botswana, said South Africa should dismantle apartheid if it was to be accepted by the international community, especially African states, as a trading partner.

The president of the National Stokvel Association of SA, Mr Kehla Lukhele, said the Americans welcomed the South African concept of stokvels. They had their own stokvels and wanted to exchange ideas with their counter-parts elsewhere.

Most of the people who went on the tour said the mission was an eye-opener. "We will be able to plough what we gained in our businesses and the community," Mrs Mary Mabaso said. "Our black women have to be exposed to business.

Industrial espionage can be simple

B/Day 29/10/90

KEEPING information secret from competitors is vital, but SA is plagued by industrial espionage and most firms are doing little to protect themselves.

Security Services Consultants director Howard Griffiths says: "It can be as simple as a salesman leaking client lists to the competition.

"In a recent case, the employee was using tender information to undercut his employers.

"If a client suspects information is being leaked we begin a thorough study of the suspects — the client's 'gut feel' is often accurate.

"We look at his financial and lifestyle profile as well as studying his past.

"Often the problem will show up when we investigate the suspect's background. Companies seldom carry out proper checks and rely heavily on the references supplied by the potential employee," says Griffiths.

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Specialise

But greedy employees are only half the battle.

"There are about 15 firms in the PWV area which specialise in obtaining information for their clients about the competition.

"They might bug senior executives offices, homes and telephones. Rubbish bins are another source of potentially valuable information.

"The MD's secretary often locks important documents in a secure cabinet but the key is kept in her top draw.

"On her desk there is usually a plastic computer disk file — easily available to the spy, as are dictaphone tapes.

"Companies spend fortunes on access control and then forget that employees such as cleaners are wandering through the building at night."

Market ratings ensure long overdue discipline

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B Day 30/10/90

ROBERT GENTLE

IN THE past few months, SA financial markets have been subjected to the gradual advent of a degree of sophistication in the form of ratings — the process whereby companies and their debt issues are independently judged by a rating agency.

Investors are then free to use the different ratings — say, AAA versus AA — as a yardstick to decide on what basis to deal with a company or whether to invest in its paper.

Republic Ratings, SA's equivalent of such well-known overseas rating agencies as Standard & Poor or Moody's, has rated Eskom, the Post Office and local water board Umgeni Water since it started operating about four months ago.

Unanimous

Republic says that Transnet and Landbank are the next big entities to come out with a rating, and that ratings of a number of other "substantial capital and money market participants from both the public and private sectors" are in the pipeline.

Financial market specialists, from the Reserve Bank to banks and discount houses, are unanimous that this gradual rise in the number of ratings will instil a degree of discipline into the market that is long overdue.

"There is just no way one can be negative about the long-term advantages of a rating agency," says Prima Bank executive director Herman Hamman.

The logic behind the enthusiasm is simple: a rating strips away the hype often heard about different companies — "You can't go wrong with us because our name is well known in the market" or "We're a bank. Banks don't go bust" — and replaces it with a clinical, uniform standard investors can relate to.

The rating company achieves this by a thorough analysis of a company's financial state of health as well as its competitive position in the industry in which it operates.

It then assesses the risk of a company defaulting on a specific debt issue. Depending on legal structure, seniority and credit enhancement, it is possible to have different ratings for different debt issues within a company.

Republic issues long- and short-term ratings. The highest long-term rating is AAA+ and the highest short-term rating is A1. Ratings are further categorised into investment grade and speculative.

The Post Office got a AAA+ rating not because it is inherently any better than Eskom (which got a AAA rating), but because it is inextricably part of the state.

"The state, by definition, represents the most favourable risk category from a domestic credit viewpoint," says Republic executive director Gideon van Rhyn.

"Should ownership structure of the Post Office change ... the rating would obviously require reconsideration."

Ratings are a reflection of the relative credit risk of different companies and debt issues. However, says Van Rhyn, other investor preferences such as tradeability also play a role in determining the price at which a stock trades.

So whether one is talking companies or commercial paper, ratings separate the excellent from the merely good, the okay from the rather less-than-okay, and the bad from the terrible.

For example, the view that a bank is a bank is a bank is contested by Van Rhyn. "There is no such thing as the big five banks. They are different, and the fact that some have to pay more to attract wholesale deposits than others reflects this."

Downgraded

Indeed, ratings among banks could have been the early warning system that may have prevented the Alpha Bank debacle, which was triggered by motor distributor Spareco's inability to repay a R6m loan — almost twice Alpha's capital base.

The ultimate success of the SA ratings scene will depend on the accuracy and soundness of Republic's ratings methodolody. The extent to which the market accepts them will soon become apparent as further ratings are announced.

Independence vital for entrepreneurial flair

(180)

B/Day 30/10/90

A COMMENT by a recent finalist in the SA Non-Listed Company Awards gave part of the reason many highly successful companies are not listed on the Johannesburg Stock Exchange.

"A company risks losing its entrepreneurial flair once the directors have to answer to shareholders. It becomes harder to make swift decisions or to take risks."

The point is echoed by convener of the 1990 judging panel Professor Colin Firer of the Wits Business School, who says a large number of companies "see no need to seek a JSE listing, for good reasons".

Before this award was introduced five years ago these companies tended to remain out of the public eye.

Firer says a guide for the judges in identifying finalists is to find entries which prompt them to say: "That's the company I would put my money in if I had a chance."

The chance in many cases won't come. But some past finalists, including first-time winner Mercedes Datakor, have gone on to be listed on the JSE.

The award, sponsored by Business Day, Arthur Andersen & Co and the Wits Business School, is becoming one of the most prestigious business awards in SA.

It remains the only public recognition given to unlisted companies.

Recognition

Arthur Andersen partner Graham Rosenthal says: "The award has gone a long way to giving non-listed companies the recognition they deserve."

Continued progress by past finalists suggests it is successful in identifying companies in an important phase of development.

Among this year's 20 finalists are several past finalists, in some cases, for the fifth year.

From inception in 1986, the award has attracted a high calibre of entrants, as can be judged by past winners — Mercedes Datakor, Macsteel, A M Moolla Group and XPS Services.

Entrants range from closed corporations and medium sized owner-managed firms to major companies.

Some very large companies have numbered among the finalists, such as Volkswagen and Sanlam in 1989, and Eskom this year.

In 1990, the judges — Prof Firer; Ronnie Lubner, joint executive chairman Plate Glass; Brian McCarthy, chairman, McCarthy Group; Mervyn King, executive chairman Frame Group; and Jeff Liebesman, chairman and CE FSI Group — set out to focus more closely on younger and innovative organisations.

The 20 finalists reviewed in this survey have provided some remarkable studies in strategic management, innovative problem solving, vision, energy and commitment.

Finalists for the fifth consecutive year are cosmetic manufacturer and sales company Avroy Shlain and compressed air hire company Rand Air.

Construction aggregate company within the Anglo American group, Stone & Allied Industries (OFS) Ltd, was a finalist for the first three years of the award and was chosen again this year.

A number of the 1990 finalists are represented for the second year in a row, including mining supply company Nordberg; temporary and permanent personnel placement and training group Kelmac (Kelly Girl was a finalist in 1989); PE-based textile manufacturer Valley Textiles; transport and waste management company TTI; and Rand Air.

Rosenthal says a condition of entry is that where companies are controlled by outside shareholders, management is nevertheless independent of control by these shareholders.

Owner-managed companies are encouraged to enter.

Seeks

The award seeks to recognise entrepreneurial skill and innovation.

Growth, profitability, productivity, a sound financial base and funding structure are taken into account.

Judges also look for creativity in finding new markets, new product development, introduction of new products and manufacturing processes and sound human resource development.

In addition, they take note when a company makes a contribution to nationally desirable goals such as job creation, export and import replacement and the breaking down of bureaucratic structures.

Entrants' submissions are kept highly confidential throughout the judging, which makes use of a system of symbols.

...g keeps Orbit ...ead of the field

B/Day 30/10/90

assets climbed from 15,4% to 23,9% in the same period.

Pre-tax profit as a percentage of turnover has grown from 4,07% to 6,75%.

Over the past four years, profit generated as a percentage of hours "sold" has increased and Orbit is setting one of the highest standards of workshop profits to overall running costs in the MB franchise network.

This has cushioned the company against dips in new car sales — one of the most important aims of the strategic plan set during the '80s.

Innovate

The company has set a standard as one of the most innovative in the MB dealer family, and although its embarked on the development of an additional sales and service complex in Bellville at a cost of R4m.

The achievement of workshop efficiency was through two-poster hoists being installed for 27 work bays which improved working conditions. Exacting training standards and mutually agreed labour targets improved the productivity of mechanics.

The company has its own training centre for artisans and conducts training for the motor industry in general.

An efficient spares requisitioning and stock holding system has eliminated time losses at parts counters.

Customers are assured of more than 90% availability of parts for all models of passenger cars and com-

NEWS FOCUS

When the buck stops outside Soweto

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THEO RAWANA

THE 20-odd delivery trucks and vans parked in an open space near New Canada, just outside Soweto, bear testimony to the fact that, with unrest in the townships, deliveries can go this far and no further.

Since the 1976 riots, suppliers have had to devise special means to get essential items to the townships — from meeting their black trader clients on the outskirts of the townships, to using black-owned trucks to get supplies in.

Soweto Independent Shopowners' Association (Soinsa) secretary Thami Skenjana says the disruption compels traders to collect the most desperately needed supplies from outside the township daily and, since this involves only a fraction of his trade volume, he is bound to fall foul of his creditors.

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Communication

As a result, consumers, retailers, suppliers and manufacturers form a string of frustrated actors in a game that sees prices rocket continually.

Skenjana says his 650-member association is frustrated by the lack of communication between black businessmen and political organisations.

Katlehong Chamber of Commerce president Joe Namane says business in his area has suffered greatly during recent unrest caused by electricity supply cut-offs, street barricades and unrepaired water systems.

"To try to remove these (barricades) to allow for delivery trucks to pass through is an offence to the local youths . . . What's odd is that the deliveries bring the staple food for the very people who want them stopped."

Namane runs a filling station and a supermarket and was without a telephone for four weeks because technicians were afraid to go into the East Rand township. He says many of the smaller concerns — such as the "spaza shops" — have had to close because they do not have the facilities "to travel 2km to fetch two dozen loaves".

ABI MD Alec Reed says the worst thing about the unrest is that it is impossible to anticipate where and when it is going to occur. "You could find you are able to deliver in Tokoza and Daveyton on a Monday, only to find that things have changed the following day."

Tiger Oats group public affairs manager Patrick McLaughlin says, while he cannot speak about specific problems encountered by Tiger Oats companies such as Tastic and Albany Bakeries, distribution by Ace, Induna and other companies "in general terms" have not been particularly affected by the present unrest.

The National African Federated Chamber of Commerce (Nafcoc) is not unduly worried. Its president, Sam Motsuenyane, told the organisation's recent 26th annual conference in Durban that: "A sad calamity which befell black business during the year was the considerable destruction of business through arson and looting in the Ciskei and in certain areas of Natal and the Free State.

"The tragedy was that the majority of these businesses were either only partially insured or totally uninsured. This phenomenon highlights a general problem which faces a great many of our black entrepreneurs in SA.

"Another problem is how to make people aware that the destruction of black business does not really help to bring a solution to any of our existing problems."

Spaza shop owner Dougie Maruma was forced to close his business early and send his wife and children to stay outside his Zone 6, Diepkloof area, when there was a threat of invasion from local hostel dwellers recently.

"I felt I had to be the only one remaining to watch over my closed business and my home," he says.

Maruma, like all businessmen big or small in Soweto, has had to contend with the frustrations of early closure on unrest days, complete closure on "observation days" such ascommemorations and mass funerals, and sudden closure because of rumours of immediate invasion from some quarter or other.

Risky

"I have to sneak out and pick my way to the nearest point of supply, which is an area where suppliers' delivery trucks park near the nearby military camp.

"It's a risky business, because being spotted by the activists could mean burning of my vehicle or confiscation of my stock by the youths," he says.

Sam Dubazana, owner of Dub's Hardware and Paint Shop in Dube, says the culture of resistance now affects even simple exercises such as distributing pamphlets promoting special offers.

"When my team goes out to hand leaflets to pedestrians, they get the most unusual responses. People would grab the papers, look at the contents and scream: 'Aaag! I thought it was a stayaway or consumer boycott call.' "

Foreign cash will boost the need for space

B Day 31/10/90

AN INCREASE in foreign investment in SA will push the profit margins of SA industry downwards, but will offer a great opportunity for suppliers of industrial and commercial space, says UCT School of Economics Professor Brian Kantor.

In an article in the latest issue of Old Mutual's Property Profile, Kantor says the property sector would benefit more than most sectors from any change in the perception of the risk of investing in SA.

Margins

"The profit margins of industrial and commercial organisations benefited from the lack of competition from new investment.

"The boot would be on the other foot were investment to be encouraged by a reduced risk premium.

"Lower required returns on new investments would increase the demand for space to the benefit of owners and developers."

The higher the risk, the greater the return the investor requires on his money. Capital flowed out of SA in 1985 to 1990 because of an increase in the perceived risk of investing in SA.

"Of the capital gained since 1960, we have already lost about four-fifths."

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Vary

Kantor says studies have shown the longer-lived the asset, the more its market price would vary in response to changes in risk.

Because the pay-back period for property holdings is long, the property sector stands to benefit more than most from a reduction in the perceived risk of investing in SA.

The record of quoted property trusts suggests the rewards of holding property, Kantor says.

"Comparing the cost of building to the value of the property trust index shows the index represents a relatively cheap form of investment in property.

KATHRYN PAYTON

The shares are undervalued relative to the replacement cost of buildings.

"This is because earnings have not kept up with the cost of building or with inflation, while the building cost index has kept pace with the CPI.

"Property developers, on the other hand, have succeeded in matching their dividend payments to inflation and since 1978 have outperformed both the industrial and property trust indices," he says.

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Research service to help find markets

A NEW property research service has been launched which offers feasibility studies and databased lists to help owners and developers identify potential markets.

Property Research Marketing is an arm of marketing consultancy Marketing Concepts whose head, Kathryn Payton, says the initial response has been overwhelming.

Barometer

"This industry, by its nature, is a barometer of the state of the economy and reflects every nuance of the changing political and social environment, as well as the investment climate," she says.

"Whether developers are involved in the retail, commercial or industrial sector, they benefit from accurate facts and figures, regularly updated at every stage of a property project."

Slowdown making the landlords vulnerable

THE slowdown in the property market offers an opportunity for tenants to take advantage of landlord vulnerability to improve their business environment and the quality of their accommodation.

J H Isaacs (JHI) director office leasing and sales division Steven Kesler says the cost to a tenant of moving and taking better quality space is lower now than in an economic upturn.

Also, the opportunity costs of a new address are minimised, while the foundation is prepared for maximum productivity when the upturn occurs.

"In a weak market, some landlords will consider a weak rental structure. Institutions won't because they can afford to hold vacant space rather than being tied into lower rentals for five to 10 years.

"They would rather consider rent-free periods, the overrun of installation as a negotiable item or make a contribution to part of the relocation costs in order to strike a deal.

"In a strong market, the tenant pays the overrun and no help is given with relocation and there are no rent-free periods."

Kesler says tenants relocated by JHI during early 1988 before the rental increases are enjoying a cost structure 50% lower than recent occupants, which they will enjoy for a further three to seven years.

As a result, they are better situated to endure the economic downturn than their competitors, who may have moved in a buoyant market at a far higher rental.

Kesler says the economy will begin to strengthen during 1992. Most recent economic cycles have been two to three years.

Because the property market lags the general state of the economy by 12 to 18 months it means the property market should pick up in late 1992 or early 1993.

Interest rates will remain high until the Gulf situation is resolved because SA needs to maintain a positive balance of payments and because the gold price has not responded as expected.

McDonald's burger franchises coming

Black business projects to get $85m US loan

B10 4 31/10/90 (180)

THEO RAWANA

THE Import/Export Bank of America (Eximbank) is to fund black business projects in SA with a loan of $85m.

And in a further development, several US companies, including McDonald's Hamburgers and Johnson and Johnson, are expected to announce extensions of franchises to black SA businessmen.

The moves were confirmed yesterday by business consultant Willie Ramoshaba, who co-ordinated the 65-man Black Business Observation team's visit to the US this month.

He said the loan, which would not be underwritten by local banks, was one of the major successes of the trip.

Details of the local projects would be released in due course, he said.

Ramoshaba said several companies, including McDonald's and Johnson and Johnson, had indicated they were interested in making franchises available to black businessmen.

"The funding by Eximbank, at 10,8% interest, is exempted from sanctions legislation in terms of Congressional approval which granted the bank power to back black business ventures," Ramoshaba said.

"The agreements have to respect the prevailing sanctions laws, so all, except the Eximbank agreement, will only come into effect after sanctions have been lifted," he added.

The US Consulate's senior commercial officer Richard Jackson said Eximbank, which finances US foreign trade, had been given authority to finance black SA ventures under the original sanctions legislation in 1986.

He had not yet had any feedback from the US on the loan and had not spoken to local business on the matter.

Ramoshaba said the mission, led by Soweto civic leader Dr Nthato Motlana, was the first to get the support of sanctions lobbyists, and it was fully backed by black organisations in SA.

He said the US-based International Finance Corporation (IFC) was also considering various schemes to finance black business ventures in SA and was expected to make an announcement soon.

"We also expect an announcement from various entrepeneurs black investors who are fine-tuning schemes to invest in SA through the African Growth Fund, which we started before we left."

The objectives of the mission were to expose black businessmen to market opportunities in a First World environment, to show them how their counterparts did business with new ideas and technology," Ramoshaba said.

The team also set out to interest black Americans in doing business with blacks in a post-apartheid SA and look at the possibility of future funding of black business projects.

The mission left SA on October 7 and returned last week.

□ In July, ANC deputy president Nelson Mandela wrote to US Congressman William Gray, a leading proponent of sanctions, asking him to support the SA business leaders' mission.

Use positive discrimination, urges Mbeki

BDay 1/11/90 (180)

PETER DELMAR

ANC international affairs director Thabo Mbeki yesterday urged the SA business community to accept the ANC's principle of affirmative action to redress economic imbalances.

Referring to programmes already initiated by business, Mbeki told the annual Sacob convention in Johannesburg there should be no need to argue the general principle of affirmative action.

Housing

"We speak here of affirmative action not as an act of charity or a means to assuage a guilty conscience, but as an instrument to achieve development, growth and equity," he said.

It appeared there was a strong case for favouring of the poor as regards housing.

"This would constitute affirmative action which would address a real and desperate need while assisting in the process of economic growth and bridging the gap between the haves and the have-nots."

Mbeki also proposed helping would-be entrepreneurs to overcome the problems of lack of collateral and high interest rates.

Mbeki said overseas investors should be made aware of the country's development goals and the need to address inequalities as a consideration in their investment decisions.

There should be no fears that the ANC would do anything which would weaken or destroy the SA economy, he said.

Growth

"We take it as a given that we cannot solve our problems unless we have a strong and growing economy.

"We also take it as given that... growth in itself does not guarantee the achievement of the objective of equity."

Mbeki said the ANC was busy with a wide-ranging discussion on ways to end poverty, and looked forward to discussions with business on evolving a possible joint consensus on "what needs to be done to abolish the Third World through development".

The ANC, he said, realised the First World economy was the engine of economic upliftment and that a strong, modern economy was needed to create wealth at an increasing rate.

Mbeki said business had to be involved in the process of bringing about a just political order.

It should also help end violence inside the country, he said, referring to efforts by business organisations to mediate in the Natal conflict.

Cape Town lures foreign investors

(180) BDay 1/11/90.

LESLEY LAMBERT

CAPE TOWN — Foreign companies inquiring about investment prospects in SA appear to be showing comparatively more interest in Cape Town than in other areas of the country, economic development organisation Wesgro reports.

In an overview of activities this year, the organisation reports a substantial increase in the number of inquiries from prospective foreign investors and business leaders as well as in the size of the firms expressing interest.

Wesgro chairman Chris Newton reports visits to Cape Town by 46 foreign investors. But more significant, he says, is the increased interest shown by international business support organisations, including the London Chamber of Commerce, the Hong Kong Trade Development Council and the Belgian Trade Federation, many of whom have not been interested in SA for decades.

A joint city council/Wesgro delegation recently completed a series of investment seminars in Taiwan and Hong Kong where it arranged follow-up visits to the Cape.

But Wesgro concedes that the inquiries are unlikely to result in significant levels of investment until greater political and economic stability is achieved in SA.

The organisation assisted more than 25 companies establish an investment in metropolitan Cape Town during the year, according to the annual report.

MALBAK FM 2/11/90

END OF GROWTH? 180

Hit by difficult trading conditions and with fewer acquisitions, Malbak's rapid growth of the past few years faltered in financial 1990. A higher tax rate and increase in issued shares cut further into earnings.

Turnover grew 14% to R8,4bn — almost the same in real terms as in financial 1989.

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Executive chairman Grant Thomas says the economy was in a downturn and the socio-political environment volatile throughout the period. All five major divisions faced ex-

Malbak's Thomas ... *disastrous or just difficult?*

tremely difficult trading conditions.

Despite tight expense control, the operating margin slipped to 8,6% from 9,3%. The acquisition of additional motor related operations, which changed the product mix; market pressure in the branded consumer products division (which includes Tedelex — (*Fox* October 19) and at Kanhym (*Fox* October 19); and losses abroad by Abercom (*Fox* October 26) led to the fall, says Thomas. Operating income growth thus slowed to 6% from 37% in 1989 and 176% in 1988.

Best-performing listed subsidiaries were Ellerine (*Fox* October 26) and Standard Engineering (*Fox* October 19).

The interest bill rose by about a quarter — the result of an increase in debt due to acquisitions as well as higher interest rates. Gearing fell slightly to 0,46 but interest cover deteriorated slightly. Working capital was well controlled.

The effective tax rate increased from 30% to 34% mainly because of the exhaustion of assessed losses at Holdains, Standard Engineering and D&H and losses at Abercom.

Thomas says the higher tax rate reduced earnings by 10c. Earnings actually fell 12% to 111,2c but cover was reduced and the dividend was maintained at 30,5c.

Thomas is not optimistic about economic conditions this year. He expects the recession to deepen before levelling out and says trading conditions, though difficult to predict, will fall somewhere between "disastrous, terrible and difficult."

Emphasis will be placed on cost and asset

FOX

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RECESSION ILLS

Year to August	1989	1990
Turnover (Rm)	7 329	8 374
Operating profit (Rm)	683	724
Attributable (Rm)	251	233
Earnings fully converted (c)	126,9	111,2
Dividends (c)	30,5	30,5

management and on the export market — exports could contribute R1bn turnover this year, with the engineering division remaining the main beneficiary. Thomas expects most divisions to report earnings of the same order as or slightly better than last year, except for Tedelex and the construction division, where a marginal decrease is budgeted.

But the group tax charge will rise and the board, therefore, expects lower earnings, to an extent determined by the depth of the recession and socio-political events.

Malhold, whose sole investment is 54,2% of Malbak, recorded earnings (fully converted) of 313,4c (357,5c) and repeated the previous year's dividend of 85,5c. Malbak's market price is 500c compared to NAV of 689c. It is trading on a 4,5 earnings multiple — well below 7,5 for the industrial holdings average — and 6,1% dividend yield. Malhold is 1 350c, on a 4,3 earnings multiple and 6,3% dividend yield. These ratings confirm that the market thinks the growth phase is coming to an end.

Gerhard Slabber

BLACK BUSINESS (180)

NO HANDOUTS NEEDED

FM 2/11/90

Willie Ramoshaba and the 65 other members of the Black Business Observation Mission arrived in the US last month with the element of surprise on their side. Many of the Americans they met had no idea that SA had a viable black business community.

"We had the upper hand," says Ramoshaba, whose W R Consultants organised

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the 18-day trip to New York, Chicago, Washington, Los Angeles and Atlanta. "We had conceived the trip, spearheaded it and got *them* involved. They were shocked."

Americans were surprised to discover that some black South Africans think economics is just as important as politics. "They thought blacks were only interested in politics. We showed them that we are not Third World and we don't need handouts."

Though most of the trip involved laying the groundwork for post-sanctions business deals, one immediate result was a working agreement with the Import-Export Bank in Washington. Previously, the bank's loans had to be guaranteed by a local bank.

"The mission managed to change that. If you're in business and black and have a good idea, then they are prepared to do deals and loans. And it doesn't depend on sanctions (which never applied to doing business with blacks). They will do deals of $85 000 and upwards, though they prefer to start at $200 000. We feel that we have brought something to the folks back home."

Ramoshaba says the two issues that came up in each of the five states visited were violence and nationalisation. They answered the inquiries by asking for help with the obvious problems.

Ramoshaba

"We need them more during these times. They shouldn't stand on the fence. We need their input now, not later. They have got the experience we can draw from."

In the next year, he expects about 200 Americans whom they met during the tour to come to SA. But he and the other mission members cannot handle those numbers. "We need help from companies and individuals with the expertise and resources to properly and professionally manage the visitors or else they will go home with the totally wrong impression of this country. We need to give them the same kind of reception they gave us."

Plans for another mission next October are already in the talking stages. The Far East and Europe are the top candidates.

One regret? "We should have had President Bush on our schedule."

Keys has a heretical plan to unlock value and set business free

B Day 2/11/90. (180)

JIM JONES

IS DEREK KEYS SA's leading corporate heretic or is he doing for the corporate sector what President F W de Klerk is doing in politics? For whether he intended it or not, by suggesting the unbundling of Gencor chairman Keys has set in train a far more fundamental debate.

His line to the Investment Analysts' Society on Wednesday was disarmingly deceptive. He suggested any unbundling of Gencor would be motivated by greed, by annoyance that his mining house's shares are permanently priced at a discount to underlying net worth and by a determination to unlock that underlying value.

But behind that lurks one of the first efforts to lead SA business to the same state of maturity as exists in the US and Europe.

This country's business structures have been formed, perhaps inescapably, by the same sort of attitudes that gave us apartheid. Insecurity which led to a determination that all real power be concentrated in white hands is mirrored by the concentration of control of SA's corporate sector in very few hands.

Just as De Klerk has realised power needs to be shared and devolved to unleash the country's full potential, Keys is saying the same is needed in the corporate sector.

Keys's heresy is particularly marked by the fact that not only is Gencor controlled by Sanlam, but he himself is on Sanlam's board and has some influence over its strategies. And Sanlam, let's not forget, has for years deliberately aimed for control of important sectors of the economy, in contrast perhaps to Old Mutual which appears to have had control thrust upon it by the very circumstance of its size and age.

Sanlam sprang from Afrikanerdom's determination to assert itself and, as a result, its strategy of aiming for control is a microcosm of the strategies of governments wedded to apartheid.

Why, unlike most other countries, do we in SA have so many corporate pyramids? Why, for example, is the policyholder's interest in Adcock-Ingram held through Tiger, then C G Smith Foods then C G Smith then Barlow Rand and finally through Old Mutual? At each step of the way, the value of the investment is diluted by discounts to net worth and there is no apparent value to Adcock-Ingram in the control structure. Is the answer that some, such as Pickwick which straddles Pick 'n Pay, were established to protect the freedom of action of an entrepreneurial Raymond Ackerman from fear of rule by committee from Pinelands?

If that is the case, one argument for unbundling is that devolution will release entrepreneurship. For no matter how much head offices might say managers of subsidiaries are free to decide their firms' policies, it is almost inevitable those policies will be tailored with an eye to approval from mahogany row in Johannesburg, Bellville or Pinelands.

Of course Keys has argued cogently that the existence of Gencor made it possible for Mobil to be acquired when its US parent divested. And there are certainly arguments in favour of size. But, increasingly, they are outweighed by arguments in favour of devolution as SA re-enters the world and moves into this new phase of its growth as a country.

What are the advantages or benefits of control? Control of Bankorp has given Sanlam the doubtful benefit of ploughing over R1bn into the faltering banking group over the years — not to develop the bank, simply to keep it afloat. Arguably, Trust Bank or Bankorp should have been allowed to go belly up rather than have Sanlam's policyholders bail out the mistakes of incompetent management.

☐ KEYS ... radical rethink

The other side of the coin is that companies such as Engen, Tiger Oats, SA Breweries, Amcoal and so on are large enough to mobilise the finance needed for their own developments. And, it might be argued, they could be inhibited by being in the institutional fold.

That's what Keys means when he talks of the pure greed of unlocking fundamental value. The greater the Gencor share's discount to net worth, the more reluctant is the house likely to be, say, to issue its own shares to follow a rights issue needed to pay for an expansion of Trans-Natal. In other words, new developments could be inhibited by the structure of ownership and control.

That extends further. The JSE is dying on its feet, simply because marketability of the shares quoted on its boards is so poor. Among the leading industrials only half a dozen — Barlow Rand, Iscor, Sasol, Rembrandt, Richemont and SA Breweries — are marketable in any volume. The rest are locked away inside the pyramids or conglomerates.

Pyramids are understandable — they developed so that entrepreneurs could protect their independence from the insurance giants.

Extending Keys's logic leads to the realisation that unbundling the mining houses could unleash investment funds. Again by way of example, Trans-Natal might be less inhibited about approaching the market for new long-term funds. And the life assurers and pension funds might be less diffident about following new issues if they do not have to do so indirectly through the undervalued pyramids.

The institutions' task is not to finance new greenfields ventures — that's the job of entrepreneurial management. The institutions should be investing in rights issue needed for those projects' long-term finance.

Perhaps inadvertently, Keys has fingered another danger for corporate SA — the perceived "problem" of concentration of power. In its talk about nationalisation, the ANC implicitly believes that existing corporate structures are designed to maintain white business hegemony. And that is probably reinforced by moves such as Rembrandt's creation of Richemont and De Beers' creation of Centenary — moves which could be interpreted as designed to ensure continued control.

Whatever corporate developments come from Keys's unbundling proposition, they must leave no room for being interpreted as devices to ensure control for a small number of individuals. Overcoming that perception is simple. Perhaps Gencor, and the other mining houses for that matter, could simply distribute shares in their underlying investments to their shareholders and wind themselves up.

Distribute for nothing, not sell. The idea would be that Gencor's own shares would be cancelled and their underlying assets — shares in subsidiaries — distributed in their place. Certainly the shareholders would be better off. Not only would the discounts to net worth be unlocked, but their new shareholdings would be more marketable.

In addition, the institutions might be less locked into the group control syndrome and less reluctant to sell shares for fear of not being able to reinvest through a stock exchange characterised by lack of marketability.

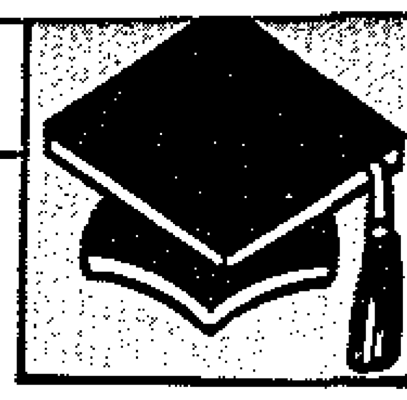
Distribution would also underscore a new maturity, that the business sector is no longer locked in an insecure mindset. And, by allowing true devolution, it would probably hasten the the entry of skilled blacks into managerial positions. Quite often affirmative action programmes by the large groups are interpreted as tokenism, as sops not substantive responses to black aspirations.

SA's political log jam is shifting — now the blockage in the business sector needs to be dislodged.

KANTOR COMMENTS

FM 2/11/90 (180)

ANGELS FEAR TO TREAD



Brian Kantor is professor of economics at the University of Cape Town.

Only the deputy minister of finance can prevent a radical reshaping of the SA corporate structure — by rejecting the recommendations of the Securities Regulation Panel on a new takeover code.

If he accepts them, it will become much more difficult and expensive to create a future Anglo American, Anglovaal, Rembrandt, FSI, Barlow Rand, Liberty Life, Malbak — or, indeed, any business giant. It will inhibit an aspirant Oppenheimer, Rupert, Barlow, Gordon, Menell, Venter, Liebesman or Wessels from creating — through a mixture of organic growth and strategic purchases — the type of group that has driven the economy.

The proposals — that purchasers or holders of 30% or more of a company, if they acquire an additional 5%, should be compelled to extend an offer to all shareholders — are being made in the name of fairness to minority shareholders.

This obligation would apply not only to listed companies but to private, especially pyramid, companies where the shareholder's interest exceeds R500 000. Pyramids, listed and unlisted, have played a vital role in maintaining the legal and managerial authority of controlling shareholders. They have been substitutes for the practice of issuing non-voting shares, a less complicated form of maintaining control not generally permitted by the JSE, ISE or NYSE.

The intention of the new regulations is to treat controlling shareholders and minority shareholders as equal when control changes, even though they play completely different roles in the corporation. This runs counter to the principle that unequal effort deserves unequal reward. It will encourage the separation of shareholders and control and will, over time, make managers more powerful at the expense of all shareholders. Minority shareholders will not be able to rely on controlling shareholders to control managers. So minority shareholders' votes may mean more in law, yet less in practice.

Regulations of this sort, not natural economic forces at work, have brought about the almost complete separation of ownership and control of the leading US and UK corporations. There, typically, the managers control and the shareholders own.

The economic results of such separation are by no means beneficial. Managers who escape control by shareholders may end up doing their own thing at the expense of shareholders. They may pursue growth for the sake of management, even when shareholders would be better off if they paid out more and invested less. Or they may prove unnecessarily risk-averse or indulge in non-market related pay or fringe benefits.

Such inefficiencies have been responsible for the many recent takeovers and management buy-outs in the US and UK. Operations have been financed by investment bankers who have had to perform, clumsily and expensively, the critical role that controlling shareholders play when they exercise their power to hire and fire senior managers.

The advantages of good control can be achieved with less than complete ownership. It may be said that the smaller the proportion of shares required to sustain the necessary discipline over managers, the better.

Non-controlling shareholders can happily ride along with the controlling shareholders. But there is no reason to expect the ride to be free. The controlling shareholders must receive appropriate rewards. Typically, they will be less diversified in their portfolios than the other shareholders. The greater risks to which they are exposed will also have to be compensated for by higher returns.

Such are the costs and benefits of control.

Nobody is forced to become a minority shareholder. Shares are bought from controlling shareholders at what the buyers and sellers must believe to be the right price and in full knowledge of the system of control. The implicit or explicit contracts between controlling and other shareholders deserve as much respect as any other contract.

If the recommendations are accepted, the terms of the contract will have been changed, after the event, by political action.

This would simply mean that, in future, outside shareholders will have to pay a higher price for their initial stake. If the price is made too high, fewer shares will be bought by and sold to outsiders. Small private companies will be more likely to stay private and debt finance will be regarded as superior to equity finance. This will not be in the interests of the economy or shareholders.

The worldwide tendency to impose regulations that discourage concentrated control or reduce the benefits of control and, therefore, of sharing ownership seems entirely perverse. An efficient economy requires managers to be held accountable to shareholders.

The concentrated control of quoted SA companies is a strength, not a weakness, of the economy.

It must be recognised that any employee of a privately owned company, who's a member of its pension fund, is a shareholder. Anybody with a retirement annuity or life assurance is a shareholder. These shareholders have little power to control the managers but their partners, the controlling shareholders, do; and they, as part-owners, share the benefits of efficient management.

Sophisticated commercial lawyers, enthusiastically reforming Company Law to bring it into line with UK practice, rush in where angels should fear to tread. There is no good economic argument for following London or the US in regulating the relationship between different classes of shareholder.

The UK economy is surely not a shining example. That the continental economies have performed much better over the past 30 years, as have Japan, Korea or Hong Kong, may just have a great deal to do with the greater powers that continue to be exercised there by controlling shareholders.

If a price has to be paid in the form of a less efficient corporate structure for the sake of a more popular capitalism, as it has been in the US and the UK, let it be done at the right time with all the cards on the table. Right now is a particularly poor time for government to trade away economic efficiency for a lawyer's notion of fairness.

Gencor's break-up feelers given a long yawn

S Times 4/11/90

(180)

DEREK KEYS: Unbundling of a giant is not to be sniffed at, but the market isn't impressed Picture: TOM EDLE

By DAVID CARTE

THE stock market's apparent indifference to Gencor's proposal to break itself up means the scheme is unlikely to go ahead.

Gencor chairman Derek Keys says the proposal was aired at a conference this week partly to gauge investors' reactions.

He says: "There was one long yawn from the market, absolutely no reaction, so the idea is not a brilliant possibility."

The proposal was to distribute shares in Gencor's five main businesses — Genmin, Engen, Malbak, Sappi and Genbel — to shareholders in specie and thus to reduce the 25% discount between the Gencor share price and the value of its underlying holdings.

Shareholders in Gencor Controlling would also have received shares in the five underlying companies and a discount of 35% in the top company would thus also have been eliminated. Mr Keys says the five divisions are centres of excellence run by highly competent managers whose need for a head office is doubtful.

The reason for the existence of conglomerates is questioned abroad, particularly because of the discounts to asset value.

"Twenty-five percent of R11-billion is a fair old sum. Of course, even if we did unbundle Gencor, we could not get down to brass bolts. There would still be something of a discount — but even if the net gain was only 10%, we would be looking at R1-billion.

Smart

"Gencor's present structure does give financial strength. We would not look too smart if we had to forgo another Mobil because we did not have the means to go for it. We have made a gain of R2-billion on the Mobil acquisition already."

Mr Keys says a break-up is operationally practical. The mining house's mine servicing functions could all go into Genmin. The only head office functions that would be left would be treasury, foreign exchange and insurance. These could serve all divisions contractually.

Unbundling is also possible in Malbak and Genbel, but he doubts if it would be wise.

SA's No 2 mining house this week announced attributable income up 38% to R1447-million in the year to August. Earnings a share rose by 17% to 123c in spite of the recent R1-billion rights issue.

Gencor declared a final dividend of 26c, making 40c for the year, an 18% increase. Engen contributed R203-million to the bottom line, Sappi R240-million, Genbel, thanks partly to rights-issue proceeds, R414-million, Malbak R116-million and Genmin R592-million.

At the end of August the stake in Genmin was worth R7,9-billion, Genbel R3,9-billion, Engen R2,5-billion, Sappi R1,5-billion and Malbak R606-million. Net assets were 1 375c a share, but by October 25 were down to 1 242c. The share price this week was 915c. There were gross assets of R16-billion and no net debt.

Forecast

Mr Keys expects earnings to be down next year, but says transaction profits in Genbel should be large and the dividend should be maintained. Transaction profits arise from the sale of gold shares held for years to fund Genbel's TransAtlantic purchase.

Mr Keys says these share sales are unquestionably capital gains and therefore not taxable. Gencor does not need an objective definition of capital gains for peace of mind on this question.

The Reserve Bank has

■ To Page Three

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4/11/90

…ations will go to the Government …e months' time and a decision is …he first half of next year.

…vill have to be supported by about … cane, opening the industry to …nall-scale growers in KaNgwane …rg.

… Association chief executive Mike …ys expansion in Natal and the …nsvaal will expand SA's 2-mil…ut by about 300 000 tons a year.

Long yawns for Gencor's unbundling idea

S Times 4/11/90 (180)

■ From Page One

stated that defending the rand's internal and external value is priority No 1. Is this policy detrimental to the mining industry, SA's biggest net exporter?

Mr Keys says: "The rand's external value is being maintained. But progress on maintaining its internal value is slow.

"While revenue stagnates or declines, costs continue to rise, putting the mines under enormous pressure. But I'm in favour of containing domestic inflation. It would make a huge difference to a project like the new Oryx mine."

Mr Keys rejects the contention of some authorities that the mining industry's management methods are obsolete, unproductive and too labour intensive.

"That may have been the case once, but it certainly isn't true of Genmin."

The case for breaking down JSE's pyramids

S/Times 4/11/90 (180)

PYRAMIDS should be knocked down, according to Richard Stuart of Martin & Co stockbroker. Mr Stuart gave a bullish speech on industrial equities to the Financial Mail Investment Conference, concluding that the risk of not being invested in leading industrials was far greater than being in the market.

He said the ANC had a valid point about concentration of power, and added that 40% of the JSE market capitalisation represented double counting.

"Effectively, this means that the same assets are being listed more than once in holding company and pyramid situations. Tax is the most subtle weapon that could be used to break down these control structures.

"If, for example, a tax of, say, 15% was placed on dividends received in the hands of companies, it would make the whole daisy chain of holding companies and pyramids tax inefficient and encourage distribution of shares up the line to the ultimate shareholders.

"This would result in a far flatter control structure along American lines.

"Can you imagine a market where PPC and Tiger Oats have the same liquidity as Barlows? Or Engen the same as Gencor? Or Amic the same as Anglo American?" Mr Stuart asked.

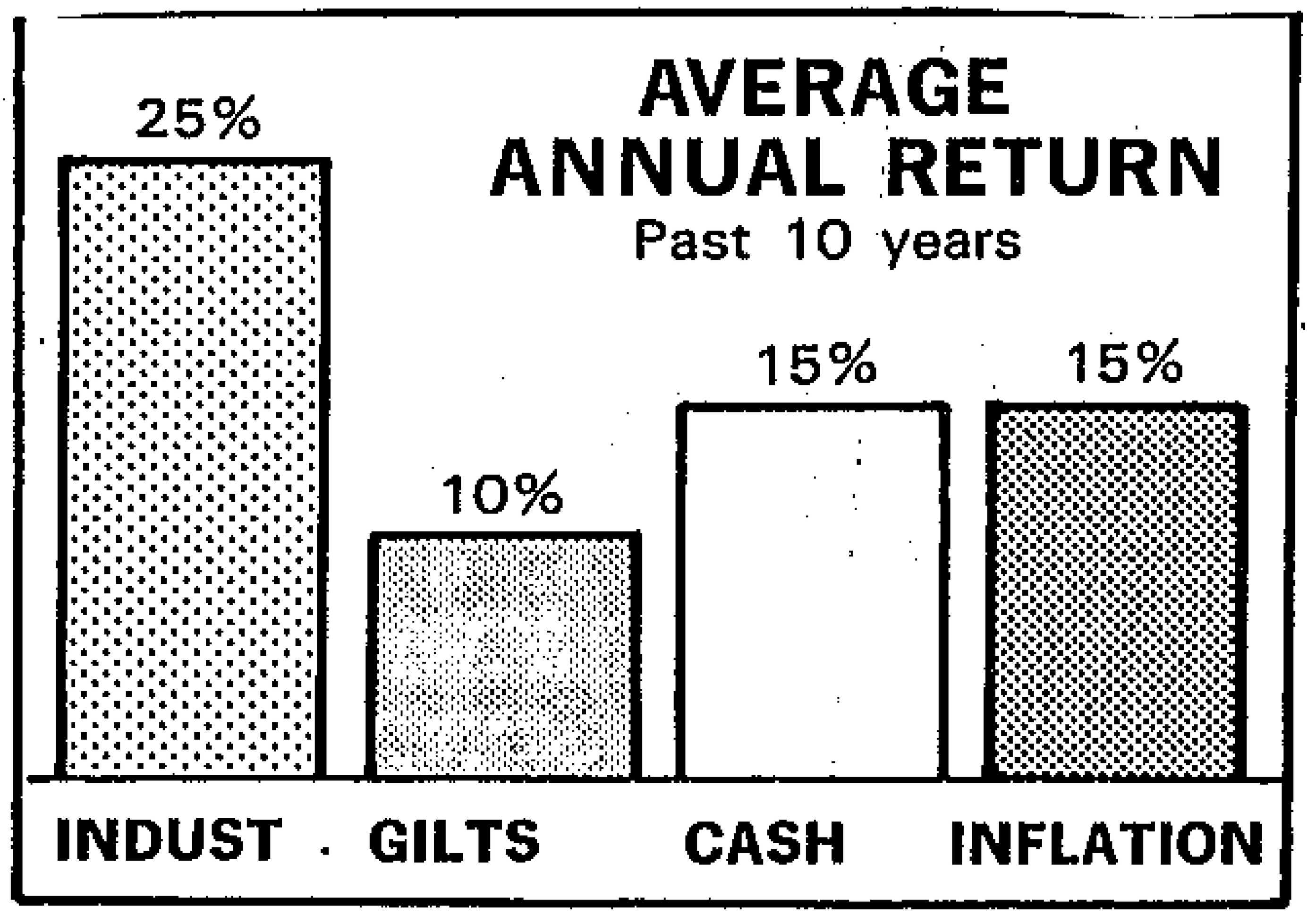
He argued that by virtue of savings institutions, half of the market was already owned by "the people".

"An unquantifiable but rapidly growing portion of the benficiaries are blacks. Changes there will be. But the whole perceived problem of ownership and concentration of power can be overcome in an imaginative way that will not destroy confidence, the capital base or entrepreneurial flair.

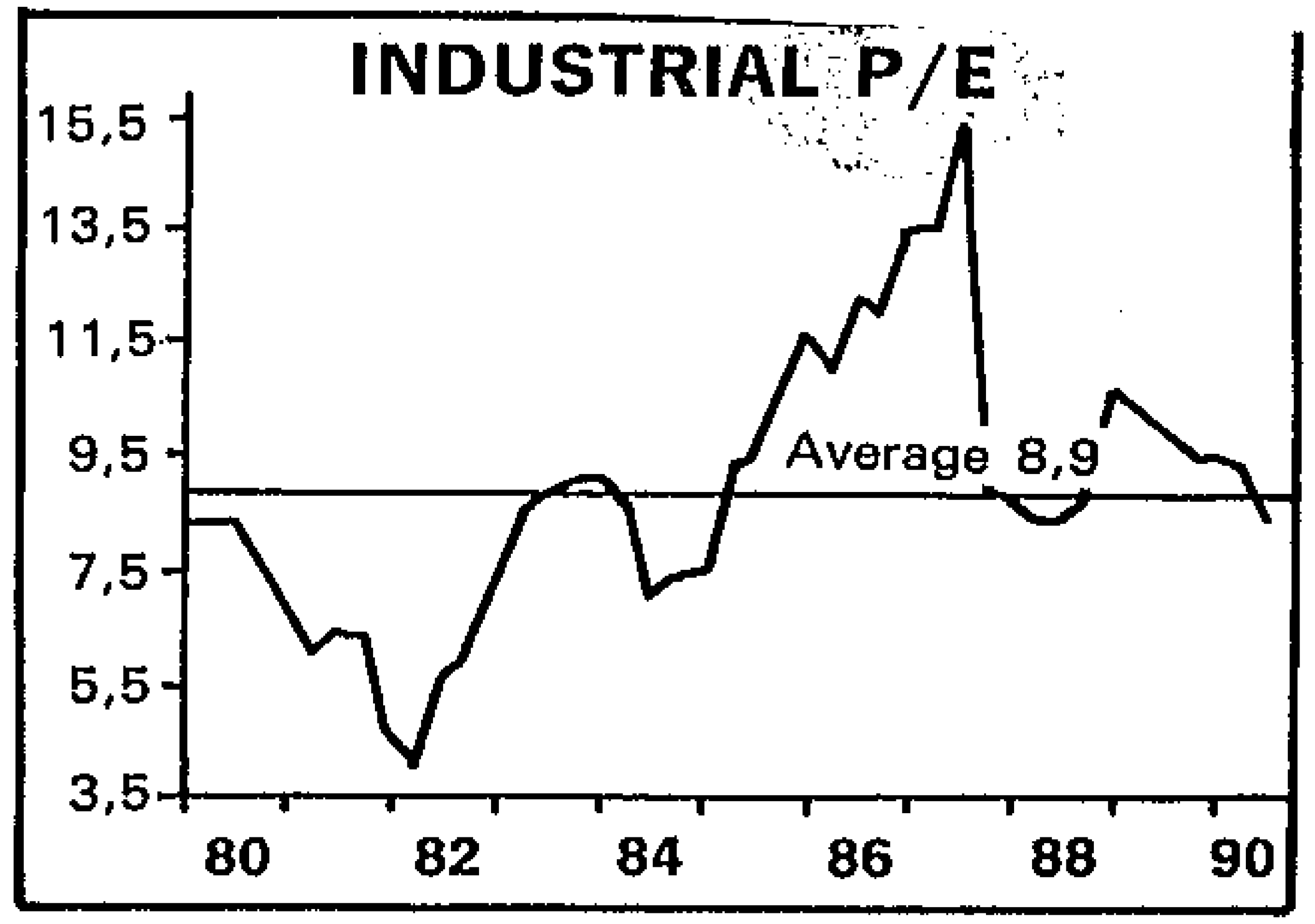
"In my view, it is high time anyway that our companies moved away from first- and second-generation control situations and became true public companies. In that way the mobility of capital would be greatly enhanced.

"And the removal of 'cast-in-stone' control structures should lead to a resurgence of entrepreneurial activity and create more challenging opportunities at lower levels in the managerial scale.

"Business should take its cue from government's political strategy and set about 'democratising' itself," said Mr Stuart.



Industrials outperformed in a decade when average real gross domestic product growth was only 1,7%. Direct mining houses did better, but direct gold shares worse.



Eliminating Richemont — 11% of the index although it has no SA assets and is valued through the finrand — reduces the average PE from 8,5 to 7,9 — conservative by standards of the past 10 years.

● Pyramiding is peculiarly South African, and some companies seem to go to extremes to secure control. The Altron and FSG groups are prime examples.

Take 15% out of those dividends all the way up to the top and any control benefit the top company enjoys is wiped out by tax.

There are dozens of examples, and more and more listed companies are following the pyramid route.

There is an opinion that if management is doing a good job, why should it worry about de facto control? If management is doing a good job, it will have the support of shareholders anyway.

New expansion dawns as an era fades

S Times 4/11/90

South Africa must look beyond the short-term stasis that was sure to accompany the transition to a post-apartheid, sanction-free environment, said Mr Stuart.

The underlying tone was of measured bullishness.

"We are at the dawn of a major expansion phase brought about by the readmittance of South Africa to the mainstream of world politics and economics."

This should mean higher growth, increased exports, a more stable currency, phasing out of the finrand, positive real interest rates, lower inflation at least initially, and pressure to redistribute wealth through tax and possibly through new prescribed investment rules.

180

The JSE's low liquidity was a recurring theme of his speech. He showed how difficult it was to place even R10-million in selected leading industrial shares, assumping that an institution could get a quarter of the market turnover.

Once out of the top few weightings in the index, it could take 100 to 150 trading days to put R10-million into a decent portfolio. In the next 10 largest index counters, it would take a year.

Mr Stuart ignored the issue of capital gains tax. Clarity could lead to the sale of equities if the sellers could be sure their gains would not be taxed — or that their losses would be deductible.

Nevertheless, demand for industrial equities looks as though it would overwhelm supply. Mr Stuart said that probably the biggest threat to institutional cash flows could come from tax legislation making the savings route less attractive when compared with bank and building society deposits.

Savings could be boosted by the proposed withholding tax on interest, the prospect of real interest rates, and institutions could feel more comfortable holding money in interest-bearing instruments.

"Whether these proposals from government are the most sensible course of action is another matter. Switching the flow of funds from the long-term investments promoted by insurance companies to short-term cash deposits hardly seems to be the most sensible thing to do.

"It is not as if the banks particularly need to increase their deposit base. The problem the authorities have had with banks over the past two decades has been controlling their lending, not their ability to secure adequate deposits."

Switching from pension to provident funds could also lead to withdrawals, affecting the demand side.

On the positive side, Mr Stuart said there were prospects that the PIC (Government pension funds) and more of the Transnet pension fund would be freed for investment in equities. The PIC had a cash flow of between R8-billion and R10-billion and owned no equities. Transnet was allocating its inflow of R2-billion a year to the equity market.

He said life assurers had a formidable ability to market products, and that the forced savings of pension funds — of which individuals were virtually unaware — continued.

The supply side depended on economic growth and perhaps privatisation later.

"In the meantime we have piles of cash building up which is going to find it impossible to find its way into the shares that fund managers will want to buy."

Using the cash content of unit trust funds as a window to what institutions were doing with the equity contents of their portfolios, Mr Stuart said that at the end of September, liquidity was 24%.

"The funds tend to be most liquid at the bottom of the market and most fully, invested at the top."

He believed that the consumer-oriented sector of the industrial market was the most attractive in the medium term. Industrials comprised 43% of the overall market capitalisation and his recommended portfolio strategy was a 50% weighting.

"Just a 1% shift in institutional portfolios would create an additional R1,1-billion of demand."

Mr Stuart concluded that the short term was beset by a most unusual degree of Middle-East inspired uncertainty, weak world markets and the fear of recession. These factors precluded a meaningful drop in interest rates and a turning point in the economic cycle.

Industrial share prices could drop by another 15% without a break in the long-term trend line, which would take the price-earnings ratio down to 7,1 times, and the dividend yield to 4,8% on the index.

"This is probably the extent of the downside risk."

Mr Stuart said the groundwork was being laid both politically and economically to allow the next upswing to start from a solid base and be more extended than any of the tentative upswings of the 1980s.

"Given access to world financial markets, SA has the debt capacity to finance far more rapid and sustained growth in the '90s than achieved in the '80s.

"Black consumer spending and infrastructural spending on raising black living standards will be the twin forces that will drive the economy in the '90s. Shares benefiting from rapid domestic growth will be the winners, not the exporters and weak rand beneficiaries."

Mr Stuart forecast a rise in the industrial index from the current 2 700 points to 3 050 a year from now, even though it could go lower first.

"The prospect of improved and sustainable earnings growth rates will be more sharply in focus this time next year and this should have a favourable impact on the way investors are prepared to rate the market."

He said there was no more than a few months to buy good-quality equities at current levels. Patient accumulation of good-value second liners was the best strategy for smaller investors.

"Earnings growth of the index will remain positive over the next two years and will increase by nearly 30%.

"If the PE moves to 10, then two years out the index will be more than 50% higher than it is today.

"That will provide a total return, including income, of about 30% a year."

Institutions would get this kind of return if they remained parked in cash. Nor would get their cash invested in their preferred shares unless they started before the rest of the crowd.

Mr Stuart's arguments convince me that my position of share tipster in a bear market could soon become more positive.

Beware of missing the industrial boat

B/Day 5/11/90 180

SYLVIA DU PLESSIS

THE risk of not being invested in leading industrial counters at current levels is far greater than of being in the market, according to Martin & Co partner Richard Stuart.

That was despite the fact industrial earnings a share growth would bottom out at about 7% in the first quarter of 1991 and dividend growth would slow towards 9% and 10% before recovering, he said at the Financial Mail's annual investment conference on Friday.

Commenting on the outlook for industrial shares, Stuart said manufacturing conglomerates such as Amic and Barlows were all set to report lower earnings in the 20% area.

"In contrast, consumer stocks, buoyed by good union wage settlements, continue to enjoy fairly good trading conditions. Index heavyweights such as Richemont, Rembrandt, SAB and Sasol will produce continued earnings growth."

Groundwork

If earnings growth rates were going to pick up, perhaps "fairly dramatically in a post-apartheid SA", then it would seem logical ratings had scope to improve.

While the industrial index could go lower first, by this time next year it would be above current levels, and in two years time it should be substantially higher.

That was due in part to the fact that the political and economic groundwork now being laid should allow the next upswing to start from a more solid base and be far more extended than any of the tentative upcycles seen in the '80s.

SA also had the debt capacity to finance more rapid and sustained growth in the '90s than in the '80s, given access to world financial markets.

Further, black consumer spending and infrastructural spending on raising black living standards would be the twin forces driving the economy in the '90s, which meant the exporters and weak rand beneficiaries were going to have to give way to the consumer sectors.

"I believe the index, one year out, will have risen from the present 2 700 to around 3 050, largely on the improved outlook likely to prevail at that time," he said.

"The prospect of improved and sustainable earnings growth rates will be more sharply in focus this time next year and this should have a favourable impact on the way investors are prepared to rate the market."

His forecasts of earnings growth in 1991 and 1992 took the earnings of the industrial companies 30% higher than they were now.

"If this is combined with an optimistic outlook for the post-apartheid environment, as I believe will be the case, the price to earnings ratio of the market will move to above average levels," he said.

"If the ratio moves to 10, then two years out the index will be more than 50% higher than it is today at 4 000. That will provide a total return, including income, of about 30% per annum."

Institutions were not going to get that kind of return if they remained "parked in cash. Nor are they going to get their cash invested into their preferred shares unless they start before the rest of the crowd."

Stuart said the total cash flow of institutions — life offices, short-term insurers and pension funds — was currently running at about a R28bn annual rate if Transnet Pension Fund cash flows were taken into account.

"At current cash flow rates and assuming 38% — the average of the past five years — goes into equities, this means that R10,5bn of new investment is potentially available for investment in the equity market annually."

BDay 5/11/90

(180)

Stock market's temperature shows the economy's ills

● LOWENTHAL . . . sanguine

MERVYN HARRIS

THE NEW SA is a culture shock which has slowed down the investment process as people adjust their horizons to cope with what they think might happen.

The stock market is the place where the temperature of the patient — the economy — is taken, and the uncertainties plaguing the market will disappear only when there is clearer direction of the political and economic future.

Investment is a risky business but Norman Lowenthal of stockbrokers Lowenthal & Co is pretty sanguine about the tough situation the economy and the broking industry is enduring.

He has been through several difficult downturns but economic cycles — a characteristic of the capitalist system of which he is a staunch advocate — always turn. He expects to see a glimmer of light from the first quarter of next year when declining interest rates start stimulating the economy and therefore the market.

Sentiment could also be boosted by a firmer gold price which would bring more cheer to Lowenthal. He is a leading member of the consortium which acquired control of Joe Berardo's ailing mini-empire, JMF (Johannesburg Mining & Finance), and turned it into the prosperous Consolidated Mining Corp (Consmining).

Consmining is a profitable group which produces more than half a ton of gold a month and two of its operating companies, Knights and West Wits, have started to declare dividends.

West Wits is the country's largest open cast gold mine while Knights has the distinction of being probably the most actively traded share on the JSE.

The recently opened Benoni Gold Mine, Lowenthal says, is an improved version of Knights and should be even more successful and profitable. "We have costs under control and with the team of LTA Construction, Fraser Alexander, and ourselves, seem to have a winning combination."

The entrepreneurial spirit — a feature of Lowenthal's personality — came to the fore after 10 years as a broker when he became independent in 1980 to form what is now Lowenthal & Co.

On the way, he learned that there was more to stockbroking than buying and selling shares. Becoming involved in mergers and takeovers as the pace quickened in the '80s, Lowenthal & Co were the sponsoring brokers for the flotation of 28 companies on the JSE.

He became a director of many of the companies he helped bring to the market but a big opportunity came in 1989 when JMF ran into trouble and he, together with and colleagues Gerald Rubenstein and Glenn Laing, put together Consmining; they now represent control of the group.

Consmining is the holding company for a group which encompasses Egoli, Southgo and operating subsidiaries, Nigel, Wit Nigel, Knights, West Wits and the recently opened Benoni which will come to the market through a reverse listing of the Minetec cash shell.

The group has large reserves of underground ore.

As a stockbroker, Lowenthal runs a lean, hands-on operation. The firm is keeping its head above water during tough times in the broking industry and will avoid retrenchments.

"We worked very hard during the good times and there is no reason why any staff should be sacrificed during the bad times," Lowenthal says.

Incentives 'can help beat recession'

Bday 6/11/90

GILLIAN HAYNE

INCENTIVE schemes could help companies ride the recession by encouraging better staff performance and minimising fixed salary costs, Ernst and Young regional director Julian Nagy said yesterday.

Companies would have to adopt innovative ways of maintaining staff's economic standards "in the face of ruinous inflation and taxation" while not locking the company into fixed costs should individuals fail to perform. (180)

Incentives ~~are~~ "a structured approach to measuring performance and paying rewards contingent on the attainment of better than planned levels of performance".

Such schemes were a far more effective method of rewarding individuals, Nagy said, because traditionally the pay difference between the best and worst performers was usually no more than 10%, while the difference in performance was substantial.

By involving staff in decision-making and sharing financial gains with better performers, productivity would increase. One US study measured improvements in productivity of approximately 10% after three months and 24% after one year.

More than 50% of medium to large companies in SA operate incentive schemes.

STAR 6/11/90 (180)

Entrants showing greater interest

The awards adjudicating committee reports greater interest from entrants in the 1990 State President's Award for Export Achievement.

Comprising representatives drawn from the private sector and chaired by Director of Export Trade Promotion in the Department of Trade & Industries, Bert Pienaar, the committee agreed that this year's over all winner was materials handling equipment and haulage company Bell Equipment.

Last night Bell Equipment MD Gary Bell was presented with a floating trophy, a medallion and a certificate by Rembrandt chairman Dr Anton Rupert at a banquet in Johannesburg. Dr Rupert also presented medallions and certificates to the winners of four export categories in the primary sector (mining and agriculture), services sector and manufacturing.

A further 16 companies received runners-up merit awards (certificates) in all four categories.

This year's winner of the Mining Sector was Samancor, with the Tubatse Division of Samancor Chrome taking the runners-up/past winner merit award.

In the second primary sector "Agriculture", Tzaneen-based Wayland Green Exports took top honours. Merit awards went to three runners-up: wild-mushroom picking and processing company Boletus Mushrooms, to Ceres Fruit Juices and wine marketing concern KWV.

The Services Sector was won by Verulam-based Sanachem, with runners-up merit awards going to past winners Premier International and Sherwood Export Company.

Elsies River-based Consani Engineering clinched top honours in the Manufacturing Sector, while merit awards went to runners-up cable manufacturer ATC, G Vincent Metal Sections, Hulett Aluminium Rolled Products, Middelburg Steel & Alloys, Intermodal, Saflec and Volkskluis.

The Manufacturing Sector past winner awards were presented to Highveld Steel & Vanadium and Sappi International.

As the overall winner this year, Bell Equipment is ineligible for another top award until after four years have lapsed.

The adjudicating committee considers all applications and makes recommendations concerning the winners to the State President.

They are guided by certain criteria, including the sustained level of exports over the past three years, which include:

- Percentage of total production exported
- Increase in exports over the previous year
- Local value-added content
- Breaththrough into new trade areas
- Market spread and
- New or special product/service.

Nov. 1990

Anglo ready for 'partial nationalisation'

JAYNE LA MONT

LONDON — Anglo American chairman Julian Ogilvie Thompson hopes SA will have a new constitution, with blacks in government, by next Christmas.

Interviwed on British television on Sunday night, he also indicated he would be prepared to see partial nationalisation of his corporation and predicted there would probably be a black SA director on the board in about three years.

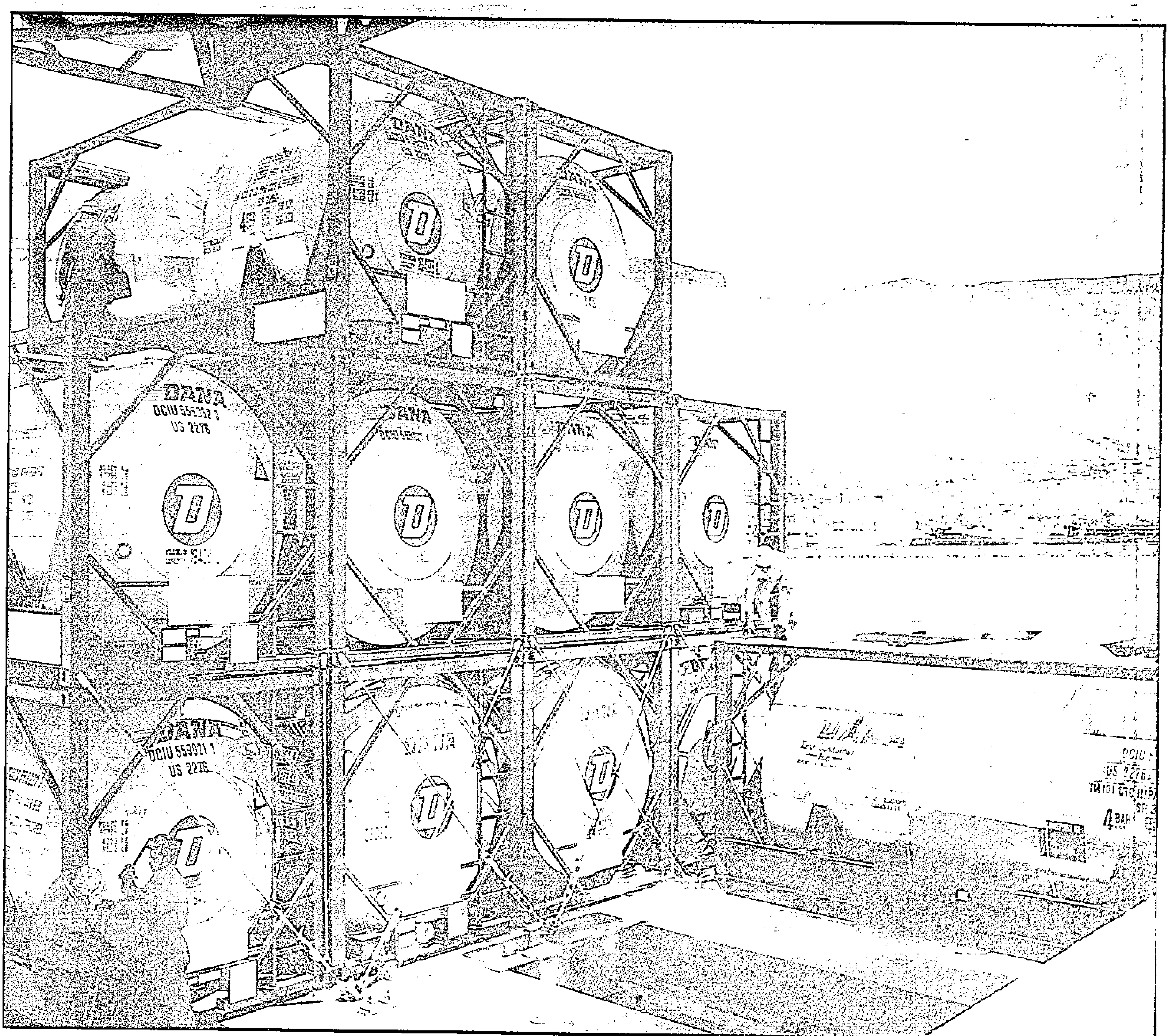
(180)

Ogilvie Thomson said government wanted to get on with the process of negotiation "as quickly as possible".

One of the important tests of the new SA would be whether "those people (who withdrew funds) will be prepared to extend their loans and to make new loans".

In envisaging a black person on the Anglo American board, Ogilvie Thompson warned: "It is extremely important, both for the individuals and for the rest of the organisation, that people go on the board who are genuinely seen to be qualified and carrying the responsibility in the organisation that justifies their going on the board."

He believed the chances of full nationalisation were receding as the ANC was "beginning to see that this is not a sensible route to go down". The effect of government taking a shareholding in the company would depend on the size of its stake.



Ready for export . . . Consani Engineering's tank containers aboard ship in Cape Town's Table Bay harbour.

Star 6/11/90 (180)

Quality key to Consani's success

By Lynn Carlisle

Leading tank container manufacturer Consani Engineering has won the top export award in the manufacturing category, having substantially increased its exports against stiff international competition.

The adjudicating committee of the State President's Award for Export Achievement recognises the company's sustained successes in exports to the US and Europe over the past three years.

Exports increased 71 percent in the year ending June 1989 compared with the previous year, and rose another 153 percent in year ending June 1990, notes Elsies River-based Consani Engineering MD Ian Bell.

He ranks Consani as the world's second largest manufacturer of stainless steel containers, used primarily for transporting hazardous and non-hazardous substances.

"Our estimated world market share of 17 percent comprises 60 percent of total manufacture."

Exports for the year ending June 1990 were valued at about R53 million, he adds.

Competition

Consani has made a significant contribution to SA's overall exports in the face of stiff competition from abroad and the refusal of certain overseas countries to trade openly with SA manufacturers.

Mr Bell believes his company's well-engineered product, which incorporates some 80 percent local content, is recognised internationally as one of the best available.

Although the low-value rand has assisted exports, the company's success stems mainly from product quality and its excellent and sustained back-up.

Thus not only do containers meet stringent British official ISO standards, but the company ensures that specialist staff travel regularly abroad in order to attend to customer needs.

"Our staff compliment of 720 has played a phenomenal role in both the manufacture and marketing of products for the export and domestic markets," says Mr Bell.

Operating on a multi-shift basis and employing a "just in time" manufacturing system, Consani produces four containers a day, the majority of which are made from stainless steel supplied by Middelburg Steel & Alloys.

Business is a key party to a social contract for SA

B Day 6/11/90

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RAYMOND PARSONS

IF BUSINESSMEN and investors are going to take a vigorous interest in the quality of the political system — the rules of the game — they must define their own basic and critical interests as they relate to the political system.

Businessmen represent a spectrum of political views. Some consensus and agreement may be possible, however, if one looks to the most basic conditions for the successful operation of private business.

Private businessmen own property, capital stock and financial resources, and managers in the private sector represent this ownership.

A fundamental interest of business is that rights of ownership are safeguarded. These rights can be rendered worthless; they can be usurped and undermined if, for example, high rates of taxation, high inflation, arbitrary action or restrictive regulations are imposed on ownership.

Not only the fact of ownership, but the implications and benefits of ownership, have to be safeguarded and respected within reasonable limits.

Much is written about the relative success of the market system compared with managed or command economies. Market systems only work, however, if owners and managers have the freedom to exploit market opportunities and take economic risks. If conditions imposed on business by government, or by organised labour, substantially erode that freedom, the baby will be thrown out with the bathwater.

Just as much is written about the benefits of the "social market economy" or "mixed economy". If I could wave a magic wand I would create for SA a social market economy like that of Germany, the Netherlands and Sweden before cost of social benefits started starving investment in new production.

Businessmen have a right to ask what came first in these societies: the ambitious social goals or the economic productivity and efficiency which has made the social market economy possible. A basic interest for business is that the rules of the political system ensure, as far as possible, that social goals are implemented when they are affordable.

In numerical terms, business is a minority in the political system. Minority interests can become eclipsed in single-level and uniform political systems dominated by the arithmetic of voting. However, where a political system devolves power in a series of different locations, space is created in which minority interests can be more influential.

It is in the interests of all special interest groups, including business, to support the devolution of powers to lower tiers of government as well as the division of power between states and regions, on a completely non-racial basis.

It would bring political decision-making close to the different operating environments of business. Regions and cities could compete in attracting investment and in promoting sound development policy.

This kind of geographic "pluralism" could complement what will hopefully be multiparty pluralism in introducing creative balance into the political system. What is of key relevance to business is that the political and constitutional system that emerges not only represents interests based on numbers but interests based on functions too.

All political parties appear to acknowledge business has an important role to play; we do not know how enduring these acknowledgements may turn out to be.

I would suggest, therefore, that some forum be established within the parliamentary system to provide a constitutionally guaranteed opportunity for important institutions and special interests to have an input into the political debate, and to participate in policy-planning agencies.

One method could be through a system of public hearings, such as in the US Congress. It would give various interest groups an opportunity to air their views publicly where it matters, in the parliamentary process. It also gives more time to assess debate on issues, create new alliances and adopt strategies.

Economic and financial issues did not form part of the recent investigations by the President's Council into possible approaches to constitutional reform. The chairman of the relevant committee, however, recognised that the financial aspects of a new constitution were a major subject in their own right.

Questions relating to public finance which may be considered to fall in this category are constitutional limits on tax rates; the relative size of all levels of government; the right to issue instruments of public debt, as well as the relative size of total public debt.

Autonomous rights to levy taxes and the allocation of sources of revenue also need to be clearly defined, as is done in all federal systems. Although there have been tentative references to the concept of "fiscal federalism", we need a more structured debate on its implications for constitutional negotiations.

Another area for debate is the future role of the Reserve Bank. Evidence suggests that inflation tends to be lowest in countries in which the central bank enjoys the greatest degree of independence. It would, therefore, be legitimate for business to support the idea that the Reserve Bank's position should be secured.

The above suggestions are intended for debate in the context of SA's constitution in the longer run. There are, however, severe short-term challenges which also have to be met.

Several challenges have to be addressed simultaneously. Expectations have escalated against a relatively poor economic performance. The immense challenge of the mobilisation of resources and the delicate matching of priorities and available inputs can only be successfully achieved in a predictable political framework.

A proposal which could secure a favourable framework for meeting the challenges is to divide the negotiation process into two parallel processes; one short-term and the other the "normal" expected process of negotiation about a new constitution.

The short-term process, in which organised business, labour and other functional interests should be fully represented, would have as its goal the formulation of a 10-year "social contract", entered into between all major political and economic interests, black and white.

The "contract" should be based on sound principles of policy, good government and mobilisation for socio-economic development for an extended period of transition. The contract should be binding on any new government.

This would separate, as far as possible, the immediate needs for socio-economic upliftment from the fundamentals of a future economic and political 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 their own right as far as possible.

Sacob is not unsympathetic to the intensely felt priorities posed by poverty and inequality in our society. We fully appreciate not only the real human needs but also the extreme dangers to democracy, stability and growth posed by this poverty and inequality.

Unfortunately, however, the economic history of much of the Third World and Eastern Europe over the past decade and a half has revealed that well-intentioned, heroic but untested policies designed to address large development needs always involve a very great risk.

Business is as determined as anyone else that the needs of the population must be addressed. But many businessmen are equally emphatic that the risk of getting it wrong while trying to do the right thing must be considered first — especially if we want to get the economy onto a "high road".

☐ **Parsons is director-general of Sacob. This is an edited excerpt from his address to the FM Investment conference last week.**

☐ **Simon Barber's column will resume next week.**

LETTERS

Should business be neutral?

BDay 7/11/96 (180)

GAVIN BROWN

THE debate over just what role business can or should play in the political arena has shifted in search of a new focus recently. The moral imperatives which fuelled the debate, especially from 1984, are fast dissipating and now that the apartheid demon is, statutorily at least, on its last legs, the differences between erstwhile anti-apartheid allies are emerging.

Assuming that matters constitutional are not properly the preserve of business, and that other forums are emerging for this purpose, it seems more legitimate for business to finally start rejecting more aggressive union demands that it take positions in the strictly political sphere.

The greatest challenge to the political neutrality of business clearly lies in the industrial relations arena. Within the space of a few months a large part of the black labour movement has shifted from being the internally legitimate voice of black political resistance into a formal and significant bloc within the reconstituted SA Communist Party.

Does this tactically or morally allow business to more explicity oppose the union movement's ideology? Will such opposition stimulate economic debate within the labour movement or cause it to close ranks against capital?

Is business now in any way relieved of guilt for apartheid which hitherto flavoured much of its approach in dealing with trade unions? Is "union-bashing" now an any more legitimate response to "management-bashing" since the labour movement has openly affiliated to an organisation committed to defeat the ascendancy of capital? Or is this all outdated "rooi gevaar" thinking? Should business simply exercise more patience while the SACP comes to grips with new local and global realities which ridicule its formal economic credo?

What of factional political violence — does Inkatha deserve any more explicit support because of its pro-free enterprise platform and if so will this encourage more purposeless violence or greater prospects of its victory? Or does this stance simply disguise a possibly more dangerous and divisive Zulu nationalism?

How much longer can business continue to fret fruitlessly over the plethora of stayaways and boycotts which has now become so widespread and diffuse as to promote little but economic decline?

The labour movement, despite its considerable success in advancing the political and micro-economic interests of its members, has yet to display any inclination or capacity for using its "mass" power for expansionist economic objectives.

Aside from the commercial realities of mass action on the ground, can or should employers continue to support moves to adapt labour legislation which in some aspects legitimises and protects this mass action? Is enlightened labour legislation relevant in an economy with real unemployment levels around 25% and perhaps much higher?

The labour movement's economic behaviour more and more highlights the contradictions between the tenets of its espoused socialism and the fact that the trade unions have effectively established a new economic aristocracy which acts daily against the creation of employment and saps the limited resources for national socio-economic reconstruction.

There are few historical examples of business successfully projecting itself into a volatile political milieu. Internationally, business probably plays its most effective (legitimate) political role as an interest group undertaking lobbying activities. But its interests are sectional and seldom lend themselves to the formation of a holistic political strategy.

At this level, self-interest and not political ethics will continue to spur business involvement in for example — housing, education and social responsibility programmes.

Perhaps there are mega-corporations in SA which have national or regional political agendas and the resources to promote them, but for the most part it would seem that sticking to business is the most natural political platform for most companies.

Like it or not, South African "monopoly capitalism" exists and the political voice of business is largely in its hands. For the vast majority of employers, debates over national strategies of a quasi-political nature are happily left in the hands of, for example, Sacob, where the influence of the mega-corporations is also dominant.

However, things are not so esoteric in industrial relations. Individual businesses are the primary actors and they require a coherent and detailed platform and programme of action to project into their workforce and, in some industries, the community in which they function.

It seems most likely that the political content of industrial relations will continue to be dominant for some time and thus the question of political neutrality will face its most immediate challenges in this arena.

The most immediate and unavoidable problems for business will not come in the form of constitutional questions but rather will be present in the demands of customers and unionised employees.

For the moment at least, the political positions of business might best be deprioritised in favour of these more practical matters, pending at least a little more clarity on the composition and platforms of the teams going into the political finals.

☐ **Brown is an industrial relations consultant. This is an edited version of an article to be published in the next edition of the Innes Labour Brief.**

Insurers urged to heed ANC

Sowetan 8/11/90

(180)

SA Press Association

LIFE insurers have been warned not to resist the initiatives of the ANC in requesting that "a fraction of pension and provident funds be directed to socially responsible projects".

The warning was sounded yesterday by Mr Don Mkhwananzi, convenor of the ANC task force for economic policy for Natal.

Speaking at the economic development conference in Durban, Mkhwanazi said a future South African government would be forced to intervene if current levels of deprivation among the black population were not addressed.

He called for "socially responsible behaviour" on the part of financial institutions and big business and asked why the voice of big business -. which was often a major shareholder in financial institutions - had not been heard on the issue of raising funds.

Big business should be insisting that pension fund managers should invest a fraction of their funds in projects which assisted disadvantaged communities, he said.

"There are still an endless number of companies which do not even have a housing policy. They believe that by donating funds to the Urban Foundation, they are fulfilling their obligations. But they must remember that charity begins at home.

"If corporate South Africa does not begin at this late hour to invest in management and skills training, it will face the consequences of its actions further down the line," he warned.

Calling for management approaches and philosophies to be changed, Mkhwanazi said that to date, many millions had been poured into small business and the informal sector.

"But, in fact, black participation in the mainstream of the economy is essential. The growth of the informal sector is actually an indictment of big business for failing to create job opportunities." - *Sapa.*

Doubts about early economic recovery

BIpam 8/11/90

SYLVIA DU PLESSIS

BUSINESS should brace itself for a longer, deeper downturn than was considered likely and focus on cutting costs where possible, SA Chamber of Business (Sacob) chief economist Ben van Rensburg said yesterday at a media conference.

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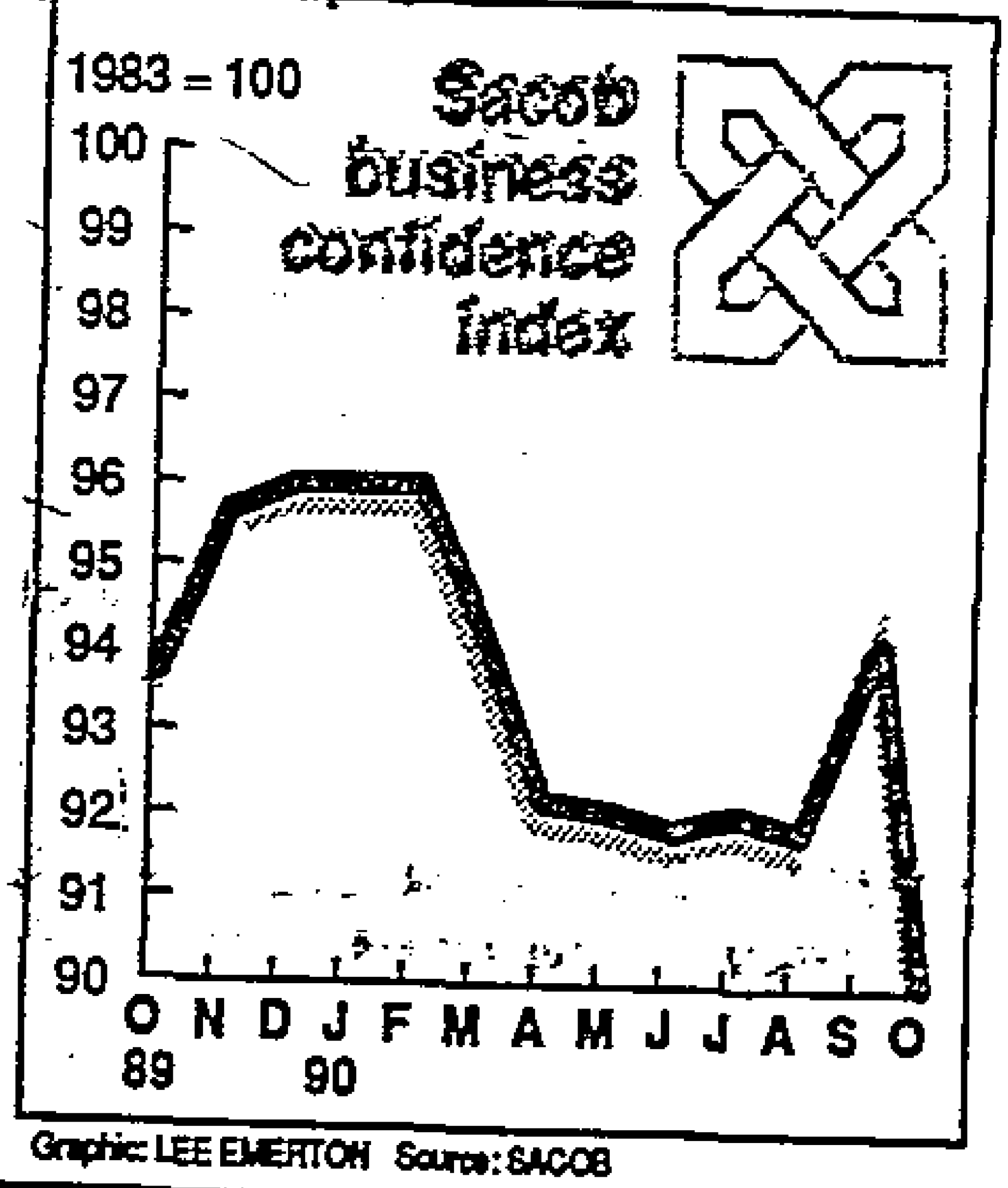
That was because it was now "open to doubt" whether the SA economy would recover by mid-1991.

Van Rensburg's warning came in the wake of a plunge in Sacob's latest business confidence index (BCI) to its lowest level in nearly four years and signs that Christmas sales could reflect a 0,7% drop in real terms over 1989.

Businesses should also expect interest rates to remain at current levels until the

☐ To Page 2



Graphic: LEE EMERTON Source: SACOB

Recovery

BIpam 8/11/90 (180)

☐ From Page 1

new year, exercise greater caution in granting credit and increase their provisions for bad debt, he said.

They should take measures to "last out this recession and be in a position to take advantage of the next upturn".

Sacob's BCI fell to a level of 90 in October from 94,2 the previous month — its lowest level since 89,8 in February 1987.

Van Rensburg said Sacob's view was that the September BCI had overstated the extent of confidence and nowthe full impact of uncertainties arising from the Gulf crisis had made itself felt.

The general business mood had adjusted to the fact that a slowdown in the world economy was more likely, fuel price hikes were a temporary setback for the SA anti-inflation drive and the prospect of lower nominal interest rates had probably moved to early 1991.

Gloom in the business arena was mirrored in the manufacturing sector, where industrialists remained pessimistic in their short- to medium-term outlook despite a rise in the chamber's manufacturing activity index to a level of 106 in October from 90 in September.

Sacob economist Keith Lockwood said negative elements included the effect recent fuel hikes would have on costs.

● See Page 3

 FM 9/11/90 (180)

A NEW DECADE, A NEW ERA

IT'S NOT ONLY IN SA THAT THE NINETIES WILL BRING BIG CHANGES

It's fitting that the 20th *FM* investment conference came just at the start of a new decade. For 1990 is a watershed year with radical changes in global as well as domestic political and financial relationships.

Examining the influential role now played by derivatives in the gold market, RTZ economist Jessica Jacks concludes: "In having to forecast prices, I operate first and foremost from the premise that the future of the gold market is not what it used to be and history is not going to repeat itself."

With gold yet again disappointing those who hoped it would resume a safe-haven role in international crises, that is a chastening reminder that many credos of the Seventies and Eighties have tumbled, far more widely than just in the gold market.

Long-standing political and financial structures are being suddenly transformed. Underlying this is a widening espousal of capitalism and conservatism, accompanied by globalisation of markets and financial deregulation. Investment prospects and options are being driven more than ever by politics. The process is entwined with ironies which underscore the uncertainties ahead.

The 45-year Cold War ended dramatically but (so far) fairly peacefully. In the process, notes David Hale, vice-president and chief economist at Kemper Financial Services, Helmut Kohl has effectively become banker to Mikhail Gorbachev, creating a

Continued on page 33

CONFERENCE PAPERS AVAILABLE SOON

The *FM* will publish on November 23 a compilation of transcripts of all speeches given at the 1990 *FM* Investment Conference. It will not be distributed automatically with the *FM*, but copies will be sent to all registered conference delegates. Regular subscribers may obtain a free copy on application to Times Media Ltd Subscriptions, Box 10493, Johannesburg 2000 (see advertisement on p117 this week). Copies are available to non-subscribers, or subscribers wanting extra copies, at the same address for R6 each (including postage and GST).

FIM 9/11/90 (180)

new relationship of interdependence.

Another such relationship developed in the late Eighties between Japan and the US, whose expansionary fiscal policies — which led to eight years of growth for the US — were largely financed by capital imports, particularly from Japan and West Germany. This is an important element in a new pattern of international capital flows that will influence investment decisions for years.

Political remoulding should ultimately yield a more solid and productive global and domestic economy, but it will take time and there will be a price to pay first. Though the downturn may be more benign than many expected, nobody is predicting the global economy can get through the next year or two — maybe longer — without a phase of markedly slower growth.

But, as Martin & Co director Richard Stuart argues, there is unprecedented co-operation in managing the global economy and too much at stake to allow the world to sink into extended recession or stagflation.

Hale sees the liberation of eastern Europe as the third great shock since the end of the Vietnam war — the previous two being the oil price increases of the Seventies and Reaganomics. But euphoria has been supplanted by sobering reality.

A huge demand for capital has been triggered. A year or two ago, West Germany was one of the largest savers, with a negligible budget deficit of DM20bn in 1989 and a current account surplus larger than Japan's.

Next year, the capital requirement for unified Germany will swing to DM150bn-DM200bn, to fund huge spending to rebuild the former East Germany's economy. With funds also being committed to the Soviet Union, by 1992-1993 Germany may even be a capital importer — with sweeping implications.

Hale argues that interest rates will have to be kept high in Germany and, through the exchange rate mechanism, elsewhere in Europe. Those who see an early end to equity bear markets should bear this in mind.

A price will have to be paid, too, for the growth policies of the past eight years. Already there are signs that Japan will be more concerned about inflationary pressures at home than with supporting the US economy.

Hale expects 1991 growth in OECD countries of about 1.5%, against 2.5% this year, 3.5% last and 4.5% in 1988. The US is likely to be in a technical recession in the first half. These forecasts, if correct, have obvious implications for SA exporters and other companies exposed directly to international markets, like De Beers and Richemont.

Another credo exploded in 1990 was the assumption that a unified European Community by 1992 would be created as planned, and would necessarily benefit the world economy. As Enoch Powell puts it, as the Warsaw Pact broke up and the Soviet Union slid into unintelligible disarray, there appeared in eastern Europe nation states rediscovering and reasserting their sovereign right to govern themselves in their old ways.

(180) GENCOR AND UNBUNDLING FM 9/11/90

IDEA WHOSE TIME MAY COME

Not without reason, Gencor chairman Derek Keys has gained a reputation for creative thinking. The debate he has sparked off about the need to "unbundle" shareholdings of listed companies must be pursued, even if Gencor ultimately does not go ahead with the plan it is considering.

Two distinct but related issues have been raised. One is the possibility of creating value for shareholders. This could be achieved in a single step by eliminating mining, financial and other conglomerates, whose shares generally trade at a discount to underlying net asset value.

The other issue, expounded by Martin & Co director Richard Stuart at the *FM* Investment Conference, is the need to improve the tradeability of listed shares. To say the least, it is stretching a point to describe the JSE as an efficient and liquid capital market when 40% of market capitalisation represents double counting. Large proportions of the shares of many industrial and mining companies never trade, as they are locked away in the control structures of holding companies and ubiquitous pyramids.

As far as Gencor is concerned, Keys is suggesting shareholders in the mining house simply be given shares in the major underlying companies in proportion to their existing Gencor holdings. Should the process be worked through to its logical conclusion, Gencor would cease to exist, its functions assumed by the five major subsidiaries.

From a commercial and financial standpoint, this may well be practical. After recent restructuring, most of Gencor's interests are held by five companies: Genmin, Sappi, Engen, Malbak and Genbel. It would not be difficult to slot the few outstanding investments into these. Sanlam's concurrence would presumably depend on its being satisfied that effective control can be maintained, which up to now has been a tenet of the assurer's attitude to "strategic" investments.

Apart from potential elimination or reduction of the asset discount — a one-off event — shareholders would have greater freedom to select their own portfolios. As in the case of share splits, there is no guarantee that share trading would increase, given that existing holders may not be sellers; but investors would have greater freedom of choice.

Keys rightly argues that investors here and abroad prefer pure asset plays to conglomerates. Gencor's price is now about 25% below net worth; even industrial conglomerates like Malbak and Barlow Rand, which have often traded at a premium, are generally close to, or below, asset value.

This is in line with the rating of conglomerates in the UK market. The highly successful Hanson offers a dividend yield of 7,5% and earnings multiple of 10; BTR a 7,7% yield and earnings multiple of 8. In contrast, the average yield for the industrial market is 5,5% and the p:e about 10.

Share prices aside, a question to consider is whether the mining house — or other large holding company — still needs to exist, or whether historical functions, such as the ability to raise large amounts of capital, provide ostensibly inexpensive services and spread risk, can be fulfilled as effectively in another way.

The answers will vary with each case. Last year, Gencor was able to raise R1,5bn in a rights issue. This was a successful issue close to the peak of a bull market, even though the cash was not earmarked for specific new projects. Whether the subsidiaries could have held similar issues is a moot point.

A related aspect is the ability to seek out new business. Keys has said that one achievement of Gencor's refocusing is that top executives now concentrate on this task.

According to the mission statement, the group's business is "starting or acquiring major business ventures, and accelerating the development of our existing businesses." Indeed, without a creative approach at head office, the expansion into energy almost certainly would not have happened — as Keys acknowledges.

Keys denies that political considerations are any part of the motivation for possible unbundling. He insists there is no intention of seeking an escape mechanism, but that Gencor happened to reach a stage this year where the move could be considered from a commercial point of view.

Perhaps so; but this is a politically sensitive topic, from which commercial aspects cannot be made to stand apart. Both politics and economics provide good reasons for every conglomerate and mining house to evaluate unbundling and both will certainly have to be taken into account.

ANC criticism of the excessive power of mining houses might be deflected if their key assets were dispersed among a broad group of shareholders — though this would not apply to Gencor, where control would simply revert directly (rather than indirectly) to Sanlam.

In its official comment, Anglo American has remained non-committal, offering reminders that big business is not necessarily bad and that SA has a capital and skills shortage. Given the sensitivities as well as complexities and financial inefficiencies inherent in Anglo's shareholding structure, it must be assumed that the house is, or soon will be, carrying out its own internal studies, whatever the conclusion.

This debate should go well beyond the potential elimination of a few conglomerates of uncertain merit, perhaps involving the greater enrichment of some shareholders.

While lamenting the market's poor liquidity and, tacitly, limited efficiency as a capital market, the JSE continues to allow the listing of pyramids and even multi-tiered pyramids — such as FSI — a practice which would not be allowed in many foreign markets and which was also criticised by Stuart.

These serve no other purpose than to lock in control and offer no assurance that the underlying operating companies concerned will continue to be run by adroit entrepreneurs. Yet another instance of the JSE's impotence?

(180) FM 9/11/90 (180)

CHAMBER OF BUSINESS 180

LISTENING TO THE ANC

Just six months ago, the gap between business and the ANC seemed unbridgeable. Most business leaders considered ANC economic policy to be about as relevant as the belief that the earth is flat.

But last week, at the SA Chamber of Business annual conference, and later at the *FM* Investment Conference, the two sides seemed to draw closer to a working relationship. FM 9/11/90

Thabo Mbeki is the ANC's international affairs head, but he isn't spending much time overseas; he seems to have been given the brief of pacifying business. With his omnipresent pipe and urbane manner, he is increasingly seen as the acceptable face of the ANC in business circles. He strengthened that image last week in his addresses to the chamber and the *FM* conference.

The word *nationalisation* has long been excised from Mbeki's vocabulary. He had a much more moderate message to the chamber, pleading for the need "to divert much larger resources towards black upliftment than has been the case so far." This is in line with the chamber's view in its document, *Economic Options for SA*, that housing, education and other social needs should receive the highest priority in future State budgets.

The chamber argues that "business is not, in advocating a market system, attempting to avoid the need to address the masses' needs."

Consensus also appeared closer on the issue of privatisation. Mbeki did not say it was a bad thing, but merely that it should be put off until a truly democratic government was elected. The chamber itself is opposed to the privatisation of Eskom and is soft-peddling on other flotations.

Much to the delight of the audience, Mbeki hinted strongly at the *FM* conference that the ANC's policy on sanctions was likely to be changed at the organisation's conference on December 16.

The chamber's director-general, Raymond Parsons, estimated that a programme to level out apartheid's inequalities would cost at least R50bn over 10 years and he suggested that one should start immediately.

He warned, however, not to exaggerate the consensus between business and the ANC, adding that you can't spend a weekend with the Pope and expect to turn him into a Protestant.

"No amount of dialogue can provide the assurance that politicians will not revert to their original positions if and when they achieve power. The ANC has to attempt to address the needs of the poor, the expectations of redistribution and the ambitions of organised labour.

"Dialogue can result in policies becoming increasingly subtle, qualified and hedged."

This was often apparent in Mbeki's talks. For example, he called for "affirmative action," discriminating in favour of the poor for housing and, particularly, housing finance, and on business credit. But he was vague about whether this affirmative action would be legislated or just recommended. Several chamber delegates were receptive to the idea of a new financing mechanism for black housing. All, however, opposed being forced by law to give preferential treatment to blacks.

In the floor debates it was significant that the delegates weren't too concerned with constitution-making, or even the ANC's economic policy, but with nitty-griity issues such as oil and tax.

Business pleaded for the use of SA's oil reserves to alleviate the recession. Chamber president Les Boyd maintained that the time for secrecy on oil issues was over, adding that business would find it easier to co-operate with government on energy policy if it knew the whole picture.

Delegates recognised that with the need for more social spending, it was all the more pressing that government should reduce public expenditure in other ways: by reduced spending on such areas as defence and by cutting out the duplication of apartheid ser-vices.

There was particular distaste for the sub-sidies the taxpayer is expected to fork out fo the decentralisation of industry. The confer-ence was relieved to hear Development Ban chairman Simon Brand repudiate the decer-tralisation policy. But then, if it took 4 years to convert the National Party, busines can't expect an overnight conversion of th ANC.

Parsons

Mbeki

Range of input urged for economic planning

180

EDYTH BULBRING

THE broad framework of economic strategy had to be determined with business and political leaders, a six-man delegation from the SA Chamber of Business told Economic Co-ordination Minister Wim de Villiers in Pretoria yesterday.

Sacob director-general Raymond Parsons said last night the delegation, led by Sacob deputy president Hennie Viljoen, had a frank and friendly exchange of views on aspects of thinking on economic restructuring.

Sacob emphasised the need for better co-ordination in overall economic strategy and for avoiding ad hoc decisions on matters such as export incentives, tariff protection and decentralisation, Parsons said.

"Sacob stressed that it was necessary, especially under present economic and political circumstances, to reduce uncertainty for businessmen as far as possible."

The need to strengthen consultation between government and the business sector was also stressed.

Sacob's economic affairs committee chairman Ronnie Bethlehem added last night that the delegation talked about the need to address the matter of an economic development programme, which, once formulated, needed to be acted upon expeditiously.

De Villiers was told that the framework for a new economic strategy had to be agreed to after consultation with a wide range of business and political leaders.

The delegation expressed the business community's concern that problems were still being dealt with on an ad hoc basis without proper co-ordination between the different government departments.

Bethlehem said the delegation had stressed the need to minimise uncertainty and confusion, as well as for consultation between government and the private sector on the conduct of current economic policy.

AHI executive director Martin van den Berg declined last night to comment on AHI's separate meeting with De Villiers yesterday. AHI did not want to give publicity to the contents of the meeting at this stage, he said.

The Sacob delegation with Administration and Economic Co-ordination Minister Wim de Villiers in Pretoria yesterday. From left are: Dennis Paxton, Ben van Rensburg, Beth Robertson, De Villiers, delegation leader Hennie Viljoen, Raymond Parsons, Ronnie Bethlehem and Ron Haywood.

Picture: ROBERT BOTHA

Communist and business leaders meet

ALAN FINE

BIG business and the SACP had their first official encounter at a meeting in Johannesburg this week, party and Consultative Business Movement (CBM) leaders disclosed yesterday. (180)

JCI director Ken Maxwell, who headed the 20-man CBM delegation of top businessmen and professionals, said the CBM had requested the meeting as it wanted to be briefed on the SACP's views on a range of subjects.

Maxwell said "understandable differences of opinion" emerged on whether a free market or socialist approach was most appropriate for addressing problems regarding the distribution of wealth.

However, he added, the SACP delegation — Essop Pahad, Moses Mayekiso and Moss

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SACP-business talks

(180)

□ From Page 1

Ngoasheng — had repeatedly expressed its anxiety to see a democratisation of SA. This was an important area of commonality between the groups, he said.

Pahad said there was, in SA, a great deal of ignorance about SACP views, which was why the party felt it necessary to explain them to a broad spectrum of groups, including business.

The SACP believed the fundamental flaw of Eastern Europe had been a lack of democracy, he said.

His delegation had also explained at length the SACP's alliance with the ANC and Cosatu, and had expressed the view that the alliance would endure until — and beyond — the first post-apartheid elections.

Pahad said the CBM delegation had requested the meeting "to listen" and had therefore not entered into debate on SACP policies.

Maxwell refused to name other CBM group members without their consent.

Market war talk getting nowhere

10/11/90 (180)

Inside Out

ANN CROTTY

TWENTY-NINE red stickers on the boards — which are just about the only bright spots in the market.

Things are still fairly grim. Every Friday for the past four weeks dealers have been trying to drum up some investor enthusiasm by talking about an imminent war in the Middle East — nobody's paying the slightest bit of attention to them anymore.

Rand Mines had a fairly tough week which is not helping to reverse the weak sentiment currently surrounding Barlows.

There's speculation that Barlows may sell its stake in Barbrook to Anglo and that Barmine is under pressure cos it needs to have a rights issue — there's not going to be a lot of takers for that one.

Myles reckons that Barlows' share price will hold firm if the earnings' drop for the year to end-September can be held at 15-20 percent — the figures will be out on Tuesday.

Sub Nigel's suspension apparently relates to a restructuring of the Southgo mines with Nigel and Sub-Nigel being injected into Wit Nigel, which has a London listing.

Wit Nigel will then be renamed Consolidated Nigel and if it needs a rights issue in a few months it will be able to access the London market.

Lots of lolly

It seems that Hank and the boys at Minorco may eventually do something with all their lolly.

How long can you sit around waiting for an attractive investment to come your way?

Myles reckons that as the guys have enough gold and there's not much acqusitive opportunity in base metals, perhaps they'll look again at industrial aggregates — remember how keen they were to get hold of Amy Roadstone?

SAB had great results this week — who's drinking all that beer?

No figures from Southern Sun now that it's wholly owned but it seems that things on that front were pretty miserable.

The "senior appointment" that Ron Stringfellow — former MD of the Zimbabwe Sun — took up on November 1 was in fact the deputy chairmanship.

Myles thought it was fairly low key of SAB management to describe this as a "senior appointment" particularly as Bruno Korte will in future be reporting to Mr Stringfellow and not Meyer Kahn.

Also rather strange, Myles thought, was the absence of any notification from Premier or Twins of the resignation back in August of Solly Krok as Twins chairman. Not until last week was this move announced.

Apparently it wasn't considered that important which was a bit odd given all the publicity surrounding Mr Krok at the time.

Eddies back

Well it didn't take too long, Eddies is now back with Spareco — this time in the Vaaltrucar consortium. It will be a comfort for shareholders to know exactly who owns it cos during the Spareco debacle it was a bit difficult to get a firm answer from anybody.

HCI has moved strongly since it issued a cautionary. There's the old talk of it getting a separate listing for its overseas interests and there's also some speculation about a deal involving Saflife.

Myles wondered if anyone had noticed how the Musica share price has been charging along in recent weeks. Not in much volume admittedly — cos the share is so tightly held but yesterday it was up to 130c compared with a 12-month low of 60c.

He reckoned the only thing that could move it this much was a plan to acquire CNA Gallo with a view to tying up Musica's supply line.

Myles checked this out with the Musica head office in Cape Town who thought it would be a great idea to take over CNA Gallo but said they didn't have the money — so Doug Band and the guys can relax.

But, according to Mr Goosen: "We wouldn't mind if Doug bought Musica."

Musica is putting an announcement into Monday's papers — its nothing to do with the movement in the share price which apparently puzzles them as much as Myles.

There should be some news about the UBS/Allied/Volkskas/Sage deal at the end of this month. Myles hears speculation that there may be some quite concrete developments to report by then.

MANPOWER MIRROR by ADRIAN HERSCH

Ethics have a place at work

(10) (180)

S Times 11/11/90

INTEREST in business ethics is at a historic high in the United States. It is not yet the same in South Africa — but there are signs of change.

Written codes of ethics are the norm in the US. More than 70% of large corporations used them in 1979, says Moira Katz of Kavan Consultants in an award-winning article in the Institute of Personnel Management (IPM) Journal.

P-E Corporate Services managing director Martin Westcott says few SA companies have a separate code of ethics. Many, however, refer briefly to ethics in policy manuals and the like.

Mrs Katz outlines the advantages of a code. The limits of acceptable behaviour can be defined. For example, Ford and General Motors stipulate that gifts exceeding $25 cannot be given or received.

A code provides an opportunity for employees to refuse to take part in an unethical action.

But a code will not automatically improve ethics. Mrs Katz says codes are often too generalised to be of specific value. Management must acknowledge and reward desirable behaviour.

Several issues including corporate culture will ultimately determine its success. The personal influence of the chief executive is vital.

Mr Westcott says: "What happens in reality is largely based on how the leader behaves, what he does cascades down the organisation."

Training in ethics, including employee workshop sessions, is advised. Mrs Katz says: "The time has come to take ethics out of the closet and encourage employees to talk about ethics on the job, to examine fully the range of options available in specific situations, and to resolve ways out of dilemmas."

Mr Westcott says that the changing structure of the SA workforce is likely to bring about greater emphasis on ethics.

In the wider society, all should do their duty — including parents and schoolteachers.

"Mary, get the kids ready — we're going out for supper. We can afford it. Jackson cancelled lunch today — we're eating on the company tonight. It's OK son, everybody does it".

What kind of manager will little Johnnie become?

Who might merge with whom in the tough decade ahead

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BDay 12/11/90

MERVYN HARRIS

WHAT will the face of corporate SA look like at the turn of the century? In spite of calls from the ANC and others for a deconcentration of power in the corporate sector, the '90s might see exactly the opposite happening in certain key sectors of the economy — banking and mining.

The current concept of a mining house with its diverse industrial and other interests could disappear to make way for only two exclusive mining groups: an enlarged Anglo American mining arm which could include the mining interests of JCI and Barlow Rand; and a second mining group under the combined control of Sanlam and Rembrandt, encompassing the mining interests of Gencor, GFSA and Anglovaal.

These are some of the intriguing developments which stockbroker and former financial journalist David Meades of Meades, De Klerk Inc believes will result from the economic changes ahead.

His views are based on the assumption that the creation of the new SA will go ahead relatively smoothly, although negotiations will be slow and protracted, which in turn will inhibit economic growth in the early part of the decade.

This will put pressure on corporate growth, leading to the rationalisation of activities in many sectors in the form of mergers and acquisitions as companies seek to become more effective with the aim of surviving in the process of creating a new SA.

The slower growth rate will make any redistribution of wealth very difficult. Indeed, Meades says, a redistribution of poverty is more likely as living standards decline, especially among the more affluent.

By the year 2000 the Rembrandt Group could establish itself more firmly as one of the big power houses together with the Old Mutual, Anglo American and Sanlam, while groups like Sasol, Iscor and Eskom will strengthen their positions as giants in their own right.

Meades sees a healing of the rift between Anglo and the Old Mutual which was caused a couple of years ago when Premier gained effective control of SA Breweries. He expects the Old Mutual to regain representation on the board of Anglo, which ceased when Jan van der Horst resigned in protest after the SA Breweries move.

The restoration of a closer relationship between Anglo and the Old Mutual could lead to the amalgamation of the banking interests of the two groups — First National and Nedbank. "One can perhaps also see the NBS joining such a combination," Meades says.

SA will need bigger and stronger banking groups to help finance the sort of growth which will be attainable in the second half of the '90s as the economy moves into the "high road" scenario, he says.

Bankorp should be in a position to attract suitors or make its own overtures if Piet Liebenberg succeeds in his aim of bringing it back to the investment scene as a sound and profitable banking group.

This could lead to Bankorp amalgamating with UBS/Volkskas/Allied/Sage if negotiations are consummated. Meades says such a move will signal a closer relationship between Sanlam and Rembrandt, which in turn could lead to the two pooling their mining interests at a later stage.

Rembrandt could then very well be prepared to allow Sanlam effectively to control the new banking group, which will still leave Rembrandt with a possible partnership control position at Standard Bank.

This takes into account the growing relationship between Rembrandt and Liberty. The two already effectively control GFSA, while in the UK Rembrandt's offshoot in Europe, Richemont, is a partner of Liberty's First Investment Trust (FIT) in the TransAtlantic group.

MEADES

Meades says the impetus for change in the mining scene could come from the possibility of a severe world recession; a prolonged depression in international commodity prices would come against a background of rising local costs.

There is also the possibility of the discovery elsewhere in the world of vast new deposits of metals and mineral which SA exports. This could well follow a new "colonisation" of Africa at the request of Africa itself.

Meades says these sort of developments will necessitate the formation of much stronger mining groups. Unbundling Gencor, if it comes to fruition, would facilitate such moves, enabling Gencor's mining interests to be combined with others outside the Gencor stable. This would enable SA to compete more effectively in the international arena.

A slump in the price of energy in the wake of a long recession, or the discovery of extensive new oil fields, will put the local chemical industry under immense pressure. Meades believes that under pressure from intense competition from Sasol, AECI and Sentrachem could well amalgamate or Sentrachem become part of Engen.

Because of the sheer size of Sasol and the enormous cash flow it generates, Meades sees the oil-from-coal group also diversifying into the international energy scene to become a bona fide member of the big league. Locally Sasol could expand its retail network by perhaps linking up with Caltex or Shell.

In agriculture, the '90s could well see the demise of the co-operative movement in SA. Most of the smaller co-ops could disappear while the bigger ones could amalgamate with the big food groups in much the same manner as Tiger Oats gained control of Langeberg. Candidates for mergers or privatised public companies include NCD, Sasko, and Vleissentraal.

Meades says there could also be an amalgamation of Tongaat and Premier in the Anglo group, and Renhym, Crown Foods and Fedfood in the Sankorp group. The third big player would be the food empire of Barlows which encompasses ICS, Tiger Oats and C G Smith.

Meade expects the retail field to be dominated by two large groups SA Breweries and Sanlam's Tradegro empire — which will get together with Pepkor, with Pick 'n Pay possibly joining the Sanlam fold at a later stage.

There will also be many smaller groups while the explosion during the '90s of the informal sector will by the turn of the century, result in the creation of thousands of more formal black businesses.

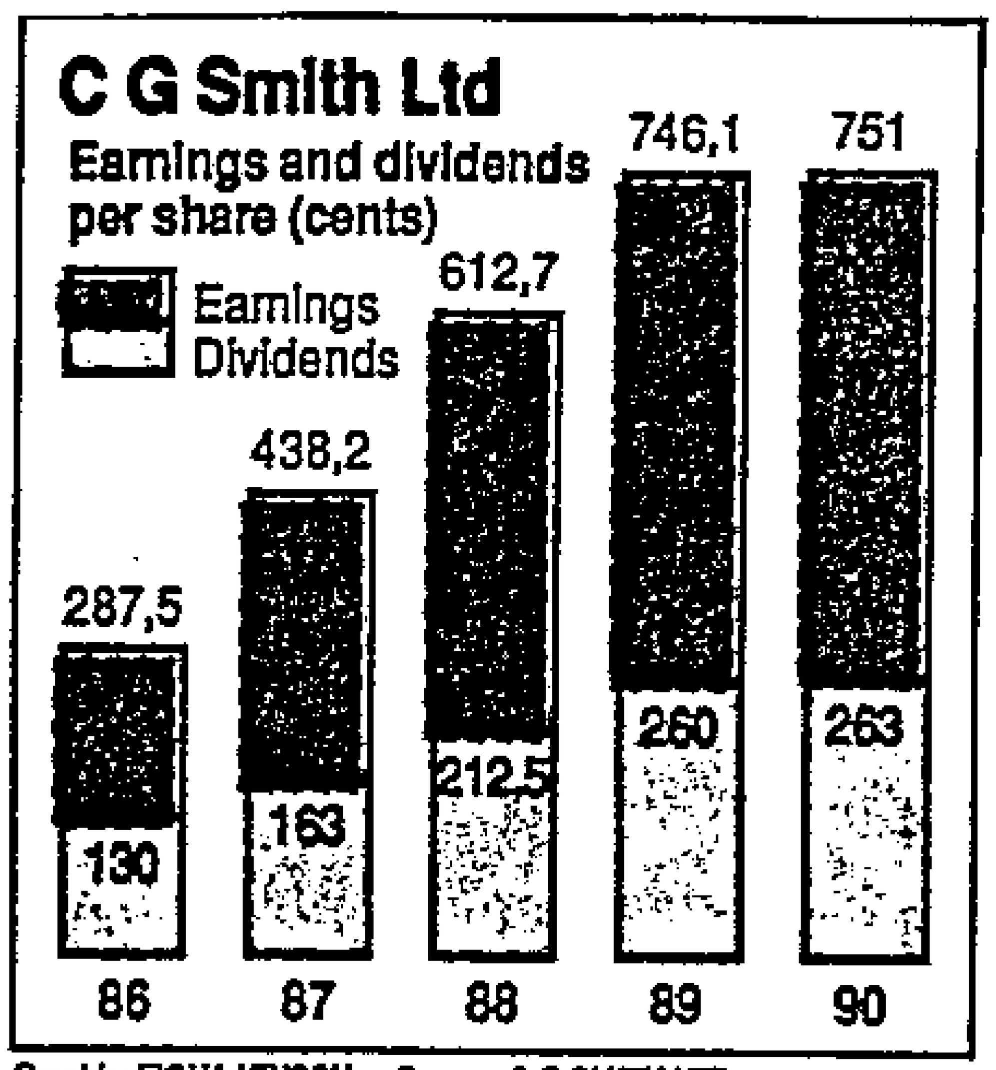
Meades also foresees a major change in the motor industry. He expects that rationalisation in the wake of a sharp drop in the living standards of whites will see fewer luxury vehicles on the roads; this could lead to Mercedes-Benz, BMW and possibly VW pulling out of SA.

Meades says Toyota and Samcor could get together, which would leave Nissan as the only other big motor vehicle manufacturer.

The new SA would not be able to afford the local manufacture of luxury vehicles. "SA is a poor country with a couple of rich patches rather than a rich country with a few poor spots," Meades says.

His forecast is not all pessimistic: the restructuring process of the first half of the '90s could send SA into the 21st century able to develop from regional economic power into an effective international competitor.

LETTERS



Graphic: FIONA KRISCH Source: C G SMITH LTD

3 Day 12/11/90

Textiles, packaging tie CG Smith down

CHARLOTTE MATHEWS (180)

THE effects of the economic downturn on C G Smith's packaging and textile divisions have counteracted good results from its food and pharmaceutical companies.

The group has posted a 1% improvement in attributable profits in the year to September.

Of the group's profits of R352,4m (R349,8m), 57,5% was contributed by C G Smith Foods, 36% by packaging group Nampak, 6,3% by textile group Romatex and 0,2% by other companies.

Group turnover rose 14% to R14,2bn but pressure on margins, a higher interest bill and a higher tax rate reduced after-tax profits to R640,4m from R655,8m in 1989.

A total dividend of 263c (260c) a share for the year has been declared on earnings of 751c (746,1c) a share.

C G Smith Foods' sales volumes grew by 16% to R9,9bn. Operating margins declined to 6,7% from 7,3% in 1989 and interest cover fell to 4,5 times from 5,5 times.

Income from investments fell by R4,4m, but the tax rate was lowered to 33% (35%). This, together with a higher contribution from associated companies, boosted C G Smith Foods' after-tax profits by 6% to R415,1m.

On earnings of 263,6c (235,1c) a share, a total dividend for the year of 87c (78c) a share has been declared.

The directors said C G Smith Sugar, Tiger Foods and pharmaceutical companies Adcock Ingram and Logos performed well but this was countered to some extent by disappointing results from ICS and Oceana Fishing.

C G Smith directors expect an improvement in earnings in the current year.

Anglovaal expecting to boost last year's earnings

B Day 12/11/90 Business Day Reporter 180

ANGLOVAAL's earnings in the current financial year to end-June 1991 should exceed last year's, chairman Basil Hersov said on Friday.

But he cautioned that it "remained a challenge" to maintain earnings on an increased number of shares in issue.

Speaking at the financial, industrial and mining group's AGM, Hersov said earnings growth would be assisted by interest earned on its cash resources of R1bn.

Anglovaal Industries' consolidated pre-tax profit for the September quarter was marginally ahead of the same period a year ago, despite a continued softening in a number of the markets served by the group's companies, Hersov said.

"At the earnings level, the results to date reflect a slight decrease for the same three-month period, but the Anglovaal Industries (AVI) group is budgeting for a moderate hike in earnings for the year ending June 1991."

Contributions from Anglovaal's mining investments were lower than the same period last year because of reduced Associated Manganese earnings, generally lower profitability of the gold mines — caused by the decreasing real-terms gold price — and continuing high expenditure on exploration.

During the year to end-June Anglovaal's consolidated earnings improved by 30% to R238m (R183m). This translated into 530c (427c) a share, and a dividend of 92c (76c) was declared.

Star 12/11/90 (180)

Little prospect of festive cheer for share market

By Ann Crotty

With six weeks to go before Christmas, there seems little hope of activity or prices on the JSE picking up in the next two months.

Analysts agree only a significant and sustainable improvement in the gold price, or a major advance on the local political front, would lure investors back as aggressive buyers.

Most of the relatively low volumes of buying are of blue-chip industrials, with institutions topping up strategic investments in hope of a longer-term economic recovery.

Looking to calendar 1991 there is little reason for investors to take cheer.

Although the past week has seen some fairly solid corporate results for the six and 12 months to end-September (including ABI, Adcock-Ingram, Afrox, Edgars, FNB, Gencor and SAB), feeling is that these are the exceptions.

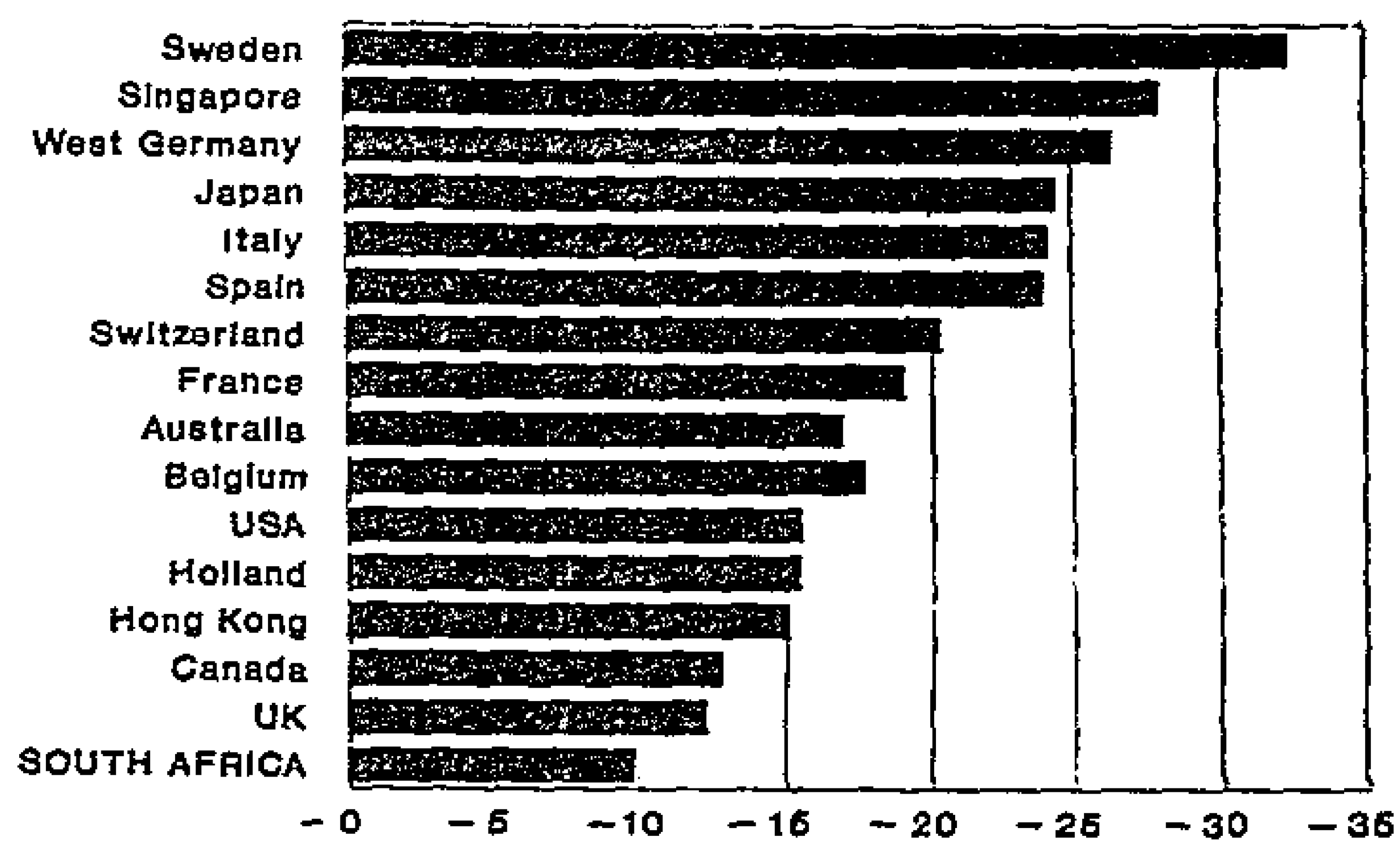
Companies such as Romatex, Nampak, Tomkor and Da Gama are providing a more accurate reflection of underlying economic weakness.

This sentiment is expected to be underlined with the release of Barlows' results tomorrow.

Few chief executives who have already reported are looking to an improvement in conditions over the next 12 months. Six months ago there seemed to be reasonable prospects of a decline in inflation and therefore in interest rates in the last quarter of calendar '90.

Latest indications are that industrial companies will be hard pressed to maintain earnings.

Assuming that money and gilt market rates continue to offer the attractive yields they are now providing, it looks as though dividend yields on the JSE will have to move higher if they are to be attractive. With flat earnings likely, this means sustained downward pressure on prices.



South African investors might not be happy with the way share prices on the Johannesburg Stock Exchange have behaved since Iraq invaded Kuwait, but they have one consolation — their losses have been less than those of investors on the world's other major stock exchanges. Since July 24, a week before the invasion, the Swedish share market has fallen 32,3 percent — three times the 9,8 percent decline in the JSE. A comparision of share price indices compiled by The Economist magazine shows that share-price losses in France, Switzerland, Spain, Italy, Japan, West Germany and Singapore have been double or more the South African figure. Britain's position as a petro-power helped limit its share market drop to 12,3 percent.

Positive trend for business

GERALD REILLY

PRETORIA — Business failures this year had not increased at the rate predicted earlier in the year, Information Trust Corporation chairman, Paul Edwards said. (130)

He added this could be the lull before the storm, as most sectors of the economy were under stress.

Average monthly failures from January to September amounted to 137 compared with an average of 130 for 1989.

But in the three months to August this year, failures (319) were significantly less than the same period last year (520) — a drop of 39%.

"There is no reason why we should expect a 1985/1986 type bloodbath," he said. B/Day 13/11/90

Businesses were in better shape than in previous recessions and were better equipped to survive, he believed.

Barlows turns to overseas markets

B Day 13/11/90

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BRENT MELVILLE

IN THE wake of a mediocre set of results for the year to end-September, top industrial group Barlow Rand has disclosed it is planning a major thrust into the UK and Europe.

Barlow Rand CE and vice-chairman Warren Clewlow said the group was planning to raise its profile in Britain and would possibly add to the existing British operations of J Bibby, which proved one of the stars of the Barlows stable for the year.

Clewlow said Barlows had set aside about R1,7bn for local and overseas expansions over the coming financial year.

The group, which posted a 15% drop in earnings to 463,7c a share for the year but left the dividend at 170c, had an established infrastructure and an extremely good management structure.

"But it really depends on what comes up.

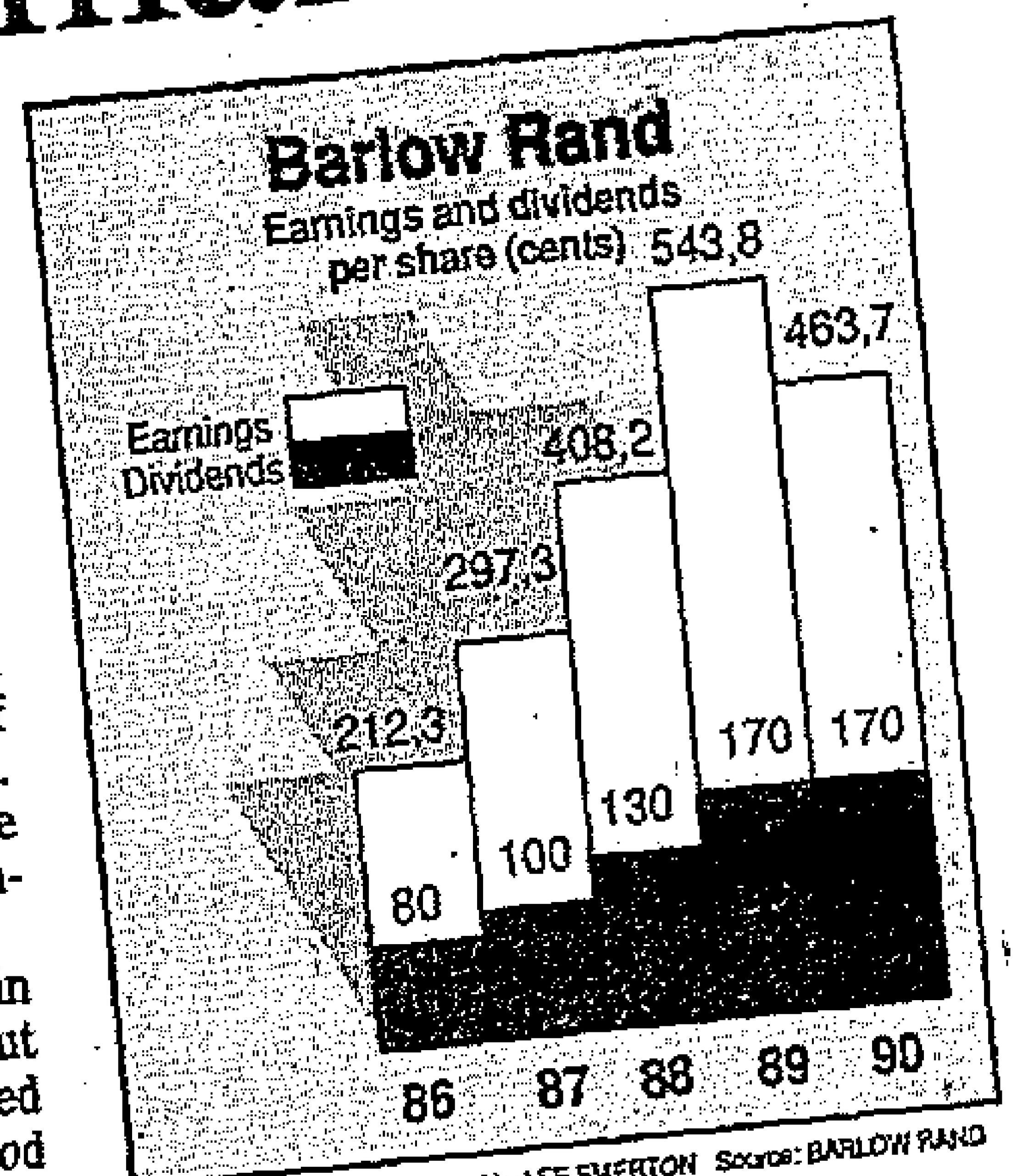
"Bibby appears to have its act together and has the ability to finance expansion."

Expansion would not necessarily be into a complementary field, although he gave no further details.

The group would also be expanding in SA with "a number of grassroots projects.

"It was, after all, really up to the big industrial groups to spend big."

At the same time Barlows would be carrying on with its rationalisation, particularly in streamlining its mining division, he said.



Graphic: LEE EMERTON Source: BARLOW RAND

Barlows is seen by the market as a barometer of economic conditions because of its widely varied sphere of operations. Attributable profits for the group slipped below last year's R1bn mark, however, shedding 14% to R849m on a 10% rise in turnover to R29bn.

Unlisted Middelburg Steel and Alloys (MS & A), on which much of Barlows' fortune depends, continued to suffer from adverse market conditions for stainless steel particularly in Europe and the Far East and from a glut in the world ferrochrome market. The net result was a 76% drop in

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Barlows

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MS & A profits to R52m from R216m last year.

Clewlow said the group was happy with the performance — which was in line with market expectations — as the decline in operating profit was held to 8% to R2,5bn.

"At the earnings level we saw a decline mainly because of the poor performance of MS & A."

In the industrial division, Reunert enjoyed export and productivity gains, but Technology Systems International fell short of 1989 levels. Coal again proved the dusky jewel in the group's labouring Rand Mines division, which was adversely affected by lower base mineral and gold income.

Cement group PPC's performance proved more solid than expected. Other divisions, however, notably the earthmoving equipment and motor and appliances and, to a greater extent, the building materials, steel and paint divisions, performed below the previous year's levels.

The packaging and textiles companies also reflected tough market conditions with Nampak reporting marginally lower attributable earnings.

Romatex had a difficult year with results well below those of 1989.

Food and pharmaceuticals was one of the brighter aspects, with meaningful improvements from C G Smith Sugar, Adcock Ingram, Logos and Tiger Foods.

SMITH NEV

Premier chief blows SA's trumpet

Business Day Reporter

SOUTH and southern Africa offered almost unlimited opportunities and potential to visionaries in search of new markets, Premier Group chairman Peter Wrighton told an investment conference on SA in London yesterday.

Wrighton said SA was the most developed state in Africa with a First World infrastructure, and predicted it would become the gateway to Africa.

Sanctions, he said, had forced the country to reduce debt to a negligible amount so it had a balance sheet, as a developing country, of "admirable proportions".

Whereas SA's foreign debt stood at $25bn and Australia's at $45bn in 1989, the comparable figures were now $20bn and more than $100bn.

"We might well have compensatory growth to make up for the years of apartheid sterility.

"For this reason we are possibly one of the few areas of opportunity in a world facing a long period of recession," Wrighton argued.

Further, he noted, the UK already had nearly R50bn invested in the country and therefore had a very real interest in ensuring its success.

SA had great tourist potential, the world's greatest store of mineral wealth and abundant, cheap energy.

A further advantage, Wrighton said, was the country's "urbanising population which has long been exposed to a sophisticated media, high-tech industry and the failure of the rest of Africa as well as of communism."

Finally, compared with the rest of post-liberation Africa, SA had a far greater percentage of sophisticated non-black people — entrepreneurial people of skill and talent who had nowhere to go should the experiment fail.

"It is true there are safer places to do business; places where the risk, if any, can be clearly evaluated and the potential accurately measured.

BD 13/11/92

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Imbalances

"But . . . like the Pacific Rim countries before us, we have the will, the people, the resources and the infrastructure to join the world's winning nations," Wrighton added.

SA's future economic policy, he said, must address the imbalances of apartheid and the social requirements of a developing nation.

"But it will recognise the important role of private enterprise.

"The liberation movements are publicly recognising that slogans and protest marches will not fill stomachs, and the business community understands that economic and social justice are prerequisites to a successful SA," Wrighton pointed out.

FW: UK analysts believe in SA

B Day 16/11/90

ZILLA EFRAT

SEVERAL London investment analysts believed SA offered better investment potential than Central Europe, President F W De Klerk said yesterday. (180)

Speaking at the SA Britain Trade Association's (Sabrita) 25th AGM in Johannesburg, De Klerk said this was because of SA's modern infrastructure, sophisticated stock market and banking system and its growing consumer base.

SA was believed to be one of the markets identified by the British Overseas Trade Board as a priority market for UK exports.

He urged British industrialists to plan for new investment in SA.

UK investors should not doubt SA would continue its reforms.

Recent estimates put direct UK investment at 40% of all foreign investment in SA.

Trade between SA and the UK was increasing, reaching nearly R8bn in 1989. The UK market would continue to grow in importance for SA.

The UK was SA's third largest trading partner and SA's biggest foreign partner in industrial development, technology transfers, joint venture operations and financial services.

De Klerk added it was now time, given that the economy was in a cyclical downswing, for the private sector to look at the international market as a means of maintaining and even expanding output and sales instead of laying off personnel.

The economic downswing should serve rather as an encouragement to step up research and development, product diversification and internationalisation of the market.

Steyn's trust seeks channels for investment

15 Day 16/11/90 (180)

LESLEY LAMBERT

CAPE TOWN — The R2bn Independent Development Trust is identifying institutions through which to invest funds and route some of its social upliftment responsibilities, chairman Jan Steyn said yesterday.

Addressing Cape Chamber of Commerce members, Steyn said the Loan Guarantee Fund established by the Urban Foundation and the Mortgage Lenders' Association to encourage lending to the lower end of the home loan market, was one institution in which the trust would consider investing some of the funds.

Others under consideration were the two new home loan financing schemes announced by the Old Mutual, in conjunction with the Urban Foundation, and the Perm.

He urged firms to assist the trust with ideas for investment.

"We face remarkable opportunities during the next three or four years of identifying ways in which our own organisations can make a contribution to the development needs of SA," he said.

The help of the church would be enlisted in rural areas where there were no organisational structures through which the trust could work.

But, responding to pressure for detail on how the trust planned to spend its funds, Steyn reiterated that it would not rush into projects and would resist pleas for handouts.

See Page 8

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New Eskom rates will benefit firms

By DON SEOKANE

ESKOM yesterday announced new tariffs for big companies which will lead to savings in off-peak periods for these firms.

Speaking at Megawatt Park, Mr Andries Calitz, pricing manager at Eskom, said the demand for electricity varied during the day with high demand at peak hours - early morning and evening - and very low demands in the middle of the night.

Calitz said the new tariffs, called "time-of-use tariffs", would enable customers to shift their demands from high to low-cost periods resulting in substantial savings.

The transition to new tariffs will start next year and will incorporate tariff A, the main charge for large customers.

He said the transition is expected to be phased in over five years.

Sowetan 20/11/90

Eskom has held meetings with more than 1 000 representatives of its large customers to discuss time-of-use tariffs and, as a result of the discussions, several amendments were included in the final proposals.

Consultations with several customers' interest groups such as the South African Chamber of Business and the South African Institute for Electrical Engineers were also held.

Eskom launches new tariffs

THEO RAWANA

ESKOM has introduced a tariff system which is likely to save commerce and industry R200m a year.

The utility said yesterday the savings would be passed on to consumers and would translate into a 2% reduction in electricity bills for various sectors.

In addition, night-only users would get a 50% reduction on their electricity bills in the long term, Eskom communications manager Johan du Plessis told a news conference in Johannesburg.

He said the new tariffs would offer customers the opportunity of shifting their electricity usage from peak periods to off-peak periods, thereby ensuring a more even demand over 24 hours.

The resultant shift in demand from high to low-cost periods, and growth in night demand, would lead to improvement in operating efficiency and capital savings, which would in turn reduce the average price of electricity in real terms, he said.

"An improvement in operating efficiency resulting from a 5% reduction in the maximum demand for electricity is estimated to save R200m per year in generation and transmission costs. This is expected to take five to 10 years to achieve," Du Plessis said.

"The demand for electricity varies considerably during the day and year, with high demand at peak hours (early morning and evening) and very low demands in the middle of the night. (180)

"Because the cost of providing electricity varies from hour to hour, from day to day and from winter to summer, Eskom and its customers have recognised that hourly, daily and seasonal variations in electricity rates are necessary to reflect these changing costs."

Du Plessis said the new "time-of-use" tariff structure should create opportunities for new applications for electricity.

"Practical possibilities included night irrigation of crops, night-time heating of

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Sowetan 20/11/90

Eskom

B'Day 20/11/90. (180)

From Page 1

green-houses, off-peak foundry work and night storage heating."

AHI executive director Martin van den Berg said the new tariff system was welcome "provided it does not mean that ordinary (day) users will pay more".

The lowered costs would enable local business to compete better on the export market, he said.

While introducing new shifts would be inconvenient for workers, they would be paid more.

"It would also mean the creation of more jobs," Van den Berg said.

US firms can be proud of record here - report

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Sowetan 21/11/90

FOCUS

Sowetan Foreign Service

THE contributions of American firms to equal opportunity and fairness in the South African workplace is something about which the US can be proud, the State Department says in its latest annual report on South Africa and fair labour standards.

The report, however, places 17 of the 85 US companies operating in South Africa "on probation".

This means the State Department believes these firms have met the basic requirements of prescribed fair labour standards, but have not made sufficient progress in the areas of employee training and advancement and in efforts to improve the quality of life outside the workplace.

The standards applied to the firms are based on the Sullivan Code which was developed to promote social justice and establish principles to guide US companies doing business in South Africa.

Standards

All US companies operating in South Africa must adhere to the standards, either by way of their participation in the Signatory Companies programme or by reporting to the State Department on their labour standards.

The majority of US firms operating in South Africa are exempt from reporting their labour practices to the State Department because of their achievements already sustained and maintained under the Signatory Companies (formerly the Sullivan Group) system of ratings.

Of the 27 companies which were obliged to report to the State Department in 1989 (29 companies reported in 1988 and 31 in 1987), nine firms were judged to be making satisfactory progress, one more than the previous year.

Only one firm, National Utility Service, was judged to have failed to meet the basic requirements of the programme compared with two who received that rating last year.

Ineligible

This firm becomes ineligible for US government assistance to export its products and services.

The remaining 17 companies were put on probation (14 received the same rating in 1988). They include Wynn Oil Company, Wilbur-Ellis, Standard Commercial (trading in SA as Lohmann and Co), Simplicity Patterns, Schenectady Chemicals, Precision Valve, MacDermid, Eriez Manetics, Coulter Electronics and Air Express International Corporation.

Increase

According to the report, blacks, coloureds and Indians held a larger percentage of the total number of jobs in reporting firms in 1989 than in 1988, increasing their percentage of jobs held in a larger workforce from 55 to 59 percent. The average wage paid black employees increased by the largest percentage of any racial group, including white employees.

The 27 reporting firms also impressively increased expenditures designed to help blacks, coloureds and Asians by 135 percent last year, the report added.

Reporting firms spent R1 140 an employee on employee training and education, non-employee education and community development programmes in 1989, a 126 percent increase.

Average

"The average amount spent by reporting firms on all programmes per non-white employee was R2 191 in 1989," the report said.

The State Department said the number of US firms with direct investments and employees in South Africa continued to decline in 1989. At the end of the year, there were 85 firms registered with the Department of State under the South Africa Fair Labour Standards Programme, 12 fewer than were registered at the end of 1988.

Big drop

Registered firms employed 27 918 persons at the end of 1989, 9 775 fewer than a year earlier, a sharp drop of almost 26 percent.

Among registered firms divesting in 1989 were several leaders in the effort to bring about positive change in South Africa, the report said.

It added: "In recent years, the departure of firms active in efforts to implement the Signatory Companies Statement of Principles for South Africa or the United States Government's Code of Conduct has removed some major influences for positive change in South Africa.

"In some instances, withdrawals have resulted in the loss of economic and other gains made by their non-white employees.

Example

"Education provides a good example. Some firms no longer in South Africa had annually awarded university scholarships to non-white South Africans. With the departure of the firms, these programmes have been cancelled by the new, non-US owners ..."

The report said the US Administration continued to urge American firms still operating in South Africa to remain because it believed that US investment and business constituted a positive force for change in that country.

Let's stop deaths on the roads

Sowetan Afrika

SINCE the first car rattled down a South African street in 1896 we have created something of a nightmare.

Only four other countries kill more people on their roads. We have been killing 10 000 a year. This year we will probably kill more than 11 000. In addition tens of thousands of people, mostly young, suffer terrible disfigurements in road crashes.

There are new laws lined up. But laws are useless without a strong presence of law enforcers. And even traffic policemen can do little without tough courts backing them.

This is why *Sowetan* and *The Star* have got together and pledged to try to end the carnage.

Our campaign is called Look Alive!

We need your input. We'd like your views, your personal experiences.

The campaign may shock and occasionally anger, but its objective is to speed up new laws and, more than anything, to end the terrible aggression on our roads.

We will campaign until:

*Speeding is no longer considered macho.

*Drunken driving is seen as loutish and criminal.

*There are enough traffic officers.

*There is a national register recording every driver's reputation.

*Witwatersrand drivers learn to give way to others.

Look Alive! will seek nothing less than to change driving attitudes. And save lives in the process.

Malbak chief warns of 'excessive' austerity drive

BDay 21.11.90

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SYLVIA DU PLESSIS

GOVERNMENT'S austerity measures, while laudable in intent, are in danger of becoming excessive in execution, Malbak executive chairman Grant Thomas warns in his latest annual review.

While accepting the need to reduce inflation and maintain a disciplined monetary policy, he says real interest rates of about 7% are "harsh medicine", and will further dampen consumer spending and hence the economy.

"Indications are that the recession will deepen before it levels out and, in addition, the economy will be buffeted further by the oil price increase. The outlook for 1991 is therefore not an optimistic one."

Thomas says directors of the industrial holding group anticipate lower earnings for the year ahead. But the extent of the reduction will depend on three factors which are particularly difficult to predict.

These are the timing of measures taken to alleviate fiscal and monetary policies, the international prices of oil and gold, and the extent of labour disruptions.

● THOMAS

Malbak, whose subsidiaries operate in packaging and paper, engineering and mining supplies, branded consumer products, food, construction supplies and development, posted a 13% drop in earnings to 118,6c a share to end-August.

Dividends were kept at 30,5c, but cover was slashed to 3,9 (4,5) times.

Thomas says in his review the group has not escaped the ravages of the harsh economic climate.

"Had it not been for the effect of increased taxes in a number of our companies, primarily due to assessed losses having been fully utilised, Malbak would have maintained earnings a share."

It is also notable that the five major divisions which Malbak created through the consolidation and rationalisation of its various interests have held up well, he says.

"Together, these divisions constitute some 98% of Malbak's total earnings and collectively, at the pre-tax level, increased profits by 2% while after-tax attributable earnings decreased by 5%."

These results also illustrate the relative protection afforded a conglomerate by diverse and counterbalancing investments in an economic downturn, he adds.

"The fact remains ... a properly structured conglomerate with good underlying assets and effective management offers investors the benefit of shelter during bad economic times, and can perform well in good times."

SA leaders fear economic decline

THEO RAWANA

POLITICAL and business leaders generally expect a loss of control during SA's transition phase, a new strategic planning survey has found.

The survey, released yesterday, also found that incidents of arbitrary violence were heightening fears of a chaotic transition and economic decline.

The Political Environment Survey was conducted by Idasa director F Van Zyl Slabbert, Five Freedoms Forum president Michael Olivier, Strategy Computer Holdings MD Michael Charnas and Five Freedoms Forums Press officer Gael Neke.

Introducing the report yesterday, Slabbert said business leaders needed a thorough understanding of the trends and pressures driving development in SA to project future scenarios.

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Conclusions

The authors combined their skills and contacts in politics, economics, business and technology to analyse the views of some 100 of the most influential leaders in the political, environmental, cultural and business arenas.

Cabinet ministers, MPs, academics, diplomats, educationalists, businessmen, newspaper editors and churchmen were among those interviewed.

The research conclusions include:

☐ The closer people are to involvement in the actual negotiation process, the more optimistic they are. The further away they are from it, the more pessimistic and apprehensive they are;

☐ There is a general expectation of a loss of control during the transition phase. Incidents of arbitrary violence heighten fears of chaotic transition and a declining economy. In spite of this, the majority of people are optimistic about long-term prospects;

☐ There is a strong fear of nationalisation and confusion about whether nationalisation threats are real.

☐ There is a general acceptance that privilege will be non-racial but that poverty will remain, for the most part, a black problem;

☐ For business people, a dichotomy exists between approval for President F W de Klerk's actions and their apathy towards political events. Ignorance of politics and political group dynamics increases apathy and distrust;

☐ Management fears loss of control of business and interference at executive level, while the ANC is aware of its own lack of managerial skills;

☐ Black business is apprehensive that the ANC has no economic base and no understanding of business and economics. They have taken extensive and positive steps to engage the ANC on economic issues.

"The business sector's uncertainty about the future of SA has a direct impact on business confidence and investment. New pressures evolve virtually daily as individual communities vie to reshape the political and economic future of our country," Slabbert said.

The survey provides input to strategic planning for business growth and survival in a changing SA. In addition to dealing with the implications of government negotiations with the ANC, PAC and right-wing parties on local and oreign trade, it also discusses other topics such as environment, AIDS, labour unions and education.

The tricky issue of conglomerates and competition

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KEVIN DAVIE

B10~7 21/11/90

THERE is not much in SA now which is not being re-examined. The conventional wisdom on just about every subject and issue is being looked at afresh.

Just as the economic order is being debated by business and political groups such as the ANC, so it is under consideration by government. In Pretoria, the issue of conglomerates is under re-evaluation by the Competition Board.

Board chairman Pierre Brooks believes that enforced dismemberment of conglomerates, as proposed by some ANC spokesmen, will not work. This is possible only in a theoretical, not a practical sense.

"The problem in SA is the shortage of capital. If you disinvest, who takes it up? You don't want government taking it over.

"Who do we sell the relevant companies to? You can't expect the shares to be handed out — that's not going to do anybody any good at the end of the day."

Brooks says the Competition Board's position is that conglomerates are not bad per se from a competition point of view, but that "they must compete and be seen to compete with one another".

He appreciates there must be some form of conglomeration. Very often it makes good sense to have diverse interests within a particular group. "But the question is whether this is not carried to extremes in SA."

The former professor of mercantile law at Unisa says the SA economy simply does not have space for, say, 20 or more companies in every sector. In many sectors there may realistically be space for three or four.

"If they compete, that very often is quite substantial competition, but if there's no competition between the conglomerates that would be a matter of concern for us."

He says the issue of economic concentration is not currently under consideration. He doubts whether the present controlling legislation, the Maintenance and Promotion of Competition Act, provides sufficient power to redress excessive economic concentration. This Act enables the Competition Board to ensure acquisitions are not anti-competitive, that restrictive practices do not take place, and that uncompetitive monopoly situations do not occur.

"When you come to look at breaking up a conglomerate which was formed over many years, you would have to have additional provisions. We may need enabling legislation, say against economic concentration, but we do not envisage this at this stage."

The board has only one formal investigation at present into possible monopoly-type behaviour. This began in August after it became public knowledge that companies in the Anglo group had increased their shareholding in Gold Fields of SA (GFSA) to 25%. The investigation will attempt to establish whether this amounts to a restrictive practice or an acquisition, and also examine Anglo's right to appoint one or more directors to the board of a company which is a competitor.

Brooks will not comment, but it is also understood the board intends formulating a policy which it could use to apply to other cross or interlocking directorships.

He says the board adopts the policy principle of "commensurate response" in the complaints it investigates. The remedy must match the transgression. If the problem persists, then the remedy may become more drastic.

BROOKS

The Competition Board is "happy" with Gencor chairman Derek Keys's unbundling proposals, says Brooks. As a general rule, from a competition point of view, the more players in the market at the same time, the better. He throws in the qualification that, in circumstances such as international competition, big organisations may have a relative competitive advantage.

Given the choice, the board would prefer an unbundled Gencor to the present corporate structure.

"We would prefer free-standing entities. Companies which are not performing efficiently are by virtue of their group connections sometimes kept artificially afloat." (Brooks did not respond when I suggested Bankorp might be a case in point.)

Unbundling would also change the JSE: "Only a small proportion of shares on the JSE are tradeable. The rest are companies holding shares in other companies. In the final analysis this means companies can become relatively immune to takeovers, because of pyramid control. If a company is not going to be efficient it may be ready for a takeover, especially when we become more acceptable internationally."

The Competition Board has been involved in discussions with UBS, Allied, Sage and Volkskas in their moves to create a new, merged superbank. Brooks says the view of the board is that SA is probably overbanked, and that some sort of rationalisation may be beneficial. He says its inquiries lead the board to believe that this proposed merger would not be against the public interest.

A current development which may affect competition policy is the creation of a securities regulation panel following an amendment to the Companies Act of 1973.

Brooks, as chairman of the Competition Board, is a member of the new Takeover Panel, of which Mr Justice Cecil Margo is chairman. The draft rules published by the panel would establish a 30% rule, whereby at a shareholding of 30% the shareholder will have to make a bid for outright control. If unsuccessful, the shareholder has to get his shareholding below 30%.

The Takeover Panel is considering submissions on the rules, which are expected to come into force early next year. The rules will not be applied retroactively. As in Britain, existing situations will not be affected, but new applications will have to go via the panel.

"The British experience is to leave in place what is in place. We think this is the way to go. You need a sense of certainty."

The panel will protect the interests of shareholders, but because it regulates the behaviour of large shareholders, it is also likely to have substantial spin-off benefits for competition policy.

The debate about a new economic order has only just got going. Government in the form of the Competition Board, business and the ANC are clearly providing one another with food for thought.

Strong optimism in study of future business prospects

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B|Day 22/11/90

MICHAEL ACOTT

BUSINESSMEN are worried about what lies in store for them, but a team of independent researchers has compiled a remarkably optimistic assessment of business prospects in the new SA.

Their study, released this week, looks five years ahead and concludes — with some caveats — that the likely plus factors outweigh the many things that might go wrong.

The real trend is away from nationalisation, which ANC leaders admit privately will not happen; sanctions will effectively go within six months, investor confidence will return and foreign investment will pick up.

They see the most difficult period as the next two years, when violence, militancy and unemployment will combine with recession and uncertainty about the outcome of negotiations to make the businessman's life difficult. And they warn repeatedly of the danger of violence because of unmet black expectations in politics, labour, jobs, housing and social spending.

The two-volume study, entitled Political Environment Survey, grew out of the uncertainty in the business community about the effects of political change. It is designed to give businessmen the figures, factors and trends against which to assess their own likely future.

The authors are former PFP leader Van Zyl Slabbert, now policy and planning director of Idasa and a lecturer at Wits Business School; Michael Olivier, businessman and president of the Five Freedoms Forum; Michael Charnas, MD of a market research and business consultancy company, and Gail Neke, Five Freedoms Forum Press officer.

They have combined their own experience and analysis with interviews with 100 leading South Africans, including representatives of political parties, businessmen, diplomats, educationists, trade unions and civic associations.

Their conclusions reflect many of the concerns that businessmen raise: the path to the new SA, particularly for business, is likely to be a rocky one. But their projections reflect the longer-term optimism they found in almost every quarter.

White businessmen are among the more apprehensive, with the CP, the PAC and black youth. The most optimism is found in the upper levels of government and the ANC, those closest to the negotiation process.

Black businessmen, too, are worried; they feel the ANC has no understanding of business and economics and have taken steps to engage the ANC on economic issues.

"Business interviews showed short-term pessimism about the economy, about competing with Eastern Europe and a united Europe after 1992. There were negative feelings about the ability of SA to be sufficiently competitive and productive, and an awareness of increasing wage demands, the management skills shortage, the declining and uncertain value of raw materials and technological illiteracy," the survey says.

"By and large, politicians are more optimistic than business people about the long-term prospects once sanctions and isolation have ended and trade opens up ... the ANC's high expectation of foreign investment contradicts business expectations."

After detailed reports on issues including the political process, the economy, labour, agriculture, unemployment, AIDS, education and urbanisation, the study concludes with what the authors call a "business planning matrix". It is here that they make their overall assessment of how things will turn out, listing positive and negative factors based on likely developments.

SLABBERT

The conclusions are most ambiguous on political developments, and most pessimistic on the related issues of violence and unemployment.

The authors see a push for new political alliances growing during the next two years, especially from the NP and the ANC, culminating in a power-sharing process with the possibility of disruptive action from those who feel excluded.

The distinction — with the possibility of conflict — will then be between those represented in government and those outside it. The effects of the political process on business differ markedly according to whether the process proceeds smoothly or is disrupted.

They predict that political violence will lessen as the transition process broadens, but see criminal violence increasing particularly because of a lack of jobs and housing. On the negative side, any government is likely to adopt repressive measures to deal with an angry black response to unmet expectations, and violence resulting from unemployment.

On the positive side, they see an expanded and improved police force helping to contain violence, provided it has increasing trust from communities; this trust will be helped by improving attitudes towards the security forces as the ANC military wing is absorbed.

The economic expectation is that the current mix of state control and private enterprise will largely remain; the ANC will use nationalisation rhetoric as a sop to its constituency but does not intend actually to implement this policy, while privatisation will be kept off the agenda until negotiations are under way.

The threat of nationalisation will affect business confidence, but it will focus business attention on social investment. The biggest plus factor for business is that the real trend will be away from nationalisation, especially as business increasingly debates with political parties.

The study predicts the effective lifting of sanctions by mid-1991. The economic climate will slow the return of investor confidence, but it should pick up if the political process goes smoothly. Foreign investment will be made in business and in social spending and upliftment.

Although estimates of the expected number of AIDS cases vary considerably, the report says the disease will severely affect the size of the business market, productivity and political development. It will also put a heavy burden on national health care.

The expected increase in social spending is seen as a mixed blessing for business, which will be involved in programmes and expenditure. The spending will ease tensions between management and labour and raise skills, wealth and standards of living. Business, however, will face higher taxes and increased costs, and the way the spending is funded could be inflationary.

The labour scene, too, is mixed. The authors foresee new labour relations legislation lessening tension and helping faster resolution of disputes, while complicating factors include demands for increased social spending, the reaction of conservative white unions and the cost pressures from higher pay and benefits.

In addition to their assessment, the authors have made a separate list of the many positive indicators for business in likely developments. They range from the benefits of an improved international attitude as negotiations proceed to local benefits from reduced tension, better education and human development, less political militancy in the unions and less political violence.

They see a major benefit in rising black standards of living, and spending power will rise, leading to a massive growth in consumer markets.

The conclusion is that there will be no white exodus as the transition occurs, and that whites will play a major role in the new SA.

The survey costs R5 500. It is obtainable from Mike Charnas at (011) 887-2402 or Mike Olivier at (011) 788-0226.

Sacob members to observe trade talks

TIM COHEN

TWO senior SA Chamber of Business (Sacob) representatives will join ANC deputy president Nelson Mandela as observers at the 20-member Preferential Trade Area (PTA) meeting which begins in Swaziland tomorrow.

Observers said yesterday it was "higly significant" that the Sacob members had been included in the meeting, which will be attended by senior government representatives from eastern and southern African member states.

The ANC has had observer status on the PTA since its inception in the late 1970s.

The two Sacob representatives are its deputy director-general Ron Haywood and trade secretary Bes Robertson.

The PTA, established in an attempt to create a trade grouping of countries stretching from Ethiopia to Lesotho, has in the past shunned contact with SA.

Research director of the SA Institute of International Affairs Andre du Pisani said yesterday the inclusion of the Sacob representatives might be a reaction to the creation of regional trading blocks in other parts of the world and a fear of the further marginalisation of Africa.

He said the inclusion was a significant recognition on the part of the PTA that a future SA could contribute considerably to the region's development.

It was also a recognition that the influence of SA in the region was something with which the PTA would have to come to terms, preferably in a negotiated way.

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Conduct

Meanwhile, Sapa reports that early next year Cape Town Chamber of Commerce president Lionel Hartman will lead the chamber's first trade mission to the UK and Europe in more than a decade.

SABC radio news said the mission would spend a week in England visiting London, Manchester and Birmingham. In Germany the mission would conduct business in Düsseldorf, Munich and Hamburg.

Some members would also travel to Zurich.

Five years ago the Cape Town Chamber of Commerce trade mission visited the Far East.

Star 22/1/98 (180)

Mystery piled upon mystery

Diagonal Street

ANN CROTTY

Myriads of transactions — some possibly fraudulent and some involving foreign exchange irregularities — lie behind the JSE's decision on Tuesday to suspend Norvic, Lanchem and Osprey.

Indications from the Reserve Bank are that an extensive audit trail (that could take weeks) will need to be done to unravel the complicated series of deals relating to a foreign exchange fraud of at least R25 million.

It is to be hoped that long before that the position of parties such as Norvic and its directors will be clarified.

Norvic's involvement in the case appears to stem from its relationship with Lanchem.

Lanchem has a 19 percent stake in Norvic, which it acquired when the shopfitter was listed in January.

As a result of the investigations Norvic has not only been suspended, but its bank account has been frozen.

Norvic MD Jock Flemmer and the company's financial advisers (including bank manager) are meeting with the Reserve Bank today to clarify the situation.

In a letter to the Bank the directors of Norvic yesterday pointed out that the company had had no financial rand transactions.

" The only relationship which the company has is that certain of the parties subject to your investigation are shareholders. This is beyond the control of the company."

Norvic, which was established in 1947, was a wholly owned subsidiary of Tradegro until July 1986 when there was a management buyout.

Apart from Norvic, Lanchem and Osprey, it seems that the investigation could also involve two cash shells — Meter Systems Ltd and Manserv — as well as several unlisted companies.

Lanchem has previously been linked to a number of unlisted companies such as The House of Investments, The Equity Participation Investments, Montrose Mining and Multi Gold Holdings.

At this stage the only apparent connection between the five listed entities is the speculation that (following the sale of control of Manserv to Financial Ltd), Manserv would be used to house investments in Meter Systems, Norvic, Lanchem and Osprey.

The investments involved were held by Financial Ltd and/or an associate company, Garditex International.

Naas Ferreira, who was acting for Financial Ltd in the acquistion of the Manserv cash shell, was yesterday released on bail of R5 000 after being held in connection with an alleged R24 million forex fraud.

The case was postponed to March 4 pending further investigations.

Analysts are puzzled about the nature of the alleged forex irregularities.

It does not appear to relate to share dealings in the three quoted companies as there has been relatively little trade in these shares.

But they point out that the situation is complicated by the numerous transactions involving cash shells, unlisted companies and the existence of overseas shareholders.

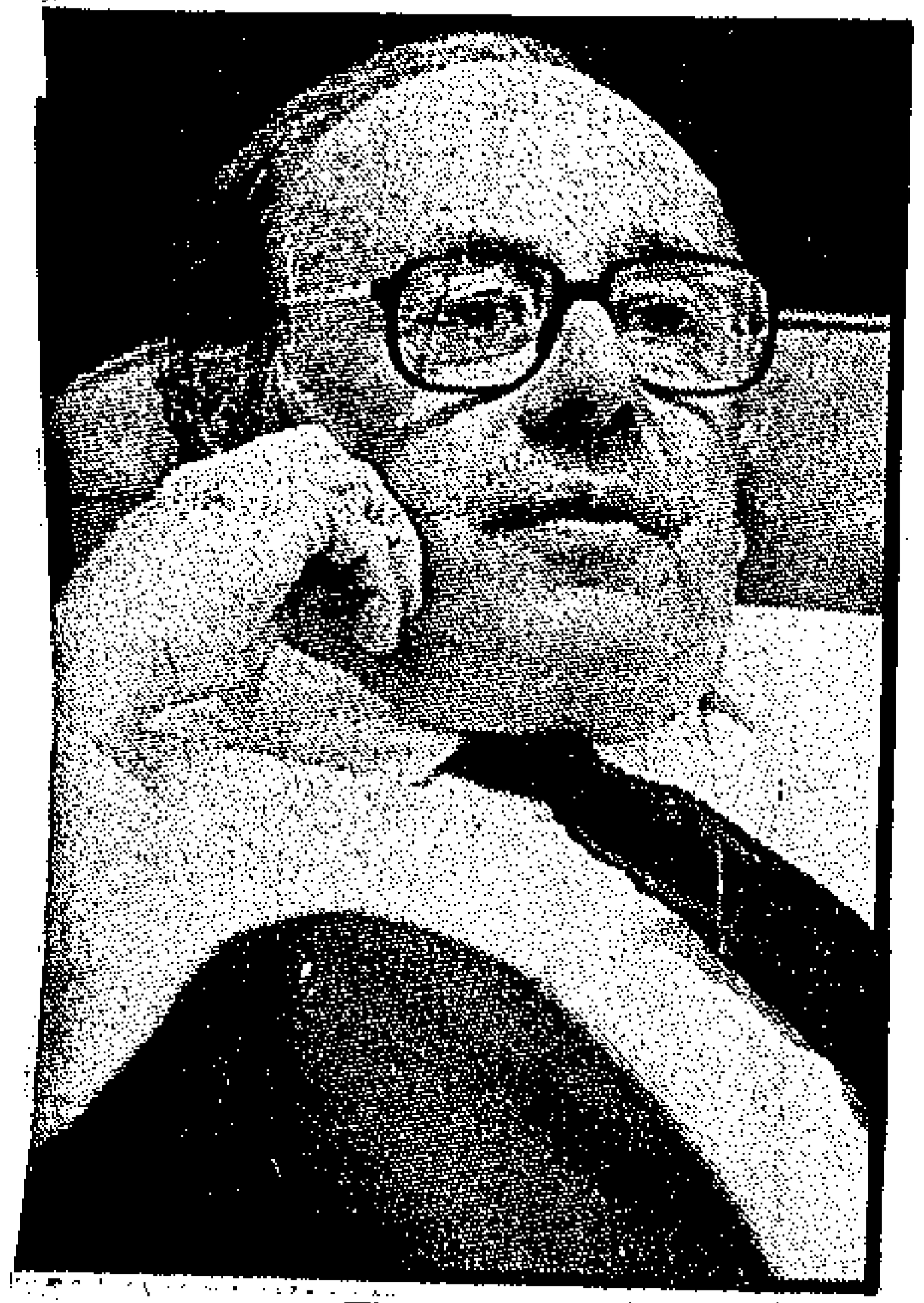
No easy route to success, says Sacob's Hall

BDay 13/11/90.

180

KEVIN DAVIE

CUTTING interest rates by a percentage point or two would not in itself stimulate the economy, says Sacob's new president John Hall.



□ HALL

Hall, executive director of Barlow Rand, says the recession could bring 50 000 retrenchments in the metal industry alone. Tens of thousands of jobs could be lost in the gold mining industry.

"Right across the country people are tightening their belts.

"Most businessmen and, indeed, Sacob, support the need to bring inflation and inflationary expectations under control.

"But if that leads to an extended recession, then I am concerned about the maintenance of law and order when a high percentage of the population is unemployed — people are talking about a 40% unemployment level.

"Even if interest rates did come down by one or two percentage points, I don't think this would trigger economic recovery. There is not enough business confidence."

The situation is made worse by global events, including the crisis in the Middle East. SA is heavily dependent on commodity exports for its foreign exchange earnings.

Hall believes the world is already in the grip of a commodities recession which could last for 12 to 18 months. Commodity prices have been slashed by up to 50% in the last six months.

"We've had a double whammy," he says, explaining the dollar is weak against other currencies (most commodity contracts are in dollars), while the rand is relatively strong against the dollar.

Where commodity prices have been dramatically reduced, there will be layoffs and even shutdowns, says Hall.

"With all this married to political uncertainty, it's not clear in my mind what is the right thing to do. Certainly housing and urban infrastructure could provide the economic engine and go part of the way to easing the unemployment problem.

"The money is probably there but the structures to ensure rapid delivery are not. Township and labour unrest only add to the problems. The lifting of sanctions would help a great deal — black politicians have a major responsibility in this regard."

He has reservations about Economic Co-ordination Minister Wim de Villiers' anti-inflation plan: "The Minister's effort to contain government spending and get realism into government departments is a good thing.

"But control of administered prices must be accompanied by the ability of those organisations to actually cut costs.

"If we just get two years of reduced costs in electricity and transport, only to have a 30% increase in two years' time, this doesn't make sense."

Hall also has doubts about plans to make factories work double or treble shifts: "It is a simplistic approach. In a country with a serious shortage of skills, it is not easy to run multiple shifts.

"First and foremost you must have a market, and if markets don't exist in SA, then you have to be committed to exports," he says.

Government's General Export Incentive Scheme (GEIS) lacks certainty at this time, so businessmen have no guarantee that double or treble shifting will actually mean that export benefits are realised: "The risks to business are significant."

Hall believes Sacob has a meaningful role to play as the voice of business. Sacob services 35 000 small and medium-sized businesses. He says it would be useful if big business used Sacob more effectively and communicated with government through this body.

"If business used Sacob's considerable expertise, 'ad hocism' could be avoided. Government would also welcome this," he says.

He sees Sacob playing a major role as a facilitator during the coming months. The key, says Hall, is not to be dogmatic.

Discussions with political groups have led him to believe there are no easy solutions. In spite of the problems he remains basically optimistic.

"In post-colonial Africa, SA has something unique going for it. You don't see this ongoing debate in the rest of Africa. Here arch rivals sit down around the table and debate.

"Negotiation prevents events from going that extra inch into chaos and anarchy. I find that encouraging," he says.

LETTERS

Aluminium, sugar let Tongaat down

S/Times 25/11/90 180

By DON ROBERTSON

A FALL in world aluminium and sugar prices has caused Tongaat-Hulett Group to forecast a 25% decline in attributable profits for the year to next March.

Profits fell by 29% in the first six months to September on a 3% rise in turnover.

Aluminium prices dropped dramatically in the past six months, resulting in a sharp decline in the division's contribution to profits. The plant is operating at capacity. But because about 36% of production is exported, profits were severely dented.

World sugar prices are now showing signs of recovery. The crop was also affected by a long winter drought. In the previous year, these two divisions contributed about 40% each to turnover and profits.

Borrowings

Turnover in the first six months rose to R1,9-billion from R1,8-billion in the first half of the previous year, but operating profits fell by 24% to R146,1-million from R191,6-million.

The interest bill increased to R49,3-million from R44,6-million after a rise in borrowings to R628-million from R580-million. But because of the seasonal nature of farming, it is expected that borrowings will be reduced to about R350-million by the year-end.

This left attributable profit at R61,5-million, down from R86,2-million, equivalent to earnings of 82,3c a share (115,7c). The interim dividend has been trimmed to 23c (26c), cover being a reduced 3,5 times. The last interim was covered 4,45 times.

Aluminium and sugar were not the only divisions to be affected. The building materials division was hit by efforts to slow the economy, political uncertainty and township unrest as well as high interest rates.

The textile division suffered from a reduced demand for fabrics as well as large imports of fabric and yarn, the rise in cotton prices and labour unrest.

This was particularly true at the Hebox plant, SA's largest denim manufacturer. Unrest at Mpumalanga, where most of the employees live, caused production stoppages.

The food and starch and sweetener divisions increased their contribution to profit. However, it was insufficient to counter losses in other divisions.

SA is facing an uncertain socio-political future and a depressed economy as well as a worsening international situation, making it difficult to forecast earnings, say the directors.

But trading is usually favourable in the second half and they expect a modest improvement, resulting in a decline in earnings of about 25% for the year.

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements.

MONDAY: Interboard tells members it has recovered assets held abroad, including 120,35-million shares. Buildcor to raise R15,7-million 27 for 100 at 100c each. Interboard renounces its rights 32 for 100. Dicor offer to minorities opens 19/11, closes 7/12.

Drop Inn's sale of property to Berk family approved by general meeting. Greenfield Property suspended. Grovewalk says agreement has been reached to dispose of a material asset.

TUESDAY: SA Brews and Nedcor form Advantage Investment Corporation to serve clients.

WEDNESDAY: Safegro International Fund Management buys 49% of Mercantile Bank. Sub Nigel shares relisted, members warned. Interboard members approve changes.

THURSDAY: Woodrow, which bought the assets of Meter Systems including the rights to use the name, tells shareholders it is not connected with the listed cash shell Meter Systems.

Maxmech's controlling shareholders sell their stakes to Quad Industries at 10c a share, totalling R283 960. They will buy the assets for R500 000. Maxmech will buy Inom Industries from Quad for R3,96-million to be settled in shares and R500 000 cash.

Masterbore to raise R3-million through an issue of convertible debentures to reduce debt. Clegg warns.

FRIDAY: LDR for Focus dividend or bonus share offer is 7/12. LDR for Audiobuild, Abacus rights offers is 30/11. Audiobuild transmuted listing statement appears.

Romens to raise R3-million through 13% convertible prefs 64 for 100 at 35c.

Fintech will acquire 80,1% of a joint venture with Alcatel worth R22,5-million by the injection of STC Business Communications Systems. Alcatel will put in R7,4-million cash.

Government should move to motivate industry, says report

B Day 26/11/90

ZILLA EFRAT

A MAJOR policy report on technology says industry should be motivated to add more value to its products.

The move could be brought about by government lowering protection in a bid to stimulate competition.

This would oblige companies to invest in the development of new product and process technology, and to promote trans-sectorial adjustments away from artificially viable industries to activities with real comparative advantage.

The report, released on Friday by the Department of Trade and Industry (DTI), is intended to generate comment from the private sector to help government formulate policy.

The report says government should consider fiscal incentives to stimulate technology development in SA. Such development, which would increase SA's competitiveness, should be market-led and initiated by the private sector.

In the longer term, government could take the lead and collaborate with the private sector to formulate a broad strategic plan to prepare SA's economy for the 21st century. Government support should be confined to initial, temporary support. (180)

The report also recommends that government promote technology transfer from abroad by creating a positive climate for investment through appropriate fiscal and industrial policy measures.

More specific strategies should be developed for beneficiation, value adding and accommodating the circumstances of a developing population in the technological environment.

Other recommendations include re-orienting the education system towards technology, enhancing the interface between educational institutions and the private sector, and applying the public sector's buying power to greater promotion of technological development.

Conference ends ANC's isolationist policy

ALAN FINE

THE ANC's weekend conference, Toward a Technology Policy for SA, effectively ended the organisation's support of a policy favouring the international scientific community's isolation of SA.

The conference was attended by about 150 people, representing public and private sector corporations and specialists from public research institutes.

ANC political committee secretary Mohammed Valli Moosa told the conference the fact that senior officials of organisations such as Eskom and the Atomic Energy Corporation were discussing technological matters with the ANC was an indication of how far SA's transformation had gone.

The ANC was hoping consultations begun by the conference would lead to the development of an SA technology policy. The ANC was "acutely mindful of the fact that economic growth is to a great measure driven by advances in technology", Valli said.

Other groups and corporations represented at the conference included university-based scientists, Waste-Tech, ISM, the CSIR, De Beers, Sacob, the Chamber of Mines, Anglo American, the Development Bank of SA, Mintek, SA Housing Trust, Sasol, Foundation for Research and Development, SA Federation of Civil Engineering Contractors, HSRC, Bosch and AECI.

Prof C C Mjojo, president of the Nairobi-based Network of African Scientific Organisations (Naso), said his organisation was awaiting signals from the ANC to begin interaction with SA scientists.

Valli told Mjojo that the isolationist poli-

□ To Page 2

Conference

26/11/90

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□ From Page 1

cy had been directed against the "apartheid regime". Mjojo's presence showed that interaction had begun.

Mjojo said Naso felt that economists had failed to supply answers to Africa's development problems during the past decade. The scientific community believed the answers lay in technology, and it was up to it to supply the impetus for development.

He said Naso was attempting to imbue African heads of state with the importance of scientific advancement. It had managed to convince Kenyan President Daniel arap Moi he should call a summit of 16 leaders to focus attention on this need.

As the first conference of its type, areas of consensus were limited, and further meetings were envisaged.

Valli said that, in the past, technological advancement in SA had been skewed to meet goals necessitated by apartheid and its consequences.

The ANC was looking at developments in countries such as the US and Japan to see whether it was better to allow industrialists relative freedom, providing incentives for beneficiation, or to constrain them, making them focus on products it believed had a better chance of competing on world markets.

EUROMONEY CONFERENCE

Nafcoc maps out black advancement

180

CAPE TOWN — At least 30% of JSE-listed companies' boards must be black, 40% of shareholders must be black, 50% of outside purchases must come from black-owned suppliers and 60% of top managerial and personnel must be black, a Nafcoc resolution states. B|Day 27|11|90

Nafcoc president Sam Motsuenyane told the Euromoney Conference yesterday this should be achieved within 10 years if not sooner to restructure the formal economic sector to include blacks in its ownership, management and operational activities.

He said Nafcoc had decided at a conference in September this would give expression and meaning to black economic empowerment.

While the business community was concerned at how a post-apartheid government would solve the problem of redressing the imbalances in the economy, it had a responsibility to make positive proposals as to how these could be redressed.

Other areas which required attention were black access to land and capital, labour mobility and access to education and training of good quality.

To attend to land ownership discrepancies, the Lands Acts of 1913 and 1936 had to be scrapped as well as the Group Areas Act. This step was already envisaged by government, Motsuenyane said.

The farming industry had to be de-racialised and black and white farmers be given the same recognition by government.

The various agricultural departments should be rationalised to ensure the optimisation of resources, and an appropriate funding structure established to help individual black farmers or syndicates to buy state or white-owned land.

The communal land tenure system in the homelands had to be revised to allow individual ownership and title to land, and new training centres for black farmers and farm managers needed to be opened to improve their level of performance and managerial abilities.

Black access to capital, while it had been improved recently, still suffered from the lack of collateral, fixed property or long-term investments.

On the education problem, he said to achieve satisfactory levels of economic growth SA had to produce the right quantity and quality of specialists, managers and leaders in every facet of professional, technical or academic education. The present system fell far short of meeting these demands. — Sapa.

Business 'has a duty to be profitable'

Business Day Reporter

THE first duty of business in the new SA was to be as profitable as possible, Barlow Rand CE Warren Clewlow said at the CIS Annual Report Awards in Sandton.

He said out of Barlow's turnover of R29bn, R21bn was paid to suppliers, leaving a balance of R8bn as the wealth created. Of this, R4bn went to employees in the form of salaries, wages and benefits.

With an employee base of 211 000 people, Barlows estimated that one million people depended on these funds and thus had a direct stake in the continued profitability of the corporation. (180)

The balance of the surplus was distributed in the following way: R1bn to bankers and shareholders, R2bn retained to fund new investment and assets for future wealth creation, and R1bn to the state. So, he said, any reduction in profitability would affect all parties.

Anglovaal interims

180 LIZ ROUSE

ANGLOVAAL Holdings and Anglovaal Ltd have declared unchanged interim dividends for the six months to end-December, indicating that the group should maintain profit levels.

Anglovaal Ltd has declared an unchanged interim of 30c on its ordinary and N ordinary shares, reflected in Anglovaal Holdings' payment of 2,36c for its ordinaries and unchanged 3,54c on participating preference shares. B Day 27/11/90

Both have reorganised their capital structures since last year's interim payments, and have declared interim dividends well ahead of their February/March publication date.

The unchanged dividends indicate results should be on a par with last year's. While mining income is expected to be lower, Anglovaal's industrial holdings should be doing reasonably well.

Nafcoc plea to firms

Sowetan 27/11/90 (180)

ALL companies listed on the Johannesburg Stock Exchange should have a board consisting of at least 30 percent black members, 40 percent black shareholders, 50 percent outside purchases must come from black-owned suppliers and 60 percent of top management and personnel must be black. Nafcoc president Mr Sam Motsuenyane told an international conference on South Africa's prospects in Cape Town yesterday. - *Sapa.*

Stor 27/11/90 (180)

Industrial liquidity declines

Finance Staff

There was a three percent deterioration across the board in the liquidity of the industrial and manufacturing sectors for the 12 months to August, Kreditinform's Kiss programmes show.

However, the number of liquidations is levelling off from a high in the first four months of the year.

But the dramatic increase in consumer and business judgments this year will inevitably lead to a higher number of liquidations in the first quarter of 1991, compared with the same 1990 period, says Kreditinform.

The Kiss (Kreditinform Information Sharing System) is an information exchange concept representing companies and credit associations supplying key sectors of industry.

Each month over R1 billion in outstanding credit is entered onto a database from debtors' ledger information suppiled by member companies.

The all-industry Kiss index covers the clothing, textile, footwear, pharmaceuticals, engineering, radio, television and appliances, automotive, building, clearing and forwarding agencies, financial services, factoring houses and other sectors.

In August, Kiss totalled R1,06 billion in outstanding amounts due to the above sectors, with R336,8 million in Rand Value Overdue, giving an all-industry Kiss index of 31,7 percent overdue.

In August 1989, the all-industry Kiss index was 28,8 percent.

Of the individual Kiss programmes for specific sectors of industry, the radio, TV and appliances sector showed the greatest improvement, using the programme to keep overdue amounts down.

Sacob seeks easing of monetary policy

B Day 28/11/90

180

ANDREW GILL

THE SA Chamber of Business (Sacob) yesterday joined the growing chorus calling for an easing in monetary policy, saying "it is doubtful continued real benefits can be derived from prolonging the level of stringency".

A 10-man Sacob delegation met Finance Minister Barend du Plessis in Pretoria yesterday, submitting a wide-ranging document calling for, among others, an easing in monetary policy in early 1991.

A one percentage point reduction in Bank rate (currently 18%) was not likely to make consumers or investors "rush to the market place", the document said.

It could, however, reduce the need for stress borrowing, have a beneficial influence on cost structures in the private sector and reduce the interest element in government expenditures.

Included in the Sacob delegation were the organisation's president John Hall and director-general Raymond Parsons. Finance Department director-general Gerhard Croeser also attended.

SA was in the grips of a recession of serious proportions which could last well into 1991, the document said.

The possibility of an over-zealous approach existed, and a continuous critical but responsible review of all policy measures was called for by the "obvious socio-political circumstances in our country".

The inflation rate was likely to resume its downward trend once the "shock waves" of high fuel prices had subsided and, barring any further fuel price hikes, could fall to 13% by the middle of next year.

Once there was certainty about the resumption of the trend prior to the oil crisis, firmer grounds for the relaxation of the strict monetary policy could have been reached, the document said.

Sacob's economic outlook for 1991 was that — even if the cycle reached a turning point in the latter part of 1991 — gross domestic product growth was likely to be zero.

In times of declining growth two reasons for government frugality arose: lack of revenue growth would be experienced in the absence of the general upward adjustment in tax rates, and a need to preserve a balance between the size of the government and the rest of the economy would become evident, the document said.

NO TIME TO LOOSEN SCREWS

As corporate profitability plunges, it's not surprising that calls by the business sector for lower interest rates are becoming more strident. Recent company announcements leave no doubt that — in spite of what was generally considered to be a tightening of corporate asset management in the late Eighties — interest charges are uncomfortably adding to the squeeze on operating profits of rising costs and keen competition in the marketplace.

And bear in mind that most company announcements so far relate to periods ending no later than end-September. In the past two months, conditions have certainly worsened.

Consider, too, that by any historic standard real interest rates are abnormally high. With inflation (stripping out the oil crisis) at 14% and nominal prime rate at 21% (and who pays prime now, anyway?), the real prime rate is 7% — close on double what was for centuries considered a "normal" real interest rate.

Trouble is, we are not in normal times. The aim of getting inflation back to single digits by the end of next year has been tacitly abandoned — and heaven only knows where inflation will head for if a "new SA" emulates the profligacy and corruption of the independent homelands. Even more important, there's little sign that inflationary expectations have yet been scaled down.

(In parentheses, those who've looked at events in Swapo-ruled Namibia as an encouraging portent for us must be deeply disturbed by the premature departure of the IMF-nominated governor of the Namibian central bank because of interference from the finance minister.)

But that's not the worst of it. The world is both headed for economic downturn (which should lead to lower interest rates but has horrifying consequences for our balance of payments) and entering a war psychology over the Gulf (which is keeping interest rates up worldwide and has even more horrifying consequences for the balance of payments).

Neither Stals nor the *FM* are — we hope — masochists. The state of the business cycle on its own would already justify a cut in interest rates, but it's not the only issue. Our bet is that we'll have to wait until just before the Budget for a modest cut and that anything sooner would be premature. ☒

E PURGE ON HOLD

sible for regulating the use of radio frequencies, introduced fines of R2 000 and R10 000 for people caught using or selling illegal cordless phones. Then, a few months later, it announced that it would approve the sale of cordless phones for the first time, but only 900 MHz devices that met its specifications.

The technology used in these high-frequency products means they are considerably more expensive than the phones which operate on the lower frequencies.

Telephone Manufacturers, the sole supplier of standard telephones to the Post Office, is the only company that has so far been granted approval to sell its 900 MHz cordless phone. The public outcry over the cost of its Uniden phone is understood to have deterred other companies from applying to have other 900 MHz phones approved.

The delegation due to meet Post Office officials this week is expected to challenge claims that 46/49 MHz cordless phones interfere with other radio equipment or impinge on the frequencies used by various emergency services. These phones are used in the UK, US, Canada and Australia as well as SA.

Adding weight to calls for less restrictions in the cordless phone market is DP MP Tony Leon who has slammed the Post Office for its "sod the consumer attitude." Leon, who claims to have used a low-frequency cordless phone for five years, believes the current regulations are unnecessary and ill-conceived. He plans to take up the matter with the minister responsible for the Post Office, Dawie de Villiers.

If the Post Office relents and allows the use of 46/49 MHz cordless phones, it will deliver a severe blow to Telephone Manufacturers. The company, owned by Plessey SA and the local subsidiary of GEC, has spent more than a year preparing to enter the commercial market with the Uniden.

At the time of the launch last month the company expected to sell 10 000 machines in the first 12 months. Marketing manager Peter Johnson says the company is still on course to meet its projections but is negotiating with its local supplier to reduce the cost of the machine. The current landed price of the phone, including import tariffs and surcharges, is about R1 650.

TECHNOLOGY POLICY 180

FIM 30/11/90

TALKING CHANGE

The ANC is likely to join representatives of business and science in responding to the draft technology policy issued by the Department of Trade & Industry last week.

ANC political committee secretary Mohamed Valli Moosa told delegates at the organisation's technology policy conference in Johannesburg at the weekend that the ANC would react to the draft policy within the next few weeks. The ANC's response is expected to be strongly influenced by the discussion at the conference.

The event, described by Valli Moosa as the ANC's first step in drawing up a technology policy, attracted more than 150 academics and industrialists. They included senior representatives of the SA Chamber of Business, CSIR, Foundation for Research Development and the Atomic Energy Corp, as well as the German Ministry of Research & Technology and the Network of African Scientific Organisations. Thin on the ground, however, were people from outside business and formal research organisations.

Many delegates were surprised that the ANC should bother to include science and technology in its political agenda.

"The mere fact that they are talking about technology is great," says SA Engineering Association president Roy Marcus.

His enthusiasm is understandable. Though the application of technology has a tremendous bearing on industry, employment, education, health care and indeed the whole economy, government is only now acknowledging its importance.

Trade & Industry Minister Kent Durr hopes to establish a formal technology policy by early next year. Until recently, government's main concern was simply to ensure that the country was as self-reliant as possible. Technology spending in the public and private sectors was largely concentrated on armaments, petrochemicals and atomic energy.

FIM 30/11/90

A far wider and more efficient application of technology is the aim of both government and the ANC. Both stress the implementation of such a policy requires a balance between State and private sector participation — though views on the extent of this partnership are likely to differ considerably.

The details of such policies remain vague.

CSIR president Brian Clark points out, for example, that much of the Trade & Industry document goes over old ground and the real test of its worth will be how it shapes government policy and whether this policy is implemented. (180)

One delegate remarked he had reservations about some recommendations in the Trade & Industry document but was wary of criticising it too sharply for fear that this could scupper government's plans to establish a technology policy.

Then again, much the same could be said of the ANC's initiative.

Conference on Africa trading

WMail 30/11-6/12/90

180

Local business groupings are hoping foreign aid money comes our way in a post-apartheid South Africa, and we can normalise trade links with the rest of the continent, reports **REG RUMNEY**

SOUTH AFRICA hopes to tap into the billions of rands of aid money that pours into Africa every year and boost its trade with the rest of the continent.

This emerged at the announcement this week of a conference, "Scenario for a sub-continent", which is being arranged by the South African Chamber of Business (Sacob), the South African Foreign Trade Organisation (Safto), the National African Federated Chambers of Commerce (Nafcoc) and BMW SA.

Sacob deputy director general Ron Haywood said this week at the announcement of the two-day conference in March next year on forming a sub-Saharan common market that South African exports to Africa amounted to only 10 percent of total exports.

The potential for expansion is therefore enormous.

Safto chief executive Wim Holtes said South Africa's trade with Africa rose by 40 percent last year and now amounts to R5,5-billion a year in goods and services, both direct and indirect, most of this in cash or cash equivalent.

A knotty problem in exporting to Africa has been the lack of foreign exchange.

South African business has come up with a number of suggestions on how to overcome this, the best-known being Eskom's vision of buying hydropower electricity from countries to the north to give African countries rands to buy South African goods.

Holtes mentioned another source of money. He pointed out that as doors open for the South African business community in Africa, foreign aid is becoming a viable alternative financing source. It is a major support mechanism for most African countries, with the continent as a whole receiving a total foreign exchange inflow of around R40-billion a year.

However, he said, aid organisations abroad are increasingly aware of the need to "mix and match" their available funding with local business initiatives in Africa, enabling, for example, soft loans or grants to be used on infrastructural and human resources components and commercial credit facilities on the commercial portion of the projects concerned.

Former Anglo American chairman Gavin Relly said at an investment conference in London recently that with the independence of Namibia and renewed interest in South Africa the focus of the World Bank and other development agencies in Africa was moving southwards.

South African expertise, he said, could ensure the success of projects. "When aid is tied to bilateral trade even modest participation by South Africa could be worthwhile. Moreover such participation can occur without running the risk of lack of finance."

At the press function to announce the conference, Haywood said putting into practice the idea of an African or even Southern African version of the Common Market was far off. But greater regional co-operation, including South Africa, was clearly possible.

The announcement of the conference comes after the launch by the Southern African Preferential Trade Area (PTA) at its ninth summit of a monetary harmonisation programme which it is hoped will lead to a monetary union.

Sacob and Nafcoc are being given observer status in the PTA.

The Southern African Development Co-ordination Conference (SADCC) has also indicated it would accept a South Africa free of apartheid.

Holtes said South Africa already had indirect trade links with most African countries, and especially Zaire, the Congo, Mozambique, Malawi, the Ivory Coast, Zimbabwe, Zambia, Seychelles, Mauritius, and the Comores. Clearly it has strong ties with Botswana, Namibia, Lesotho, and Swaziland. Recently South Africa has started trading with Madagascar, Burundi, Rwanda, Kenya and Angola.

This bloc represents a total population of some 150-million people and a gross national product of $95,4-billion.

Relly also pointed out in his speech that in a world moving firmly towards the establishment of large regional trading blocs there was a need for a common market in Southern Africa.

But he advised an evolutionary approach.

Relly said that instead of trying to achieve a common currency — which must be a distant goal — a more modest aimed should be harmonising investment codes so that the foreign investor could look to the regional market rather than just the one national one.

In turn this would require serious attention to the difficult problem of tariff barriers between countries; incremental progress on bilateral rather than multilateral bases was probably all that could be expected in the short term.

Attention would be needed also in areas such as exchange rate reform and improved regional infrastructure. Attitudes in the region, said Relly, were conducive to all of these reforms being far more realistically tackled than before.

Relly was also of the opinion that South Africa was sensitive to fears that it would swamp all the smaller economies.

"That is one of the reasons why important South African leaders such as Simon Brand, the head of the Development Bank, advise the incremental approach on institution building. Hence both the South African Customs Union and the SADCC are likely to co-exist for some time to come."

South Africa possesses important advantages for trade with Africa, Relly said. These include:

- An appropriately valued currency.
- Proximity to African markets.
- African know-how — this is especially important in agriculture, veterinary services, technical expertise such as construction and mining and training.
- With the exception of Angola and Mozambique, South Africa shares with all of Southern Africa a history of British rule. It therefore enjoys a common legacy of legal, administrative and commercial practices and traditions, not least of which is the ability to speak English.
- Our African identity. We are an integral part of Africa and therefore are not perceived as outsiders.

REVIEW OF ECONOMY

WMail Supp 30/11 - 6/12 90

Import substitution is strewn with pitfalls

Supp WMail 30/11 - 6/12/90

(180)

Opportunities for further large-scale import substitution in South Africa are limited, although prospects may be more rosy once sanctions are lifted, says the Bank of Lisbon's Economic Focus

THERE has been some disillusionment with the policy of import substitution — making things here instead of importing them, according to the Bank of Lisbon's *Economic Focus*.

Import substitution has been an important facet of economic development strategy in South Africa, it remarks.

The policy was initially underpinned by the "infant industry" argument.

According to this thesis the protection of domestic industries from foreign competition by import duties and quotas enables these industries to expand, and eventually become viable, no longer necessitating protection from imports.

Quite apart from this argument, however, short-term economic policy considerations, and especially balance of payments problems, have encouraged the South African authorities in the past to resort to import restrictions.

Also, trade embargos, especially those related to defence-orientated industries and oil supplies, have encouraged the development of domestic replacement industries in the post-war period.

Import substitution in developing countries has generally conformed to a particular course. A broad pattern involving three phases has been discernible. This has consisted initially of the local production of consumer goods, which is then followed by a phase of domestic production of consumer durables to replace imports. Thereafter, there is a phase of replacement of intermediate and capital goods.

Such a pattern closely resembles the changing structure of manufacturing industry in the process of economic developments as revealed in historical surveys.

The history of the South African manufacturing industry generally conforms to this pattern of import substitution.

A development policy aimed at generating industrial development through import substitution first gained prominence in the mid 1920s.

From that time industrialisation in South Africa proceeded along the standard route of sectoral transformation from consumer goods to capital and intermediary goods, or from light to heavy industries.

The share of light industry in total manufacturing production has declined substantially from around 65 percent in the mid 1920s to roughly 35 percent now.

Import substitution has significantly influenced the composition of imports and the structure of manufacturing industry.

Nevertheless, if the effects of import substitution are measured by the ratio of imports to gross domestic product (GDP), it is clear South Africa has not seen a decline in imports.

The ratio of imports to GDP was 25 percent from 1920 to 1924, while in the more recent period from 1984 to 1988 it was 28 percent.

This is striking, particularly in view of sanctions.

Employment opportunities offered by the manufacturing sector can equally be exaggerated.

Despite the fact that imports have not fallen in South Africa in the past 60 years or so, and these high levels do not compare well with some developing countries, it has become generally accepted that opportunities for further large-scale import substitution in South Africa are limited.

The role of import substitution in fostering development in the manufacturing sector has been diminishing since the late 1950s.

The great bulk of imports is now confined largely to the field of intermediate and capital goods.

In these areas technological and labour skills are paramount, together with sufficiently large capital funds and markets. In South Africa, scarce capital funds and relatively small markets means viable domestic production is largely ruled out.

Import substitution has been accused of allowing industries to shelter behind trade barriers, becoming inefficient and obsolete, with no hope of becoming competitive in open market conditions.

The dearth of import competition has likewise been criticised in the light of the large concentration of ownership in sections of the South African economy.

While a policy of industrial protection has been maintained, there has been a shift in emphasis away from import substitution to a policy of promoting exports of manufactured goods as a means of fostering industrial development.

This change in focus has been strongly supported by new thinking on comparative cost advantage and export-orientated industrial growth.

In one sense import substitution policies can be seen as creating a bias against export-orientated development because of the increase in domestic costs which such policies promote.

The upward pressure on costs stemming from protection and the decrease in export competitiveness explains why import substitution and export orientation are often regarded as conflicting development strategies.

In another respect, however, it has been argued that the two strategies are complementary. Import substitution can create a more diversified domestic industrial base which serves as a platform for the production of manufactured exports. Domestic industries developed on the back of protection against imports may subsequently become exporters.

South African interest in promoting manufactured exports partly stems from the success of newly industrialised countries in South East Asia with export-orientated industrial development. Such export expansion serves as a vehicle for financing technology transfers through the import of capital goods.

The growth in export businesses also provides a spur to the development of efficient and internationally competitive workers and management, and these beneficial effects spread beyond the export sector.

By generating foreign exchange such exports raise the capacity of an economy to finance imports in general and service external debt, and this improves a country's creditworthiness.

This in turn stimulates larger capital inflows that render it possible to finance higher rates of investment.

Export growth also creates forward and backward linkages to producers of goods and services in the rest of the economy.

Nevertheless, South Africa has not embarked upon a purely export-orientated industrial development strategy.

Industrialisation through import substitution policies creates strong vested interests among labour and employers for the maintenance of protection. These interests, together with the economic and social disruptions that could result from a sudden removal of protection, have combined to prompt the authorities to maintain a measure of protection, while applying export incentives of various kinds to promote production for export.

The promotion of manufactured exports from South Africa is a strategy strewn with pitfalls.

The general absence of export-orientation in manufacturing industries is well known. But capital sanctions, which forced the authorities to severely curb the growth in domestic expenditures, may now be encouraging manufacturing industry to look abroad for growth.

The large distance from markets in Western countries is likewise an inhibiting feature. The natural market for South African industrial exports is the African continent, but such trade, although it is increasing, is stifled by both economic and political considerations.

The limited size of the various domestic markets also hinders efforts to exploit economies of scale.

These difficulties have been reflected in the trend for the economy to become increasingly dependent upon commodity-based exports.

In recent years this trend has been strengthened by the intensification of trade sanctions and boycotts, since commodity exports are in general "fungible" products, and therefore less vulnerable to sanctions than manufactured goods.

It has, moreover, meant that the country has become even more vulnerable to fluctuations in commodity prices.

Nevertheless, in the new South Africa which is now emerging, the prospects for exports of manufactured products are improving.

In the wake of the new political dispensation which is unfolding, trade sanctions and embargoes against the country are receding, and new export markets for manufactured products are emerging, while old markets are being reclaimed.

Also, South Africa's new industrial policy includes a move in the direction of reducing and possibly eliminating in time the tariff protection and other assistance furnished to many local industries.

CHANGING STRUCTURE OF EXPORTS

Percentage of exports in various years

Category	1960	1970	1980	1988
Raw materials	29	37	42	42
Processed raw materials	40	32	36	46
Sub total	69	69	78	88
Material intensive products	15	17	12	6
Final processed products	16	14	9	6
Sub total	31	31	21	12
Total	**100**	**100**	**100**	**100**

Source - Department of Finance

Marrying capitalism and Marxism

Supp WMail 30/11 - 6/12/90

University of the Western Cape's Institute for Social Development director **PIETER le ROUX** sang the praises of social democracy at the Weekly Mail Book Week debate on the economy. Here is an excerpt of his contribution

AT THE beginning of the Eighties some on the left confidently predicted the demise of capitalism. Ironically it turned out to be the decade of crisis for the existing socialist systems.

At the beginning of the Nineties capitalists are triumphantly claiming the victory of what is euphemistically called the Free Market system. I want to predict that the gods will this time take their revenge on the self-satisfied Hayekian ideologues of the right with as much vengeance as they did on the ideologues of the left. The free marketeer solution will fail as dismally as did centrally planned socialism. What route will there be for South Africa to follow?

At least three different models have been proposed from the left as worth emulating. Firstly, there is Joe Slovo's proposals for a democratic socialism in his now famous "Has socialism failed?" Secondly, there are the proposals that we should strive for a socialist version of the South Korean or Taiwanese economies. Thirdly, there is the position, to which I personally adhere, that we should look for a solution along the lines of social democratic systems implemented in the Scandinavian countries, in Austria and to some extent in Canada and Costa Rica.

There is, of course, also a fourth position, that all we need to do is to bring about the world socialist revolution, and then our problems will be solved.

The only system under which social and economic justice, political democracy, a strong and free trade union movement and rapid and sustained economic growth could hitherto co-exist, are social democracies. These systems were not designed on the drawing board of ideologists on the left or right, but have emerged in praxis.

By this I do not mean to claim that social democracies are always successful. The blend of social democracy attempted by Harold Wilson and Callaghan failed; indeed, present day Swedish social democracy has serious problems with growth, because the politicians have too long ignored the changing conditions under which they have operated.

But social democracies, when the right blend of policies have been implemented, have been amazingly successful. For fifty years, from 1920 to 1970, Sweden had a steady and high rate of growth. Its unemployment came down from 25 percent to two percent, its per capita income increased many times, it has one of the highest standards of health care in the world, and one of the strongest trade union movements.

Social democracies have succeeded in blending the best features of capitalism and socialism; the child has inherited the nicest traits of its capitalist father and its Marxist mother.

The capitalist sector in social democracies is highly efficient and internationally competitive. In terms of the ownership of the means of production, social democracies are capitalist, even though the state does intervene in certain spheres, through, for example, the nationalisation of some banks.

But the trade unions are also very strong — the workers have greater say over the production process, over the types of investments made, over the conditions of employment, even over macro-economic policy, than in any other society in the world.

Of all the existing social systems, social democracy is the only one which has shown itself capable of meeting the aspirations of the Freedom Charter within a reasonable period of time. All the other systems which are being proposed are pie in the sky.

Of course, we will have to modify and adjust social democracy to the realities of the situation in which we find ourselves. We can learn some useful lessons from the little tigers of the east and from other countries such as Malaysia. We should also learn from the mistakes of social democracies, of which there are quite a few — I leave it to my opponents to enumerate some of them.

But, in the end, if we are going to have peace, prosperity and justice in our country, we will have to opt for a social democratic compromise.

Clearly the South African social democracy will be of a very different nature from the Scandinavian one, but it will be based on broadly the same formula. The future of our country depends so crucially on economic success, that we cannot afford to experiment with systems which only exist in theory.

Bank unveils policy on corporate debt

B Day 30/11/90 180

ROBERT GENTLE

CORPORATE treasurers have expressed deep concern over the Reserve Bank's draft policy on a regulated corporate debt market insofar as it prevents companies from competing with banks on short-term funding.

The policy was unveiled yesterday by Reserve Bank researcher Nico Marais, in an address to the Association of Corporate Treasurers of SA (Actsa).

A corporate debt market permits companies to effectively borrow and lend from each other through the issue of marketable commercial paper without having to go through a bank — a process known as disintermediation.

SA corporates, facing a lack of appropriate funding methods, are keen on disintermediation because they say it costs too much to obtain certain forms of short- to medium-term funding from the banks.

Marais said disintermediation at the short end of the market — under two years — would hurt banks' competitive position.

He said the Reserve Bank was "not comfortable" with it because there was already strong competition in the banking sector. "We would rather give the banks protection in this area."

A banking representative said he did not think banks needed this protection, a point endorsed by First National Bank group treasurer Ken Russell, who said he thought two years was "a long time".

Derek Ross, a London partner of chartered accountant Touche Ross, said he could not see the rationale for protecting the banks in this way.

Ross, who spoke on the UK's £6bn commercial paper market prior to Marais' presentation, said the Bank of England had also unsuccessfully tried to keep corporates out of the short end of the market.

"The UK commercial paper market only really took off once this restriction was removed. Apart from this key point, I think the Reserve Bank's position paper is an admirable initial discussion document."

This was endorsed by Actsa technical

To Page 2

Debt policy

B Day 30/11/90 180

From Page 1

committee chairman Tom Makinson.

He estimated that a commercial paper market could be worth as much as R5bn, based on a likely market of 100 companies each having a net worth of R100m and 50% gearing.

The Bank's draft position paper, or an amended version of it, will be incorporated into regulations falling under the Deposit Taking Institutions (DTI) Act.

Besides the controversial point that commercial paper and debentures issued may not be for an initial period shorter than 24 months or any renewal period shorter than 12 months, the draft policy highlights other key areas.

These include the requirement that issuers be listed JSE companies with a minimum net worth of R100m, that investors be JSE-listed or, if unlisted, registered financial institutions. Minimum issue sizes range from units of R500 000 to R2m.,

"The idea is to limit the market to triple-A players," said Marais. "We wouldn't want the public to be involved."

TOP 100 COMPANIES

Ranked by taxed profits (R000s)

No	SHARE NAME	AMOUNT	No	SHARE NAME	AMOUNT
1	De Beers	4 078 000	51	Sentrachem	111 700
2	Anglo American	3 104 000	52	Dorbyl	110 176
3	Gencor	1 447 000	53	Anglo-Alpha	108 805
4	Sasol	1 066 464	54	PP Cement	106 700
5	Iscor	949 750	55	Consol	100 517
6	Barlows	859 000	56	HLH	99 071
7	Remgro	749 500	57	Rusfurn	93 114
8	Amic	652 000	58	Blue Circle	88 066
9	SA Breweries	636 400	59	Distil	87 141
10	Sappi	595 500	60	TSI	86 789
11	Johnnies	588 300	61	Rainbow	85 437
12	Rusplat	553 800	62	W&A	82 975
13	Samanco	537 483	63	Pick 'n Pay	82 800
14	Implats	422 700	64	Afrox	82 471
15	CG Smith	343 400	65	Trencor	81 530
16	Stanbic	333 200	66	Haggie	77 853
17	FNB	329 800	67	Pepkor	73 683
18	GFSA	328 200	68	Holdains	73 343
19	Hiveld	318 239	69	Reunert	73 300
20	AECI	310 300	70	CMI	70 995
21	Amgold	308 500	71	Altech	70 502
22	Nedcor	287 000	72	FSI	64 739
23	Palamin	281 767	73	Confram	63 681
24	Amcoal	255 246	74	D&H	62 630
25	Tiger Oats	255 000	75	Da Gama	60 484
26	CGS Foods	249 000	76	Hunts	60 336
27	Safren	245 893	77	I&J	57 753
28	Anglovaal	238 000	78	Argus	56 462
29	Malbak	233 000	79	SFW	55 645
30	Rand Mines	226 400	80	Foschini	55 070
32	Engen	213 000	81	ICS	53 459
33	Nampak	204 500	82	Metkor	52 215
34	AVI	196 700	83	Romatex	52 200
35	Liberty	180 500	84	Plateglass	51 483
36	Tongaat	174 230	85	Messina	49 945
37	Wit Colls	163 067	86	McCarthy	49 927
38	Ass Mang	156 238	87	Adcock	49 408
39	Sun Bop	152 328	88	Elcentre	48 932
40	M&R Hold	150 339	89	Fedfood	48 538
41	Kersaf	136 930	90	ABI	46 607
42	Wooltru	130 600	91	Afcol	46 561
43	Trans-Natal	128 300	92	CNA Gallo	45 212
44	Fed Volks	124 018	93	Transun	45 089
45	Prem Group	123 144	94	Gentyre	44 174
46	Edgars	122 407	95	Altron	43 500
47	Genbel	119 883	96	Keeley	42 647
48	Southern	115 200	97	Frame	42 110
48	Volkskas	115 200	98	RIH	41 500
50	Toyota	113 176	99	Homemaker	41 212
			100	SA Drug	40 468

Anglo dwarfs the lot

St Times 2/12/90

DE BEERS and Anglo American are by far South Africa's most profitable companies.

The two hold associate stakes in each other, so there is clearly a bit of double counting. But it does not amount to much.

With JCI, Amic and SA Breweries also in the Top 10, this table serves to stress the extent to which Anglo dwarfs all others.

Under Derek Keys, SA's No 2 mining house Gencor, has done some dramatic catching up to take third position. Samancor, Impala and Sappi bring Gencor's total in the top 11 to four.

Some company chairmen will fume at this list because they will recall that their bottom line was slightly different.

That is because for most companies we have excluded from earnings previous-year adjustments, gains and losses on sales of fixed assets, investments, currency movements, all non-operating or extraordinary items and investment allowance benefits. 180

Unfair

We have deviated from this rigour in regard to September reporting companies. We believe it is more important to have up-to-date numbers than to wait for annual reports in order to be consistent to the nearest R1-million.

Some Barlows-controlled companies therefore have something of an unfair advantage — some, not all. Barlows itself, Nampak and Robor actually reported lower earnings this year than last.

First National also benefited from late inclusion, moving up within spitting distance of great rival Standard Bank Investment Corporation.

Nedcor was also included at the last minute, but thanks to a notional tax provision and the R29-millon loss in UAL, its earnings gain was only 12%, so it did not move much. Were it not for these things Nedcor could well have been ahead of its rivals.

Nafcoc plea for black top brass stirs storm

S/Times 2/12/90 (180)

DERISION has greeted Sam Motsuenyane's demand for a radical programme of affirmative action

By CHARMAIN NAIDOO

The president of the National African Federated Chamber of Commerce (Nafcoc) told delegates at the Euromoney magazine conference in Cape Town this week his organisation had resolved that within 10 years:

- All companies listed on the JSE must have at least 30% of black board members;
- At least 40% of their total shareholding must be controlled by the black community;
- At least 50% of the value of their outside purchases must come from black-owned suppliers and contractors;
- At least 60% of top managerial positions must be held by blacks.

Guidelines

Business leaders said the demand was totally impractical, and the Financial Mail wrote that "it is difficult for us to reconcile Nafcoc's desire for economic growth, backed by the efficient allocation of resources, 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 quoted companies".

It said: "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 Mr Motsuenyane says there is no need for alarm.

"These are merely guidelines. We do not aim to dictate to business. Instead, we would like to work with them on issues that need to be addressed.

"We certainly do not want to see tokenism or promotion without merit. We do want more education and training and more formal inclusion of blacks in the economic structure."

JSE president Tony Norton says the 10-year target is ambitious.

"The concept of black involvement is not only laudable morally, but physically essential. However, you cannot have a public market with a quota of shareholders. That is self defeating.

"On the other hand, we would be delighted if, through natural economic forces, the number of black shareholders increased."

Mr Norton believes revolutionary change should be avoided.

"I am an evolutionist. Change is necessary, but we need to avoid excesses."

Jimmy McKenzie, senior general manager at equal-opportunity employer First National Bank, says the bank has been on the course suggested by Nafcoc for many years.

The bank employs 25 000 people, 40% of them black and 560 in managerial and supervisory roles.

"It takes about 10 to 12 years to train a young person to become a competent banker. It does not happen overnight.

"For companies starting now, there will necessarily be a long catch-up period."

SA has had growth of less than 2% for the past decade. It is locked into a recession where retrenchments are more the rule than hiring people.

Mr Motsuenyane says: "I believe R50-billion needs to be allocated to education and training.

"That is three-quarters of the Budget and sounds implausible. But over 10 years at an additional R5-billion the figure becomes less daunting."

When sanctions are dropped, the cost of servicing foreign debt will fall. When duplication in the public service ends, the money saved should be spent on priority issues like education.

Agent

"We need to persuade the private sector and the Government that we need an action programme. I hope companies will show an interest.

"Since the mid-1970s the private sector has been an agent for change. But it is expected to do much more.

"This is a Nafcoc initiative and we have not consulted the ANC about the issue. However, we will talk to it."

Asked whether the 40% black shareholding figure is not unreasonably high, Mr Motsuenyane says: "Blacks will soon represent 85% of the population with whites only 10%.

"If we don't do something, white economic domination will supplant white racial domination."

Are CCs still employees?

S/Times 2/12/90 (180)

FIONA LEPPAN discovers hidden danger in a new form of labour contract

PITFALLS await employers involved in the increasingly popular scheme whereby employees turn themselves into "contractors" — and then sell their services back to their employers.

The employees, often styled as "independent contractors", pay themselves through closed corporations (CCs) in the hope of getting tax advantages, but essentially they continue to give the same service as before.

The legality of these schemes has been called into question by numerous tax experts and the Department of Inland Revenue.

Now another debate has arisen: are these so-called independent contractors "employees" as defined in the Labour Relations Act 28 of 1956?

Two recent cases in the Industrial Court examine the dilemma.

Nelson Shikwambana was a former employee of Quantum Construction (Pty) Ltd.

He resigned and took up the company's suggestion that he form his own CC. Mr Shikwambana's position before and after the introduction of the CC remained unchanged except that the CC was paid by the company for services performed by Mr Shikwambana. In turn, he was paid in his personal capacity by his CC.

The arrangement between the company and Mr Shikwambana's CC was terminated without notice on February 28 1989 on the grounds that his services were too expensive.

Mr Shikwambana believed that his relationship with Quantum Construction had been unfairly terminated, and that his status as an employee had never changed.

The company, however, argued that the applicant was not an employee and did not enjoy that status after the introduction of his own corporate entity.

Abuse

The company argued that the separate legal personality of the applicant's CC could not be set aside, more particularly where our civil courts have been reluctant to look behind the corporate personality.

In fact, only in the case of fraud or unconscionable conduct has the corporate personality been pierced.

It is interesting to note that section 65 of the Close Corporation Act 69 of 1984 empowers a court to lift the corporate veil unless there has been a gross abuse of the juristic personality of the corporation as a separate entity.

The company, however, did not allege any such abuse and the Industrial Court did not take the matter any farther.

The court found that no formal contract had been entered into between the applicant's CC and the company.

This is an important finding since, in the earlier decision of the Industrial Court in C D Addington vs Foster Wheeler SA (Pty) Ltd, the court found that Mr Addington's CC acted as a labour broker which required Mr Addington to perform work for Foster Wheeler and that he was not an employee of that company.

In that particular case there had been a formal agreement entered into between Foster Wheeler and the CC. It was said that the written contract provided clear proof of an intention that the CC would provide the services of its member to Foster Wheeler.

Mr Shikwambana's case, however, was distinguishable because there was no evidence of the conclusion of a contract or the provision of services. There was merely an arrangement that Mr Shikwambana's salary would be paid to him via his CC.

Mr Shikwambana's duties and obligations and his rights to a bonus and continued membership of the pension fund did not change after the introduction of his CC.

The Industrial Court concluded that these factors demonstrated a continuation of the employment relationship, which could not be terminated without good reason and in the absence of a fair procedure. The Industrial Court said in that case "the mere fact that the pay envelope of the applicant was slipped into the pocket of his close-corporation suit does not mean that the man inside the suit can, in labour law, be ignored . . . labour law is concerned with equity. Equity in this case requires that the corporate veil — in this case a thin one indeed — be brushed aside".

Contract

The case law suggests that a minimum prerequisite for the scheme to be valid is the existence of a cogent written contract entered into between the former employer and the CC, in terms of which the CC provides the services of its member to the former employer.

On a close reading of the Shikwambana case, employers would be well advised to take care when dealing with these schemes, for it cannot be assumed that once the CC is introduced the stringent rules of fairness can be discarded in the erroneous belief that the employment relationship has come to an end.

● *Fiona Leppan is a labour lawyer with the Johannesburg law firm of Deneys Reitz. She has been requested by the Sunday Times to write a series of occasional pieces on labour and the law.*

Letters are on Page 25

A 10-year golden thread of success

S/Times 2/12/90 (180)

FORGET blue, these stocks are solid gold. For the past decade only seven of the more than 700 companies listed on the JSE have appeared in Business Times Top Companies list every year.

The seven star companies are Suncrush (No 14 in this year's list); Trencor (2); Saficon Investments (16); CNA Gallo (15); Cadbury Schweppes (South Africa) (23); South African Breweries (25); and Anglo-Alpha (62).

Each year for the past decade the seven solid performers have consistently turned in results better than the average, no matter the state of the economy.

It is small wonder their shares are investor favourites and are tightly held.

In the decade the company which has achieved the highest average return for investors in the survey's five-year period is soft-drink bottler Suncrush, which has its headquarters in Durban.

In the past 10 years, Suncrush has recorded a return (capital appreciation plus dividends) which has never slipped below 33%. It rose to 61,7% in 1985.

Next on the list of steady performers is Trencor, the

LONG-TIME WINNER: Saficon chairman Sidney Borsook

Cape-based investment holding group with large transport interests. Its five-year returns for shareholders in the past decade ranged between 31,6% to this year's 74,5%.

Support

Hot on its heels, and dispelling the myth that motor shares are cyclical, is vehicle retailer Saficon Investments, which returned a low of 18,5% in 1988 but hit a high of 82,9% in 1981, the best five-year return of all the seven companies in the past 10 years.

Cadbury Schweppes and CNA Gallo's consistent returns support the view that South Africans are becoming more hedonistic and spending a larger proportion of their disposable income on "having a good time".

With this in mind, it is also not surprising to find the sixth slot filled by SA Breweries, which has returned between 20,8% and 43,7% for its shareholders in the past 10 years.

The only other company to make the Top 100 each year for the past decade is Anglo-Alpha, the cement and quarrying giant. It has turned in consistently better-than-average results since 1981 — from 13,4% to 48,7% for the five-year returns.

Closely chasing these excellent companies — with nine years in the Top 100 — is another group of stars: Chemical Services, Consol, Foschini, Gold Fields of South Africa, McCarthys and Toyota. Those with eight years in the sought-after ranking are Anglovaal Industries (formerly South Atlantic), Argus and Waltons.

For those looking to invest in top companies which offer a consistently above-average total return look no further than this group of top companies. Their records speak volumes.

Salad days for conglomerates

S/Times 2/12/90

(180)

THE three biggest companies by turnover are all conglomerates. The second biggest is actually a subsidiary of the biggest and No 5 five is a subsidiary of No 2 — so we are looking at considerable double counting when we consider the supergroups.

Hence the decision by huge companies, such as Anglo American, Rembrandt and Gencor, not to report turnover at all. That is the great deficiency of this list.

In the top 25 companies by sales, no fewer than 12 are conglomerates.

Fourth in the rankings is De Beers, SA's biggest single-product company by far. The next biggest, which is not a holding company for numerous interests, is Iscor, followed by Gencor's new arm in energy, Engen. With synfuel accounting for by far the most profits, Sasol could be described as focused, as can Pick 'n Pay.

Gold mines are not included. If they had been, the list would have looked slightly different because any mine producing 16 000kg of gold would have made the list.

One could argue that premium income of life companies amounts to turnover and that these should be included. We have left the life companies out, however, because the movement of pension-fund money distorts things.

For interest sake though, both Old Mutual and Sanlam reported total income above R10-billion, Old Mutual R10,7-billion and Sanlam R10,4-billion.

He's quite happy about debt

S/Times 2/12/90 (180)

JEFF LIEBESMAN is relaxed about the question of debt, pointing out that interest cover in W&A last year was 4, which is not much different from Barlows.

Pro-forma audited figures show shareholders' funds of R1 272-million. Long-term debt of R639-million and short-term debt of R152-million make a total of R791-million. That is only 62% of equity.

Then there is R132-million of cash, making net debt R659-million and net debt:equity 52%.

In equity are convertible debentures of R252-million. As they are compulsorily convertible and therefore permanent capital, only their coupon and their tax deductibility makes them different from ordinaries.

Some analysts would eliminate intangibles, such as goodwill, trademarks and patents (R364-million). Mr Liebesman makes the point that in that case, they must revalue fixed assets to the values established by an independent evaluator. That would increase fixed assets of R777-million by at least R350-million.

He points out that R122-million, or 61%, of W&A's profits are in cash. In fact, discretionary cash flow could theoretically repay all debt in 3,5 years.

There is a fair amount of debt in top company FSI, but Mr Liebesman says it, too, is comfortable.

The cash-flow diagram shows that cash and interest income at R68,8-million comfortably cover outflows in the form of interest and dividends.

The ordinary dividend is covered comfortably times by inflows.

IT'S A BUMPY ROAD, BUT MUCH TO BE CHEERFUL A

S1 Times 2/12/90 (180)

By MICHAEL SPICER, public affairs consultant, Anglo American Corporation

POLITICALLY, the business community sank into a gloom after P W Botha's Rubicon speech. Only stasis and decline into greater domestic conflict and heightened international isolation seemed in prospect.

With one sweep of the sword, President de Klerk cut the Gordian knot on February 2 and unleashed new vistas of challenge and opportunity. Businessmen who combined realism with their inherent optimism saw a continued bumpy road ahead, but this time in a good cause.

However, this meant stepped-up socio-political involvement. In the first place, business, used to the certainties of a long adversarial relationship with the Government, had to suddenly contemplate the not altogether comfortable prospect of finding itself increasingly in agreement with it on politics as well as economics — policy making regarding the latter having quietly improved in the mid-1980s.

More importantly, business had to confront the reality of its own rhetoric. Like others long used to the simpler and more comfortable role of the critic, businessmen had to actively deal with the consequences of the release of Nelson Mandela and other political prisoners, unbanning of political organisations including the SA Communist Party, the ending of the state of emergency and the general freeing of the political process.

The immediate consequences were not comfortable. The desired normalisation of the political process could not happen overnight. Those freed from jail or returning from exile or banning came with much ideological baggage and little practical experience or understanding of the realities of South Africa and a dramatically changed international environment.

Hence the discomfort, not to say alarm, felt in business circles when Mr Mandela uttered the big N word shortly after his release from prison. Though some wise counsel said that such views would have to be subject to the tests of reality and practicality, investor confidence, domestic and international, suffered a blow from continued references to nationalistion and other political and economic policies more in keeping with the vanished past of Eastern Europe.

At least this focused the mind of business on the political necessity of helping create an economy which provided for growth *and* more equitable distribution of resources.

Business has had to collectively roll up its sleeves and engage in a frank debate with various parties about economic options for the future.

Initially slow off the mark and inclined to veer alarmingly between an insensitive and somewhat self-interested assertion of capitalist verities and an abject appeasement of its critics on the left, business now seems to be using its various employer bodies to more sensibly deal with the issue.

The violence precipitated by the less-than-democratic culture prevailing at grassroots level as rival political parties battled it out for turf also proved of grave concern to business and had a negative effect on profits and production.

Remarkable

The spillover effect of political transition led to even more difficult labour relations than in previous years. Politically inspired boycotts, stayaways and go slows took their toll, and unions, themselves important national actors, flexed their muscles on the shopfloor and in the broader community.

However, proving the point that such difficult times provide opportunities if they are seized, the two-year Saccola-Nactu-Cosatu talks on a revised labour law framework came to fruition in a remarkable agreement among the parties and with the Government.

This is testimony not only to the maturing of the collective bargaining system, but to the possibility of business forging new partnerships with a range of the interest groups operating in SA.

Such partnerships — with unions, employees, small business, communities and even government, as well as more conventional business stakeholders such as shareholders and consumers — will be necessary if the market economy is to become acceptable to all South Africans and thereby fulfil its true potential.

It is in this sense that business will have to stay politically active and engaged in SA's reconstruction.

This means jointly tackling the vexed questions of housing, health and education provision and employment creation for those inadequately provided for hitherto, while still continuing to generate the wealth to provide for such programmes.

The international context is both helping and hindering the process. SA is lucky to be facing this transition at a time when Eastern Europe and African experiences has decisively underlined the importance of multi-party democratic systems and market econor

A transition in the 1960s or 1970s coul
have gone differently. But the interna
economic outlook now is not a favourab
for a trading nation such as SA.

Most of SA's export sectors look set
depressed in 1991 although that cou
somewhat counterbalanced by new m
opening up and regaining old ones as
tions are lifted.

Although gold has worryingly failed
spond to current international uncerta
and the Persian Gulf crisis casts a gloom
the world scene and the economic outlo
the case of war it is possible that the
price will rise and that benefit can a
achieved from SA's strategic oil stockpi

Also the end of financial sanctions, c
in prospect in 1991, will see the further
down of capital exports to service SA's d

The multiple challenges facing busin
1991 will require a hard balancing 'ac
South Africans have won through a ye
unimagined change and turbulence an
contemplate 1991 in relatively good chee

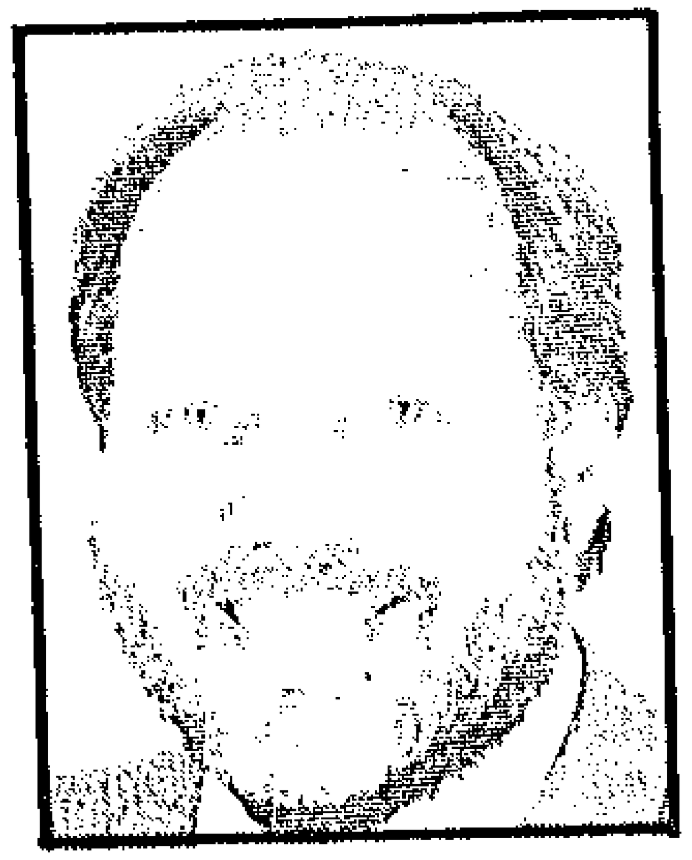
WINNING WAYS FROM CULTURE

(180)

S/Times 2/12/90

By JAY OWENS and LOUIS VAN DER MERWE

JAY OWENS



LOUIS VAN DER MERWE

WHEN faced with a crisis or challenge, how do people in an organisation respond? Observing the behaviour of individuals in these times will give the best "snapshot" of the dominant culture prevalent in an organisation.

What is organisational culture? What use does it have for operating management? Why the interest in this enigmatic and elusive topic?

There is no doubt that organisational culture acts as a powerful determinant of employee behaviour. This behaviour is either directed to the attainment of organisational goals and objectives, or it can somehow be steered to less organisationally meaningful outcomes.

Factors

To better understand the relevance of culture as a determinant of behaviour, it is often useful to liken culture to human personality. The complex set of factors which comprise personality, and which distinguish one individual from another, form powerful motivators of behaviour.

Organisations, like people, can be regarded as flexible or rigid, friendly and supportive or unfriendly, innovative or conservative, customer or people-oriented or unhelpful and self-centred.

Anglo American people, in certain situations, will respond differently from the people at Barlows, who in turn are different from those at Genmin, JCI or Anglovaal, although they are all predominantly in the same industry and their head offices may be separated by a only few city blocks.

By the same token, the spirit and climate at Delta Motor Corporation is different to that at VW, Nissan or BMW, and the atmosphere at Pick 'n Pay differs from that at Checkers.

Each organisation develops its own feel, character or pesonality.

Definition of organisations' culture abound, and like any subject area that attracts popular interest, each contributor demands the right to add a particular slant or nuance.

Patterns

Even as far back as 1952 there were 164 accepted definitions of culture. Edgar H Schen of MIT provides a comprehensive definition which has great relevance from a business perspective.

He describes culture as "the pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaption and internal integration and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to these problems."

They become learned patterns of behaviour that have led to success and have been reinforced and encouraged and rewarded as "the way we do things around here".

One often hears people talk about organisations that have strong or weak cultures. Strong cultures arise when there is wide support for particular behaviour patterns, where membership is stable and cohesive and where the organisation is under the guidance and leadership of effective and respected managers.

Weak cultures arise in organisations where there is instability, few shared experiences of any significance, uncommitted management and weak or ineffectual leadership.

Culture, like personality, is deep seated and is more difficult to change than many would admit. Often key components of a culture can be traced to the founders of the organistion or to specific leadership figures in its history.

A key attribute of leaders is that they are able to take a stand which provides the position or values around which an organisation aligns itself. In this way the values and visions that the leader stands for exercise a profound influence on priorities and behaviour and the culture of an organisation.

As the rate of change in the environment speeds up, the creative orientation of leadership as opposed to maintenance routines of management is enjoying more prominence.

Asset

Although both are important, it is the creative aspects of leadership that bring innovation. As the rate of change accelerates, our opportunities to influence the future also increases. The idea for a vision for an organisation implies that leaders aim to create what the vision describes.

The culture of an organisation needs to fit in with the demands of its environment. Culture needs to be managed like any other strategic asset.

Developing an organistion's invisible assets of culture, competency innovation, loyalty, alignment and motivation can be critical to its survival and competitive advantage.

These assets must be managed and developed as a natural outflow of the leadership process. However, once established, they are difficult for competitors to catpure.

Creating a learning culture may be the ultimate sustainable competitive advantage for the 1990's and beyond. Learning is the site of culture creation and change management.

Accelerated learning facilitates more effective adaptation to change and improved performance. However, to create a learning culture requires skill in several disciplines.

Mangers and leaders of learning organisations need to master these disciplines through continued practice, much in the same way as a person becomes a master craftsman.

One of the key disciplines of the learning organisation is systems thinking, or the ability to see the whole as well as the parts. It is an understanding of the interrelationship between parts and how actions and decisions create reality.

Organisational culture is created in a variety of ways and needs to be consistently reinforced and promoted. Rites of passage into an organistion as well as within it can also be harnessed to lay down and embed the values of the culture. This is one of the natural ways in which families and communities reinforce and strengthen their underpinning values.

Leaders

For instance, puberty rites encourage adolescents to let go of previous behaviour and take on the behaviour of adults. How many managers do you know that have taken the tasks from their previous jobs with them as they are promoted?

A process is required where such managers need to learn what behaviour is required in their new work while allowing them to let go of their previous job.

On joining an organistion such as Disney new recruits are put through what can be described as a rite of passage to learn the culture. Eskom and other South African organistions are leading the field in creating outstanding organisational performance and are adopting similar approaches to orientate new people to an organisation.

In approaching the whole issue of organisational culture, managers should be mindful that there is no quick fix in changing corporate culture. Beware of the "snake oil" salesmen who peddle one panacea after another for culture change processes. It usually takes longer than one thinks and costs more than planned.

JAY OWENS is a senior lecturer at Wits Business School and has extensive consulting and industrial experience. LOUIS VAN DER MERWE is a senior lecturer at Wits Business School and director of the Centre for Innovative Leadership.

KENT DURR: I know the players

Durr puts business touch to diplomacy

(180)

St Times 2/12/90.

By DIRK TIEMANN

KENT DURR believes he is "well equipped for my sideways move to London — a post as important as any in the Cabinet".

The Trade, Industry and Tourism Minister will become SA Ambassador in London next year.

Mr Durr says: "This is not only a classic diplomatic post, but a commercial and financial position. Britain accounts for 40% of total investment in South Africa, and is the hinge on which the European door swings for us.

"I know all the London bankers and other major players."

Trips

Mr Durr has been at his present post for more than a year. He has been Deputy Minister of Finance and Deputy Minister of Trade and Industry.

He says: "I helped shape government policy, with the full support of the State President, to make industry more competitive at home and abroad."

Mr Durr rejects rumours that the Board of Trade and Industry is to be scrapped and that he was involved in a squabble with the Department of Foreign Affairs.

"The board was established by Parliament and Trade and Industry has been streamlined to make it more efficient. The relationship with Foreign affairs is good, and we work well together. All trips by my department are cleared with Foreign Affairs."

Mr Durr says he played a major role in normalising trade relations with traditional markets, and capitalising on President De Klerk's political moves.

Businessmen questioned by Business Times are pleased with Mr Durr's achievements.

South African Chamber of Business deputy director general Ron Haywood says Mr Durr has a wide interface with business, enabling him to identify joint ventures and investment opportunities in Europe that might otherwise be missed.

Mr Haywood says: "We need a high-powered ambassador with a business background. He can make greater contributions than a politician could."

A chemicals executive says Mr Durr made valuable contributions to improving Government relations with the industry.

The chemical industry is working with the Government on two strategies which will deal with "the whole protective equation".

The textile industry has less rosy relations with Mr Durr and his department. Several representations have been made by the Textile Federation to the department against what Frame chairman Mervyn King calls attempts to "whip the industry into efficiency, after 40 years of operating in a siege-driven economy".

Ear

Mr King says: "We have argued with Mr Durr and I have said that the Government will rue the day they started this. One cannot change political and social stances quickly, and assist parts of industry but not others.

"I don't know of any co-ordinating policy between the different departments and one gets a sense of vacillation and ad-hocery."

Textile Federation director Brian Brink says the "Government does give us a sympathetic ear, but whether this gives one a warm feeling ...".

Man of Year FW puts business on high road

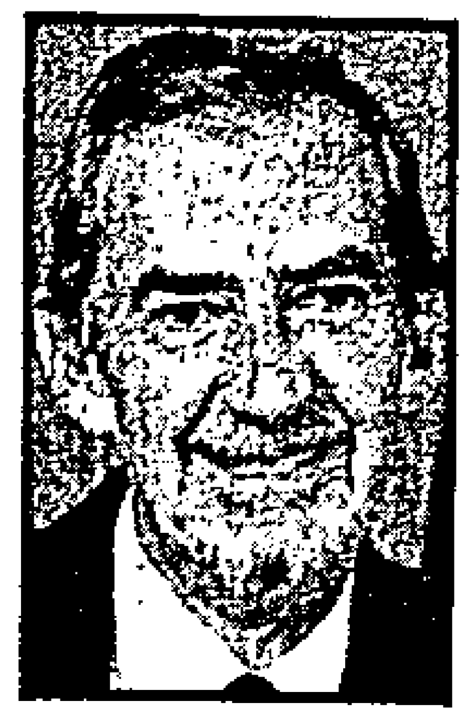
ST Times 2/12/90 180


EUGENE VAN AS


NEAL CHAPMAN


BOBBY GODSELL


JEFF LIEBESMAN


VIC HAMMOND


FREDERIK WILLEM DE KLERK: Economic fundamentals restored

THE BUSINESS hero of the year must surely be State President De Klerk.

His radical reforms of the past year caused some upheaval and considerable uncertainty, but most people in business agree that this narrow and awkward path is the way to Clem Sunter's high road.

President De Klerk did more than point us in the right socio-political direction.

He has assembled and given full support to an economic team set on restoring the fundamentals through monetary and fiscal discipline.

Reserve Bank Governor Chris Stals is defending the rand's domestic and international value by hanging tough on money supply while Wim de Villiers keeps a tight rein on parastatal empire builders and assists Barend du Plessis in reining in free-spending public servants and securocrats.

After 40 years of National Party misrule, not only do we have first hopes of a multiracial accord, but the Government has dumped the interventionist, socialistic policies of Fortress SA and followed supply-side economics as well as it can.

By DAVID CARTE

An intermediate price is being paid in the form of a serious recession — and the jury is still out on the question of whether SA can really compete internationally with all protection abandoned.

Feted

But the consensus is that, even though it is stony, this is a more hopeful road than the previous one.

Turning to private-sector heroes, Business Times has already feted its top five businessmen of the year: Neal Chapman of Southern Life, Bobby Godsell of Anglo American Corporation, Vic Hammond of Edgars, Jeff Liebesman of FSI and Eugene van As of Sappi.

THE HEROES

Is it difficult to find five good men every year? The answer is no. The difficulty is knowing whom to exclude.

Consider the outstanding candidates who have yet to be appointed to the most exclusive business club in the country.

One could make a great case for Pierre Steyn and Marinus Daling of Sanlam and Sankorp respectively — and for Mike Levett of Old Mutual.

The two huge Cape mutuals have come back dramatically against opposition that was making inroads in the Seventies and early Eighties.

Their investment successes in spite of their size have been breathtaking.

Mutual & Federal's Ken Saggers' feats these past five years have also been amazing.

Michael Lewis has won renown at Saflife and IGI.

In mining, there were many men to toast this year, starting with Hoffie Hoffman of Trans Hex, who in a decade steered Rembrandt's mini-De Beers from earnings of nothing to R47-million.

A colleague on the Trans Hex board, Peter Flack of Fraser Alexander, has moved mountains. Neil and Cecil Jowell have wrought miracles in the past eight or 10 years with Trencor.

Thanks

Clem Sunter, new head of Anglo's gold division, deserves kudos for his achievements as a temporal prophet in SA. Johan Liebenberg of the Chamber of Mines and Cyril Ramaphosa of the National Union of Mineworkers deserve everyone's thanks for the work they did on the Saccola-Cosatu accord, not to mention averting a miners' strike.

Tough-as-teak Robin Plumbridge of GFSA surmounted overwhelming odds to get his way in the wake of the Minorco bid for Cons Gold.

He has Anglo off his back and he and his team have considerable say in their own future after contriving to join Rembrandt and Liberty in ownership.

Brian Gilbertson and Gary Maude of Genmin are credited with being the first mining house men to grasp the nettle of rising costs in a truly determined way.

Their efforts are being emulated by other mining houses.

Man of the year in banking must surely be Barry Swart of First National Bank.

On taking over from Chris Ball, Mr Swart chased profitability at the expense of size.

Costs were cut and revenue maximised and his reward has been a taxed profit close to Standard Bank Investment Corporation's and the biggest rise of any banking share in the past year.

Other bankers who caught the eye were the aggressive team of Bas Kardol, Bernard Kantor and Steven Koseff at Investec.

They shrugged off defeat in their bid for the Board of Executors to achieve new levels of profitability.

Pete Lloyd's team in the beer division of SA Breweries — Graham Mackay, Peter Savory and John Seton — are almost invisible behind the mighty men at head office.

They may be monopolists and the beneficiaries of a megatrend, but the numbers they consistently produce testify to unsung heroes.

Robin Hamilton's Suncrush features near the top of the Business Times rankings year after year. Other outstanding achievers in cold drinks are Piet Bester of Cadbury Schweppes and Alex Reid of Amalgamated Beverage Industries.

Dramatic

Like Vic Hammond, Peter Wrighton is an unassuming man who stepped into high-profile shoes when he took the reins at Premier Group.

His achievements since then, starting with the stripping out of Premier's SAB shares into Bevcon, have been dramatic.

Premier actually narrowly outperformed its high-performance rival Tiger Oats in the five years to September.

Peter Joubert has wrought heroic deeds in winning for Afrox top-quality blue-chip rating.

Eric Ellerine, the father of the furniture business who has had an outstanding career, capped this year with the best performance by any share on the JSE.

Winky Ringo's Mathieson & Ashley, holding company for Dashing and Anglo Dutch office furniture, would have been top company this year, had enough shares traded.

The superlative track record was dented by rising competition and the downturn this year.

John Nash and his famof Amalgamated Beverage Industries.

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John Nash and his famous world sprint record-holding son Paul of Sable Holdings had an outstanding year with operating profit up from R4,7-million to R15,4-million. At the interim this year it seemed they might actually improve on last year.

Success

Meanwhile, the UK Nash family has made important gains in its battle to wrest control of Goode Durrant from the Waring family.

Myron Berzack and Stanley Illman of Berzack Brothers and the Mowszowski brothers at Elcentre pooled their electrical interests in H&J Cables and renamed the R1-billion-a-year company Voltex a year ago.

The venture has been an unqualified success and Voltex beat all its forecast numbers.

Neil Cullinan, Gavin Urquhart and friends have scored a great coup in Industrial & Commercial Holdings (ICH), beneficial holder of a 12,5% stake in Saturn Mining, which holds the rights to precious stones at Venetia mine in the Northern Transvaal. ICH gave shareholders a return of 98% in the past year.

Jeff makes light of a minefield adventure

SI Times 2/12/90 (180)

By DAVID CARTE

OTHERS may have doubts, but Jeff Liebesman has none about where he has come from and where he is going.

While analysts, brought up on caution, cringe, Mr Liebesman and his hand-picked lieutenants — "the best support anyone could want" — stride boldly out into the minefields of commerce and industry, boldly but not without thinking things through carefully.

Their boldness has paid off. In fewer than 10 years, FSI Group has become one of the top 10 groupings in SA.

The group was restructured this year. All operations are now in Business Times top company W&A, and FSI is merely a pyramid. W&A has a market capitalisation of roughly R1-billion and comprises four divisions and numerous companies, 10 of them listed in SA.

Mr Liebesman and team have have come so far so fast that those watching them are incredulous. Others have ventured where they have dared — and have usually been destroyed. The survivors at FSI move forward purposefully.

There are two complaints about FSI and W&A from the doubters. One is that they keep chopping and changing the empire, buying here, selling there, moving assets from one company to the next. It's bewildering. You can't keep up with him.

Then there is debt, quite a lot of it.

The minefield walker sat me down in the palatial office he inherited reluctantly from Mannie Simchowitz and gave me the presentation that he used to bring additional institutions around to his way of thinking at the time of this year's great restructure.

After hearing this argument, institutions gave the restructure a cash underpin, committing another R100-million to the group.

Mr Liebesman says: "The strategy is simple. We go for an area of very basic industry or commerce that is inefficient. We try to dominate a niche in that industry, defragmenting and restructuring it. Some examples are Form-Scaff and National Bolts.

"If we cannot dominate, we try to get reasonable market share, as we did in General Tyre.

"We push hard into replacing imports try to get into exports. The final step in developing the niche is to buy companies in the same field abroad.

No 1
1985
R10 000
1990
247 610

TOP 100 COMPANIES

Respect

"With the new SA in mind, our preference is for companies that serve the fast-growing middle- and lower-income groups. Examples are the JD Group, Edworks and the spares companies."

The top six members of the team — Terry Rolfe, Neville Cohen, Ivan Posniak, Alan Schlesinger, Alan Chonowitz and himself — have accounting backgrounds.

But they believe they have won their spurs as industrialists as well. They may be financial engineers, but they have acquired operational experience and respect real engineering.

Non-accountants, such as Gentyre's Clive Tutton, JD Group's David Susman and Lee Koch, also flourish in the group.

Mr Liebesman says: "Starting with Form-Scaff, we have stressed low-cost manufacture of relatively low-tech products, things that people will need now and in the future.

"In all our industrial companies, there is strong design ability. We have patented numerous systems that eliminate labour wastage.

"Many of our factories have qualified for the SABS 0157 standard. We try to lead in technology, either through in-house development or by association with a world leader in technology.

"The association of General Tyre with Continental Tyres of Germany is an example."

"The approach works. How else do you think Form-Scaff SA could have lifted pre-tax profits from R600 000 in 1981 to a budgeted R36-million this year?"

The industrial fastener division comprised three companies losing R15-million a year in 1984. Last year it made an operating profit of R18-million.

In 1987 the group had no representation in electrical goods distribution. Now it has a 34% investment stake in high-growth market leader Elcentre.

W&A's share of Gentyre profits was R4-million when FSI took over in 1987. This year, with the attributable holding up to 67%, its annualised portion could be R37-million — so, assuming a five PE, you could say R200-million of additional value has been added to the group.

In furniture at the time of the takeover, W&A had 60% of Bradlows and 72% of World. The joint operating profit was R21-million and World was heading for problems.

Share

Now that has become a 50% holding in JD Group with a 1989 operating profit of R66-million and the company grew by 29% in the first half of 1990.

Another common complaint is that FSI, like Protea before it, comprises too many little companies. But Mr Liebesman preempts the question, saying: "Three subsidiaries — Form-Scaff, JD Group and Gentyre — contribute 54% of 1989's pro-forma operating profit of R393-million. Add Vektra, Burhose and fasteners (National Bolts) and you've got 73% of W&A."

Each of the subsidiaries has large market share, high-quality products, respected brand names, high technology and motivated executives and staff.

In alphabetical order, this is how Mr Liebesman describes his companies:

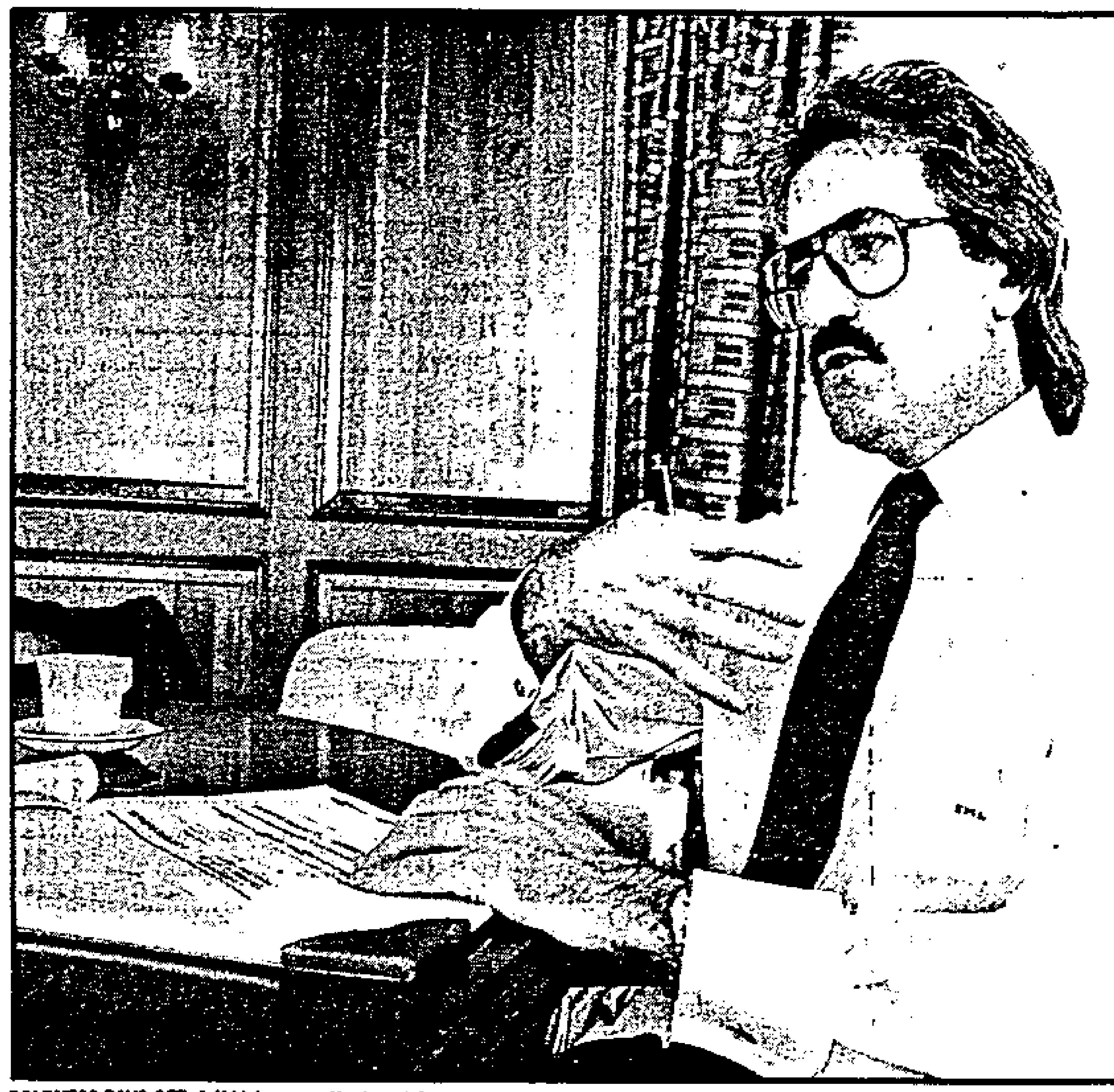
- AAF, listed in London, has bought into system building on two continents and has £18-million cash.
- Burhose has 67% of the women's hosiery market.
- Edworks has two shoe factories and 236 stores and is back in the black.
- Motor spares arm Femo/V&R is No 1 in non-discretionary car parts.
- Form-Scaff is in the top three worldwide, Gentyre claims 22% of the SA tyre market, Hygienia is a top toy-maker, JD Group is a top three furniture retailer, MacPhail is No 1 in coal distribution, Milstan No 1 in photographics and home electronics, National Bolts, tops in in industrial ... ers, Noristan an ... player in pharmac... Reichmans strong ... finance on four con... Tarry No 1 in prof... tools, Williams Hu... dealer for Delta ...

As to the compla... the group keeps ... and changing, Mr ... man's reply is that ... changing environ... dynamic group ... review and optim... structure.

"Every deal ... restructure had a ... legitimate purp... every one increas... ings a share and ... shareholders.

"In the annual re... year, we said we ... spend the early par... new decade getting ... at what we are ... doing.

"We will build ... core businesses org... and acquisitively an... nationalise more. ... have a tidy structur... what we are doing



BOLDNESS PAYS OFF: Jeff Liebesman, the target for the snipers, delivers a ricochet, saying so-called small subsidiaries are big on profit

FSI'S CASH FLOW

			Rm
Inflows			
Waicor	—	65 693 430 CDs	34,2
	—	46 742 436 preferred ords	13,5
	—	105 696 396 ords	19,6
Other			1,5
			68,8
Outflows			46,6
Divi on R111m redeemable prefs			15,3
Bank interest on R174m			31,3
Available for distribution			22,2
Dividends			19,5
— preferred ords			4,8
— ords, 35c			14,7
Available surplus			2,7

All hol...

MANUFACTU...
R146m
Burhose
Fasteners 50...
Form-Scaff
Footwear
Hygienia
Sembel-It
Gentyre 67%
Norimed 17...
Noristan 21%

89 operating ...
* excludes R1...
All holdings a...
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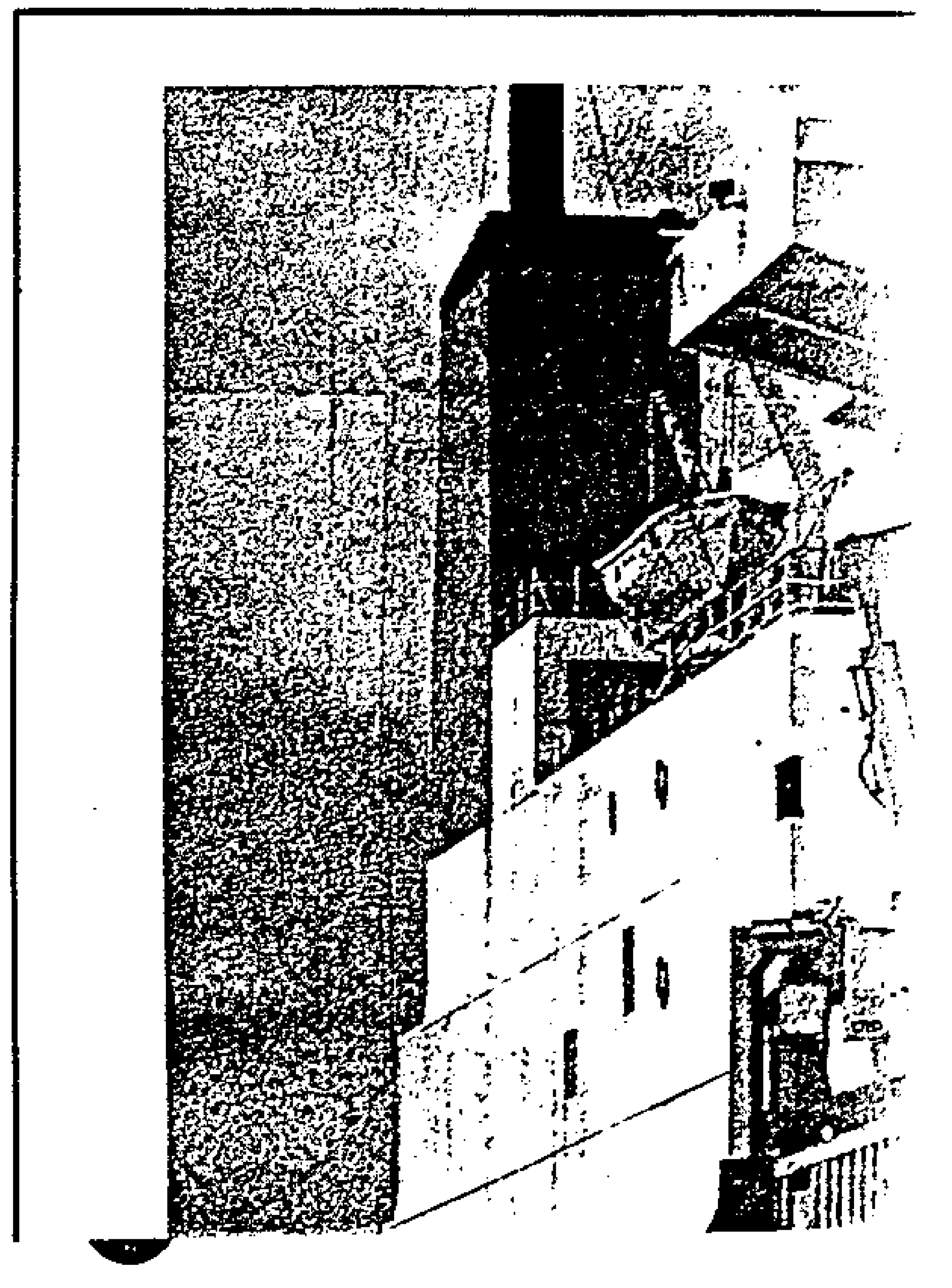

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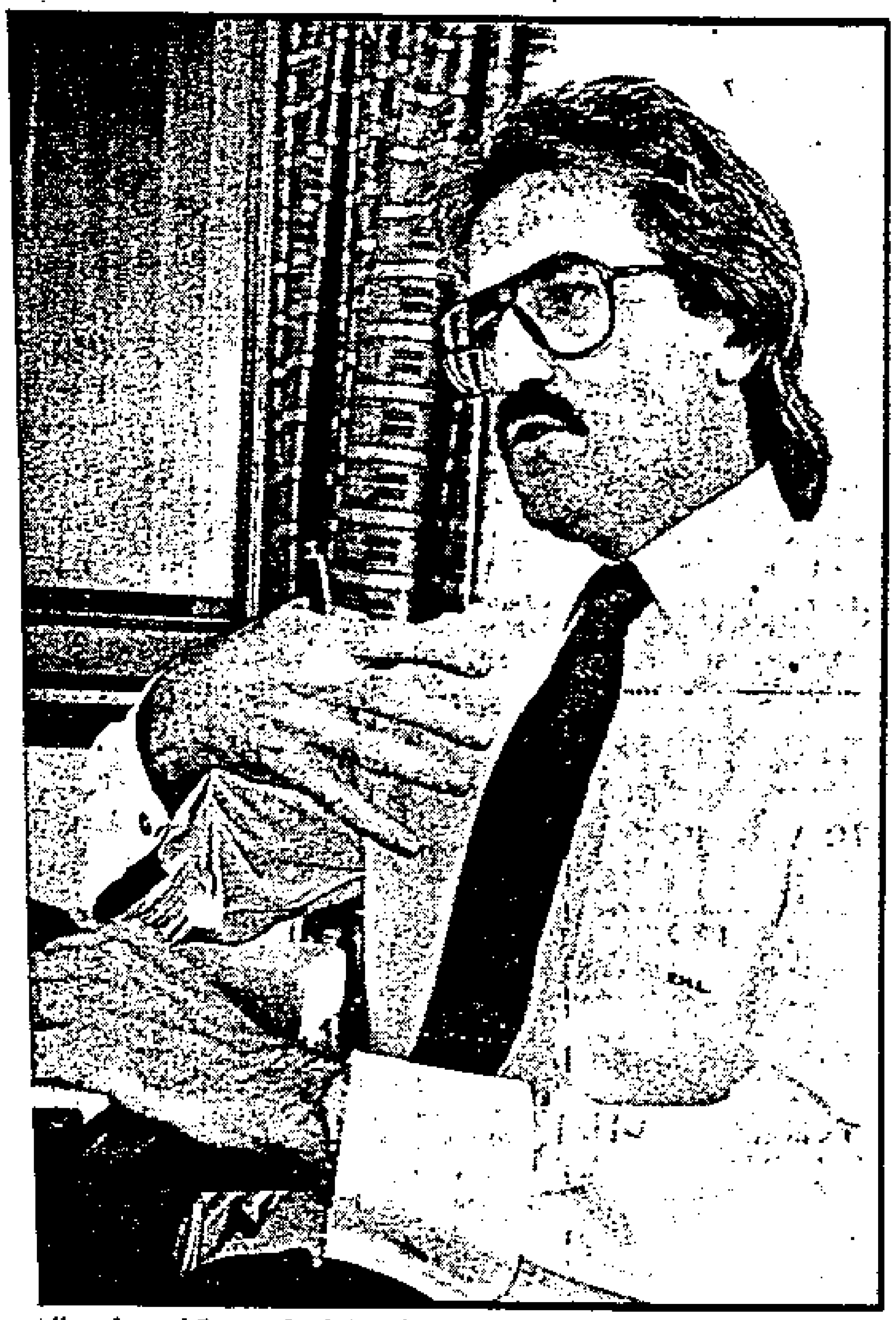

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As to the complaint that the group keeps chopping and changing, Mr Liebesman's reply is that in a fast-changing environment, a dynamic group has to review and optimise its structure.

"Every deal, every restructure had a definite legitimate purpose and every one increased earnings a share and benefited shareholders.

"In the annual report last year, we said we would spend the early part of the new decade getting better at what we are already doing.

"We will build up our core businesses organically and acquisitively and internationalise more. Now we have a tidy structure, that's what we are doing."

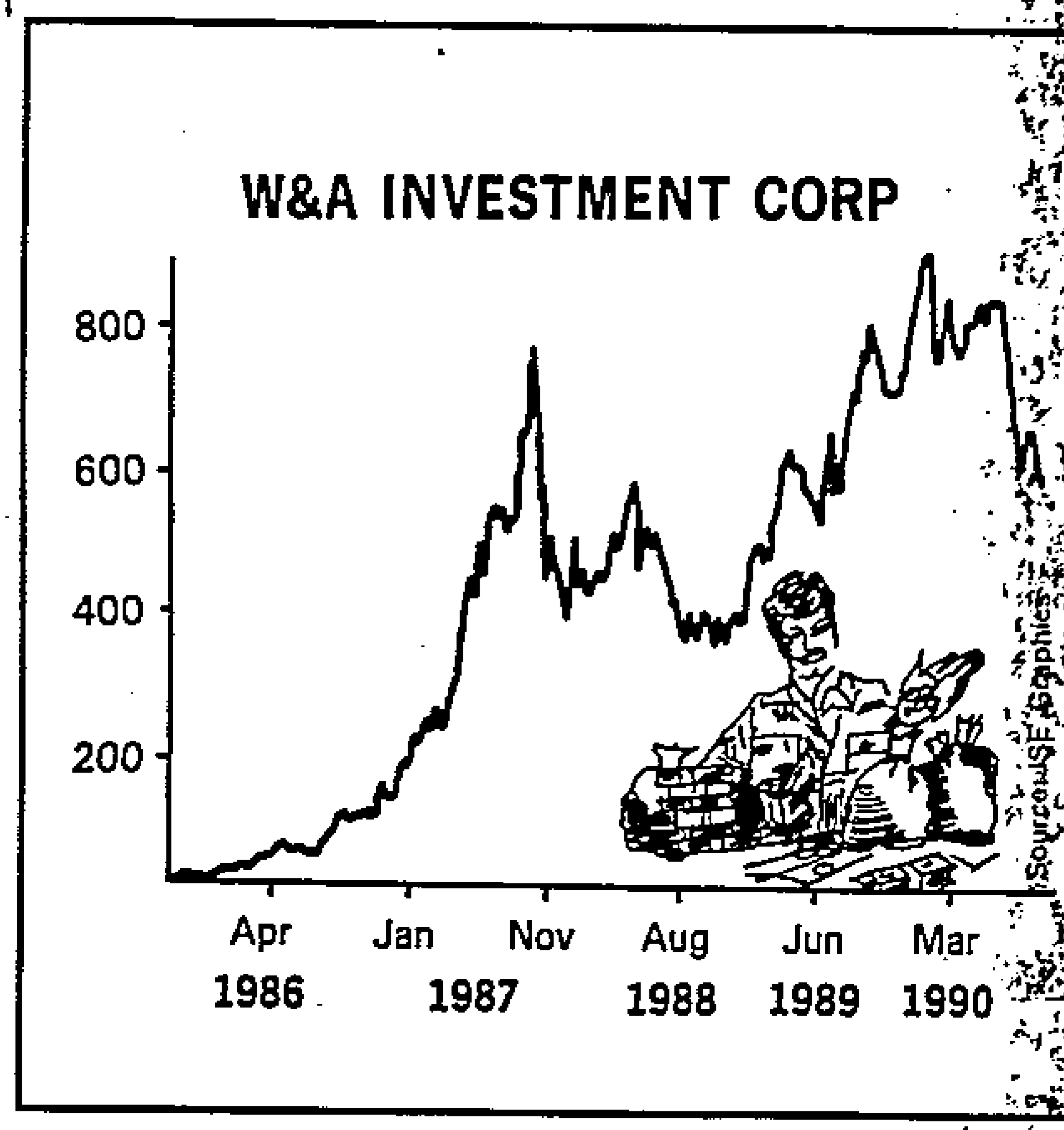
THE EXPANDED W&A

FS GROUP
64,4%
FSI
75,5%
WAICOR
71,0%
W&A

All holdings diluted

MANUFACTURING	DISTRIBUTION	RETAILING	INTERNATIONAL	FIN SERVICES
R146m	R91m	R101m	R43m*	R37m
Burhose Fasteners 50-100% Form-Scaff Footwear Hygienia Sembel-It Gentyre 67% Norimed 17% Noristan 21%	Tarry Textiles Curnow 37% Elcentre 34% MacPhail 63% Vektra 75%	Edworks Housewares John Craig JD Group 50% Milstan 30%	Formwork and Scaffolding 60-100% AAF 65%	Property Reichmans 37%

89 operating profit of subsidiaries plus attributable profit of associates
* excludes R15m interest received by AAF
All holdings are diluted, attributable, 100% unless stated
Listed



Twice in a row for Jeff's W&A team

(180) S/Times 2/12/90.

By DAVID CARTE

W&A INVESTMENTS is the Business Times top company of the year — for the second year in succession.

To qualify as top company, the conglomerate that Jeff Liebesman bought from Mannie Simchowitz in 1987 gave shareholders a return of 90% a year for the past five years.

That is even better than the 76,5% that W&A gave shareholders in the five years to 1989.

An amount of R10 000 invested in W&A in 1985 when Mr Simchowitz was in control would be worth R247 610 today.

Only a few weeks after FSI offered R112-million cash for control of Walcor, the crash of October 1987 occurred and FSI was obliged to buy out most minority shareholders. Conventional wisdom was that Mr Simchowitz had done the deal of his life and that FSI had to succumb to the burden of debt.

The wrongly expected demise of FSI has not happened. Indeed, after two rights issues, some hectic company buying and some deft restructuring, W&A has been transformed into one of the JSE's biggest companies with market capitalisation of R1-billion.

Taxed profit has soared from R5-million in 1985 to R98,3-million. Controversy continues around Mr Liebesman's pyramided empire (see page 3), but even former detractors are grudgingly admitting his genius. Five Liebesman companies are in the top 52 companies.

The runner-up this year is Trencor, the Jowell family's Namaqualand transport company, with burgeoning industrial interests. Taxed profit has soared in five years from R10-million to R50-million.

Like W&A, Trencor is an exceptional entrepreneurial company run by top men the right side of 40.

Last year Trencor was fourth, but Rembrandt and Elcentre — its superiors last year — have slipped down the list.

The company that Cecil and Neil Jowell made great has rolled from peak to peak. Like W&A, it is a Royal company this year, having been in the top 20 for three consecutive years.

Fortunes

Our method of ranking the top companies — share-price appreciation plus dividends paid over five years plus interest on dividends as a return on original investment (see page 4) — throws up remarkably different names every year.

Some of yesteryear's stars have plunged, some of them right out of the Top 100. Two-time winner Waltons (this year 56th), six-time top company Toyota and offshoot Metair are examples of those whose fortunes have ebbed. National Bolt, top company in 1988, renamed Teamcor, has fallen to 52.

In third place is Messina, whose prosperity once rested in copper mining and motor-maker Nissan.

Messina's share price has been the beneficiary in the past two years of interesting anthracite, diamond and platinum prospects. Messina ranked sixth last year.

Elcentre, the Mowszowski family's electrical wholesaling super-group, has slipped from third to fourth position in spite of continuing brilliance.

Berzack, Elcentre's partner in the establishment of R1-billion electrical manufacturing and distribution company Voltex, is in the Top 10, up from 12th position last year. Berzack's non-Voltex interests did better than those of Elcentre in the most recent results.

Fifth is Times Media Limited, publisher of the Sunday Times and other newspapers and magazines. TML's turnaround from the doldrums of 1985 is legend. Steve Mulholland's first step on taking over as managing director was to rationalise radically.

The company sold printing presses and buildings, reducing manpower and liquidating debt built up through Rand Daily Mail losses. It entered joint printing and distribution agreements with Argus and Allied. By shedding hard assets, it became something of a service company, with news its chief product.

TML recognised the attractions of electronic information early and is today a 24% owner of M-Net, which since its listing, has gained 60% in value.

TML bought Thomson Publications, publisher of trade and specialist publications and an electronic tender information service. This year, in collaboration with stockbroker Ivor Jones, Roy & Co, TML launched I-Net, a screen-based financial news and information service.

Specialist

The R22,8-million loss of 1986 was turned into a taxed profit of R25,5-million in the year to March after a full tax rate.

Mine-dump treatment specialist Fraser Alexander reached sixth spot by doubling profits in consecutive years. Mutual & Federal built on its revival from the R9-million taxed loss in 1985, reporting R90-million after tax this year.

Trans Hex has become Rembrandt's De Beers with taxed profit up from R9-million to R47-million in five years.

Gentyre has done exceptionally well under W&A management, profits rising from R8,3-million to R66,42-million in five years.

The profit numbers are not what decides placing in Business Times rankings, but we cite them to show that our system does bring the best companies to the fore.

The Top 10, plus Mathieson & Ashley (which would have been No 1 but was excluded because there was too little trade by value in its shares), are profiled individually on other pages today.

The JSE actuaries industrial index closed at September 30 on 2 640, about 60 points, or 2%, lower than a year earlier.

The market did not move sideways. It went up, then came back. Many shares moved up and down far more than the indices. Ellerine, for instance, more than doubled in price and Abercom shed 84% of its value.

This has not been a great investment year. Still, the average yield obtained over five years by the Top 10 at 63,4% was better than last year's 59,4% — but less brilliant than the 69% achieved in 1987.

This year 50th company JCI gave a return of 29,8%. Last year's No 50, SA Bias Holdings returned 36,3% and the year before Western Deep Levels returned 44,6%.

The 100th company this year returned 18,1% — better than the best gilt investment in the five years — but well down on last year's No 100 Premier Group's 24,3%, and the previous year's 32,7% by SM Goldstein.

A wide variety of companies is represented at the top of the list. One or two of the top companies are recovery situations — the beneficiaries of poor performance several years ago. Otherwise, what virtually all the prominent companies have in common is good management.

The best-performing mega-group was again Rembrandt, followed by SA Breweries, Anglovaal, Gencor and JCI.

After Messina and Trans Hex, the best mining company was De Beers, followed by Palabora, Rustenburg, ET Cons and Beatrix.

Every one of the top 100 companies gave shareholders a better return over the five years than any fixed-interest investment — and they all beat inflation over five years.

THE WINNING TEAM: Terry Rolfe, Neville Cohen and Jeff Liebesman — R10 000 invested in W&A in 1985 is worth R247 610 today

Blue chips in purple

IT TAKES a Royal company to stay near the top of Business Times performance rankings.

Our ruthless performance-based measurements mean the list changes radically every year. Those companies which can stay in the top 20 for three consecutive years are dubbed Royal.

How they deserve it! Consider the fate of such former stars as Waltons, Toyota and Metair — still fine companies all, yet way down the lists this year, either because of operational mistakes or a lousy market.

Other great performers — such as Pick 'n Pay, Liberty and SA Breweries — hold the middle ranks with reliable earnings and have price growth every year, but cannot ...

A few star performers have been prominent for the past three years.

Indeed, this year there is more consistency in the list than ever before and no fewer than seven of this year's top 20 appear for the third consecutive year, thus qualifying for the title Royal Company.

The Royals are:

- W&A
- Trencor
- Mutual & Federal
- Edgars
- Rembrandt
- Delta Electrical
- De Beers

These companies have excelled and enriched thousands of South Africans through their performance.

TOP 100 COMPANIES

Ranked by taxed profits (R000s)

No	SHARE NAME	AMOUNT
1	De Beers	4 078 000
2	Anglo American	3 104 000
3	Gencor	1 447 000
4	Sasol	1 066 464
5	Iscor	949 750
6	Barlows	859 000
7	Remgro	749 500
8	Amic	652 000
9	SA Breweries	636 400
10	Sappi	595 500
11	Johnnies	588 300
12	Rusplat	553 800
13	Samanco	537 483
14	Implats	422 700
15	CG Smith	343 400
16	Stanbic	333 200
17	FNB	329 800
18	GFSA	328 200
19	Hiveld	318 239
20	AECI	310 300
21	Amgold	308 500
22	Nedcor	287 000
23	Palamin	281 767
24	Amcoal	255 246
25	Tiger Oats	255 000
26	CGS Foods	249 000
27	Safren	245 893
28	Anglovaal	238 000
29	Malbak	233 000
30	Rand Mines	226 400
32	Engen	213 000
33	Nampak	204 500
34	AVI	196 700
35	Liberty	180 500
36	Tongaat	174 230
37	Wit Colls	163 067
38	Ass Mang	156 238
39	Sun Bop	152 328
40	M&R Hold	150 339
41	Kersaf	136 930
42	Wooltru	130 600
43	Trans-Natal	128 300
44	Fed Volks	124 018
45	Prem Group	123 144
46	Edgars	122 407
47	Genbel	119 883
48	Southern	115 200
48	Volkskas	115 200
50	Toyota	113 176
51	Sentrachem	111 700
52	Dorbyl	110 176
53	Anglo-Alpha	108 805
54	PP Cement	106 700
55	Consol	100 517
56	HLH	99 071
57	Rusfurn	93 114
58	Blue Circle	88 066
59	Distil	87 141
60	TSI	86 789
61	Rainbow	85 437
62	W&A	82 975
63	Pick 'n Pay	82 800
64	Afrox	82 471
65	Trencor	81 530
66	Haggie	77 853
67	Pepkor	73 683
68	Holdains	73 343
69	Reunert	73 300
70	CMI	70 995
71	Altech	70 502
72	FSI	64 739
73	Confram	63 681
74	D&H	62 630
75	Da Gama	60 484
76	Hunts	60 336
77	I&J	57 753
78	Argus	56 462
79	SFW	55 645
80	Foschini	55 070
81	ICS	53 459
82	Metkor	52 215
83	Romatex	52 200
84	Plateglass	51 483
85	Messina	49 945
86	McCarthy	49 927
87	Adcock	49 408
88	Elcentre	48 932
89	Fedfood	48 538
90	ABI	46 607
91	Afcol	46 561
92	CNA Gallo	45 212
93	Transun	45 089
94	Gentyre	44 174
95	Altron	43 500
96	Keeley	42 647
97	Frame	42 110
98	RIH	41 500
99	Homemaker	41 212
100	SA Drug	40 468

Anglo dwarfs the lot

St Times 2/12/90

DE BEERS and Anglo American are by far South Africa's most profitable companies.

The two hold associate stakes in each other, so there is clearly a bit of double counting. But it does not amount to much.

With JCI, Amic and SA Breweries also in the Top 10, this table serves to stress the extent to which Anglo dwarfs all others.

Under Derek Keys, SA's No 2 mining house Gencor, has done some dramatic catching up to take third position. Samancor, Impala and Sappi bring Gencor's total in the top 11 to four.

Some company chairmen will fume at this list because they will recall that their bottom line was slightly different.

That is because for most companies we have excluded from earnings previous-year adjustments, gains and losses on sales of fixed assets, investments, currency movements, all non-operating or extraordinary items and investment allowance benefits. 180

Unfair

We have deviated from this rigour in regard to September reporting companies. We believe it is more important to have up-to-date numbers than to wait for annual reports in order to be consistent to the nearest R1-million.

Some Barlows-controlled companies therefore have something of an unfair advantage — some, not all. Barlows itself, Nampak and Robor actually reported lower earnings this year than last.

First National also benefited from late inclusion, moving up within spitting distance of great rival Standard Bank Investment Corporation.

Nedcor was also included at the last minute, but thanks to a notional tax provision and the R29-millon loss in UAL, its earnings gain was only 12%, so it did not move much. Were it not for these things Nedcor could well have been ahead of its rivals.

High-climber Jeff's never made a bolt

S/Times 2/12/90 (180)

By DIRK TIEMANN

W&A CHAIRMAN Jeff Liebesman had a confession to make at the Sunday Times awards banquet at the Carlton Hotel in Johannesburg this week.

"I have never welded scaffolding, operated a bolt-making machine, manufactured a tyre or in fact worn pantihose."

These are some of the products behind the success of Business Times' Top Company, which employs 30 000 people worldwide. (The amazing feats of W&A are separately chronicled in this week's Top Companies survey).

Top companies are ranked according to the all-in cash return they earn for shareholders over five years.

Potential

Runner-up company was Trencor, followed by Messina, Elcentre and Times Media Limited.

Mr Liebesman said SA businessmen had nothing to be ashamed of — they had the potential to be world beaters.

He said Germany and Japan were examples of what could be achieved when business, government and the population shared a common vision.

Mr Liebesman said a strong and efficient economy was essential for stability in SA.

"Within this room, we have a fair proportion of leadership skill and the talent necessary to accomplish the task ahead.

Conflict

"Clear goals, the hope of improvement for the mass of the people through personal growth, economic growth and teamwork, are essential."

ANC international affairs director Thabo Mbeki was guest speaker at the banquet. He said conflict and social unrest would persist as long as the current government stayed in power.

Mr Mbeki said the present Government was illegitimate in the eyes of the majority. South Africa could expect the type of instability experienced by Eastern European nations until their illegitimate governments were overturned.

A peaceful transition was possible if, among other things, an interim government was installed. It would eliminate the conflict arising when one party had exclusive access to State power. It would also inject popular

Thabo Mbeki calls for co-operation from business

confidence and make change irreversible.

Refusal by the Government to move towards this goal suggested a secret agenda.

Mr Mbeki called on business to co-operate with the working people in creating wealth.

"These men of vision and ability who can rise above sectional interests, should help mobilise the country into a peaceful, prosperous non-racial democracy."

More than 650 top business people and partners attended the banquet, which, for many, marks the end of the business year and the beginning of the silly season.

Forty-four members of the "alumni association" of the Top Five Businessmen of the Year were present, including this year's nominees: Sappi's Eugene van As, Southern Life's Neal Chapman, Anglo American's Bobby Godsell, Edgars' Vic Hammond and W&A's Jeff Liebesman.

Mr Godsell, 38, is the second-youngest-ever director of Anglo American after Nicky Oppenheimer, who was on the board at 37. He is the youngest-ever member of Business Times' Top 100 club — by only two months.

According to Who's Who in SA, he was born in September 1952 and Jeff Liebesman in July of the same year.

Under Mr Van As, Sappi built the huge Ngodwana paper mill in the Eastern Transvaal and this year bought five paper mills in the UK to emerge as a world player. Tonnages have risen from 850 000 tons a year in 1978 to 2-million, and taxed profit from R16,9-million to R638-million.

Jeff Liebesman's FSI Corporation rose from being a small loser to a huge conglomerate with operating profit of R393-million in less than a decade.

Diplomacy

Mr Godsell, an enlightened liberal and former head of the Progressive Federal Party's youth organisation, used outstanding diplomacy and worked night and day to help in the accord on labour relations between Saccola — representing big business — and Cosatu this year.

Vic Hammond took the helm at Edgars from illustrious predecessors and excelled them all, steering pre-tax profit from R38-million to R243-million in seven years.

Neal Chapman's achievement was in steering Southern Life from a mutual to a highly successful proprietary life assurer while at the same time reconciling two apparently different cultures.

W&A, the scaffolding, pantihose, tyre, and nuts and bolts conglomerate, was named Business Times' Top Company, for giving shareholders a return of 90% a year in the five years to September.

Meeting halfway on the corporate debt issue

180

BDay 6/12/90

ROBERT GENTLE

THE Reserve Bank has thrown its weight behind a new corporate debt market which would save SA corporates millions of rands in finance charges, create a new range of assets for investors to hold, and result in a more efficient allocation of capital in the economy.

It would enable triple-A corporates to borrow or lend from one another without going through a bank — a process known as disintermediation. They would simply issue marketable commercial paper to one another, which ideally would end up on the JSE or the Bond Market Association (BMA) and trade like any other listed security.

SAB retail subsidiary Amrel's financial director Bruce Sinclair says: "It would open up opportunities for competitive funding and give us greater flexibility."

He foresees Amrel being able to issue paper according to distinct peak needs — say a 50-day issue prior to stocking ahead of Christmas.

Gencor GM treasury Marius Ferreira, echoing a similar view by Anglo American, says: "Commercial paper would enable investors to better diversify their risk."

Barlows group treasurer Bill Tate estimates that such funding could see savings in finance charges of up to 1% — or R10m — on its short-term borrowing book of about R1bn.

While disintermediation is good news for corporates, it is not necessarily so for banks, which may lose a slice of their lending business.

What the Reserve Bank appears to have done in its position statement is to meet the parties halfway.

Certain corporates will be able to issue commercial paper, but the maturity of such paper is being kept above 24 months because of the Bank's desire to protect banks from competition in the short-term lending market.

Therein lies the rub, for corporates' greatest funding needs are precisely in the crucial two-year window from which they are being excluded.

Corporate treasurers at last week's position paper presentation asked the Bank to consider the issue from a need rather than a competition point of view. Unexpectedly, this found a degree of support from two leading banking representatives.

Lending ammunition to the pro-disintermediation lobby was Derek Ross, London partner from chartered accountants Touche Ross.

Noting that he could not understand the rationale for limiting issues to the longer end of the market, he said the Bank of England had tried the same thing — but this had been unsuccessful.

"The UK commercial paper market only really took off once this restriction was removed."

Ross rebutted the view that disintermediation was necessarily bad for the banks, and said they, like their UK counterparts, could make a very profitable business by acting as commercial paper dealerships.

This would involve setting up the commercial paper programme, offering back-up credit lines, placing the paper in the market and keeping issuers and investors informed of market conditions and acting as issuing and paying agent.

Moreover, Ross said, the commercial paper market would complement other instruments like Bankers Acceptances (BAs), and provide the banks with a wider range of liquid assets to hold.

This risk diversification was crucial in SA where banks, not being able to hold overseas assets, all tended to hold BAs — which themselves are claims on other banks.

"It is all rather incestuous," Ross said.

The other advantage a limited disintermediation would have for banks was that it would remove corporate debt from their balance sheets and allow them to lend it to those sectors of the economy — like small business — that really needed it.

"Triple-A corporate debt should not be on banks' balance sheets in the first place," Ross said.

"That space should be freed up to allow a more efficient allocation of capital in the economy."

Lastly, he dismissed fears — said to exist in Pretoria — that disintermediation would lead to a loss of control over the money supply by the monetary authorities because huge amounts of funds would pass outside the banking system.

Ross said UK corporates were required to report regularly to the Bank of England about existing and impending commercial paper issues.

The answer to the disintermediation dilemma will be known after the Reserve Bank considers market reaction to its position paper.

At the end of the day, disintermediation is just a fancy word for bringing two parties in a business transaction closer together by eliminating costly intermediaries.

Few people would have a problem with that in the corporate debt market as long as the integrity of the banking system was maintained.

It remains to be seen whether Pretoria does.

LETTERS

Barlow Rand hopes to maintain profit level

(180)

B|Day 7/12/90

LIZ ROUSE

THE R18bn Barlow Rand group, which experienced declines of 14% in pre-tax profits and 15% in earnings in the year to end-September, is hoping to more or less maintain that profit level in the current year.

CE and chairman-designate Warren Clewlow says in his annual review that the year ahead looks difficult and challenging. For Barlows, 1991 will be a year of consolidation, with reorganisation in the mining division and, throughout the group, a number of capital projects to bed down and bring to profitability.

Clewlow lists a number of factors militating against a good performance this year.

International commodity prices are expected to be even lower than at present and the economies of SA's main trading partners are far from buoyant, with some even threatening to slip into recession.

There is little scope for the relaxation of the comparatively stringent monetary and fiscal policies of the past two years if SA is to build a firm foundation for growth.

The re-acceleration of inflation caused by oil price increases is a setback for the goal of single-digit inflation in the near future. Clewlow says there is also widespread concern among Barlow Rand managers that any increased industrial action, intimidation and labour unrest will have adverse effects on output and a negative impact on the entire economy.

Looking at the various divisions' prospects, Clewlow says the mining division will be under pressure and, without an extra boost from coal earnings, is likely to produce lower profits.

Demand

The entire asset portfolio of Rand Mines is being reviewed and it can be expected that the cash position of the division will be strengthened by the disposal of under-performing assets and non-core businesses.

Middelburg Steel & Alloys is unlikely to get better prices for its exports and local demand for steel will not be good. So its outlook is equally gloomy, says Clewlow.

The cement and lime division will respond to any infrastructural developments in its markets and is expected to improve its level of profitability.

Clewlow expects the industrial interests to go against the trend and show some growth on present performance. Romatex and Nampak, despite their sensitivity to domestic economic forces, should achieve modest earnings growth.

The food and pharmaceutical companies are strongly placed to go against the trend in their relatively stable market sectors and should be able to perform well. J Bibby & Sons and the international trading operations will find some of their markets in a degree of recession, but should show some profit growth.

Clewlow qualifies his comments with a wide-ranging overview of the situation facing the new SA, and warns that a greater responsibility rests on business and political leaders to grasp the stark realities of the situation and, assuming the mantle of true leadership, to show the way forward.

He calls on leaders in government and the private sector to acknowledge the intense dissatisfaction of the population with the present situation.

The Barlow Rand group spent R59m during the year on employee training and development.

and the trade agreement signed between Hungary's pragmatic approach.

Sacob casts doubt on upturn in '91

B/Day 7/12/90 180

ANDREW GILL and SYLVIA DU PLESSIS

DESPITE impending cuts in interest rates, SA faced another year of economic stagnation and contraction, the SA Chamber of Business (Sacob) said yesterday.

Presenting the chamber's economic outlook for 1991, director-general Raymond Parsons said the downswing was likely to last a total of 10 quarters, longer than the previous two economic downturns. The upturn was now expected only in early 1992.

Detailing a gloomy outlook for the year, he said zero growth in gross domestic product was expected and it should be viewed as a period of consolidation in preparation for the upturn.

The consolidation period should be utilised to exploit any opportunities which "SA's greater international acceptability affords", Parsons said.

Inflation is expected to average 13% in 1991, while prime rate may be down to 18% by year-end, implying Bank rate at 15%.

The chamber's business confidence index, measured via the movements of 16 economic indicators, inched down 0,1 points in November in the absence of major new influences. At a level of 89,9, it is at its lowest since February 1987.

Chief economist Ben van Rensburg said the expected relaxation in monetary policy might come too late to save many companies and individuals faced with high debt levels from liquidation or insolvency.

A combination of liquidity problems and

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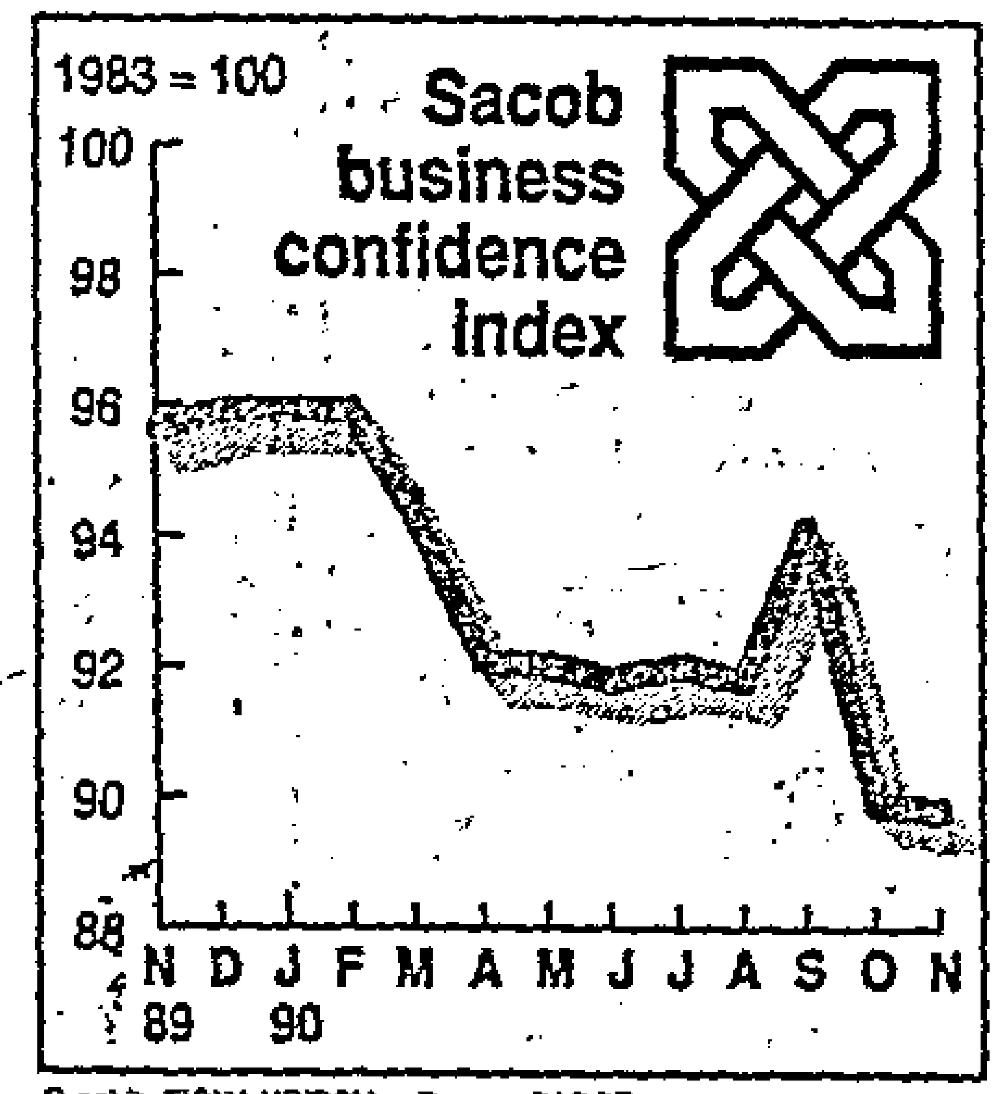


Graphic: FIONA KRISCH Source: SACOB

Sacob

B/Day 7/12/90 180

☐ From Page 1

already high debt levels would reduce many firms' ability to increase short-term borrowings to tide them over until economic activity began to increase, he said.

Turning to the foreign sector, Parsons said the longer-term welfare of the economy would be determined by its ability to increase its market size. "It would therefore be desirable for the next upswing to be export-led."

The fact that positive growth was still expected in the major economies meant export volumes would increase marginally but earnings in rand terms were likely to suffer as a result of expected weak commodity prices. Import volumes should show little change in the coming year.

Sacob expected a R5,5bn current account surplus in 1990, an optimistic forecast considering Finance Minister Barend du Plessis' R4bn to R5bn estimate.

In 1991 it should be around R3bn but should pose no threat to reserves because of the lower debt repayments.

Employment, per capita income and gross domestic fixed investment were all expected to worsen next year, while general government consumption expenditure should show real growth of about 2,5%, despite government's aim to exercise greater control over its expenditure.

BUSINESS

180

East bloc offers huge potential for investment

W/Mail 7/12-13/12/90.

As South Africa builds trade ties with Eastern Europe, a business consultant who is working there spoke to **REG RUMNEY** about the special problems and opportunities the opening up of the region represents

Leslie Bergman ... surprised at the shoddy quality of consumer goods

EASTERN Europe, with 150-million people (excluding Russia), offers many opportunities to foreigners — including South Africans. But communism has left a legacy of business lethargy, says Leslie Bergman of Arthur Andersen Consulting.

There are, for example, opportunities in Eastern Europe for South African food producers. South Africa has a net food surplus, and in these countries the variety of foods available is limited.

The business environment makes it difficult to do business in East Europe. Telecommunications are poor. Budapest, for instance, has five different telephone exchanges.

But the lack of a Western work ethic — more than the rusting, obsolete machinery and poor infrastructure — is the biggest obstacle to modernisation.

The effect of 45 years of insulation from world free markets has robbed the Eastern bloc of the work ethic found in Western Europe.

Bergman has for the last three months spent two weeks a month in Eastern Europe. He spoke to *The Weekly Mail* before leaving for Vienna, where he will be stationed permanently, and from where he will be responsible for Eastern Europe, particularly Czechoslovakia and Hungary.

He was surprised at the shoddy nature of consumer goods. For instance, most of the pens he found scattered in hotels he stayed in did not work. And each was defective for a different reason, so chance was not the root of the problem. The reason was that goods were not produced to satisfy demand but in terms of some bureaucratic plan.

Prague is like an open-air museum: a large city without commercial activity but with a large underground economy because the formal economy doesn't produce what is needed.

But what struck Bergman above all about the business environment was the anti-work ethic the communist regimes have produced.

Bergman reckons it will take 10 to 15 years to modernise the economies of Eastern Europe. "Not only physical but psychological change is needed."

Bergman finds in his consulting work in Eastern Europe that few understand the concept of costing: "They don't understand how you cost goods and services. Few can value things like output." In the command economy counting things was more important.

This is the main difference between Eastern Europe now and Germany directly after World War II, where within five years a booming economy had sprung up out of the ruins. It will need more than Marshall Aid to return the economies of Eastern Europe to health.

Price support needs to be dropped, workers will have to be retrenched in various industries to make them competitive, but in the short term this will cause unemployment and an inevitable drop in the standards of living.

As a mark of the painful economic adaptation, the industrial output of Eastern Europe has dropped by about 50 percent, and real gross domestic product per capita has dropped.

For South Africans, Bergman suggests, Eastern Europe may prove easier to cope with. South African managers are used to dealing with the problems that could arise in Eastern Europe.

In South Africa, thanks to decades of Bantu education, managers are used to dealing with people less efficient and effective as those found in the highly skilled labour pool of Western Europe. Managers from Western Europe, with its highly trained and scarce labour, will find the going tough. "We have better understanding of the pressures."

Business confidence slips again

Star 7/12/90 (180)

By Jabulani Sikhakhane

Businessmen are getting more and more nervous about their prospects according to the latest survey by the SA Chamber of Business (Sacob).

Its confidence index has again declined, this time to 89,9 in November from a level of 90 in October.

Negative influences on the index included continued falls in share prices on the JSE, slightly higher three month's bankers acceptance rates and further drops in the number of new motor cars sold.

Expected retail sales (seasonally adjusted and in real terms) for November showed a small decrease in November. Total unemployment for all races showed a material increase, while the number of insolvencies increased.

On the positive side, merchandise imports increased and the consumer price index (CPI) showed a small decline. However the the sharp rise in fuel prices in the second half of October 1990 was not yet reflected in the October CPI.

Exports

Compared with the figure for the previous month, both the real value of building plans passed and volume of manufacturing production increased.

Merchandise exports increased materially and the number of new registered companies rose.

Sacob's index of manufacturing confidence levels moved sideways in November at a level of 108.

The greater optimism is more the result of rising orders related to the festive season and to companies placing orders before the December shutdown, than to a change in the long term outlook.

In its economic commentary, Sacob says a slight softening of the stance of monetary authorities will be soon necessary, but will be unlikely or soon enough to save a number of companies and individuals from liquidation or insolvency.

Rosholt bucks the trend with his call for an easier monetary policy

Business Day Reporter

BARLOW Rand chairman Mike Rosholt has bucked the trend of business leaders calling for an easing of monetary policy, saying inflation has to be brought under control more firmly before this happens.

Addressing shareholders last week for the last time before he retires as chairman in January 1991, Rosholt said: "I am convinced the economic disciplines being imposed form a healthy foundation for the future and will, if persevered with, assist in making SA more competitive internationally." BDay 10/12/90

Government's policies would, together with indicated slowdowns in the economies of major overseas trading parties, continue to restrict growth.

"We shall have to contend with the current reduced level of economic activity throughout the next financial year."

Rosholt doubted whether renewed growth at an acceptable rate was possible before solutions to the country's political impasse "are seen to be believable".

Business had to be a constructive participant in the change to and formulation of the "new SA".

"In this climate of rapid transition, when major policy and institutional decisions affecting business are being taken, it is essential that we take part in helping to determine the policy and framework that will create the environment in which we have to operate."

He said it was generally accepted that the way national income was distributed would have to be reconsidered.

"Our objectives should be to remove distortions of the past and to enable all people to become self-reliant and self-supporting." (180)

This required the investment of considerable sums in education, training, housing and the promotion of black business.

He said Barlow Rand was involved in establishing a technical college in Alexandra with a grant of R3m payable over three years.

Most of the R18,6m allocated during the year by Barlow Rand and its subsidiaries went to education with the balance going to job creation, the promotion of individual business enterprise, housing initiatives and health and welfare.

Barlow Rand CE Warren Clewlow will succeed Rosholt as chairman after the general meeting on 21 January 1990.

Fund ensures that talent is not lost

Sowetan 10/12/90

COMPANIES and business people should be doing whatever they can to ensure that the country's vast pool of talent is not lost forever.

This was said by Ms Denise Stamm, deputy managing director of Grey Advertising and chairman of Darryl Phillips Bursary Fund.

She was speaking at a function in Sandton to award bursaries to three 1991 students, who successfully completed their first-year of study at Wits University.

They are Welhemina Mogomotsi (18), Mxolisi Vincent Norman (27) and Nonhlanhla Gumbi.

Welhemina is a dramatic arts student. Her ambition is to act, direct films and theatre.

Mxolisi, a husband and father, is also in dramatic arts. He is also an outstanding trumpet player in addition to his interest in screenplays and commercials.

Nonhlanhla is a commerce student with excellent business acumen. In 1987 she was awarded a silver medal by the Black Management Forum for her efforts in the Junior Achievement Programme and sees herself as an entrepreneur.

The bursary covers their tuition fees, residence fees, books and a personal cash allowance. They will work for one of the Grey group agencies during their holidays and will be offered full-time positions on completion of their degrees.

The fund provides bursaries in the faculties of arts and commerce, with the intention of developing black talent in the in the advertising industry.

Stamm said black consumers account for more than 50 percent of total retail market sales, yet the black advertising copywriter or account executive is a rare breed.

She said the days were gone when whites alone could decide what is good for blacks, particularly in terms of buying. She said in an attempt to address this, four years ago, the Grey group chairman, Darryl Phillips, started the bursary fund.

"It is particularly important at this time that every effort is made to ensure that talent is nurtured wherever found," she said

180

'will only scratch surface'

THE private sector should assist the Government in its current drive to upgrade local education facilities, according to the chief executive of a leading petroleum company.

Mr Deryck Spence of Castrol South Africa said the recently announced millions set aside by the DET to build and repair schools will only scratch the surface of the educational crisis in the country. Sowetan 10/12/90

He said a recent survey shows that 7,3 million people, or 66 percent of the total workforce have only primary schooling or less. (180)

Sponsors

"To improve this situation in the short term, the private sector could, for example, sponsor evening classes offering individuals a chance to study for their matric.

"In the long term, the education system must be redesigned to provide equal education for all. School-going youth, dissatisfied with the education offered to them, do not attend class and spend their time fuelling the ever-increasing crime rate.

"By putting money into education, business will offer the youth good educational facilities, encourage them back to school and help to lower the crime rate that is one of the world's highest according to a recent American study."

Cash

He urged business to work together in strengthening the education system. He said they must put money into schooling, or sponsor pupils through post matric qualifications.

The company has announced that R300 000 has been set aside to sponsor South African children through technical colleges.

Producers urged to seek price protection

Star 11/12/90

Finance Staff 180

Fears of a worldwide recession or even a major depression have got companies scrambling for effective ways to cushion the possible fall in commodity prices.

Rod Holness, managing director of Holcom Futures, says the crisis in the Gulf, coupled with rapidly eroding confidence in the American economy, has the world economy teetering on a knife-edge.

A wordwide depression, if it happens, would have disastrous effects on industrial metal prices with severe implications for South Africa.

"No responsible analyst can possibly predict the next few days' moves in the markets, let alone trends for the next year.

"For this reason, no responsible company can possibly justify not taking a percentage of price protection on their products. The instruments which afford this protection are available in South Africa."

Two experts in financial risk management from Rudolf Wolff, the internationally recognised futures brokers, have been seconded to Holcom to help South African companies weather these uncertain times.

They are Rudolf Wolff associate director Jeff Littlestone, an expert in financial risk management, and Steven Hardcastle, a specialist in the hedging of nonferrous metals.

Holness says that after the oil crises of 1973 and 1979, the price of base metals and gold soared. In the initial aftermath of Iraq's invasion of Kuwait, most analysts expected the same to happen.

"However, three months have passed and the markets have not responded in the expected manner. On the contrary, in the wake of soaring oil prices, the price of industrial metals has plunged and stock markets have taken knocks.

"These are worrying and uncertain times and producers of base metals are looking at ways of managing their risks and fixing prices at today's relatively high levels through hedging."

In the 1979-80 oil crisis, metal prices soared — gold, for example, reached $800 — no-one bothered to hedge. Then prices plunged.

BUSINESS DAY, Wednesday, 12 December 1990

Brand urges business to adapt to new SA

180

B Day 12 12 90

GRETA STEYN

DEVELOPMENT Bank CE Simon Brand has called on business to adapt its style to suit the new SA — a move which could help avert too much government intervention in a post-apartheid SA.

Brand told a conference organised by Germany's Konrad Adenauer Foundation and the Wits Centre for Policy Studies in Johannesburg yesterday that private companies had to start adjusting business practices and market orientation.

Policies adopted by future SA governments would to some extent be determined by perceptions about the performance of business in responding to changing markets.

"If the perception exists that business is oblivious to what is happening and is still sticking to past practices and market niches, there will be a stronger possibility of more government intervention," Brand said.

Serious consideration would have to be given to ways of involving blacks in strategic decision-making in mainstream business. He suggested the creation of special boards that could look after the social responsbilities of companies.

Competition

He noted that "considerable adjustments" would be required in the functioning of the private sector of the SA economy if the requirements of a more accountable democracy were to be met.

There were many sectors where there was not enough competition.

"It is well known that there is a considerable degree of market concentration in many sectors of the economy and it can be argued that this has led to some considerable misallocation of resources."

The SA government's accountability had been restricted to a limited segment of the population and one of the outcomes of this had been the skewed investment pattern.

Investment in SA was "quite clearly out of balance" with the need to address important socio-economic issues.

There was an over-investment in property and commercial development in the already developed cities of the country, while the opportunities for sound investment in the underdeveloped black towns and cities and rural areas were severely neglected.

Very little investment in new productive capacity in manufacturing had taken place for a number of years.

New breed in SA business impatient with all the secrecy

180

B/Day 12/12/90

JIM JONES

A NEW mood is spreading among SA's business leaders. Increasingly, the more imaginative are shaking off old fears and insecurities — fears and insecurities that drove their predecessors to build the enormous corporate fortresses they believed afforded job and asset protection for an elite minority.

Today, the more progressive businessmen are insisting on a new business environment to cope with the country's accelerating political and social changes. Derek Keys, Gencor's chief executive, kicked one ball into play some weeks ago when he talked of unbundling the Gencor group — a proposal that highlighted a developing confidence and mature realisation that corporate colossi are necessary neither for survival nor for mobilising capital.

Keys's innovative thinking coincided with another line expounded by outgoing Sacob president Leslie Boyd. He extended the debate when he bluntly told President F W de Klerk, guest speaker at Sacob's annual dinner, that continuing secrecy over oil reserves was inappropriate. Of course it is — does anyone really believe the government and state officials are managing those reserves responsibly, particularly given the latest petrol price fiascos? Motorists are understandably sceptical when the petrol price is raised by over a quarter with little warning only to have half of the increase rolled back within a couple of weeks.

Boyd's implicit questioning of the government's economic management record was a refreshing change from the special pleading which so often accompanies businesses' dealings with Pretoria. And it was a refreshing recognition that the secrecy which pervades our business and public sectors is increasingly unacceptable.

Secrecy can lead to absurdities. To give a small personal example, a few years ago, the editor of an American trade magazine phoned me to query some phosphate production statistics his magazine published each month. He had been contacted by an executive of state-owned phosphate producer Foskor, who alleged the figures I had reported to the US were wrong. My figures were sourced from the Minerals Bureau which, in turn, was provided with data by Foskor.

Back to the Foskor executive in hopes of solving the conundrum: How could the data be incorrect if the source was Foskor itself? No answer to that, but the very next month Foskor turned off the information tap, stopped disclosing its production details to the Minerals Bureau, has not done so since and flatly refused to back up the allegation that the Minerals Bureau's figures were wrong. Ironically, Foskor could be the next state-owned business to be privatised — but will investors readily take up shares in a company whose reporting standards are poor?

Sadly for South Africans, this uncommunicative attitude is not unique. Secrecy verging on obsession is pervasive, reaching from the government, through the state-owned corporations, into the private sector and many of our country's largest firms. Do we need it at this stage? More precisely, is secrecy likely to prove counterproductive when white-run business has to deal with emergent black political power?

Of course, less imaginative officials and company executives have no difficulty justifying hiding their activities — the veiled appeal to patriotism when trade or business secrecy is rationalised as necessary to beat sanctions, as being in the national interest and so on. We've all heard the reasons over and over again. They are wearing thin, which in part explains why growing numbers of businessmen are outspoken in their condemnation of secrecy. Unfortunately this openness is taking time to flourish. It is not uncommon, for example, for the government and business to threaten, bluster and drag journalists through the courts when potentially embarrassing facts are uncovered.

Corporate and government secrecy simply underscores the insecurities of white South Africans — the insecurities inevitable when a minority group was intent on excluding a more numerous group from influential decision-making. It is the insecurity that motivates the broadcasting authorities when they restrict M-Net's right to broadcast news in competition with an SABC which for years was the unashamed propaganda arm of government. And it's the insecurity that motivates the authorities to restrict the area over which a vibrant little radio station such as 702 can broadcast.

Hiding information is counterproductive when it comes to raising cash from investors. Platinum miner Impala recently tacitly conceded this when it decided to bare almost all and disclose its production plans to shareholders. The change in reporting standards was largely prompted by the fact that the company will soon have to call on shareholders to finance expansion projects. Competitor Rustenburg has cash on hand, Impala does not and its new chief executive Brian Gilbertson realises that openness is needed if shareholders are to part with additional cash willingly.

Compare this, for example, with the policy of Rembrandt, one of SA's greatest corporate success stories and one of the most intensely private. Its patriarch, Anton Rupert, has expressed his view that it is unnecessary to provide shareholders with large volumes of information as long as they benefit from regularly rising earnings and dividends.

The attitude parallels that of politicians who for years justified apartheid's excesses by claiming unenfranchised black South Africans are better off economically than enfranchised people in other African countries. It is an attitude that ordinary people need no more than bread and circuses and that their best interests are served when decisions are made for them by superior individuals with access to jealously guarded information. And it begs the question of what happens to confidence in a secretive company when its earnings and dividends slide. Sage suffered that crisis of investor confidence a few months ago when it shaved its dividend just as it was involved in litigation over an investigation to be published by our sister publication, the Financial Mail.

The contention that secrecy is beneficial can be demolished simply by looking at TrustBank, now swallowed by Bankorp and removed from direct investor view. Despite pious promises of greater openness from a series of chief executives, TrustBank has never seen fit to provide its shareholders with significantly more information than mandated by the Banks Act. And it has teetered twice on the verge of failure before being hauled back first with a lifeline from the Reserve Bank and next with massive refunding by Sanlam's policyholders. With insufficient information it was virtually impossible for outside shareholders to spot the incompetencies of the bank officials who had arrogated knowledge of the bank's affairs to themselves.

The fund of corporate secrecy horror stories is almost inexhaustible, but has to shrink. One thing is certain in the new SA — we cannot count on outside investment capital while other newly freed areas are clamouring for access to the financial resources of Europe, the US and Japan. We will have to remain reliant on our own resources, and local investors are likely to be increasingly wary of ploughing scarce savings into companies which have inadequate disclosure policies.

Gilbertson and Boyd realise this. Others who don't soon come round to their way of thinking risk being left out in the corporate funding cold.

Edwardes swings the changes at Charter

By Derek Tommey (180)

The board of Anglo American in Johannesburg should be pleased with the results from Anglo's associate company, Charter Consolidated, and the performance of its chairman of 18 months standing, Sir Michael Edwardes.

Star 12/12/90

Charter's profit figures in themselves are not too impressive. Taxed earnings rose minimally from 24,2p to 24,4p a share in the six months ended September.

But these figures conceal some important developments. One of these is a 31 percent increase to £18,1 million in the financial results of the four operating companies — CAST which is engaged in quarrying; Pandrol which provides rail track fastenings; Cape which supplies building products and services and Anderson which manufacturers mining equipment.

Part of this improved performance would seem to have been brought about by the disposal since Sir Michael's appointment of a number of Charter's unproductive and marginal operations.

Another encouraging development is that Johnson Matthey, in which Charter has a 36,8 percent stake, was able to report earnings of £12,5 million.

This is slightly lower than the £13 million which Johnson Matthey earned a year ago — but is a marked improvement on the full year's operations which saw earnings drop by 40 percent from 28,4p to 17,1p.

This suggests that the changes at Johnson Matthey — it had a new chairman, chief executive and deputy chief executive last December — have put the company on the right road and that Charter can expect increased earnings and dividends from this associated company.

However, all of this improvement was offset by a jump in the tax charge from 26 percent to 30 percent. It meant that the 7,5 percent increase in earnings before tax to £41,4 million finished up in the pocket of the taxman. However, this has not stopped Charter increasing by 7,7 percent its interim dividend from 6,5p to 7,0p a share.

The directors say that Charter has taken steps to reduce its vulnerability to the difficult trading conditions in the United Kingdom. Its operations are more focused, costs are under tight control and its business is expanding steadily into Europe.

They add that Charter intends to expand through the acquisition of businesses related to its activities, adding it has the resources to to do this. Which is true. At the end of September Charter had a cash balance of £113 million — an increase of £23 million since March.

Technology is too important to leave off political agenda

B Day 13/12/90 180

ANIA GROBICKI

ON NOVEMBER 24 the ANC brought together representatives of many different constituencies interested in technology, with the goal of putting the issue firmly on the political agenda.

The conference enabled a wide-ranging exchange of views to take place as a step towards devising a technology policy for SA.

Technology vitally affects all of our lives. Technological choices shape our living and working environments. More fundamentally, the level of technological advancement underlies the ability of the economy to change and develop in certain directions, and the pace and flexibility with which such changes take place.

In the framework of a mixed economy, public and private sector corporations, small businesses, trade unions, academic and training institutions, professional bodies, research organisations, community groups and school teachers all play important roles in the establishment of a technological culture.

The process of technology policy-making must encourage participation by all these actors. This is why the ANC is initiating a public debate on some issues around technology. We hope this will provide the basis for a balanced, democratic process of evaluating our position in the technological stakes, and what needs to be done about it.

New technology and innovation are the wind in the sails of a buoyant economy. New technology at present encompasses areas such as information technology, biotechnology and new materials, as well as the new production technologies. SA needs to build on its existing technological base to create networks of expertise in each of these developing fields. We will then have the knowhow to choose between importing certain technologies and developing them here. Research and development funds must be wisely allocated to strategic projects in the new technology areas, as well as towards innovation in existing technologies.

At present only 0,88% of the GDP goes into research and development in SA, as opposed to around 2,5% in winning countries such as Japan, Germany and the US. Among all the competing demands for public money in crucial areas such as housing, education and health, we believe it is unforgivably shortsighted to spend such a relatively small proportion of GDP on research and development. SA should aim to spend well over 1% of GDP on R & D, or we can never hope to improve our standard of living and technological advancement.

A large proportion of this increase should come from the private sector, which accounts for only 28% of total R & D funding. In most developed economies, private sector R & D accounts for over 40% of the total. SA industries spend only half as much on R & D (as a percentage of their budgets) than their foreign counterparts in this country, despite the fact that the latter do the bulk of their research back home.

Hence the private sector must be encouraged in various ways to intensify R & D efforts. One way of doing this is by tax incentives; another is to facilitate the transfer of technology and collaborative research efforts between industry and academia. What is needed in terms of policy is the creation of an enabling environment for R & D to take place.

This illustrates a more general point: that technology policy is much more than a set of tax incentives and tariff barriers. These, particularly if devised by economists and applied in a blanket fashion as part of an industrial strategy, can often have unforeseen effects on technology and technological advancement. Policy formation must proceed industry by industry, and sector by sector, examining the effects on technology of a given measure. Export promotion needs to be tackled in a similarly detailed fashion, as it is in South Korea.

There exists a wide range of policy instruments which could be used in developing an industrial strategy. In addition to those mentioned above, the possibilities include: registration of licensing agreements, the patent system and intellectual property rights, joint ventures and technology transfer, subcontracting, industrial financing mechanisms, the purchasing power of the state, price controls, control of technology imports and control of foreign investment. These need to be discussed and developed and their implications carefully examined in consultation with industrialists.

In keeping with the ANC's broad vision, we believe that a national technology policy must also examine the factors determining the technological base. Here the key is technical education, which in SA is woefully lacking. Each year we produce 35 engineers per million of the population, compared with Japan's 500. In addition, technician and artisan training is far below the levels required to develop and maintain a sound technological base.

One of apartheid's legacies is that we are barely tapping our population's pool of potential technical talent. Broad initiatives are required to turn this around, including working back not just to primary school level but to people's perceptions and prejudices about technology.

There are certain strategic sectors of the economy which require policies of their own because of their peculiar importance. In SA these sectors would appear to be energy, minerals and water resources. Technology policy must take the needs of these sectors into account and integrate them with other areas.

Energy policy, for instance, will look very different when it is driven by the requirements of urban and rural dwellers, rather than by strategic imperatives such as the threatened oil embargo. Creatures such as the nuclear industry and Sasol have contributed to SA's technological pre-eminence in a few narrow areas. The chemical industry has gained enormously by Sasol's existence, but at what cost? Opening up these issues to public debate is surely the first step in a democratic decision-making process.

Finally, we include two policy areas which have received insufficient attention in the past, but which should play a vital role in the future: the environment and rural technologies. Environment policy is an enormous area, but from the technology point of view it is possible to identify some key issues.

Principles such as "the polluter pays" have shown encouraging results elsewhere, in terms of industries introducing waste minimisation strategies and developing waste disposal technologies. Specific technologies such as flue gas desulphurisation (FGDS) and platinum converters are being actively promoted elsewhere — why not here? The relative costs and benefits must be carefully examined.

Rural technology includes a range of enabling technologies to improve living standards in rural areas. These can be high tech or low tech; from telecommunications to biogas digesters to transport.

The common factor is the development of rural areas, with employment generation and raising of income levels as associated goals. Our technological base is very strongly city- and industry-orientated, a clear example of bias.

Policy-making structures themselves need to be overhauled. The present system rests heavily on the Scientific Advisory Council, which is made up of 14 appointed members. The Advisory Council for Technology is reputedly defunct. We would argue strongly for a Ministry of Research and Technology to ensure that the issue is kept high on the political agenda.

Most important of all, there must be an ongoing, multipartite consultative process within which different interests are represented. Technology is too powerful a player to leave out of the democratic arena.

☐ Grobicki is a senior lecturer in chemical engineering at Wits University, and a member of the ANC's interim science and technology group. She was the convener of the recent ANC conference Towards a Technology Policy for SA.

Gencor unbundling issue 'unresolved'

180

Business Day Reporters

GENCOR'S unbundling was still under consideration though a task force's report on the issue had not presented startlingly compelling arguments either for or against the idea, Gencor's executive chairman Derek Keys said in London yesterday.

Speaking to a group of British fund managers and investment analysts, he said: "It is clear that the issue needs a lot more thought and our executives have now gone away to think about the implications of unbundling for the Gencor group."

Asked whether the examination of unbundling Gencor had been provoked by political posturing, Keys said definitely not. "My responsiblity as executive chairman of this group is to ensure that the group is correctly valued.

"If the Gencor share price stands at a 33% discount to its net asset value as it was last week, it means shareholders are being denied R5,4bn of their real wealth. This surely is an issue that deserves our keenest attention?" BDay 14/12/90

JOHN CAVILL reports Keys also said another factor behind the unbundling idea was that "within the SA environment large organisations are not particularly popular. Nor are they popular with the general public either."

Analysts said they understood this to refer to the ANC and the government and that it appeared to contradict the Press statement claim that the proposal had "definitely not" been provoked by political posturing.

GENCOR FM 14/12/90 .

A BROADER PORTFOLIO

180

Activities: *Mining house with interests in gold, platinum, base metals and minerals, coal, forest products, industry, oil and gas, and mining finance and investment.*
Control: *Gencor Beherend 54,8%. Sanlam holds 50%, and Rembrandt more than 25%, of Gencor Beherend.*
Chairman: *D L Keys.*
Capital structure: *1 176m ords. Market capitalisation: R11bn.*
Share market: *Price: 935c. Yields: 4,3% on dividend; 13,2% on earnings; p:e ratio, 7,6; cover, 3,1. 12-month high, 1 375c; low, 795c. Trading volume last quarter, 6,3m shares.*

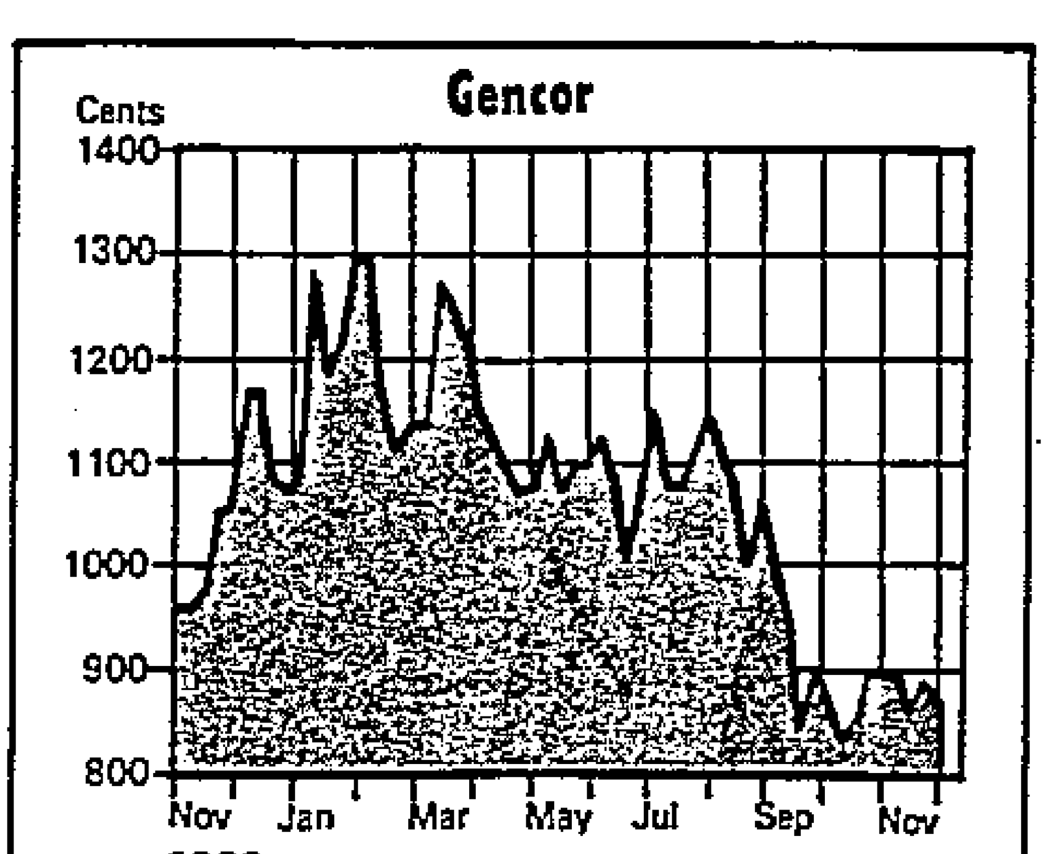
Year to Aug	*'87	†'88	'89	'90
Investments:				
Book value (Rbn)	2,59	3,73	5,08	5,85
Market value (Rbn)	7,41	7,99	13,16	16,54
Earnings (Rm)	655	720	1 051	1 447
Earnings (c)	66,9	73,5	105,5	123
Dividends (c)	25	27	34	40
Net worth (c)	862	819	1 211	1 376

* Year ended Dec 31. † Pro-forma figures.

Like most groups with large exposure to export markets, Gencor will have to deal this year with more difficult conditions, at home and abroad. Thanks to groundwork laid over several years, in the subsidiaries and at the centre, the house should cope better than many others.

All the significant businesses now have sound and active management teams and it would be difficult to pinpoint areas of real weakness attributable to management rather than markets. Gencor has grabbed opportunities and broadened its portfolio. Whereas a year ago about half of group earnings came from Samancor and Sappi, in financial 1990 major contributors included: Samancor (16%), Sappi (16%), Genbel (29%) and Engen (14%). And the group has entered the downturn with financial strength, including a year-end cash balance of R1bn.

More building blocks were put into place last year. Most notable was the creation of Engen, which has confirmed it will spend R670m in what is seen as the first stage of a capital programme likely to exceed R1,2bn. As Gencor chairman Derek Keys says, Engen not only blossomed, through its listing, into the group's biggest single investment, but bore fruit to the extent of a maiden contribution of some R200m to the bottom line. He expects this performance will be improved upon this year.



Gencor's Keys ... *Engen blossomed*

The pace of Engen's expansion will influence the deployment of Gencor's funds. Engen's long-term strategy includes doubling capacity of the Genref refinery. Phase one should be funded internally, but the next stage will probably include a call on shareholders. The process is also likely to involve a reduction in Gencor's present 84% interest in Engen.

Trans-Natal completed its recovery, with its earnings contribution doubling to R73m. Near-term profit growth will be restrained by Eskom closures as well as weak export markets. Meanwhile, the coal producer is lifting export capacity, and plans to spend more than R1bn over the next five years, funded internally. It is contributing to the proposed Moatize project in Mozambique, whose total cost could be US$1,5bn. An investment decision is not expected before the mid-Nineties.

Though manganese income should rise, Samancor predicts lower profit this year unless ferrochrome prices rise sharply. Negotiations with the Taiwanese partner for the R1,5bn-odd Columbus stainless steel project have been suspended and management is pursuing alternative options.

Earnings from metals and minerals other than Samancor rose from R77m to R119m, derived mainly from 25%-held Richards Bay Minerals (RBM) and 30%-held Alusaf. RBM is expanding production of titanium slag to 1Mt/year, at a cost of R925m. The environmental impact assessment relating to St Lucia area should be completed during the current year. Alusaf is investigating new projects, particularly the hooding of all pots and conversion of potlines B and C to prebaked anodes, for about R330m. It may be listed within three years.

As expected, weaker pulp and paper markets depressed Sappi's earnings contribution, and another reduction is expected. The group continues to bolster its position in international markets, and 1990 saw the purchase of five fine paper mills in the UK.

Profit margins will probably remain depressed in the gold division, though benefits of active management should increasingly be felt. Steps taken to keep the gold producers in the black included shrinkage of unpayable mining operations, an improvement in grade and reduction of 9 618 employees. Oryx should be in full production by end-1993, but needs additional funds and a rights issue is being considered for 1991.

Impala will have to finalise arrangements this year for its expansion. Last year saw the Karee/Western Platinum merger, re-negotiation of the General Motors contract on terms more favourable to Impala, acquisition of Messina's platinum reserves and the arrangement with the Bafokeng tribe to enable mining of the Deeps — all of which should underpin the share's rating. Weakness in the platinum price and fears of oversupply have pushed the price down, but Impala is better placed for a rights issue than a few years ago.

Malbak, largely dependent on the local economy, is also looking forward to an earnings decline, though the dividend should be maintained. Genbel, one of the house's best

EARNINGS SOURCES

Year to August 31	1989	1990
	Rm	
Gold	154	157
Platinum	91	91
Coal	36	73
Metals & minerals	398	370
International & other	40	37
Exploration	(95)	(97)
Corporate	(57)	(39)
Genmin	567	592
Sappi	276	240
Malbak	145	116
Engen	(29)	203
Genbel & investments	191	414
	1 150	1 565
Corporate	(23)	(26)
Financing costs	(76)	(92)
Gencor	1 051	1 447

P.T.O.

FM 14/12/90 (180)

performers in 1990, predicts slower growth, with interest receipts set to fall.

Most mining financials have been rerated downwards and Gencor's share price trades at nearly a third below the 12-month high. At 935c, the 4,3% yield is in line with the average for the mining house sector, while the discount to net worth has returned to former levels of around 20% — suggesting investor scepticism about "unbundling" prospects, as well as caution on the 1991 earnings outlook.

Still, the house should produce a dividend increase of at least 5%-7%. The quality of the investments continues to improve and the share offers attractions for those who want an investment in a broadly based portfolio of commodities. *Andrew McNulty*

ANC reacts to technology report

S/04 14/12/90

ZILLA EFRAT

180

THE ANC has criticised various aspects of the Department of Trade and Industry's draft report on technology policy and strategy.

In a statement released yesterday, the ANC's interim science and technology group called for a consultative, multipartite process of policy-making — particularly in the area of technology.

The group said no technology policy could be effective unless it came from a legitimate government elected by the people.

It believed the report was limited by its focus on the manufacturing industry and that it ignored various aspects.

The department's report, released towards the end of November, aimed at generating comment from the private sector to help government formulate a policy on technology early next year.

The response to the report follows an ANC conference on technology held towards the end of November.

The group said a valid technology policy needed to develop out of the political priorities of government which would inevitably include jobs, education and urbanisation.

It also said the report ignored the considerable impact of various government policies on the public sector, including parastatals, and thereby their massive potential for the development of technology.

The group said it was crucial to strengthen the manufacturing sector of the economy as part of a long-term strategy for economic development.

However, the underpinnings, namely education and infrastructure, transport and communications, were so weak it was essential to attend to these as part of a long-term strategy rather than to merely tinker with monetary and fiscal measures such as tax incentives and tariff barriers.

The ANC welcomed the emphasis on export promotion in the report, but said this should not occur at the expense of successful local industries.

The group said: "We see selective measures, rather than blanket policies, as essential in encouraging industries and creating jobs." Policy formulation was an ongoing process.

Shares for all, says PAC

THEO RAWANA

THE PAC envisaged a post-apartheid SA in which companies would be "asked" to create funds to enable workers to buy shares, the organisation's Zimbabwe-based economist Sipho Shabalala said in Johannesburg yesterday.

Giving a PAC perspective at a seminar organised by the Wits Centre for Policy Studies and the Konrad Adenauer Foundation, Shabalala said to avoid over-capitalisation, existing shareholders would be asked to reduce their level of shareholding by selling part of their shares to workers.

Shabalala said new shares should be issued to workers where the problem of over-capitalisation did not exist.

"Here we are not talking about token share participation by workers; but sizeable magnitudes. The shares must also have voting rights attached."

The exact size and percentage could be investigated further with full participation by workers, management and government officials where considered necessary.

Saying the state would also directly or indirectly support the fund, Shabalala added: "The state might consider money contributed by existing firms to be tax-deductible within particular ranges of magnitude."

Legislation would be passed to ensure the involvement of workers in financing, investment and dividend/reserve decisions.

The right of workers to have access to information to enable them to participate fully in these decisions would also have to be legislated, Shabalala said.

Once the workers' needs had been seen

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Bus Day 14/12/90

(180)

PAC

☐ From Page 1

to, Shabalala added that direct taxation would be used to transfer income from companies to the state to enable it to effect the redistribution of wealth.

Through collective bargaining — subject to firms' capacity to pay, the need for employment generation and consideration of macro-inflationary effects — "income-denominated" wealth should be redistributed through wage increases in favour of African workers.

Shabalala said firms would be required to effect human resources training and development programmes to enhance the skills of African workers and to open up promotion opportunities.

"Through the tripartite system and decision-making processes, it shall be made obligatory in labour terms for companies to contribute to the social benefits of their employees such as education of children, housing of workers, health and insurance, recreation facilities, etc."

The PAC-directed state would respect the articulation of workers' needs by the African workers themselves.

BUSINESS CONFIDENCE FM 14/12/90

FOUR-YEAR TROUGH (180)

Business confidence is at its lowest since February 1987 when the business confidence index stood at 89,8. In November it fell from 90,0 to 89,9.

Negative influences include continued falls in share prices, a slight rise in the three-month BA rate and a further drop in new car sales.

Retail sales (seasonally adjusted, in real terms) are expected to be slightly down on October. Total unemployment for all races recorded a material monthly increase, while the number of insolvencies rose.

On the positive side, economic indicators for October improved. Merchandise imports increased and CPI (before that month's petrol price increase) managed a small decline. Both the real value of building plans passed and volume of manufacturing production increased, while merchandise exports increased materially and the number of new registered companies rose.

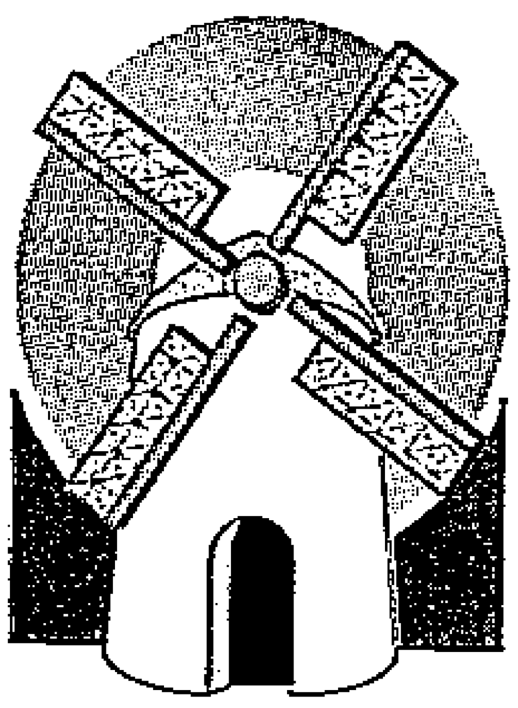
The SA Chamber of Business (Sacob) survey of manufacturing confidence shows manufacturers expect the volume of orders in November to increase on October's. But Sacob attributes this to seasonal factors and suggests the level would be "significantly lower" if these were excluded.

The longer-term outlook remains pessimistic, as confirmed by the index of expected capacity utilisation. Manufacturers expect to use less production capacity in the coming 12 months than in the previous year. However, sales volumes are now not expected to decline further. ■

'CONCERNED' BUSINESS FM 14/12/90

THE DATING GAME (180)

THE CBM IS CLOSE TO COMPROMISING FREE-MARKET PRINCIPLES



During the many years that the black liberation movements were banned, the business safaris to Lusaka and Dakar were important. There was a need for businessmen to meet organisations which would be shaping the future of their country and conditions in which they operate. The Consultative Business Movement (CBM) was formed in 1987 to facilitate these meetings.

Since then it has been in the public eye on only a handful of occasions. In August 1988, 40 businessmen, including Peter Wrighton of Premier, Cedric Savage of Tongaat, John Hall of Barlows and M C Pretorius of T&N, met representatives of Cosatu and the United Democratic Front at Broederstroom. Little was heard from them until May this year when the CBM hosted the Carlton Conference between the legalised ANC and more than 250 businessmen.

But the CBM *has* developed into something more than a dating bureau for prominent South Africans of differing colours and views. It has also become a debating forum in which the views of business, black political movements and trade unions are expressed in search of a common agenda.

The CBM has been endeavouring to pursue what it calls "Process Consultation" which, in its words, "ensures that we are able to move beyond rhetoric and ideology in our discussions." It includes encounter weekends with organisations that are barely familiar with businessmen — such as Azapo and Nactu — as well as the ANC and Cosatu.

While these encounters have not been particularly secretive, the fact is that they were intended to be covert. Inevitably, therefore, when some of the issues and possible policies debated were leaked into general business conversation, they gave rise to some alarm among those who were not included. Some critics fear that the CBM is an appeasement organisation, more concerned to win the approval of the ANC than to represent logical social and economic arguments.

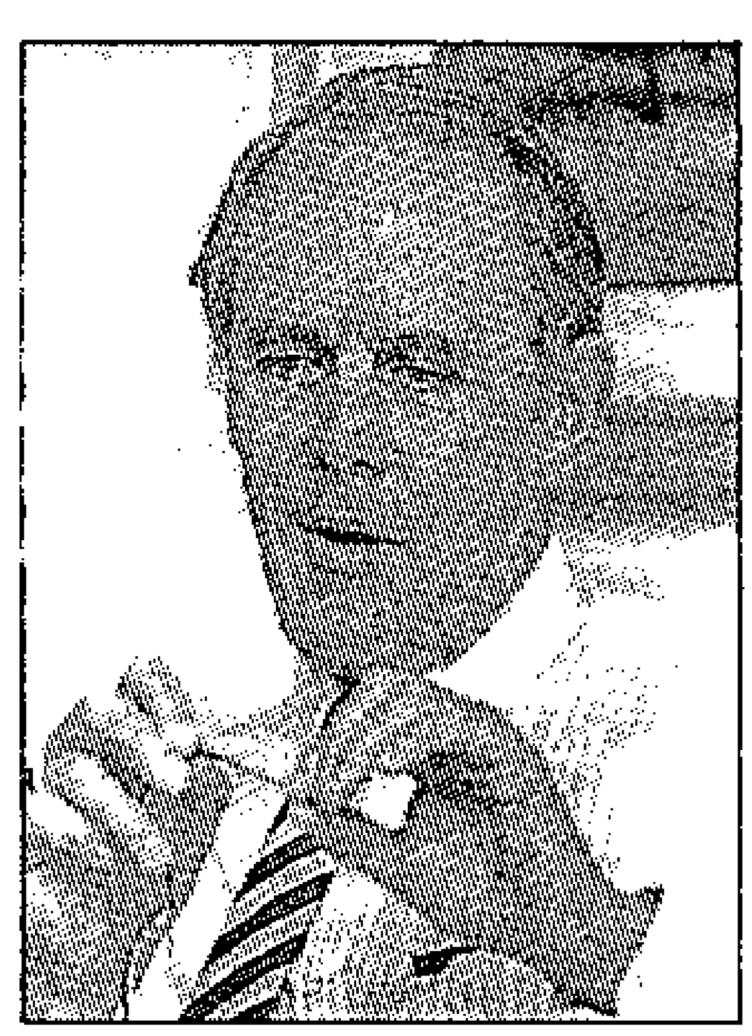
The Free Market Foundation's Leon Louw says: "The CBM includes people who are not true believers in free enterprise, so they can hardly be expected to take a free-market stance."

Why does he say that? Well, the CBM's literature is peppered with expressions such as "pragmatism," "common ground" and "a favourable climate for negotiations." The CBM, in its statement of principles, calls for the establishment of conditions and structures for strong economic growth and a just distribution of wealth. The terms "free market" and "free enterprise," which the movement considers to be ideologically loaded, do not appear.

"We do not believe in a simplistic free market," affirms Christo Nel, founder of the organisation, now a consultant to it. "We are engaging in real-life debate and we cannot expect a sudden conversion by the ANC to market economics."

JCI economist Ronnie Bethlehem, chairman of the CBM economic working group, says: "I would prefer to talk about a market economy rather than a free-market economy. All markets need to be free by definition. The term free-market economy, on the other hand, implies the ideological agenda of the free marketeer. This includes minimal State participation and the end of all controls. We accept in the CBM that the State will have to have a major role in the reduction of poverty and inequality.

"Will it be possible to address the huge inbalances in SA without State involvement? The answer must be no. There are two things we in business cannot be neutral about. One is the need for a market economy and all that that implies regarding the institution of private property. The other is poverty and attendant inequality."



Sander

Hofmeyr

Nel says the CBM is a creative minority of businessmen who engaged in dialogue with the ANC and other black groups when it was unfashionable to do so. The national chairmen, former JCI chairman Murray Hofmeyr and AECI's Mike Sander, have certainly been vociferous in their criticisms of apartheid.

The CBM insists that it does not represent business or even a united business view. But among its members are some of the key men in top companies. And, given its desire (or need) for confidentiality, anxiety has arisen — especially in organised business — that its members could be adopting positions inimical to both a business interest and to a free, as well as soundly run, post-apartheid economy.

Of course, not all the CBM's members are appeasing liberals. Tradegro's Donald Masson, a pillar of the Afrikaner establishment, is on the national consultative group. He says people are still talking past one another and so the CBM's role as facilitator hasn't yet run its course. "We are not planning to come up with a solution, but we have been talking with the ANC and others long before it became popular. We want to bring people together from right across the political spectrum."

Bethlehem insists that there is nothing sinister about the organisation's secrecy. "It is not our intention to become the freemasons of the economy. The CBM does not want public attention, which would change its role from a facilitator to a participant." Executive director Theuns Eloff says the CBM does not want to take part in the match, or even to be referee, but merely to provide the ball. So the CBM *could* be in a position to influence the agenda for negotiations.

The game has so far concentrated on issues that are central to the ANC's aspirations, such as poverty, inequality and development. The funding of these social objectives has been relegated to a secondary role. The issue of privatisation will be touched on, but no more than nationalisation.

Bethlehem says: "The relative roles of the State and the private sector will have to be discussed. Privatisation is seen by the ANC and others as a possible way to shift race discrimination from the public to the private domain. Until that is addressed it precludes discussion of privatisation."

Nel says the organisation aims also to sensitise business to change. "Businessmen are extraordinarily ignorant about the political ramifications of SA's inequality. They are excessively defensive when they say capitalism is the antithesis of apartheid. Many businesses did very nicely under apartheid institutions such as migrant labour."

Nel says there is a danger that once a black government is in place and the Budget, police force and civil service are democratised, business could be the last vestige of the apartheid system, with a minimal number of black faces. Nel concedes that his own views have changed because of his experience in the CBM. In 1986 he was responsible for

Project Free Enterprise. This study showed the level of ignorance about free enterprise in the black community and suggested ways in which it could be changed. "It is only since then that I have understood how deeply entrenched apartheid has become, and how reluctant business has been to eradicate it," he says.

The three main CBM committees reflect traditional topics of "concerned" businessmen. One is the Development Forum Focus. According to Eloff: "Without a commitment to a development policy, which the ANC can take back to its constituents, negotiations will never get off the ground."

Then there is the In-House Change Group, which aims to show how changes can be carried out in companies leading to the best use of human resources available. "We need to show that we are not an economic autocracy," says Eloff. "Changes within companies are vital for the survival of business."

The newest committee, the Economics Project, according to a pamphlet on the subject, is more concerned with development goals, wealth distribution and ownership and control than with the efficient working of the economy. It is even debating the old chestnut of concentration of ownership and will address itself to "the extent to which current patterns promote the most efficient use of resources."

Bethlehem says one debate will be on the nature of the mixed economy. "I am hostile to interventionism and, if the mixed economy is the surrogate of the interventionist economy, I am against it. But the mixed economy is a *fait accompli* in this country already. The State controls 50% of the country's fixed capital stock. The State's role may be too big but to expect it to withdraw entirely from the economy is unrealistic."

Compromise features highly in the CBM. Premier's Wrighton, who is the CBM's Transvaal chairman, admits that the fact that 85% of Premier's customers and work force are black has made it essential for him to address their concerns. He also notes: "Business people can make the future work, or they can shun the process."

Bethlehem asks: "Should the business of business be business only — or should it recognise its role in the broader business environment which includes political and social change that can impact heavily on business?"

The consensus talk of the CBM is clearly more congenial to the ANC than the more gloomy realism dished out by the SA Chamber of Business (Sacob), which has outlined the immense problems involved in economic transformation in its own Economic Options paper. Sacob chief economist Ben van Rensburg says: "The CBM is an enthusiastic organisation so it isn't surprising that it gets carried away by its own optimism from time to time. We wanted to bring some reality to temper the high expectations which politicians are raising and to show the enormity of demands for equality compared with what we can afford. We suggested that the most realistic way in which to address poverty is through a 10-year programme."

Van Rensburg says there is room for both Sacob and the CBM, as long as it is realised that the CBM cannot speak for business. "Sacob is mandated and its policies are developed in a series of subcommittees, committees and conferences. The CBM, on the other hand, can express views without these constraints." Inevitably, because of its mandated nature, Sacob takes a more sober approach than the CBM.

The CBM's credibility with black organisations, its supposed major strength, was addressed for us by Joe Manchu, a black business consultant. He says the CBM should strengthen its links with black business. "The CBM is a white organisation at this time and it should change into a more broad-based movement with all races."

But, he says, the organisation is at least trying to speak in language which blacks can understand. "Some businessmen have reacted unfortunately to demands for a more socialist economy. They say that socialism has failed in eastern Europe, so there is nothing to discuss. This just serves to confirm that business does not want to change. The CBM at least is not slamming the door."

The Black Management Forum's Lot Ndlovu says the CBM has been willing to confront contentious issues in a way organised business has never been prepared to do. "Whether they will support the substantive changes which society needs is another matter, but they are at least willing to talk."

Where the CBM claims notable success is in the regions. It has played a pivotal role in persuading the ANC and Inkatha to discuss violence in Natal.

If the CBM sticks to its brief, it must have a limited lifespan. When negotiations and discussions are second nature at all levels it should quietly disappear. That's the theory. But perhaps those of its more pragmatic leaders who reason along those lines are being short-sighted. They might not have taken adequately into account the need for a bureaucracy to perpetuate itself. The temptation to go back and write another work programme when it should be writing itself out of a job might be overwhelming.

CBM founder Nel ... *a debate in the real world*

SA'S SUPER-RICH

Draw up a list of SA's 15 richest families. Chances are you'll get the first four or five right but after that you'd be in for some surprises. For the full list — comprising families with holdings on the JSE worth more than R50m — read the *FM* next week.

The listing has been prepared exclusively for the *FM* by McGregors On-Line Information, based on research into complex JSE holdings. It will show the number of shares held by each family and their value, calculated at the ruling price on November 29.

Some families maintain such a low profile that their names are virtually unknown to the public. Indeed, since we publicised this project last week, McGregors has discovered a new family which meets the criteria for inclusion.

The CBM lost a great deal of its relevance after February 2. As an icebreaker it had its use, but in its need to avoid becoming a vehicle to negotiate for business, or to avoid dabbling in the formation of public policy, it could be talking itself out of existence. There is a danger, too, that in an effort to achieve consensus it might set unfortunate precedents or perpetuate economic myths impossible to achieve.

For instance, by accepting that wealth distribution is as important as wealth creation there is a tacit admission that there is an economic or moral ceiling to the accumulation of individual wealth or property. Private property and freedom of contract are the very crux of classical liberal values. While they inevitably give rise to markets — which are the interactions of buyers and sellers for the purposes of exchanging ownership titles — they are values that are absolutely necessary to peace, prosperity and liberty. That is not a theory. It is a matter of observable fact.

Moreover, mixed economies that include substantial social security systems have persisted only because they first concentrated on the creation of wealth before attempting to redistribute it, as Frank Vorhies argues in another part of today's issue (**see Business**). Wherever the process has been attempted in reverse, the system has quickly failed.

If the CBM is facing these harsh economic and social realities in its fireside chats with the comrades, no one can argue that it is selling business out.

But if the statements of its spokesmen in this article are taken at face value, pragmatism might be in danger of becoming a euphemism for appeasement. ■

SA firms in R8bn project

By DON ROBERTSON

SOUTH AFRICAN companies have won a major share of contracts worth R8-billion for financing and building the main dam and transfer tunnels for the Lesotho Highlands water project (LHWP).

The awards for Phase 1 of the scheme, described as one of the largest and most complex of its type in the world, were announced by the Lesotho Highlands Development Authority (LHDA).

SA's Concor, Group 5, LTA and Grinaker Construction will join consortium members from France, Britain, Germany and Italy, to build the 180m-high Katse dam, costing R1,363-billion, the north and south transfer tunnels and the delivery tunnel, costing R1,473-billion.

The lowest tender for Katse dam was submitted by the Highlands Water Venture group of Impregilo of Italy as lead company, Bouygues of France, Concor, Group 5, Hochtief of Germany and Kier & Sterling of the UK.

The 55km-long tunnel contract was awarded to Spie Batignolles of France as lead company, Balfour Beatty of the UK, Campenon Bernard of France, LTA, Ed Züblin of Germany and Grinaker.

The tunnels will be drilled in SA and Lesotho to carry water from the Katse dam to industrial areas, particularly on the Reef. This phase of the project is expected to be completed by 1996. In 1992, contracts will be called for a hydroelectric plant at the dam.

Bridging finance of about R750-million has been raised to allow work to continue until loan agreements have been signed with world aid organisations, including the World Bank, the European Development Fund, the European Investment Bank, the Overseas Development Association of the UK, and the CIM of West Germany.

The bridging finance will come from Nedbank with R375-million, a consortium of Volkskas, Volkskas Merchant Bank and Rand Merchant Bank will contribute R370-million and Barclays Bank Swaziland R10-million.

The SA Government has contributed R26,7-million through the Trans Caledonian Tunnel Association. The Development Bank of Southern Africa (DBSA) has contributed R370-million and other commercial loans of R139-million have been arranged. The DBSA is considering advancing another R153-million.

The Katse dam wall will be the highest in Africa at 180m, but will have a relatively small capacity.

Business Day 16/11/90

180

'It's economic war'

Citizen 16/12/90

THE lack of representation of black people in the economic arena needs to be addressed and an "economic war" must be waged, according to Black Management Forum national president Don Mkhwanazi.

The fight for control of productive assets will be fierce and bloody, he told the Eastern Cape Chamber of Commerce conference in Port Elizabeth this week.

Privatisation and deregulation, plus the belief in a free-market economy, were issues which heralded the beginnings of an economic war.

"This is a war which must be led by black business. We must break the chains of economic bondage."

At least 60 percent black representation in top management and greater representation at board level in JSE-listed companies was needed.

This would begin to redress the current imbalance, promote greater participation in economic life and would create a more equitable economic pattern.

"We are past the stage of social responsibility and beyond do-gooders.

"What we are talking about is the total transformation and fundamental change of ownership of productive assets, management and corporate power.

"We are no longer talking about sponsorship of dinners.

"What we want is that the sponsors of these dinners give us a meaningful stake in their companies and make soft loans and capital available to black business to facilitate and accelerate the process of black economic empowerment."

Attacking the pace of President FW de Klerk's reform initiative, he said the process of change could not be termed irreversible when people were still being detained without trial. Aggressive and unacceptable police behaviour remained part of the government's arsenal, he said.

"We can never say change is irreversible when our comrades are refused indemnity, when indemnity can be withdrawn at any time or when brother and sister are being tried in the courts for fighting for their birthright." – PEN

R20bn Gencor capex to provide 33 000 jobs

GENCOR executive chairman Derek Keys has outlined a R20-billion expansion programme which could create nearly 33 000 jobs.

He told investors and analysts in London this week of projects in the pipeline for Gencor companies.

Gencor has funds for all the projects to which it is committed, but Mr Keys said that mining finance houses traditionally did not provide all the cash.

By IAN SMITH

S Times 16/12/90 (180)

"We work in conjunction with our partners and other shareholders in these projects and they would obviously provide their portion of the financing.

"However, it must be remembered that the final decision on the projects and their financing depends on the demand for the products and the condition of the markets which we would use for funding."

He said that Gengold, which was establishing two mines, Oryx and Weltevreden, and expanding Winkelhaak, Kinross and Beatrix, had plans which could involve almost R7-billion in the next few years.

Fuel

These projects could create more than 11 000 jobs.

Engen, the integrated fuel company, has announced plans to increase the capacity of Genref refinery in Durban. The first phase will cost about R670-million.

Mr Keys said: "The company's shares are highly rated and in strong demand: in financing its expansion we may allow our shareholding to fall." The Columbus stainless-steel project, a 50-50 venture between Samancor and Highveld, could involve expenditure of R2,6-billion for the hot mill to be set up in SA and about R900-million for the cold roll mill at a location yet to be determined.

"If the project gets the green light, Gencor group will end up with an effective 22% of the project. It could eventually mean about 1 200 new jobs."

Impala's planned capex for the 14 shaft, the Deeps shaft, for UG2 growth and for expansion at Messina amounted to about R2,3-billion, he said.

These projects could generate more than 17 000 jobs.

Paper-maker Sappi could spend more than R1-billion on expansion at its Saiccor, Enstra and Tugela mills.

Mr Keys said Gencor saw its mission as starting or acquiring major businesses and accelerating their development.

"From these numbers you will see that we are prepared to put our money where our mouth is."

\NIES

Conglomerates can give shelter — Malbak chief

B Day 19/12/90 CHARLOTTE MATHEWS (180)

A PROPERLY structured conglomerate with good underlying assets and effective management offers investors shelter in bad economic times, and can perform well in good times.

This is the view of Malbak executive chairman Grant Thomas expressed in the group's 1990 annual report.

"Conglomerates tend to pass in and out of favour as investment fashions change, and recently have again been the target of some criticism in this country," he said.

Malbak is the pyramid of a group including packaging and paper, engineering and mining supplies, consumer products, food and construction supplies.

In the year to end-August the group's turnover went up by 14% to R8,4bn but partly as a result of a higher tax charge, showed a 7% fall in shareholders' earnings to R233m. Thomas said the packaging division experienced the negative effects of reduced consumer spending but this was offset by greater productivity and the disposal of unprofitable divisions.

Downturn

Ellerines's good performance and better profits from Malbak Motor Holdings in the branded products sector offset lower returns from Tedelex and Malcolmess.

Results from the engineering division showed a small fall in pre-tax profits partly because of a strike at Haggie. Construction supplies division D & H improved operating results but had to face a higher tax rate.

Reduced earnings from food division Kanhym arose from a downturn mainly in the second half of the year.

Malbak's development division performed well and its international division showed a better second half, partly due to cyclical factors but also as an indication of an upward trend.

Malbak directors are not optimistic about the current year because the timing of measures to alleviate fiscal and monetary policies, the international prices of oil and gold and the extent of labour disruptions cannot be predicted.

Slowdown will continue and possibly worsen, says Sanlam

B 109 19/12/90

LESLEY LAMBERT

CAPE TOWN — A moderate slackening of monetary and fiscal policy can be expected during the first quarter of next year but the economic slowdown will continue and might worsen in the months ahead, says Sanlam's latest economic survey.

In the December issue of the survey, chief economist Johan Louw says the downturn is expected to level out towards the end of 1991.

He remains confident that its course will not be as severe as the previous two downturns in the 1980s.

Louw forecasts a negative real economic growth rate of about 1% for this year and a slightly positive rate of 0,5% for next year.

He says the relatively strong performance of the rand recently helped put a damper on the price increases of imported goods. The price index representing these goods rose sharply in October, largely because of the higher oil price.

But the price increases of locally produced goods remain high, and fuel price adjustments will keep the pressure on production prices.

In spite of the upward pressure on prices, Louw says he believes the rates of increase in production and consumer prices will tend lower, and that this slowdown will become more marked in the second half of the year.

He expects the inflation rate, as measured against the year-on-year increase in the consumer price index, to average 14,2% this year and 13% next year.

A drop in the bank rate can be expected early in the new year in view of the slower growth in the money supply and the decrease in credit demand, Louw says.

Long-term interest rates in the capital market are also tending downwards and should soften more next year as a result of expected reductions in short-term interest rates, limited demand for long-term loan funds by the private and public sectors and the prospect of a decline in the rate of inflation, he says.

180 Foreign capital

In an economic evaluation of Namibia, Louw says the Namibian authorities need to establish an investment code to clarify the role of foreign investment in the development of the country.

He says Namibia relies heavily on foreign capital for economic growth and the provision of jobs and houses. A large amount of foreign capital is understood to be available, most of it strictly designated for specific projects.

But investors need more clarity on the role their investments will play.

While Namibia depends heavily on transfer payments from SA before independence to balance its budget, it is clear greater reliance will have to be placed on tax income.

The realism of the government — to restrict expenditure largely to the available financial means rather than to accommodate the enormous needs — is encouraging, he says.

He says the Namibian economy is slowing down.

Mining remains the main contributor to the country's GNP, although its importance has diminished from 44% of GNP in 1980 to 31% in 1989.

The manufacturing sector contributed only 5% in 1989 and has been unable to increase its contribution in the past 20 years.

But, Louw says, there is reason for the Namibians to be optimistic about their fishing industry.

A Directorate of Sea Fisheries survey says the exploited fish reserves are recovering satisfactorily.

Fish quotas will be granted to companies, with certain incentives for Namibian companies, and it is estimated that up to R250m could be earned annually in royalties.

SA firms looking beyond borders

BDay 19/12/90

Business Day Reporter

TWO SA companies have applied for pre-qualification documents to enable them to tender for work in oilfields in Angola and gasfields in Turkey, according to a report in the latest Engineering News.

Pre-qualification assesses the ability of the contractor to undertake the work so he does not waste resources by submitting a futile tender.

Engineering News interviewed Emso MD Steve Hrabar whose company, supporting Genrec Offshore (GO), has been holding discussions with Chevron in Angola on designing and erecting jackets and topsides for the Cabinda oilfields.

Hrabar said Emso was looking to international operations once Mossgas was completed.

Emso had already been awarded a five-year consultancy project to attempt to restore the Beira-Mutare pipeline to normality.

GO project director Jim Grice told Engineering News GO was pursuing three inquiries for work in the African offshore industry. 180

Boardroom musical chairs

wimail 20/12/90 – 10/1/91 (180)

MOVEMENTS

MONDLI MAKHANYA

SOME illustrious business careers came to a close in 1990 and there were some unhappy partings. It was a year of back-stabbings and dramatic leadership battles in the corporate world.

Undoubtedly South Africa's most significant leadership switch happened at Anglo American, where Gavin Relly stepped down as chairman to assume responsibility for the conglomerate's offshore assets. Anglo's chairmanship was taken by De Beers chairman Julian Ogilvie Thompson, who left his position at Anglo American Investment Company to the rising star of the Oppenheimer dynasty, Relly's former deputy, Nicholas Oppenheimer.

Rembrandt chairman Anton Rupert retired from the board to take up the chairmanship of Rembrandt Controlling Investments. The conglomerate gained the services of Theo van Wyk, who resigned as registrar of financial institutions to become Rembrandt's executive director.

Bankorp had its fair share of drama when it gave former Nedcor chief executive Piet Liebenberg an offer he couldn't refuse to be its CE. Liebenberg was soon followed by Nedcor MD Hennie van der Merwe.

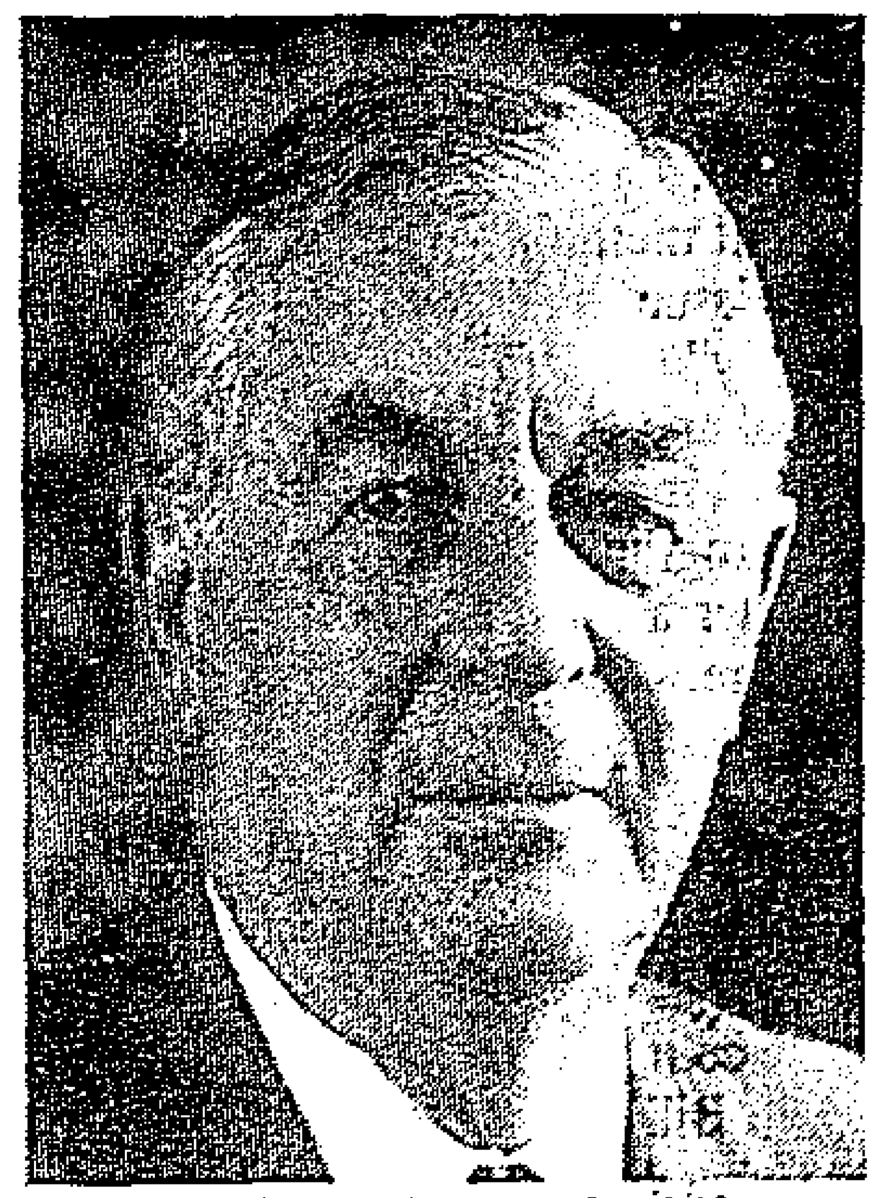
Liebenberg's arrival ruffled a few feathers. Trustbank CE Chris van Wyk resigned, saying he needed to take stock. Industry sources speculated that the resignation may have been due to Van Wyk's diminished status after Liebenberg's appointment.

The year also saw the exodus of five senior Senbank employees, who left to join Discount House of South Africa (DHSA). Days later 11 Allied employees resigned bringing to 16 the number of senior resignations in the banking establishment in a week.

Heads rolled when Sage battled for control of Allied. Sage — which holds 10 percent of Allied — voted Allied Building Society MD Don Hunter and fellow director Micky van der Walt off the board. Two other proposed appointments to the board were reversed. Sage MD Louis Shill claimed Sage had effective control of Allied — a charge that was hotly denied.

Embattled motor spares company Spareco lost group operations director Louis Bekker and group financial controller Piet Nel who resigned following the company's provisional liquidation. MD Graham Walker, who had also resigned during the temporary liquidation, was reappointed after a consortium bought out the company.

Darrell Till, GM of the JSE's non-equity markets resigned as full time member of the JSE and is to be retained in a consultancy capacity. Speculation at the time linked his resignation to the firing of people associated with the over budget options market.



Gavin Relly ... quit as Anglo chairman

The 40 year old Managing Director of the DHSA MD Ian Huddy (40) resigned to recharge his batteries commenting: "Trading is for the young."

The resignation of J Walter Thompson MD Victor Hamilton resulted in Old Mutual's withdrawal of its R8-million account with the agency.

Trustbank subsidiary Kolektor MD Vic Lilje left in disgrace after auditors discovered some irregularities.

Southern Sun MD Bruno Corte resigned to "pursue other interests".

The Krok brothers, Solly and Abe, made an exit from their company Twin Pharmaceuticals. However Abe will remain with the chain until July.

Cash-strapped firms seek overseas partners

By Tom Hood (180) Star 20/12/90

CAPE TOWN — Hundreds of good South African businesses are up for sale and many directors are looking for foreign investors to inject new capital into their companies.

The recession has brought to the market more than R1 billion worth of businesses as well as commercial and industrial property worth millions.

Pieter Wicht, who is marketing South African businesses to foreign investors, says most of them are well-managed, profitable enterprises but they are strapped for cash.

He is to meet a range of British financial institutions in January to offer a multimillion-rand portfolio of commercial and industrial properties and businesses.

A visit to Hong Kong is planned next year to take advantage of the outflow of capital before the 1997 change in government.

Mr Wicht, of Pam Golding Properties, visited London in October and says he has been approached by a substantial number of South African entrepreneurs to market their businesses overseas.

Nothing left

"The recession has put a different slant on the type of businesses being offered.

"A year ago the ones that were doing badly were poorly managed. Now we're seeing well-run enterprises that are strapped for cash.

"Owners are asking themselves what they're in the business for. Once the bank and staff have been paid, there's nothing left.

"Not all of them want to sell. Some are looking for an injection of capital."

When he advertised recently for companies to show to investors, businesses worth a total of R80 million were offered within three weeks.

"The phones went crazy. Obviously we got a few chancers and had to sift through them.

"Even though investments through the commercial rand rate are cheap, overseas investors are not fools.

"They know the value of things and won't overpay."

Buyers fall into three categories:

- The individual who has up to about R5 million. He is usually an emigrant who wants to make the most of what money he has.
- General investors, who have more money at their disposal.
- Venture capitalists, who are prepared to take high risks for high returns.

Mr Wicht says blocks of flats, hotels, guest-houses, restaurants and small factories are in demand.

"During my last visit to London, I saw a number of top hotel groups. They all expressed interest in investing in South Africa, from building their own hotels to seeking new management contracts.

A financial partnership between a local company and an overseas company can be lucrative for both sides, he says.

SA's SUPER-RICH

FM 21/12/90

180

THE PRINCES OF PLENTY

THE WEALTHIEST FAMILIES IN SA HAVE A NEST-EGG OF SOME R5bn

Based on their holdings in their own "family" businesses listed on the Johannesburg Stock Exchange, SA's 16 wealthiest families together are worth more than R5bn. Nearly half of this is accounted for by the Oppenheimer family, which with a shareholding worth some R2,4bn would alone rank about 17th in the *FM*'s Top Company survey.

Wealth on this scale takes a while to build up and the Oppenheimer dynasty is now into its third generation. Ernest (later Sir Ernest) founded the dynasty in 1880 and died in 1957. His son Harry has headed the family since then, but at 82, has retired from active participation (he was chairman of both Anglo American Corp and De Beers). Grandson Nicky (45) is now deputy chairman of Anglo and De Beers and is in the process of accession to the family throne.

But most of SA's business dynasties are at the incipient stages of their development, still run by their founders.

Some are getting on in years, though. Guido Sacco, chairman of Associated Ore & Metal, is 90. The two leading Afrikaans dynasties are both in the throes of change. Anton Rupert (74), while still active, is in the process of handing the baton on to son Johan. The same applies to Albert Wessels (82), whose son Bert (46) and daughter Elizabeth Bradley (52), are both in the business.

Normal retirement age is an irrelevancy for a man heading his own business and family heads in this bracket, but still firmly in the driving seat, are Stanley Lewis (68) and Basil Hersov (64).

The others range in age from Donald Gordon (60) to the babe of the group, Jeff Liebesman (38).

How is the wealth of the families calculated? In many cases, the *true* family wealth is likely to be considerably greater than is reflected in the figures we publish, which show only the value of the ordinary shares held by the families in the listed companies they have built up.

The value of some holdings (notably the Rupert/Hertzog families' massive holding in Geneva-based Richemont) cannot be calculated directly because they are held through non-traded shares. But they are worth a notional R5,5bn.

The calculations are not the result of balance sheet accounting and do not include, for example, any accommodation for debt. Most families will have significant value in unlisted assets and many will have investments in other listed companies.

It is not always possible to precisely identify family holdings, since they are often held through nominees. In most cases, shareholdings can be established from the annual report or the share register, though they may be held through nominees. In the case of the Liebesman family, where a recent company restructure precluded independent analysis, we have relied on information supplied by Liebesman himself.

Where possible, the families concerned were consulted.

The value of the holding in most cases was calculated from the closing price of the shares on November 29.

It's also possible, of course, that there are owners of private companies whose wealth is greater than that of some of the people on this list. People such as Eric Sampson (Macsteel) and Mendel Kaplan (Cape Gate) are not on the list. Such information on private companies, however, is not readily available.

Five-step procedure

The information was prepared for the *FM* by McGregors Online Information, using a five-step procedure.

- ☐ Examine the controlling shareholder of every company listed on the JSE for director or family control;
- ☐ Examine annual reports, share registers, circulars and other supporting documentation for holdings by families/directors in relevant companies and other companies listed on the JSE from the findings above;
- ☐ Scan the computer data base for any individual, trust or family holding company, using search software;
- ☐ All relevant companies were contacted to verify the information; and
- ☐ Calculate the value of shares held using share price at the close on November 29.

OPPENHEIMER R2,4bn

Family businesses: Anglo American Corp, De Beers, Minorco.

As disclosed in the annual report, the Oppenheimer family held 18 743 943 shares in Anglo (8,3%) in March 1990, through E Oppenheimer & Son. At R91,25 a share on November 29, these are worth R1,71bn. Last week, however, Anglos were standing at R95,50, putting the family stake up to R1,79bn.

According to Lehmann Brothers International, E Oppenheimer & Son holds 7% of Minorco, which is worth R675m based on Minorco's current capitalisation of £1,45bn (R9,66n). As far as can be ascertained, the Oppenheimers do not directly hold shares in De Beers. Anglo is assessed by McGregors as the ultimate controlling shareholder of these and numerous other companies.

The group has interests in mining, finance, industry, insurance and property, with about 200 subsidiary and associated companies and investments in more than 55 companies.

Founder: Ernest Oppenheimer (1880-1957).
Current head of family: Harry Oppenheimer (82).

Harry Oppenheimer ... *built on Ernest's foundations*

Heir apparent: Nicholas Oppenheimer (44).

Nicholas is married to Strilli and they have a son, Jonathan. In 1983 Nicholas was made deputy chairman of AAC and a year later became chairman of the Central Selling Organisation (CSO) and deputy chairman of De Beers. He pilots his own helicopter and plays squash and cricket.

History: Ernest Oppenheimer arrived in SA as the Kimberley agent of a London diamond merchant in 1902. His first big opportunity came with the discovery during World War I of the East Rand goldfields. He tapped US capital, especially the house of J P Morgan, and in 1917 incorporated Anglo American Corp in SA, when most large mining groups were UK-based.

His ability to commit large sums to buying shares and mineral rights without having to refer back to a board of directors in London proved a crucial factor in the company's growth. Within 30 years he was also able to realise his dream of bringing diamond producers and sellers together in a single body, which brought stability to diamond prices.

Today the empire he created controls the diamond trade through the CSO.

After World War 2, Anglo gained a secure position in the newly discovered OFS goldfields, after funds were diverted from its increasing diamond stockpile.

Harry, born in Kimberley in 1908, has built on the foundations laid by his father.

After schooling in England and Oxford University, he joined AAC in 1933. He became MD after serving in the World War 2. After a short period as the United Party MP for Kimberley, he took over as AAC chairman in 1957 after his father's death.

Harry's second child, daughter Mary (46), is married to an American, Hank Slack, who is president of Minorco and a director of AAC.

As the senior spokesman for business in SA, he has been an outspoken critic of apartheid. With Anton Rupert he helped to set up the Urban Foundation in 1976.

In 1982, he retired from AAC and in 1984 from De Beers. He and his wife, Bridget, live in their elegant Herbert Baker-designed Johannesburg home, Brenthurst, to which Sir Ernest brought his family from Germany in 1922. Harry's personal library on the estate houses the Oppenheimer collection of Africana, and is also the home of the Brenthurst Press.

Oppenheimer has a stud farm outside Kimberley and maintains a keen interest in horse breeding and racing. His personal art collection includes paintings by Redon and Picasso.

FAMILY FORTUNES

What they're worth:

Oppenheimer	R2,4bn;
Rupert/Hertzog	R457,1m-plus;
Gordon	R482,7m;
Methven	R398,6m;
Ackerman	R390m;
Venter	R283,3m;
Jowell	R172,5m;
Hamilton	R160m;
Wessels	R140m;
Wiese	R135,2m;
Liebesman	R130m;
Mowszowski	R129,5m;
Hersov/Menell	R122,6m;
Lewis	R115,4m;
Keeley	R95,2m;
Sacco	R87,4m.

RUPERT/HERTZOG R457,1m +

Tegniese & Industriële Beleggings (TIB) holdings only; Richemont notionally R5,54bn.

Family businesses: TIB, which controls Rembrandt Controlling Investments and Rembrandt Group (Remgro); and Richemont. Interests include tobacco, liquor, finance, mining and industry.

Rupert/Hertzog families owned 50 793 600 shares in Tegniese & Industriële Beleggings in March 1990. At R9 a share, these are worth R457,1m.

The families also control Richemont, the Swiss-based industrial holding company spun off from Rembrandt three years ago, through a holding of 52 200 B shares. These shares are not listed and it is not possible to put a precise market value on them. However, at the time Richemont was set up, the families owned 51% of the equity. On November 29, the market capitalisation of Richemont was R10,86bn. If their original 51% holding were held via the listed A shares it would be worth R5,54bn.

Founders: Anthony (Anton) Edward Rupert (74) and Dirk Willem Ryk Hertzog (76). Rupert and wife Huberte have two sons and a daughter. Hertzog and wife Lorraine also have two sons and a daughter. Both families live in Mostertsdrift, the old-money enclave of Stellenbosch.

Retired as chairman of Remgro, Rupert remains chairman of Rembrandt Controlling Investments. Hertzog is now vice-chairman and a director of Remgro and TIB.

Heirs apparent: Johann Rupert (40), son of Anton, is widely perceived as the crown prince. CE of Richemont, he also structured the deals that secured effective control of Gold Fields of SA for Rembrandt and Rothmans for Richemont. Appointed vice-chairman of Remgro in August, a step closer to the executive chairman's seat now occupied by J A "Koos" Rupert (63), Anton's brother.

Stellenbosch graduate, married to former Tukkies rag princess Gaynor Downie.

After working at the US merchant banking house Lazards, Johann returned to SA in 1979. Before he was 30, he bought Rand Merchant Bank from an insolvent Rand Bank for about R1m in 1979. In five years its annual profit rose from R220 000 to R6m. His detractors felt he was brash and arrogant starting out but he prides himself on not coming across as a pampered jet-setter.

Anton Rupert ... *a very private millionaire*

Edwin de la Harpe Hertzog (41), son of Dirk, married Elizabeth Erasmus in 1975 and they have two sons and a daughter. Director of Remgro, Rembrandt Controlling Investments and TIB. MD of Medi-Clinic, the private hospital company controlled by Remgro, chairman of the National Association of Private Hospitals. Stellenbosch graduate.

History: Rembrandt began life in 1942 as Voorbrand Tabak. Rupert and Hertzog raised capital door-to-door and built the small tobacco company into an international empire.

A very private person, Anton Rupert holds numerous public offices. Among others, he's chairman of the Small Business Development Corp and Historical Homes of SA, chancellor of Tukkies (where he once lectured in chemistry) and a director of the Reserve Bank.

Business Day said in March: "Anton Rupert is a humanitarian, a man before his time who practises nonracism (with a) ... deep love for Africa."

Dirk Hertzog is president of the Free Market Foundation. He began his career as an attorney in 1932 with the firm of Couzyn, Hertzog & Horak in Pretoria.

GORDON R482,7m

Family business: Liberty Investors.

According to a circular dated October 31 1990, the family holds 125 370 587 shares in Libvest, priced at R3,85. Libvest is at the top of a complex structure which controls Liberty Life, Prudential Assurance, British interests including Capital & Counties, holds 20% of Sun Life Assurance and has a wide range of other interests.

Founder and current head of family: Donald Gordon (60). Married to Peggy, he has two sons, Graeme (27) and Richard (32), and a daughter, Wendy Appelbaum (30).

History: After qualifying as an accountant, Gordon started his own insurance company when he was 27. Requiring a statutory minimum of £50 000, he raised £42 000 in nine months from friends, his wife's gynaecologist and business contacts. He managed to persuade the Registrar of Financial Institutions to defer the requirement for the additional £8 000 till the end of the first calendar year.

Four years later Liberty Life went public. The worldwide Guardian Assurance Group acquired 75% of Liberty Life and left Gordon as MD and a director of Guardian.

From the start, Gordon was interested in expanding internationally. When he re-acquired control of Liberty in 1978 he returned to his international ambitions. Within two years, with an initial capital of £10 000, he established TransAtlantic Holdings, through which his offshore interests in Sun Life, Capital & Counties and Continental & Industrial Trust are held.

He is also chairman of Charter Life Insurance, Continental & Industrial Trust, First

Bill Venter ... *the product is what counts*

180

tracts. But, in a 1983 interview, he strongly denied that his Afrikaner background got him the business: "Nobody makes money out of patriotism. The product is what counts." When ITT disinvested in 1976, Venter brought his old employer, Standard Telephone, into the fold. He has also bought out disinvesting subsidiaries of Xerox, Asea, Intergraph, Motorola and NCR.

His recipe for success: "You have to be prepared to give up the social rounds, frequent holidays, three-day weekends, home at 4:30 to stroll through the garden. The rewards make it worthwhile."

Venter's a fitness junkie and his Boksburg head office is equipped with a state-of-the-art gym. Through the Bill Venter Foundation he funds schools, medical facilities and academic research.

He maintains a modest lifestyle, driving his own car and eschewing overseas holidays. Only in the last two years has he travelled first class. He says, "The group is not for sale and it never will be."

JOWELL R172,5m

Family business: Mobile Industries, Trencor. Through 53 subsidiaries, operates in manufacture of truck trailers, road tankers and containers, road haulage, tyre retreading and marketing, commodity exports and express goods service.

According to the share register, the Jowell family has a controlling stake in parent company Mobile through a holding of 14 680 600 shares in February 1990 priced at R11,75.

Founder: Joseph Jowell (died 1973).

Head of family: Neil Jowell (57) is chairman and CEO of Trencor; Cecil (55) is chairman of pyramid Mobile.

History: In 1930 Joe Jowell, a practising attorney saw an opportunity presented by a bushveld farm in Sabi Sand private reserve where he hunts. His favourite exercise is horseriding.

(180)

WIESE R135,2m

Family business: Pepgro, Pepkor, Pep Stores. The group includes nearly 900 Pep stores, the Ackermans retail clothing chain and the Shoprite chain.

As disclosed by Christo Wiese, the family held 5 200 000 shares in Pepgro as at December 16, each priced at R26.

Founder of the business: Renier van Rooyen.

Head of the family: Christoffel Hendrik (Christo) Wiese (49). He and wife Caro have a son and two daughters. He is executive chairman of Pepkor, chairman of Pepgro and a director of more than 100 companies.

History: Born in Upington, the birthplace of Pep Stores, Wiese joined founder Renier van Rooyen in the business in 1965 after working there as a teenager during school holidays. In 1976 he and a friend bought out Ochta diamonds and made a mint during the boom of the late Seventies. He sold out in 1980, just as the diamond market peaked. In 1981 he bought out Van Rooyen, who wanted to retire, and took control of Pepkor.

His wife is the daughter of Japie Basson, formerly chairman of the United Party in the Transvaal. Basson was a member of the Namibian and SA parliaments for 30 years and, after switching to the NP, a member of the President's Council under P W Botha.

Christo was active in liberal student politics at the University of Cape Town and unsuccessfully stood for parliament as the PFP candidate for Simonstown in 1977. He went to Paarl Boys' High and earned a law degree from Stellenbosch. He practised at the Cape Bar from 1974 to 1978.

In November, Wiese bought the historic Lanzerac Hotel on a 20 ha site in Stellenbosch for a reported R9m. It's thought that he will restore the manor house and use it as a private residence.

For the past 16 years the family has lived overlooking the sea at Clifton. They also have a beach house in Yzerfontein on the west coast.

Christo Wiese ... *from diamonds to retailing*

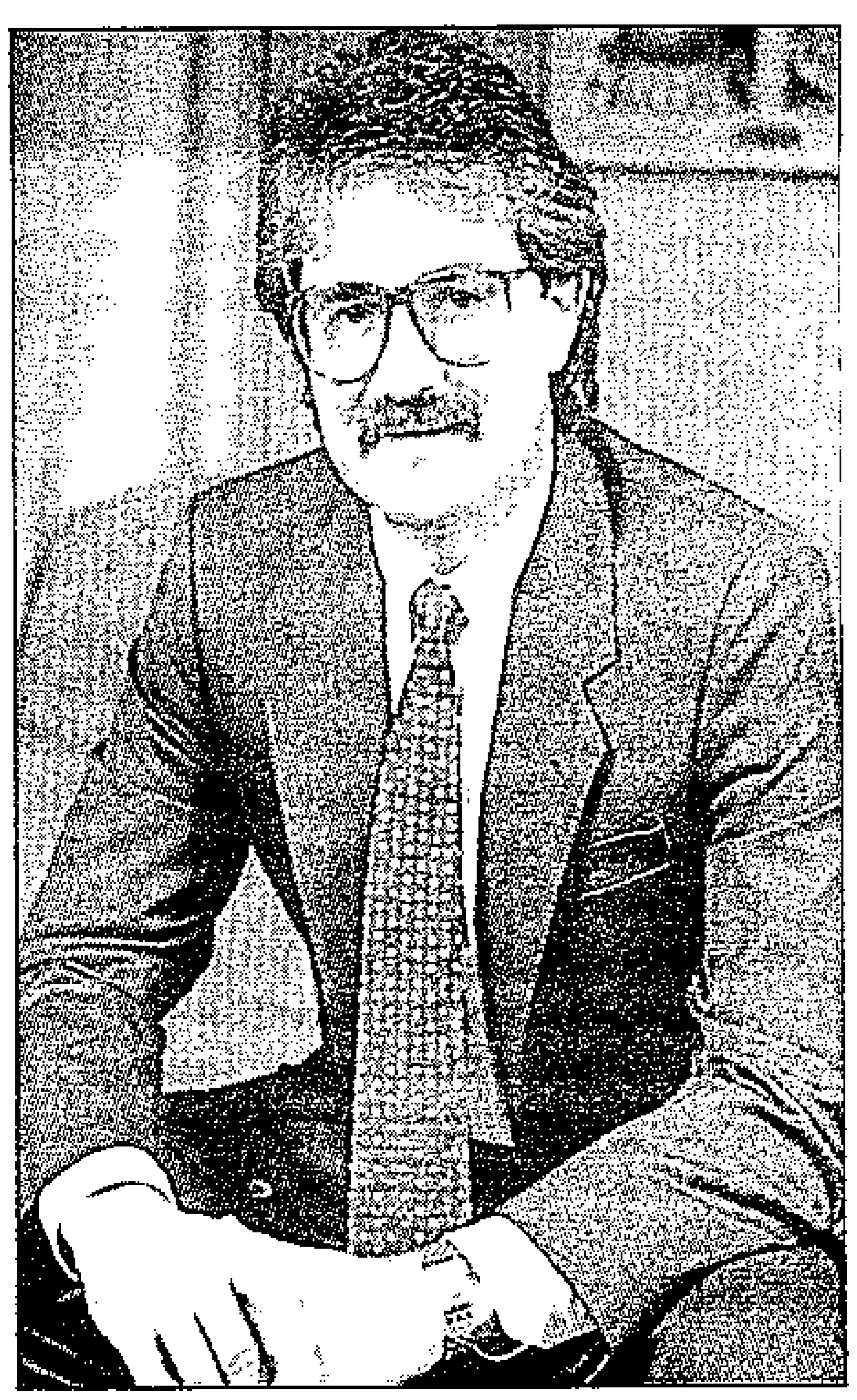
FM 21/12/90 (180)

LIEBESMAN R130m

Family Business: FSI Corp and FS Group, comprising 22 companies with interests that include building materials, footwear, pharmaceuticals, property and hosiery. Liebesman family has holdings in FS Group, FSI, Teamcor, Hunts and Waicor. As the group has just gone through a restructure, it has not been possible to identify specific holdings, but Jeff Liebesman has put a value of R130m on them.
Founder and family head: Jeffrey (Jeff) Michael Liebesman (38). He's chairman and CE of FS Group, FSI and Waicor; chairman of AAF Investment Corp, Homemaker Holdings and Hunts and Reichmans. He and wife Merle have two sons.
History: Liebesman grew up in middle-class Orange Grove, Johannesburg, where he made money by renting out bicycles to neighbourhood children. He went to Northview High School, narrowly squeaking through matric, and Wits, where he earned a BCom and BAcc. His father financed the first year at Wits and he financed the rest by selling second-hand clothes.

As a CA with Kessel Feinstein, he caught the eye of one of the firm's clients, Form-Scaff. In 1981 he was asked to come aboard as the company's MD and then bought into the scaffolding company with R750 000 he had made through investing on the JSE.

Within a few years he had taken after-tax profits from R500 000 to R20m by buying up the competition, opening branches around SA and expanding the business offshore. His next purchase was NatBolt from Anglovaal, followed by W&A (which included General Tyre, Hunt and AAF) from Mannie Simchowitz, and then trade finance company Reichman's (sold this month to Investec.)



Jeff Liebesman ... *the youngest of the lot*

W&A's average annual return of 90% for the past five years won it *Business Times's* Top 100 Companies award for the second consecutive year. Says Liebesman: "I guess I'm trying to do what Hanson Trust has done so successfully in the UK — to buy undervalued companies in unfashionable basic industries, then to maximise value by turning them around and working the assets."

He's known to run an exceptionally informal show around the well-apppointed Doornfontein headquarters, which came with the W&A deal. He's still regarded as the ordinary boy next door, the Jewish kid from Orange Grove who made good. He's also respected as a gutsy guy who is a master business strategist, a wheeler-dealer. He runs five days a week and has completed several Comrades marathons. He also plays squash and golf.

MOWSZOWSKI R129,5m

Family business: Elcentre Group, comprising 82 subsidiary and associated companies primarily involved in the manufacture and distribution of power cables and wire, as well as a wide spectrum of electrical and electronic products (Voltex Holdings Ltd), and the distribution of locksmith supplies and security products, electrical accessories, tools and hardware (Sanlic Hardware Holdings Ltd.)

Mowszowskis held 43 152 760 shares in Elcentre Group Holdings in June 1990, as disclosed in the annual report, priced at R3.
Founder: Wolf Mowszowski (1908-1985).
Head of the family: Reuben Mowszowski (46).
History: Wolf Mowszowski, born in Poland in 1908, fled the impending Holocaust to Israel in 1940. He arrived in Johannesburg in 1955 with his three sons, Reuben (then aged 11), Nathan (6) and Chanania (4) and established Electric Centre afterwards.

By 1971, all three sons were involved in the business, which soon became a family partnership. By 1986, Elcentre had 14 branches and was second in size in electrical goods distribution in turnover. A year later, having taken over Globe Electrical and Atlas Cables, Elcentre was the only national electrical goods distributor.

Elcentre and Berzack Bros combined 80% of their assets to create Voltex, of which Nathan Mowszowski is the director. The group has 64 distribution outlets and 15 factories for manufacturing.

Chanania collects vintage cars and plays squash and tennis. He drives a Jaguar and his wife a Mercedes-Benz. He and his wife have a son and two daughters.

Nathan, a BCom (Wits) and MBA (*cum laude*) (Wits) graduate, married in 1975. The couple live with their young son and a daughter in Rivonia, where they keep a boat, a Land-Rover and two BMWs.

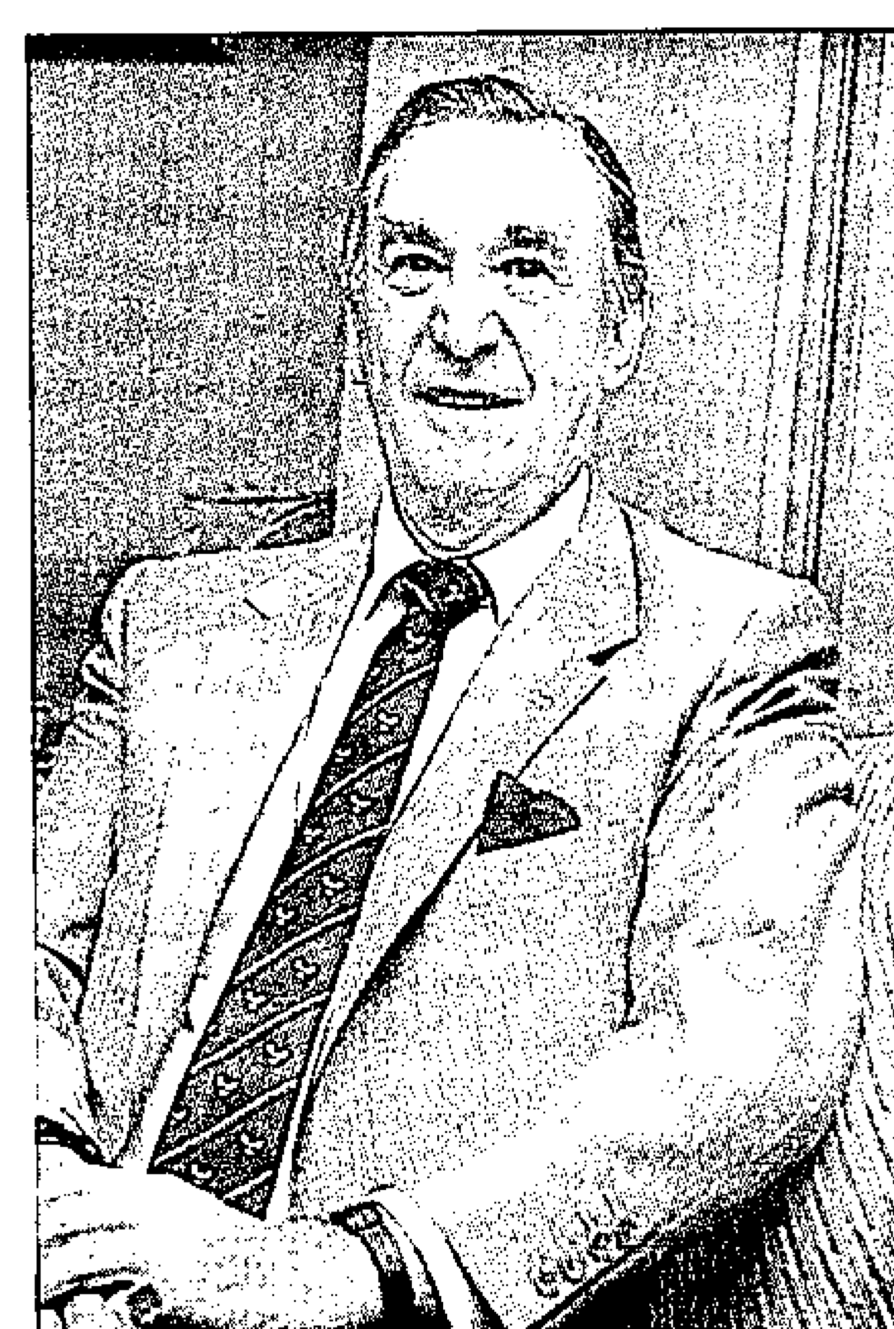
Reuben, the current chairman and MD, married in March 1966 and enjoys sport and reading. Both he and Nathan are highly involved in synagogue affairs. Married, with three daughters, he and his wife drive Daimlers.

Reuben Mowszowski ... *a liking for Daimlers*

MENELL/HERSOV R122,6m

Family business: Anglovaal Holdings (Avhold), Anglovaal, Anglovaal Industries.

As disclosed in the share register, Hersov-Menell families together held 23 348 700 shares, equally divided, in Anglovaal Holdings in November. This is thought to understate considerably the true wealth of the families, however. They are known to have watered down their equity holdings in Avhold and, for example, did not follow their rights in a recent rights issue.



Basil Hersov ... *come fly with me*

Recession, debt dampen outlook

Sowetan 21/12/90

180

LABOUR REPORTER

MONEY and jobs are short and consumers at every level are struggling to keep ahead of debt - but the Western Cape has the potential to break the grip of the economic recession.

This is hopeful message leading economists have for the region as consumers go on a Christmas spending splurge.

But it is not all good cheer on the economic front. While the seasonal Christmas upturn is expected to bring a welcome boost, the effects of the downturn are daunting.

Many Western Cape industries have had to retrench staff and resort to short-time working for the first time in years as demand has dropped.

Some of the region's biggest industries - clothing, footwear and furniture have been hardest hit as consumers save their earnings for essentials like food, housing, transport and education.

Economists warn that one of the greatest reasons for concern is the vast and growing number of people who have little hope of finding jobs in the near future.

At the same time, the Stellenbosch Bureau for Economic Research warns that growing unemployment coupled with "unrealistic" trade union wage demands have destabilised the labour market and created a climate of social unrest.

The national debt on loans, including mortgages, has soared by a staggering 72,2 percent to R284-million in the past year - with the Cape having its fair share.

More people have had to give up their houses because they could not make mortgage repayments and, while the property market has remained buoyant, the region has a housing backlog running into thousands, especially in the low-cost sector.

While tourism in the Western Cape has remained buoyant, the recession has dampened the industry's growth rate and while steady growth is predicted, it is very sensitive to violence and unrest.

Reeling from assorted price increases - especially fuel, and the concomitant consumer price rises - consumers are struggling.

Diversity in the local economy is cited as an insurance against the effects of the recession, but certain sectors in the region are badly off.

Mr Colin McCarthy, executive director of the Cape Town Chamber of Industries says the downturn has led to a reduction in buying power and industries which suffer are those manufacturing durables like the clothing, footwear, furniture.

"The Cape is the biggest centre for footwear, clothing and textiles - and there has been a huge reduction in the demand for these products.

"Regretably there have been a number of failures, especially in the clothing industry where many factories have gone insolvent.

"The country all over is in a poor state, but the Western Cape has suffered because of the manufacturing industries here."

He argues that the Cape should concentrate on building its export capacity.

A brighter view comes from Dr David Bridgman, executive director of Wesgro, the region's development agency.

He believes the Cape has had the fastest growing economy of all metropolitan areas in the country through the '80s, becoming "the leading area in South Africa".

BARLOW RAND FM 21|12|90 (180)

ANOTHER TOUGH YEAR

Activities: *Mining, mineral beneficiation, manufacturing, distribution, food, pharmaceuticals and property.*
Control: *Old Mutual 34%; Sanlam 7,2%.*
Chairman: *A M Rosholt; vice-chairman and CE: W A M Clewlow.*
Capital structure: *185,5m ords; 375 000 6% cum prefs. Market capitalisation: R6,86bn.*
Share market: *Price: 3 700c. Yields: 4,6% on dividend; 12,5% on earnings; p:e ratio, 8,0; cover, 2,7. 12-month high, 5 475c; low, 2 975c. Trading volume last quarter, 2,7m shares.*

Year to Sep	'87	'88	'89	'90
ST debt (Rbn)	0,73	1,09	1,38	1,49
LT debt (Rbn)	1,68	1,89	1,80	2,39
Debt:equity ratio	0,26	0,32	0,36	0,40
Shareholders' interest	0,46	0,42	0,43	0,43
Int & leasing cover	8,5	21	9,8	6,8
Return on equity (%)	16,4	22,9	31,1	23,7
Turnover (Rbn)	16,5	21,2	26,4	29,1
Pre-int profit (Rbn)	1,42	2,02	2,70	2,48
Pre-int margin (%)	8,6	9,6	10,2	8,5
Earnings (c)	297,3	408,2	543,8	463,7
Dividends (c)	100	130	170	170
Net worth (c)	1 810	1 784	1 747	1 955

Barlow Rand's 14% earnings decline in financial 1990 was a better result than the market had expected, and the share price gained about R8 after release of the figures. The group thus showed resilience when demand withered in most markets at home and abroad.

Sliding commodity prices bloodied the earnings from two major divisions — mining, and ferro-alloys and stainless steel — which together contributed 39% of 1989's attributable profit; in 1990 their total contribution buckled to 26%. The collapse at Middelburg Steel & Alloys (MS&A) wiped R164m off Barlow's 1989 bottom-line profit of R1bn.

Chairman designate Warren Clewlow says the extensive capital programme at MS&A has been completed and it is expected the company will, when better market conditions return, perform at a level that will justify the expansion. He adds that MS&A operates in highly cyclical international markets and Barlow is examining ways of reducing the effect of this company's cyclicality on its performance.

Barlow Rand's Clewlow ... *patience did not help*

Barlow has made various changes to its structure in recent years, including several delistings, and the wholly owned portion of the portfolio expanded considerably. Though benefits were felt in the upswing, the 100% subsidiaries include some particularly cyclical companies — MS&A as well as such interests as the building materials, steel and paint division.

The effective stake in Tiger Oats — long one of most successful and consistent performers — is only 26%. That the 1990 attributable profit contribution from food and pharmaceuticals was only 14%, partly reflects the financially inefficient control structure through C G Smith and C G Smith Foods. A leaner structure for Barlow cannot be delayed indefinitely.

The worst is not yet over for mining and MS&A. The latter's outlook for the coming year is described as particularly bleak, given the uncertain state of world markets, the ferrochrome oversupply and the weakening SA economy. While Rand Mines is gaining from higher coal offtake at certain Eskom power stations and the increased share in Middelburg Mine, the coal export market remains stodgy and the mining house is meeting difficulties in most other areas. Its 1991 taxed profit could be "well down."

Rand Mines has been a useful source of cash but the mining house itself has stagnated. It has failed to diversify its mining operations effectively, and, as Barlow's mining arm, has been unable to follow other mining houses in investing outside the mining industry.

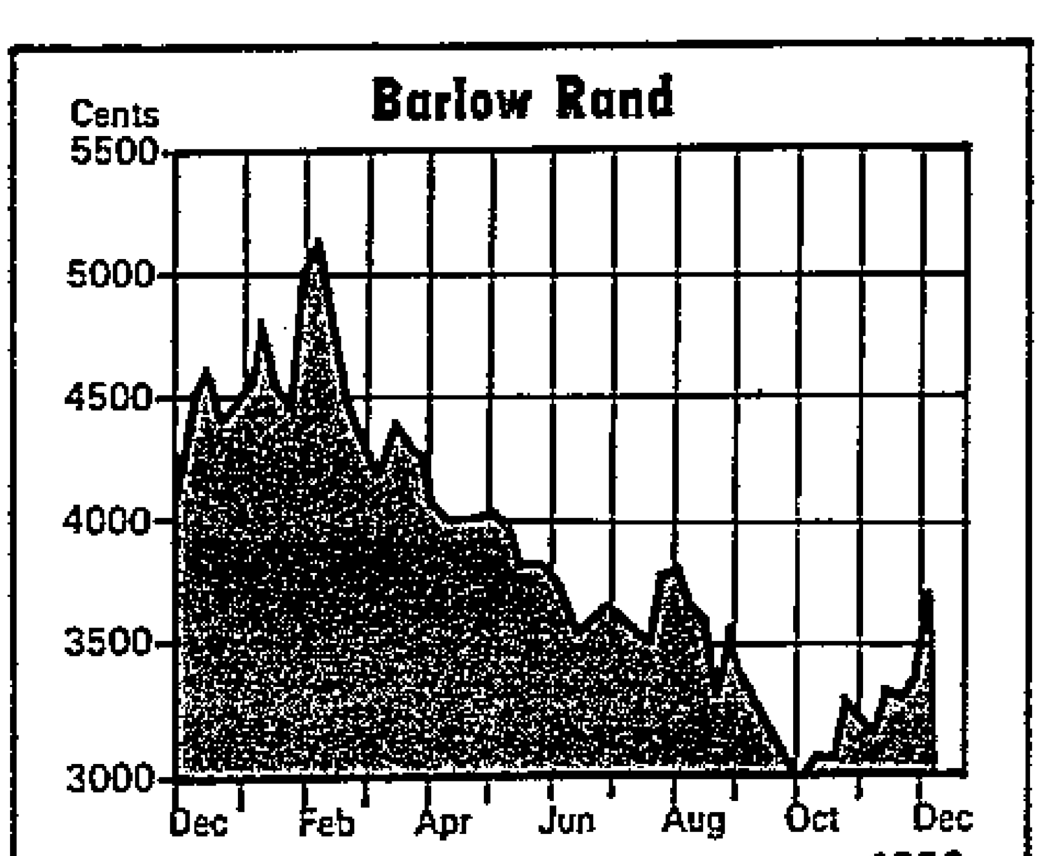
Clewlow admits that, taking a long-term view and exercising patience with respect to the marginal gold mines, has not helped Rand Mines. Prospects for the mining division in its present form and under present world precious metal and commodity market conditions, he says, are not favourable. The entire asset portfolio of Rand Mines is being reviewed and its cash position will be strengthened by disposal of under-performing assets and non-core businesses.

In contrast, steady or improved profit is forecast for most of Barlow's other major divisions. The industrial division, which provided 30% of attributable profit, is expecting a reasonable advance from electronics and electrical engineering, a return to growth in information technology, an earnings increase in line with inflation from earthmoving equipment, motor and appliances, and marginal improvement from building materials, steel and paint.

After an earnings decline last year, the packaging and textiles division is expecting some recovery, partly due to capital projects coming on stream. Better earnings are also expected from food and pharmaceuticals; management reckons these businesses are generally running well and there are still many opportunities for expansion and increased profitability.

After several sluggish years, J Bibby Plc woke up and lifted its sterling after-tax profit by 23%, a 27% advance in rand terms. It made several acquisitions and expresses confidence for the future — though a similar surge is unlikely in 1991, in view of the slowing UK economy.

A favourable swing of R34m in the deduction from Barlow's bottom line, relating to property, finance and administration, was mainly due to tax benefits arising from cap-



PROFIT BREAKDOWN

	Attrib profit (Rm) 1989	1990
Mining	172	169
Cement & lime	62	65
Ferro-alloys & stainless steel	216	52
Electronics & electrical engineering	50	58
Information Tech	26	20
Earthmoving equipment motor & appliances	124	123
Building materials, steel & paint	91	65
Packaging & paper	83	76
Carpets & textiles	18	13
Food & pharmaceuticals	109	122
International	93	115
Property, finance & admin	(43)	(9)
Total	1 001	859

ital allowances in certain wholly owned subsidiaries — another boost unlikely to recur this year.

Whether improvements in the industrial, food and international interests will be enough to compensate for deterioration elsewhere will depend largely on economic conditions. Asset management remains tight — operating working capital increased only 2% last year — but volumes will ultimately determine profitability.

Clewlow sees 1991 as a year of consolidation, with reorganisation in the mining division and capital projects to be brought to profitability throughout the group. Perhaps optimistically, he forecasts roughly maintained profit, implying a dividend pegged at 170c for the second year; certainly, it will not be cut. Investors must be hoping the dividend plateau will not extend to five years, as in the first half of the Eighties, when Barlow became known as a fixed interest stock.

Earnings growth should, however, be robust when markets recover, which may well occur by 1992. The share offers value at present levels around R37, though there probably will not be much appreciation for a while.

Andrew McNulty

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SA's first trade mission to USSR

ST Times 23/12/90 By DIRK TIEMANN (180)

SOUTH AFRICAN businessmen will make their first official trade visit to the Soviet Union and Poland early next year.

The visit, arranged by the SA Foreign Trade Organisation (Safto), will take place from April 14 to April 28. Some of the companies that seek contacts are Allied Bank, Dimension Data, Klockner-Becorit, and General Food Industries & Industrial Commodities, a chemical company.

Trade links with the Soviet Union will be enhanced by direct shipping routes. Ships will ply between Maputo and Leningrad if current negotiations are successful.

Safto international division senior general manager Mike Veysie says five companies have signed up for the visit. It is hoped that 15 companies will join the part.

Mr Veysie says: "Private companies in the USSR are now allowed to apply for import licences, but there is great uncertainty about payments."

The USSR imports glassware, medicine, food and consumer goods from SA. More scope exists for the export of mining equipment, metals and minerals, automotive engineering, electronic, agricultural, pharmaceutical and textile products.

Manufacturers boost capacity utilisation

GARETH BELL

MANUFACTURING industries improved their capacity utilisation levels during August with non-ferrous basic metals reaching 93,8% of their production capacity, the latest Central Statistical Service (CSS) figures show. BDay 24/12/90

But while the footwear industry at 89,3% showed the highest increase (8,1%), this was symptomatic of a cyclical trend in the industry. However, an increase in footwear demand was clearly evident from August, an industry spokesman said.

Other sectors contributing most to the 0,5% increase in total utilisation to 81,8% were the furniture industry at 2,5%, the leather industry at 2,2% and the scientific equipment industry at 2%.

The furniture industry's 2,5% increase in productive capacity was probably the result of an upturn in business in Natal and the western Cape, said a Furniture Manufacturers Association spokesman. (180)

A number of new factories had been built and employment increased.

The figures showed that the transport equipment industry had the lowest utilisation at 70,6%.

Of the 18,2% underutilisation of capacity, 11,4% was attributable to insufficient demand for chemical products.

By Syd Vianello
Research Analyst
— Industrials
Ed Hern, Rudolph Inc

BUSINESS OUTLOOK '91

Star 24/12/90.

Whither the industrial market?

A year ago I predicted the industrial index would show little growth in 1990 as the economy slowed and corporate profitability came under pressure.

As it turned out, my prediction seems to have been on target. At the time of writing, the index level of 2960 was not much short of my targeted 2950.

So what for 1991?

Current signals indicate a worsening of the key economic indicators early in the year.

Gross domestic product (GDP), already negative (annualised) for three successive quarters, should remain negative for much of 1991, while negative fixed investment already seems to be a way of life in SA.

Unemployment is forecast to deteriorate rapidly in the first quarter of 1991 — in fact many workers may well be returning after Christmas to no job, while early reports in December from leading retailers indicated a rapid drop-off in trading, compared with the levels recorded earlier this year, due, I am sure, to continued high inflation (more recently the petrol price increases), lower growth in wage increments, the uncertainty created by the unemployment spectre and the decline in incomes of the informal sector (particularly taxidrivers).

Profitability

Company profitability will also be negatively affected by:

- The Government's continued anti-inflationary drive, which will see government expenditure real growth once more at a virtually zero level.
- The stronger rand, which is affecting export industry profitability severely.

Although investment restrictions have now been removed by the European Community, we see little actually coming here for a long time because of the unclear views of the ANC and other like organisation on nationalisation. Clearly the latest decree in regard to white-owned Zimbabwean farm properties won't create a climate conducive to investment.

The lifting of trade barriers could help certain industries such as iron and steel and certain agricultural products, but clearly the mooted boosting of trade with East European countries and Africa will always be restricted by foreign currency constraints.

The world economic outlook will, as always, not escape SA and prospects of slower world activity could hurt demand for and revenue from some of our primary exports such as platinum, steel, ferrochrome, coal, sugar, etc.

Fortunately, the start of construction on the Lesotho Highlands water project will compensate for some of the decline in Mossgas activity.

But the possible closure of some gold mines or a major cutback in gold mining activity will both put many tens of thousands out of work and reduce mine purchasing activity (and development) somewhat severely.

(180)

Scenario

Compounding the above is the political scenario, which indicates a further high capital outflow for 1991 in terms of our international creditor arrangements and an ongoing postponement of employment-creating opportunities because of the uncertainty.

Inflows into Eskom stock should continue, but this does not create jobs.

Whatever the number of new jobs created, if any, it will not cover population growth and unemployment will worsen.

When will the economy turn? We think weak signs will emerge later in 1991, particularly when the expected lowering of interest rates has the desired impact.

But let us warn that maybe up to three drops in interest rates might be needed to re-stimulate the economy (remember 1985-87?).

By then we also hope that a weaker rand will help exporters recover their profit margins and generally create a climate more positive than the present one.

Perhaps, too, the constitutional negotiations will have started and helped improve the political climate.

So how will all this affect the industrial market?

Fundamental

Let us begin by examining the fundamental truths underlying the South African industrial board of the JSE:

- Many years of low growth and negative GDFI has resulted in current debt ratios of the top index stocks remaining well within acceptable levels.

Little or no new money is expected to be raised in the foreseeable future.

- Privatisation is currently out of the question until the political questions are resolved, so institutional investment in this area will be zero.
- Potential investment opportunities in government, semi-government and parastatal stocks will decline because of lower expected deficits or capex programmes under consideration.
- The outlook for commercial and industrial property is unexciting because of the current CBD oversupply situation.
- The gold mining industry as an investment medium appears dead — in fact disinvestment may well occur if the gold price remains at current levels.
- The non-convertibility of the local currency effectively limits investment opportunities outside SA to a small range of stocks such as Minorco, Richemont, Fit, Lonrho, etc.
- Institutional cash holdings cannot for psychological reasons be allowed to rise too high, while in any event the returns from cash are forecast to decline considerably in 1991.

So what happens?

Merry-go-round

Effectively, we get "inflation" in the share market where cash can only logically be dedicated to industrial stocks. And because we have a virtually finite number of stocks being chased by ever-increasing cash flows, stock prices inevitably rise in the resultant merry-go-round.

We therefore think that despite the current poor economic outlook, the industrial board will start to display exciting growth signals later in 1991 as the returns on alternative investments (cash) decline, the earnings outlook improves and industrial equity holdings in portfolios need to be increased to more realistic levels.

We therefore think that top-quality index stocks could rise by as much as 20 percent in 1991 as investors scramble to increase their equity exposures and simultaneously reduce their gold and related positions.

Our forecast is for an industrial index of 3 500 by end-1991, with significantly weakened earnings and dividends yields attaching thereto.

This strange paradox is, regrettably, the result of the cumulative effects of a decade of erratic economics, uncertain politics and worsening untradeability in the market due increasingly to the high level of power concentration in South Africa.

BUSINESS DAY, Friday, December 28 1990

De-stocking behind decline in spending

180

B/Day 28/12/90

GRETA STEYN

MASSIVE de-stocking — to the tune of an annualised R4bn in the first half of this year — was a major factor behind the decline in overall spending in the economy, according to First National Bank economist Cees Bruggemans.

"With the prime interest rate at 21% since October 1989, implying a real rate of interest of up to 7%, there was a considerable incentive for companies to resume their relentless effort of recent years in driving down stock levels.

"This incentive was considerably heightened when private sector managements received warning of policy intentions to force quite a harsh domestic adjustment."

The Reserve Bank noted in its Quarterly Bulletin that the high real cost of carrying inventories had prompted firms to work towards increased rates of turnover of their inventories. Bruggemans also noted political factors as a reason for running down stocks.

Running down of inventory holdings was evident in particular in retail trade where inventories declined from an average of nearly one-and-a-half months' sales in 1989 to an average of only slightly more than one month's sales in the first three quarters of 1990.

According to Reserve Bank figures, the third quarter of this year saw the fifth consecutive quarterly fall in stock levels — on a seasonally adjusted and annualised basis. But massive de-stocking in the first two quarters (R3,5bn and R2bn respectively) was followed by a more moderate decline in the third of R1,8bn.

Economists point out that de-stocking was already well under way last year.

"The build-up in stocks during 1988 and early 1989 was not exceptional. The long-term ratio of stocks to GDP has been steadily falling by about 1% of GDP annually since the mid-1970s under the impact of technological improvements in financial and stock control," Bruggemans said.

The Reserve Bank Quarterly Bulletin shows that, even during the upswing years, the ratio of inventories to GDP peaked at 21,2%. It subsequently fell to 19,5% in the third quarter of this year.

Fixed investment spending 'to drop'

BDay 28/12/90 (180)

ROBERT WICKS

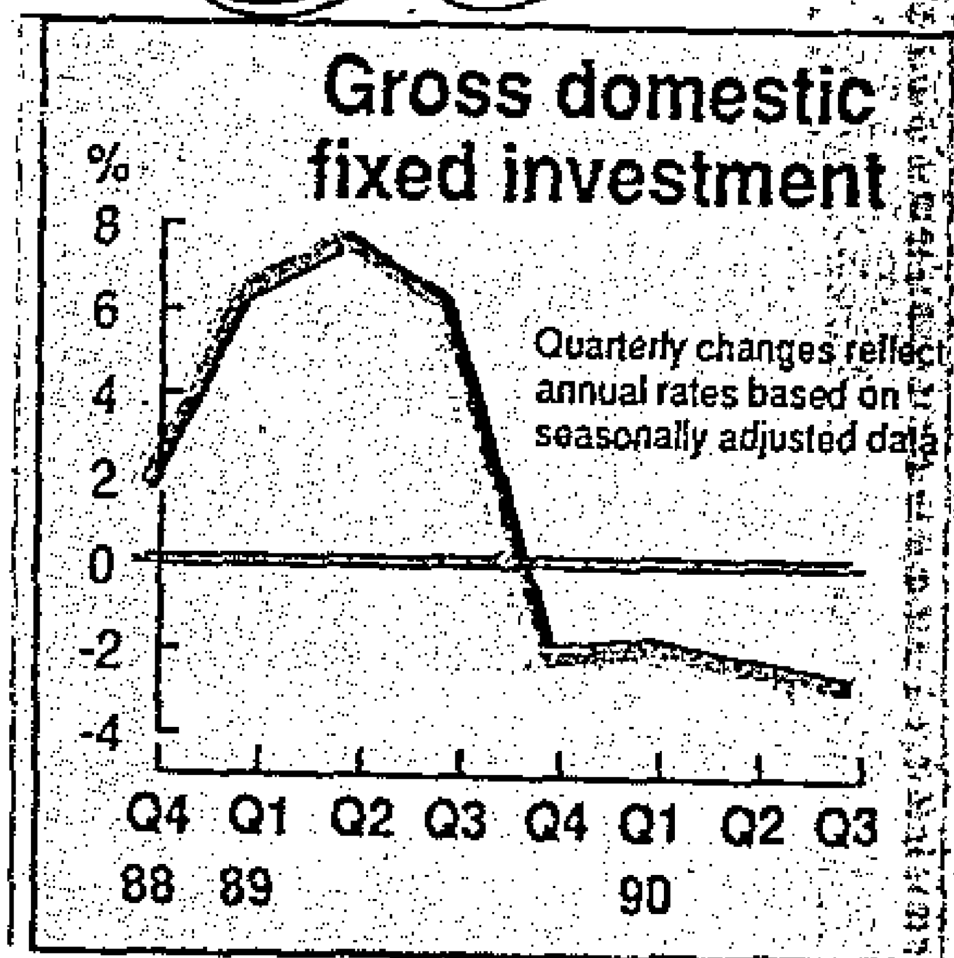
FIXED investment spending is set to drop by between 6% and 7% in 1991, reflecting the slowdown in corporate profitability this year, economists said yesterday.

Bankorp economist Nick Barnardt said a combination of negative factors was influencing both corporate profitability and fixed investment.

"Only a few companies have been able to show an earnings growth higher than the inflation rate. After the 1990 adjustment for inflation, corporate profits decreased by 10% in real terms. Such a reduction has to be bad news for fixed investment opportunities."

High interest rates continued to deter investors, although a cut early in the new year seemed likely. Export companies were unlikely to invest as a slowing of the international economy had significantly influenced domestic export prospects. The agricultural sector had experienced a difficult year, as had the manufacturing industry.

Political uncertainty, unrest, and high wage demands coupled with high consumer spending expectations all looked set to contribute towards a decline in fixed investment expenditure in 1991, he said.



Graphic: LEE EMERTON Source: RESERVE BANK

A positive factor for investment spending was the recent inflow of capital. But economists Chris Greyling and Louis Geldenhuys said yesterday this would not have a marked effect on investment spending.

Greyling predicted that the decline would bottom out around the end of the third quarter next year, but until that

□ To Page 2

Investment

BDay 28/12/90 (180)

□ From Page 1

point, both the public and private sectors would experience declining fixed investment figures.

"The one positive aspect influencing investment is the gradual phasing out of international sanctions. Once complete, a better flow of investment expenditure could be expected."

Economists also noted the general trends towards industry cutbacks, mergers and rationalisation would contribute to declining investment expenditure, with little movement towards expansion and positive investment capital expenditure.

MANUFACTURING — GENERAL

1991

JANUARY — APRIL

CORPORATE PROFITS

FM 4/1/91

180

PLOUGHING THE TROUGH

EXTERNAL FACTORS ARE MUDDYING THE NORMAL CYCLICAL OUTLOOK

The *FM's* latest survey of corporate profit performance has thrown up a number of disturbing trends — not including the fact that there has been further material deterioration in growth to the point that average EPS growth has turned negative.

The slowdown in growth as such was predictable — being a continuation of the trend which first became evident two years ago, after the August 1986 package designed to cool the economy. But while it would be tempting (not to say comforting) to attribute recent poor company results to the effects of this package, there are clear signs that government policy is not the only factor at work — and perhaps not even the most important.

The present survey follows exactly the same pattern as its predecessors. It is a round-up of results of the major companies that reported over the past six months. Selection has been based partly on size, with a turnover cut-off of about R90m and an attempt has been made to ensure latest results are comparable with year-ago figures, to minimise distortions arising from corporate restructurings and so on.

What results is a list of just over 160 companies covering the entire industrial board, mostly reporting periods (either interims or prelims) to the second or third quarter of the calendar year.

To deal first with a few globular totals, the deterioration in trading conditions is reflected across the full spectrum of turnover, operating margins (hence operating profit) and bottom-line earnings. Starting with turnover, a simple arithmetic average of sales growth has slowed to 15,7% — little better than the inflation rate. Six months ago, average sales growth recorded by substantially the same companies was almost 29%; a year ago it was 31,5%.

Something relatively new, however, is the intensified pressure on margins. This time around, the average operating margin was 9,2%, down from 10,6% in the January 1990 round-up and 10% two years ago. With the rapid contraction of sales growth, it was to be expected that profit margins would be trimmed to protect market share.

This, nevertheless, contributed to even more marked deterioration in the rate of improvement in operating profits. These, on average, were up only 8,2% against 29,2% six months ago and close to 40% a year ago. This was the first time in the economic cycle that operating profit growth failed to match that of sales.

Further down the line we come to one of the few positive aspects — indication that corporate SA has at last absorbed the worst effects of the surge in interest rates. A year ago, when these effects were being compounded by higher debt levels, average growth in finance charges was 167%. The latest figure is little more than one-quarter of that — 40,3%. If nothing else, finance charges are having a less deleterious impact on attributable earnings.

Not that this did much good. Higher finance charges and, probably, higher effective tax rates, wiped out the last vestiges of EPS growth which, for the sample as a whole, turned marginally negative at minus 0,4% — down from a positive 15% six months ago and 28% in the January 1990 round-up.

Shareholders fared a little better: dividends rose by an average 8,4%, marking another change in that this was the first time dividend growth materially exceeded earnings performance (see table).

So far, there is nothing in these globular averages to indicate anything extraordinary, given the long-standing curbs designed to protect the balance of payments and reduce inflation. When you go into the sectoral performances, the picture changes. It is surprising to find the consumer-based sectors still performing relatively well — and far better than the simple average.

There is no better example than the Stores sector where average growth in sales was a whopping 27,2%. Similarly, the Furniture sector featured strongly with five of the six companies included gaining more than 20%.

These two sectors feature among the top five in terms of growth of operating profit, finance charges — strictly speaking, a negative except that it indicates the activity still being experienced — and dividend growth. Furniture features as the sector with the highest average earnings growth; the average for Stores, however, was hit by the poor performance of the likes of Tradegro, Metro, Midas and Gresham, which cannot be entirely blamed on the trading environment. Even so, half the 23 stores included scored earnings gains ahead of inflation; another half-dozen or so came close.

The idea of a consumer boom — even on a relative scale — in the middle of a recession is, to say the least, a little unusual. It is also worrying in that it suggests government has been less successful in cooling the economy than have the uncertainties engendered by the rapidly changing political climate — a point mooted by the *FM* in the last corporate profit round-up.

If so, the path ahead is far from clear. What, for instance, happens when government finally decides the time is ripe to encourage renewed growth? To do so via the traditional means of stimulating consumer demand under present conditions would be downright dangerous and would probably undo overnight any good that has so far come out of steps to stabilise or reduce inflation.

What can be said with some certainty is that the trough in terms of corporate profit growth has not yet been reached. Results included in the present survey do not reflect conditions beyond September 1990, so it must be a foregone conclusion that the next survey, covering results up to March, will reflect a continuation of present trends.

By then, there are reasonable prospects that interest rates will be off the top and, all else being equal, one could probably expect that this alone will start to exert a stabilising influence on results as the year progresses. This should be reflected in a year's time.

But local and international politics bring in uncertainty. The question is whether the internal climate will simmer down enough to boost general business confidence; and, externally, whether improved export opportunities arising from the lifting of sanctions and easier access to eastern European markets will contribute to renewed growth.

On a more positive note, it is also evident that, despite pressure on profits (from whatever source), corporate SA is still in reasonable financial shape — and, therefore, ready to take advantage of whatever opportunities present themselves.

This much is clear from the fact that average profit cover on finance charges is still relatively comfortable at almost 5,5 times; safely above the benchmark of four, normally considered to indicate a sound financial position.

Like any other average, it is implicit that some companies have stronger ratios, while others may be in trouble. But it does suggest there are still opportunities for selective investment, particularly for those prepared to look beyond current uncertainties — and, hopefully, to the day that the SA economy is able to develop unhindered by the constraints of the past.

Brian Thompson

GROWTH PATTERN (% change)

Survey	Turnover	Trading profit	Finance charges	E.p.s.	dividends
Jun '89	+35.0	+63.3	+111.3	+34.8	+31.4
Jan '90	+31.5	+39.7	+157.3	+28.1	+28.3
Jul '90	+28.6	+29.2	+90.7	+15.1	+16.0
Jan '91	+15.7	+8.2	+40.2	−0.4	+8.4

Cash-tight firms on sale overseas

180

7/1/91 B/Day 7/1/91

LESLEY LAMBERT

CAPE TOWN — Cash-strapped SA companies and commercial projects valued at more than R1bn are being marketed to foreign investors.

The commercial division of Pam Golding Properties (PGP) is showing a R1bn portfolio of small to medium-sized SA businesses and commercial and industrial property projects to UK investors this week.

The sellers are well managed and profitable, but cash-strapped enterprises looking for new capital injections from foreign investors, says PGP business broker Pieter Wicht. In a few cases, companies are trying to sell out completely, Wicht says.

The search for foreign partners or buyers has been prompted by the expected lifting of sanctions. But the underlying reasons include prohibitive financial constraints on borrowing in the local market, a weak equity market which discourages new equity issues and a relative shortage of local corporate buyers in the economic recession, he says.

R250m project

Wicht says the PGP portfolio is heavily weighted in hotel and leisure projects which require additional capital and operational expertise. But there are also some smaller manufacturing and engineering companies on the lookout for foreign sleeping partners, he says.

One of the largest ventures in the portfolio is a R250m project by a local leisure group to develop an airport hotel near Jan Smuts, as well as hotels and leisure resorts in the eastern Transvaal, Durban and Cape Town.

Another is a R190m project to develop a timeshare and hotel resort in the Worcester/Wellington region of the western Cape. In both cases, the developers are looking for financing as well as operational expertise, says Wicht.

There are a number of small to medium companies in the portfolio wanting to raise between R200 000 and R20m. One, Cape Town's oldest engineering firm, Marsden, is being offered to foreign buyers for R3,5m, he says.

"Many of the companies, hand-picked for the portfolio, are heavily borrowed and are working only for the bank and their employees.

"But they are fundamentally sound and capable of earning between 24% and 40% a year, which is much higher than the yields acceptable in the UK.

"Profitable SA enterprises offer good investment opportunities to foreign buyers. But, even though investments through the financial rand seem cheap to many European investors, they know the value of things and won't overpay. They are looking for real returns beyond the political risk," he says.

Wicht places the buyers he is hoping to attract in the UK into three categories. There are private emigrants with the equivalent of up to R5m upfront, general investors with more capital at their disposal and venture capitalists who are prepared to take high risks for high returns. Investors in the two latter categories do not want to live in SA but consider it to have investment potential.

The greatest foreign demand to date has been from English and German investors for commercial property, hotels, guesthouses, restaurants and small factories, Wicht says.

But he concedes that foreign interest has been slow to translate into aquisitions, with negative perceptions of ongoing political risk a major obstacle.

Experts debate use of pension fund surpluses

GILLIAN HAYNE BIDay 7/11/90

COMPANIES have a moral obligation to use pension fund surpluses to improve employee benefits, some insurance experts believe.

Other experts dispute this. The question of ownership of pension fund surpluses is the subject of debate, with companies facing the dilemma of who has the right to the overfunding.

In two recent cases, Times Media Limited (TML) used an excess of R7m to improve employee and pensioner benefits, while engineering giant Dorbyl chose to take a contribution holiday with part of its surplus.

TML group secretary Barrie Harris says companies have a moral obligation to improve the fund.

"Although I understand the view that since companies are responsible for any shortfall in the fund they have some entitlement to the surplus, I do not agree with contribution holidays."

Dorbyl financial director Tony Welton says: "It was only after we had improved pensioners' benefits beyond all expectations and found we still had a surplus that the company decided to stop contributing for a while."

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Combination

Alexander Forbes senior director Peter Milburn-Pyle and Southern Life GM Roy Lennox say pension fund surpluses "belong to the fund, not to the members, the employer or any other party". The two actuaries have compiled a paper investigating the ownership of fund surpluses for Wynand Mouton, the chairman of the Mouton committee inquiring into the pensions industry.

"Fund managers could use the surplus to improve benefits, reduce the employer's contribution, reduce the members' contributions, carry the distributable surplus forward unappropriated, or a combination of these."

Their report looks at the options open to companies with overfunded schemes, whether they are pension, provident, defined contribution or defined benefit funds.

In most, defined benefit pension funds are more susceptible to surpluses because actuarial assumptions are inclined to be conservative.

Insurance expert Richard Wharton-Hood says that in general, contribution holidays are wrong because the company withholds benefits from staff and pensioners. However, the decision depends on the size of the surplus in relation to the scheme, he says.

"The members should be the first concern, and the company the last. Companies have a moral obligation to pass pension fund surpluses on to their employees.

"However, to overcome what is always a debatable point, I believe companies should move to fixed contribution schemes, where both the company and member pay in a fixed amount, and rely on investment performance to provide the return."

Capital equipment costs hit hard

PETER COUTROMANOS

THE high cost of capital equipment is a significant factor undermining the competitiveness of South African industry, says the South African Chamber of Business (Sacob).

A Sacob study shows that capital equipment costing R100 000 at source is likely to cost R175 850 after transport, insurance, taxes and interest charges have been added.

The major component of these added costs (R42 550) accrues to government and consists of a R15 000 import duty, a R10 000 import surcharge and R17 550 in GST.

The same equipment could be obtained by SA's competitors in Germany or Japan at a total cost of R110 000, the study notes.

Capital intensive industries such as textiles and iron and steel are particularly affected by the high cost of plant and equipment.

Sacob says the textile industry is increasingly being faced with stiff competition from the Far East.

This, together with the industry's inability to compete, has led to significant losses in jobs and the closure of a number of factories.

Some relief may be forthcoming, as the surcharge on capital goods which was introduced in 1988 at a level of 15% and subsequently reduced by a third in last year's Budget, is expected to be either abolished or substantially reduced in the forthcoming Budget.

It is currently estimated that this surcharge contributes about R2bn to state revenue.

180

BDay 8/1/91

Manufacturers negative on prospects

B/Day 11/1/91

LESLEY LAMBERT

(180)

CAPE TOWN — Business confidence in the manufacturing industry lifted during the final quarter last year, but manufacturers remained negative about future conditions, the Stellenbosch Bureau for Economic Research (BER) said.

In its latest quarterly survey of the industry, the BER reported that the manufacturers' business confidence index increased to 31 from 26 points during the final quarter. But, it added, 50% of the 845 manufacturers surveyed expected business conditions to be worse this year than last, while only 14% anticipated an improvement.

The results of the survey reflected a decline in sales, production and new orders coupled with uneconomically high stock levels during the quarter under review. But production capacity utilisation remained at relatively healthy levels as a result of a smaller workforce and longer work days, the BER reported.

The steady increase in the price of oil last year had taken its toll on the industry and would keep upward pressure on the prices of manufactured goods during the current quarter, it reported.

BER economists said an alarming aspect of the survey was the respondents' expectation of a decline in the level of real fixed investment in machinery and equipment this year.

"Within the South African manufacturing environment of a largely unskilled actual and potential workforce, coupled with an excessive amount of obsolete capital equipment, new investments in growth ventures are of cardinal importance," the economists said.

"Failing to understand that it would take years to transform the physical and human resources base of the industry into a more sophisticated style would jeopardise the whole national economy."

The continuing deterioration of conditions in the manufacturing sector was set against a daunting economic backdrop in which the monetary authorities would provide only limited relief and the battle against inflation would continue.

These factors were likely to be coupled with disappointing non-gold exports, a stagnant gold price and ongoing internal unrest, the BER economists forecast.

Apart from its domestic problems, the South African economy would also be exposed to the pressures on growth and inflation expected by the world economy this year, they said.

ANNUAL ACCOUNTS AWARD

MAKING THE GRADE

(180)

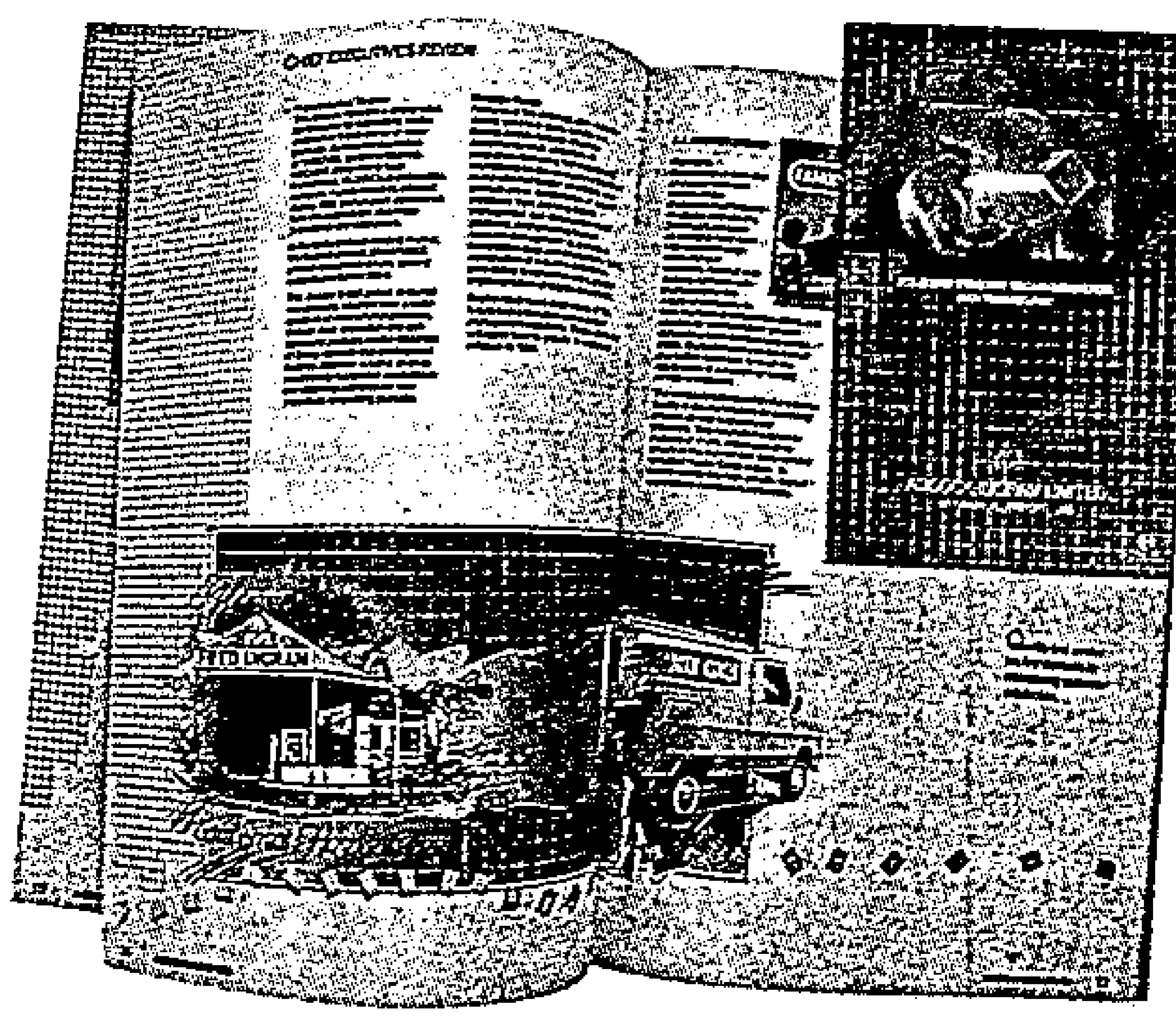
FM 11/1/91

SOME PREVIOUS OFFENDERS ARE MAKING STERLING EFFORTS TO IMPROVE

Among the more important factors that investors consider when valuing shares are their perceptions of the performance and the risk.

Both may be influenced by a company's attitude towards financial reporting, especially if the market has any reservations about its prospects or its management.

Of course, good reporting standards are no guarantee that the financial performance will be similarly good — there are clear instances where the opposite applies. But the two are not altogether unrelated. Time and again it's been notable that the managers who emphasise financial disclosure are often the same ones whose companies have produced a sound profit record, which the market has in turn rewarded with a favourable rating for the share.



That has been true in the past and applies to many of the companies in the Top 20 ranking of the *FM*'s latest annual accounts award.

Sharing top place again this year are SA Breweries and Adcock Ingram, both of which have excellent track records in many other facets of their operations, including the returns to investors. Much the same applies to second-placed Chemical Services.

Highest scorer was York Timber Organisation, which achieved 100%, with 156 points.

As it has already won the award three times, York Timber again appears in the Roll of Honour table, as does Anglo-Alpha, another three-time winner, which this time scored 152 points — or 97% — equal to the achievement of Adcock Ingram and SA Breweries.

The Top 20 category winners will share the award, a floating trophy which bears the name of Massey-Ferguson, the winner throughout the first five years of the competition.

Rules are formulated by the *FM* and University of Pretoria's Bureau of Financial Analysis (BFA), with judging supervised by the BFA's Prof Aad Zevenbergen and administered by senior lecturer Jean Myburgh.

Judging is entirely objective, in that credit is given only for disclosure of specified financial and related information, with points awarded according to a list of published criteria.

These rules are comprehensive and full compliance indicates that disclosure is at a level which would be considered good by any standard.

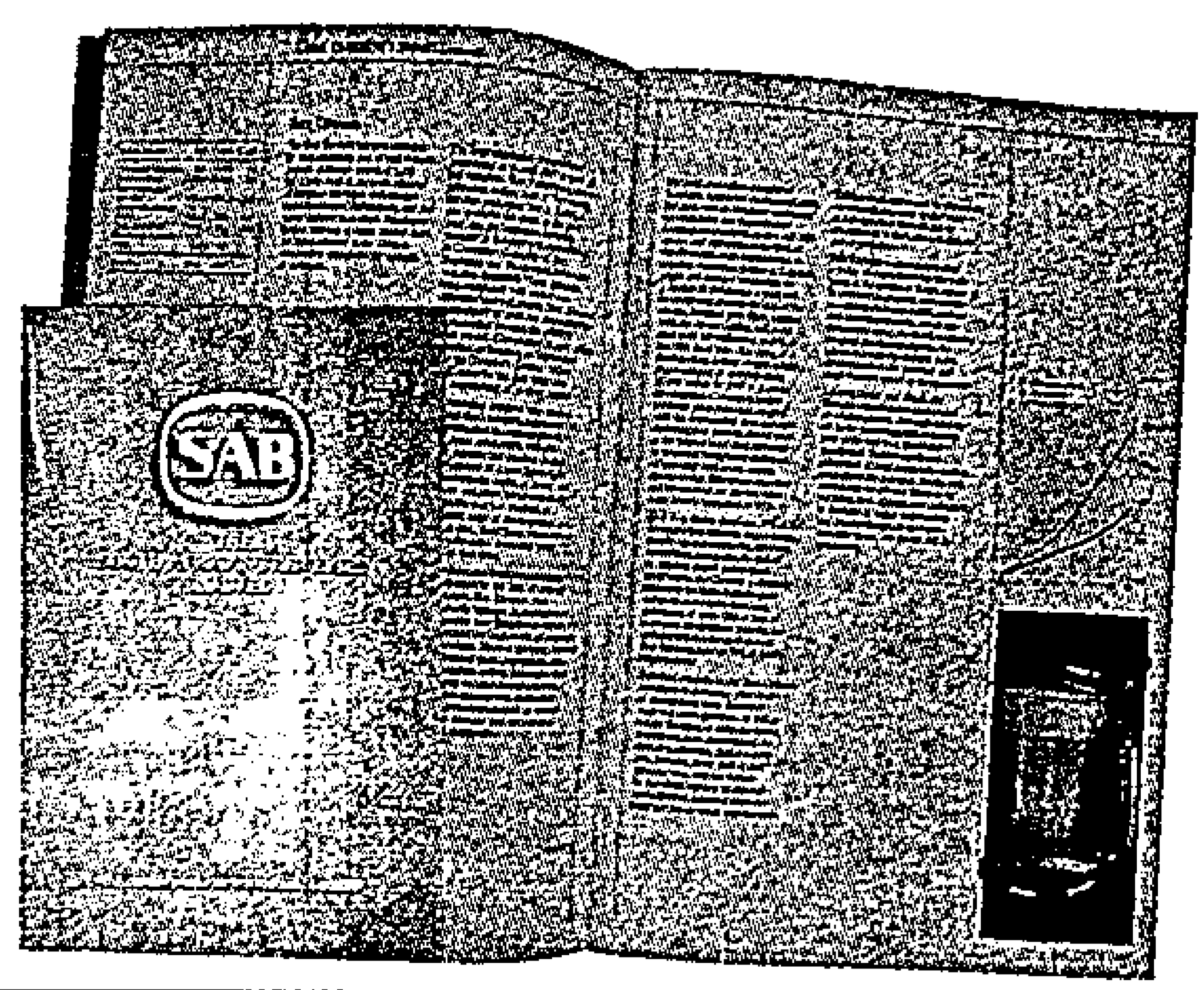
Credit is not given here for such aspects as the aesthetic appearance of the annual report, the quality of the chairman's review or the co-operativeness during the year of company executives. These may be considered relevant, but their evaluation can only be subjective, so they do not play any part in this award.

Rules are revised about every two years and the last revised list was published in the *FM* on January 13 1989. For the latest rankings, all 1989 annual accounts published by companies listed on the JSE industrial board were evaluated according to those rules.

Again there are a number of familiar names in the Top 20 ranking but there are also new appearances, with just over a dozen newcomers.

A welcome development is the appearance of some new companies which have decided to show a positive attitude to shareholders right from the start.

Among newcomers to the Top 20 are Iscor, which deserves full credit for communication, even though there have been other



ROLL OF HONOUR

Anglo-Alpha
York Timber Organisation
Protea Holdings
Massey-Ferguson

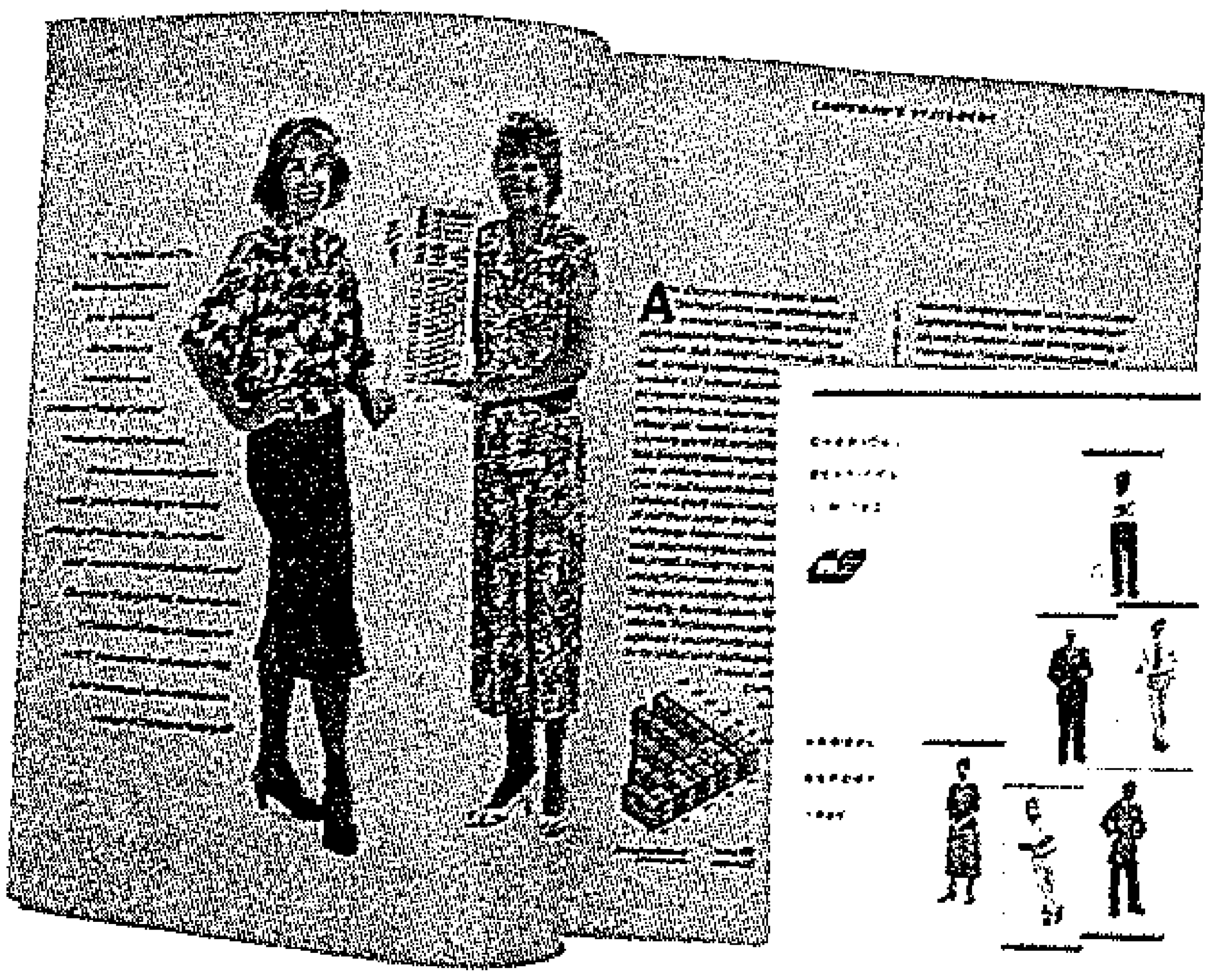
TOP TWENTY

Rank	Company	Points
1	Adcock Ingram*/ SA Breweries*	152
2	Chemical Services*	151
3	CG Smith Foods*	150
4	Seardel*	148
5	PPC*/Southern Sun*	147
6	Federale Volks*/Holdains	146
7	Barlow Rand*/CG Smith*	144
8	AECI*/Amrel	143
9	Iscor	142
10	Nampak*	139
11	Sappi	137
12	Edgars*/Sabvest*/ Tiger Oats*	136
13	Morkels*/Rooikraal*	135
14	OK Bazaars*/Reunert	134
15	Altech*/Blue Circle*/Ellerine*	129
16	Lebowa Bakeries	128
17	Boumat	127
18	Afcol*/ICS/Lion Match	126
19	Premier Group/RIH/Sun Bop	124
20	Frame/Protea Chemicals*	122

* In last year's Top Twenty

THE WINNERS

1990	**Adcock Ingram/SA Breweries**
1989	SA Breweries
1988	Adcock Ingram
1987	Anglo-Alpha
1986	York Timber Organisation
1985	York Timber Organisation
1984	Chemical Services/Anglo-Alpha
1983	Anglo-Alpha/Chemical Services
1982	York Timber Organisation
1981	Quinton Hazell Superite/Dunlop
1980	Dunlop
1979	Protea Holdings
1978	Abercom
1977	AECI
1976	Rennies Consolidated
1975	PP Cement
1974	Protea Holdings
1973	Protea Holdings
1972	United Tobacco
1971	Stewarts & Lloyds
1970	Stewarts & Lloyds
1969	Protea Holdings
1968	Massey-Ferguson
1967	Massey-Ferguson
1966	Massey-Ferguson
1965	Massey-Ferguson
1964	Massey-Ferguson



Just as important as the upper levels are the companies in the lower rankings that have decided to improve their reporting. Lebowa was the outstanding improver, rising by 234 places in the overall ranking after garnering a score of 82%, almost double the score achieved when its maiden annual report was published in 1988.

As the Most Improved table shows, though, many others are now making a greater effort. Interestingly, of the 20 leading improvers, more than half were listed during the 1986-1987 boom.

disappointments; Holdains, the new holding company for Malbak's paper and packaging interests; and Lebowa Bakeries, a 1987 listing that has impressed with both financial results and its reporting standards.

A particularly welcome entry is Frame, a company listed for many years and, until recently, notorious for its poor disclosure. New management, determined to change the culture and the profitability of the group, is also opting for greater openness towards shareholders, employees and customers. Another new entry is Premier Group, where reporting — and the share's rating — has strengthened steadily over the past year or two.

Also encouraging is the appearance here of Edward L Bateman.

The group was long known for minimal reporting — the chairman's statement still consists of three short paragraphs — but operational managers who now stand to gain much from a favourable share rating have evidently been trying harder since restructuring and creation of a share incentive scheme a few years ago. And, judging by the 1990 report, the group could be ranked a lot higher next year.

In the Bottom 20 are ranked the JSE's most dismal reports, published by companies that continue to treat shareholders with disdain.

BOTTOM TWENTY

Rank	Company	Points
1	Rembrandt Beherende*	30
2	Lonrho Sugar*	34
3	Ocean Appliances	35
4	Harwill Investments*	36
5	Solchem Investment	38
6	Cenmag*/Duros	39
7	Micor/Press Supplies	40
8	Mynkar/Playtime	41
9	Claw/North Industries/ Spur Steak Ranches*	42
10	Bolton/Powernet	43
11	Hyperette Stores	44
12	Ancom Jet*/Arontex/ Citizen*/Tegniese Belegg*/ Tegniese & Ind Belegg*	45
13	Budget Footwear/Spur Hold*/ Tex Mills	47
14	Acrem/Rale/Sondor	48
15	Aroma Liquor/Curnow/ Rembrandt Group*	49

* In last year's Bottom Twenty

Still dominating this list are familiar names such as the Rembrandt companies (one of the few groups that combine poor reporting with consistently superior returns to investors), as well as a disappointing number of the new listings.

This year, the BFA has analysed the overall results to establish where the most com-

Blacks struggle as big firms cut bursaries

PATRICK BULGER and POLLY JONES

MAJOR companies have cut their bursary allocations, citing poor black matric results, the economic downturn and retrenchments that make it unnecessary to train professionals in certain fields.

Black students — many of whom rely almost entirely on bursary finance — are being particularly hard hit. 180

"Our number of bursaries is going to be lower this year," a spokesman for Anglo American Corporation said.

New bursaries offered by the corporation had dropped from 180 last year to about 150, the spokesman said, adding that the number of retrenchments made it unnecessary to train more people.

Cutbacks were being introduced in the engineering fields, while an equal number of bursaries in the mining and metallurgical field were still being offered.

A Gold Fields of SA spokesman said the company would be offering 30 bursaries this year, down from 50 last year.

Companies that intend retaining the same number of bursaries this year are being inundated by inquiries as university fees rise by an average of 22%.

Electronics company Altron said it was offering 35 bursaries this year as opposed to 21 last year but had cut back full bursaries to offer more students half bursaries. Altron's scheme attracted 850 applicants last year — this year there were 2 300.

The cutback was being felt particularly in technical training, said Witwatersrand Technikon rector Dirk Wild.

He said a lot more students — especially blacks — were applying for places at the technikon without having employers to pay for their education, as was usual. "Companies just can't afford to train anymore," he said. B/Day 11/1/91

He cited the case of a student who obtained six distinctions in his first year. In spite of this his bursars had suggested he find another way to pay for his studies.

While bursaries were being cut back, the number of applications was increasing.

An Eskom spokesman said the corporation intended giving the same number of bursaries as last year but said there had been a number of cancellations because of poor black matric results.

Search for a realistic, affordable welfare system

BDay 14/1/91.

180

BRIAN McKENDRICK

BUSINESS Day, in an editorial about new government proposals to reduce the role of the state in social welfare (January 4) simplistically blurs or overlooks some of the key issues that should be carefully weighed up by all South Africans at a time when they may be able to restructure aspects of their society.

The clouded issues include the nature of "social welfare", the responsibility of the state to its citizens, and the relationship between social welfare and economic growth.

Social welfare systems are characteristic of all industrialised and many industrialising societies in the modern world, whatever a country's ideology. The consistently dualistic objectives of social welfare require special note. On the one hand, it is an expression of a society's views about people and human worth. On the other, it is a means of promoting or maintaining a society's political, social, and economic goals.

These two objectives need not be mutually antagonistic, and can be complementary. The weight given to one or other of them is mediated by features such as political ideology and health of the economy.

A comparison with the phenomenon of corporate social involvement programmes may serve to clarify the dual focus of social welfare. Most corporate social responsibility programmes are not only humanitarian, but a means of developing an environment within which the company can continue to operate profitably. A country's organised social welfare activities can be viewed in the same way.

Within most industrialised countries, social welfare measures are ultimately designed to maintain a stable, skilled and relatively secure workforce. This is also true of the industrialised, skilled South Africans, most of them white.

Less affluent whites in SA have, as a result of Afrikaner socialism, been even more protected than the citizens of some so-called welfare states in the northern hemisphere. Free, or almost free school education and health care, non-contributory old age and disability pensions, artificial full employment, subsidised housing, comprehensive state-subsidised personal social services, and alternative residential care for the aged are some examples.

With the transition to a "new" SA, and the opening up of opportunities previously the monopoly of the elite white group, it must be clear to government that the full benefits of Afrikaner socialism cannot be extended to all as SA cannot afford this. Is this the real reason for government panic and haste in disengaging from welfare responsibility?

However, the choice is not simply between full state involvement (as in Afrikaner socialism) and almost no state involvement at all. The choice could include a different type of active state involvement, designed to promote the goals of national development in a changing SA.

A common ingredient of all dramatically successful industrialisation since the Second World War has been the state taking responsibility for people's most basic needs during a period when large sections of the population have been made vulnerable by change from traditional ways to industrialised life. Singapore, Hong Kong, South Korea, and Taiwan are examples of this.

Possibly the one thing that all South Africans agree upon is that more wealth must be attracted and generated. Such wealth can only be realised by increased industrialisation. In SA one of the prerequisites of this industrialisation is a skilled, relatively secure, and stable work force. Active state leadership is inescapable in achieving this.

The state's policy of disengaging from social welfare is inimical to development, and a short-sighted abandonment of an effective strategy to stimulate growth.

Rather than debating the polarities of rugged individualism versus welfare statism, as your editorial does, it would be more productive to promote debate about indigenous alternatives to both these extremes.

Undoubtedly, any acceptable alternative must be affordable, realistic and appropriate to SA's circumstances. All South Africans — including business people — should vigorously reject the proposed state abandonment of welfare responsibility. Business people in particular need to contribute their experience and creativity to the evolution of SA social welfare policies that enhance the quality of people's lives, and that also support efforts to achieve the economic growth on which the future prosperity of SA depends.

☐ **Prof McKendrick heads Wits University's social work department.**

Search for a realistic, affordable welfare system

BDay 14/1/91.

180

BRIAN McKENDRICK

BUSINESS Day, in an editorial about new government proposals to reduce the role of the state in social welfare (January 4) simplistically blurs or overlooks some of the key issues that should be carefully weighed up by all South Africans at a time when they may be able to restructure aspects of their society.

The clouded issues include the nature of "social welfare", the responsibility of the state to its citizens, and the relationship between social welfare and economic growth.

Social welfare systems are characteristic of all industrialised and many industrialising societies in the modern world, whatever a country's ideology. The consistently dualistic objectives of social welfare require special note. On the one hand, it is an expression of a society's views about people and human worth. On the other, it is a means of promoting or maintaining a society's political, social, and economic goals.

These two objectives need not be mutually antagonistic, and can be complementary. The weight given to one or other of them is mediated by features such as political ideology and health of the economy.

A comparison with the phenomenon of corporate social involvement programmes may serve to clarify the dual focus of social welfare. Most corporate social responsibility programmes are not only humanitarian, but a means of developing an environment within which the company can continue to operate profitably. A country's organised social welfare activities can be viewed in the same way.

Within most industrialised countries, social welfare measures are ultimately designed to maintain a stable, skilled and relatively secure workforce. This is also true of the industrialised, skilled South Africans, most of them white.

Less affluent whites in SA have, as a result of Afrikaner socialism, been even more protected than the citizens of some so-called welfare states in the northern hemisphere. Free, or almost free school education and health care, non-contributory old age and disability pensions, artificial full employment, subsidised housing, comprehensive state-subsidised personal social services, and alternative residential care for the aged are some examples.

With the transition to a "new" SA, and the opening up of opportunities previously the monopoly of the elite white group, it must be clear to government that the full benefits of Afrikaner socialism cannot be extended to all as SA cannot afford this. Is this the real reason for government panic and haste in disengaging from welfare responsibility?

However, the choice is not simply between full state involvement (as in Afrikaner socialism) and almost no state involvement at all. The choice could include a different type of active state involvement, designed to promote the goals of national development in a changing SA.

A common ingredient of all dramatically successful industrialisation since the Second World War has been the state taking responsibility for people's most basic needs during a period when large sections of the population have been made vulnerable by change from traditional ways to industrialised life. Singapore, Hong Kong, South Korea, and Taiwan are examples of this.

Possibly the one thing that all South Africans agree upon is that more wealth must be attracted and generated. Such wealth can only be realised by increased industrialisation. In SA one of the prerequisites of this industrialisation is a skilled, relatively secure, and stable work force. Active state leadership is inescapable in achieving this.

The state's policy of disengaging from social welfare is inimical to development, and a short-sighted abandonment of an effective strategy to stimulate growth.

Rather than debating the polarities of rugged individualism versus welfare statism, as your editorial does, it would be more productive to promote debate about indigenous alternatives to both these extremes.

Undoubtedly, any acceptable alternative must be affordable, realistic and appropriate to SA's circumstances. All South Africans — including business people — should vigorously reject the proposed state abandonment of welfare responsibility. Business people in particular need to contribute their experience and creativity to the evolution of SA social welfare policies that enhance the quality of people's lives, and that also support efforts to achieve the economic growth on which the future prosperity of SA depends.

☐ **Prof McKendrick heads Wits University's social work department.**

Eskom plan may benefit mines

BDay 15/1/91 (180)

ZILLA EFRAT

ESKOM's export incentive packages are set to benefit marginal mines and commodity producers, many of which are receiving lower international prices for their products.

Eskom pricing policy manager Dave Krumm says a scheme, being investigated, links electricity prices to commodity prices set on international markets. This incentive could benefit industries such as the hard-hit gold and base metal producers.

Another scheme, which links the electricty price to the rand dollar exchange rate, will assist commodity exporters. Clients will pay Eskom less when the rand strengthens and more when it weakens.

Krumm says the costs of this incentive will be offset by the corresponding inverse risk of Eskom's foreign exchange borrowings.

Eskom will also offer tailor-made packages in cases where the discount makes a project viable or enables operations, such as marginal mines, to continue production.

In addition, discounts are offered to organisations groups which switch to Eskom power.

Krumm says Eskom has been approached by about 20 companies since it announced in October last year that it would broaden its export incentive packages and that the electricity price increase for 1991 would be 8%.

These were part of Administration and Economic Co-ordination Minister Wim de Villiers' plan.

Eskom's inquiries have largely been from mining, chemical, steel, vehicle component and paper producers, most of which are in the primary and secondary manufacturing sectors of the economy.

No new discount schemes have yet been finalised as Eskom is being cautious not to distort the market. But Eskom has been able to assist some of the smaller applicants in more efficient plant scheduling and cost-effective energy usage.

Krumm says electricity consumption is highest in the primary manufacturing sector and that the production of high value added goods uses up less electricity as a proportion of production costs.

IDC has billions for new industries

B|004|17|1|91 (180)

KEVIN DAVIE

THE Industrial Development Corporation (IDC) has billions of rands available to promote new industries, if the correct opportunities can be identified.

IDC MD Carel van der Merwe said in an interview yesterday that it could raise R10bn in the next five to six years on a range of new projects. Projects valued at R21bn were under investigation, but not all would get the go-ahead.

Of the R10bn, R2bn could be raised on foreign capital markets, R3,5bn from IDC profits and the remaining R4,5bn from the sale of assets such as the IDC's substantial shareholdings in Sasol and Foskor.

"Capital is not a limitation, if the opportunities are there," Van der Merwe said.

He said a valid criticism was that the IDC had too much tied up in mature investments such as Sasol and Foskor. But this shareholding could be sold as and when funds were required.

Planning for the privatisation of the phosphate manufacturer was proceeding, requiring only a more favourable market and the go-ahead from government.

Van der Merwe said this could take place later this year. Two possibilities were selling to a group or consortium, and/or listing part of Foskor on the JSE.

"Foskor has shown a sizeable increase in profit. It is a very saleable asset," he said.

About 7% of all new investment in industry is financed by the IDC. But statistics show that between 1980 and 1988 only 30 000 new jobs were created in the formal industrial sector. This compared with 300 000 between 1970 and 1980.

The IDC, which released its annual report yesterday, created 9 400 job opportunities last year by investing R328m in industrial financing under its special low financing scheme to replace imports.

Van der Merwe said these figures showed the high cost of creating new jobs in SA, because typically the IDC financed only buildings and plant, the balance of the costs being financed by commercial banks and shareholders.

He said the cost of financing new jobs was too high (about R100 000 a job) because the labour cost had increased and become unreliable and insufficiently productive. Industrialists therefore preferred to invest in capital equipment to replace labour.

"Many firms are phasing out labour because it has become unreliable. Small

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IDC

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firms particularly can be ruined overnight by labour problems."

Van der Merwe said he hoped relief would be provided in this Budget to help spur industrial growth. He said the surcharge on capital goods should be scrapped and company tax rates should be lowered.

The IDC has had a disappointing response so far to the drive to encourage industry to work double shifts. About 700 inquiries had been made regarding the preferential deals on offer, but only R20m has been allocated so far. Van der Merwe said a problem was that the recession had reduced demand, so many industries had spare capacity during normal working hours.

A related setback was that small businesses often did not have access to export markets.

The IDC has retained its relationship with European capital markets through the worst days of the debt standstill. It has recently raised a DM35m (R58m) loan, thought to be one of the first new loans granted to a South African institution. It retains an active interest in these markets. Of total borrowings of R640m raised last year, R367m came from foreign sources.

An after-tax profit of R457m was reported for the year, a 28% increase on the previous year. A surplus of R63m was realised on the sale of investments.

Total funds in this, its 50th year, are at R4,9bn (R4,3bn).

IDC ready to pump R10bn into new industry

Cape Times 17/1/91

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By KEVIN DAVIE

JOHANNESBURG. — The Industrial Development Corporation (IDC) has billions of rands available to promote new industries, if the correct opportunities can be identified.

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State can do more to help develop local technology

180

B/Day 17/1/91.

DAVID KAPLAN

THE basis of international competition is undergoing a sea change. Cheap raw materials and cheap labour are of declining significance. Competitive edge increasingly requires the capability to produce differentiated quality products and respond rapidly to market changes. There is a growing consensus that technology development will be essential if local industry is to be internationally competitive.

The Department of Trade and Industry's (DTI) recent Draft Report on Technology Policy and Strategy, envisages a significant role for the private sector in technology development. But the DTI is also explicit that "with a view to long term technological and industrial growth, reliance on existing private sector firms and the interplay of market forces is not adequate".

The DTI advocates scenario planning to select winning industries and consequent research and development programmes which will provide a "launching pad for the envisaged industrial thrust". This is in accord with the industrial and technology policies of many newly industrialising countries (NICs). It is also similar to some policies advanced in the ANC's Harare Document.

Although the report advocates that the state pursue an active policy, it is short on specifics. Other countries' experiences suggest the state can play a far more creative role in developing technology than the DTI has recognised. This is particularly true in two areas: technology transfer and the development of local technological capabilities.

Technological change in SA occurs mainly through technology transfer from abroad via licensing agreements. Agreements are monitored by the DTI solely to determine that royalty payments are not "excessive". The report recommends that monitoring be extended to minimise clauses which restrict exports. Since export restrictions are a widespread feature of the agreements (for example, only four of the 17 major agreements now operative in the telecommunications industry are free of export restrictions) this is a welcome development.

However, the report ignores other restrictive clauses also commonly present in SA companies' license agreements. In many other countries grant-back provisions — requiring the licensee to transmit free of charge to the licensor any improvements in the technology — are prohibited or transmission must be reciprocal.

Similarly, requirements that inputs be acquired from specified suppliers, often the licensor or subsidiary, which perpetuate import dependency, are generally prohibited elsewhere but not in SA. Developing countries' governments have generally been successful in reducing the incidence of restrictive clauses.

Until 1986, the DTI approved agreements with 10-year durations. Since then, approval has been for five year agreements. This is in line with standard practice.

However, while the licensee is required to provide data on the likely impact of the technology in generating employment and exports and substituting for imports, this plays almost no part in the decision to register an agreement.

Moreover, there is no requirement that a licensee seeking to renew an agreement demonstrates that projected impacts have transpired. In a number of developing countries both the registration and renewal of agreements are subject to intensive scrutiny and monitoring of their macro-economic impact.

In SA as elsewhere, most technology suppliers are large international firms with considerable experience in technology licensing. Recipients are much smaller local companies with limited experience, resulting in unequal bargaining over the terms of technology transfer.

In a number of countries, licence registeries are taking a more proactive role, providing local firms with information on the most common and desireable conditions, such as royalties, duration and export clauses, for technology contracts worldwide in different industries.

This information is invaluable and the DTI should consider taking similar steps. This could be considerably enhanced when SA achieves respectability and gains access to information provided by the UN Industrial Development Organisation's (Unido) Technology Information Exchange System.

Further, few agreements entered into by SA companies have a training component. But training is often essential if the recipient is to acquire an intimate knowledge of the technology and the capability to make modifications and improvements.

Assimilation of imported technologies has been most effective where governments have insisted that comprehensive training programmes be included. This has been widely practiced in the NICs. Were the DTI to take a similar stance, this might augment considerably the skills of the workforce.

This would be in accord with the emphasis that some employers and particularly the union movement are placing on skill upgrading.

In developing local technological capability, R & D expenditure in SA (0,86% of GDP) is low in comparison with many other countries.

The DTI is concerned to encourage local firms to devote more resources to enhance their own technological capabilities.

In SA, government is committed to phasing out special tax incentives whereas elsewhere extensive incentives are given for technology development. The DTI recommends therefore that government provides cash incentives for technology development on the leg-up principle of direct support for defined projects of limited duration.

But a number of important issues are not addressed by the DTI.

Firstly, R & D is skewed in SA with some "strategic" industries — for example armaments and atomic energy — possessing relatively high levels of technological capability. How can such capability be redirected to other more appropriate uses in post-apartheid SA?

Secondly, there are a number of technologies such as biotechnology and new materials under development. Local companies will not be at the forefront of such developments, but in several industries some capacity will be vital for survival.

A number of companies in the chemical industry, for example, have accordingly invested quite heavily in biotechnology research. Steps will have to be taken to ensure that there is not under-investment in new technologies which take considerable time to develop and which are therefore not susceptible to encouragement on the leg-up principle.

Thirdly, individual SA companies are able to devote very limited resources to R & D compared with the large international players. The DTI does not consider how government might limit fragmentation and facilitate co-operative research projects between local companies or between the state and local companies — endeavours which have been very successful in the NICs.

There are other ommissions in the DTI report. In particular there is no indication of how government might encourage the more rapid diffusion of new technologies, especially new systems of best practice organisation of production, which promise major gains in efficiency.

While the broad drift of the DTI report is a welcome departure from previous governmental neglect, it is still too closely tied to an ideological position whereby, in the words of the Minister, "... maximum reliance should be placed on private sector initiatives and market forces".

This severely circumscribes appreciation of the role that the state could play in SA, as it has in many of the successful NICs, to enhance technological dynamism.

☐ **Kaplan is Associate Professor in the Department of Economic History at UCT and Director of the Development Policy Research Unit. He is the author of The Crossed Line, a study of the SA telecommunications industry.**

We need many more jobs

C/Pres 20/1/91 180

MONEY TALK

IT was heartening to learn last week that the Industrial Development Corporation – a state-controlled body founded many years ago to stimulate industrial development – could raise up to R10-billion in the next five years for new projects.

According to IDC managing director Carel van der Merwe, about 20 percent of this money could be raised on foreign markets, while almost half – R4,5-billion – would be obtained through the sale of assets, such as the corporation's shareholdings in Sasol and Foskor. The balance, about R3,5-million, would come out of retained profits.

The IDC was formed to make South Africa less dependent on overseas industries, and to create job opportunities.

It is, however, worrying that only 30 000 new jobs were created in the formal industrial sector between 1980 and 1988 – compared to 300 000 between 1970 and 1980.

Last year, 9 400 new jobs were created by investing in industrial financing in terms of the IDC's scheme to replace imports – at a massive cost of R100 000 each.

In highly industrialised countries the cost of creating a job is high. But surely in South Africa, with its massive unemployment, the need is to create labour-intensive industries at the lowest possible cost for each job.

Van der Merwe made the observation that industrialists tend to invest heavily in advanced equipment to cut dependence on mass labour, which pushes up the cost of creating jobs.

"Many firms are phasing out labour because it has become unreliable. Small firms, particularly, can be ruined overnight by labour problems," claims Van der Merwe.

Organised labour should pay particular attention to his remarks.

In industries such as motor vehicle manufacturing, the lowest paid workers now earn more than qualified teachers or policemen. One can therefore claim that labour union members have become part of a new elite.

This is an unhealthy development and one sincerely hopes union managements will start applying their minds more to the problem of creating jobs for our fast-growing population.

SA heads for early break in the sanctions log-jam

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S|Times 20/1/91

Business Times Reporter

SOUTH AFRICAN businessmen have already been encouraged by the erosion of sanctions — but the big prize may be closer than they think.

Marketing consultant Perry & Associates believes the American Comprehensive Anti-apartheid Act could be scrapped in the final quarter of this year.

"Success in the US legislature will be the event that breaks the sanctions log-jam," says chief executive Mike Perry.

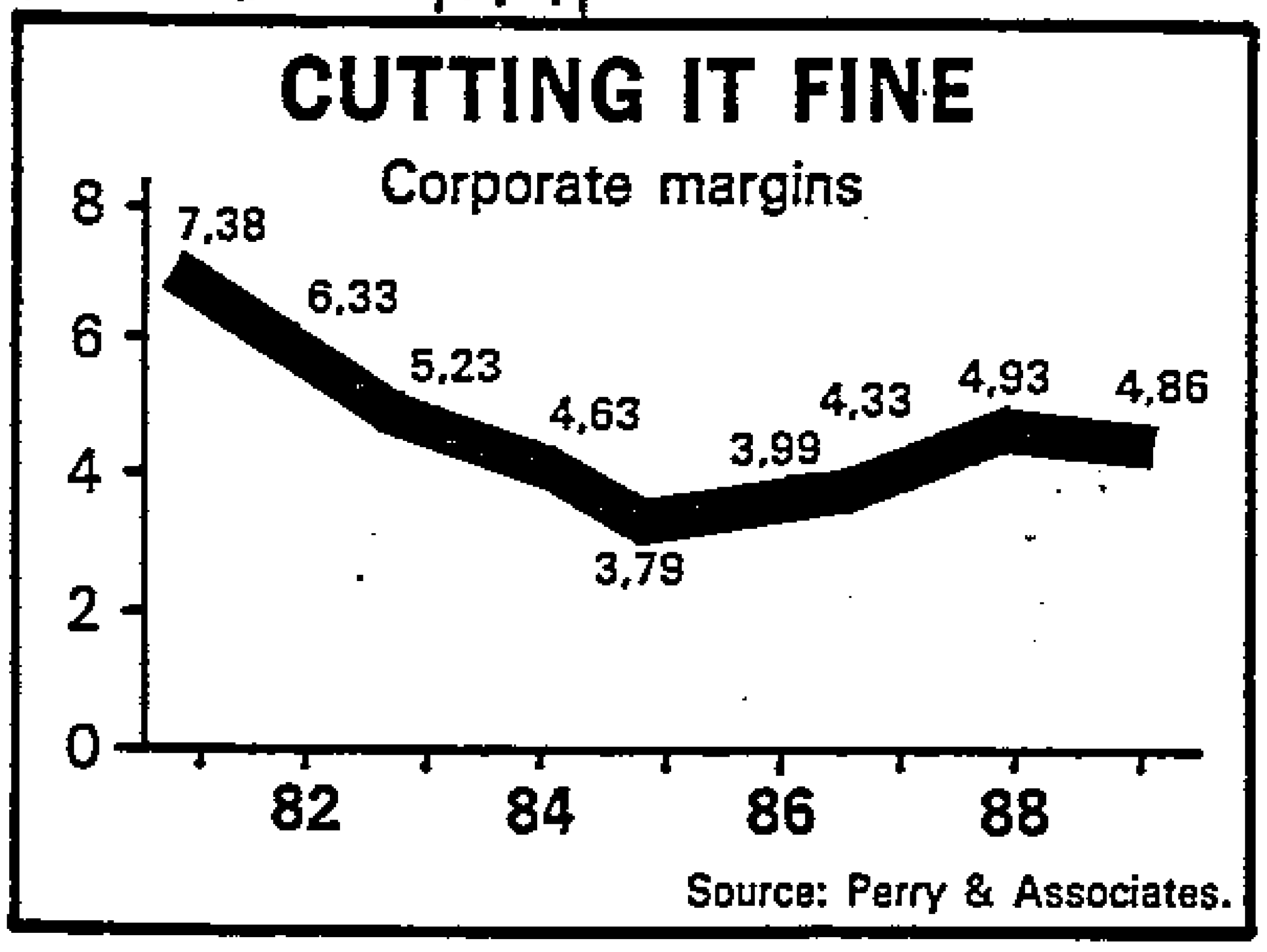
But he warns that business must be prepared to take quick advantage of new foreign trade opportunities.

East

Last month's decision by the European Community to lift a major part of its anti-sanctions — the ban on new investment — has had a measureable effect on SA's trading prospects.

Growing interest in trade from East European countries and the likelihood that SA will be allowed to join the all-black Southern African Development Co-ordination Committee (SADCC) have also increased business confidence.

But the lifting of "C-AAA" would be seen by the rest of the world as a seal of approval, particularly in areas of strong US influence such as Japan and South America.



SA Foreign Trade Organisation general manager Ann Moore says: "It could well be the signal which would send any other trade barriers crashing down."

The legislation, adopted in 1986, imposes strict criteria which SA has to meet before it can be removed.

Mr Perry says: "The Government has made more progress in satisfying the requirements of the US legislation than many businessmen realise."

SA meets three of the five main requirements and is halfway to complying with a fourth. The Government has lifted the state of emergency, unbanned political parties and is talking to the ANC.

The requirement that the Group Areas and Population Registration acts be scrapped has been half-met.

A decision to release political prisoners could be made in the first half of this year, says Mr Perry. "This is a prerequisite."

There must also be evidence of the dismantling of apartheid — but this would be apparent once the release of prisoners was agreed to.

President Bush must report to Congress on SA's progress on the anniversary of the C-AAA enactment in October — an opportunity to lift sanctions if it has not already been done.

The removal of US sanctions would open markets for uranium, coal, iron and steel, Krugerrands, farm produce and the products of parastatals. It would also open the way for direct air links and tourism promotion in the US.

But the big attraction is not merely the resumption of important commodity exports, says Mr Perry.

Normal relations could help to provide finance for a growth phase in the SA business cycle by removing the prohibition of loans to the Government and allowing new investment by US companies.

It would also allow subsidised trade and, if a new tax agreement was negotiated, ease the burden of double taxation on US companies with subsidiaries in SA.

Mr Perry says sanctions have undoubtedly contributed to the serious decline in margins that SA companies have experienced in recent years.

The ban on new loans meant that the Government terminated any economic upswing soon after it started because of fears about foreign-currency demand for imports in a time of strong growth.

Lucrative

The US also provided some of the more lucrative markets for exporters. Importers and exporters often had to share their margins with middlemen.

Mr Perry says that if the EC follows the US in lifting its remaining sanctions, it will be just in time for SA to be included in arrangements for the single European market, which must be settled by the end of 1992.

"Our businessmen should aim to be in a position to penetrate US markets by the end of this year and to go into EC by the end of next year.

"This is the year to establish links with the best multinationals and take a strong regional position before they reverse their disinvestment trend."

IDC plan for major changes in industry

B/Day 21/1/91 (180)

KEVIN DAVIE

SWEEPING changes to make South African industry more competitive have been recommended by the Industrial Development Corporation (IDC) in a report being considered by government.

The report on revamping protectionist policy has already been handed to the President's Economic Advisory Council and is expected to be reviewed by the Cabinet soon.

Key recommendations are that there should be a co-ordinated scaling down of import tariff protection and that a tariff policy should be developed which can be applied on a sector and industry basis, a business source has said.

The present system is based largely on ad hoc rulings, meaning that individual rules tend to apply to almost all SA's 11 300 imported items.

"We've reached a watershed and can't go on like this if we are to achieve economic growth through boosting exports," the source said.

The report recommends setting tariff targets for industries and sectors, and the phasing in of such tariff changes.

Another important recommendation is that import tariff protection should accord with the General Export Incentive Scheme (GEIS). The higher the value added in the manufacturing process, the higher the tariff protection the exporter can expect.

The IDC report also singles out the surcharge on capital goods as an evil which must be eradicated. The surcharge was introduced in 1988 to dampen demand and ease pressure on the balance of payments.

But it has become an enormous revenue earner for government, budgeted to rake in R1,8bn this year. While senior officials are known to want to get rid of the surcharge, they are reluctant to lose the revenue. The IDC report apparently warns that the surcharge on capital goods is harmful as it raises input costs, so making SA industry less competitive.

Another recommendation is that high protection which is granted during the start-up phase of an industry should be phased out within a reasonable period of time. The present system has allowed the high rates to continue indefinitely.

Should the new streamlined system be adopted, it will mean that government will be able to publish a list of imported goods which are not maufactured in SA, with advice on what protection it is prepared to offer. The new system would also be much simpler and cheaper to administer.

The re-evaluation of protectionism is

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part of a major drive to restructure SA trade by encouraging exports, keeping administered price increases below the rate of inflation, and reducing tariff barriers and surcharges which raise the basic cost of producing manufactured goods.

The drive also includes a new developing relationship with the General Agreement on Trade and Tariffs (GATT), whereby SA has committed itself to abide by fair-trade principles and reduce tariff barriers.

The IDC report also recommends the scrapping of formula duties which SA to date has used as a protectionist measure. These duties, which are being phased out to comply with GATT, apply high tariffs for high-volume, low-priced imported goods.

The scrapping of formula duties will mean that SA industry will be exposed to import dumping. An urgent investigation by government has been launched to put an effective alternative system in place to ward off this threat. It is understood that this is stressed by the IDC: no tariff restructuring should take place before the anti-dumping system is in place.

The IDC's protectionist recommendations argue for a flexible approach. The report suggests there may be a good argument for retaining some existing industries which cannot compete internationally, rather than lose jobs to the economy.

IDC continues to stimulate growth

Star 22/1/91. (180)

By Derek Tommey

The Industrial Development Corporation (IDC), created to help stimulate economic growth, has had a most successful year.

The annual report shows one of its more important achievements was the re-entry into the European capital market where it renewed a maturing loan and raised a new five-year loan of Dm35 million (R60 millio).

Other achievements included financing more than 9 000 new jobs.

It also began investigating several major industrial projects, including the manufacture of synthetic textiles from local petrochemicals.

Altogether, the IDC advanced R660 million in the year to June 1990.

This was 52 percent more than the R435 million in the previous financial year.

The IDC helps finance small-to-medium-sized independent firms, which do not have the same access to capital as larger groups.

General financing increased 63 percent from R201 million to R328 million.

Advances under the low-interest scheme amounted to R107 million in the the final six months.

It advanced R225 million in project financing — mainly for the Mossgas project.

Refuting complaints that it helps only large firms, the IDC says 67 percent of the 223 projects which received assistance were smaller firms with total assets of less than R10 million.

The IDC's low-interest scheme, which ran in 1988 and 1989, provided R320 million for 273 projects.

The firms in the scheme received loans carrying an initial rate of interest of five percent. The firms, employing 14 850 people, should contribute R1,1 billion a year to the balance of payments by way of increased exports and reduced imports.

The IDC's participation in the Lesotho Highland's Water Scheme resulted in the value of funds provided for the export of capital goods jumping from R37 million to R511 million.

Its multi-shift scheme, which was introduced last May, provides firms moving to multi-shift with money at nine percent for working capital and new machinery, has attracted interest.

Manpower

To counter the decline in foreign investment, the IDC is applying a considerable proportion of its manpower to identifying new projects.

The criteria for these are that they serve as a nucleus for future industrial development, or be a first for SA in terms of technology and know-how, or lead to either import replacement or boost exports.

Projects being investigated are:

- The processing of waste materials produced by mining at Phalaborwa. This will make SA independent of imported aluminium oxide, magnesia and potassium sulphate.
- The gasification of waste coal as a potential source of energy, as well as a feedstock for the production of petrochemicals.
- Projects involving the extraction of aromatics and olefins from local raw materials such as coal and gas for use as basic building blocks in the chemical industry.
- The production of synthetic fibres from local petrochemicals.
- The production of industrial minerals not yet mined locally, such as special-purpose clays, certain pegmatite minerals and high-quality diatomous earth.
- The evaluation of mineral deposits at Transvaal border areas at the request of the Government, with the purpose of creating job opportunities.

To stimulate rural development, the IDC is carrying out research on crops such as dates, coconuts, pistachio nuts and cashew nuts.

It is cultivating and processing on a trial basis crops which provide essential oils for colouring and flavouring and for perfume and pharmaceutical industries.

The IDC's subsidiary, Atlantis Diesel Engines (ADE), was hit by the cancellation of a large volume of orders at the start of last year and it has been forced to reduce its level of activity.

Another subsidiary, Foskor, is negotiating to increase its shareholding in one of its major customers, Indian Ocean Fertilizer Holdings, from 30 percent to 50 percent.

A third subsidiary, Sapekoe, has established a paprika industry. Sapekoe has successfully exported tea for the first time.

The IDC had a net income of R520 million in 1989-90, against R358 million in the previous year.

Operating income before tax was R527 million (R444 million). It had a surplus of R63 million (nil) from the sale of investments.

Total assets at June 30 last year amounted to R4,923 billion — up from R4,382 billion a year earlier.

'ANIES

IDC being forced to cut back on approval levels

MARIETTE DU PLESSIS (180)

THE Industrial Development Corporation (IDC) will be unable to maintain its level of financial approvals because of SA's uncertain investment climate and continuing restrictive monetary policy, the IDC says in its annual report. B|Day 23|1|91

Contributing factors were lower economic growth — both locally and internationally — and higher oil prices which would result in investment in the manufacturing sector declining during 1991, the report said.

The IDC said: "Manufacturing must serve as the main engine for economic growth as it is the only sector with the potential to create the millions of new employment opportunities."

In the year to end June 1990, IDC approved a record R660m (R435m) for industrial financing, creating about 9 400 new employment opportunities.

This consisted of a 63% increase in general financing to R328m (R201m), together with advances under the low-interest scheme which amounted to R107m (R140m) in the final six months, the report showed.

In addition, a further R200m was advanced for the Mossgas project against an initial contribution of R345m in 1989.

IDC's net income rose by 31% to R520m (R358m) while operating income increased by 16% to R527m (R444m).

Of the total 223 projects financed by IDC, 67% were being initiated by smaller firms with total assets of less than R10m, while 52% of the projects were directed towards exports or import replacement, IDC said.

As a result of IDC's participation in the financing of the Lesotho Highlands Water Scheme, financing approved for the export of capital goods was nearly 10 times higher at R511m (R37m).

Highlights for IDC included its re-entry into the European capital markets where it renewed a maturing loan and raised a new five-year loan of DM35m.

IDC also was investigating several major industrial projects.

Need for change in business policy

THE process of change in the South African dispensation and social structure will require changes in business policy, the managing director of Industrial Development Corporation, Mr WC van der Merwe, says.

In his 50th annual report, he says these adjustments must not inhibit industry's endeavours to be more competitive or the desire of industrialists, large and small, to increase their input and invest in new production facilities.

He says: "The need for expansion in manufacturing is as great now as ever, and the objectives of the IDC to promote expansion and diversification in the manufacturing sectors are as applicable as 50 years ago." 180

The IDC's focus is inevitably adjusted in the light of the country's needs, and is currently directed at:

* Financing of small to medium sized independent undertakings which do not have the same access to the capital market as larger groups.

* Participation with the private sector in large industrial projects aimed at import replacement and exports, especially where value is added to local raw materials.

Sowetan 24/1/91

DIRECTORS' FEES

WATCHING THE TOP LINE

QUALITY OF MANAGEMENT IS HARD TO MEASURE — AND REWARD

Are company directors inclined to feather their own nests at the expense of shareholders? Under normal conditions, nobody seems to bother much. But when, as now, profits are under pressure, there is a sudden reawakening of interest as to who gets precisely what out of the corporate profit cake — and sooner or later it gets asked why directors' remuneration continues to increase when dividends have been pegged, or even passed.

The question may be logical, but the subject is complex, not least because there is no direct relationship between the respective amounts paid to directors and shareholders, except to the extent that dividends will obviously be influenced by the performance of those who manage the business.

Essentially, the distinction that needs to be drawn is that directors are rewarded for managing the business, while shareholders are rewarded for the provision of the risk capital that makes the business possible.

The least complicated situation is where the directors are, in effect, employees with a minimal direct stake in the ownership of the assets they manage. In such cases, their remuneration can be viewed in much the same way as the remuneration of any other category of employee and nobody (especially an employee) would seriously suggest that salaries and wages in general should fluctuate in line with corporate profits.

More complex is the situation where the directors also own the business. Here, they obviously have a right to structure their total income package — comprising a mix of directors' fees and dividends — to suit their own requirements and the best minority shareholders can reasonably hope for is that policies will remain fairly constant from year to year. If they don't, it becomes impossible for outside shareholders to assess the share in terms of their own needs (which may or may not coincide with those of the directors/major shareholders), and the result in investment terms is more likely to be frustrating than rewarding.

But getting back to the main question of how directors are rewarded in relation to shareholders, the University of Pretoria's Bureau of Financial Analaysis (BFA) was asked to throw some light on the subject by producing four ratios relating directors' remuneration to total assets, turnover, pre-interest profit and equity dividends respectively, for the entire industrial sector of the JSE since 1981.

The results are summarised in the accompanying table, which shows how these ratios changed between 1981 and 1989 (the last year for which sufficiently comprehensive data was available) for each sector and for the industrial market as a whole. Ratios are calculated on the basis of total directors' remuneration (fees plus payments for other services) expressed as a percentage of the four different comparatives.

From this data it is obvious that, over the eight years, it has been far more lucrative in terms of income growth to be a company director than a shareholder; the ratio in this instance having moved up from 5,5 to just over 7. The position would have looked even worse had this exercise been done in 1986-

P.T.O

Unlisted companies to come under surveillance

BDay 25/1/91 MARCIA KLEIN 180

UNLISTED companies will come under the surveillance of an authoritative board for the first time when the Securities Regulation Panel goes into operation on February 1, executive director Doug Gair said yesterday.

Following discussions between the JSE and the panel, it was decided that the panel would be responsible for handling documentation relating to takeovers and mergers of unlisted public companies and private companies, the JSE said in a statement yesterday.

The panel would also handle documentation in respect of listed companies if there were "no additional features".

Documents that included additional features, such as applications for the listing of additional shares or for the termination of a company's listing, had to go before the JSE, said Gair. BDay 25/1/91

He said in the case of a multiple transaction involving a number of listed companies or the possibility of a new listing, documentation had to be submitted to the panel and the JSE, which would liaise with each other.

In terms of the decisions made, the panel would have jurisdiction over listed companies and unlisted public and private companies.

The panel would vet takeovers and mergers and investigate insider trading.

It "has the jurisdiction to go to court over a company not towing the line".

Gair, who is former chairman of the JSE listings committee, said the reason for the surveillance was to ensure minorities were not being prejudiced and "unfairness to minorities will not be tolerated".

The new Securities Regulation Code, which comes into effect on February 1, was gazetted in September.

A significant change to the code was the introduction of a rule which would require anyone wanting to take control of a pyramid company to make an equivalent offer to minority shareholders of the underlying operating company.

Pyramids escape the noose

ST Times 27/1/91 (180)

By DAVID CARTE

THE NEW legislation governing mergers and takeovers has been criticised for failing to deal with the problem of existing pyramids and for not forbidding new ones.

Section 440C of the Companies Act compels buyers of control of new pyramids to extend an equivalent offer to minority shareholders in down-line operating companies.

But control of existing pyramids can change without such offers.

JSE president Tony Norton says the new rules could not be retrospective — but critics say they amount to closing the stable door after the horse has bolted.

Asked why legislation should not be retrospective, Professor Katz says: "That would have interfered with existing rights. But I take the point. We were reforming the law."

Professor Katz says the lawmakers did not want to outlaw pyramids altogether.

"I know pyramids are not permitted in the UK, but we had to recognise that this is a younger, less-developed economy. It is also more entrepreneurial. We didn't wish to thwart entrepreneurs who want to grow their companies and retain control."

He says the new regulations permit entrepreneurs to keep control. But they cannot hog the control premium when control changes.

But a critic says that once a controller has secured control through formation of a pyramid, he defers the day that a minority shareholder in the bottom company receives an offer.

Meanwhile, having secured control through only a fraction of the equity, he can run the company and ignore the interests of minority holders.

Indeed, because the new legislation does not prevent downward pyramid building, he can delay takeovers almost forever.

Controllers who already have pyramids and who require funding can retain control without laying out cash by splitting an existing company into two or more downline companies, achieving the same effect.

For example, not content with forming the pyramid Royal Group Holdings, the Immerman family, controllers of Royal Corporation, propose to split the existing operating company into separate listed chemical and food companies.

If they so wish, later they can split ordinary food from sweets and confectionery and so on until the family has a pyramid as multi-tiered as Anton Rupert's. When control changes, the bidder needs make an offer only to the Royal Group Holdings minority.

It is hoped that this type of construction would be judged by the Securities Regulation Panel as a circumvention of the spirit of the new law.

Critics of pyramids say that on no respectable foreign stock market are the same assets allowed to be listed twice, let alone three or four times as on the JSE.

Stockbroker Richard Stuart of Martin & Co told the Financial Mail investment conference last year that 40% of the JSE's market capitalisation represented double counting.

Advocates of unbundling maintain that nobody will try to wrest control from an entrepreneur who is an outstanding manager: only badly managed companies are vulnerable.

One says: "Anyone who made a hostile bid for Pick 'n Pay would be crazy. He would have to offer a large premium on a share price that is always full. The share price and the company's performance would suffer enormously through the loss Raymond Ackerman's leadership."

Under the status quo it is possible, for example, for the Rupert family to sell control of Rembrandt, Richemont and therefore of Rothmans International as well through disposal of shares representing an estimated 9% of the operating companies. The premium for control — probably more than a billion rands — could accrue only to the family.

Other families that can similarly claim the lion's share of control premiums through pyramids include those of Toyota's Albert Wessels, Liberty's Donald Gordon, Clive Menell and Basil Hersov of Anglovaal, the Abelkops of Imperial Group, the Immerman family, Jeff Liebesman of FS Group, Bill Venter of Ventron-Altron, the Mowszowski family of Elcentre and Aaron Searll of Seardel.

Some pyramids in which downline minority shareholders will not get an offer include Anamint, Anglovaal Holdings, Gencor Controlling, Saflife, Liberty Holdings, FS Group, Huntcor, Imperial Holdings, Malbak Holdings, M&R Holdings, Royal Holdings, Waicor, Bevcon, Dalys, Spur Holdings, Everite Holdings, Group Five Holdings, Allwear Group, Consolidated Frame Textiles, Seardel Consolidated Holdings, Trimtex Trading, Placor, Allied Electronics Corp, Elcentre Group, Ventron Group, Berzack Illman Investment Corp, Danglo, Danech Industrial Corp, Fralex, Metkor, NEI Holdings, Wesco, Sunvest, Perskor Beleggings, Hiscore Holdings, Lewis Foschini, Pepgro, Score-Clicks Holdings, Tradegro Holdings, Waltons Holdings, Rembrandt Controlling, TIB, Tegkor and Mobile.

Some of these pyramids have been around since the late 1960s. But most came into being after the JSE permitted Pick 'n Pay to form its pyramid Pick 'n Pay Holdings (Pikwik) in 1981. Pyramids had been forbidden since the crash of 1969.

Merchant bank UAL persuaded the JSE that it was in the interests of shareholders that Mr Ackerman's family should retain control.

Institutional shareholders agreed — particularly since Mr Ackerman gave an undertaking that shareholders in the bottom company would receive an offer if his family sold control.

But Pikwik set a precedent and opened the floodgates. Few of the other pyramids gave the guarantee that Mr Ackerman did.

New era opens for investor protection

Bl Times 27/1/91.

180

By MICHAEL KATZ

Sunlight is said to be the best of disinfectants: electric light the most efficient policeman. — Louis D Brandeis in Other People's Money.

REVOLUTIONARY legislation affecting takeovers, mergers and insider trading was promulgated last week. The Securities Regulation Code on Take-Overs and Mergers (the Code) was published in the Government Gazette. Professor MICHAEL KATZ, one of the Code's authors, reviews the legislation. In the other report on this page DAVID CARTE mentions objections to some aspects of the legislation.

MICHAEL KATZ: A long haul for change

THE NEW rules are the culmination of much effort by many people over a long time to regulate the securities industry.

The most significant feature of the regulation which is embodied in sections 440A to 440M of the Companies Act No 61 of 1973, as amended and the Code is that on the one hand it achieves all the advantages of self-regulation by the industry as well as the benefits of flexibility.

On the other hand, there exists a statutory sanction to control breaches of the legislation.

This pattern of regulation is pioneering in character and it is confidently expected that it will be the forerunner for similar regulation in other jurisdictions, particularly the EEC.

Flexibility is indeed an advantage in this sphere of securities transactions, particularly mergers and acquisitions. This is so because almost every merger and acquisition has its own nuance. Thus any effort to legislate comprehensively to cover every possible nuance will be highly complex and both difficult to administer and obey. This has been the unfortunate experience in Australia.

Flexibility will be achieved in SA by relying on the spirit of the regulation and its general principles.

What then are these general principles? In commenting on the City Code in England, which has served as a useful precedent for ours, Antony Beevor in **Practitioners' Guide to the City Code on Take-Overs and Mergers** points out that the Code's objectives are fourfold. It is submitted that this would be of equal application to our Code.

The four principles are:

- Equality of treatment for all shareholders, large and small;
- The provision of adequate and timely information to enable shareholders to decide on the merits of the offer;
- To ensure a fair market in the shares of the companies involved;
- To ensure that neither the target company nor its directors take any action which would operate to frustrate the offer against the wishes of the shareholders.

What is outside of the scope of the regulation? First, the commercial fairness of transactions. It is not the objective of the regulator or the law to prevent investors from making bad bargains.

Second, competition policy remains the function of the Competition Board and is outside the Panel's powers.

It is also important to bear in mind that the provisions of sections 440A to 440M of the Act and the Code represent an additional overlay of regulation and are not an exhaustive codification of the law applicable to takeovers and mergers.

Other provisions contained in the Act continue to apply as, for example, the application of section 228 of the Act to disposals of major assets. Furthermore, the common law principles also continue to remain applicable, such as the fiduciary duties of directors.

Where companies listed on the JSE are involved, they continue to remain bound by the rules of the JSE. Thus, where an offer to minority shareholders would be required in terms of the JSE's rules, that obligation continues whether or not it would be required in terms of the Code.

It follows that the actors and their advisers will have to co-ordinate the interaction of all these applicable requirements.

However meritorious the substance of the new regulatory provisions may be, their effective working in practice will depend much on the procedural attributes of the Panel and its personnel. Much care has been taken to ensure that there will be effectiveness from a procedural point of view.

The Panel will work on a day-to-day basis through its executive director (or his deputy) and, where appropriate, through its executive committee. As is set out in the Code, the executive functions include, either on the Panel's own initiative, or at the instance of any party, the conduct of investigations (including those into suspected inside trading), and the monitoring of relevant dealings in connection with the Code.

In recognition of the fact that speed is of the essence in takeovers and mergers, the executive director is available at all times for consultations and rulings. An expeditious appeal mechanism also exists.

In England, when the concept of a panel was first introduced at the instance of the then Prime Minister, Harold Wilson, it worked exceptionally well largely as a result of the stature and excellence of its first chairman, Sir Hartley Shawcross.

The mark which he stamped on the Panel gave it a character and reputation which ensured its success initially and for all time thereafter. We are indeed fortunate in SA that we will enjoy in Mr Justice Cecil Margo, the first chairman of our Securities Regulation Panel, a man of similar stature, whose presence will undoubtedly contribute to the success of the Panel and its significance to the securities industry.

We look forward to a new era of securities regulation in this country.

Maritzburg set for R400m in investments

B Day 28/1/91 (180)

MARIETTE DU PLESSIS

INDUSTRIAL land sales in Maritzburg were expected to generate an investment of about R400m, a city council spokesman said at the weekend.

The net worth of industrial land sold in the year to end-June 1990 totalled R5,5m. With another R3m under negotiation, only five industrial sites were left for sale, he said.

In addition to the estimated R400m investment these sales would generate, another major industrial boost for Maritzburg was also on the cards.

This would flow from expansion plans announced by two of SA's milling giants, Tiger Oats and the Premier Group, he said.

Premier had indicated it would spend R100m over the next few years on a new wheat mill in the city.

Tiger Oats had confirmed construction work had begun on the company's new R60m wheat mill at Willowton.

A SA Chamber of Business (Sacob) survey last year showed that Maritzburg reflected the highest business confidence in SA.

Sacob's index of expected manufacturing production had placed Maritzburg on 162 points, 66 ahead of Durban.

The sales that took place in Maritzburg last year included a 12,6ha site at Camps Drift to Hulett Aluminium, which would spend R200m, while 3,5ha had been sold to a developer who would construct the city's first hyper-wholesaler at a cost of R17m, the spokesman said.

At present, there were 234 industries in Maritzburg employing more than 19 000 people. The food industry and related businesses were the second largest sector.

Tender system for companies' audits undesirable — Mockler

(180)

ROBERT WICKS
and GARETH BELL

DECLINING corporate profits are leading companies to ask for tenders for their audits to cut costs, a move SA Institute of Chartered Accountants executive director Ken Mockler says is undesirable.

Mockler said the situation would be discussed at a meeting of the institute's ethics committee in March.

While the tender system was unsuited to an audit, it might serve to increase competition between auditing firms for the provision of other financial services, Mockler said.

Public Accountants and Auditors Board chairman Willem Wilken said: "These tactics are certainly bringing pressure on the profession. The costs involved and time spent preparing the tenders are high, and unnecessary pressure is being put on auditors to lower their fees."

He said the trend towards lowering fees became prevalent overseas and was becoming more common in SA.

"There is not much one can do about it, but I hope business concerns will make the same effort in trying to contain some of their other costs.

"One needs to look at costs across the board, not selectively", he said.

Coopers Theron & Du Toit joint managing partner Rick Cottrell said the process was not widespread, but the profession was being squeezed to meet the needs of clients. He said long-erm fee pressure did not work and merely led to a dropping of standards.

Arthur Andersen country managing partner Barry Adams said the tender process helped auditing firms by allowing them to show the financial services they could provide.

Ernst & Young regional managing partner Bill Urmson said the profession was not moving dramatically in the direction of tendering and that the situation was very different to that in either the US or the UK, where competition was stiffer.

B | Day
28/1/91.

Code

Mockler said the crucial issue for the profession was the preservation of standards.

"A tender system would lower standards as corners could be cut to maintain profitability," he said.

Under the profession's code of conduct a member cannot tender for an audit but he can make a proposal or presentation to a potential client.

Mockler said the two situations were distinct because a tender would commit the auditing firm to a financial constraint, whereas a presentation or proposal only presented an estimate of the cost of an audit.

World commodities' prices expected to keep declining

PETER COUTROMANOS

THE current downward price spiral in world commodities is set to continue in the foreseeable future, says Greenwich Futures's Mark Perkins.

The CRB commodity price index — calculated by the Chicago futures market and based on 21 equally weighted items, including precious and base metals, grains, livestock, and "soft" commodities — has dropped almost 10% since August.

Perkins says the downward trend in base metal prices is expected to be particularly severe because of the slowdown in the world economy.

He says the industrial boom experienced during the '80s caused an increase in demand for base metals.

In response, major mining companies increased borrowings to increase output and bring new production on stream, but there was still a tightness in supply. Perkins says this resulted in the forward prices for these metals being in what he termed "backwardation". Backwardation occurs when the spot price is higher than the futures price.

Base metal stocks on the London Metal Exchange — apart from zinc and nickel — have continued to increase dramatically despite falling prices.

Prices of sugar, coffee, cocoa, wheat, maize, lumber, rice and most other commodities have also plummeted over the past year, according to statistics compiled by the Chicago-based Knight Ridder Commodity Perspective. (180)

Precious metals have also been hard hit.

The outlook for oil is increasingly bearish. Perkins expects the price to drop to as low as $12 a barrel after the conclusion of the Gulf war.

Business commits R500m to welfare

180

B/Day 29/11/91

TANIA LEVY

AN UNIDENTIFIED group of companies has agreed to channel R500m through the Urban Foundation towards various social welfare projects, particularly those concerned with black education.

Making the announcement yesterday, Urban Foundation CE Sam van Coller declined to name the "major" companies, saying they were not seeking publicity and instead wanted to "focus on their interaction with community organisations, trade union groups and other interested parties".

The foundation would act as a facilitator between donor companies and the various interest groups which would be asked to identify areas in which the money should be spent.

Meetings had been sought with a wide range of political, community and other groupings and individuals. Van Coller also declined to name these.

He said the companies had agreed in principle last week to make R500m available over five years. Other companies were expected to join the initiative.

Van Coller said companies wanted the initiative to focus on bringing change to certain of SA's social problem areas, particularly education.

A foundation statement said in addition to discussions with interested parties, investigations would have to be undertaken before detailed proposals could be formulated for consideration.

Discussions would also be sought with major funding and development agencies to ensure that efforts were effectively coordinated.

Van Coller said the private sector initiative had been embarked upon against the background of President F W de Klerk's undertaking to remove discriminatory legislation, the commitment of political leaders to negotiations and the increasing focus on the need for socio-economic development.

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BUSINESS DAY, Wednesday, January 30 1991

Big names linked to welfare scheme

(180) (1)

B Day 30/1/91

EDYTH BULBRING

ANGLO American, JCI, De Beers and Barlows have been identified by business sources as the main players among the companies that have pledged R500m to social welfare projects.

Informed sources named other possible donors as Standard Bank and Gencor.

However, this could not be confirmed.

Yesterday company spokesmen and the Urban Foundation — which is acting as facilitator between the donors and interested parties — refused to comment on who was contributing to the fund.

The rationale for the secrecy appeared to be the foundation's desire to include other companies in the scheme at a later date.

Potential donors might not contribute if they appeared to be "Johnny-come-latelys".

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However, it is believed these include the ANC and the PAC.

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Firms woo blacks for joint ventures

B|Day 30|1|91 (180)

THEO RAWANA

LOCAL and international companies are, for the first time, going all out to form joint ventures with blacks, something which augurs well for the future of SA business, says Zuko Tofile, executive director of business promotion company Matchmaker Services.

Tofile says companies such as P G Autoglass, printers Kwik-Copy, fast-food outlet Chicken Licken, carpet cleaners Rug Doctor and even US-based Ponderosa Steak House are actively courting black franchisees.

"To this end Matchmaker Services will host a seminar in Johannesburg where all aspects of franchising will be under the spotlight and Volkskas, First National and Standard banks as well as the Small Business Development Corporation (SBDC) will say what they can do to facilitate joint ventures."

Guest speaker at the February 13 seminar, to be held at the Milpark Holiday Inn in Johannesburg, will be Ohio-based Ponderosa Steak House international sales manager Sunil Duwan.

US ambassador William Swing will open the seminar while SA Franchising Association executive director Kurt Illetschko will speak on Advantages of Owning a Franchise.

Soccer star Jomo Sono, who has held a Kentucky Fried Chicken franchise for 10 years, will be another of the speakers.

Large firms must take a long view on small business

180

PHILIP MAXTON BDay 1/2/91.

AN IMPORTANT part of big business's obviously important role in achieving economic growth in SA is the part it can play in the development of small businesses.

By linking correctly to small businesses, large enterprises can play a developmental role while improving their own long-term profits.

Economic growth results from local companies controlling costs and value to customers better than overseas competitors. In some industries big businesses are most appropriate but in others many small businesses are more suitable.

Generally, big business is required in industries which have high barriers to entry and large economies of scale. Only big businesses can be competitive in these industries. Small businesses will not be able to compete in terms of costs or value to the customer.

Small businesses are competitive in industries which are naturally "fragmented". Prof M Porter of the Harvard Business School states that the characteristics of a fragmented industry are low entry barriers, absence of economies of scale, high transportation costs and where local service is a key.

House building, fast food outlets, concrete brickmaking, car and shoe repairs, hairdressing, taxis, tailors, hawkers, petty traders and drink outlets are therefore common sectors of small business activity.

The development of small businesses in industries in which they are potentially competitive would help to create a healthier economic environment in SA. Small businesses provide mass employment at relatively low start-up costs due to the low entry barriers. In addition, entrepreneurial skills would be developed and competition between local firms would increase, leading to even lower costs and increased innovation. Furthermore, to quote E F Schumacher in his book Small Is Beautiful: "Small business development leads to decentralisation of economic power and a more humanly satisfying life for more people."

Gandhi claimed that "the poor of the world cannot be helped by mass production, only by production by the masses". It could be said that SA requires a combination of mass production and production by the masses. Mass production by big businesses in industries which have high barriers to entry and large economies of scale; production by the masses participating in large numbers of small businesses in industries which are naturally fragmented. This combination can be referred to as "dual logic economy".

Big business can play an important role in the development of these small businesses in SA. To produce economic growth, this role should not be benign but motivated by the desire of big businesses to improve profits. However, as the small business may initially require assistance from the big, the links must be formed with long-term profit objectives in mind. This means that the links should not be exploitative but structured to be in the long-term interest of both.

It is, perhaps, managment's "short termitis" disease which has added fuel to arguments for socialism in a future SA. Management orientated towards long-term profit would be unlikely to exploit workers, charge excessive prices or use overly aggressive advertising. It is short-term profit chasing which could shorten the life of the free market system.

Big businesses will gain in the long term by linking to small businesses playing the role of suppliers, distributors, subcontractors or customers in naturally fragmented industries. It will lead to the achievement of lower costs or improved value to end-customers, due to the competitive advantages that small businesses have in naturally fragmented industries.

These links are becoming increasingly important in SA because of the growing black market and because the deregulation of small businesses is changing the way business is performed in certain industries. The move towards a democratic political system will cause major changes to many market forces. Customer needs, distribution channels and suppliers channels are changing in many industries.

Firms which plan with these changes in mind can become, or remain, market leaders. Complacent market leaders may lose their position to faster moving challengers with similar or substitute products. Early movers will be able to build stronger brand names and tie-up distribution channels. Firms which do not respond correctly risk earning below average long-term profits.

There are two keys to success for big business to improve long-term profits by linking to small businesses. The first is to ensure that the small business is competing in an industry which should be naturally fragmented. The second is to ensure that the small business is assisted with all of the inputs required for growth.

A common misconception is that if finance and training are provided to informal sector participants, their businesses will flourish. Unfortunately, worldwide experience shows that this is not so. Unexpected failures occur because small business needs extend beyond finance and training. A successful development strategy must assist informal businesses to overcome the whole range of constraints to growth.

Given a supportive legal framework and motivated ownership, low technology small businesses in SA require five basic inputs for growth. These are material, the physical inputs into the production process; business premises, including electricity and telephones, etc; access to markets for their products or services; training; and finance, both short and long term.

Big businesses should ensure that their small business "partners" obtain all five of these inputs. This will mean there will be occasions when big businesses must temporarily assist the small businesses to obtain those inputs to which they do not have adequate access. The formal business sector possesses the skills to do so.

It is obviously inefficient if these skills are unnecessarily duplicated by the public sector or non-profit bodies to promote small business development. However, state-linked bodies such as the Small Business Development Corporation, and various charity organisations, do have a role to play. Big businesses may need external assistance to make contact with the appropriate small businesses.

Furthermore, some big businesses may need help in providing premises for black informal businesses if they consider the suitable locations to be high risk due to unrest problems.

Public bodies may also be required to provide finance for some informal businesses lacking collateral. However, the public bodies should assist only temporarily with the premises and finance inputs, to help small business overcome these economically unnatural disadvantages. The main objective for non-profit bodies should be to facilitate self-interest links between small businesses and the private sector.

☐ Maxton is a development manager with Hulett Aluminium, Maritzburg.

SBDC socks critics with R1bn in loans

S/Times 3/2/91 180

By DON ROBERTSON

THE SMALL Business Development Corporation (SBDC) celebrates its 10th anniversary today, having lent more than R1-billion to budding entrepreneurs.

A R190 000 loan to a Steers franchise in Pretoria on Monday sent up the billion.

The SBDC has confounded big-business critics who said 10 years ago that its concept would not work.

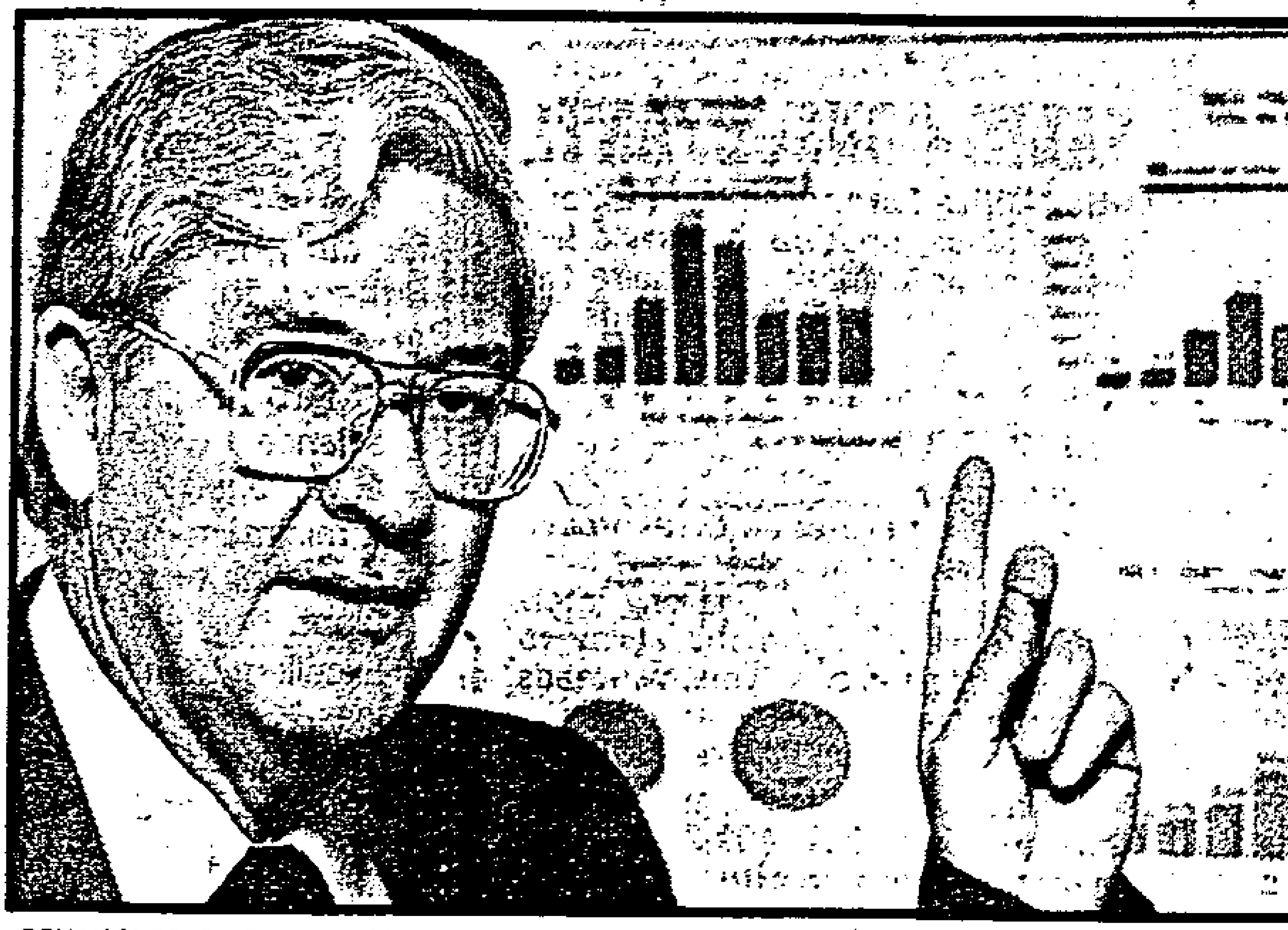
Property

From its small beginnings in 1981, when it advanced 188 loans of R11,3-million, the corporation is now self-financing, is the largest developer of property in black areas, is profitable and looking for foreign participation.

In the year to March, the SBDC produced a pre-tax profit of R42,4-million. Since its incorporation, it has paid R80-million in tax.

It is now able to offer entrepreneurs up to R20-million a month in loans from its own cash flow.

In the past decade, its funding has created 272 823 additional job opportunities at a cost of only R3 600 each and has helped about 29 000 people to start a business.



BEN VOSLOO: Profits poured back into helping the small businessman Picture: COBUS BODENSTEIN

Although involved in high-risk ventures, the SBDC has been able to keep bad debts to acceptable levels. About 15% of businessmen helped by the SBDC failed to survive, but only 8% of the R1-billion in loans granted had to be written off.

It keeps a tight rein on expenses, administration and service costs representing only 2,4% of capital invested.

The SBDC is regarded by similar international organisations as perhaps the best example of this type of financial assistance offered anywhere in the world, says managing director Ben Vosloo.

Russia, various countries in Africa, Poland, Czechoslovakia and West Germany have sent observers to SA to study the SBDC.

Hives

It hopes to encourage international businesses, eager to assist black development in SA, to channel their financial help through the SBDC.

The SBDC's success stems largely from its insistence that it be profitable. Although financed jointly by the Government and the private sector, it is controlled by private enterprise, a list of which reads like the top 100 companies.

Dr Vosloo says the SBDC owns about 800 000m² of business premises, mainly in black areas. It is SBDC policy to sell its properties to tenants where possible.

In the past four years, the SBDC has developed a concept of setting up industrial "hives" in black areas. They are small business centres or work stations under a single roof, with many of the mini-industrialists sharing equipment.

The SBDC is the only self-help organisation in the world offering this type of facility. It is hoped that the concept can be offered to entrepreneurs internationally.

The first industrial hive was in the old Ford building in Port Elizabeth. The latest is in the Eriksen Ford building in Eloff Street, Johannesburg. It will offer 36 000m² of industrial space at reasonable rentals from July.

But the SBDC has not been without difficulties. Blacks complain that there are too few of them in middle and top management at the SBDC. They claim it is bureaucratic and slow in processing loans.

They also believe that if the SBDC receives large funding from the State, it will favour white businessmen. Nevertheless half of the loan clients are black. However, because of a lack of proper financial training, black applicants tend to present inadequate business plans and loan applications, putting additional pressure on overworked consultants

Dr Vosloo says the SBDC grants loans solely on the basis of viability, that more than 50% have been granted to blacks, that 44% of staff members are black and 40% of the business advisers are black.

Dawie Crous, senior manager of promotions, says about 1 000 inquiries are received by corporation's six branches and 22 information centres each day.

About 30% are for loans, but because of the SBDC's commitment to profitability, only about two in every seven applications are approved.

The corporation, however, is aware of problems and is dealing with them.

Saambou fights hostile takeover

Own Correspondent

JOHANNESBURG. — Saambou management is fighting tooth and nail to avert a hostile takeover bid with its latest move being a deal with independent insurance company Fedsure.

Saambou MD Hendrik Sloet said: "We want to send a message to the marketplace that a takeover of Saambou will not be easy."

In a joint announcement, the companies say Saambou will issue to Fedsure subsidiary Fedlife convertible debentures to the value of R55m. In exchange, Saambou will acquire finance company Plant Finance from Fedlife.

Fedlife's debentures may be converted into Saambou ordinary shares at any time during the next three years. Should Fedlife elect to convert, it will acquire about 30% of Saambou's ordinary share capital, making it the largest shareholder in Saambou.

The price at which conversion will take place will be 140c a Saambou share, plus a premium based on the increase in the net asset value of the Saambou share between March this year and the conversion date.

It is believed Saambou management is fighting to avoid a hostile party from gaining too much power. It is understood management sees the bid for 30% of Saambou, launched by Trafalgar Portfolio Managers (TPM), as hostile.

It is not yet known who is behind Trafalgar, whose offer closed last week. Trafalgar declined to comment on the Fedsure deal with MD Pieter Hougaard saying an announcement would be made this week.

The weekend announcement followed last week's by Sege-Alliansie that it had acquired "a strategic stake" in Saambou. This was also seen as an effort to counter the Trafalgar offer. The transaction, which is valid from January 31, still has to be approved by shareholders.

Asked whether Fedsure would act if a significant stake was acquired by an outside party, Fedsure CE Arnold Basserabie said: "That depends on circumstances."

IDC to be restructured . . .

Cape Times 4/2/91

Multi-billion rand boost for industry

180

Own Correspondent

JOHANNESBURG. — SA industry stands to get a multi-billion rand boost from the proposed restructuring of the Industrial Development Corporation (IDC), announced by President F W de Klerk in his speech in Parliament on Friday.

The restructuring is expected to involve the sale of IDC's existing holdings to release funds for industrial development.

These holdings include phosphate giant Foskor (at least R330m) which is earmarked for privatisation, a 30% stake in Sasol valued at about R2bn, a major stake in aluminium giant Alusaf, a R600m investment in Iscor, and its holdings in Natsel and Indsele two listed companies with substantial investments on the JSE.

Restructuring the IDC is believed to be just one of numerous initiatives aimed at reducing the state's economic involvement and encouraging private sector industrial developments towards increased beneficiation of raw materials.

"We simply cannot forgo the much-needed employment opportunities this will bring about," De Klerk said in his speech on Friday.

"Government places a high premium on job and income-creating growth."

Government sources said the restructuring of the IDC would make at least R3bn to R4bn available for industrial investments, at current market value.

De Klerk's announcement that the IDC would be restructured to promote optimum industrial growth follows a report by retired Auditor-General Joop de Loor and a separate inquiry by Economic Co-ordination Minister Wim de Villiers.

Both apparently criticised the IDC for sitting on strategic investment rather than ploughing these funds into new risk ventures.

De Villiers' view is that there are sectors, such as the mining sector, that have most of the resources to turn raw materials into finished products, increasing SA's competitiveness in the export market and bolstering growth and productivity.

De Klerk's announcement came as a surprise to the IDC, which appears not to have had advance warning that it was to be restructured.

Government wanted to reduce its share of the economic pie and operate more as an agent in development, De Klerk said.

"This includes a shift from import replacement and strategic self-sufficiency to an export-orientated strategy, involving limited protection of domestic industry, and aimed at maximum productivity and cost-effectiveness," he said.

An IDC spokesman declined to comment until more details were forthcoming.

The restructuring is likely to focus on freeing up some of the mature investments, making more finance available as soft loans for entrepreneurs. It is also likely to speed up projects which the IDC is investigating.

MD Carel van der Merwe disclosed in a recent interview that the IDC had projects valued at R21bn in the pipeline. He said it could raise R10bn in the next five years to fund new industries.

He said capital was not the problem if the right opportunities could be identified.

Crusader pays div

JOHANNESBURG. — Anglovaal's Crusader Life Assurance Corporation declared an interim dividend of 17,25C a share against nil, being R3,40m for the 12 months ended December 31, after changing its financial year-end to June 30.

Dividend will be payable on March 27, registered in the company's books on February 15. — Reuter

Govt move to boost development

Billions to be freed by IDC restructuring

B\DA4\4\4\91

180

KEVIN DAVIE and BILLY PADDOCK

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● See Pages 2 and 6

Natsel and Indsele, which are 51%-owned by the IDC, hold numerous IDC investments which are sufficiently mature to pay regular dividends.

Major shareholdings within these two portfolios include those in Bankorp, C G Smith, Implats, Sappi, Sasol, Palabora Mining, Tongaat-Hulett, Fedvolks and the Industrial Finance Corporation, a company jointly owned by Natsel and Indsele, which has investments in C G Smith, Sentrachem and Alusaf.

While the IDC sees these holdings as a

☐ To Page 2

IDC plan

B\DA4\4\4\91 180

☐ From Page 1

way of allowing private participation in its successful ventures, critics say too much of its potential funding is tied up in safe equity investments.

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He said capital was not the problem if the right opportunities could be identified.

SA signs standards deal

Star 5/2/91

By Norman Chandler
Pretoria Bureau

A formal agreement for the mutual recognition of national measuring standards was signed in Pretoria yesterday between South Africa and the Republic of China.

Deputy Minister of Trade and Industry Dr Theo Alant said at a ceremony at the CSIR convention centre that it was a significant agreement.

The agreement could be seen as being a form of quality assurance — "governments of all industrialised countries are very conscious of the need to provide the right inducements and the right support for manufacturing industries".

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Demand buoyant for mini-factories

Star 5/2/91

(180)

The small business sector remains buoyant, judging by the response to Supreme Industrial Park — the mini factory development in Steeldale, Johannesburg and the first phase of which is now on stream.

The R26 million development which is being marketed and managed by the industrial division of the Camdon's Group in association with the Investron Group, is aimed at small to medium-size industrialists, with rents pitched at R10 to R14 a sq m.

The first phase of 14 units is fully let.

Lessees will have option to buy the units under sectional title should it be decided to make the conversion later.

"This is a hi-tech industrial park with emphasis on security, within a pleasing working environment," says Mannie Osband, chairman of Camdon's.

Abcon plans R16-m city mall

Sandton contractor, Abcon Wits is following up its recently completed R16 million motor city mall in Industria with a similar project in Randburg costing R6 million.

Henrico Knoesen, managing director of Abcon Wits, says: "Work has already started on the Randburg development and there are plans to expand the one-stop motoring concept to other centres in South Africa."

COMPANIES

Downswing unlikely to affect dividend payouts

BDay 5/2/91 (180)

THE trend for JSE-listed companies, especially blue chips, to maintain or increase dividend payments would continue despite the current downswing in the SA economy, analysts said yesterday.

As the economic climate worsens companies have increasingly been faced with the dilemma of whether to maintain or cut back dividends to shareholders.

Analysts explained that although there was no watertight strategy on the issue, many smaller company directors intent on retaining their shareholder's confidence in a weakening market had largely disregarded their dire financial situations.

In the depressed market, analysts and companies felt it was necessary to reassure nervous shareholders, and the best way to do this was by maintaining dividends even when profits were down.

A company reporting reduced profits but still showing a strong cash flow would be justified in maintaining its dividend levels. However, analysts said many smaller and financially unstable groups had increased borrowings to maintain dividend levels and reassure shareholders.

Less financially sound companies could not afford to disregard an economic downswing to appease shareholders.

To ensure dividend levels were maintained the financially vulnerable group weakened its balance sheet by increasing borrowings and subsequently lost its potential to take advantage of investment opportunities.

Corporate financiers said although there had been a trend toward increased borrowings, it was because more working capital was required under the worsening economic conditions.

Bankers regarded loan applications intended to finance dividend payments as extremely bad financial management.

Analysts believed investors interpreted a reduced dividend as an indication of an impending financial crisis. It was difficult for directors to convince shareholders that a dividend cut could allow further group investment with benefits in the long term.

Certain blue chip groups such as Barlow Rand and Malbak were criticised for maintaining a conservative dividend cover, but this strategy eventually allowed these groups to maintain dividend payments.

Despite a 15% drop in earnings Barlow Rand retained its dividend payment at 170c (170c) for the year to September 1990, while Malbak held its dividend payout at 30,5c (30,5c) after earnings fell 12% for the year to August 1990.

The offering of bonus shares instead of a dividend payment has pointed to a possible liquidity problem in a company. Analysts believed a once-off bonus share option was often financially viable, but companies that consistently relied on bonus share offers were headed for financial trouble.

The scheme put more shares in issue, which often could reduce a group's share price considerably, analysts said.

NEWS IN BRIEF

Trevor Tutu in court

THE cost of a four-hour flight delay and the rescheduling of five SAA flights after an incident involving Trevor Tutu was estimated at R27 770 in the East London Regional Court yesterday.

Tutu has pleaded not guilty to charges of contravening the Civil Aviation Act and crimen injuria. *He is alleged to have caused a flight delay after he told airport officials there was "something" on board the plane he was travelling on, leading to a three-hour bomb-search of the plane. The trial continues today.*

Call for hit squad probe

THE National Union of Metalworkers (Numsa) yesterday challenged government to reopen investigations into the alleged existence of police hit squads or face growing community rejection of the security forces.

The union was reacting to a weekend bomb attack on the house of Civics Association of Transvaal (Cast) general-secretary Sam Ntuli.

Britain's reserves up

BRITAIN'S official reserves rose an underlying $46m in January from December, the UK Treasury said in London yesterday.

This follows an underlying fall of $225m in December.

UK retail sales increase

UK RETAIL sales volume rose a revised 1,8% in December from November and was down 0,7% from December 1989, the UK Central Statistical Office said in London yesterday.

Industrial output firms

WESTERN German industrial production gained by 0,8% in December from November and was up 5,7% from a year earlier, the Economics Ministry said in Frankfurt yesterday.

REPORTS: Business Day Reporter, Own Correspondent, AP-DJ.

World Bank bets on SA for success

B/Day 5/2/91.

KEVIN DAVIE

THE World Bank sees SA as its possible success story in Africa, and is assigning more manpower to its study here than it originally intended.

Development Bank CE Simon Brand says the World Bank has realised that SA, with its considerable resources, represents a chance for its polices to succeed: "They see a good chance of things working here, of showing results.

"They are looking very hard to show success in Africa," he says.

This year the World Bank will begin a formal study of SA, which will represent the first real contact the world's primary development agency has had with SA in 25 years.

The bank investigation will be an economic study to provide itself with basic data on SA.

Brand says he believes SA will get World Bank loans in the future, "but not this year or the next". He suggests that SA has a lot to gain from an improved relationship with the bank. Much of mainstream government development thinking now mirrors policies which agencies such as the World Bank employ worldwide.

Brand says in the SA political debate it will be possible to show policy is not tailored to protecting vested interests, but simply reflects the outside opinion of bodies such as the World Bank which have considerable experience in the field.

Many other development agencies are visiting SA. There has been constant traffic from the development arms of most Western countries, including Germany and Sweden.

"They're generally scouting the territory, looking at available capacity and where they can contribute." He says the notion that all development finance is going to Eastern Europe is incorrect.

"It's becoming more and more clear that there are major problems with most of Eastern Europe."

An indication of SA's improving relationship with the capital markets of Europe is the intention of the Development Bank to raise foreign loans this year.

While the amounts will not be large, the exercise will be to re-establish links with these markets.

Elderly whites living in fear — study

TANIA LEVY

MOST elderly white people living in and around Hillbrow feel their safety and quality of life have deteriorated with the influx of black people into the area, a Human Sciences Research Council (HSRC) study has found.

Of the 300 people surveyed, 40% had been "victimised" in the past three years and 90% were scared of being robbed, assaulted or threatened. B/Day 5/2/91.

HSRC researchers Monica Ferreira and Sheila Rip found that more then 80% of the residents of Hillbrow, Joubert Park and central Johannesburg felt the area had deteriorated in the past three years and the reason most frequently given was that it had become multiracial.

More than half the respondents felt the most serious problem in the area was "the bad element moving in". This was followed by an increase in crime, particularly muggings. Littering and unhygienic, overcrowded living conditions also rated highly.

In their report, Ferreira and Rip propose more policing of the area to enhance the safety of elderly residents. Other solutions include encouraging interaction with neighbours.

The report will be presented to Johannesburg mayor Willie Janse van Rensburg today.

October manufacturing creeps up

B/Day 5/2/91. 180

MARCIA KLEIN

TOTAL manufacturing production in *October 1990 increased for the first* time since February 1990, according to the latest figures issued by the Central Statistical Service (CSS).

The figures show that manufacturing production in October 1990 increased by 1,1% compared with October 1989.

However, SA Chamber of Business economist Keith Lockwood said yesterday that the increase in production was not an indication that conditions had improved as the longer-term outlook was still negative.

He said October was generally a month when most of the production for December sales was carried out.

In terms of year-on-year growth, the only reason October's figures would be higher was the strength of domestic demand for consumer items, as most spending in December tended to be consumer-related.

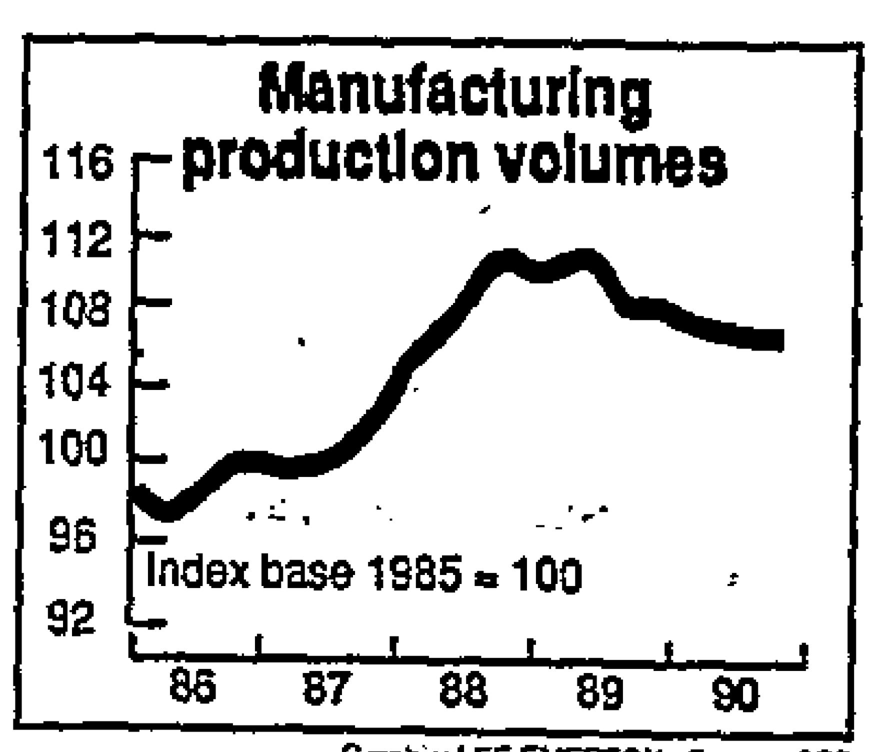
The CSS said 15 of the 27 major manufacturing groups showed an increase in production, with the largest increases being recorded by beverages, tobacco products, other chemical products, rubber products and glass industries.

The value of sales of manufacturing for October 1990 showed an 11,4% increase over October 1989, with the largest contributors to growth being food, other chemical products, metal products and electrical machinery.

Actual sales of R44,58bn for the August to October 1990 quarter were 9,4% up on October 1989, while seasonally adjusted sales of R41,96bn for August to October 1990 were 0,1% up on the previous quarter.

The Bank of Lisbon Economic Focus said growth in the manufacturing sector over the last decade had been sluggish at 0,7%.

Between January and August 1990 employment in the manufacturing sector had decreased by 3% in line with a 3% fall in output over the same period.



Graphic: LEE EMERTON Source: CSS

Blacks 'ready to snap up land'

BLACK businessmen will create an upsurge in demand for industrial land after the expected introduction of legislation precluding race bars in property purchases and the elimination of the Group Areas Act. (25)

That is the prediction of Investron MD Alan Goldring, who recently appointed one of SA's first black industrial land sales executives, Charles Ntuli. BDay 5/2/91

Says Goldring: "South Africans would be surprised at the number of highly successful black businessmen and industrialists who have been waiting for a signal that they are able to buy land wherever they please.

"They will create a major new market for industrial land." (180)

Ntuli is chairman of the Kathlehong Chamber of Commerce and serves on the board of the SA Perm.

He says: "For black businessmen renting office and factory space in black areas has always been the norm. There is a tremendous desire to break out of the mould of the past and own their offices and factories.

"The proposed opening up of industrial land to all races will mean they will benefit fully from the growing value of properties rather than seeing no return from their rentals.

"There is also the benefit of setting up their companies in areas away from unrest and in being in contact with other businessmen so that they cross-pollinate ideas." — Reuter.

IDC goes private in big boost for growth

By MICHAEL MORRIS,
Political Correspondent

SOUTH African industry is set for a multi-billion rand injection through a major shift in industrial development policy aimed at increasing production, exports and money for jobs.

The industrial development arm of the State, the Industrial Develoment Corporation (IDC), is being "restructured" and placed on a private enterprise-footing to operate as an investment and projects partner with industrial entrepreneurs.

The move — one of several initiatives to cut the State's role in the economy and encourage private sector ventures — was given the go-ahead by the Cabinet yesterday.

R30 billion investment

The policy shift announced in a joint statement last night by Minister of Trade and Industry Mr Kent Durr, Minister of Administration and Economic Coordination Dr Wim de Villiers and chairman of the IDC, Mr Koos van Rooy, is expected ultimately to generate invespment of about R30 billion over the next six years.

The restructuring, announced in general terms by President De Klerk in his opening address to parliament last Friday, effectively expands the role of the IDC as an industrial financier, providing the opportunity for it to "mobilise its full financial resources to this end".

Except under special circumstances, the State will cease funding the corporation. In keeping with its new operating brief, the IDC will raise funds by selling assets and shareholdings and making optimum use of its borrowing capacity.

Last night it was said the IDC had been tasked, as a priority, to pinpoint under utilised "production capacity" and use it to generate jobs and boost exports.

This could include providing the wherewithal for under used plants and factories to run at full capacity.

The IDC would make available supporting financial packages, possibly in cooperation with other corporations, for this purpose.

Beneficiation of raw materials or semi-beneficiated materials would also rank high on its priority list.

"The IDC will, as in the past, enter into joint ventures with local mining houses and financial institutions as well as foreign investors for this purpose and commit a material part of its available resources to this end."

Fixed rate loans

The corporation would also be expected to help medium sized and smaller enterprises with knowhow, venture capital and fixed rate loans for industrial development.

"This development task will require an increasing commitment by the IDC as this category of enterprise can make a significant contribution to generating employment opportunities," it was said.

The IDC might also be asked from time to time to give some of its profits to other development organisations.

The IDC should be able to mobilise almost R10 billion over the next six years for investment in industry by selling assets and making the most of its borrowing capacity.

"If the IDC's contribution to the financing of industrial projects is assumed to be a third of the total financing, it would mean a total investment of R30 billion, which would make a significant contribution to growth in that sector."

The sale of IDC assets would take place "as and when the need arises" and would be arranged in the light of contractual commitments and market conditions, as well as the interests of partners and shareholders.

Its borrowing programmes would be planned so that they would not place excessive pressure on the local capital market.

Cape Times 7/2/91 (180)

Boost for industry

Political Staff

THE Industrial Development Corporation (IDC) is aiming at ploughing a total of R30 billion into the industrial sector over the next six years.

A statement issued yesterday by Minister of Trade and Industry Mr Kent Durr and Dr Wim de Villiers, Minister of Economic Co-ordination, estimated that the IDC should be able to mobilise almost R10bn over the next six years, for investment in industry.

The money would be raised by the realisation of assets and the optimum use of the IDC's borrowing capacity.

The ministers said that if the IDC's contribution to the financing of industrial projects was assumed to be one-third of the total financing, it would mean a total investment of R30bn in the industrial sector.

This would make a "significant contribution" to growth in that sector.

In an indication that the IDC is to move towards privatisation, though not totally, the ministers said the state would not, except under exceptional circumstances, make any further contribution to the funding of the IDC.

The corporation would be dependent on its own financial resources to achieve its development objectives.

Mr Durr also said the President F W de Klerk's reform initiatives over the past year — and specially his opening speech on Friday — had resulted in heightened interest from Europe and the US.

In the past year South African exports had grown in volume terms and the government was now focusing more energy on manufactured export goods.

Addressing a media briefing Mr Durr said a few US investors who disinvested in the '80s were re-assessing their positions and now wanted to come back.

Several major banks were looking at investment opportunities.

"In the future we see ourselves as a global player. We are a very open economy with 70% of our economic activity being import-export orientated as opposed to the UK's 40%. But we need bigger, longer-lasting plants to be competitive in the open market," Mr Durr said.

He said trade with the US and countries in the Gulf would grow markedly when sanctions ended.

The US remains a very important market representing 9% of South Africa's trade. But, Europe and Asia would remain the dominant targets.

SOWETAN BUSINESS

Move faster, black business tells F W

180

Sowetan 7/2/91

SAM MOTSUENYANE

BLACK business has welcomed the State President F W de Klerk's historic speech in Parliament last Friday, but immediately warned of resentment once the reforms were not immediately implemented.

The National African Federated Chamber of Commerce (Nafcoc) and the Foundation of African Business and Consumer Services (Fabcos) said they saw the moves as "a step in the right direction."

Dr Sam Motsuenyane, president of Nafcoc, said the scrapping of the Land Acts was important because it would mean a fair redistribution of land. Blacks would be able to acquire property in the urban and rural areas.

By JOSHUA RABOROKO

Optimism

"I think prospects for black business look bright because of the wide opportunities that will be created for them to participate in affirmative actions that will result in them also playing a vital role in the country's economic mainstream," Motsuenyane said.

He warned that the Government would have to be realistic in implementing these "novel ideas."

Motsuenyane added the Government and the private sector would have to help black business to play a meaningful role in the country's economy. For instance, he said, Nafcoc demanded that 30 percent of companies represented on the Johannesburg Stock Exchange should "have visible black participation in their management."

"Blacks should eliminate the depedency syndrome and work towards economic advancement," he said.

Fabcos' public affairs director, Mr Mike Ntlatleng, said the State President's announcements, "seen against the background of the National Party's mismanagement of economic and political lives of our people is a step in the right direction."

Fabcos, although understanding the importance of such announcements, was concerned about the:

* The practical way in which the repeal of these laws would be handled.
* The protection - or lack of it - of blacks against the financially powerful whites who would use their muscle to lap up the dregs of black property.
* The possibility that white businessmen might set up shopping complexes in black areas at the expense of black traders.

Ntlatleng said: "Fabcos believes that the repeal of these Acts should go hand in hand with the protection of the disadvantaged communities and consideration of historical imbalances brought about by these and other laws should be taken."

Top executives forecast turbulence on all fronts

BEVERLY HUCKLESBY

EXECUTIVES from the top 100 JSE-listed industrial companies are forecasting a year of economic, social, business and political turbulence, the latest report of The SA Business Environment in 1991 says.

The report, compiled by Unisa's business economics professor Okkie Lucas on predictions by company executives, stated they were pessimistic about a wide range of indicators. The study claimed previous reports had been "very accurate".

However, the views expressed could have been changed by President F W de Klerk's opening speech in Parliament last week. Lucas said yesterday there had been a positive reaction to the speech.

"Business confidence has improved in reaction to the stronger financial rand and executives are cautiously optimistic. The internal political turbulence, however, remains a threat," he said. (180)

Executives were also optimistic that sanctions and disinvesment trends would be reversed as a direct result of the abolition of apartheid.

Inflation was fixed at about 14,3% last year and was expected to average about 13,5% in 1991.

Executives were still not optimistic about this year's economic growth, which they predicted would range between 0,9% and 1,1%, averaging a negative annual growth rate of 0,2%. They felt there would be a deterioration in the commercial rand against the dollar which had averaged R2,64 last year. This year the exchange rate was expected to range between R2,64 and R2,80.

They expressed some optimism over the continued strengthening of the finrand in the short term and the prime overdraft rate which they thought would be three percentage points lower than the present rate of 21% by December this year.

The report said there was also some optimism over the gold price which executives predicted could average about $401 an ounce or more.

'Declare dividends to beat risk'

MARC HASENFUSS

COMPANIES should declare dividends now to eliminate the risk of shareholders being subject to additional taxes, accounting firm Coopers, Theron, Du Toit said yesterday.

The blunt message follows in the wake of recent speculation that the taxation on dividends will be reintroduced during the course of this year's Budget speech. BDay 7/2/91

Last year's Budget saw government exempt the dividend income of individuals and close corporations from normal tax.

Coopers Theron Du Toit corporate services director Peter Goldhawk said if dividend tax was reintroduced, the measure would be backdated to March 1 to coincide with individual tax assessments. "For companies listed on the JSE there is no time to lose if they subscribe to this view." The JSE requires the last day to register for dividends can fall only on a Friday, and that dividends must be declared at least two weeks prior to this. The last Friday this month is February 22, and two weeks before that is tomorrow. (180)

For unlisted companies, Goldhawk said, time was somewhat less pressing.

"Unlisted companies only need to ensure, if they are worried about the potential additional taxes, that dividends are declared prior to February 28."

He warned that private companies should have such declarations endorsed by a commissioner of oaths.

JSE president Tony Norton said yesterday that he hoped market speculation regarding the reintroduction of dividend tax was only a rumour.

Some analysts believe the dividend tax is effectively a form of double taxation, as company earnings are already taxed and will be taxed again when they reach the shareholder in dividend form. Others said government would reintroduce the tax to show it did not favour the rich at the expense of the poor.

R30bn should flow from new-look IDC

BIDay 7/2/91

(180)

BILLY PADDOCK

CAPE TOWN — Government's restructuring of the Industrial Development Corporation (IDC) is expected to pump a massive R30bn investment into the industrial sector, Economic Co-ordination Minister Wim de Villiers announced last night.

In a joint statement, De Villiers and Trade and Industry Minister Kent Durr said it was estimated the IDC should be able to mobilise almost R10bn over the next six years for investment in industry.

This would be done by realising its assets and utilising its borrowing capacity. At current market value IDC assets were worth between R3bn and R4bn.

"If the IDC's contribution to the financing of industrial projects is assumed to be one-third of the total financing, it would mean a total investment of R30bn ... which would make a significant contribution to growth in that sector," they said.

They said the state, except under exceptional circumstances, would make no further contributions to the funding of the IDC and the corporation would be dependent on its own financial resources to achieve its development objectives.

At yesterday's Cabinet meeting it was decided the IDC must concentrate on assisting medium-sized and smaller enterprises with knowhow, venture capital and fixed-rate loans for industrial development.

The restructuring was part of government's endeavours to foster a more dynamic industrial sector "which needs to make an increasing contribution to sustained economic growth and generation of employment and prosperity for the future", De Villiers and Durr said.

The IDC, which agrees with the restructuring, has been instructed to place high on its priority list the identification and employment of any existing underutilised production capacity to generate jobs and increase exports.

The IDC will develop and make available supporting financial packages, in co-operation with existing corporations, to encourage the use of existing capacity for exports and job creation.

"In addition, the IDC is to encourage the further beneficiation of raw materials and semibeneficiated minerals to the greatest possible extent," they said.

☐ To Page 2

IDC

BIDay 7/2/91

(180)

☐ From Page 1

The corporation would enter into joint ventures with local mining houses, financial institutions and foreign investors.

The realisation of assets by the IDC will happen when new projects need to be financed and borrowing programmes will be planned so as not to place excessive pressure on the local capital market.

The Cabinet's decision was in line with President F W de Klerk's commitment that the state should not act as entrepreneur in the setting up of major industries or use the IDC as its agent for such tasks.

It was also decided that the IDC should strive for optimum industrial development in co-operation with the private sector on sound commercial principles.

The directive to the IDC should be seen against the background where "state participation in the economy is decreasing" through:

- ☐ Limiting expenditures to affordable levels;
- ☐ Restricting capital investment to essential priorities; and
- ☐ Allowing the optimal functioning of market forces in the economy with minimal state interference.

The IDC will still act in an advisory role to the Board of Trade and Industry and the Department of Trade and Industry.

The IDC is not being privatised and all its major policy decisions will have to be vetted by Cabinet.

Freed from politics, the IDC may now fulfil its mission

B/Day 8/2/91 180

HAROLD FRIDJHON

PROPOSALS to restructure the Industrial Development Corporation (IDC) suggest that it will be put on course to achieve, hopefully without government interference, the objectives formulated 50 years ago.

Those objectives, spelled out in 1940, were "to facilitate, guide and assist in the financing of new industries and industrial undertakings and schemes for the expansion, better organisation and modernisation ... in existing industries" — with the underlying rider that industrial development be conducted on sound business principles.

Without denigrating its singular contribution to the development of industry in SA, the IDC appeared to lose its way during the late 1950s when it deviated from single-mindedly serving the broader national economy to furthering both the policy of apartheid and Afrikaner economic ambitions.

It became the vehicle for state intervention in the private sector and the custodian of the government's stake in what should be the private sector.

Writing in 1967 Hobart Houghton, a former professor of economics of Rhodes University, said that "since 1928 the state has extended its activities into the more debatable field of manufacturing (and) there has been an increasing number of industrial establishments wholly or partly state-owned. Much of this has come about through the IDC (which) has built up a very substantial industrial empire.

"In addition to various minor concerns it has substantial interests in 10 major industrial undertakings. These are: Sappi, Sasol, Northern Lime, Foscor, Good Hope Textiles, Fisons at Sasolburg, Fine Wool Products, Safmarine, Masonite and Saiccor."

Since Houghton's comments were written most of these holdings have been sold, but they have been replaced by others which do not fit into what should have been the IDC's sphere of activity.

The flotations of Impala Platinum and Palabora Mining, for example, could have been made through normal market channels without IDC intervention.

At the time it was said that the government used the IDC to block Anglo American and the other so-called Brit mining houses from becoming involved.

And the formation by the IDC of the merchant bank, the Accepting Bank of Industry (subsequently merged into Senbank) in association with Sanlam, was to counter Anglo's establishment of Union Acceptances, just as National Discount House was set up in opposition to the Discount House of SA. These were enterprises in which the IDC should never have been involved; banking should never have been part of its business.

To this day, the IDC through Industrial Selections and National Selections has large shareholdings in Bankorp, Federale Volksbeleggings and Sentrachem, probably because of past close links with Sanlam, the original powerhouse of Afrikaner capitalism.

The Second World War was moving into the Allies' darkest period in 1940 when the IDC was born, spawned by the Van Eck commission appointed to examine the industrial and agricultural requirements to give thrust to SA's economy.

There was a measure of subcutaneous idealism in the setting up of the corporation: it would create the climate for accelerated industrialisation in the new era which would come with victory and peace. General Smuts believed that SA would become the powerhouse of sub-Saharan Africa.

By and large the IDC has fulfilled its mission. Under the leadership of Dr H J van Eck, who succeeded the first IDC chairman Dr H J van der Bijl in 1941, and the dynamic MD Dr Siegfried Kuschke, the corporation initiated the establishment of several key industries, not the least of them the textile industries.

Kuschke told me that the motivation for concentrating on textiles was twofold: they were labour-intensive and, in the case of woollens, an agricultural product was being "beneficiated".

Prices for the finished SA products were higher than those for imported goods, but protective tariffs were increasingly raised to nurse the then infant enterprises. Industrialists who used SA textiles in their manufacturing processes, and the end-of-the-line consumers, complained about high prices (and inflation) but Kuschke shrugged off the criticism.

His argument was that these new industries provided employment for a growing black population and this in turn created additional consumption demand for the products of other industries.

Blame for this inward-looking protection philosophy, which has stunted SA's export potential for goods other than primary products, should not be laid entirely at the door of the IDC; it has been National Party policy since 1925 and has become ingrained in SA's economic culture.

That protectionism, through tariffs or controls, adds twists to inflation which have constantly been ignored; when political events led to the increasing isolation of SA, the cocooning of the country and its industries was exacerbated.

The IDC followed government policy — it had no option — to finance uneconomic projects for import replacement and the setting up of "strategic" industries to save foreign exchange. But one questions why the corporation followed without protest the costly decentralisation programme which was doomed to failure and which diverted skills and money into rivers of sand.

These artifically induced areas of industrialisation could never contribute to expanding the merchandise export trade; the output from these factories was uncompetitive on world markets. But the IDC tried to make good the deficiencies by helping finance whatever could be exported.

The new SA will be able to create employment for its millions not by living in a protected hothouse environment but by creating large and efficient, cost-effective factories whose products can compete in world markets.

The role for the "restructured" IDC will be to look outward and not inward — a reversal of its old philosophies. And to disclose, not conceal, what it is doing.

That it has the ability to produce the leaders is proved from its somewhat blotched past. Gencor's Derek Keyes and Safren's Alistair Macmillan are proof of this.

With more dynamic businessmen drawn from all sections of the population on the board, the new-look IDC could make an inestimable contribution to the new SA.

Bonanza payouts to stymie taxman

ST Times 10/2/91.

180

FEARS that tax on company dividends will be reimposed have provoked a rush by companies to advance their payments to this fiscal year and so beat the taxman.

Some companies have also declared special dividends, giving thousands of shareholders more than they could have expected under normal circumstances. Among the quoted companies which have paid early are Liberty, EL Bateman, Waltons and Trans-Natal.

By CURT VON KEYSERLINCK

Many companies were advised by their auditors to pay early.

Business Day carried at least 15 announcements this week of early or special dividends.

They were just in time to provide the 14 days' notice for the deadline of 22 February on which a shareholder must be registered in a company's books if his dividends are to be deemed paid in the current tax year, which closes at the end of this month.

Silly

Also on advice from auditors, some have made conditional dividend declarations where, if the tax is not imposed in the coming year, the cash allocated for payouts can be kept in the company through mechanisms such as shareholders' loan accounts.

The chances of the tax being reimposed are slight, says Price Waterhouse tax consultant Chris Frame. Nonetheless, he believes it is only a matter of time before it returns.

"The Government would look silly if it revived dividend tax after having abolished it only a year ago," says Mr Frame.

"But it was obviously not anticipating opposition from the ANC which regards so-called passive earnings of this sort as unacceptable in the new South Africa."

The possibility of a dividend-tax revival has angered businessmen.

"The inconsistency in government policy and the uncertainty make planning a nightmare," says a source in the SA Chamber of Business.

"It smacks of irresponsibility and it seriously compromises the viability of many projects.

"Business planning has also been made more difficult by two changes in the investment allowances in the past few years and conflicting reports about the date of the introduction of VAT.

"When some businesses heard that it would not come until 1992 they deferred spending on new systems designed to handle VAT.

"But now talk is that it will start in October this year and these businesses will be caught short.

"The sudden introduction of the minimum tax on dividends a few years ago was another nasty surprise."

Executive director of the Afrikaanse Handelsinstituut Martin van der Berg says: "From now on we can expect the unexpected in each Budget with new taxes and new exemptions.

"Everything is up for grabs because in our present state of transition no government can give any assurance of how long the measures it introduces will remain in place."

Costa Divaris of Divaris Stein Publishers agrees, saying: "The sorry truth is that there is nobody left in the business community who makes decisions on the basis tax law.

"I believe the Government never intended to abolish dividend tax permanently. It was merely a scheme to allow their friends to empty their companies of cash without paying tax on it.

"The clever businessmen have already taken advantage of the opportunity."

Mr Frame says if dividend tax returns it could be in the form of a withholding tax, such as the one proposed for interest on deposits with financial institutions at a far lower rate than the current marginal rate of 44%.

It has been suggested that the rate would be between 10% and 15%.

Reason

Withholding tax simple to apply and the taxman gets his money up front instead of in arrears as is the case with personal tax.

Dr Van der Berg says a reason for abolishing dividend tax is to eliminate what was in effect double tax on company profits which arises, first, from company tax and second, from tax on dividends paid out of a company's taxed earnings.

"This was done to increase disposable income which, in turn, would stimulate investment and saving," he says.

"There may be resentment in some quarters about passive earnings, but they are the inevitable consequence of savings and investment.

"Savings and investment are essential if our economy is to grow.

"We sympathise with the frustrations of blacks regarding the disparities in income in our country, but we must not let this sympathy destroy the power in our economy to create wealth."

KreditInform joins the mating game

S|Times 10|2|91. (180)

Business Times Reporter

THE BUSINESS information revolution, spurred by the fear of bad debts during the recession, has taken a new turn.

Companies looking for merger mates or acquisitions will benefit from a link-up between KreditInform, SA's largest corporate information organisation, and McGregor's Online Services, which compiles a specialist database covering listed companies.

KreditInform has bought a 20% stake in McGregor's Online, making it the only non-family shareholder in the group. The two companies already operate a 50-50 venture, McGregor's Research.

KreditInform managing director Ivor Jones says the stake in McGregor's Online is a natural development.

"For the first time subscribers to either company will be able to get the complete picture.

Bills

"McGregor's looks at a company's position on the basis of its results and share performance. We look at how the company is trading and paying its bills.

"In addition, our extensive database of unlisted companies will benefit anyone looking for acquisitions."

The companies are co-operating on an analysis of JSE-listed companies which is designed to give early warning of companies which could be in a precarious position.

"We are looking at their financial ratios and how they are performing on purchases and payments," says Mr Jones.

A similar study of UK companies late last year showed that 26% of those listed on the London Stock Exchange could be rated "precarious".

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Sacob sees hope for end to business slump

180

Star 11/2/91

By Michael Chester

The SA Chamber of Commerce (Sacob) is holding thumbs that warm world reaction to government pledges on the burial of apartheid and the chances of an end to sanctions will pull business out of the worst doldrums encountered since the peak of the apartheid crisis five years ago.

Sacob has disclosed that the level of its business confidence index — with a neutral level between optimism and pessimism set at 100 — had slumped to as low as 87,6 points in a New Year survey.

It was the lowest since 1986, when the US and Europe led moves to encircle SA with trade barriers and the storm broke over SA's foreign debt.

Raymond Parsons . . . positive reaction almost certain

However, Sacob director-general Raymond Parsons says the January count was taken before President F W de Klerk's speech on February 1 pledging to dismantle the remaining pillars of apartheid.

Positive reaction in the local business community looks almost certain when the results of a February survey are collected and analysed, he says.

Among the influences behind the steep decline in the level of business confidence in the January count:

- Signs of a renewed climb in the rate of inflation, as measured by the consumer price index.
- Considerable increases in registered unemployment and the number of insolvencies among individuals and business partnerships.
- Declines in retail sales, manufacturing production levels and the real value of new building plans.
- Falls in the real value of merchandise imports — seen as another indicator of reduced economic activity.
- Continued downwtrends in new car sales, always regarded as a key indicator.

"Yet to be measured, though, is the positive impact of the F W de Klerk speech," says Sacob chief economist Dr Ben van Rensburg. "That is almost certain to be reflected in our next survey."

Optimism is stirring in the manufacturing sector, in particular over the outlook for a better export performance as key overseas markets soften their stance on sanctions.

Economic consultant Dr Gad Ariovich is also optimistic about the chance of lower industrial production costs if the Gulf War lasts no longer than three months and international oil prices fall as low as 15 dollars a barrel.

Mining investors face lean pickings — report

B/Day 11/2/91

(180)

LIZ ROUSE

INVESTORS in mining shares face lean times this year with little prospect of dividend improvements in 1992, according to Davis Borkum Hare's quarterly forecast of earnings and dividend yields of major shares in all JSE sectors for 1991 and 1992.

Among mining shares, except for leading coals Amcoal and Trans-Natal, the outlook for earnings and dividend growth is poor for diamonds, golds, platinums and other metals this year.

Mining houses and holdings are projected to show negative earnings and dividend growth this year and only a marginal improvement in 1992.

Insurance (Fedsure, Liberty and Southern) should be the stars in the financial sector, showing growth well above the inflation rate both this year and in 1992, followed by banks and financial services.

The Davis Borkum Hare report says leading property shares (Amaprop and Panprop) should also show good growth over two years.

Leading industrial holding shares' earnings and dividends should spurt in 1992 as will leading beverages and hotels' (Kersaf, SA Breweries and Sunbop).

Bellwether stocks in the building sector (Anglo Alpha, Blue Circle, Boumat and Pretoria Portland Cement) should show a marked earnings and dividend growth in 1992 following a rather flat 1991. Leading chemicals and oils (AECI, Engen, Sasol and Sentrachem) will achieve good earnings growth this year but will slow down to a marginal growth rate in 1992.

Electronics leaders (Altech and TSI) will not be able to improve dividend payments this year but should show strong dividend growth in 1992, Davis Borkum Hare says.

Major food shares (I & J, Premier and Tiger) are projected to achieve a growth in line with the current inflation rate this year, showing a slight decrease in growth rate in 1992.

Paper and packaging leaders (Nampak and Sappi) will suffer negative earnings and dividend growth this year, recovering in at a slow rate in 1992.

Steel and allied shares (Consolidated Metallurgical Industries, Highveld Steel and Iscor) are projected to show a marginal decline in earnings and dividend growth this year, turning around positively in 1992.

Retailers and wholesalers (Edgars, Foschini, Metro, Pick 'n Pay and Wooltru) are the stars among industrial shares, possibly achieving earnings growth of 24% and dividend growth of 26% this year and next.

Profits rise 41,5% after Bidcorp reorganisation

BiDay 13/2/91 (180)

ZILLA EFRAT

BIDCORP has benefited from its recent reorganisation, turning in a 41,5% rise in attributable profit for the six months to end-December despite the economic downturn.

The industrial holding group, which is the pyramid holding company of Bidvest, has posted earnings of 63,8c (45,4c) a share and declared an interim dividend of 25c (15c) a share, up 67%.

Chairman Brian Joffe said in the latter part of 1990 the packaging market picked up while the catering business deteriorated.

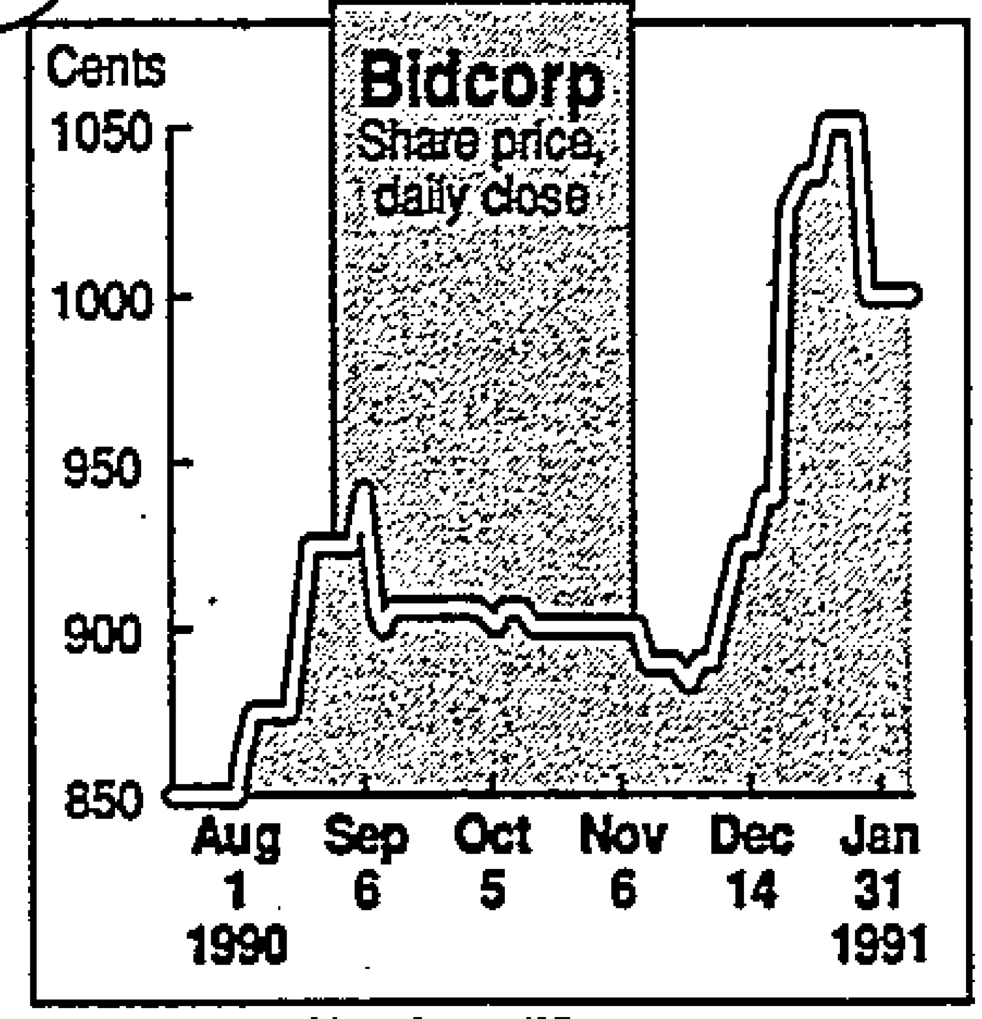
Bidvest subsidiary Cater Plus was affected by the economic downturn as retrenchments hurt staff canteen turnover and the Gulf war dented the local airline and hotel business.

However, cosmetic group Justine's performance was in line with the previous year's. It improved its asset management and was now looking at ways to expand its business through exports and new products.

The past six months were a period of consolidation, especially for packaging subsidiary Afcom, said Joffe.

Afcom yesterday announced an increase of 21% in attributable earnings for the period. While the recession affected sales and operating margins, it benefited from a lower tax rate.

Bidvest's results are not comparable with the previous interim period, because of the restructuring which became effective at the beginning of the period. This involved Bidcorp's stake in Cater Plus and Justine being placed into Bidvest, which also holds Afcom and cash shell Afpac.



Graphic: FIONA KRISCH Source: JSE

However, Bidvest today announced attributable profits of R7m (R2,8m). Undiluted earnings are 171,7c (121,3c) a share, while diluted earnings are 139,6c (121,1c) a share. It declared a dividend of 50c (45c) a share.

Bidcorp's turnover rose 11,5% to R197,2m (R176,9m), while operating profit increased 14% to R18,7m (R16,4m) on a slight improvement in operating margins.

Its attributable profit is R6,3m (R4,4m).

On Bidvest's prospects, Joffe said management was confident of achieving satisfactory results during the second half.

Joffe said the group was not about to rush into any hasty acquisitions despite raising R48m in new capital through a recent rights offer and the possibility that cash shell Afpac, which is sitting with R50m, would have to delist by the end of March if it made no acquisition.

Lip-service to blacks - financier

Sowetan 14/2/91.

ORGANISED business in South Africa is "dragging its feet" on the issue of black economic advancement.

And if it does not make bolder strides towards meaningful black involvement in the formal sector, prospects for healthy free enterprise in the new South Africa will be damaged.

The warning - and the charge - comes not from the ANC, but from the South African Board for Personnel Practice, which represents the personnel profession.

By JOSHUA RABOROKO

Chairman Mr Gary Whyte says: "Business leaders have been paying lip-service to black empowerment for a long time.

"Now they have to stop just talking about it and do something."

Whyte was responding to a call by president of the National Federated Chamber of Commerce Dr Sam Motsuenyane to speed up the involvement of blacks in the ownership, management and operation of organised business.

He said the resolution, made at a summit conference last year, had generally been dismissed with derision or ignored in the white community.

Nafcoc's resolution stated, among other things, that 30 percent of the board members of all companies listed on the JSE must be black and that 40 percent of their total shareholders be black.

It also wants that 50 percent of the value of the companies' outside purchases should come from black-owned suppliers and contractors and at least 60 percent of top managerial staff from the black community.

Whyte said: "While the language of the resolution might appear provocative in some business circles because of the imperative 'must' attached to it, the percentage which Nafcoc laid down were not unreasonable.

"The demographic reality is that about 75 percent of our economically active population is black," he said.

"In the personnel profession, we have been watching the reaction to the Nafcoc resolution with interest.

"We do not for a moment think that most business leaders found the demands comfortable.

"But nevertheless, we believe that underlying the Nafcoc statement is a very critical issue that needs to be put on the table and debated much more openly," Whyte added.

…IGN TRADE — THE FUTURE

Mining equipment offers opportunity

(180)

S Times 17/2/91

IT IS clear from several interviews that prospects of exports to Eastern Europe are not ranked high.

However, London-based Soviet Marketing, which now has an office in Auckland Park, Johannesburg, targets an SA mining suppliers' brochure to foreign-exchange earners in Eastern Europe.

Project manager James Darnborough says: "Our experience, dating from the seventies, tells where the hard currency is held and enables us to cut bureaucratic corners.

"We have about 40 participants in the mining equipment guide, which is specifically South African, and about 200 a month in our general guide which includes companies from all over the world.

"We believe the USSR and Eastern European countries have requirements which are best sourced in South Africa.

Concise

"SA companies need to gain initial footholds in what must turn out to be some of the fastest-growing economies around — even in its troubles, the USSR's gross national product is 10 times this country's.

"Also remember that the five-year plans they continue to be fond of mean long-term business."

Flamboyant advertising is out — the buyers don't like it — and companies are asked instead to provide concise descriptions of their products and operations.

JAMES DARNBOROUGH: Accounting practices unknown over there

Mr Darnborough says good results have already been achieved for products like trackless vehicles and mining props.

"If we can help generate hard earnings for, say, Czechoslovakia's chemicals, aircraft, machine tool and hunting rifle industries, we can hope to sell minerals and agricultural products," says Price Waterhouse International Trade Consultancy director Bob Cole.

"When it comes to merchandise exports, one must understand that, while there isn't the poverty found in our black townships, Czech wages and living standards are low. They would like the sort of products white suburbia here absorbs, but they don't have the money."

At a hotel in Prague he observed how the "man from the (central) bank" is a vital cog in a command economy. Such a gentleman handed over from his bag the wages of the hotel staff and loaded into it the hotel's takings — clearly without anyone knowing or caring whether the hotel was paying its way. "The auditing and accounting profession as we know it doesn't exist."

BDay 18/2/91

Spending on social projects is now vital, says Adcock

GILLIAN HAYNE

THE responsibility of corporations to involve themselves in social projects has reached a new level of urgency, says business consultant Colin Adcock.

Unless the "social decay" in the townships is brought under control, SA's new political dispensation will not succeed, he feels.

A conference to discuss the role of corporate social investments (CSI) in the transition to the new SA will be hosted by KPMG Aiken & Peat and Systems Conferences at the Volkswagen Conference Centre in Midrand on Wednesday.

Speakers are to come from donor companies, the communities involved and executives of major social investment firms.

KPMG social investment unit counsellor Joe Molefe says greater strategic planning could overcome problems of mismatched corporate finance and community expectations.

180

The task of the conference will be to establish bedrock issues that benefit both parties.

Urban Foundation executive chairman Sam van Coller — the keynote speaker at the conference — says the problem has been to identify the real needs of the disadvantaged, and spend the money meaningfully.

Adcock believes that for years a lot of companies have paid only lip service to social responsibility projects.

ANC, Nafcoc agree on link with Sacob

(180)

The South African Chamber of Business (Sacob) yesterday held two important meetings with the ANC and the National African Federated Chamber of Commerce and Industry (Nafcoc) in Johannesburg.

In a statement issued after the meetings, Sacob said it had "a friendly and frank exchange of views" with the two organisations on key economic and political issues. Star 20/2/91

The meetings led to agreements that Nafcoc and the ANC would each form "joint mechanisms" with Sacob to address specific economic issues and problems on an ongoing basis, the statement said. — Political Staff.

POLITICS

Withholding tax plan abandoned — Barend

B|Day 20|2|91.

BILLY PADDOCK

CAPE TOWN — Government had for the time being abandoned plans to impose withholding tax on interest and there was no question of such a tax on dividends, Finance Minister Barend du Plessis said during the mini-Budget yesterday.

He also said measures to level the playing field between banks and building societies and life offices could not be ready in time for the 1991/92 Budget.

However, the search to change the savings pattern would continue.

Because government was not imposing the withholding tax (10%) on interest, individuals would continue paying the marginal tax rate of 44%.

Du Plessis said the Jacobs Committee on the Promotion of Equal Competition for Funds in Financial Markets had given serious attention to a uniform low withholding tax on individuals interest income with a view to boosting savings of this kind.

"Two potential gaps have emerged, however, with adverse implications for the personal tax base: the reclassification as interest income of other income (such as rent), and so-called arbitrage practices," he said.

To counter this would mean serious intervention in existing financial practices — for instance, if interest expenditure by companies were no longer to be tax-deductible as an operating cost.

Another means of countering arbitrage as a consequence of different tax rates on normal income, interest and dividends for individuals in the wake of a low-rate tax on interest, would be to introduce a withholding tax on individuals' dividend income too, he said.

But this would be jettisoning a tax principle — to eliminate double taxation — adopted in the last Budget, Du Plessis said.

Du Plessis said it was imperative positive real rates of interest and tax dispensations for the several returns on individual investments be maintained, while the framework of financial requirements in which different financial intermediaries competed for savings, should not distort the flow and application of savings among those institutions.

● DU PLESSIS

Introducing the Part Appropriation Bill providing for interim expenditure for the period April 1 to July, Du Plessis said it was estimated that R24,7bn was needed.

Central government and the Administrations for Own Affairs required R20,6bn and the provinces R4,1bn.

'Top 100 increased staff by just 0,1%'

B|Day 20|2|91

Political Staff

CAPE TOWN — The Top 100 Johannesburg Stock Exchange-listed companies increased dividends last year by 21,3% but only increased employment by 0,1% during 1990, the Labour Research Service (LRS) has found.

Some of the largest Top 100 not only chose to grant shareholders significantly larger dividend payments but also cut employment during 1990. (180)

"Employment creation should be a major concern for South African companies," the Cape-based LRS said.

"Instead of expanding employment opportunities and making economic growth a priority, these companies and directors preferred to keep shareholders happy with large dividend payments."

Profits of the Top 100 companies increased by 15,8%, just above the average 1990 inflation rate of 14,3%.

Despite the recession, the Top 100 companies managed to increase sales by 18,3% during 1990.

"Sales per worker rose by 17,3%. This suggests that workers' productivity has improved at the Top 100 companies."

LRS said the average increase in profits of the 245 companies surveyed in the 16 industrial sectors on the JSE was 25% and those listed in the engineering sector recorded, on average, a 45% increase in profits, the largest in the 16 sectors, during 1990.

"Profits increases for some of the big five conglomerates might have been poor in 1990, but they still earned large returns on their shareholders' investment.

"Anglo American earned the largest return in 1990 of 24%.

"Barlow Rand's profit attributable to shareholders fell in 1990 by 14,2%, but it still managed to earn a very respectable return on shareholders' investment of 22,4%."

"Cutbacks, retrenchments and rationalisation helped manufacturing firms to make their large profit increases," LRS said.

Poor conditions slice T&N payout

180 BDay 24/2/91

MARC HASENFUSS

UK-controlled industrial manufacturer T & N Holdings' year-end earnings fell sharply under difficult trading conditions and a poor performance from its subsidiary Asseng.

A hefty increase in finance charges to R21m (R16m) saw attributable earnings plummet 49% to R8,1m (R16m) or 35c (69,3) for the year to end December 1990.

A final dividend of 10c (20c) was declared, reducing the total payout 58% to 13,8c (31c), covered 2,5 times.

Turnover showed a marginal improvement to R413,4m (R391,4m), with export turnover increasing 73% to R29m.

A lower tax charge of R1,5m (R4,9m), resulting from allowances relative to the capital expenditure of R19,4m and tax losses in certain operating subsidiaries, had mininmal impact on bottom line.

CE Matthys Pretorius said a R6m loss incurred at Asseng's Roodepoort factories was compounded by overstocking engine components in all areas of the distribution chain. Consultants had been employed to address the problem.

Friction materials groups, Ferodo and Beral, improved operating profit in the period under review, but were still operating under capacity.

Dancor showed a small loss, but indications were that it would shortly benefit from cost cuts and rationalisation, Pretorius said.

The Radiator and Heat Exchanger performed well, and despite the downturn in the automotive aftermarket Silverton Services improved market share and upped profit.

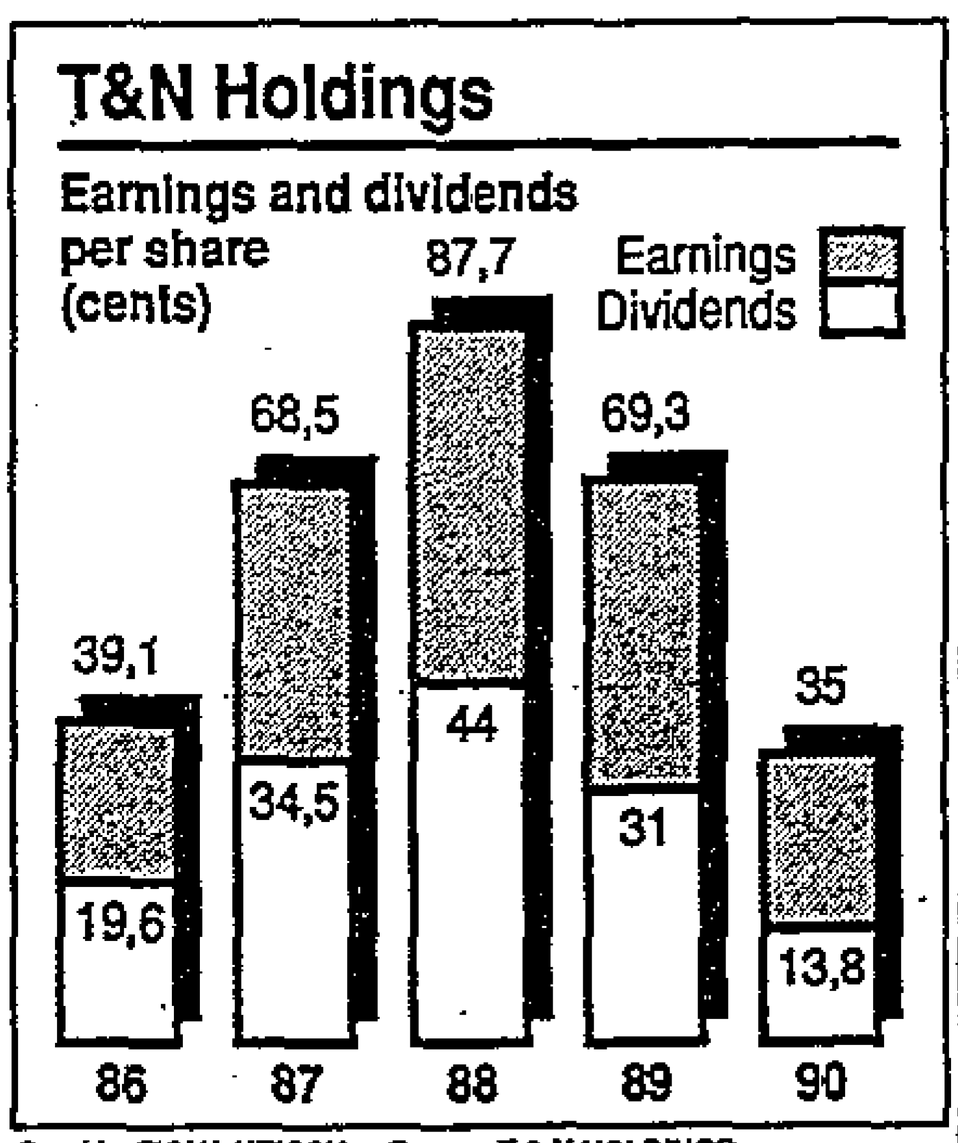
FHE Automotive Technologies reflected a substantially improved performance over 1989, mainly as a consequence of improved production efficiency in its brazed aluminium plant together with satisfactory export volumes, he said.

The group's Harpo gasket company will be closed as Payen gaskets served the market effectively.

T & N's industrial and mining division performed satisfactorily although at low levels as result of an overall reduction in mining and industry activity.

Pretorius said chemicals and plastics remained a problem area, with BIP experiencing low volumes and disappointing profit levels. Butakem showed an improvement after stabilising raw material prices, but its market remained extremely competitive against imports.

Pretorius cautioned shareholders that conditions for 1991 were expected to be difficult. "Action has been taken to reduce costs, improve productivity and control working capital which should balance the negative economic scenario."



Graphic: FIONA KRISCH Source: T & N HOLDINGS

Social projects are too paternalistic — Motlana

B/Day 21/2/94 180

GILLIAN HAYNE

CORPORATE social investment projects often fostered a continued dependence by black people on white help, Soweto Civic Association chairman Nthato Motlana said at a conference yesterday.

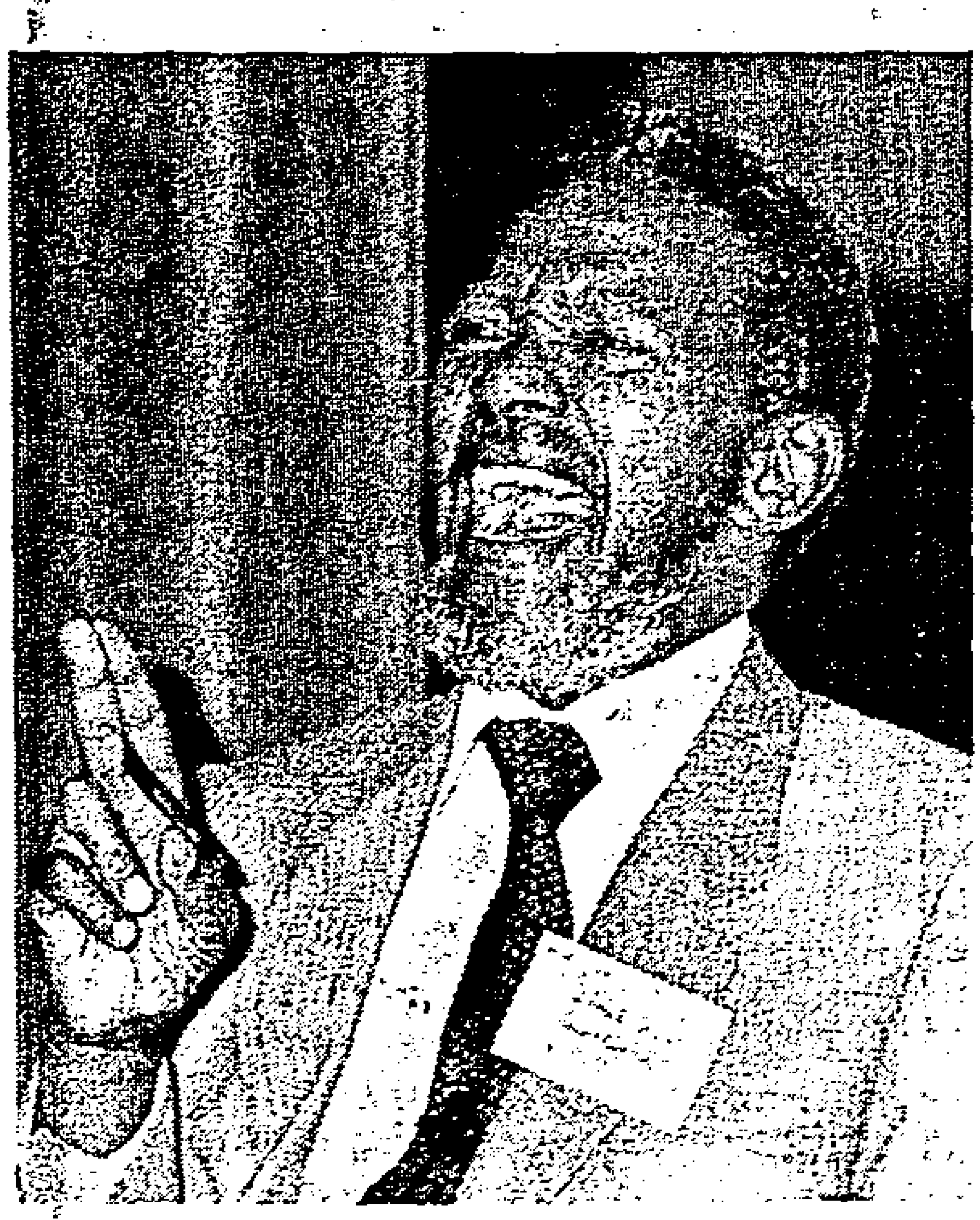
He said the reason for this was companies were often unable to look beyond the time when they would not be needed to help the underprivileged.

"What we need is to teach people to fish, not just eat fish," he explained.

Talking on a strategy for social investment in the nineties, Motlana said a further challenge was to overcome the perception of beneficiaries that whites only undertook social projects from paternalistic motives.

Beneficiaries needed to get involved in policy planning as well as the programme execution.

Motlana criticised organisations for failing to create a body of young blacks who could fill these roles.



Nthato Motlana . . . teach people to fish. Picture: CATHERINE ROSS

"There is a nagging suspicion that corporate social responsibility funding is by and large used to buy influence and gain marketing mileage. Township comrades believe companies are using the programmes merely to buy off the imminent revolution," he added.

"It is important for new investment to concentrate on human development. Corporate social investment must be about growth and adding lasting value, and blacks must learn to become self-reliant," he said, adding that blacks must get over their "dependency psychosis".

He said donor companies had to concentrate on both short-term goals and long-term goals. For example, creches should be funded and school leavers be taught a way to make themselves economically useful.

"We do not have 20 years in which to develop a pre-school child into an artisan. We should, therefore, spread the investment accordingly."

Commenting on a suggestion for a more co-ordinated approach to corporate social investment between companies, non-government organisations and the recipients, Motlana said there was a need for an information network.

"We do not want to hamstring the enthusiasm of the individuals involved in planning projects, which would happen if a central control was initiated. Rather, we need a network of information to keep an eye on who is doing what and where," he explained.

levels now ensured "cancer-free" cement, he said.

Org in plea to corporations

(180) B/Day 21/2/91

BILLY PADDOCK

CAPE TOWN — Big corporations should promote black economic empowerment, Finance Deputy Minister Org Marais said yesterday.

It was imperative black South Africans obtained more economic muscle, and the privatisation of the sorghum beer industry was an ideal opportunity for them to become owners and managers, he said during the debate on the Part Appropriation Bill in Parliament yesterday.

He said the NP agreed with the ANC and the DP that it was vital that government alleviates poverty and upgrades living standards, "but affirmative action by the private sector is also called for".

"Years ago the Afrikaner was boosted economically when Harry Oppenheimer sold Gencor to them.

"Likewise, big corporations should promote black economic empowerment," Marais said.

The NP put strong emphasis on individual rights based on political and economic rights and freedom and its policy was to stimulate growth and attain economic stability and redistribution of income through monetary, fiscal and industrial policies.

He said the NP believed it could attain a high growth rate through:

- A free and competetive market approach based on private initiative, the right of ownership, free contracting, and freedom of choice with regard to consumption and occupation;
- A smaller government promoted by deregulation and privatisation, corporatisation and commercialisation;
- A fiscal and monetary policy, with the emphasis on fighting inflation and maintaining stable exchange rates; and
- An industrial policy promoting small businesses, labour intensive industries, beneficiation of raw materials and assisting export industries.

Marais said that because of their higher incomes, white people's contribution to personal income tax was 85,4% of the total compared with less than 8% from black people.

For every R100 paid in sales tax by a black person, R600 was paid by a white person. In total, however, "blacks contributed 42,5% to GST," he said.

Marais said with the introduction of VAT this year government "is going to lose billions of rands by allowing for credits on capital goods and intermediate products".

By bringing services in under the VAT net would not compensate for these losses. "A percentage of the tax on food should compensate for some of these losses. We should bear in mind that 82% of the sales tax exemptions on food benefit higher income consumers," he said.

B|Day 21/2/91.

'No backtracking on Businesses Bill'

180

LESLEY LAMBERT

CAPE TOWN — The joint parliamentary committee considering the Businesses Bill would not introduce amendments which backtracked on the principle of deregulation, committee chairman Fanus Schoeman said yesterday.

Schoeman was responding to concern in the business community that the committee would make last-minute amendments to accommodate attempts by some local authorities to retain certain control measures.

The objective of the Bill was to deregulate the system of licensing and red-tape which created barriers to entry into the business and informal sectors. It proposed that all businesses other than those supplying food and entertainment services be exempted from licensing, Schoeman said after a meeting of the joint committee for trade, industry and tourism.

However, concern was expressed by the Western Cape branch of the Small Business Development Corporation that the committee was considering amendments to replace the system of licensing with a system of registration.

The SBDC was also concerned that the committee was considering widening the scope of local authorities' control of hawkers, senior manager Johan Naude said.

Schoeman confirmed that there had been objections by some local authorities during a period of comment on the Bill, but said that while the committee would try to accommodate the local authorities by striking a balance between deregulation and control, it would not "replace one set of licensing regulations with another".

Schoeman said the draft legislation contained a measure of control. For example, there was a provision enabling municipalities to apply for by-laws regulating or prohibiting certain hawker activities, such as trading in an area which could create a traffic hazard.

The SBDC was concerned that amendments would be made to this provision to widen the circumstances in which municipalities could restrict hawkers.

Schoeman said the committee hoped to complete its deliberations next week after which the Bill would be ready for Parliament.

New Act is 'causing havoc' for many firms

BDay 21/2/91 (180)

GILLIAN HAYNE

THE new Deposit Taking Institutions Act is causing havoc among companies not included in the Act because it has severely restricted their business practises, trust company spokesmen said yesterday.

Groups such as stockbrokers, accountants, attorneys and trust companies are feeling the effect of the new restrictions.

A major problem concerns the pooling of funds into a designated account before reinvesting it with a registered deposit-taking institution. Under the new Act, the pooling of funds is limited to registered deposit-taking institutions.

Industry sources say the areas requiring urgent clarification are the role of the agent and principal, and what activities are assigned to which; the principle of pooling funds and the use of nominee companies.

One source said the current interpretation of the Act would entail the intermediaries opening individual bank accounts for each investor.

The groups are not arguing about the stricter laws protecting investors, but rather that the new system would prejudice the small investors who would no longer have the benefit of achieving returns associated with a large investment.

"In addition, the principle of separate accounts would not safeguard the individual. Policing should rather be done through stricter licensing laws rather than by meddling in the market place," another source added.

Our Cape Town correspondent reports that from an administrative point of view adhering to the letter of the Act would be a nightmare. For example, Syfrets as money managers have about R8bn in funds spread over roughly 8 000 private and institutional clients.

Unless it re-classifies as a deposit-taking institution, it would have to open accounts for each client.

Another gripe is that the Act came into effect on February 1 with little discussion taking place between the Registrar of Banks and the intermediaries before then. However, a discussion paper has been released to which the intermediaries can respond by tomorrow.

JSE chairman Tony Norton said he was unable to comment on the issues but emphasised that the JSE would fight to preserve the legitimate investment management function of the stockbroking community.

Stockbrokers and trust companies register scrip through nominee companies and receive dividends and scrip back in that name. A complication of the new Act is that without nominee companies, the brokers would have to deregister all scrip and re-register it in individual parcels.

Multinational funds black business development

Sowetan 24/2/91

180

ROBERT Bosh is the first multinational to have a South African subsidiary take up shares with the Small Business Development Corporation.

By JOSHUA RABOROKO

The company's investment of R70 000 will be used to establish a pilot project to help blacks who wish to set up outlets to sell and service power tools. The money will also fund a customer care programme for the SBDC.

At a press conference this week, company marketing director Mr Derek Dreyer said: "We believe that the enormous need for housing and infrastructure development in South Africa will create opportunities for black entrepreneurs.

"However, they will clearly need support to develop profitable business. The pilot project will provide a base for future expansion."

Project

He added the power tools project will initially be contained to the Witwatersrand. However, the company eventually plans to expand the project to other areas.

"Once we have found a success formula, further investment will follow," he said.

SBDC managing director Dr Ben Vosloo said: "We have launched numerous successful black business development programmes over the years."

He also pointed out that the investment enables the SBDC to launch a special customer care programme.

Dreyer said the company was proud of its association with the SBDC.

"Although we are a big business, operating in 130 countries and employing 175 000 people (1 100 in South Africa), our business is built on small entrepreneurs."

He said: "We currently have 1 200 retail dealers countrywide, supplying power tools for home-owners, service tradesmen, builders, farmers, metal workers and carpenters.

"We are therefore very sensitive to the importance of small business.

He expressed hopes that the project will play a major role in ensuring that black business could benefit from the development bonanza which had come.

JSE firms 'place profit above jobs'

180

Star 24/4/91

By Shareen Singh

The top 100 JSE-listed industrial companies produced a 21,3 percent increase in dividends last year, but only increased employment by 0,1 percent, according to Labour Research Services.

Some of the biggest companies chose to grant shareholders significantly larger dividend payments and cut employment during 1990, LRS said.

Employment creation should be a major concern for South African companies, it added.

But instead of expanding employment opportunities and making economic growth a priority, "these companies and their directors preferred to keep shareholders happy with large dividend payments", the research body said.

Profits of the top 100 companies increased by 15,8 percent, just above the average 1990 inflation rate of 14,3 percent. Despite the recession, these companies managed to increase sales by 18,3 percent.

Sales per worker rose by 17,3 percent, suggesting improved worker productivity.

Listed companies in the engineering sector recorded, on average, a 45 percent increase in profits last year — the largest increase in profits of the JSE sectors surveyed.

Profit increases for some of the big five conglomerates might have been poor in 1990, the LRS said, but they still earned large returns on their shareholders' investment. Anglo American earned the largest return of 24 percent.

Barlow Rand's profit attributable to shareholders fell by 14,2 percent in 1990, but the company still earned "a very respectable" 22,4 percent return on shareholders' investment.

Barlow Rand group public relations manager John Cammell said the company had not increased its dividend payout.

Despite a 14,2 percent decline in attributable profit for 1990, the total wealth created by the group increased by 6,3 percent to R8,5 billion. Of this, 54 percent was distributed to employees compared with 49 percent of R8 billion in 1989. The proportion distributed to shareholders remained unchanged at 4 percent, he said.

A spokesman for the South African Chamber of Business, of which most of the top 100 companies are members, said the organisation was studying the report and may respond later.

Colour of money is the only colour that counts in 'minicity'

(180)

Blom 22/2/91.

WITH state subsidies for the "border" areas drying up, it has been left to the commercial sector to ensure these artificially created growth centres do not turn into ghost towns.

Over the years, Pietersburg has seen an influx of businessmen and industrialists, most of whom set up shop with a hefty financial kick-start through the government border area incentive schemes.

"We lost a lot of developers when the homelands crumbled and the incentive schemes ran dry, especially in the property sector," says Chamber of Commerce and Industry chairman Frank Greyling.

But with the shift to decentralisation and Pietersburg's impending classification as a secondary city, on a par with Port Elizabeth, a new breed of entrepreneurs is emerging.

Greyling, who runs a credit information service, says at least 65% of all credit applicants in the area are black, a sign of a changed approach to money by the black entrepreneur, who mostly operated on a cash-basis.

"We've got the highest black-to-white ratio in the development sector," he says.

And with the aid of the Chamber of Commerce and Industry, programmes were set up to ensure the sustenance of trade in the town.

Unite

Greyling says initiatives have also been taken to try to unite the Chamber with the Sakekamer and to capitalise on the close relationships established with the various development corporations operating in the region.

"We want to establish a non-racial chamber with affiliation from all sectors. The only colour we will recognise is the colour of money," Greyling says.

Members of the chamber have "put in a lot of groundwork" in getting Gazankulu, Lebowa and Indian traders together under one umbrella body.

With this in mind, a constitution-in-waiting has been drawn up, but is still to be officially introduced, Greyling says.

"Businesses need to promote themselves and the notion of free enterprise "

Greyling says the local branch of the ANC has given its blessing to the formation of an educational foundation for black businessmen.

"It's safe to say people here view free enterprise as something that's good."

He says Pietersburg has the potential to become SA's northern inland harbour.

"We have all the infrastructure at our disposal, it just needs to be developed," he says.

Pietersburg boasts a large capacity rail depot as well as well maintained roads to the PWV in the south and to Zimbabwe to the north.

"We are feeling the pinch of the recession, but I don't believe it is as severe as it is throughout the rest of SA," says Greyling.

There is unemployment, but programmes promoting job-creation have helped keep this at bay.

"All the local entrepreneurs are getting stuck in to solve the problem," Greyling says.

In touch

Apart from education programmes, the chamber is also keeping its members in touch with business activity and attitudes in the rest of the country by holding regular seminars and meetings.

At these meetings, chamber members are given the opportunity to talk and listen to experts from a wide range of areas.

Among the speakers lined up for the next few weeks are ANC international affairs director Thabo Mbeki, former Businesswoman of the Year, Coin Security MD Yvonne Lottering and DP leader Zach de Beer.

Franchise seminar an eye-opener for blacks

(180)

THEO RAWANA

FRANCHISING has entered the black market, and the packages offered by companies at a seminar in Johannesburg last week were an eye-opener for black entrepreneurs.

Although the 140-odd prospective franchisees seemed to balk at the capital outlay required, the offer of backing by banks and the promise of big returns seemed to allay fears.

A franchise is a concept in which an established business, wishing to duplicate itself in other areas, sells authorisation to entrepreneurs to sell its goods or services using its name.

Business organisation Matchmaker Services convened the seminar in pursuit of its campaign to link big business with the SA black business sector, said executive director Zuko Tofile on Friday.

Companies which invited franchisees at the seminar last Wednesday were PG Autoglass, mobile toilet operator Easy Loo, carpet-cleaner Rug Doctor Pro SA, printers Kwik-Kopy and US-based Ponderosa Steak House.

Bday 22/2/91

Risk

Ponderosa International Development MD Sunil K Dewan said Ponderosa would furnish general guidelines to aid in site selection and provide assistance in evaluation of potential locations.

Representatives from Volkskas Bank, Standard Bank and First National Bank and the SBDC were there to show what packages could be offered.

Malcolm Kietzman, Witwatersrand regional manager of the Standard Bank's Small Business Development department, said because because franchisees were less likely to fail than most small businessmen, they represented a better risk to the banker.

"The black businessman should begin to capitalise more on this fact which clearly provides him with opportunities in the future," he said.

Kietzman said the Standard, through its Small Business Development and Advisory Department, was continually looking for ways of meeting the small businessman's financial and training needs.

Matchmaker Services executive director Zuko Tofile said the seminar was a success with good response from black business people.

A rights issue will alter Afex's portfolio balance

(180)

BIDay 22/2/91

LIZ ROUSE

THE dominance of SA and Zimbabwean holdings in Luxembourg-based Afex Corporation's investment portfolio will be redressed by making a rights issue.

Afex, also listed on the JSE, is an investment holding company with diverse interests including property, chemicals, farms and gold.

Afex chairman David Marshall says in his annual review that the restriction of remittances from countries with foreign exchange control has resulted in a greater proportion of group assets being within so-called soft currency economies than deemed wise.

Afex's problem is that only 10% of the profits of its Zimbabwean subsidiaries can be externalised and the profits from SA holdings are transferred through financial rands.

Zimbabwean interests are therefore valued at 10% of nominal value and the SA interests at the finrand rate.

A rights issue will therefore increase the weighting of Afex's assets outside southern Africa.

SA accounted for 65,6% of total assets of $21,4m at the end of September 1990, Zimbabwe for 6,9% and the balance of 27,5% was spread in the US, UK and Australia.

The 1990 annual report shows that the general portfolio of SA-listed investments, excluding the investment in an associated company, had a market value of R27,7m at the end of September, compared with a cost of R16,2m.

Gross income from the general portfolio amounted to R1,35m (R1,03m).

The group's property interests produced gross rents of R974 600 (R958 900) while property valued at R2,4m was acquired on the purchase of a 56% interest in a Delmas poultry farm.

In addition, Afex has a 50,1% interest in both L & G Tool & Machinery Distributors and Tool & Electrical Distributors, which achieved pre-tax profits of R954 600 (R1,6m).

In Zimbabwe Afex operates farms, owns property and holds interests in gold mining (Falcon and Olympus).

Botswana interests consist of the manufacture ceramic goods and chemicals.

These interests broke even in the past year.

In the US Afex has a diversified portfolio of stocks and shares, worth $2,25m at the end of September 1990, and owns properties in San Diego.

Australian interests consist of tool and machinery distributors.

Athough Afex's turnover increased to $31,1m in the year to September 1990, (1989: $20,7m), earnings declined to 42,9c (49,6c) a share.

The dividend was raised to 10c (9c) because of the strong balance sheet.

Shareholders have the option to take up shares instead of the dividend.

Marshall makes no profit forecast but assures shareholders that the rights issue should position the group to benefit from opportunities expected in the difficult period ahead.

Unit trust total 'soared by over R2bn'

CAPE TOWN — The R8bn unit trust industry took off in 1989 as the value of total assets increased by more than R2bn (51,2%) to R6,64bn, the 1989 report of Unit Trust Companies Registrar Piet Badenhorst said. (180)

Badenhorst said in his report, tabled in Parliament yesterday, the growth was remarkable in view of the sharp drop in prices on the JSE on October 16 1989. After a large rise in units repurchased during the year, the net inflow of new investment capital was R565,5m.

LESLEY LAMBERT

Last year, the industry's total assets grew by a further R1bn to R7,6bn, while the number of accounts rose from 568 000 to 736 000, latest figures show. The net inflow of R1,12bn was almost double that of the previous year, indicating continued momentum in the growing investor interest in unit trusts.

Four new general equity trusts and two specialist equity trusts were launched in 1990, bringing the total number of trusts in operation to 37.

Improved profile of industrials justifies rerating

180

Star 24/2/91

Claire Gebhardt

THE whole risk-to-return profile in the industrial market has improved so a rerating is indicated, says Frankel Kruger Vinderine industrial analyst Mike Haworth.

Recommended industrial shares in the accompanying tables are heavily consumer-oriented, with the holding companies being in the furniture, food, retail, beverage and tobacco sectors.

The reasons for staying on the consumer side, he says, is that though both political and economic risks are improving the positive news has to translate into money and won't affect the fixed investment sector for a while.

Risks decreasing

"We still have to go through the whole cycle from planning onwards and the profit will only come through fixed investment companies in 1993/1994."

He says that, broadly speaking, the market is going through a rerating process on the basis that real returns are forecast to increase in 1991/1992 and the risks in the industrial market are decreasing.

"The indicator is that Barlows is a bellwether stock in the industrial sector, and as we forecast a slightly negative earnings growth for 1991 and the share price has moved up, it looks as if the market is rerating rather than Barlows."

Recommended Industrial Shares

FOR LARGE PORTFOLIOS

Holdings:	Richemont, Safren, Barlows
Electronic:	Altech, Reunert, Powertech
Engineering:	Afrox
Furniture:	Rusfurn, Ellerine
Food:	Premier, Tiger
Retail:	Pepkor, Wooltru, Edgars, Pick 'n Pay
Beverage:	SAB
Tobacco:	Remgro
Steel:	Iscor
Chemical:	Sasol

FOR SMALL PORTFOLIOS

Holdings:	AVI, Richemont, Safren
Electronic:	Delta, Elcentre, Powertech, Dimension Data
Engineering:	Afrox, Berzack
Furniture:	Rusfurn, JD Group
Food:	Premier, Royal
Retail:	Wooltru, Foschini, Edgars, Pick 'n Pay, Clicks, CNA
Pharmaceutical:	Adcock, Twins
Beverage:	Kersaf, SAB
Tobacco:	Remgro
Paper:	Consol, Nampak
Chemical:	Sasol, Engen

Nafcoc backs free market

Star 25/2/91 (180)

By Sven Lünsche

The National African Federated Chamber of Commerce and Industry (Nafcoc) has committed itself to the promotion of the free-market system as a means to achieve a more equitable distribution of wealth and income in South Africa.

In a key document, outlining its view on the economy in a post-apartheid South Africa, Nafcoc acknowledges that the market is the feature that makes free-enterprise economies superior to centrally planned socialist systems.

"Therefore it is this feature that one must highlight in a new economic system for South Africa," the document says.

Nafcoc is the umbrella body for black business and has close links with the ANC.

It says the role of the Government must be that of a facilitator, ensuring a stable socio-economic environment, directing the provision of social services and guaranteeing free access to economic resources.

But Nafcoc says it is essential that both individual liberties and individual properties are protected.

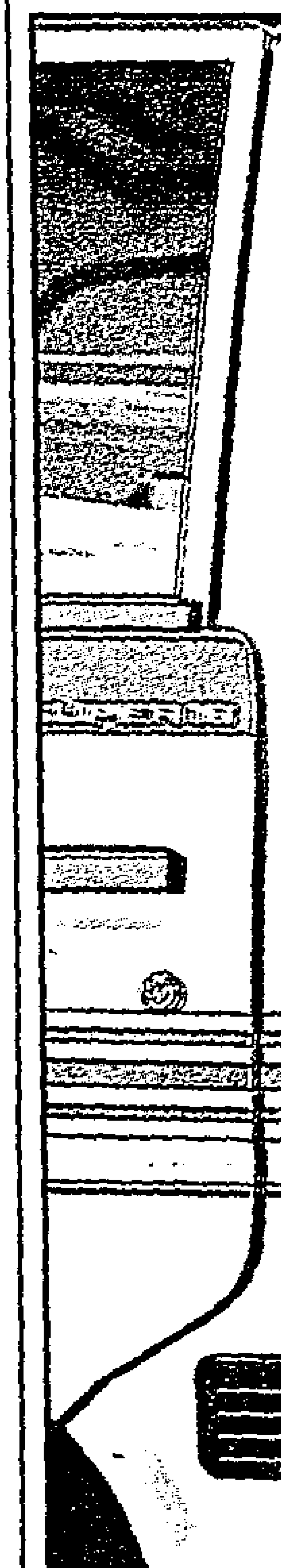
A future government should give special support to blacks, the document says.

"The State needs to correct past wrongs by improving the redistribution of income, promotion of asset ownership and protection of the poor by measures that do not distort the market."

Nafcoc stresses that the main rationale for redistribution is not only to correct the wrongs of the past, but to enable blacks to make a new start.

"It would be inadequate to confine oneself to dismantling apartheid and expect blacks to compete with whites who have been placed in a very strong economic position by policies of the past."

On the question of land reform, Nafcoc argues that a programme should be implemented that would lead to a more equitable distribution of land, with minimal negative impact on agricultural productivity.



Rather be Mr
Nkadimeng of

SA queue at World Bank

BDay 25/2/91

(180)

KEVIN DAVIE

FIFTY SA companies have registered as consultants with the World Bank so that they can tender for business on bank-financed projects in southern Africa worth about R3,5bn annually.

Finance Department deputy director of economic information Fred Browne said the bank would spend \$800m in southern Africa this financial year. This represented about 40% of project cost as normally its deals included co-financing by commercial banks.

The reason for greater local involvement is that European companies which have traditionally done development work in Africa are now focusing their attention on Eastern Europe.

The bank is keen for SA companies to participate in its projects, and a bank team will soon begin a detailed study of SA.

Browne said SA companies were showing a great interest in registering as consulting firms. "The bank feels SA can play a major role even as far as north Africa," he says.

"The name of the game is to get in now while the vacuum is there," he said. A year ago only eight SA companies were registered with the bank. This figure had now grown to 50.

Browne said there had been approaches to get SA companies involved in bank projects. Present projects included the Lesotho water scheme, the upgrading of the Maputo harbour, the provision of infrastructure for the Botswana soda ash project, and social programmes.

Eskom was in the process of registering, an Eskom spokesman said. Possible projects included a powerline from Cahora Bassa to Harare, and a power station in Botswana.

The bank's registration list, known as the Data on Consulting Firms (Dacon) system, is also used by other major development agencies active in Africa. The list is for consultants only and excludes manufacturers, other suppliers of goods and contractors. Last year the bank bought \$60m in supplies from SA.

Founder member SA has had almost no contact with the bank for 25 years, but government intends using some bank strategies to assist with economic and social reconstruction.

Agreement on basic needs

(180) TIM COHEN (BD)

DELEGATES from a wide range of organisations, including government and the ANC, agreed at a Consultative Business Movement (CBM) workshop at the weekend that a basic needs programme would provide a strong base on which to build economic growth, CBM executive director Theuns Eloff said yesterday.

The workshop included representatives from Azapo, the SACP, PAC and business, who achieved "remarkable agreements" on the economic problems facing SA, Eloff said.

Eloff said there was a clear convergence of opinions on the problems of inequality, growth and redistribution, although there was not always agreement on how to deal with these problems. BDay 25/7/91

The basic needs programme would aim to achieve stability and restore human dignity.

"Such a programme would have to be carefully managed and targeted to address particular needs, like education, electrification and housing," he said.

Belgians sign a trade pact with Sacob

Today 25/2/91

ZILLA EFRAT

THE Federation of Belgian Industries has signed an agreement of economic co-operation with Sacob.

The agreement provides for the promotion of bilateral trade relations, joint ventures, investment opportunities and technology transfer as well as the distribution of information of mutual interest.

It was signed in Johannesburg by Sacob deputy president Hennie Viljoen and federation president Urbain Devoldere, who is also the leader of a visiting Belgian mission which left SA on Saturday.

After Friday's signing, Devoldere said SA represented an opportunity for the future, not only because of the positive evolution taking place, but also because of the role it could play in southern Africa.

The delegation members saw SA as a "springboard to the rest of southern Africa", Sapa reports.

The delegates met high-level representatives from government, business and political groups. (180)

"We have discovered that there is more consensus between political groupings than differences of opinion," Devoldere said.

Sacrifices needed in new SA — Nafcoc

B\Dam 25/2/91 DARIUS SANAI (180)

ESTABLISHED companies will have to make sacrifices, and taxes could go up, under a post-apartheid government, says a policy document published on Friday by the National African Federated Chamber of Commerce (Nafcoc). 25/2/91

The document stresses the importance of free markets in the construction of a new economy. But, emphasising the present gulf in wealth distribution, it calls for special education programmes and large contributions by the private sector to provide improved social services.

Nafcoc president Sam Motsuenyane said on Friday there had to be "a willingness to sacrifice high profits for development". There would be a rechanneling of government funds and the private sector would have to play an important part in new social schemes.

Such schemes would include housing, electricity and water projects, as well as education programmes.

Nafcoc chairman Wiseman Nkuhlu advocated a democratisation of industry, with a break-up of the corporate monopolies held by larger companies.

The document overall proposes a form of "capitalism with a human face".

Nkuhlu said that, in spite of experiences in other African states, he believed the empowerment of the black majority and economic growth could go hand in hand.

● Picture: Page 3

Big business clashes over language

Business Day Reporter

SA's two leading business organisations clashed at the weekend over the issue of language in schools.

Afrikaner Handelsinstituut (AHI) president Gerrie Steenkamp said the SA Chamber of Business (Sacob) supported a Private Sector Education Council (Prisec) recommendation that English become the main medium of instruction in schools.

He said the AHI was the only employer organisation to take exception to Prisec's recommendations. B/Day 25/2/91

Responding to his claims, Sacob said yesterday it had never supported any active move to restrict mother tongue education to only the early school years.

"Sacob has always favoured a flexible policy and has not asked for English to be the only official language as a medium of school instruction."

There was no reference in the Prisec document on which Steenkamp's remarks were based to the mandatory use of English in school education.

"The intention of the Prisec document is to promote competence in the languages of the country, whether English or Afrikaans," Sacob said.

180

World markets 'risk hedge' for manufacturers

Cape Times 27/2/91

180

Financial Editor

RAPIDLY opening markets abroad offer an attractive risk hedge for the manufacturing sector, said CE of Safto Wim Holtes yesterday.

Manufactured goods are the fastest growing sector in world trade, whilst minerals, fuels, primary commodities and foodstuffs are static or declining.

A typical example was the European Community (EC) where manufactured products had increased their share of imports from 52% twenty years ago to a current near 70%. During the same period primary commodities, excluding food, dropped from 17% to 7% of total EC imports.

"This causes the alarm bells to ring for SA as a traditional major supplier of primary products to Europe," said Holtes.

In the highly competitive markets of the world price alone is seldom the deciding factor.

Adding value in the form of better performance qualities, product modification to customers' requirements and after-sales back-up service are essential for any company's export-committed programme.

Africa is SA's major market for manufactured products with as much as 35% of all manufactured exports finding their way into sub-Saharan Africa. Delivery and price advantages as well as technical back-up have so far been important marketing tools.

However, SA companies are now also becoming involved directly, or in association with foreign suppliers, in projects or purchasing programmes financed from aid programmes or foreign development agencies — they can expect in these cases far greater insistence on quality products with high performance standards.

These developments signify a move from the traditional trading patterns to international marketing of value-added manufactured products.

boost

Mechanisation: Bosses' utopia

South 28/2-6/3/91

180

It is that time of year again when workers' strike action costs employers millions of rands in revenue and the talk in the boardroom shifts to mechanisation. But are people really being replaced by high-tech machinery or are employers just blowing off steam? Waghied Misbach investigates:

MACHINES do not go on strike, take time off or need good working conditions to keep them working happily.

It is the ideal situation to increase productivity while keeping staff wage costs at a minimum, employers maintain.

But the above scenario is an employer's utopia. The reality is that South Africa has an extremely fragile economy which discounts the possibility of widespread mechanisation, experts argue.

Massive retrenchments, a natural consequence of mechanisation, would mean workers would have no income and would thus be unable to buy the products made by the machines that replaced them — a vicious cycle, experts say.

Employers reply that situation can be solved by increasing training. But the sad state of black education and the low wages of parents will ensure their children remain unskilled.

Recession

Figures from the Manpower Minister Mr Pietie du Plessis in 1989 indicated that by the year 2 000, there would be a shortage of 200 000 skilled workers if the two percent annual growth rate continues.

But the current recession in the economy has meant industry as a whole has cut spending on training.

On top of all that, skills training is not taking place in the crucial technical fields. Reports indicate that 10 percent of South Africa's manpower is being trained in a technical field, while 75 percent would be required to meet future manpower requirements.

The manufacturing sector, which experts consider will take over from the shrinking mining industry, has shown little growth in productivity or provided the expected jobs. This is despite capital intensity in the manufacturing industry growing steadily for more than three decades.

UNWANTED? Farmworkers such as these must fear for their jobs with the increasing mechanisation of their industry

PIC: PAUL WEINBERG

Experts maintain that the goverment has been encouraging capital-intensive, rather than labour-intensive growth.

Capital-intensive investments like Iscor (iron and steel), Sasol (synthetic fuels) and Armscor (armaments) were established by the government from 1924 onwards. Foreign investors also played their part. By 1975 there were almost 700 subsidiaries of American and European companies.

"The bottom line is that manufacturing has not generated growth in output or productivity, despite the increase in capital intensity, and has not created new jobs," says a report from Interfund, an influential London-based fundraising consortium.

At Iscor, 1 800 jobs will be lost at the steel giant's Pretoria works due to its rationalisation and modernisation programme, according to reports. The modernisation programme aims to change "technologically-obsolete processes".

According to the Steel and Engineering Industries Federation (Seifsa), the metal industry is expected to cut 37 000 jobs from a total of 387 000.

Strikes over wages have exacerbated the situation. In the first half of 1990, strike actions resulted in the loss of almost 1,2m workdays.

But while strike action is usually the spark, it is not the sole reason for the increasing boardroom talk of mechanisation.

Mr Colin McCarthy, executive director of the Chamber of Commerce, says strikes are not the reason for employers' increasing talk of capital-intensive production. He argues there is a myriad of factors involved, competition with cheaper overseas markets being one of the major reasons.

McCarthy says labour unrest merely accelerates unproductivity.

Inflation rises because people are asking too much in wages for the same level of production. That is why South Africa's inflationary rate is 14 percent, compared to that of Europe's average of three percent, McCarthy maintains.

To counter businesses closing down, McCarthy believes trade unions and employers have to work together to increase production and thus worker's wages.

"It does not mean working harder, but working smarter."

A researcher for the South African Labour Development Research Unit (Saldru) at UCT disputes McCarthy's assumptions.

"All this is being blamed on the poor worker again. Studies that have been undertaken in the informal sector of the clothing industry in parts of Cape Town have shown workers get much higher wages because the management layer of the equation has been cut out."

He argues, however, that mechanisation is part of the broader problem of unemployment in the country, where the total level of employment has risen by only six percent in the period 1980-1988.

"The growth in overall employment can be contrasted with the estimated annual increase in the number of jobseekers of over three percent.

"That means it makes it extra difficult for new job seekers to get jobs. The political implications of the problem is enormous," he said.

In industries where mechanisation seems most likely to happen, it is not financially viable.

In the motor industry, for example, mechanisation will be profitable only if at least 2 000 cars are produced daily. The entire motor manufacturing industry, which consist of seven major companies, produce between 1 300 and 1 500 cars daily, according to 1988 figures.

Viable

The clothing industry is in a similar position. McCarthy says the clothing industry is still very labour intensive; mechanisation would not be viable.

The agricultural sector seems to be the most hard hit of all industries in terms of loss of jobs, according to Interfund.

It reports that the Central Statistical Services (CSS) estimate that employment fell by 9,5 percent in 1988.

This sector employs the most people — 600 000 on 65 000 farms — with another 600 000 employed as casual labour.

"The employment implications of the shift to mechanised, large-scale agricultural production have been drastic," reports Interfund.

"On highly-mechanised farms, wages increased 250 percent, but the number of workers permanently employed fell."

On the Anglo American Corporation's Soetveld farms, for example, labour usage fell from 34,1 to 1,8 workers for each 100 hectares.

Everyone seems to agree that mechanisation is important for the development of the South African economy, but the goverment's resources are strained.

The backlog in investments and technology will require billions for a competitive economy.

Already, social spending to correct the imbalances of apartheid will amount to about R75bn

Analysts suggest narrow investment in industrials

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B/Day 28/4/91

LIZ ROUSE

INVESTMENT strategy should be concentrated in a few selected industrial sectors of the JSE — industrial holdings, life assurance, retailers and wholesalers, and food, say Davis Borkum Hare (DBH) analysts.

They predict that the mining board will remain depressed for the foreseeable future because of the negative outlook for commodities and metals.

Pierre Greyvensteyn in DBH's quarterly outlook survey says industrial holding counters have been underperforming the industrial index since August 1990, largely influenced by Richemont's lacklustre performance, which constitutes a 38,6% weighting in the industrial holding index.

Although there are negative factors in the outlook for life asssurers, analyst Graham Baillie says individual institutions remain sound investments. While record performances will not emerge, a solid set of results is to be expected.

He says the scenario of high interest rates throughout 1991 will continue to put pressure on household budgets and the rate of personal savings as a percentage to personal disposable income is not likely to improve above the 1% level.

He cautions that in these times of uncertainty and with real rates of interest available in the banking sector, individuals might elect to channel their available investment funds into near cash investments rather than contractual obligations of a longer duration.

It therefore becomes evident that life assurers will be hard pressed to sustain in the coming year their remarkable growth of the past, he says.

Analyst Lindsay Lurie says that continued increases are expected in private consumption expenditure — 1,5% in 1991 and 2% in 1992.

Underlying these projections is the assumption that the redistribution of income is increasing together with a concomitant rise in purchasing power.

It is the rise in the expenditure on non-durables that should be noticeable in the current downward phase of the business cycle. The inelasticity of non-durables in relation to total private consumption expenditure, comprising about 46% of the total, is expected to outpace services, semi-durables and durables.

Food retailers, in particular, are expected to fare the best because of the unflagging stability and undaunted growth of non-durables in relation to total private consumption expenditure.

Efficiently run clothing and footwear retailers in the semi-durable sector are expected to fare comparatively well, says Lurie.

Analyst Carol Neff says profit growth in the major food companies is expected to slow down a little this year — more so for C G Smith than Tiger or Premier because of the lower growth exectations of C G Smith Sugar and Imperial Cold Storage.

Food margins are generally fairly resilient against an economic downturn and the defensive character of these shares is reflected in their high rating. Fedfood is looking interesting in technicals, says Neff.

AVI overcomes low margins, high interest

B/Day 28/2/91 (180)

MATTHEW CURTIN

ANGLOVAAL Industries (AVI) shrugged off reduced margins afflicting markets served by the group, and a still heavy interest bill, to post a 5% increase in earnings in the six-months to end-December.

Attributable earnings climbed to R103m (R98m), equivalent to 363c (346c) a share. After-tax profit rose 10% to R168,8m (R152,8m).

AVI's packaging and rubber sector contributed most to the growth, with a 9% increase in its contribution to group interim earnings.

All five business sectors contributed to bottom-line earnings, but the construction and electronics and diversified businesses sectors' contributions fell by 3% and 7% respectively.

MD Jan Robbertze said last night the performance of the construction and electronics sector reflected the reasonable conditions in the building industry, but a tighter situation facing civil engineering.

Profit gains in Consol's rubber division and National Brands were offset by lower contributions from Grinaker Holdings and the group's textile businesses.

He said commercial electronics faced difficult times. Grinaker Electronics had lost a significant component of defence spending, and was refocusing its operations.

Robbertze said the company's non-defence business was picking up — it had won antennae contracts from the SABC — and with the easing of overseas market conditions it was likely to raise its contribution to group earnings by financial year-end.

Revival

Textiles were hit by government's structural adjustment programme, which had promoted imports.

AVI's businesses had been less badly affected than its competitors', but their revival would depend on government re-evaluating its approach to the industry.

Consol's rubber division fuelled 12% of the 19% increase in group turnover to R3,656bn (R3,060bn).

AVI's interest bill fell 10% in the interim to R43m (R47,6m), compared with a total bill of R100m at year-end 1990 (R44,8m at year-end 1989).

Operating profit was boosted by a 26% increase in investment income to R331m (R308m).

The directors said for the next six months earnings would match interim results, although recessionary trading conditions were expected to continue.

Negotiations were in progress which, if successful, would result in AVI increasing its interest in Grinaker Holdings to 51% (now 46,5%). When the transaction was completed, AVI planned to transfer its entire Grinaker Holdings equity into direct ownership by AVI, eliminating the need for intermediate holding company Avgrin Holdings, which would be deregistered.

AVI had signed a conditional agreement whereby National Brands would — on April 2 — acquire the local business of Yardley of London (Africa).

Directors said the group's capital expenditure was reduced to R88,3m (R119,9m) in the half-year. Authorised capital expenditure stood at R149,7m (R119,7m), of which R83,6m had not been contractually committed.

Chairman Basil Hersov said last year AVI had budgeted R1,1bn in capital expenditure over the next three years.

Forming of groups for advantage frowned upon

BD 9 28/2/91

CAPE TOWN — Companies should not be entitled to form groups with other companies to obtain advantages under the VAT system, Vatcom has recommended.

It said the draft VAT Bill provided for two or more companies to apply to be treated as a group for VAT purposes, and render only one common return. A company could derive certain limited advantages from group treatment, such as the saving on administrative costs.

Group treatment did, however, tend to undermine the objectives of establishing reliable audit trails and effective monitoring.

Since group treatment had the effect of ignoring taxable supplies between members of a group the advantages of an invoice-based VAT system were lost in many cases.

Group treatment should not open the doors to tax evasion.

A way of dealing with some of these problems was to set restrictive admission requirements to groups, but this would make so few cases of group treatment possible it would appear meaningless to provide for this treatment at all.

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The scales clearly swung against group treatments when weighed against the potential problems in control which Inland Revenue could experience, as well as maintenance of statistics problems. — Sapa.

Former FSI men take Unidev stake

(180)

BDay 28/2/91

ANDREW GILL

INVESTMENT holding company Unidev and its pyramid holding company Unicon have been taken over by former FSI executives and Senbank. Both are due for a major shake-up through a rights issue and asset disposal programme.

In a deal likely to have cost the buyers very little, control has fallen to outgoing FSI Corporate Services MD Alan Chonowitz and Teamcor deputy MD Jon Brett. They hold 60% of Unicon holding company Top-Hi while Senbank has come in with a 40% stake.

It was bought from a consortium consisting of Geoff Grylls, Ian Hirchson, Steve Phelps, Ronnie Stein and Lionel Willmore.

The new management team of Brett and Chonowitz has planned a R15m rights issue as well as the disposal of non-core assets which should raise "a conservative" R15m.

The group, which has been battling with a severe gearing problem in the past few months and has seen the liquidation of subsidiary Cortech, has kept its five major interests. These are Medicor (a 50% stake), Equikor (40%), Prestige (80%), Hyperette (33%) and Rusfurn (23%).

Chonowitz said those interests might be increased in the future.

New acquisitions might be made, he said, but nothing specific was planned at the moment. If any new purchases were made, Brett said, they were likely to be for control of the targeted acquisition as opposed to another minority interest for Unidev.

The capital raised from the rights issue and disposal of non-core assets will be used to slash the debt burden and start the new-look group off with a clean slate.

The rights issue will be made at "roughly the market price", probably 30c to 40c, said Brett.

The share had fallen to a new low of 25c on the JSE over the past two days but news of the restructuring put it back up at 30c yesterday. An analyst said it could be looking at reaching 50c shortly.

The group would still have a R44m book debt as a result of the 23% Rusfurn stake but this "should pay for itself".

Teamcor deputy MD Jon Brett outlines the plans the new management team has for investment holding company Unidev at a Press conference yesterday. Picture: CATHERINE ROSS

Appeal for moratorium on Natal education job losses

BDay 4/3/91 180

Business Day Reporter

COMMERCE and industry have called for a moratorium on the scrapping of more than 2 000 of the 5 000 posts in the Natal Education Department until such time as a new education system is in place.

The weekend appeal was made through the office of the Private Sector Education Council (Prisec) whose members include Sacob, Seifsa, the Afrikaanse Handelsinstituut, Bifsa and the Chamber of Mines.

Prisec said it noted "with grave concern" the announcement arising from an emergency meeting between officials of the Natal Education Department and the Natal Teachers' Society held late last month.

"This stated that more than 2 171 of the 5 000 posts in the Natal Education Department will be slashed while thousands of posts in the Department of Education and Culture in the House of Assembly will be lost.

"Prisec has no quarrel with logical moves towards an increased staff-/pupil ratio for white pupils, especially if this is seen as a device for bringing about a radical reduction of the present unreasonably high ratio for black pupils."

However, it said, any decisions taken in respect of education must consider the changes with which the whole education system is to be confronted as a result of political and constitutional developments.

It said at the opening of Parliament on February 1, the President announced government's intention to rationalise the duplication in management of state departments, including the education departments.

"On Monday February 26 1991 the State President's and the ANC delegations met to discuss the education crisis which resulted in a working group being set up to work towards the development of a new education era for the country," the statement said.

It added it was already clear that when a new system was devised it would not be based on the present form of racially segregated education departments as the system had been made "totally illogical" in the absence of the Population Registration and the Group Areas acts.

It said it would be a tragedy if highly qualified and dedicated white teachers were driven from the system at a time when they would be able to work with a much wider section of the schoolgoing population.

The statement added that because of the declining numbers of white pupils, further valuable school buildings would be lost to the education system.

Manufacturers cut costs, boost profits

B[illegible] 5/3/91 180

THE manufacturing sector was one of the first to bring automation and business into a single, focused marketplace.

This was in an effort to cut costs and boost profits.

But this focus is becoming increasingly critical as users in different manufacturing sectors try to maximise benefits gained from their systems.

Syspro MD Christopher Duff says these kinds of focused manufacturing packages started evolving as long ago as the late '70s among machine tool, valve manufacturing and the aerospace industries in the US.

"As the availability of packaged software has spread, users in almost every sector of manufacturing have started to embrace the disciplines of Manufacturing Resource Planning (MRP), looking for increased profits and reduced stocks."

But Duff says these benefits have been slow in coming. Even now, less than 10% of the US process manufacturing sector (including food, chemical, petroleum, consumer goods, pharmaceutical and building materials) have made the transition from manual systems to computerised alternatives.

Encouraging

"There are many reasons for this. As a manufacturer of MRP systems, what is encouraging is that the need for focus which drives manufacturers to adopt computerised systems is becoming more apparent.

"We are able to deliver a packaged manufacturing system which, in many cases, can offer users more than a 90% fit with their demands.

"Customisation of an existing package with a low level of fit is no longer an acceptable answer to would-be users," he says.

Flood of trade delegations

SA firms in major drive into Africa

(180)

B Day 6/3/91

KEVIN DAVIE

SUB-SAHARAN Africa is ignoring ANC pleas to keep sanctions in place and is showing unprecedented interest in developing trade and business contacts with SA.

SA companies are responding to the opening markets by increasing trade, tendering for development work and establishing joint ventures in many African countries.

Safto Africa specialist Paul Runge says that with a few exceptions, all sub-saharan countries are now open.

A host of business delegations have visited SA in recent months, including some from previously hostile countries, such as Nigeria.

Other delegations came from Guinea-Bissau, Burundi, Zaire, Angola, Nigeria, Mozambique and Madagascar.

Two weeks ago, Cameroon, one of the last nations observing the boycott, signalled its intention to allow trade with SA. Gabon was until recently allowing trade on an under-the-counter basis, but will now deal more openly.

Evidence of the new relationship with Africa is shown by the 40% jump in SA exports to Africa in 1989, which further increased by 22% last year.

Zaire has grown quickly to be SA's second largest market in Africa after Zimbabwe. Angola and Kenya also offer very good prospects.

SA trade delegations are now well received north of SA's borders. Companies which are gearing up to exploit opening markets in Africa include:

☐ Nissan, which has set up a special new trading company, Motoware, to handle exports to Africa, and is considering requests to establish joint ventures. The exports include parts made by other manufacturers;

☐ Tiger Oats, which is developing trade in nine countries, and has expanded its international arm to include an African desk;

☐ Safair, which is running its fleet at capacity because of demand from Africa. It is considering a flood of requests for assistance with infrastructural projects;

☐ The CSIR, which is active in eight African countries, including involvement in the rehabilitation of Malawi's road network;

☐ Grinaker, which has tendered in recent months for several World Bank projects; and

☐ Credit Guarantee Insurance Corporation (CGIC), which is active in underwriting the risks of new exports to markets in Africa.

Stanbic's Manfred Schutte says Botswana has recently granted a banking licence to an SA bank, and that Stanbic has been approached from one or two countries interested in re-establishing banking relations with SA.

"The Africans see that Europeans are less interested in Africa because of Europe 1992 and eastern Europe."

The French, says Safto's Runge, have reduced private investment in Africa by 30%.

Many African countries are therefore looking to SA. "They have excessive expectations," he says.

Safair's Braam Loots says Safair may

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Africa

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☐ From Page 1

expand its fleet because of demand from Africa. He says Safair is active in the whole of southern Africa, and has dealings in, or inquiries from Zimbabwe, Zambia, Mozambique, Kenya, Gabon and the Ivory Coast.

B Day 6/3/91

Nissan's Robin Phillips says: "Africa appears to be grubby and bankrupt, but penetrate the surface and there is gold, including billions of rands of aid money."

"We're optimistic. Africa is a very exciting and profitable market," he says.

Tiger Oats's Patrick McLaughlin says the company is travelling in nine or 10 African countries right now. "We find ourselves working in close co-operation with European companies who are already active and are looking more and more to SA as a reliable trading partner."

Anglo Alpha worried over tax moves

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MARCIA KLEIN

SCRAPPING of the wear and tear tax allowance would cost industrialists dearly, Anglo Alpha MD Johan Pretorius said in the group's annual report.

In the year to end-December, the cement producer's tax rose to 35,8% from 33,2% due to the change in the depreciation allowance.

Pretorius appealed to the Minister of Finance to reconsider the "sudden" replacement of the 50:30:20% tax allowance on plant with a 20% a year straight-line wear and tear allowance.

"This is detrimental to SA companies' competitiveness in the export market which the government is trying to encourage," Pretorius said.

Also, it would render companies less able to grow and provide jobs — this in turn would fuel inflation. B|Day 7|3|91|

He said that the 50:30:20 formula should have been left as a necessary provision in inflationary times and as an incentive for the manufacturing industry to grow, modernise and create jobs.

A study by the Federated Chamber of Industry in January 1990 showed that SA industrialists paid 214% more in nominal terms for plant and machinery (including finance over 10 years) than their Japanese counterparts, Pretorius pointed out.

In order to permit replacement or extension of plant and machinery, sufficient cash flow needed to be generated, and by removing the allowance, government had reduced the incentive to invest in capital goods.

Companies might have to consider increased selling prices, which would fuel inflation in order to recover the increased cost of investment and to maintain margins, he said.

SA firms learn to do business the African way

B|Day 7|3|91.

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KEVIN DAVIE

AFRICA has for decades been a dark continent for SA business. These markets are now rapidly opening up. But, say experts, there is a special way to do business in Africa.

The biggest problem in Africa is the ability to pay, says Safto Africa specialist Paul Runge, who has 11 years of experience on the continent.

He says Africa has enormous demand for everything. There are few markets still closed to SA, but firms wishing to increase business in Africa need to know how to get paid.

SA firms which set up in Africa can benefit from very liberal investment codes, long tax holidays, repatriation of profits and free export processing zones.

Runge is manager of Safto's African Business Development Group (ABDG), which was formed in 1980, but has kept a low profile until now. Its chairman is Ian McRae of Eskom, with Safto's Wim Holtes as deputy. The ABDG has about 40 corporate members including Anglo, AECI, Afrox, CG Smith Foods, CSIR, Dorbyl, Eskom, FNB, Murray & Roberts, LTA, Nampak, Nissan, Premier International, PPC, Safair, Sasol, SAA, SBIC, Tiger Oats and Transnet.

The ABDG facilitates contact with government and parastatals in SA and the rest of Africa to promote two-way trade and strategic investment in Africa.

Some conventional deals can and will be done, but Runge suggests other possibilities include joint ventures and working with development agencies to ensure payment.

He says the SA firm which tries to establish in Africa by itself stands very little chance of success as the markets are often complex, sometimes corrupt and need local contacts to succeed. Joint ventures are a way round the problem. An SA company will team up with a parastatal or local company to beneficiate and export processed products.

In this way SA firms benefit from access to new markets, foreign exchange earned from the exports, and are ensured payment because the partner has already proved his business acumen in the local market.

Runge stresses that person-to-person contact is important in Africa. "Some African visitors say South Africans have a bad reputation for supplying excess production to Africa, and then disappearing for a few years. This doesn't go down well."

Another way of getting paid is doing work for aid agencies such as the World Bank, the UN Development Programme, and the African Development Bank (ADB).

The Abidjan-based ADB spends $2,85bn in Africa annually, and is a major player in co-financing deals with the World Bank and governments. It was, until two years ago, hostile towards SA, but this is changing. SA delegations have been received at the ADB's Abidjan headquarters. An ADB representative will participate later this month at a Sacob/Safto/Nafcoc-sponsored conference in Swaziland.

Runge says people have mistakenly been under the impression that South Africans are excluded from World Bank projects. Another misconception is that the World Bank builds only dams and bridges. An SA company recently won a tender to supply mattresses to a hospital which was built with bank funds.

Registration as a consultant to the bank is important because, although non-registered companies may also tender, the bank does not necessarily award on the basis of the lowest price. More important is that the tendering firm has a track record and is well acquainted with the feasibility of the project. He adds the belief that the company which gets the tender documents first is most likely to succeed is not correct. Pre-feasibility studies often need to be done to win projects.

Runge sees potential in the longer term for closer ties with the Southern African Development Coordinating Council (SADCC) and the Preferential Trade Agreement (PTA). Safto is encouraging SA businesses to register with these organisations.

Both are now allowing SA organisations such as Sacob and Safto observer status at some meetings.

Runge says the multilateral agencies such as the ADB, SADCC and the PTA will be the last openly to support SA. The governments which provide the backing for these agencies will first have to agree on a new policy on SA. He indicates that this re-evaluation is under way.

He stresses that contacts with these organisations are still at the preliminary stage, meeting people, getting documentation and information on how they work. SA will be acceptable to African multilateral agencies only once membership of the OAU is allowed.

SA companies may need to co-ordinate their efforts to do well in Africa: "It's very important to come in with a combined bid, especially in big projects such as construction. We cannot afford to divide our efforts."

It might also be necessary to provide backup for tendering companies: "The French are very good at this. They have so much backing from the state. All kinds of mechanisms come behind to push the bid."

Consulting engineers are moving very fast to win tenders, especially those which specialise in feasibility studies. Banks too are more interested in financing in Africa.

Runge says there is a saying in Africa that under every table you will find a South African. The evidence now suggests that the under-the-counter days are over. South Africans are coming out from under the table to participate in hundreds of above-board deals.

EDUCATION

Alliance involves business in addressing education crisis

W/Mail 8/3-14/3/91. (180)

An alliance between progressive businesses and credible community organisations aimed at addressing the crisis in education was announced this week in Johannesburg. SAMANTHA WEINBERG reports

THE growing realisation that business and community organisations can work together to their mutual benefit has resulted in the formation of an education alliance which will work at alleviating some of the more pressing problems in black education.

At a workshop in Johannesburg last week, members of the Third Alternative — which spent three years and R400 000 researching the area of black education — and the Soweto Education Co-ordinating Committee announced plans for the education alliance.

"We have reached the make-or-break point where 'black advancement equals business survival' ... The business community has an important role to play — and the morally right thing to do will make the best business sense," said Tony Rattey of the Third Alternative.

"It is crucial, however, that attempts to address the crisis are community-based and accountable. In response to this challenge, an alliance between credible community organisations and progressive businesses has been formed.

"It will assist in fund-raising, the recruitment of expertise, and the management and co-ordination of a host of projects aimed at addressing the crisis in education," he said.

Companies which bank-rolled the research initiative of the Third Alternative — including mining giant Gencor and Old Mutual — will be approached for funding for the new projects.

Among the projects that the alliance envisages developing are:

- A network of community study centres offering a wide range of facilities and activities, and both formal and informal study;
- Community projects, including a student advice office, school monitoring and intervention, safety and security awareness, the development of PTSAs and the drawing up of a "people's education charter".
- Education projects, such as a model school equipped with superior facilities and aimed at providing an example for black school children to show that, given the facilities, black children can do as well as white children. Also a night school, a correspondence college and an educative radio station.
- Fundraising, by inviting companies, organisations and individuals to affiliate to the alliance at a price. The possible development of a national lottery, a children's art book, an education newsletter, a home library series and an education movie or video circuit.

According to Rattey, the Third Alternative's main involvement is to provide ideas and assistance with fundraising, leaving community structures to decide what projects are appropriate and start them rolling.

"The education alliance aims to serve as a bridge between the private sector and community and educational organisations," said Rattey.

"It is not in competition with any organisation currently serving the interests of disadvantaged communities. Where it is involved, it will ensure that funds invested are applied where the needs are greatest — and that these projects enjoy the support and commitment of the communities affected."

Wits SRC calls for three-day boycott

By SAMANTHA WEINBERG W/Mail 8/3-14/3/91

THE Students Representative Council of the University of the Witwatersrand has called a three-day class boycott starting today, in an attempt to force the administration to attend to what they describe as "the crisis of mismanagement".

Despite a call by Nelson Mandela in orientation week for students to attend to their studies and not jeopardise their education, and despite a common desire for more funds, the rift between students and the administration of Wits University appears to be deepening.

According to SRC president David Jammy, the high exclusion rate — 22 percent of first year students failed to meet minimum academic requirements last year — demonstrates the gap between the present structure of teaching at the university and the sort of structure required to meet the needs of, specifically, disadvantaged students.

"What is needed is a long term strategy which will not only cater for the needs of the majority, but will play a constructive role in the transformation of South Africa. To that end, we are prepared to take the strongest action to force the administration to acknowledge the present crisis and start finding ways to address it," he said.

However, vice-chancellor Professor Robert Charlton said Wits was already making as much provision as it could for students in the face of restricted resources.

He said that if students did decide to stage a class boycott, the position of some students could be endangered.

"A class boycott is a quite inappropriate response to the problem of students failing to meet minimum academic requirements. The very people it is trying to help would be the ones most likely to be affected," he said.

Jammy said that if the decison was taken to boycott, it would reflect the "complete frustration" students are feeling at exclusions, the shortage of accommodation and the increase in fees.

Battling Amic bemoans cut in export incentives

(180)

By Ann Crotty Star 8/3/91

Anglo American Industrial Corporation's (Amic) 29 percent drop in earnings to 836c (1180c) a share for the 12 months to end-December is a clear reflection of the state of the local economy as well as the decreasing returns achieved on export sales.

The full year dividend has been maintained at 350c a share.

According to chairman Graham Boustred little or no real economic growth is likely during the current year.

The full year figures are in line with the deterioration in trading conditions revealed at the half way stage when a 30 percent earnings drop was reported. It reflects a major break in the group's five year record of satisfactory earnings growth.

In his annual statement, released with the results, Mr Boustred notes that trading conditions in SA and in world markets continued to deteriorate throughout 1990. "This not only depressed the prices of most commodities produced by the group but in certain cases reduced volume offtake, resulting in lower capacity working and plant shut-downs."

Turnover was up a marginal 6 percent to R6,1 billion (R5,8 billion) but earnings from operations were halved to R571 million (R1,1 billion). Earnings from associates were more resilient — dropping from R247 million to R222 million.

Investment and interest income fell to R88 million (R92 million). Interest payments more than doubled to R121 million (R55 million). After tax and outside shareholders, attributable income was down 29 percent to R451 million (R636 million).

Referring to government's export incentive programme, Mr Boustred noted: "It is ironic that the substantial reduction of export incentives for primary and semi-fabricated products in March '90 came about in advance of a period of economic stringency when these incentives are most needed to maintain price competitiveness in world markets."

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NOTICE 214 OF 1991

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

APPLICATION FOR VARIATION OF SCOPE OF REGISTRATION OF AN EMPLOYERS' ORGANISATION

I, David William James, Industrial Registrar, do hereby, in terms of section 4 (2) as applied by section 7 (5) of the Labour Relations Act, 1956, give notice that an application for the variation of its scope of registration has been received from the South African Engineers and Founders Association. Particulars of the application are reflected in the subjoined table.

Any registered employers' organisation which objects to the application is invited to lodge its objection in writing with me, c/o the Department of Manpower, 123A Manpower Building, 215 Schoeman Street, Pretoria (postal address: Private Bag X117, Pretoria, 0001), within one month of the date of publication of this notice.

TABLE

Name of employers' organisation: South African Engineers and Founders Association.

Date on which application was lodged: 10 January 1991.

PTO →

KENNISGEWING 214 VAN 1991

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

AANSOEK OM VERANDERING VAN DIE REGISTRASIEBESTEK VAN 'N WERKGEWERSORGANISASIE

Ek, David William James, Nywerheidsregistrateur, maak ingevolge artikel 4 (2) soos toegepas by artikel 7 (5) van die Wet op Arbeidsverhoudinge, 1956, hierby bekend dat 'n aansoek om die verandering van sy registrasiebestek ontvang is van die South African Engineers and Founders Association. Besonderhede van die aansoek word in onderstaande tabel verstrek.

Enige geregistreerde werkgewersorganisasie wat teen die aansoek beswaar maak, word versoek om binne een maand na die datum van publikasie van hierdie kennisgewing sy beswaar skriftelik by my in te dien, p/a die Departement van Mannekrag, Mannekraggebou, 123A Schoemanstraat 215, Pretoria (posadres: Privaatsak X117, Pretoria, 0001).

TABEL

Naam van werkgewersorganisasie: South African Engineers and Founders Association.

Datum waarop aansoek ingedien is: 10 Januarie 1991.

Interests and area in respect of which application is made: Any firm, company or close corporation engaged in the business of general engineering or founding or jobbing in the Republic of South Africa.

For the purposes hereof "General Engineering Founding, Jobbing" means, in addition to its all embracing meaning, repetitive production of metal or abrasive products by precision methods on machine tools designed or adapted to this end, or the manufacture of metal castings, or the performance of engineering processes, or the undertaking of engineering work in connection with articles which, owning to the heavy nature thereof, cannot be handled otherwise than by using large power-driven plant or machinery; and

"abrasive products" means grinding media such as grinding wheels, brick, sticks, segments and other devices which are designed for the purpose of removing by mechanical abrasion metal or other surplus material from other products and in which the abrasive is composed wholly or mainly or some mineral substance embedded in a matrix of ceramic, resin, rubber, shellac or other binding material.

Postal address of applicant: P.O. Box 1338, Johannesburg, 2000.

Office address of applicant: Metal Industries House, corner of Marshall and Simmonds Streets, Johannesburg.

Attention is drawn to the following requirements of sections 4 and 7 of the Act:

(a) The representativeness of any employers' organisation which objects to the application shall in terms of section 4 (4) as applied by section 7 (5) be determined on the facts as they existed at the date on which the application was lodged and, as far as membership is concerned, only members who were in good standing in terms of section 1 (2) of the Act as at the aforesaid date shall be taken into consideration.

(b) The procedure laid down in section 4 (2) must be followed in connection with any objection lodged.

D. W. JAMES,

Industrial Registrar.

(8 March 1991)

NOTICE 215 OF 1991

DEPARTMENT OF MINERAL AND ENERGY AFFAIRS

RESERVATION OF LAND FOR THE PURPOSES OF A PUBLIC ROAD

The Mining Commissioner for the Mining District of Johannesburg has, in terms of section 179 (1) (b) of the Mining Rights Act, 1967 (Act No. 20 of 1967), reserved for the purposes of a public road a strip of proclaimed land on the farm Leeuwpoort 113 IR, District of Boksburg, Mining District of Johannesburg, Province of the Transvaal, as shown on a sketch plan copies of which have been filed under RMT R104/90 in the Mining Titles Office, Johannesburg, and in the office of the Mining Commissioner, Johannesburg.

(19/5/1/2975)

(8 March 1991)

Belange en gebied ten opsigte waarvan aansoek gedoen word: Enige firma, maatskappy of beslote korporasie betrokke by die bedryfstak algemene ingenieurswese of gieterywese of stukwerk in die Republiek van Suid-Afrika.

Vir die doeleindes hiervan beteken "Algemene Ingenieurswese, Gieterywese, Stukwerk" benewens sy alomvattende betekenis, die herhaalproduksie van metaal- of skuurprodukte deur presisiemetodes op masjiengereedskap vir hierdie doel ontwerp of aangepas, of die vervaardiging van metaalgietstukke, of die verrigting van ingenieursprosesse, of die onderneem van ingenieurswerk in verband met artikels wat, weens hul gewig, nie anders as deur die gebruik van groot, kragaangedrewe uitrusting of masjinerie hanteer kan word nie; en

beteken "skuurprodukte" skuurhulpmiddels soos slypwiele, -stene, -stawe, -segmente en ander toestelle wat ontwerp is met die doel om deur middel van meganiese skuuraksie metaal of ander oorskotmateriaal van ander produkte te verwyder en waarin die skuurmiddel uitsluitlik of hoofsaaklik saamgestel is uit 'n mineraalstof wat in 'n gietvorm van keramiek, hars, rubber, skellak of ander bindmateriaal ingebed is.

Posadres van applikant: Posbus 1338, Johannesburg, 2000.

Kantooradres van applikant: Metal Industries House, hoek van Mashall- en Simmonsstraat, Johannesburg.

Die aandag word gevestig op onderstaande vereistes van artikels 4 en 7 van die Wet:

(a) Die mate waarin 'n beswaarmakende werkgewersorganisasie verteenwoordigend is, word ingevolge artikel 4 (4), soos toegepas by artikel 7 (5), bepaal volgens die feite soos hulle bestaan het op die datum waarop die aansoek ingedien is, en wat die lidmaatskap betref, word alleen lede wat ingevolge artikel 1 (2) van die Wet op voormelde datum volwaardige lede was, in aanmerking geneem.

(b) Die prosedure voorgeskryf by artikel 4 (2) moet gevolg word in verband met 'n beswaar wat ingedien word.

D. W. JAMES,

Nywerheidsregistrateur.

(8 Maart 1991)

KENNISGEWING 215 VAN 1991

DEPARTEMENT VAN MINERAAL- EN ENERGIESAKE

UITHOU VAN GROND VIR DIE DOELEINDES VAN 'N OPENBARE PAD

Die Mynkommissaris vir die myndistrik Johannesburg het 'n strook geproklameerde grond op die plaas Leeuwpoort 113 IR, distrik Boksburg, myndistrik Johannesburg, provinsie Transvaal, soos getoon op 'n sketskaart waarvan afdrukke onder RMT R104/90 in die Mynbriewekantoor, Johannesburg, en in die kantoor van die Mynkommissaris, Johannesburg, bewaar word, kragtens artikel 179 (1) (b) van die Wet op Mynregte, 1967 (Wet No. 20 van 1967), vir die doeleindes van 'n openbare pad uitgehou.

(19/5/1/2975)

(8 Maart 1991)

Top firms step up social responsibility funding

Bday 11/3/91

180

Business Day Reporter

LEADING businesses in SA had invested as much as R800m in social responsibility last year compared with the R100m invested in 1982.

The latest Innes Labour Brief said the amount spent by companies on the community was R200m in 1885 and R500m in 1987. Spending increased to R600m in 1988.

In a comprehensive survey of corporate social responsibility (CSR) the Labour Brief said that at the beginning of the 1980s, social responsibility outlays by SA firms constituted about 1% of after-tax profits, which was less than that of companies in the US.

"By the end of the decade, the large concerns, which supply more than 80% of all funds, were disbursing anything between 2% and 5% of after-tax income — approximately the same as their US counterparts.

"Community engagement has thus become a growth industry in SA, despite the most serious economic recession since the 1930s, an unfavourable taxation environment, and the disinvestment of some 500 foreign subsidiaries.'"

It was claimed in 1989 that American withdrawal alone had meant a loss of up to R100m in social responsibility resources.

It said the study was testimony to the massive volume of appeals which the companies had received from a wide variety of sources.

"It was not too fanciful to imagine that the rise in expenditure would continue in the light of swelling demand, the government's apparent eagerness to reduce its role in the provision of some welfare functions, and the talk of nationalisation that was in the air.

"Furthermore, the practitioners of social responsibility have clearly come to select their targets more carefully."

The Labour Brief said demand for CSR had risen in a period of economic downturn, so the pressure on firms had intensified.

A survey of 10 companies showed more CSR spending was being targeted at technical education.

Identify

"Companies aim to identify talented students (particularly blacks); provide them bursaries to obtain further education; appoint mentors (employees in important positions at the company) to give guidance and insight into the professional world and serve as role models and ultimately place them in responsible jobs with upward mobility.

"Sasol supports 350 students annually in such training; Castrol's new bursary scheme will attempt to identify 20 employees' children each year for a three-year technical training programme that will eventually land them jobs in the company; Sentrachem allocates the vast bulk of its CSR money toward tertiary education; AECI has a tertiary education budget in addition to its CSR (also called "Quality of Life" budget) that supports university training," it said.

In the food industry the CSR programmes of two companies, Premier Food Industries and SA Breweries' beer division, were directed toward upgrading a less-skilled workforce whose needs were more likely to be obtaining basic literacy and numeracy skills for themselves and improved "educare" for their preschool-age children.

Both companies offered on-site instruction, and SAB was developing a technical training institute to provide further skills training to employees.

The 10th company in the study, Liberty Life, was profiled not only because of its size and influence but because it had chosen a novel approach to CSR from which other companies could draw inspiration.

"Last year, the Liberty Life Foundation formed a social foundation that plans to spend over R100m on programmes to improve education, housing, and economic opportunities in urban and rural communities."

Resizing IT division the 'key to survival'

TO MAINTAIN their competitive edge, companies are downsizing, right-sizing, and resizing as they restructure their operations. B Day 14/3/91.

Vice president and chief information officer for US-based Armco Steel, Tom Lutz, who is discussing these issues at a seminar in Johannesburg on March 18, explains that companies are faced with the need to cut costs and to do things in a new way to survive and succeed.

Information Techology

MELANIE SERGEANT

"Traditionally, organisations are structured on what they have done in the past, and must now restructure or resize their operations.

"Studies in the US show that in most cases, reducing staff and still continuing to do things the traditional way doesn't work. (180)

"In the 80s, Fortune 500 companies cut out 3,2-million jobs. Yet it's believed that today there is still 25% fat in these companies.

"Companies are realising that to compete on a global basis, they must get more results from fewer people. Resizing means putting the right talent in the right place.

"In the 90s, it seems we must take another 25% of people out of business — not to cut costs, but to make companies more responsive; larger companies are more resistant to change."

Companies most successful at resizing are those which take on new cultures to fit in with changes. Staff must continually change and learn to do new jobs.

Lutz reckons a problem for many is that they try to streamline things that should not be a concern.

IT is a tool to help companies resize in the right way, but IT is often one of the slowest things to change.

The computer systems put in place to support the way the company works are often built for the "old style" of doing things.

"IT staff say it will take five years to rewrite their old systems, but companies can't survive waiting for IT, so one of the first departments which should be resized is the IT division.

"The answer could be to move work which needs to be done here to outside companies."

Lutz says one company which had a system development cycle of four to five years has seen this fall to seven to nine months by outsourcing development and maintenance of critical systems.

He argues that the single hindrance to matching the changing organisational structure of companies is the resistance to change of IT staff.

"Downsizing of IT departments which was predicted in the 80s hasn't happened. We've moved more of the Information Systems function to users, but IT staffing is the same size.

"My company has seen the number of its minicomputers rise from 10 to 40, and PCs from about 25 to 5 000, and its mainframe computing load has increased by 30%.

"We're restructuring the IT architecture to match our business needs — and this doesn't necessarily mean less cost, but rather increasing productivity."

Rand Mines aiding businesses

RAND Mines' sub-contracting programme is helping numerous small business operations generate income worth millions, according to RM Small Business Programme spokesman Anton Keating.

Keating, writing in this month's edition of Black Enterprise, says since RM's Small Business Development Programme was started two years ago, it has helped small businessmen generate income totalling R2,6m. B Day 14/3/91

This came from operations as diverse as plastic bag and clothing manufacture, printing, carpentry, mine employee transport, painting and cleaning services and steel component manufacture.

"Because it (the programme) is a new concept, buyers from other small business programmes are continually sharing ideas and

WILSON ZWANE

names of small concerns.

"This had led to the discovery of many small informal businesses, which have the potential to serve the needs of certain sectors within the mining industry. (180)

"It is extremely fulfilling to discover a backyard operation and to give it the opportunity to expand.

"However, good business practice prevails in what we do.

"We only follow through with an order if we are satisfied that the price is competitive," says Keating.

He adds the programme highlights problems faced by small firms, such as difficulties in accurate costing and pricing, transport difficulties and prompt settlement to avoid cash-flow problems.

Govt examines new tariff report

B/Day 14/3/91

SEAN VAN ZYL

CABINET is said to be reviewing a new trade and tariff report which could result in local manufacturing tariff protection and export subsidies being scaled down.

The Modification of Protection Policy Report's recommendations, which were compiled by the Industrial Development Corporation (IDC) last year, were disclosed by the Financial Mail (FM) yesterday.

The basis of the report was to move industry away from protectionism with the goal of promoting a more competitive market for exports.

The IDC report strongly favoured the Board of Trade and Industry's (BTI's) "structural adjustment programmes" approach to various industries as opposed to the general export incentive scheme which came into effect nearly a year ago.

The current DTI scheme was said to have already cost taxpayers millions of rands in paid-out export subsidies.

The BTI previously devised structural adjustment programmes for different industries but these were thrown out in September 1989 in favour of the general export incentive programme.

However, the new report's thrust to government was that present tariff protection should be lowered, depending on the different industries concerned, which would in turn result in a more competitive market. Lower import tariffs would also allow manufacturers to acquire capital equipment at less cost.

The FM said the report recommended cutting tariffs of more than 40% by 10 percentage points and reducing tariffs of 20% to 40% by five percentage points.

(180)

The report also proposed the company tax rate should be brought down to 40% initially and ultimately to a 30% level. It suggested the abolition of the surcharge tax and possibly the phasing out of subsidies.

The report proposed that its recommendations would lead to a switch from a "trade orientation" approach, through which export subsidies are used to offset part of the cost incurred through high protection levels, to a policy of lower export subsidies and import tariffs.

Investor confidence is the key, says Clewlow

B/Day 15/3/91

(180)

VERA VON LIERES

FOREIGN investor confidence was not being helped by talk of collectivist economic policies and rhetoric from those "who might be expected to know better", SA Foundation president Warren Clewlow said yesterday.

Speaking at the foundation's annual meeting he said participation of all economic players — employers, investors, and trade unions — was required to change the style of economic co-operation.

"Social contracts, negotiated between them, will help determine the shape of industrial and commercial life. But economic reality must underpin everything we try to do," Clewlow said.

Referring to overseas concerns about stability and violence, he said all societies experienced turbulence but there had to be a realistic expectation that SA's "endemic variety" would disappear.

"The key word here is confidence. There is some confidence that leaders of our country are committed to peaceful change and President De Klerk, particularly, is acknowledged as a leader with vision."

Clewlow said the rock against which the ideology of both the left and the right was foundering was economic reality.

He said no one could deny the legitimacy of calls by black people for the end of discrimination and a fair chance at opportunity.

"The skewed distribution of infrastructural development and services leaves a huge backlog to be redressed.

"Equally, no one can deny that without soundly based, world-class economic activity, the dreams of all South Africans will come to naught, together with those in the rest of southern Africa."

Clewlow said the challenge to business leaders to participate with skill and vision in building an economy stood with increased urgency.

The foundation's director-general Kurt von Schirnding said the foundation aimed to become increasingly representative of all sections of the SA business community.

"We know that one of the more deplorable legacies of our past were the restrictions placed on blacks entering business," Von Schirnding said.

He forecast that by the end of the year formal negotiations towards a new SA would be underway with a democratic constitution in the "not too distant future".

Despite this the need for a credible, independent, private sector organisation like the foundation was now more critically important than at any time before.

"If foreign investment and trade are to be revitalised, with SA as the West's partner in developing the sub-continent, then the foundation is ideally structured to shape the responses of outsiders of influence and standing to developments in this country."

TOWARDS A FUTURE BLUEPRINT

FM 15/3/91 180

The manoeuvring has begun to determine an effective new trade and tariff policy, which should have far-reaching implications for the direction industry takes.

The Industrial Development Corp's *Modification of Protection Policy* document, released to the *FM* this week, contains an eloquent appeal for government to redirect the focus of the manufacturing sector from protectionism — aimed at import substitution — towards exports.

The report, commissioned by Trade & Industry Minister Kent Durr, strongly advocates the phasing out of the blanket tariff protection that has for so long cushioned industry. It also recommends the abolition of the DTI's general export incentive scheme in favour of the BTI's structural adjustment programmes for selected industries.

The IDC argues that the export incentive scheme is too costly and runs counter to Gatt's standpoint that trading nations should move from directly subsidising exports. Rather, it recommends that the structural adjustment programmes should be pursued as they have been internationally proven to be effective in promoting industrial and export growth.

But the report warns that the process of structural adjustment towards export orientation by modifying the tariff protection policy must be carefully managed. "And, once initiated, (it) must be pursued with perseverance in order to achieve eventual success. A turnaround in policy will do irreparable damage to the credibility of economic policymaking."

A "fundamentally correct macroeconomic policy" would be needed to support the changeover, it says, advocating that industrial and economic policy should be more closely interlinked.

The IDC's recommendations include a broad-based, two-pronged approach that would involve an immediate, phased reduction of tariff protection and various measures to encourage exports. It calls for:

☐ An immediate, general 10-percentage-point cut in all tariffs of 40% and more, while tariffs of 20%-39% should be reduced by 5 percentage points. "This will serve to lower the import parity price level, contain inflation and benefit the consumer;"

☐ High tariffs to be reduced to reach the following target rates in five years: manufactured consumer goods at 30% *ad valorem* and all other goods at 15% *ad valorem;*

☐ Placing a ceiling on all formula duties, which will then be scaled down in accordance with predetermined steps over a five-year period to the maximum levels set out above, after which formula duties will be scrapped. A new anti-dumping policy will have to be devised as the formula duties are phased out;

☐ Company tax be reduced to 30% as an optimum target, and to below 40% as initial target, to offset a possible lack in investor confidence as tariffs are being phased out;

☐ Abolition of the surcharge on imports because this unnecessarily adds to the costs of capital goods and makes SA exports uncompetitive. Surcharges, amounting to about 7% of total imports, are "high, compared to the 5% earned from tariffs;"

☐ Phasing out all export subsidies, including the General Export Incentive Scheme;

☐ Linking tariff changes to the realistic real effective exchange rate of the rand. This would allow for the protection of the import parity price level against fluctuations in the exchange rate over the long term; and

☐ Allowing special industry adjustment schemes (such as Phase 6 of the motor industry) to continue and considering expanding them to other areas.

These proposed changes "thus amount to switching from a trade orientation where high export subsidies attempt to compensate for the cost-increasing effect of high levels of protection, to one where neutrality between import replacement and exports is achieved by means of a policy of low export subsidies and low import tariffs," the report says.

It adds that as governments usually do not have the financial means to subsidise exports, "the lowering of tariffs is the appropriate policy option."

The IDC report, submitted to government in June and still with the Cabinet, follows an in-depth, three-month investigation of past, current and future tariff policies.

The IDC says the cost-increasing burden to the economy brought about by tariff protection is equal to about 12% of GDP. When the increase in the cost of imported goods due to the addition of the surcharge is added, "the total cost burden is equal to 14% of GDP."

Tariff protection deliberately increases the import parity price level of local products, giving the new industry an opportunity to find its feet. But the imposition of surcharges and the severe fluctuations in the value of the rand have led to large fluctuations in import parity price levels.

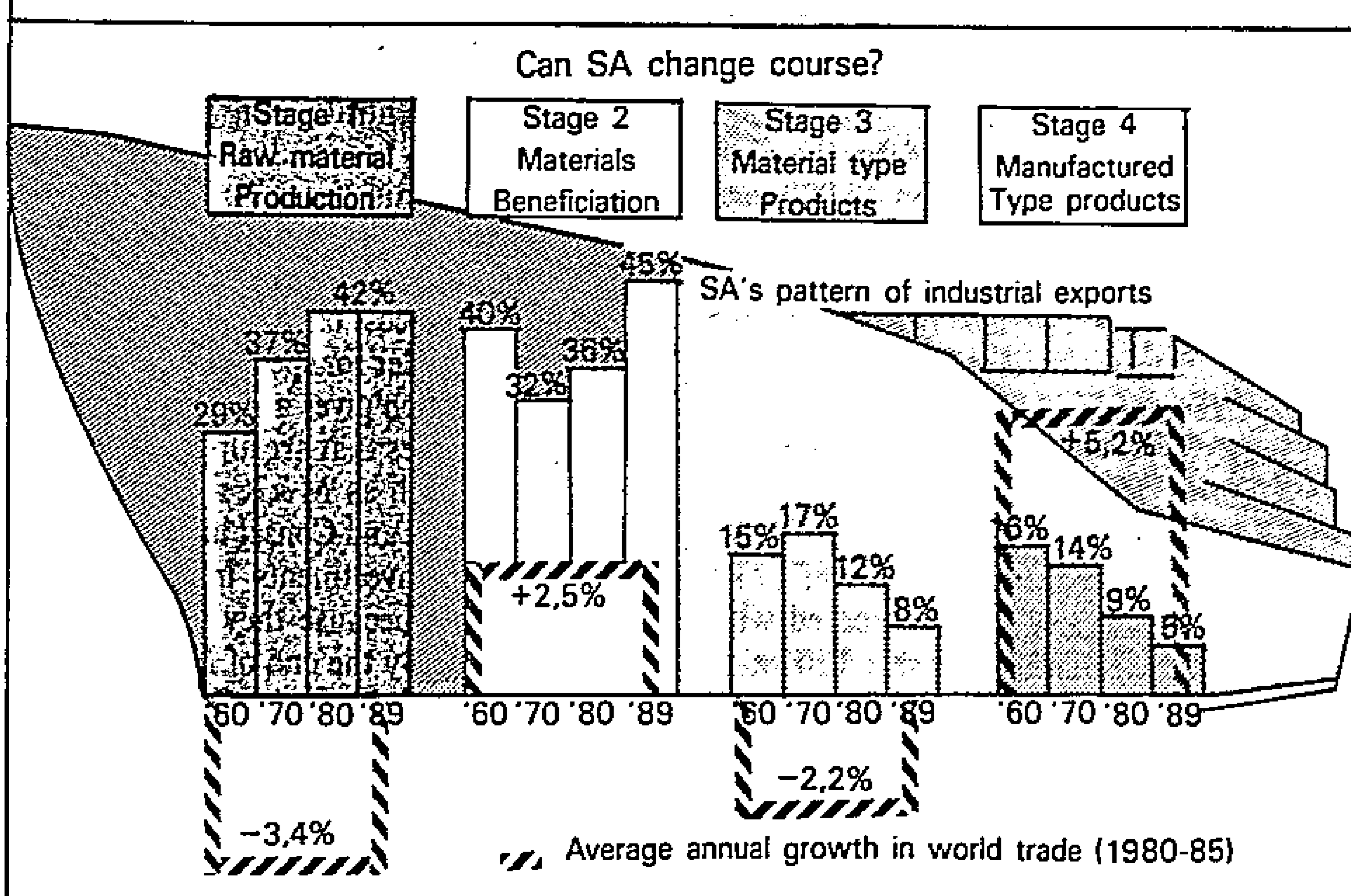
The combined protective effect of the above three factors over the period 1970-1989 created a situation where the cumulative import parity price level (Customs tariffs contributing 20%, plus surcharges, plus the undervaluation of the rand) has led to an effective protection level for industry of about 45%.

"Reduction of tariffs will require industries to adjust in order to produce closer to ruling world prices, which in turn will reduce the cost-increasing effect on exports, so characteristic of protection."

The IDC warns that a scaling down of tariffs would lead to "significant changes on micro level" as industries discontinue less profitable ventures and increase production of competitively priced goods. "This will lead to a loss of employment opportunities over the short term. Therefore tariff reductions must be phased in a manner that will give firms a fair chance to adjust."

This, clearly, is a cost the country will have to bear. As the report points out: "It must be accepted that trade liberalisation will involve certain costs and any attempt to counteract them will only frustrate the essential changes required."

Manufactured exports



Source: NCF

Few will escape the deposit-taking net

S/Times 17/3/91. (180)

By DIRK TIEMANN

APPLICATIONS to the Registrar of Banks for exemption from the Deposit-Taking Institutions Act are flooding in, but very few will escape the net.

Registrar Dr Hennie van Greunen says the definition of the Act is deliberately broad, but that discussions among various parties will soon be held to determine "what to hit and what to exclude".

The DTI Act, in force since February 1, will regulate and supervise activities of "deposit-taking institutions". Who and what will fall under the Act is not yet clear. Discussion papers will be released soon.

Pooled

The idea is to level the playing field for DTIs, restricting deposit-taking activities of unregistered persons, enabling better supervision by the authorities and rationalisation. Monetary policy will be strengthened by tighter controls.

The Government Gazette of January 31 1991 outlines those activities excluded from the "business of a DTI".

Participation bond and unit trust schemes, mining houses, the Teba Savings Fund (registered under the Employment Bureau of Africa) are exempted, subject to certain conditions outlined in the Gazette.

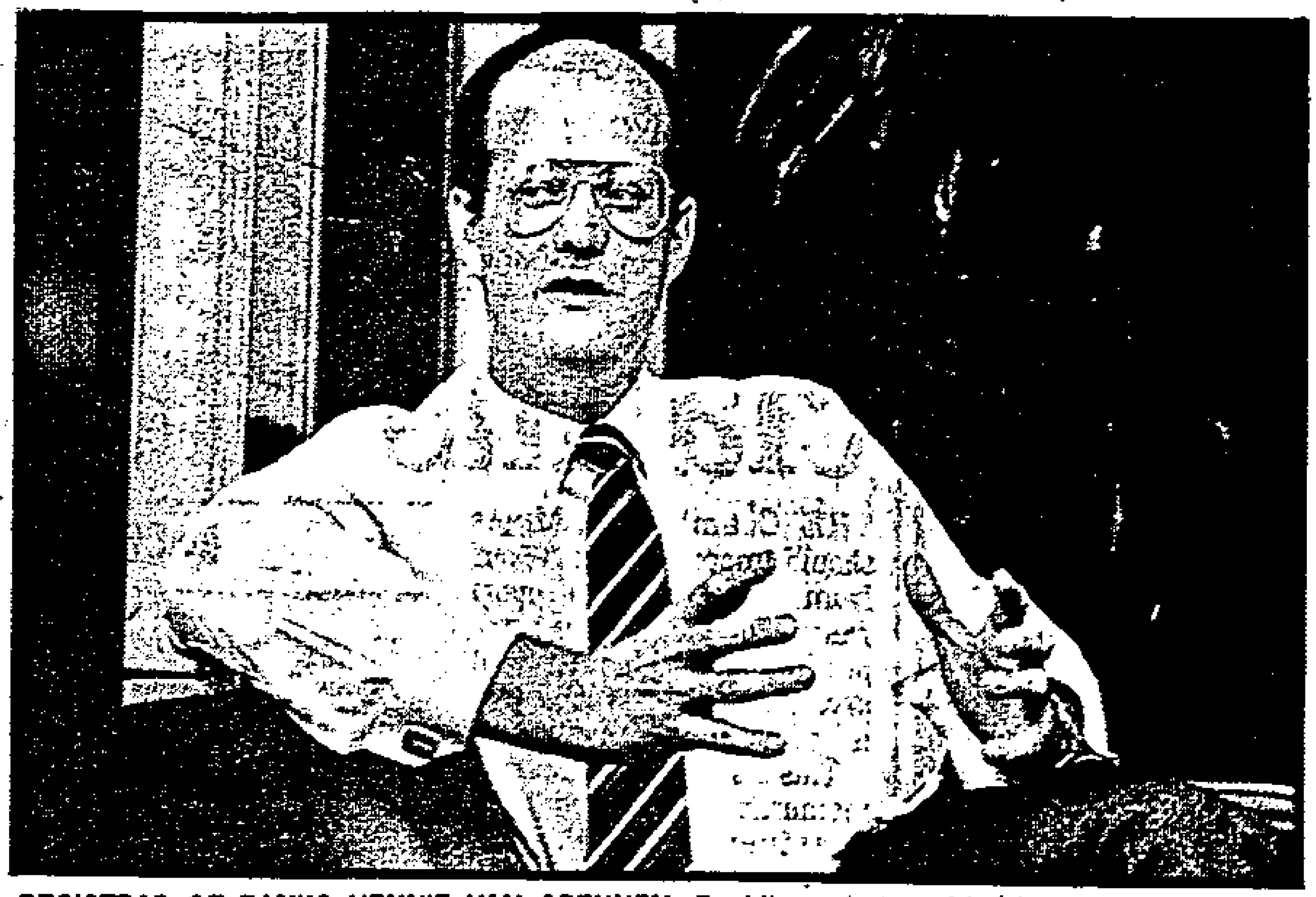
The mining houses are unaffected by the new Act. Surplus funds pooled within the group and received from associates remain exempt for the next three years.

Surplus money available after the cross-funding within the group is placed with the banking sector.

Mining houses cannot borrow from each other without falling foul of the Act. All houses deny ever having borrowed or loaned money from or to each other.

Companies' activities falling under "the business of a DTI" in terms of the new Act would be required to stop these activities or register under the DTI. Registration will be difficult and demands high capital and liquid asset requirements.

A Deloitte Pim Goldby paper shows that treasury operations, employee savings schemes, money broking operations, money broking, administration of trust funds and repurchasing agreements could all fall under the Act.



REGISTRAR OF BANKS HENNIE VAN GREUNEN: Deciding what to hit and what to exclude

If companies accept deposits from the public and employees as a regular part of their business they fall under the Act. If the money is used for lending, investing or financing and if assets are sold under repos agreements to non-DTIs, they also fall under the Act.

Companies are excluded if they do not hold deposits from more than 20 people totalling less than R500 000 on a regular basis and if they do not advertise for them.

Corporate treasuries are restricted to accepting deposits from within the group, excluding associates. The mines are exempt.

Cash management schemes will be restricted to subsidiaries of the same holding companies. The provisions of the Act will in many cases restrict the cash-management services offered by banks or increase their cost.

Money-broking activities by non-DTIs are permitted if the broker places funds on the same day his instructions are received and places funds with deposit-taking institutions only.

The placing of aggregated deposits with a DTI to secure wholesale interest rates will also be affected. Separate accounts in the name of each individual depositor are likely to be required.

'Companies lose millions in bad sales planning'

S Times 17/3/91

Business Times Reporter

(180)

POOR sales-force productivity costs South African companies millions of rands, says Dr Johan Smuts, director of productivity promotion at the National Productivity Institute in Pretoria.

Information gathered by the NPI shows that South African sales representatives on average spend only 27% of their time with customers and about 20% of their time travelling.

Of the time spent with customers, 60% is spent with low potential customers and 53% of salesmen's time is spent on office tasks not directly related to promoting their products, such as handling inquiries on production, quality, debtors and delivery time.

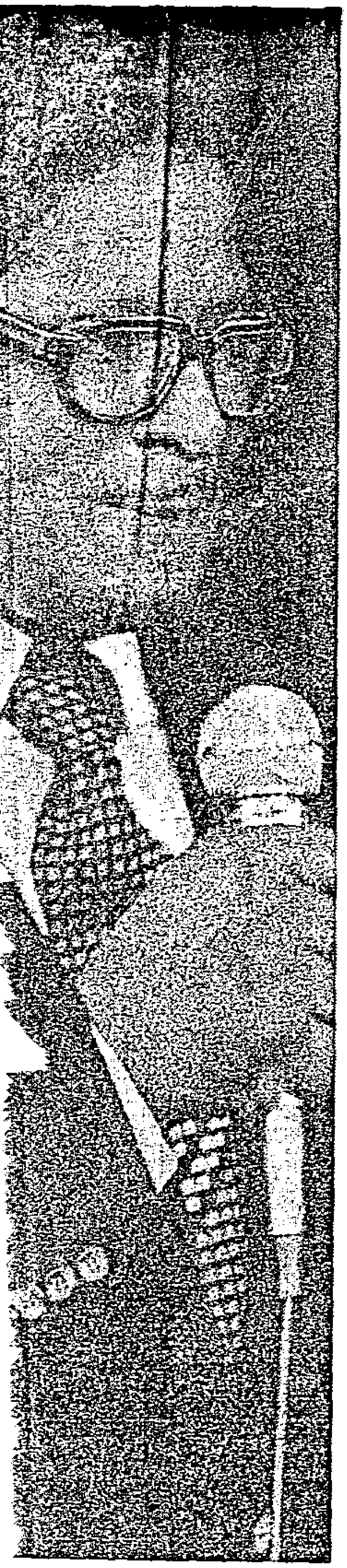
Dr Smuts says low productivity levels, leading to inadequate sales performance, are almost without exception the result of poor quality sales management.

"The NPI is finding that this year companies are showing a keen interest in investing in sales productivity improvement programmes," says Dr Smuts.

"No longer can they afford a high-cost sales force that does not deliver profitable sales."

Various customer opinion surveys conducted by the NPI show that sales staff need more guidance from their companies with regard to product knowledge, call objectives, frequent calls in accordance with customer requirements, more technical knowledge and more empathy towards the customer.

Companies with an effective sales management system find that sales staff are not only motivated to top performance, but also enjoy greater job satisfaction.



.. complained that Nafcoc
n the conference.

Why Nafcoc men walked out of Swazi conference

By DERRICK LUTHAYI

180

A NATIONAL African Federated Chamber of Commerce and Industry (Nafcoc) delegation walked out of a Swaziland business conference on Thursday, saying they were not consulted in the conference preparations.

C 19 Feb 17/3/91

The Africa Sub-Saharan Economy and Trade (Asset) conference was the first in 40 years to bring together business representatives from African countries to meet their South African counterparts.

Nafcoc says it is imperative to hold a "post-mortem" to ensure this type of experience is avoided in the future.

Nafcoc president Dr Sam Motsuenyane said the organisation found it difficult to maintain an association with a conference that had departed from the agreed objective.

The Nafcoc delegation walked out because the organisation was not adequately consulted during the conference preparations and because the agenda was finalised without its involvement.

"As co-sponsors we were not consulted in the formulation of the conference programme. The input we made was not reflected in the final programme, which differed significantly from the draft.

"Our suggestions to the conference organisers to invite representatives of Swaziland business were ignored and the government authorities were not properly and sufficiently consulted," said Motsuenyane.

King Mswati II and Prime Minister Obed Dlamini pulled out of the opening day of the conference because of a major protocol "boob" by the organisers.

Sources in Swaziland say the organisers did not formally inform and invite the Swazi government to attend the meeting and the local business community was ignored.

Sapa reports that the Nafcoc delegation was "upset" primarily because leading members of the Foundation of African Business and Consumer Services (Fabcos) had played a more public role than Nafcoc members.

"We feel there is a conflict of interests between Nafcoc and Fabcos which caused the entire Nafcoc delegation to leave," a source said.

The South African Chamber of Business, which is one of the four listed conference sponsors, "insisted that Nafcoc be included in the sponsorship list", according to the source.

This was reportedly because the three other sponsors – Sacob, the Herbert Quandt Foundation of Germany, and the South African Foreign Trade Organisation (Safto) – are predominantly white business organisations.

Organising committee chairman Francois Marais said he was sorry a conference of such importance was troubled by such "fundamentally trivial" issues.

Marais added that the conference had been "an enormous success with men and women from all over southern Africa making important contacts, and addressing issues of great regional importance, seriously and positively".

A conference source said the organisers agreed to include Nafcoc as a co-sponsor because of Sacob's insistence, adding that the "only financial sponsor of the conference is the Herbert Quandt Foundation".

Consolidation means bad news for some

BRENT VON MELVILLE

SOME shareholders often find their worst fears realised when a company consolidates its shares, but share splits are expected to open the door to more investors by making the stock more affordable and offering greater liquidity in the market place.

In fact, the several consolidations over the past few years (excluding those that made a major change, such as a merger or selling of significant assets at the same time) have prompted some strong opposition by shareholders.

Trading

Market observers feel that invariably those who fear for their investment are right to, at least in the very short term.

Most issues dropped between the time the consolidation was announced, and the last day before the consolidated stock began trading.

And most dropped again, compared with the final pre-consolidation price, on the first day that they traded after the consolidation.

"Generally stock takes a nosedive after consolidation," says Aloma Jonker, an investment analyst with Mathison & Hollidge. Sounding out several other analysts yielded the same verdict. Analysts do not recommend buying a company planning to consolidate because, invariably, the stock will be cheaper three months down the road.

A classic case in point is the now defunct Elex Electronics. On June 2 1989 it consolidated its 15c shares on a five-for-one basis. On June 6 it moved to the electronics sector. Despite promises at the time by directors of big things to come, Elex immediately shed 15c. Less than 11 months later minority shareholders were offered, and accepted, 10c a share from Volkskas Merchant Bank.

The market supports the view that sentiment keeps consolidated stocks dipping. The logic is that there is no hope for a stock trading at 15c, so the investor holds his position.

But with one consolidated one-for-20 and trading near its new price of 300c, the investor suddenly has much more to lose, and so sells to limit the downside.

Based on prices of JSE consolidations last year, with such gems as Homemakers and the Cape-based Debonair Group (which consolidated one-for-five last December and is wallowing at 83c), investors would be better off to sell when the deal is announced, and come back into the market several months later.

B/Day 18/3/91.

Flagging

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Jonker says that shareholders generally use consolidation to offload their shares, thereby depressing prices. "A consolidation of shares is almost always a sure sign of problems with the company in question," she adds.

Debonair, for instance, had a pre-consolidation price of 15c a share, equating to a consolidation price of 75c. The share sagged slightly immediately following the consolidation, despite assurances by chairman Ian Foster that the group had resolved its problems by restructuring its capital base and was holding its own in an otherwise flagging market. The share has since come back to about 83c.

Just as conventional wisdom dictates that consolidations are attendant with declining fortunes, share splits tend to raise share prices, usually by making stock more affordable and increasing liquidity.

Jonker suggests a simple reason: "Consolidations are equated with struggling, poorly rated companies while share splits occur mainly with highly rated stock. Recent examples include Randfontein Estates, Liberty, Anamint and Anglovaal, all of which subdivided their shares 10-for-one.

The market perception is that share splits send a message to the small investor: "Yes, we do value you."

In addition, small shareholders are generally more loyal than institutional investors.

SOWETAN

Black business giants may merge

Sowetan 18/3/91 (180)

By JOSHUA RABOROKO

THE National African Federated Chamber of Commerce and the Foundation for African Business and Consumer Services may become one organisation.

Plans are afoot to merge the two major black business organisations for the sake of economic power, income and wealth distribution in the post-apartheid South Africa.

This follows an agreement between the ANC and Fabcos to investigate the possibilities of setting up a multi-lateral forum involving other black business organisations.

The two organisations agreed that regular meetings and consultations would become a feature of the coming period and thus instructed their relevant structures to establish an interim bilateral sub-committee charged with co-ordinating areas of common interest.

The meeting - the second between the two parties - is seen by business experts to be in line with similar conventions, which the ANC held with Nafcoc in an attempt to involve all the key players in the economy.

ANC deputy president Mr Nelson Mandela has also held talks with Nafcoc president Dr Sam Motsuenyane on a variety of issues as a means of allowing the chamber to participate fully in the current debate on the framing of an appropriate economic policy for South Africa.

The ANC delegation was led by the internal leader Mr Walter Sisulu and Fabcos by its president, Mr James Ngcoya, vice-president Dr Ellen Khuzwayo and members of the executive committee at the meeting.

Fabcos briefed the ANC on its structures, aims and objectives. The briefing highlighted the difficulties faced by black business in the South African environment.

Fabcos explained that despite all these difficulties, a role was increasingly being worked out for black businesses in the economy.

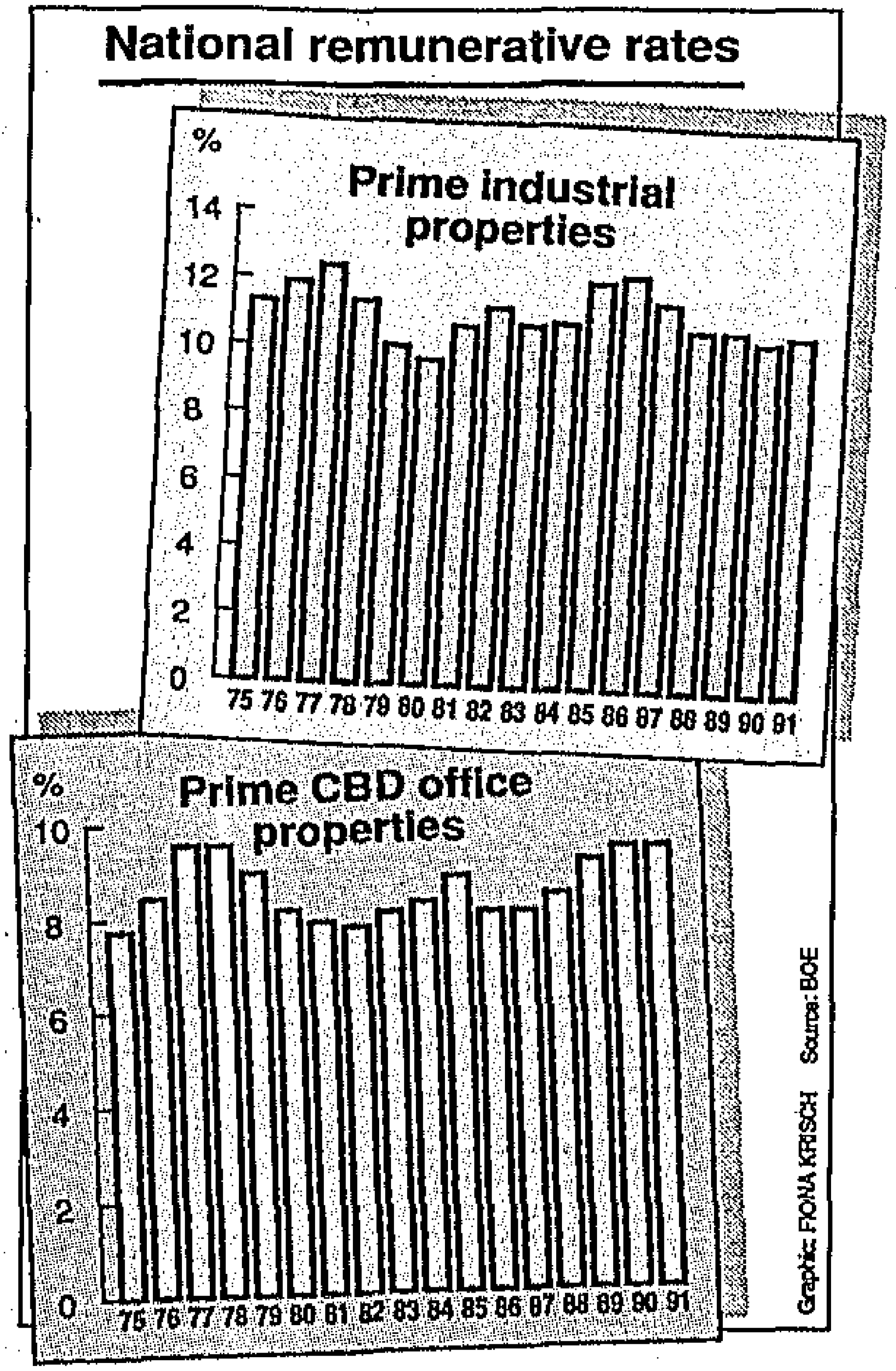
It became clear in the discussions that a future democratic economic system should try to encourage and support black business ownership of productive assets in manufacturing, construction and finance.

The ANC briefed Fabcos of the process leading up to negotiations and the current state of affairs in that regard.

The approach of negotiations was explained, in particular the question of an interim government and constituent assembly which will draft a new constitution for a democratic South Africa.

Business Day SURVEY

If predictions of higher inflation and a weakening economy become a reality, the property industry will suffer in the medium to long term. But investors must take these factors into account if they are to be realistic about investing in the new SA. ***MELANIE SERGEANT*** *reports.*



Graphic: FIONA KRISCH Source: BOE

Rate of inflation is expected to increase as social focus alters

B Day 19/3/91

(180)

PREDICTIONS are that the new South Africa will face higher inflation during the second half of the '90s than during the first half.

Property economist Neville Berkowitz says: "Assuming we have a multiracial government by the second half of 1994, priorities will be shifted from combating inflation and focused on reducing apartheid's inequalities.

"This implies substantial spending by government and a coerced private sector on investments, with long-term returns such as education, health services and housing."

Social spending comprises about 40% of government's budget, and there are four ways to increase this.

"Either one prints more money or increases government borrowings, both of which are inflationary. Thirdly, by increasing taxation, which harms economic growth.

"The fourth method is to allow the economy to grow in real terms, thus increasing the pie for everyone."

Throwing money at redressing apartheid's wrongs without a concomitant increase in real productivity during the second half of this decade could mean a higher inflation rate than at present.

Suffer

"Property investment will suffer in real terms from any potential hike in the inflation rate," says Berkowitz.

If the prospect of higher inflation rates in a new SA and a weakening economy become a reality, the property industry will suffer in the medium to long term, and investors must take these factors into account.

Berkowitz says with a higher inflationary environment there will be reduced demand for corporate and private space as real economic growth suffers.

"Interest rates would rise, to offer savers real returns on their savings.

"The other side of the coin, however, is that mortgage interest rates will rise substantially and mortgage finance may be in shorter supply as savers and investors look for hard assets to protect their savings from higher inflation."

On the construction front, he says rapidly rising building costs caused by higher inflation will reduce the affordibility of new construction.

This would lead to a fall in construction activity in the private sector market.

"For investors, it's expected there will be a flight of savings capital into hard assets such as immovable and movable property, such as collectors' items."

Relationship

Berkowitz says annual rental escalations would be forced up so they bear some relationship to the value of money.

However, a fall in construction and a drop in real economic growth will initially see a static rental growth position, and falling rentals could become common as the economy worsens.

As far as residential property is concerned, the outlook is less bleak initially, because the flight into hard assets could increase the demand for homes, and prices could rise.

"On the downside, though, falling individual wealth in real terms will eventually bring these prices down.

"For the commercial and industrial property markets, reducing business activity will impact negative-

NEVILLE BERK

ly on the demand residential spac will soften and i values decline.

The outlook m gloomy, but one realistic if planni ments in the new

"The curren against inflation won, but the cos nomic casualties substantial," he s

Syndication a hedge against inflation

180

B/day 19/3/91

AS AN investment medium, property syndication is a relatively new concept.

However, Board of Executors' national syndications manager Barry Steinberg says syndication is gaining acceptance as an important element in a balanced portfolio.

The average syndicate combines a degree of capital growth with interest income to give an above average return.

"The investment is secure as it is a stake in a fixed commercial or industrial property which has a net worth on realisation at least equal to the value of the investment.

"One should consider syndications as an inflation hedge. The average syndicate can be expected to yield a combined compound income and capital return of a least 21,5% before tax and about 16,5% after tax, based on a marginal rate of 44%," says Steinberg.

Comprises

Gearing — which is borrowing a percentage of the investment (usually around 50%) — will also see returns of over 20%.

He says return in a syndicate comprises two elements — an income return and a capital return.

The income return is derived from the capitalisation rate, which will be around 10%-12%, depending on the property.

"This will grow with the escalations in the leases which also range from 10%-12% a year.

"Renegotiation of the leases to the property, usually after five-year option periods, can see rental, and thus income to shareholders, jump higher than this if leases are operating at below market rates."

The second element is a capital return, which is the growth in value of the investment.

"Property syndications can suit a range of investors' needs — from those who want to maximise income, to those wanting to maximise capital growth.

AVI's performance continues to improve

LIZ ROUSE (180)

ANGLOVAAL Industries share price has staged a remarkable performance since 1986, with new highs reached early in 1991. It is now at R90.

Except for the short period in 1989 the share of the Anglovaal group's industrial arm has outperformed the industrial index and major industrial groups such as Barlows and Malbak.

Improved earnings (although modest) on a relative basis, especially in a climate of slower growth, appear to have been the catalyst for the past year's price performance, says Davis Borkum Hare analyst Pierre Greyvensteyn. 610 ay 19/3/91

At R90, AVI's price earnings multiple (currently 12) has moved into a new high territory, last seen in 1987. A similar pattern has emerged in respect of the dividend chart (current dividend yield is 1,5%).

Since 1989 both the price-to-earnings ratio and the dividend yield relative to the industrial index have shown increasing strength.

The share has become expensive compared with historic yields (in 1986 dividend yield was well over 3,5% and towards the end of 1989 it was above 2,5%).

Greyvensteyn expects that the share price may experience some consolidation in the short term. However, the long-term upward trend appears to be well entrenched.

Based on an earnings increase of 5% to 363c a share in the six months to December 1990, June year-end earnings should show a rise of 4,2% to 764c a share from 1990's 733c a share, while 1992 earnings should increase by 4,7% to 876c a share.

The estimated dividend total for 1991 is 140c, up from 1990's 135c, and a total distribution of 160c is expected in 1992.

Looking further ahead, Greyvensteyn forecasts an improvement of 15% at the attributable level for fiscal 1992.

Corporate videos gaining popularity

NEW trends in corporate videos have made the medium cheaper, more measurable and more disposable, says Max Katz and Associates director Max Katz.

He said in an interview the use of corporate and industrial videos had become far more specific.

In the past, a company would make a video which was expected to last a few years. B/Day 19/3/91

Now companies wanted to use videos for specific purposes, such as for talking to staff or specific clients, or to try and close a deal. (180)

Videos, which were generally from six to eight minutes long, were used to address management, staff and unions or to sell products.

With videos becoming more specific in their intentions and their targets, the medium was also becoming more measurable, he said.

Now that sanctions were likely to be lifted soon, more and more companies were communicating with overseas audiences through videos.

There had been an increasing number of requests for videos in German, Mandarin and other languages.

Ken Vernon reports on a meeting that may herald an African common market

Getting down to business

Star 19/3/91.

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IF the businessmen of southern Africa are really to get down to the business of doing business freely and openly, they are going to have to remove business from the clutches of politicians and bureaucrats.

That must have been the overriding message emerging from last week's first open meeting between South African and African businessmen, in Mbabane, after it was very nearly sabotaged by the sensitive egos of both governmental and non-governmental bureaucrats.

The Africa Sub-Saharan Economy and Trade (Asset) conference, "sponsored" by the SA Chamber of Business (Sacob), the SA Foreign Trade Organisation (Safto), the National African Federated Chambers of Commerce and Industry (Nafcoc) and BMW's Herbert Quandt Foundation (which picked up the tab), proved to be controversial even before it commenced when Swaziland's King Mswati failed to open the gathering as scheduled.

It seemed certain influential Swazi government figures and businessmen had been overlooked by the organisers.

Egos askew, they apparently whispered into the King's ear that — seeing he was current chairman of the Preferential Trade Area (PTA) grouping that bans business with South Africa — he should not be connected with the Asset conference.

The next hiccup came when the Nafcoc delegation, led by the organisation's president, Sam Motsuenyane, reportedly left in a huff because a rival organisation — the Foundation for African Business and Consumer Services — was given too much prominence.

The conference sub-title, "Scenario for a sub-continent", seemed about to take on an ominous and all too familiar meaning.

But as the bureaucrats tossed their curls and left, the businessmen got down to business.

At tea breaks, at the bar, over dinner, on the golf course, businessmen were making contacts and making deals. Brochures appeared as if by magic out of dark business suits (is that why they are called business suits?)

South African and African businessmen doing business is, of course, nothing new.

Such business is reportedly already worth an estimated R10 billion a year, having almost doubled in the past two years.

However, this business has previously had to be conducted under the table. The aim of the Asset conference was to promote such trade as it emerges increasingly into the light by bringing together key personalities in the region to evaluate opportunities and deficiencies in areas such as transport and communications, human resources, technology, etc.

In fact the discussions mainly revolved around the generally accepted need to form a southern African common market.

That many of the so-called key personalities who were needed to discuss this theme decided they could not attend for various — mainly political — reasons, gives an inkling of the problems the region faces if it decides on an economic merger.

Yet, not unexpectedly, all of the participants seemed to agree that closer co-operation of a formal nature seemed both necessary and desirable if the region was to develop, prosper and, more importantly, become viable enough to financially combat other regional economic giants such as the EC, the US and emerging common markets in Asia and South America.

There was universal agreement that South and southern Africa needed each other, that the region needed to "harmonise" its efforts in every endeavour.

"Serious attention needs to be focused more on regional co-operation and development that will ensure the optimal utilisation of the potentially enormous natural and human resources in the southern African region" said Mr Motsuenyane — before he left.

His words were echoed enough times to make one suspect that a common speech writer had been hired by many of the speakers.

But while many of the problems of the southern African region were enumerated, and while what needed to be done was identified over and over, no concrete plans for action were proposed.

One of the few positive suggestions for immediate action was made at the beginning of the conference by BMW chief Reinhard Kunstler, who suggested that the existing regional trade organisations, the Southern African Development Co-ordination Conference, the PTA, the Common Customs Union and others, should merge to avoid duplicating efforts in building a united economic front.

What he did not mention was that each of these competing organisations in fact represents a strong and entrenched self-interest group whose interests ironically might best be served by maintaining the distinction between South African and African business.

It is thought that this conference will be just the first of many future conferences addressing different aspects of regional co-operation, and a coming together of regional "trade" organisations might be a valid next choice if bureaucratic hurdles are to be successfully jumped by businessmen.

The question of whether or not the first Asset conference was a success will only be answered in future years, but everyone one I spoke to agreed that the Swaziland get-together had been a necessary event — the first step in what appears to be a very long and rocky road towards a southern African common economic trading bloc.

Meanwhile, back in the bar, the businessmen are busy getting down to business. — Star Africa Service. □

NEWS FOCUS

No secret about the plan for tomorrow

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B/Day 20/3/91

KEVIN DAVIE

ONE of this country's worst-kept secrets is the confidential Old Mutual and Nedcor scenario plan for SA.

The Cabinet, politicians, businessmen and editors have been briefed, there have been some reports on the plan, and aspects have been publicly criticised by Anglo chairman Julian Ogilvie Thompson.

Yet the plan, which so far has been presented in lecture form only, is still to be completed as a written document. Nedcor sources say they expect it to be released next month, while an Old Mutual source indicates there is no timetable for the publication of the plan.

The major thrusts have already been aired by Ogilvie Thompson, at Sacob's southern Transvaal regional conference last weekend, by Azapo, and by the Labour Research Service (LRS), a Cape Town-based service used mainly by the trade union movement.

The chief architect of the plan is a Frenchman, Pierre Wack, who has made a name for himself as one the world's foremost scenario planners. Shell and Anglo have used his expertise, the latter study resulting in Clem Sunter's celebrated "winning nation" scenario.

The main difference between the Anglo and Old Mutual/Nedcor scenarios is that the latter details what must be done within the next few years to get on the high road of economic growth. The Anglo scenarios dealt with the same issues, but in general rather than specific terms.

SA's downside potential is an African version of Beirut, according to the Old Mutual/Nedcor scenario. Massive interventions are needed now to prevent this. If successful, the plan would create hundreds of thousands of jobs and boost GDP growth by several percentage points.

The planners believe SA will have its new constitution by 1994/95, but argue that a two-stage solution needs to begin now for the new negotiated order to succeed. The first depends on a kick start to get the economy going, the second involves consolidation to change into higher gear.

Skills

The kick start has four parts:

- ☐ The provision of housing on a massive scale. The plan calls for 200 000 houses to be built and 400 000 serviced sites to be provided every year until 1995. Government would spend R2,4bn annually in subsidies, and financial institutions a further R2bn;
- ☐ The electrification each year of one million houses with pre-payment meters, at a cost of R2bn. The housing and electrification components of the package will add an estimated 3,5% to GDP;
- ☐ The restructuring of education to provide state-funded compulsory free primary education and a state/private sector partnership to fund skills-orientated secondary education. Participating companies would get tax breaks to encourage investment in skills training; and
- ☐ The creation of a community-based, government-funded jobs corps to provide work for the lost generation. Accommodation would be provided, there would be a small wage, and training in building and other skills would be given.

The gear change, or phase 2, calls for the restructuring of the economy to push manufactured exports.

The Bargaining Monitor of the LRS says the plan depends on social compacts (peace treaties) to succeed. Unions will have to sign these compacts with companies and the state. Strikes need to be reduced, there will have to be wage restraint, and violence will be banned.

● OGILVIE THOMPSON

Communities must likewise agree not to launch boycotts. Ogilvie Thompson said at the weekend the Old Mutual/Nedcor planning team believed SA could not rely on foreign capital and needed forced saving. Further devaluation of the rand was required to encourage exports.

He said the proposals "were compatible with the general direction government and business are already taking. Both conclude that much greater social investment has to take place despite a tight economic policy and environment."

But Ogilvie Thompson said while he broadly supported the proposals, he did have some criticisms.

One was that the analysis tended to regard SA's mineral resources as a burden, as they have retarded potential developments elsewhere.

He said the appropriate mix for SA should be the efficient further development of the minerals sector, including beneficiation where possible, and complementary efforts to develop manufactured exports.

Oglivie Thompson said problems could arise from stressing the need for forced saving rather than mass consumption, which was needed to achieve a larger domestic base.

Another problem was that currency depreciation and lower interest rates would have inflationary implications: "Social compacts in this scenario may be difficult to achieve."

A further criticism made by Ogilvie Thompson is of the suggestion by the planners that there should be a return to prescribed investments, although at market-related rates.

Rejoining Africa is fraught with difficulties

B|Day 20|3|91

TIM COHEN

THE recent Scenarios for a Subcontinent conference in Swaziland — the first time representatives from 14 African states publicly met SA businessmen in 14 years — began on a pessimistic note. From there things got steadily worse.

The conference, the first of a series, was aimed at providing mostly SA businessmen with an understanding of regional issues in view of SA's imminent return to the international arena.

The meeting comes at a time when there has been a surge in trade between SA and countries in the region. As a result, it elicited a high level of interest from SA businessmen who will soon need to grapple with some of the intricacies of regional co-operation.

The conference demonstrated, more graphically than the organisers had hoped, that the process of reintegrating SA into the region will not be quite as easy as some had thought.

This is because Africa is undergoing a crisis of monumental proportions.

Also, SA businessmen are not yet accustomed to dealing with African governments. It is clearly something which will require more care and understanding than was shown at this conference.

Whether the conference organisers were victims of an internal Swaziland power struggle or whether some aspect of diplomatic protocol was breached is a moot point. But the fact is Swazi King Mswati III and Swazi Prime Minister Obed Dlamini pulled out of their conference commitments at the last minute.

To make matters worse, the five-person delegation from the National African Federated Chambers of Commerce and Industry (Nafcoc) — co-sponsors of the conference with the SA Chamber of Business (Sacob) and the SA Foreign Trade Organisation (Safto) — pulled out the next day.

Either the walkouts were the result of an unseemly degree of petulance on the part of the parties not fulfilling their commitments, or they were the result of a not entirely uncharacteristic degree of insensitivity on the part of the white SA businessmen.

An opening pessimistic note was provided by the London School of Economics and Political Science's Christopher Coker who did not use the phrase "Afro-pessimism" but clearly subscribed to the idea.

The 1980s were a "catastrophe" for Africa, and Europe no longer felt implicated in its predicament, he said. Regional development was not possible; only some kind of regional rehabilitation.

Unfortunately, much of the available evidence is on his side.

EC funding for southern Africa declined in real terms by 30% last year. The UK, for example, was divesting from the region on an unprecedented scale, Coker said.

One third of British companies had divested from sub-Saharan Africa since 1985.

Other states in the region were structurally different from SA, which had a vast array of trade tarrifs, exchange controls, licencing systems, and zoning arrangements.

Coker's negativity was balanced by African Development Bank vice-president Adewale Sangowawa, who said that contrary to the gloomy predictions forwarded, he was optimistic African economies would emerge stronger and buoyant after the reforms underway in the region.

Increasing regional dialogue was taking place, political differences were being resolved and confidence was growing, Sangowawa said.

Sacob deputy president Hennie Viljoen called for "open frontiers" and said the time had come to start breaking down those divergent political barriers that could influence co-operative business efforts.

180 20

The conference was billed as "historic", mainly because of the delegates' high standing. Representatives from the SADCC, the Preferential Trade Area and influential businessmen and bankers from Zimbabwe and west Africa for the first time attended a conference organised by SA.

To the extent that it exposed SA businessmen to their counterparts, the conference was a success.

But the desire expressed by Safto CE Wim Holtes before the conference that "some kind of communication structure" would emerge appeared further away after the conference than before.

In fact, communication emerged as a major difficulty, both in the broader sense because of the pullouts and in a more immediate sense.

For example, the hotel's phones did not work.

The conference was billed as a "Scenario for a Subcontinent". One can only hope it was not.

On the frontier of a new South Africa

ALRODE South has emerged as a successful microcosm of the new South Africa, with a mix of black and white industrialists, says Investron MD Allan Goldring.

The township was one of the first white industrial areas to obtain exemption for black ownership under the Group Areas Act.

Consequently, as a mixed society laboratory it is further down the road of evolution than most other industrial townships.

"Black entrepreneurs in black townships face many problems," says Mr Goldring.

"They range from the limited size and availability of premises to the reluctance of white-owned businesses to deliver raw materials into a black township."

Policy

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A specialist industrial land salesman in the Investron group, Charles Ntuli, puts the situation into perspective:

"I worked for a large oil company for nearly eight years.

"They had a policy of encouraging business with blacks.

"In keeping with that, I generated business for a township stationery supplier.

"But when I went on leave none of the white employees would venture into the black township, and the project failed."

When it comes to opening industrial townships to all businessmen, the game is definitely worth the candle.

Major benefits accrue to the black businessman. These include:

- Substantially reduced finance and insurance rates;
- A disruption-free working environment;
- Good transport links;
- Proximity to markets;
- Access to new ideas in technology;
- Ease of marketing.

"The unrest in the black townships has impacted heavily on businessmen based there, despite their efforts to appear politically neutral," says Mr Goldring.

"They are eager to vacate the townships.

"The publicity surrounding the opening of Alrode South elicited a prompt response, from entrepreneurs ranging from panel beaters to distributors, and from small tool repairers to investors interested in erecting buildings to lease."

Today, investment by black businessmen in the area amounts to about R2,5 million.

In an effort to make the transition easier, Investron runs seminars aimed at introducing blacks to factory ownership and land-related issues.

"Black businessmen are often very knowledgeable in their own fields," says Mr Goldring.

"But as industrial land has not been available to them on a freehold basis in the past it is necessary to upgrade their know-how.

"Some prefer a complete package, including fully serviced factory space, bank finance, and so on.

"The micro-industrial parks cater for this market sector.

"They serve as a stepping stone from a semi-subsidised environment such as that provided by the Small Business Development Corporation to one of total independence," he adds.

According to Mr Ntuli, black entrepreneurs are immensely attracted to the concept of ownership.

"They understand the benefits of appreciation in the market value of premises," he says.

And the response of white industrialists in Alrode South has been "surprisingly positive", says Mr Goldring.

"Many saw opportunities to do business, for example by sub-contracting work.

"And it's now becoming fashionable to be seen to be doing business with blacks.

"It's good for the corporate image to become part of the changing ideals in the New SA," he says.

Common ground

It is not all whitewash, however — Mr Goldring says he can cite numerous cases of white businessmen assisting their black counterparts with, for instance, legal matters and tenders.

"Business offers much more common ground and fewer opportunities for cultural conflict than could arise in a residential area, for instance," he says.

"Entrepreneurs share common goals, regardless of race."

Standard of stock handling criticised

Star 20/3/91

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By Paula Fray
Consumer Reporter

Consumers ultimately pay the cost of "disgraceful" handling of stock in stores, Grocery Manufacturers Association executive director Jeremy Hele told a distribution and logistics conference in Johannesburg yesterday.

An estimated R150 million a year was wasted by the industry if a conservative return figure of 1 percent was taken, Mr Hele said.

This could pay for 1 000 new hospital beds a year or schools for about 30 000 children, he added.

Addressing the South African Production and Inventory Control Society, Mr Hele said the disgraceful standard of stock handling and the almost criminal lack of any concern for the condition of products in store was based entirely on the fact that the manufacturer could be forced to pay for stock returned after it has been delivered and accepted.

Wasting

"This is naturally costed into the price charged to the retailer and ultimately paid for by the consumer," Mr Hele said.

"If we take a conservative return figure of 1 percent (many manufacturers average as much as three times that figure), this represents a figure of R150 million a year that the industry is wasting.

"Stock, once delivered and accepted in good condition, belongs to the purchaser. If this is accepted, then wastage figures in consolidated distribution are reduced to the almost non-existent figure which chains like Tesco in the United Kingdom report," Mr Hele said.

Demands were made on manufacturers to pay a "swell allowance", which was an amount of anything up to 2 percent of turnover. For this the retailer agreed not to claim for the stock damaged in his store.

"It is no more than a payment for a quantified level of inefficiency," he said.

Pharmacists can charge for advice

Star 20/3/91

Own Correspondent

DURBAN — Pharmacists are to be allowed to charge a professional fee to customers asking for medical advice, Pharmaceutical Council vice-president Don Sutherland has announced.

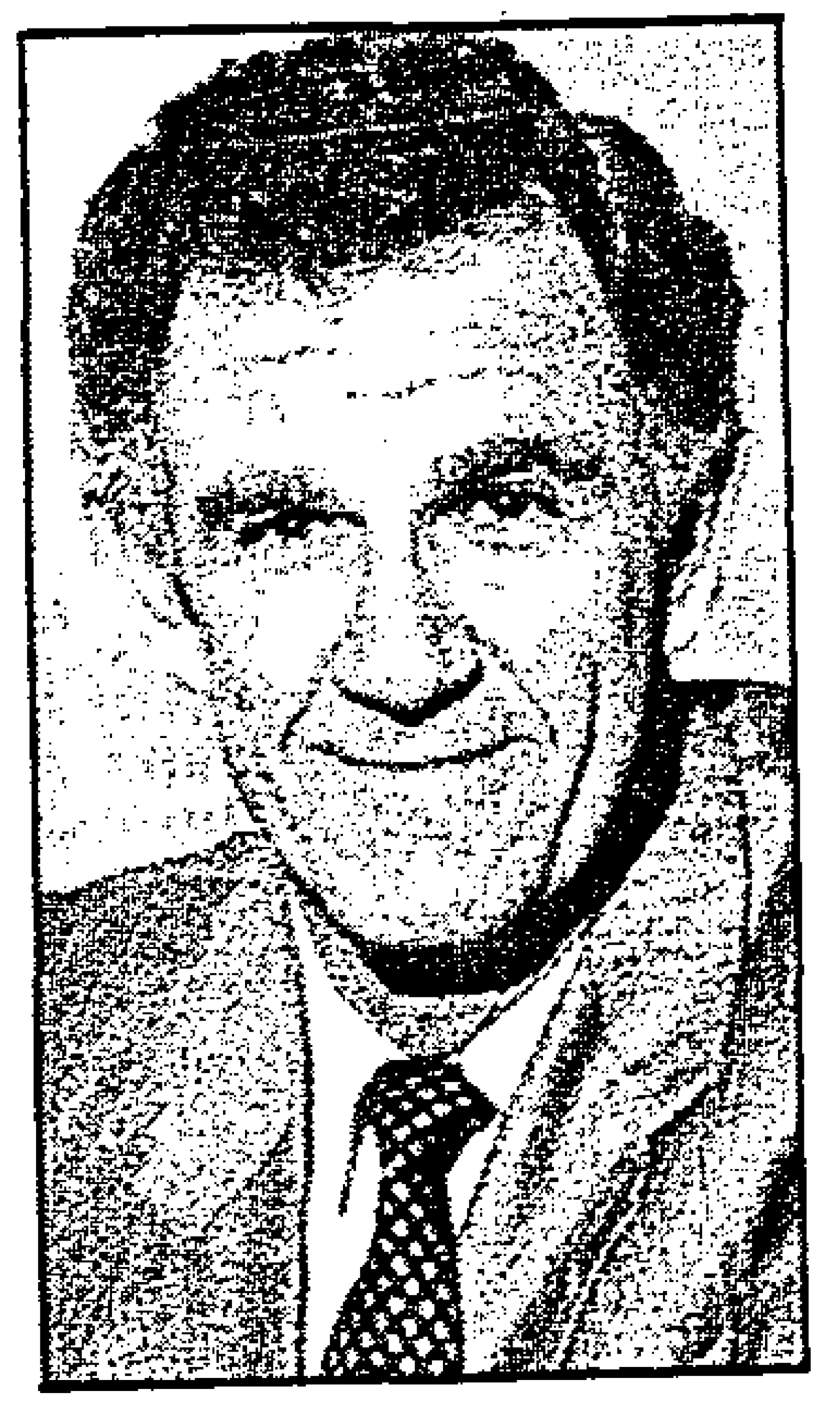
Speaking at the annual meeting of the Association of Retail Pharmacists, Mr Sutherland said the flexible fee would be added to the cost of any medicine which might be necessary.

Entitled

"Pharmacists, being professionals in medicine, will now be able to distinguish themselves from traders in medicine," he said.

The matter has been finalised by the Pharmacy Council. Final documentation will be sent to pharmacists in the near future, but the council believes that a pharmacist "is entitled to a just and reasonable remuneration for any professional services rendered".

The practical implications are that the council will no longer, by way of regulation, restrict the pharmacist to a professional fee of R1,30 up to R2,25 (at present built into the cost of prescriptions).



Don Sutherland

Mr Sutherland said pharmacists could charge for "logistical functions, processing of prescriptions and dispensing as well as for advisory and informative functions".

He added that the move "does not mean that getting medicine from the pharmacist will necessarily cost more than before, because what he now charges for a professional fee may be countered by not taking a profit on medicine if he so wishes".

Mr Sutherland also announced that pharmacists, "in a bid for survival", would take their plight to Minister of Health and Population Development Dr Rina Venter this week for arbitration and possible amendments to their legal and professional rights.

He said there were now 5 713 registered dispensing doctors in the country and 5 820 pharmacists.

"This is just not acceptable. The growth in the number of dispensing doctors has risen about 10 percent every year for the last five years while the increase in numbers of pharmacists was only about 4 percent over the same period."

Sweeping

A meeting was held on January 25 between the Pharmaceutical Council, the Minister of Health and the Joint Parliamentary Committee on Health.

At this week's meeting between the Pharmaceutical Council, the Minister and the Joint Parliamentary Committee on Health, sweeping changes could be approved by the Minister.

These may include the granting of legal rights to pharmacists to prescribe more scheduled drugs.

R36-m payout for troops on both sides of Namibian war finalised

WINDHOEK — Finality has been reached on the payout of R36 million by South Africa to former combatants, from both sides, in the Namibian bush war, Dieter Petzsch, spokesman for the South African mission in Windhoek, said yesterday.

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Divided

He said an amount of R12 million had been paid into Namibia's Standard Bank — because it had the largest distribution of branches — to be divided evenly among 9 000 former members of the SWA Territory Force and Koevoet paramilitary police unit.

Payment would begin on April 2 to a verified list of beneficiaries.

South Africa's representative in Namibia, Riaan Eksteen, on Monday handed Namibian Foreign Affairs Minister Theo-Ben Gurirab a cheque for R12 million to be paid out to former members of Plan, Swapo's military wing. Plan and the South African-led SWATF and Koevoet units engaged in a 23-year bush war before Namibia's independence last March.

A third amount of R12 million was being kept in a contingency fund for which the details were still being worked out, Mr Petzsch said.

The payout affects only former fighters who were demobilised before independence.

He said South Africa had planned, before independence, to make a payout to SWATF and Koevoet servicemen.

"At independence President Sam Nujoma asked President de Klerk quite specifically if Plan members could also be accommodated," Mr Petzsch said.

Pledged

The R36 million includes the R25 million pledged by South Africa to assist Namibia at an international donors conference held in New York in June as well as the amount earmarked for former Koevoet and SWATF members. — Sapa.

Lower tax on companies reflects growth policy

B/Day 21/3/91

180

BUDGET 1991

ROBERT GENTLE

THE company tax rate was reduced from 50% to 48% in line with government policy of creating a suitable climate for investment, growth and job creation.

The 2% cut, which Finance Minister Barend du Plessis called the first step towards a goal of a company tax rate of 40%, will result in an estimated revenue loss of R368m.

The Budget also saw the tax rate applicable to long-term assurers fall from 45% to 43% — in line with the top marginal rate for individuals. The estimated loss of revenue that will result is R10m.

However, Du Plessis cautioned that the effective tax rate of companies would rise because of phasing out tax concessions related to the LIFO (Last In First Out) reserve and other areas.

The tax cut was welcomed across the board, although it emerged that the expected effect varied from company to company.

Evert Groeneweg, financial director of industrial group Barlow Rand, said: "It will help in terms of cash flow. But the real effect will only be felt next year when we pay in the tax."

Granite exporter Marlin's financial director Ian MacMillan said it would not have that great an impact as Marlin's tax bill was already quite low because of tax concessions related to exports.

Leisure group Interleisure's financial director Rob Smithyman called it "very good news" and said it was particularly well-timed.

This was because the group would soon be paying a lot of tax after years of tax concessions related to film productions.

"It could make a difference of R1m to our bottom line," he said.

Asked whether 2% was enough to stimulate investment and job creation, Smithyman said: "It is an added incentive — a nice start."

A statement by the Steel & Engineering Industries Federation of SA (Seifsa) said the measures would have a deflationary effect and help make SA manufacturers more competitive both locally and internationally.

Most tax experts welcomed the move.

However, they doubted whether 2% was enough to stimulate growth and investment right away, and said even the targeted 40% rate was higher than that of most Western competitor nations'.

Arthur Andersen tax manager Peter Todd said: "In the UK, for example, it will be 33% — about the same level as in the US."

Deloitte Pim Goldby tax partner Anne Pappenheim said the 2% reduction had narrowed the differential between company tax and individual income tax rates — which companies could exploit at the expense of the exchequer — from 6% to 5%.

"This is a step in the right direction," she said.

Life Offices Association (LOA) chairman Mike Levett said the industry was disappointed the Budget made little progress towards the full implementation of the trustee principle that was agreed to by government in 1989.

He said the industry was particularly disappointed that tax on dividends received by life offices had not been scrapped.

Anglovaal Insurance Holdings group CE Brian Benfield said he welcomed government's decision to reduce the rate of tax for life offices by two percentage points to 43%.

However, he expressed concern that the authorities had not made any move to let life offices deduct full expenses before taxation.

The industry is currently allowed to deduct 55% of expenses.

US companies still cutting ties with SA, survey shows

B/Day 21/3/91 (180)

SIMON BARBER

WASHINGTON — US companies are terminating licensing and distribution agreements with SA at a record pace under pressure from local governments, even though disinvestment has come to a virtual halt, the Investor Responsibility Research Centre finds in it latest annual survey of US business in SA.

Ten firms either severed their non-equity ties with SA or allowed them to expire over the past year. At least five more told IRRC they planned to follow suit in the near future.

In several cases, the companies severing their ties were UK firms which had recently come under the control of US corporations.

The principal reason appeared to be the selective purchasing laws on the books in 49 US states, cities and counties. Many of these ordinances, which are likely to long outlive federal sanctions legislation, penalise indirect relations with SA as well as direct investment.

Ten companies disinvested in 1990, down from a peak of 57 in 1987, leaving 106 US concerns with either direct investment or employees in SA.

Firms that told IRRC they expected to sever their non-equity ties this year inlcuded General Electric, GTE, Maytag, Thermo Electron and Xerox.

Xerox required its 51%-held UK subsidiary Rank Xerox to terminate its distribution agreement with the Altron Group's Fintech/Xeratech by July. It told IRRC that "one of the important factors ... was the recent passage of legislation in several US cities that are customers of Xerox".

General Electric sold its three SA subsidiaries to local management who formed a company called Genwest Industries in 1986, which was licensed to continue producing GE products. This and other agreements will not be renewed when they expire this year.

In addition, Mobil, which sold out to Gencor in 1989, said that as of December last year "discussions have begun which will lead to the discontinuation of the use of Mobil trademarks".

The firms that ended their non-equity links last year were listed by IRRC as: Bently Nevada, Bicoastal (formerly the Singer Co), Chadwick-Helmuth, Dana, Dell Computer, Goulds Pumps, Informix, Motorola, Reynolds and Reynolds and Valmont Industries.

AIDS move wins Namda's praise

PATRICK BULGER

THE National Medical and Dental Association (Namda) yesterday welcomed the ANC's decision to take up the issue of AIDS, saying the ANC could eradicate perceptions that AIDS was a race-based disease.

Namda publicity secretary Diliza Mji said the ANC's intervention was important because it commanded respect among oppressed and disadvantaged communities. B/Day 21/3/91

The ANC recently announced it would help deepen AIDS awareness as part of its signature campaign for a constituent assembly and interim government.

Namda said: "Because of the politicisation of population control methods by the apartheid government, many of our people have understandably been suspicious of the campaigns of the Department of National Health and Population Development."

Mji said: "It is exactly because it is an illegitimate government that all attempts by the SA government to get involved in the prevention of AIDS have failed."

Exiles' return delayed pending move on UN

B/Day 21/3/91

PATRICK BULGER

A COMBINATION of fears for exiles' safety after their return, a shortage of funds and logistical problems resulted in today's second planeload of exiles from Zambia being called off.

Home Affairs chief director of immigration Mike Bester said he had been in contact with the ANC and that the postponement of the flight — scheduled to bring 110 exiles back — was being seen as an "organisational hiccough".

He said 3 000 extraordinary travel documents had already been issued.

The National Co-Ordinating Committee for the Repatriation of SA Exiles (NCCR) cancelled today's flight, saying it wanted a decision from government on whether the UN High Commission for Refugees (UNHCR) would be involved.

The NCCR was expecting Cabinet to discuss the issue yesterday.

An NCCR spokesman said the organisation was short of funds and was experiencing logistical problems.

The Africa News Organisation reports from Lusaka that ANC national executive committee member Sindiso Mfenyana yesterday urged government to grant full indemnity and provide exiles with extraordinary travel documents so that they could start returning home.

Government should remove all the obstacles that had hampered the repatriation and release of all political prisoners.

Mfenyana warned that if the agreement on preconditions to negotiations was not met by the end of next month, the ANC would have to review its future course.

The UNHCR should be allowed to participate in the repatriation of exiles and be able to monitor their stay in SA, he said.

He rejected government's insistence that the UNHCR be limited only to the transportation of exiles.

Mechanisms set up by government had made it impossible for further exiles to leave for SA but the next group of returnees would depart next week.

Meanwhile the Canadian Embassy yesterday announced a R100 000 contribution to the NCCR.

The embassy said the donation was partial fulfilment of Canadian Prime Minister Brian Mulroney's undertaking to donate R13m to the repatriation programme.

It said the balance would be allocated once final operational arrangements for the repatriation programme were known.

Blacks happy about opening of new areas

Sowetan 21/3/91 (180)

By ALI MPHAKI

THERE is great excitement among black entrepreneurs now that they can acquire industrial land anywhere in South Africa.

Few have had the opportunity to own their own factory - unless they were fortunate enough to obtain a permit under the Group Areas Act in a limited number of townships.

Many black entrepreneurs had until now had no option than to rent, often premises that were too small, far from markets and transport, without adequate electricity and security.

Alrode South, near Alberton, already has severfal black industrialists who have established their factories in the area.

This area was opened to purchase by black industrialists in March last year.

However, just what does ownership of a factory involve financially? The Investron Group has provided *Sowetan* with the following example.

Land (in Alrode South) costs R90 000.

Building 500 square metres including two offices, one ablution block, one staff toilet, one tea kitchen and roller shutter door would cost about R312 000.

Expenditure so far is R402 000.

The deposit for this amount is R100 000 and the bond at 21 percent R302 500.

The monthly repayments for the bond would be R5 378.

Additional expenses would be: transfer and bond costs (R8 000), municipal connections (R18 000), plans and submission fees (R5 000), a total of R31 000.

Various tax advantages are available to the purchaser, especially if the building is used for manufacturing.

Value of goods produced falls

180

Sowetan 21/3/91

THE shrinking of the economy in 1990 was now estimated at slightly less than one percent, with the value of goods produced by each worker falling by about three percent in 1990 after being unchanged in 1989, the Minister of Finance, Mr Barend du Plessis, said in his Budget review tabled yesterday.

He said agricultural production had fallen continuously since the third quarter of 1989 as a result of poor weather. This had led to a fall in the wheat harvest in the fourth quarter of 1989, followed by a fall in maize production. The wheat production once more fell in the fourth quarter of 1990.

"The upshot was that agricultural production in the fourth quarter of 1990 was about 23 percent lower than the high point in the third quarter of 1989."

Although real mining production did not fall to the same extent as in agriculture, a sharp downward trend was discernable since the fourth quarter of 1989. The real value added by the mining sector fell 1,5 percent in 1990.

Reason

"An important reason for this poor performance was a conjuncture of factors that adversely affected the gold mining industry.

"These factors included sporadic labour unrest, a fall in the average gold content of the ore crushed, a long-term problem of rising production costs and the recent more stable exchange rate of the rand.

"There were also declines in the production of most other mining sectors, with the exception of coal, iron ore, manganese and other non-metallic products, which rose as a result of firm overseas demand."

The total real value-added in the manufacturing sectors fell by 1,5 per cent in 1990. This could be ascribed mainly to a decline in manufacturing production, which was related to a planned reduction in inventories by local enterprise.

"Manufacturers also had to grapple with strikes, stay-aways, the intimidation of workers and labour unrest."

Capacity use in manufacturing had fallen noticeably from a high of slightly over 85 per cent in the second quarter of 1989 to 81,5 percent in the third quarter of 1990. - *Sapa*

Proposed lending limits mean corporates can bypass banks

BDay 22/3/91

(180) 22/3/91

ROBERT GENTLE

THE Reserve Bank, in a major concession, has proposed allowing SA corporates to borrow directly from and lend short-term money to each other through the issue of tradeable commercial paper, without having to go through banks.

This process, known as disintermediation, will pave the way for a corporate debt market estimated at billions of rands and result in more competition for banks in the short-term lending market.

These developments emerge in the Reserve Bank's draft discussion paper released this week to the financial community for comment and eventual approval.

Corporates will be able to issue debt, including promissory notes, for three to 12 months, and debentures for periods exceeding 12 months.

However, the very short end of the debt market — 0-90 days — will still remain the exclusive preserve of the banks because of Pretoria's stated desire to offer them protection.

"We do not want to see the 90-day BA market destroyed," said Registrar of Banks Hennie van Greuning.

The new three-month lower limit was widely acknowledged in the market to have been a substantial improvement over the initial two-year limit proposed in the initial position paper released last December.

At that time, corporates such as blue chip industrials and parastatals protested vigorously, saying their greatest funding needs were precisely in that two-year window from which they were being excluded.

"We welcome the three-month limit," said Eskom GM, finance, Mick Davis, adding that the electricity giant already rolled over about R3bn every three months in the money markets.

Although disintermediation would deprive banks of a portion of the lending business they do with corporates, initial reaction yesterday suggested that would not necessarily mean reduced income.

"What we lost on the lending side we would make up on the servicing side," said First National Bank assistant treasurer Mike Law, explaining that corporates would need banks anyway to act as issuing and placing agents.

Similarly, Allied Bank chief manager Tony Andrew said: "We don't see it as eroding our income, but rather changing the way it is earned."

Tom Makinson, chairman of the Association of Corporate Treasurers of SA welcomed the progress made to date, but said improvements were necessary.

Top companies invited to conference on exiles

B/Day 22/3/91

Business Day Reporter

THE MDs of 250 top SA companies have been invited to a meeting next month to discuss the training and employment of exiles.

Perm MD Bob Tucker initiated the meeting, according to the latest issue of Finance Week.

It will take place on April 25 at the Perm's head office, the financial magazine reports.

The meeting will examine ways to assist exiles and company representatives will have an opportunity to discuss the issue with the heads of political organisations' repatriation departments as well as the National Co-ordinating Committee of the Repatriation of SA Exiles (NCCR).

Companies invited reportedly include Volkswagen, Liberty Life, BMW, the PG Group, Nampak and Anglo American.

Anglo American spokesmen are on record as having expressed support for efforts to find exiles jobs on their return, but have also raised doubts about their ability to do so.

Skilled people would be placed if they met employment specifications, an Anglo spokesman said.

The Consultative Business Movement (CBM) is involved in the meeting. 180

Organisers

Invitations would be sent to the movement's 80 members, a CBM spokesman said last night.

Separate to the meeting, the CBM was trying to raise funds to pay the salaries of two full-time organisers, who would assist with the repatriation process under the auspices of the NCCR.

The two organisers, who would be employed for six months, would try to find exiles jobs and establish training facilities, the CBM spokesman said.

Open Mozambique lays down the rules for foreign firms

BDay 22/3/91

(180)

LINDA ENSOR

MAJOR SA corporations stand poised to take advantage of the opening up of the Mozambique economy to foreign investors. But hard bargaining will precede their involvement, as the Mozambican government has no intention of simply handing over the nation's assets.

Anglo American, Barlow Rand, Gencor's Trans-Natal and Sappi are some of those which have either concluded contracts or have begun feasibility studies for investment projects. Other interested investors await the signing of a peace pact between the Mozambican government and Renamo.

The civil war which has wracked the country and devastated its economic infrastructure has not, however, deterred the return of many who left at the time of the Frelimo takeover in 1975.

Yusuf Aboobakar, owner of a clothing shop in central Maputo, recently returned to the country after a 14-year absence. "I worked in Portugal, the US and UK but life is too expensive there. Life in Portugal is unbearable and many who left Mozambique at the time of independence are coming back," he says. Many Portuguese-speaking people who fled to SA are also returning.

One of the SA companies taking up opportunities is Sappi, which has finalised an agreement to develop 30 000ha of forest plantation near the Swaziland and SA borders. The timber will be exported mainly to its mills in either Swaziland or SA.

Barlow Rand CE Warren Clewlow confirmed the group was involved in discussions for the rehabilitation of large, state-owned cement factories and sugar mills. These discussions were at an early stage, Clewlow said.

A spokesman for the company said Anglo American had made proposals to the Mozambican government on its future involvement in the cashew nut industry, and was awaiting a response.

Anglo is also one of those interested in the coal deposits at the five Moatize mines in Tete province, in the vicinity of the Cahora Bassa dam. Trans-Natal is also interested in developing the coal mines and is busy with a feasibility study.

The Anglo spokesman said the corporation was "keeping in touch" with a pre-feasibility study for the development of the coal mines being carried out by the Mozambican government in conjunction with CVRD, the Brazilian state-owned mining company.

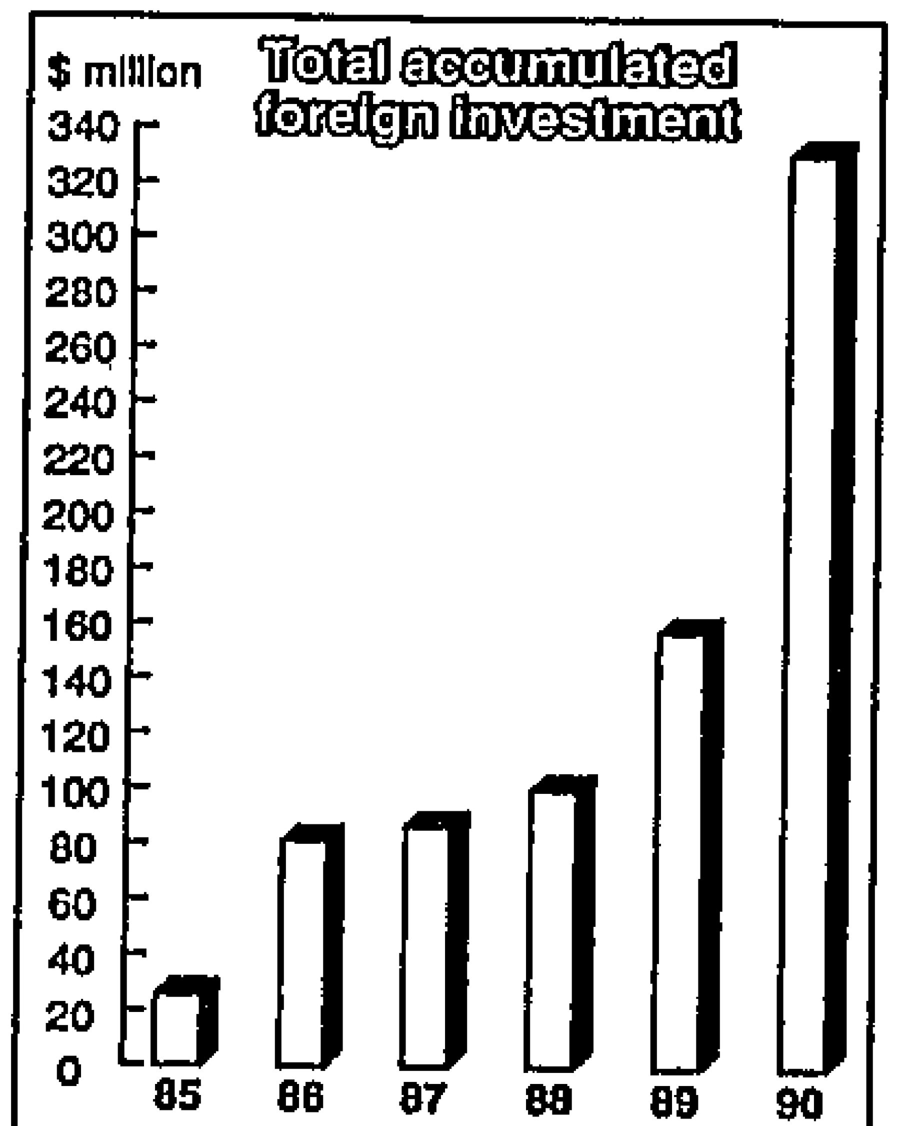
AECI conducted a preliminary feasibility study into developing the Pande gasfields for the manufacture of ammonia. However, a spokesman said there were no plans to proceed.

The Soviets have already conducted initial explorations at a cost of $700m and are looking at a joint venture with Mozambican, SA and other investors.

But while the Mozambican government has made it clear it welcomes and desperately needs foreign investment, it is equally adamant it will decide the terms.

Says Office for Foreign Investment Promotion director Augusto Sumburane: "We have been through colonialism and socialism and are now mature enough to know what we want. We will assure the investor of his profits, but this must be under agreed terms which are beneficial to both sides. We can offer the natural resources while the foreign investor can bring capital and expertise."

The emphasis will be on attracting foreign participation in rehabilitation projects through joint ventures, management contracts, long term leases and equity participation, with



Source: OFFICE FOR FOREIGN INVESTMENT PROMOTION, MOZAMBIQUE
Graphic: FIONA KRISCH

prime importance being given to Mozambican involvement.

An example is the joint venture entered into by Lonhro and the Mozambican government for the mining of gold in Manica province, which is expected to generate about $3m in export earnings.

This policy towards foreign investors is reflected in the attitude towards privatisation, which is on the government's agenda. At the time of independence the socialist government nationalised most of the economy. Now it is selling smaller companies to Mozambicans, while the fate of the larger ones is being evaluated by the World Bank.

Sumburane is reluctant to use the word privatisation which he says is open to ideological conflict. Instead he prefers rehabilitation: "We are not interested in privatisation for privatisation's sake. We see it as a commercial tool, and as only one of the options.

"Our aim is economic development and rehabilitation, and we have to be pragmatic and realistic in finding the appropriate means. The extent of foreign investment in each case will depend on the extent of the rehabilitation required."

Sumburane says the state has no intention of selling its assets outright to foreign investors. If its enterprises are sold, they would be sold to Mozambicans probably acting in concert with foreign partners.

"We want the involvement of foreign investors in the economy to be supported by the Mozambican people and for this they will have to see foreign investors as playing a supportive role, not ruling the economy and taking it over."

In terms of Mozambique's new constitution which introduces a multiparty democracy, the government's role is defined as a policy-making one, not business management. A variety of forms of ownership are provided for, namely state, private and co-operative. Foreign investors are assured of the security of their assets.

Recently departed SA trade commissioner in Maputo Bush Terblanche says the political changes in SA are making it increasingly acceptable for Mozambique to turn to SA for capital and expertise.

South Africans are also likely to benefit from the massive $1bn in aid which is being injected into the Mozambican economy.

A small example of a beneficiary is Pretoria businessman Ben Kriel who is selling about R3m worth of potato seeds and fertiliser to a World Bank financed agricultural scheme in Gaza province.

Terblanche says the Mozambican government is keen for SA farmers to lease agricultural land. Farmers are granted only occupational rights, but these are transferable and saleable. He says a lease of up to 50 years on farm land can be granted on "very favourable terms".

Agriculture is a priority for the Mozambican government which has signed a preliminary joint venture agreement with the SA Tea & Coffee Growers Association to grow tea in Zambesia province. Negotiations are also under way for cotton farming.

UK-based conglomerate Lonhro is Mozambique's largest single private investor. The UK has the largest percentage (30%) of total foreign investment, followed by the US (20%), Holland (14,3%), SA (12,6%), and Portugal (9,3%). As at December 31 approved accumulated foreign investment was $330m of which $99,7m was direct foreign investment.

Apart from political instability, the unavailability of foreign exchange is also a constraint to foreign investment.

The government has a retention scheme which allows exporters to use their foreign exchange earnings, but this has been criticised because the progressive devaluation of the metical has meant companies have had to pay more to access the foreign currency credited to them.

The Mozambican government does not tax dividends and there is a tax exemption on all profits, lasting between two and 10 years, depending on the merits of a project. There could, however, be a tightening up of the tax holiday laws this year.

COMMERCIAL PAPER

FM 22/3/91

NEW GUISE FOR GREY MARKET

180

The tiny commercial paper and debenture market is expected to burgeon as it absorbs a large proportion of the grey market in intercompany lending, now outlawed by the new Deposit-Taking Institutions Act. "Until now, the paper market has been confined to short-term instruments issued and then held by banks," says Securities Portfolio Managers' Pierre Faure.

This has been changed by the Act, which came into effect last month. Deposits by subsidiaries with holding companies do not fall within its ambit, but deposits by associates and other non-subsidiaries do (excluding mining houses which have been exempted in the case of investment in mining ventures).

This brings those companies accepting the deposits within the definition of deposit-takers, making them illegal operators subject to prosecution.

The Reserve Bank is offering companies the option of continuing these funding transactions through commercial paper and debentures, a form of borrowing which will be exempt from the Act. The second draft of a discussion paper on this topic has been circulated for comment.

Proposed changes aim, firstly, to eliminate a "lacuna" in the Act, created by the treatment of debentures, which results in "circumvention of the Act."

In addition, says deputy Registrar of Deposit-Taking Institutions Christo Wiese: "The Bank has proposed guidelines under which debentures and commercial paper can be issued, which allow for specific exemptions from the Act."

If the proposals are implemented, corporates will be allowed to issue short-term paper and longer-term debentures, subject to certain provisions:

- That the paper is issued by a listed company with net asset value (NAV) of R100m (excluding intangible assets and taking into account off-balance sheet liabilities);
- Alternatively, that it is issued by an unlisted company with an NAV of R200m, complying with certain disclosure requirements relating to the issue of debentures; and
- Units have a minimum value of R5m.

Issues are also permitted by a subsidiary of a company which complies with these requirements and which binds itself "in writing, jointly and severally, in favour of the investors in such subsidiary."

Receipts of the issue must be earmarked for a specific project and not used directly or indirectly to finance credit extension. Paper is to be issued with a fixed term (three to 12 months) and at a fixed interest rate.

No restriction is to be placed on the identity of investors but only one investor may have a beneficial interest in "any one commercial paper at any single point in time." The paper may be traded and the issuers will be allowed to make a market in it.

Says Faure: "Markets in private sector commercial paper are massive in many industrialised countries."

He cites several reasons why the market has been inhibited here:

- Potential investors have been discouraged by the lack of rules and structures;
- There are comparatively few large companies capable of issuing and dealing in their own paper; and
- Lack of a rating agency.

"Now that the authorities are creating the framework for the commercial paper market and we have a ratings agency (see "Perspective on risk"), it has become a viable proposition," says Faure.

Tom Makinson, chairman of the technical committee of the Association of Corporate Treasurers of SA, points to inhibiting factors still in place.

"My initial response is that the second draft is a substantial improvement on the original proposals, which restricted paper to periods of not less than two years. But there is still a need in the 30-90 day area.

"Moreover, the Bank is prescribing who the triple A players should be by laying down minimum NAVs. There can't be many unlisted companies with NAV over R200m."

He points out that there are companies the rating agency may consider triple A, which will fall outside the parameters set by the Bank. "Why should they be excluded?" ■

INCOME TAX

FM 22/3/91

PHASING-OUT

In practice note 13, just released, Inland Revenue sets out the terms of phasing out the timing concession for finance charges, previously allowed under section 24 of the Income Tax Act. The new rules apply to suspensive sale agreements predating March 1.

For category A agreements (where the original amount does not exceed R500 000) the amount subject to phasing-out must be limited to taxable income (with a choice of years) after adding back the previous year's S24 allowance and deducting the unearned finance charge element for that year.

This amount must be phased out over 48 months, starting on March 1 1991, on a straight-line basis.

Category B agreements are those where the original loan capital exceeds R500 000. For category B1 contracts, under which the term at February 28 1991 is five years or fewer, the allowance will still be on the earlier basis, allowing finance charges, for a further four years, provided:

- No extension to the original period of contract will be recognised; and

Continue →

FUTURES CONTEST HOTS UP

The leader board in the second week of the Safia Futures Risk Management competition shifted dramatically. By March 17 Morkel Brink dropped from first to 10th place while John Cutten moved into the top spot to vie for the R50 000 prize sponsored by Rand Merchant Bank (RMB.)

With the JSE taking a breather, growth in the underlying portfolio is unchanged at 0,9% (27,4% annualised). But all top 10 contestants are easily outperforming the market.

Both Cutten (of Hayes Cutten) and Johnny Solms (Mechiel du Toit) have maintained long positions in Industrial index futures. In doing so they outperformed those who tried to take profits more frequently on intra-day positions.

Top contender for the *FM* Top Trading Desk trophy is now Standard Merchant Bank.

Its best two portfolios have an annualised return of 61,1%. RMB is second, Finansbank third.

HOW THEY RUN

		Absolute return %	Annualised return %
1	John Cutten, Hayes Cutten	3,87	117,7
2	Johnny Solms, Mechiel du Toit	3,68	111,9
3	David Rennie, private	2,92	88,8
4	Brett Stacey, National Futures	2,92	88,8
5	Mark Perkins, Greenwich Futures	2,52	76,7
6	Bruce Walker, Standard Merchant	2,31	70,3
7	Ray Cadiz, Rand Merchant Bank	2,10	63,9
8	Chris Greyling, DHSA	2,06	62,7
9	Herbert Peter, JCI	2,05	62,4
10	Morkel Brink, Genbel Investments	1,89	57,5

Business scores

180

By Tom Hood Star 25/3/91

More than R5 billion was given to companies in this year's Budget in a pump-priming bid to get the economy going and create more jobs.

Business will derive huge benefits from the introduction of VAT because VAT on capital and intermediate goods will be rebated fully, a saving estimated at R4 billion in a full year.

The 2 percent cut in company tax from 50 to 48 percent will cost the revenue R368 million.

Another R756 million saving for businesses will flow from the lowering of import surcharges on capital and intermediate goods.

The Governor of the Reserve Bank, Dr Chris Stals, described the concessions to the corporate sector as "most probably the major incentive for enhanced economic growth incorporated in this Budget."

The cost of replacing plant, machinery and other capital goods will be slashed by 13 percent. Businesses have had to pay 13 percent GST on their purchases but they will now get a refund of any VAT paid.

The concession will cut costs dramatically and help exporters and could help to lower inflation.

"This is a major concession and it will save millions and millions over a year," said Cape Town tax consultant Franco Vignazia at KPMG Aiken Peat. "It will reduce the cost of goods produced and encourage businesses to invest again."

The VAT zero rating of exports would make South African produced goods and services more competitive internationally.

SABS boasts increased income

GERALD REILLY

PRETORIA — The SA Bureau of Standards increased income last year by 18,4% — from R76,8m to R91m, according to the latest annual report.

Self-generated income increased 21% to R59m while the bureau's state grant was only 8,7% up to R31,9m.

Investigations, tests and services, its listing scheme, assessment services, consignment inspections, levies on compulsory specifications and permit fees paid were the main sources of self-generated income.

SABS director Jean du Plessis said the bureau had assisted industry to better exploit export opportunities created by the changing political climate.

Its greatest assistance to industry was the creation of internationally recognised quality systems.

And industry's acceptance of the systems was reflected in the growth of the SABS code of practice for quality management. (180)

More than 200 companies were on the bureau's listing scheme in the first eight years while 318 had joined over the past two years, Du Plessis said.

Du Plessis said the removal of international trade barriers in Europe next year would present SA exporters with a strong challenge to compete in European markets.

Successful competition however would be possible only if quality was guaranteed.

Company cars miss out on tax credit

B/Day 28/3/91 (180)

GILLIAN HAYNE

COMPANIES will not be entitled to claim an input tax credit on their company cars, although Finance Minister Barend du Plessis is allowing such credits on all other capital goods.

The decision is contrary to the recommendation by Vatcom, and tax experts expect the final legislation on company cars to be similar to the initial draft legislation.

Ernst & Young senior tax consultant Brendan Dardis said: "It is widely held that this incongruous treatment, compared with other capital goods, is a political move in sympathy with low income earners.

"The political argument is that if most basic foodstuffs are subject to VAT, it is surely inequitable for the labourer to be subject to VAT on most basic foodstuffs while the MD may claim an input tax credit on his company Mercedes-Benz."

The company making taxable supplies will, however, be able to claim an input tax credit on the running cost of the vehicle.

Dardis noted that the provision of a company car to an employee would constitute a fringe benefit, which is subject to VAT. The company would effectively have to tax itself on the value of the benefit (which is determined according to an as yet unpublished table).

"Whether the company chooses to recover the VAT from the employee is an internal decision," he added.

For businesses providing exempt services — such as banks and long-term insurers — no input tax credit may be claimed by the company on both the capital and running cost of the vehicle, but no VAT is payable on the value for fringe benefits either.

Whether the "executive" bakkie will remain eligible for an input tax credit will only be determined on the release of the final legislation.

For companies which prefer awarding travel allowances, such provisions are not subject to VAT.

Quality controls will be good for trade — SABS

Star 26/3/91

By Paula Fray

The South African Bureau of Standards' (SABS) greatest assistance to industry was the creation of internationally recognised quality systems, SABS director-general Dr Jean du Plessis said last week.

Commenting on the Bureau's annual review Dr du Plessis said local industry was clearly beginning to realise that the introduction of quality systems could make a large contribution to profitability.

Dr du Plessis said the Bureau's assistance in many areas enabled industry to exploit "export opportunities created by the changing political climate".

Thus their greatest help to industry was the creation of internationally recognised quality systems.

"The removal of internal trade boundaries in Europe in 1992 will present South African exporters with strong challenges to compete on the European market.

Successful competition would be possible only if quality was guaranteed," Dr du Plessis said.

Industry's acceptance of the role of quality systems as a guarantee of quality was reflected by the growth of the SABS code of practice for quality management.

"A total of 200 companies were listed over the first eight years and 318 over the past two years, 161 during 1990 alone," Dr du Plessis said.

Reviewing SABS activities for 1990, Dr du Plessis said the SABS had concluded a reciprocal recognition agreement with the German Association for the Certification of Quality Systems, a first step towards recognition of its listing scheme in Europe.

Dr du Plessis said industry's improved acceptance of quality systems, as well as the Bureau's greater market orientation and the expansion of its services, were reflected by the improved SABS financial statements for the year ended 31 March 1990.

The SABS's total income increased by 18,4 percent from R76,8 million to R91 million.

Self-generated income increased by 21 percent from R47 million to R59 million, while the parliamentary grant was only 8,7 percent more at R31,9 million (R29,4 million).

Investigations, tests and services, the listing scheme, assessment services, consignment inspections, levies on compulsory specifications and permit fees paid on a production basis were the SABS's main sources of self-generated income.

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(180)

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Corporate savings dip the first in six years

180 B Day 27/3/91

GRETA STEYN

CORPORATE savings dropped for the first time in six years in 1990, reflecting a soaring tax bill and sluggish profit growth.

Government's strategy to plug tax loopholes saw companies pay 31,5% more tax last year than in 1989, according to figures published in the latest Reserve Bank Quarterly Bulletin.

By contrast, profits grew a pedestrian 5% for the corporate sector as a whole.

Figures in the latest Reserve Bank Quarterly Bulletin show 1990 was a dramatic turnaround from 1989 when profit growth by far outstripped growth in companies' tax bills.

The effective tax on operating profits rose to 43% last year from 34,4% the previous year.

Loopholes plugged during the year included the phasing out of the "last in, first out" valuation of stocks, the inclusion of consumable stores in stock valuations and tightening of depreciation allowances.

Corporate savings, or retained profits, dropped to R9,8bn from R12,8bn.

By contrast, there was a dramatic turnaround in the savings performance of general government. After six years of being in the red, government notched up its first year of savings in 1990 (R1,7bn).

The savings performance of the personal sector improved in the fourth quarter last year. The ratio of personal savings to personal disposable income rose to its highest level since the first quarter of 1989 (2%).

At the same time, there was a dramatic improvement in personal disposable incomes in the last quarter of 1990.

In the face of a decline in GNP, disposable incomes grew by 1,3% (almost double the growth in 1989). The fourth quarter saw a major acceleration to an annualised quarterly growth rate of 6,7% from 1,1% in the third quarter.

Solid Malbak no help to Gencor

180

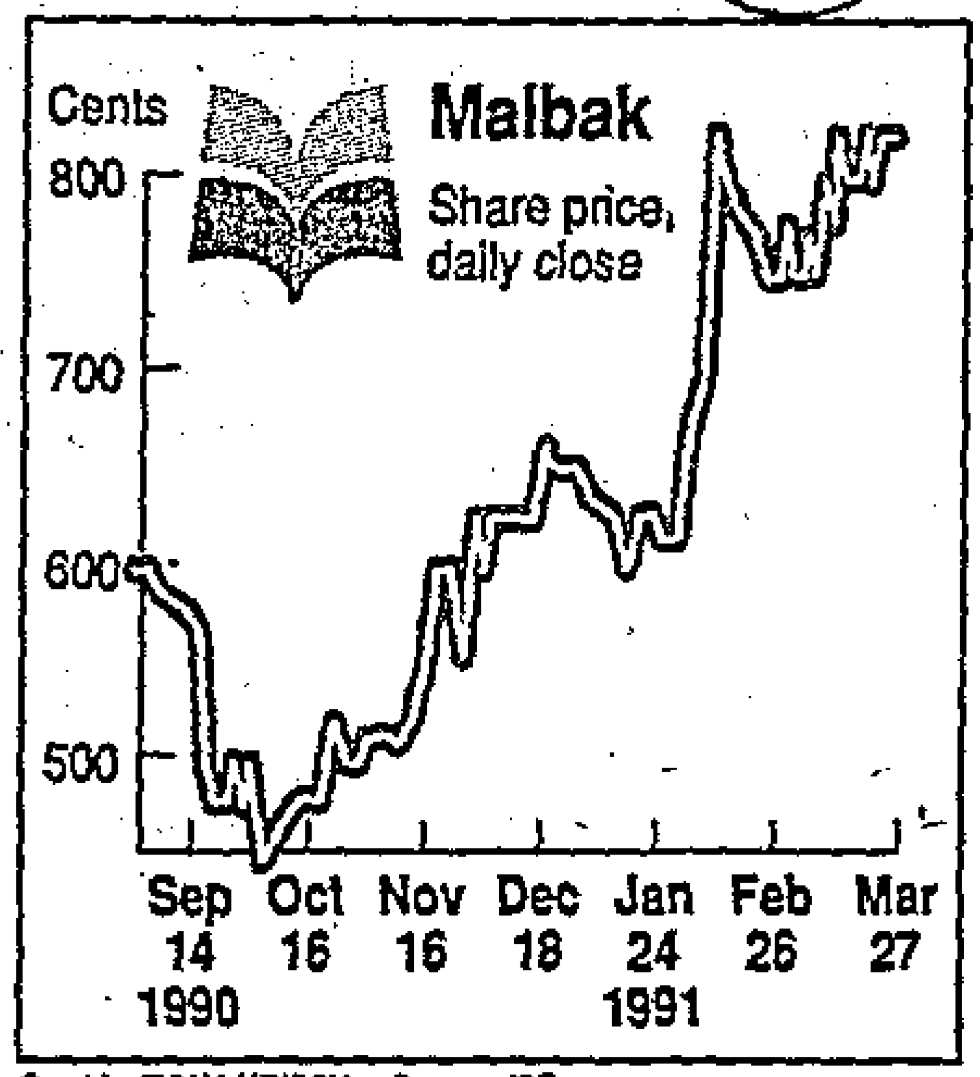
B/Day 28/3/91

MARC HASENFUSS

MALBAK's solid interim performance, which saw a 6% increase in earnings as well as a reduction in borrowings, would not be enough to stave off the small drop in year-end earnings expected for parent company Gencor, analysts said.

Analysts said Malbak contributed about 8% to Gencor's earnings, and would therefore not offset the predicted profit declines from larger contributors like Sappi, Samancor and Gengold.

Malbak's earnings lifted 6% to R118m (R111m) on the back of a 5% increase in turnover to R4,2bn (R4bn). The interim dividend was maintained at 12,5c a share, covered 4,5 times.



Graphic: FIONA KRISCH Source: JSE

Malbak executive chairman Grant Thomas said yesterday all Malbak divisions performed well in difficult circumstances, and the results reflected the success of disciplined management.

Thomas stressed the improvement in the six months to end-February 1991 was achieved without the benefit of major acquisitions or other substantial changes.

The interest bill was reduced to R89m (R91m), but a 2,5% increase in the tax rate following the utilisation of assessed losses in Darling & Hodgson (D & H), and additional tax on Ellerines, saw an 18% tax rise to R95m (R80m).

With the number of shares in issue increasing by almost 10-million as a result of debenture conversions, earnings a share showed a slender increase to 57c (56,5c).

Malbak's gearing decreased to 49,3% from 61,7% at the previous interim period.

Branded consumer goods, incorporating Tedelex and Ellerines, remained the largest single contributor to Malbak's earnings, adding R35m (R31m).

Other major contributors were paper and packaging division Holdains, which added R29m (R26m) to earnings after a particularly strong performance from Carlton Paper.

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Malbak

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Thomas expected Sunvest, acquired during the period under review, to make a significant contribution for the full year.

Engineering and mining suppliers Standard Engineering and Haggie increased their contribution to R25m (R23m) while Kanhym, Malbak's food division, made a lower contribution of R15m (R17m).

The contribution by the construction supplies division D & H was down 20% to R15m (R19m). Cash-rich D & H was knocked by an increased tax rate and reduced demand for pipe as widespread unrest halted township development projects.

Thomas said there was little sign of relief from the lingering recession, which would continue to have an adverse effect on all the group's operations.

He said the recent reduction in the interest rate was welcome, but too small to have a material impact on the economy as a whole.

Thomas expected earnings for the full year to show a modest increase on last year, over and above the company tax benefits announced in the Budget.

Malbak shares held firm at their 825c high yesterday. The shares slumped to 450c in October last year.

Tollgate trounced in restructuring

B Day 28/3/91

LESLEY LAMBERT

CAPE TOWN — Substantial losses and a decline in permanent capital reported by Tollgate Holdings (TGH) for the year to December 1990 are indications that the group, which has since returned to profitability, took the punishment of restructuring on the nose.

This was the explanation TGH chairman Julian Askin gave shareholders when asked to comment on the results yesterday.

The difference in reporting periods and the transformation of the group during the year under review make it virtually impossible to compare the results.

Operating income plummeted from R87,4m in the 18 months to December 1989 to R25,6m in the 12 months to December 1990 on a decline in turnover from R1,13bn to R589,5m.

An interest bill, which declined by R10m during the year but remained high at R52,3m and abnormal items of R7,9m related to non-recurring costs of the restructuring, resulted in a pre-tax loss of R34,7m. Pre-tax profits of R9,9m were reported after the previous 18 month period.

Attributable losses amounted to R21,9m after a light tax bill (R166 000) and higher dividend income from associated companies.

180

Provisions

The poor profit performance, anticipated by Askin when he and a consortium of businessmen took control of the group in June, was attributed largely to losses in Gants' deciduous fruit processing division, certain commuter bus divisions, the car rental division and interest costs incurred in the acquisition and funding of these loss-making divisions.

Full write-downs and provisions had been made for those subsidiaries sold or closed down, Askin said.

The performance of the group's profitable divisions had been restrained by the non-performing divisions and the high interest burden. This had been rectified by disposals and all operating companies had returned to profitability, he said.

An extraordinary item of R57,6m was related to the cost of transforming the group. It included R46,1m in net losses from disposals, R3m in restructuring costs and R2,2m in goodwill written off. The full amount was written off against permanent capital, Askin said.

The decline in interest-bearing debt by the end of the financial year had been less than anticipated because it included the R30m cost of buying out minorities.

Negotiations for the acquisition of an industrial distribution company in the UK were at an advanced stage.

Amcham compiles foreign investors' charter

180 Star 28/3/91

By Derek Tommey

The American Chamber of Commerce in South Africa (Amcham) has produced an economic charter spelling out the social, economic and political factors which foreigners look for when investing in a country.

The charter comes at a most appropriate time as South Africa is in dire need of new foreign investment.

It is increasingly apparent that without economic help from overseas South Africa has little chance in the foreseeable future of being able to meet the economic expectations of the mass of her people.

Amcham says the first thing foreign investors look for in a country is politicaland regional stability. "In South Africa a new political order is vital for creating confidence and the conditions for a sound and dynamic economy".

It says it will support any peaceful negotiations leading to the creation of non-racial democratic multi-party state.

Any constitution should protect property rights, including intellectual property rights such as patents, trademarks and copyrights, Amcham says. The constitution should also guarantee freedom to enter contracts as well as equality before the law.

Economic stability, is a prerequisite for strong and sustained private sector fixed investment, says the charter, which criticises the lack of consistency in monetary and fiscal policies in this country.

Amcham also requires a market-oriented economic system, free of the shackles of apartheid and bureaucratic over-regulation.

Foreign investors require a favourable tax environment. A disproportionately high tax rate militates against investment, and high direct personal tax militates against attracting and retaining skilled staff.

Amcham points out that the South African corporate tax rate is among the highest in the world.

Foreign fixed investment is also encouraged in an atmosphere where there are specific and clear rules, no arbitrary decisions, no special deals for specific companies and no fears of nationalisation or confiscation of assets.

Amcham recognises that governments want to see profits reinvested. This happens where policies create a favourable environment for foreign investors.

"But restrictions on the repatriation of profits and exchange controls in general serve only to discourage new investment".

Finally Amcham points out that South Africa has a developed infrastructure and it is essential that this infrastructure be maintained.

Amcham says its entry into the debate about a post-apartheid economy must not be seen to be one of interference by a foreign entity.

Instead it should be seen as a contribution by foreign investors with a stake in the country who would like to see the expansion of US investment here.

THE BUDGET (180)

SUGAR COATING?

FM 29/3/91.

Business is cautiously optimistic that the package of relief measures in the Budget will help to reverse its declining fortunes. Finance Minister Barend du Plessis' handouts included halving the remaining import surcharge to 5%, reducing company tax by two percentage points to 48%, and scrapping the value added tax on capital and intermediate goods.

The last measure alone, which goes into effect October 1, could put a minimum of R6bn more each year into the pocket of industrialists, estimates SA Chamber of Business economist Keith Lockwood. His figure is an extrapolation of the annualised amount now paid by companies for these inputs under GST.

Industrial Development Corp senior GM Malcolm MacDonald says: "Based on these positive developments, we hope to announce some major capital projects during the current year."

Lockwood maintains that not levying VAT on capital and intermediate goods will not only boost exports, but should benefit consumers as lower costs are filtered down in the form of lower prices. However, he notes that this assumes that effective competition exists at most levels. The ever-present danger, of course, is that manufacturers might be tempted to pocket the profits.

In short, while the Budget may have contained some relief measures for business, they are not in themselves a panacea. Businesses still have to contend with the structural problems that bedevil growth — such as high interest rates, inflation, political instability, sanctions, low business confidence and local and global recession.

What's needed for SA to become globally competitive, they argue, is the immediate abolition of all import surcharges and the setting of the effective company tax rate at 30%-35%.

Sentrachem CE Johan van der Walt says: "The top end of the real company tax rate must be reduced so that we can remain competitive with countries like the US and UK, where the effective company tax rates

FM 29/3/91 (180)

are about 35%." He notes that chemical companies have to compete on the export markets with countries like Taiwan, where chemical companies pay only 25% tax.

But Iscor GM finance Eric van der Merwe, Barlow Rand director Ewert Groeneweg, Samancor GM finance Chris Norval and Textile Federation executive director Brian Brink all agree that the Budget has positive implications for investment in industry.

Iscor's capital expenditure programme for the year ending June 30 amounts to R1,3bn, so its future tax savings could be substantial. Barlows is in a similar position.

Samancor CE Hans Smith says his company has computerised the Budget's benefits on its joint, multibillion-rand Columbus stainless steel project with Highveld Steel and, though the concessions will assist the project, he says "it's too early to make any positive statements."

The Budget has certainly been good news for the motor industry. In addition to the reduction in import surcharges, there has been no apparent increase in fringe benefit tax and no mention of VAT on used cars. Theo Swart, joint MD of the McCarthy Group, says it should be somewhat easier for individuals and companies to buy vehicles. ■

Business confidence grows as tide turns

S Times 31/3/91

(180)

By DON ROBERTSON

THE TIDE is turning in the economic climate and business confidence is better than it has been for some time.

A survey of manufacturing by the Bureau for Economic Research of the University of Stellenbosch says the decline in business confidence appears to have levelled off in the first quarter of this year.

A total of 32% of respondents in the survey are satisfied with business conditions. This compares with 31% in the fourth quarter of 1990.

Persian

Sales, production and new orders are, however, lower than in the same time last year. But the downward trend is expected to ease in the second quarter.

Production costs declined and this trend is expected to continue, while business conditions over the next 12 months are likely to improve.

The survey says SA companies were largely unaffected by the Persian Gulf War, but were hit by internal business constraints, such as high interest rates, lack of demand and the uncertain poltical climate.

"Unfortunately it is too soon to speak of a turning point in the downward cycle of manufacturers' business confidence, but in the light of the talks on easing international sanctions, opportunities for the SA manufacturer are opening up, hopefully, to boost confidence in current business conditions."

The survey says expectations of manufacturing business conditions for the next 12 months rose on an index from 64 points in the last quarter of 1990 to 81 in the first three months of this year.

"A very promising aspect of the survey result is that the index on expected real investment in machinery and equipment turned positive after the alarming negative figure in the previous survey."

The survey, however, makes no mention of the likely deferment of capital expenditure which will probably take place as a result of the introduction of VAT. VAT will not be charged on capital expenditure when it is introduced on September 30. At present, GST is charged on capital equipment and most companies are likely to defer capex.

Total production costs declined to 148 on an index from 164 in the last quarter of 1990. Labour and raw material costs fell.

Sales volumes in the next quarter are expected to be about the same as last year, but production and new orders will be slightly down. The survey says stocks remain too high and unfilled orders in relation to sales are on a downward trend.

The survey covers 21 sub-sectors and responses were received from 789 manufacturers.

WB Holds picks a bumper fruit crop

S1 Times 31/3/91 180

ROBERT SILVERMAN: From fishing to farm riches

FOOD company WB Holdings took the biscuit this week with a 25% rise in earnings.

The former Cape fishing company saw the writing on the wall on fishing quotas long before Namibian independence.

It has sold all its interests in Namibia, last to go being the investment in Namibian Fishing Industries. Now under Norwegian ownership, Namfish will pay no dividend for several years.

WB Holdings is now a fruit and timber grower. Bumper export prices for fruit in the year to December helped the group to earn 45c a share compared with its forecast of 35c at the interim.

Hail damage has lessened the expected 1991 crop from the original orchards. But the acquisition of neighbouring farms will ensure a larger crop. The relaxation of sanctions could help the company even more.

Chairman Robert Silverman expects good results. The share price is 275c, close to the peak.

Eroded

Industrial holding company Malbak raised fully diluted earnings by 5% to 55,6c a share from the same percentage rise in sales to R4,2-billion.

Higher tax eroded some of the increased earnings, but the subsidiaries generally did well. The directors hope there will be a modest increase in earnings for the year.

This is an improved outlook — at a presentation last year, chairman Grant Thomas foresaw a slight downturn.

In the 12 months to December Crulife adopted a more conservative method of accounting premium income. Premiums have been deannualised and are now accounted when they become payable.

Crulife is now part of the Anglovaal group and its yearend has been changed to June.

By JULIE WALKER

Momentum disclosed a taxed surplus of R8-million — 14% higher than in the six months to December 1989. Earnings a share of 11,4c were 12% up, as was the 6,75c dividend.

The directors say rationalisation between Momentum and Lifegro has been completed.

MacPhail raised turnover by 38% to R211-million in 1990, and earnings a share were 22% up at 50,5c. The W&A subsidiary reports pressure on margins on general economic factors and a cut in metallurgical-sector demand. But the directors expect a further increase in earnings in 1991.

Carats

Engen pushed turnover, earnings and dividends more than a fifth higher in the six months to February. Cost inflation rose slightly faster than selling prices in spite of the benefit of including the Trek product system in Mobil's network.

The Persian Gulf crisis generated inventory or windfall profits, of which R120-million before tax has been excluded because they could go into reverse.

Management is confident that the rate of profit growth will be maintained in the second half-year.

A handful of companies reporting this week achieved higher earnings. Only Abercom incurred an absolute loss — R4-million, but much lower than the previous interim shortfall.

The recession made its mark across the economy. Malbak food and meat company Kanhym's earnings fell by 13% to 31,9c a share in the six months to February.

Office furniture group Math Ash's earnings fell almost 70% in the six months to December to 8,2c a share on an easing in turnover to R63-million.

Chairman Winky Ringo expects the group to "continue to perform satisfactorily in the period ahead". It has opened Officemart to compete in a market sector previously not touched.

WINKY RINGO: New market

Clothing manufacturer Traclo's interim profits shed 74% to a fraction of a cent a share.

Tiger Wheels skidded. Turnover was up 21% to R30,6-million in the six months to December, but profit fell 83% to R500 000.

TPN's interim earnings were 42% below last time at 2,5c a share.

Putco ran into trouble. The bus operator lost R13,6-million in the six months to December 1990 on lower revenue. Three divisions were closed and the closure of two more postponed pending negotiations with the authorities.

Putco sold a surplus property at an extraordinary profit of R4,2-million. Putprop — whose major tenant is Putco — raised earnings by 54% to 2c a share. The directors expect an increase in rental income during the second-half year and are promoting the mini-storage facility recently completed at Wembley, Johannesburg.

Marine diamond explorer Benguela Concessions produced 14 594 carats in the six months to December. They fetched a net R3,8-million.

Continuing exploration costs led to a bottom-line loss of 0,9c a share.

Benguela bought Dawn Diamonds for shares. Dawn holds title to a mining lease over neighbouring sea concessions.

Kudu Granite incurred a R758 000 loss at the December interim because of depressed prices for Rustenburg material and poor production performance from the Belfast quarries.

But major customers have accepted a large price increase for Rustenburg granite from March and foreign buyers are looking for more material.

Kudu's directors expect to restore profitability in the next six months.

Dogs

Tollgate — formerly Duros — lost almost R35-million in the year to December. New management says it inherited a group with high borrowings, lack of direction and accelerating losses in some divisions.

The group's profitable divisions' earnings were eclipsed by the dogs, which have been sold. Tollgate is negotiating an acquisition in the United Kingdom.

Of the 14 companies reporting preliminary results this week, half made more than in the previous period, but only two grew at a faster rate than inflation.

Two incurred losses, two earned less than before and the rest were not comparable.

But five interim results of the 29 reported were in the red. A dozen raised earnings, and a trio outpaced inflation.

Manufacturing over worst

(180) Star 1/4/91.

By Sven Lünsche

Even before it was given a substantial boost in the Budget, the manufacturing industry seems to have passed through the worst of the recession.

A Bureau for Economic Research at Stellenbosch University (BER) survey says the decline in the business confidence of manufacturers seems to have levelled off.

Returns from manufacturers show that volumes of sales, production and new orders received in the first quarter were lower than in the corresponding period a year ago, but that the intensity of the decline in business abated.

Expectations for the second quarter are that sales volumes will be on a par with those of last year, while production and new orders received should be slightly lower.

Over 32 percent of the respondents say they are satisfied with prevailing conditions, compared with 31 percent in the fourth quarter of last year.

A more direct reflection of the better outlook is that expectations for the next 12 months have risen somewhat, although they remain negative overall.

The BER says the index on predicted real investment in machinery and equipment has turned positive after an alarming decline in the previous survey.

Retiring Anglo American senior economic consultant Aubrey Dickman ... Reserve Bank independence has sent positive signals to foreign investors. Picture: CATHERINE ROSS

Reserve Bank praised for its independence

Bday 2/4/91

SHARON WOOD

RESERVE Bank independence was the most important development of the past three decades, retiring Anglo American senior economic consultant Aubrey Dickman said at the weekend.

He retired from the Anglo American Corporation this month after being with the group for almost 32 years.

In an interview, Dickman applauded the independent stance of the Reserve Bank, which he said sent positive signals to foreign investors as to the role of monetary policy in the SA economy.

The Reserve Bank recently asserted its independent stance by disagreeing with various aspects of the 1991/92 Budget.

Dickman believes this is probably appropriate, because international studies show a high correlation between the degree of Reserve Bank independence and inflation and growth records.

Any future government must welcome the fact that the country is following a route which has proved to be the best one, he says.

During his career, Dickman was a member of various councils and committees, including the Economic Advisory Council and the commission of inquiry into electricity supply. He was also president of the Economic Society, and an alternate director of Anglo American Corporation.

He remains a director of Anglo American Gold Investment, the Discount House of SA and UAL Merchant Bank, and will continue to represent the SA Chamber of Business on the electricity council.

He is a highly respected economist and has written numerous articles on the SA economy, particulary on the money and capital markets.

Dickman says the most interesting part of his career has been the great political and economic changes made since the beginning of last year.

"The unbanning of political parties and the great debate that arose from this is important and encouraging, because it has instilled a greater realism as to the way in which our past mistakes need to be corrected,"

Apartheid, he says, has left SA with a legacy of unemployment, lack of housing, training and skills, combined with resentment and animosity towards a private enterprise system.

SA now faces a great challenge to restore equity and to reach its long-term growth potential.

SA has rejoined the world by recognising the importance of containing inflation by adhering to the right economic policy, he says.

The growth in the quality and quantity of economists, analytical skills and statistics had contributed greatly to the present sophistication of economic policy.

During his retirement Dickman will do some teaching at the Wits Business School.

Anglo American economist Jim Buys will succeed Dickman as senior economic consultant.

New market for borrowers

GRETA STEYN

THE Reserve Bank is overseeing the creation of a new vehicle for corporate borrowing that bypasses the banking system — enabling blue-chip companies to borrow more cheaply.

The Bank is circulating draft guidelines to important market players on the creation of a commercial paper and debentures market. The confidential document calls for comments from interested parties and could lead to a change in the new Deposit-Taking Institutions Act to enable the creation of a new market.

When a company issues paper directly to an investor without going via a bank, the cost is cheaper as the bank's obligation to keep expensive liquid assets is not part of the price. For the banks, the advantage of the new market is that they can deal in the commercial paper in the secondary market. BDay 5/4/91.

A banker said yesterday that a problem in getting the market up and running was that investors were reluctant to buy paper without a bank guarantee unless it was blue-chip. This could limit the market to only a few important players, but in time investors might feel safer with "pale" blue chips. (180)

The official discussion paper says: "The Bank Supervision Department accepts that the orderly development of a commercial paper market in SA is inevitable but within an appropriate regulatory framework."

The draft guidelines indicate the market is obviously aimed at the big players. Issuers of commercial paper are required to have a net asset value exceeding R100m; in the case of unlisted companies the net asset value has to be R200m. The maturity date of the instrument will vary between

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Borrowers BDay 5/4/91

(180) ☐ From Page 1

three and 12 months, while in the case of debentures it will be 12 months or more. In the Bank's first discussion document last year, only one-year paper was envisaged but comments from the market caused it to shorten the period.

The Bank's discussion paper said the funds borrowed in this way had to be used "for a specific project" and could not be used "either directly or indirectly" to finance credit extension, "be it in the form of trade debtors or advances on which interest is charged". The stipulation was made to ensure that the market was not abused by parties wishing to conduct banking without falling foul of the Act.

The Bank concludes that its document and comments of interested parties "could result in amendments proposed to the Act".

DEANUTS

FM 5/4/91 180

MALBAK FM 5/4/91

CONSUMER BOOST

Not long ago Amic, Barlow Rand and Anglovaal Industries (AVI) were among the best performers — and also enjoyed premium share ratings — of the large, diversified industrial groups.

Of these three, only AVI, whose profit growth has remained relatively firm, still retains its rating intact. But Malbak, whose share price had weakened during much of last year, enjoyed a favourable rerating since last October ahead of what turned out to be steady results for the six months to end-February, with EPS up by 6%.

The swing in relative ratings for the leading conglomerates is indicated in the dividend yields: an historical 1,5% for AVI, 3,5% for Malbak, 4% for Amic and 4,4% for Barlow Rand. Without detracting from the role of management, the more stable results from Malbak and AVI at least partly reflect the character of the present recession.

Neither of these groups has much direct exposure to commodity markets or to exports in general; both depend essentially on local demand. Malbak, in particular, gains a large portion of its trading profit from businesses exposed to consumer spending. Of the group's total operating income of R357m, the significant increases in contributions came from the branded consumer goods, packaging and paper, and development divisions. These divisions, as well as a fourth, construction supplies, together contributed about 80% of total trading profit.

EDGING UP

Six months to	Feb 28 '90	Aug 31 '90	Feb 28 '91
Sales (Rbn)	4,0	4,38	4,19
Operating inc (Rm)	335	389	357
Attributable (Rm)	111	122	118
Earnings (c)	56,6	62,1	57,0
Dividends (c)	12,5	18,0	12,5

Among Malbak's listed companies, the strongest performers were suppliers of consumer durables, particularly 96%-held Tedelex and Ellerine. Packaging and paper increased its contribution to group earnings by 9%, with help from another outstanding result from Carlton Paper.

Abercom, the vehicle for expansion abroad, remains a loss-maker, though its attributable loss fell from R8m to R3,8m.

Unlisted companies weigh in with about 20% of Malbak's income, and on the whole these operations roughly maintained or improved their earnings. Chairman Grant Thomas sees no cause for concern about any of these operations. Malbak Motors — part of the branded consumer products division — was hit by shortage of stock from Mercedes, but some of the unlisteds saw good growth.

In Thomas's view, the most pleasing aspect of Malbak's interim figures was the maintained operating margin. The debt: equity ratio fell, without help from sales of problematic companies, and the interest bill was down by R2m. Benefits of the reduced finance charge were broadly offset by a slightly higher effective tax rate, and the 5%

FM 5/4/91.

Malbak's Thomas ... *pleased with the margin*

180

advance in turnover was thus maintained at the bottom line.

Borrowings dropped from just over a R1bn to R951m, a reduction which Thomas attributes mainly to shrinking working capital, with average debtor days dropping to 52 and average stock days to 66. Gearing declined from 62% to 49%, and Thomas expects it will be about 40%-45% by the year-end. That, with the cut in rates already announced (the group's debt is mainly short-term), would imply a further fall in the interest charge in the second half.

But Malbak's second-half trading result will depend on how well markets — particularly spending on consumer products — hold up. A recession in which suppliers of consumer durables and semi-durables keep growing strongly in real terms remains improbable.

Management is forecasting a modest earnings improvement in the second six months, and the group is almost certainly looking at a maintained dividend for the year. Underlining the market's expectations of at least stable results, the current 875c share price is about a third above the February 28 NAV — at the end of August, the price was only 600c compared with NAV of 671c.

Andrew McNulty

FM 5/4/91 180

FSI 180 FM 5/4/91

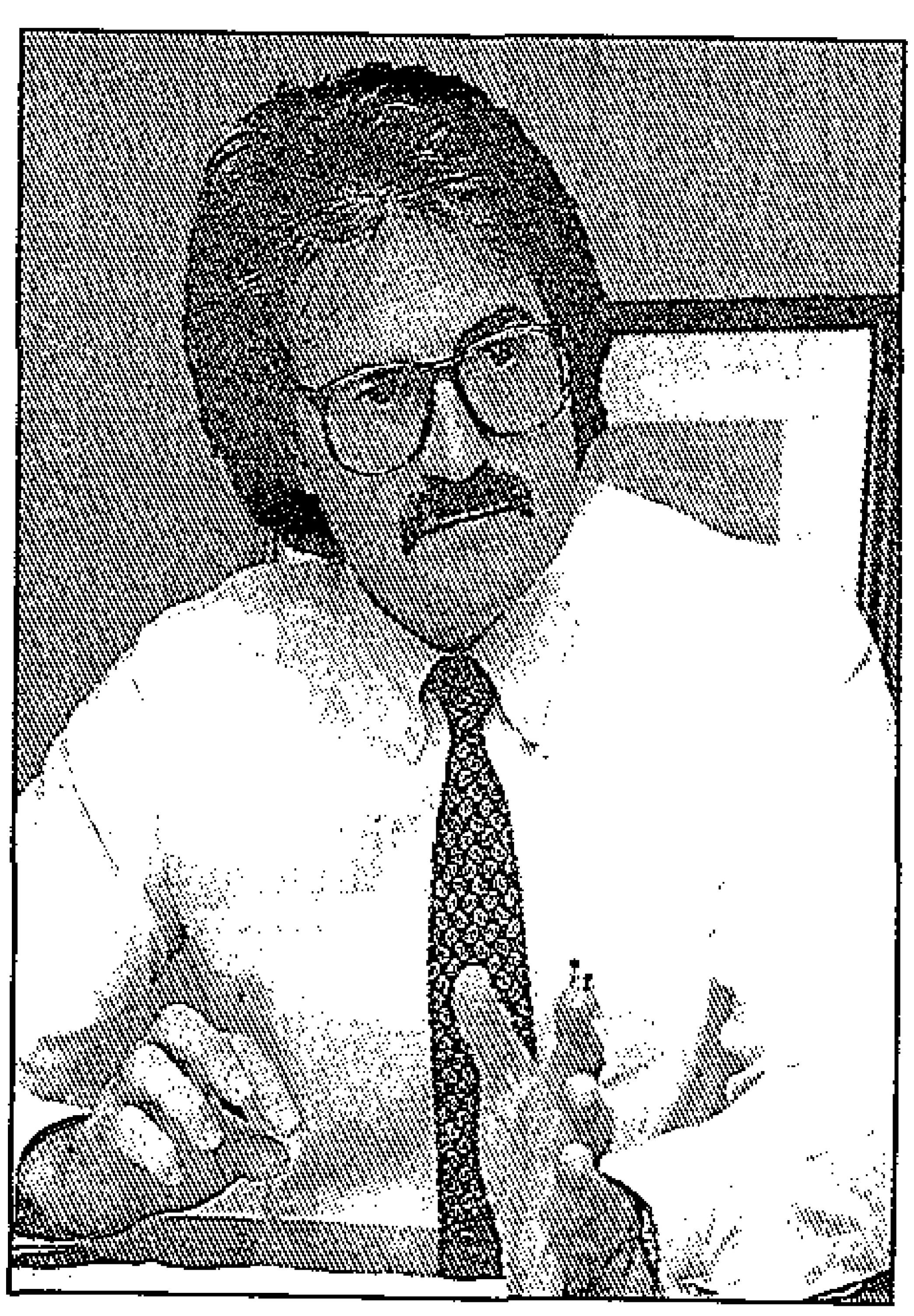
STODGY IMAGE

The restructuring from July of FSI's myriad operations into one operating company, W & A (with Waicor, FSI and FS Group becoming pyramids), was intended to improve cash flow, increase administrative efficiency and provide investors with a clearer picture of the operations.

Investors will be able to judge the effects later this week when W & A and its three pyramids announce results for the year to end-December. Until now the restructuring has done nothing to bolster market sentiment.

At 585c and 475c respectively, shares of W & A and FSI stand on historical earnings multiples of 5 and 3,6, with dividend yields at 7,8% and 7,4% — much poorer ratings than those accorded other industrial conglomerates such as Amic, Barlow Rand and Murray & Roberts. Shares of Waicor and FS Group have fared no better.

The reorganisation was expected to help bolster EPS for these four groups. Listed subsidiaries — Gentyre, JD Group, MacPhail and London-listed AAF — have posted good results. But analysts canvassed this week were expecting little, if any, improvement from W & A and FSI.



FSI's Liebesman ... *will debt come down?*

EPS forecasts ranged from a drop of 10% to an improvement of 5%, with most expecting flat earnings. This follows a 6,6% advance in the earnings at W & A and almost no growth at FSI at the June interim. This would put W & A's EPS at 103c-120c, with a dividend of 38c-44c, assuming cover remains close to last year's levels. FSI's EPS would be between 119c-137c, with a dividend of 32c-37c.

It's possible these forecasts underestimate effects of poor performances by some of the footwear and hosiery operations. EPS declines of as much as 15%-20% have, in fact, been mooted for W & A and FSI.

Though Gentyre, the largest single earnings contributor to W & A, lifted attributable earnings by 58% — helped by a slide in its effective tax rate from 34,5% to 0,3% — the concerns relate to certain of W & A's unlisted operations, such as Edworks, as well as finance charges at operating and group level.

Delisting of Teamcor, Hunts, Homemakers and Citizens Holdings following the restructuring, as well as the sale of the 37,3% stake in Reichmans, means far fewer of the operations report separately. The group has long been secretive about its offshore interests. Reduced contributions from listed subsidiary Vektra and associate Elcentre also have not helped.

Aside from the earnings, investors will be seeking answers to two big questions: has the overall efficiency improved; and have cashflow improvements affected gearing and interest cover?

At July 1 FSI had long-term debt of R190m, with redeemable prefs of R111m, which were together expected to cost R46m to service this year. Offsetting this was R34m in interest from convertible debentures issued to FSI in exchange for FSI's assets, and R14m from prefs issued to FSI. Chairman Jeff Liebesman emphasises that FSI is an investment holding operation, while trading debt is held by W & A.

There is now little expectation that W & A's long-term debt of R850m at July 1, against shareholders' funds of R1,3bn, will have been reduced — in which case, interest cover probably will not have changed much from last year's multiple of about two. To achieve that may require sales of assets.

Of course, if FSI should favourably surprise the market, that could presage a rerating for the share. Even the critics accept there are some good assets in the group.

Simon Cashmore

FM 5/4/91

TOLLGATE HOLDINGS

180

MORE RED INK

Costs of reconstructing Tollgate Holdings (TGH) continue to mount. Since 1989, no less than R91,6m has been written off in abnormal and extraordinary items. Now this has been capped by an after-tax loss of R34,5m for the period to end-December.

Still, with the new consortium having wrought sweeping changes since it effectively took control in June last year, there is hope that the bleeding is nearing an end.

Julian Askin, chairman of the consortium, sums up by saying it "acquired a group with high borrowings, absence of direction by senior management and accelerating losses in certain divisions — but with other divisions having valuable assets and sound growth potential." Askin is now devoting his attention to these other divisions, though some loss-makers, like Gant's, have still to be disposed of.

In late 1989, when the consortium bought control of Duros, then holding company of TGH, shareholders were warned that the organisation was in a perilous state. With interest-bearing debt at its peak, standing almost four times higher than shareholders' equity, the priority was to reduce borrowings to a realistic level. Askin has moved as swiftly as the recession would allow to sell and close loss-making entities and to restructure. This accounts for many of the write-offs.

The five JSE-listed subsidiaries of the Duros pyramid, one of which was the London-listed TGH, have been consolidated as wholly owned entities under one holding company, Duros, which changed its name to TGH. The London listing has been retained.

Norths Industries and some of the unprofitable bus commuter divisions have been sold and the *FM* learns that the sale of Gant's is likely to be consummated for about R25m in the next two months. This sale will apparently exclude assets, valued at R90m, which are being realised for cash.

FM 5/4/91 180

Even so, with R204m interest-bearing debt remaining, there may be more write-offs if borrowings and interest costs are to be cut to manageable proportions. Sale of Gant's and associated assets could reduce debt to below R100m. That would still be excessive, with permanent capital at R163m, but the group should be able to operate with debt at around R90m.

Askin says the poor profit performance in 1990 was caused mainly by large losses in the deciduous fruit processing of Gant's; in certain of the commuter bus divisions; in the car rental division; and by interest costs incurred in the acquisition and funding of these loss-making divisions. All these, he says, have been turned around, sold or closed — or full write-downs have been made.

A strategic 24,5% shareholding has been acquired in Hosken Consolidated Investments, whose operating subsidiaries include IGI Insurance and Safrican Life. The group has also announced that an offshore acquisition has been concluded in principle. No details are available, but Askin says the purchase will be funded by issue of new TGH shares.

He is emphatic that group profitability has been restored. One must hope this proves correct, as any unfulfilled promises would again dampen credibility. No details are given about the value of goodwill and trademarks in the provisional results, so it remains difficult to estimate tangible net worth. Including intangibles, net worth is about 880c.

The share traded last week at 600c, after standing at 450c-470c for some weeks ahead of the results. The market may thus have discounted the worst. But with no indication of prospective earnings, the share must still be considered high-risk. *Gerald Hirshon*

Mine suppliers feel gold pinch

S/Times (Bus/T) 7/4/91

180

By DON ROBERTSON

COMPANIES supplying the gold mines have been hit by falling sales because most mines are buying only essential goods.

Gold mines bought an estimated R8,3-billion stores and services, such as food, machinery, equipment and electricity, last year. Purchases are now sliding fast.

Six major suppliers — Genrec, Group Five, Murray & Roberts, LTA, Robor and Dorbyl — have closed their branches in the gold-mining centre of Welkom, causing the loss of about 1 200 jobs.

About 34 other companies in the area are working short time. Some are preparing for split shifts — half of the employees work for half a day and the rest the other half.

More layoffs are sure to follow if the gold price does not recover within the next few months.

Doldrums

Brian Angus, executive director of the Steel and Engineering Industries Federation of SA (Seifsa), says Free State mines have asked suppliers to hold prices at current levels to help them cope with the price-cost squeeze.

Mr Angus says it is hard to quantify the loss of business from gold mines because the economy generally is in the doldrums. Many Seifsa members also supply industries other than the gold mines.

John Steyn, Seifsa chairman for the Free State and Northern Cape, says business in areas stretching from Virginia to Orkney, Welkom and Klerksdorp has fallen sharply. His division has told Seifsa head office that its members are unable to offer wage increases until next January.

The main Seifsa body is negotiating wage increase affecting 360 000 employees.

In the second round of wage negotiations last week, Seifsa offered employees between 7% and 10,5% more. The trade unions wanted increases of up to 167%.

Suppliers of mechanised equipment for the gold mines industry expect falling sales after business in the past year declined by about 20% .

Most have had to resort to rebuilding existing equipment instead of selling new plant.

AECI, the largest supplier of explosives and chemicals to the mines, is also feeling the pinch. Sales have been weakening since early last year, says a spokesman.

He admits that several recent shaft closures and production cutbacks are only partly covered in AECI's forecasts. But the impact on its business, at this stage, is "not dramatic".

AECI believes, however, that closure of Stilfontein gold mine and perhaps other mines, could arrest the downturn and stabilise the gold price.

Jimmy Criswell, product development director of Envirotech, the largest supplier of pumps to the gold mines, says sales have fallen by about 15% in the past six months.

Mines are trying to extend the life of their pumps. Mr Criswell says sales to other sectors of the mining industry are holding up well.

Colin Sawyer, managing director of HLH Timber, says gold mines are no longer the "sacred cow" in mining. He says sales have declined in the past two years by about 10%.

He believes that the gold price will improve in time, although "we are having a hard look at our operations".

HLH supplies about two-thirds of the timber used by gold mines.

Largest

Amic, a large supplier to the mining industry, says it its report for the year to December: "Any significant closures and consequent reductions in tonnages mined and milled would have an immediate impact on (our) operations. In the light of these uncertainties, Amic will do well to maintain earnings at the 1990 level."

The largest item on the gold mines' shopping list is electricity and in 1989, sales were worth R1,4-billion. Last

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BRIAN ANGUS: All in the doldrums Picture: SUE KRAMER

Mine crisis

☐ From Page 1

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year Eskom's sales to all mines fell by 3,7%.

Eskom has vast generating overcapacity and has laid off thousands in the past year. Sales to mines represent 24,5% of Eskom's total sales.

John Feek, managing director of Haggie, major suppliers of wire ropes to the mines, says at least 12 to 14 mines are in a similar predicament to Stilfontein. Unless the gold price improves there could be more closures in the next two years.

"Gold mining is not in the premium position it used to occupy and sales have fallen by as much as 14% in the past two years. We will have to look at other mining, such as coal or base metals."

POL

Hopes for large growth rest with manufacturing

BDay 9/4/91 (180)

BILLY PADDOCK

CAPE TOWN — Manufacturing industry had more potential than any other sector to lend impetus to large-scale economic growth, Deputy Finance Minister Theo Alant said during the Budget debate in Parliament yesterday.

Everything had to be done to encourage its growth and the Budget, under exceptionally difficult circumstances, introduced strong steps to encourage healthy growth.

Government's steps to limit the state's spending was an important step which indirectly influenced the industrial sector in a positive manner with privatisation providing a further impetus in this direction.

He said that SA, as a developing country, needed massive capital investment in industry to ensure growth, jobs and prosperity.

He said the way to encourage growth could be by creating a favourable climate through monetary and fiscal policies and to take note of what other countries were doing to activate growth.

NP finance committee chairman Francois Jacobsz said the Budget had to be seen in the broad economic policy of the country after which an economic climate would evolve.

Economic experts believed fiscal policy, as presented in the Budget, succeeded in many respects in preparing the economy for growth.

The Budget reflected positive signs that the imbalances in the economy were being rectified. These were:

□ The reduction in the money supply from 30% in 1988 to just more than 14% at the end of last year, indicating good discipline;

Stability

□ The improvement in the surplus in the balance of payments on the current account over the past six years, showing greater financial stability;

□ The success which the Reserve Bank had attained in maintaining a constant exchange rate over the past two years. The fact that the exchange rate movement was only 0,7% compared with the basket of currencies of major trading partners was a major achievement; and

□ The net growth in gold and foreign reserves to R8bn represented six weeks' imports. The aim was to build it to 12 weeks' imports.

"There are other avenues that stimulate growth and job creation. At this stage the important ones are the development agencies such as the SBDC, the IDC and the Development Bank," Jacobsz said.

The SBDC was one of the most important growth stimulators and the R75m provision in the Budget for the SBDC would go a long way to giving it a greater boost. With its funds it could invest in small business without putting additional strain on the banking sector or contributing to higher inflation.

The Budget could be seen to have done the necessary groundwork to encourage investment by:

□ Keeping the growth in government spending below the inflation rate;

□ Reducing the tax burden from 25,5% of GDP in 1989/90 to 24,9% in 1990/91 and

□ Ensuring the deficit of R10,1bn and the total "adjusted" financing requirement of R14,6bn would not present any funding problems. Reserve Bank evidence says a major portion of this could be financed by resources that would become available to the public investment commissioners.

He said two areas of the Budget that concerned him were the deficit before borrowing which had grown from 1,6% of GDP in 1989/90 to 3,4% in 1991/92 and bracket creep.

More private cash for education aid

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ZILLA EFRAT

THE private sector invested R554m in education in the 1990/91 financial year — a R257m rise since 1987, a survey by BMI Service Research has found.

The BMI report, Social Investment in SA 1991, said the total corporate social investment expenditure for the 1990/91 year would be R840m.

Of this, 66% would be spent on education, 7% on environmental conservation, 7% on health services and 6% on welfare. The other 14% would be split among general community projects, small business development, art and culture and housing.

The report focuses on external corporate social investment aimed at addressing the problems of the community at large rather than on companies' involvement with their own personnel.

BMI Service Research MD Bets Nel says: "Even with this increase in private sector spending there is still insufficient funding for education.

"The 1990 government budget for education has been overshot by R217m and alternative sources of finance such as foreign capital and possible state or sport lotteries will have to be exploited in the next financial year."

Of the money spent by the private sector on education, 58% will be in bursary grants and donations to tertiary institutions. Government education is supported through supplementary education programmes.

Major companies are also involved in building and establishing private multiracial schools and there is a strong trend to support literacy programmes.

All companies involved in the survey indicated that more funds would be available in their 1991/92 budgets to support education at grassroots level such as primary and pre-primary education.

Nel says dramatic changes have occurred in corporate social investment since President F W de Klerk's 1990 parliamentary speech. Companies previously not involved in this type of funding have become more pro-active and most corporations are appointing staff and setting up specific divisions to handle the distribution and administration of monies.

"Corporate social investment is now seen as a critical part of business activity by the major corporations.

"The era of mere handouts has passed and involvement has become the key word. Major companies now devote advice, expertise and assistance along with monetary funding."

She adds: "It would seem that corporations are allocating money in the correct areas if we look at the respondent's priority needs."

Of those interviewed, 99% of black consumer respondents mentioned education as a major priority. Other priorities were housing, job creation and health.

Outcry over Bank's securitisation proposals

BI Day 10/4/91

ROBERT GENTLE

AN outcry has greeted Reserve Bank proposals which would require major corporations to route their securitisation transactions through banks — and so incur added costs and bother.

The Reserve Bank has defended the proposal on the grounds that it would protect the banking sector from disintermediation, a process whereby corporations bypass banks and fund themselves directly from each other or from the public.

The proposal, in a Reserve Bank discussion paper, means that if a corporation such as a large industrial or mining company wants to securitise certain assets, it will have to sell them to a bank, which will perform the securitisation.

Sources in corporate, chartered accountancy and banking circles said yesterday the banks did not need such protection.

A leading corporate treasurer said: "If the new Deposit Taking Institutions (DTI) Act is founded on the need to protect banks, then it needs rethinking."

It is thought in some quarters that the Reserve Bank's caution on disintermediation is in part because of concern that securitisation could mean billions of rands will fall outside the ambit of the banking sector — and the monetary authorities.

However, a banking source said that all the monetary authorities had to do was ask for returns from corporates every time they wanted to securitise. "That's how it's done overseas."

Nico Marais, researcher at the office of the Registrar at the Reserve Bank, said that the original motivation for securitisation in SA was to redirect funds from the assurers to the banking sector. The Reserve Bank had already shown itself to be very accommodating in allowing disintermediation in the three- to 12-month maturity period through the creation of a corporate debt market, he said.

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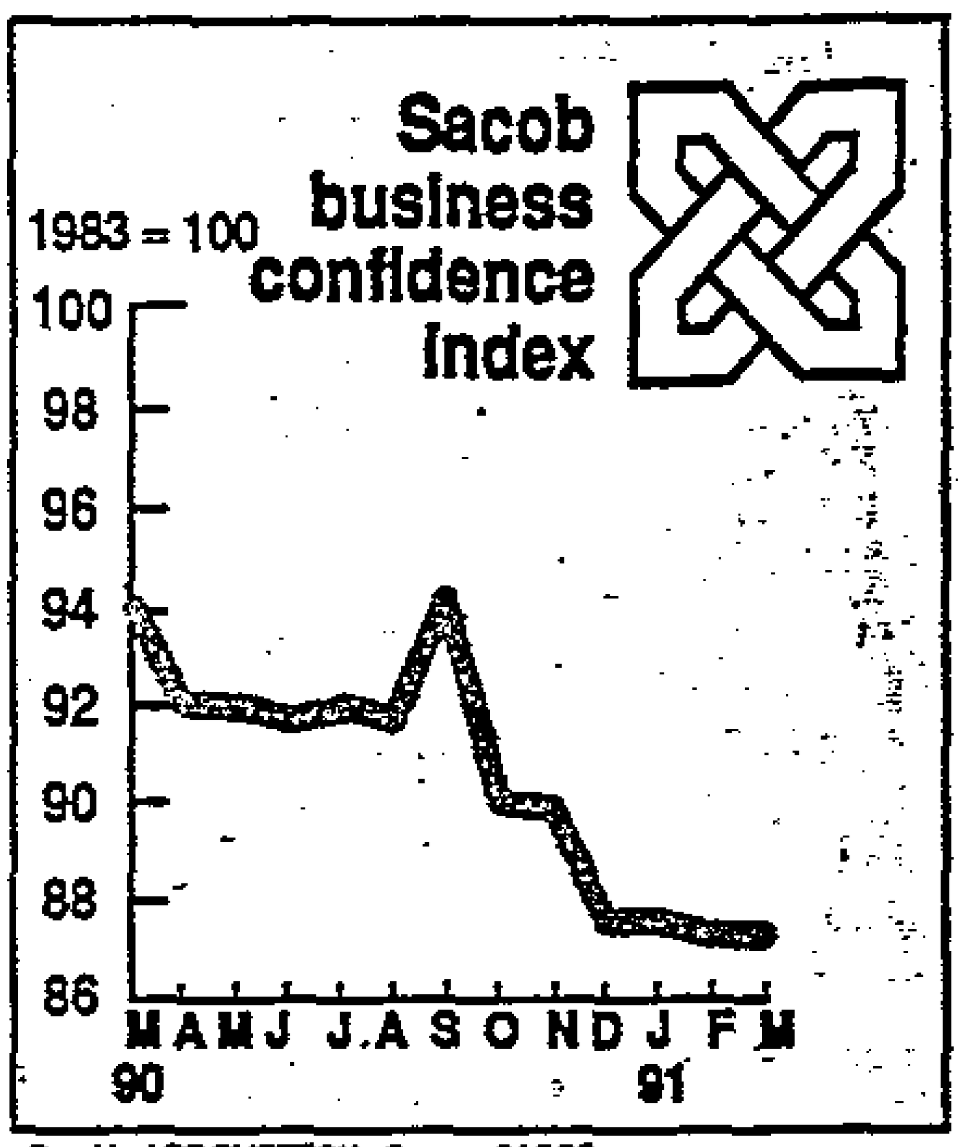


Graphic: LEE EMERTON Source: SACOB

Sacob appeals for talks to continue

SYLVIA DU PLESSIS (180)

THE SA Chamber of Business (Sacob) has appealed to all the parties concerned to make every effort to keep political negotiations on track in the face of waning business confidence.

There was a great deal at stake for the economy, Sacob director-general Raymond Parsons said at a Press conference yesterday.

Parson's appeal followed the release of the chamber's latest business confidence index, which showed the SA business mood failed to firm in March in response to a further erosion in sanctions, a reduction in Bank rate and a generally favourable Budget. The index was static at a 52-month low of 87,3. B Day 10/4/91

Parsons said the chamber was deeply concerned about the combined effect on business confidence of the ANC's various tax proposals and its ultimatum to government to respond to certain political demands by May 9.

It would not be conducive to investment in SA, he said.

Sacob's survey of confidence levels in the manufacturing sector showed that, for the third month in succession, most manufacturers were more optimistic in their short and medium-term outlook.

Sacob economist Keith Lockwood said activity levels in the sector had been rising steadily since September 1990. That, coupled with improving sales expectations for the next year, suggested that the majority believed the worst was over.

Confidence will plunge, ANC warned

By Michael Chester S/a/ 10/4/91

The SA Chamber of Business has warned the ANC that the current weak level of business confidence in South Africa is likely to plummet even further as a result of its controversial ultimatum to the Government to meet new demands by a May 9 deadline or face a breakdown in political negotiations.

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

Concern over business reaction was voiced by Sacob at a news conference in Johannesburg yesterday at which it was disclosed that its business confidence index last month was at its lowest since apartheid caused the crisis in international isolation in 1986.

Sacob director-general Raymond Parsons said: "The whole busines mood is now fragile and vulnerable — appalled by the degree of violence in black townships and now by ANC threats to post-apartheid political progress."

Business sentiment both inside and outside SA was bound to suffer still more damage if there were a breakdown in political talks — with a dramatic impact on the chances of new investments vital to the faster economic tempo that was a prerequisite for political stability.

180

Crucial

If the ANC genuinely wished to encourage foreign and local investment, said a Sacob statement, it would also have to modify its proposals about still heavier taxation burdens.

As successful overseas economies moved towards lower direct taxation, it was crucial that SA taxes stayed at competitive levels. A positive future tax scenario was essential if foreign and local investment was to be promoted.

The business world was deeply concerned about the combined effect that the ANC ultimatum and tax proposals could have on business confidence.

Vital social goals — such as adequate education, housing, health services and social pensions — became feasible only if the economy grew fast enough to finance them.

Sacob urged the ANC to understand that an even larger State share in the economy would inevitably produce still worse inflation and thus reduce SA's ability to achieve even a fraction of the social expenditures envisaged by the ANC.

Sacob appealed to all the parties concerned to make every effort to keep political negotiations on track.

● The ANC's decision to involve itself in negotiations with the Government had so isolated the organisation that it had ended up using the death of people in the townships "as leverage to boost its bargaining power at the negotiating table", the Azanian Students Convention charged yesterday.

Azasco publicity secretary Sipho Maseko said in a statement that "the present internal wrangling between the ANC and the Government" showed not only that negotiations between the two parties were a non-starter but also "the bankruptcy of the joint monitoring groups they have both established".

● The ANC Youth League yesterday issued a strongly worded counter-attack against Inkatha Freedom Party leader Chief Mangosuthu Buthelezi and said it was not surprised by his "insults and accusations" as he was "echoing his master's voice, President de Klerk".

Bludgeoned

This week Chief Buthelezi said the ANC's latest demands to the Government would plunge SA into a major crisis.

"Having run his KwaZulu bantustan as his own political domain and on a one-party basis, the IFP leader had ruthlessly amd ferociously bludgeoned any opposition," the Youth League said.

Tough plan to push exports

BDay 11/4/91 (180)

KEVIN DAVIE

IT HAS become a truism that SA is not export-orientated. Unprocessed products are sold at fluctuating prices on commodity markets, and surplus widgets exported to whoever will buy them.

It also is a truism that there is an urgent need to restructure the economy to engender an export consciousness. A number of thick reports have recommended this. Now a new report makes similar recommendations, but goes further in detailing measures to push exports.

The Modification of Protection Policy, a report by the Industrial Development Corporation (IDC) which was released yesterday by government for discussion, contains a vision of a radically altered industrial environment. If implemented it would send shockwaves though the system which could wrench industrial policy out of protectionism and into competition.

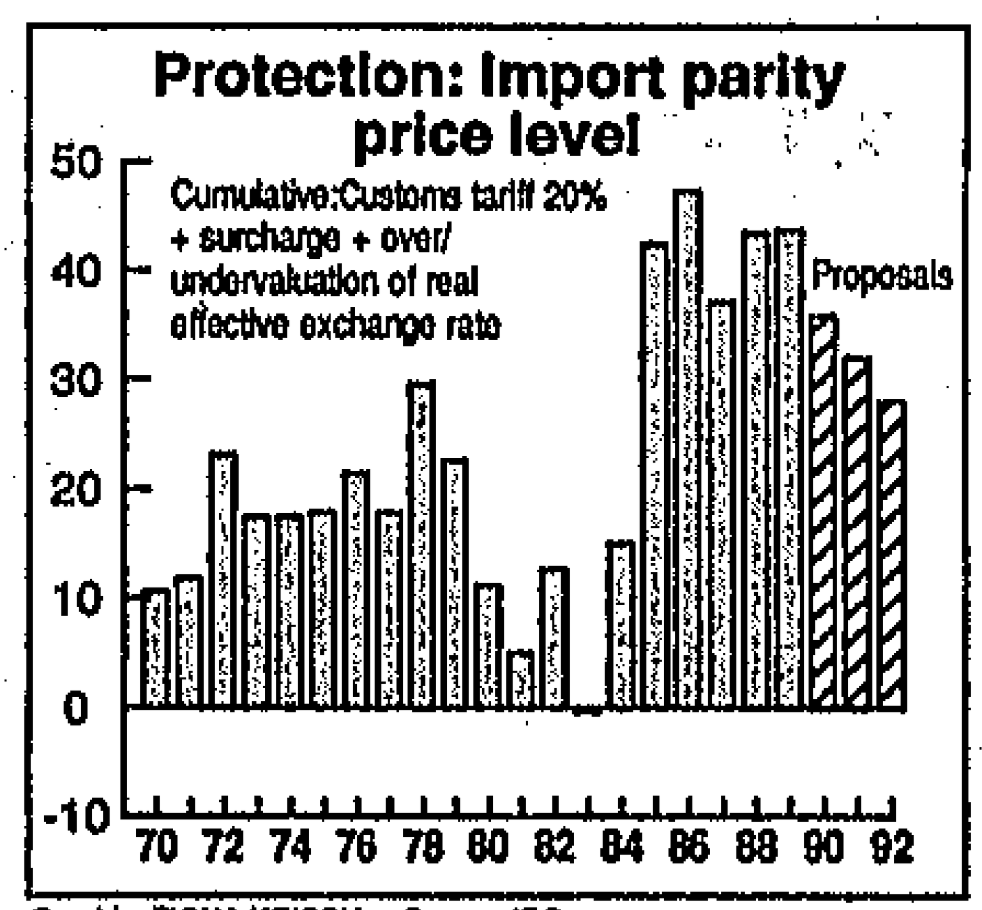
This would be a break with 70-year-old policy based on import replacement, the IDC report notes.

Excessive protection in the form of high import tariffs is a disease which limits industry's ability to compete internationally and damages the economy by increasing prices and inflation, the IDC says. Phased-in tariff reductions would force industry to deliver products more in line with world prices, and the effect on the economy would be deflationary.

Excessive tariffs have imposed a cost burden equal to about 12% of GDP, the IDC says. If the effects of the import surcharge are added, the burden equals about 14% of GDP.

The report identifies the surcharge as a chief public enemy, and calls for its immediate scrapping as it has a cost-increasing effect on exports. Finance Minister Barend du Plessis, in the Budget, halved the surcharge on capital goods and reduced by one-third the surcharge on intermediate goods.

International experience (the report draws liberally on World Bank research) over the past decade has shown that countries with strongly export-orientated economies perform better than those which rely on import replacement and high protection. Growth in world trade has been exceeding production, indicating that countries are relying on trade to an increasing extent.



Graphic: FIONA KRISCH Source: IDC

But SA industry has been stagnating for a long time. The IDC's proposed cure is tough. It wants a general tariff cut of 10 percentage points on all tariffs 40% and higher, and five percentage points on all tariffs between 20% and 39%. This cut must be made within the first year and should be followed by further cuts over the next four years.

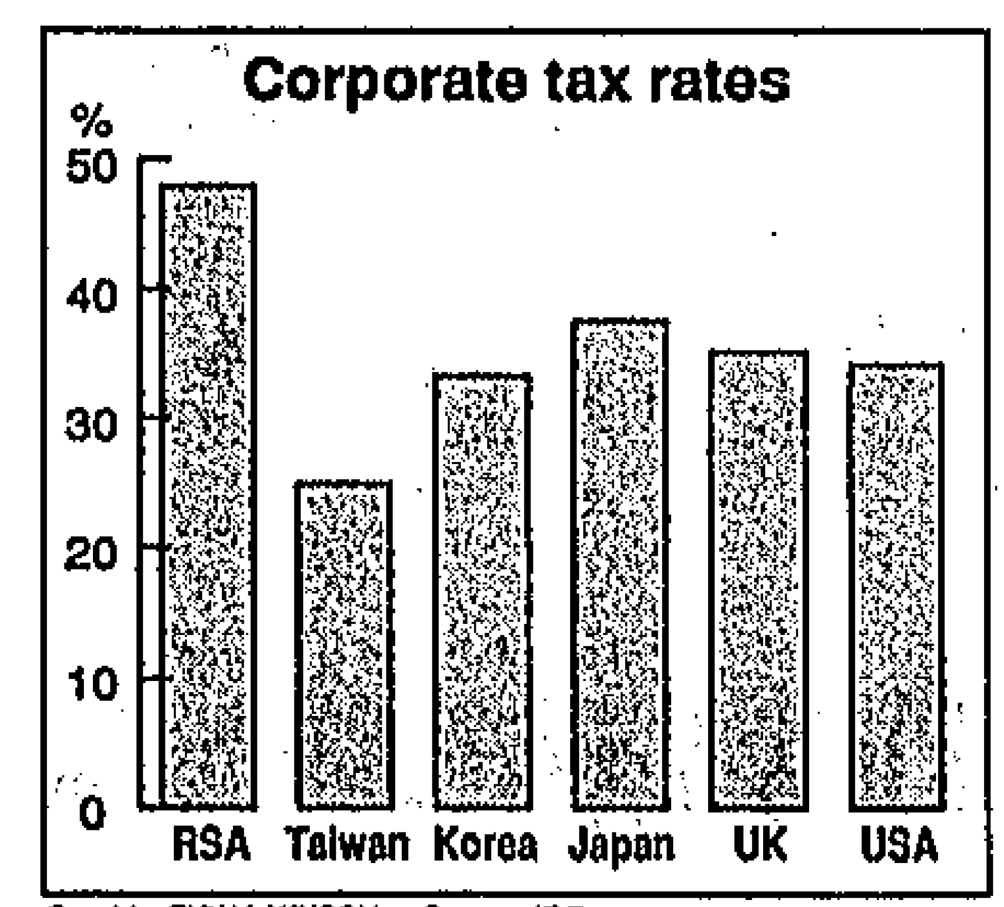
High tariffs should be reduced over this period to a maximum of 30% by value for manufactured goods, and 15% for other products. Lower tariffs should also be reduced, but at a more moderate pace.

The measures should not be implemented selectively, the report warns: "This can only have the effect that tariff reduction will fail, with a loss of credibility to policymakers which the country can ill afford."

It says the modification of protection policy also requires a plan to create a total package aimed at boosting exports. This policy is conditional on economic stability, a realistic and stable real exchange rate, higher domestic saving and lower company taxes.

Government must commit itself to reduction of company taxes to below 40% over the next few years, the report recommends. (Du Plessis cut company taxes by two percentage points to 48%.) It also says export subsidy schemes such as the General Export Incentive Scheme (GEIS) should be phased out eventually because lower levels of protection will reduce costs and so obviate the need for incentives to make SA industry competitive in foreign markets.

It says tariffs need to be continually reviewed; that the tariff book should be rewritten to include timetables for reducing protection and to provide rates for products not yet produced locally. But if the report is implemented, new industries can expect their protection to be phased out over a five-year period. The days of allowing protection to continue indefinitely will be over.



Graphic: FIONA KRISCH Source: IDC

An interesting finding is that revenue earned from tariffs is about 5% of the total value of imports. This is the internationally accepted benchmark. But if import surcharges and currency factors are added, import parity pricing effectively provides a tariff wall for local industry of about 20%. This is because high tariff items are mostly locally produced and imported to a limited extent or not at all, while low tariff items comprise the bulk of imports.

A major thrust of the report is that the sweeping change it wants will only be possible with the support of industry. The setting of target rates and the reduction procedures must be determined in consultation with the industries concerned. "This will give protected industries a fair chance of improving their competitiveness and to prevent the collapse of existing industries," it says.

And it envisages government aid in extreme cases: "A safety net will have to be provided for exceptional cases."

International trade is becoming more competitive, the report finds. Markets are becoming more integrated and interdependent. But countries with high protective walls will not find it easy to join the party.

LETTERS

SA must increase manufacturing exports — Mbeki

(180)

Diary 11/4/91 (PA)

THEO RAWANA

ANC international affairs director Thabo Mbeki appealed yesterday for increased manufacturing exports and warned that it was not in SA's interests for neighbouring states to remain underdeveloped to ensure markets for its goods.

Mbeki said a future SA economy would have to relate effectively to the southern African region and to the rest of the world.

Speaking at a National African Federated Transport Organisation (Nafto) conference in Johannesburg, Mbeki said: "We need to develop the view that other countries should also be developed. It is not in the interest of a liberated SA that other countries in the region be undeveloped and remain an appendage of SA where goods can be sold."

Mbeki said SA had to be able to compete in international markets, particularly in manufacturing.

"This country continues to be an exporter of raw materials. This is an old colonial relationship that has to change."

Because of mismanagement of SA's economy, the value of manufactured products had declined as a percentage of exports from 16% in 1960 to 5% in 1989. Exports of raw materials increased from 29% to 42%.

SA had been going backwards in terms of its relationship with the more developed parts of the world, Mbeki said, and the country would be in trouble if current economic problems were not addressed.

The repeal of the Land Acts did not solve the land problem for government.

The NP had not consulted widely enough before it passed new land legislation because it wanted to soften the impact on whites of making land available to the landless.

"It's not going to work. Even if the ANC was the government, it could not unilaterally solve the land question."

White South Africans should understand that they would be affected by the problems needing redressing. "Redistribution of wealth must make an impact on white SA," Mbeki said.

The economic objectives facing the country, and the closing of the gap between haves and have-nots, should not be only the ANC's objectives. To end poverty should be a national objective.

"This involves transfering resources from those who have to those who don't have," he said.

All South Africans had a responsibility to narrow the black-white, income and wealth gaps.

SA was a society that was divided, in conflict and prone to violence and with intolerable levels of poverty.

Sanctions

"It's an explosive mixture which spells conflict and instability."

Former Reebok International CEO Joseph la Bonte told the conference sanctions should be maintained until the majority of the people — the blacks — said they wanted them lifted.

South Africans needed to improve their image internationally. "All the outside world gets from TV and the Press is bad news — violence, disruption and lack of priorities."

He said: "Capital flows to attractive investments and South Africans need to define guidelines for investors — and to make incentives attractive."

La Bonte said these guidelines could take the form of what was being done in the areas of housing, education, job creation, health and social services and the advancement of black business.

But, the outside world should maintain sanctions until blacks said they wanted them lifted.

Drop boardroom colour bar, says Nafcoc

B Day 11/4/91.

THEO RAWANA

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THE National African Federated Chamber of Commerce (Nafcoc) aimed to ensure that in 10 years' time at least 30% of all JSE-listed companies' directors were black, Nafcoc president Sam Motsuenyane said yesterday.

Addressing the National African Federated Transport Organisation (Nafto) conference in Johannesburg, Motsuenyane said that in the same time span 40% of the total shareholding of these companies must be controlled by blacks if blacks were to make meaningful inroads into the formal sector.

"At least 50% of the value of the companies' outside purchases must come from black-owned suppliers and at least 60% of their top managerial personnel must come from the black community," he said.

He said all these figures represented realistic and achievable targets. Black businessmen needed to become more independent and cultivate self-reliance.

Motsuenyane told delegates that blacks must form companies able to compete.

"From now on, we must take full advantage of the opportunities that greater freedom will create.

"In these changed and changing circumstances, we shall be expected to work harder and think faster so that opportunities are used to best advantage."

To succeed in getting its members to acquire a stake in the formal sector, Nafto had to form companies, syndicates or co-operatives "which will possess greater ability and efficiency to withstand the aggressive competition that is to be encountered in the (transport) sector".

● See Page 3

BUSINESS CONFIDENCE

MIXED SIGNALS

FM 12/4/91 (180)

April's Business Confidence Index (BCI) is sure to come crashing down from March's 87,3 — itself unchanged from February — warns the SA Chamber of Business (Sacob), whose latest BCI was compiled before the ANC's ultimatum to State President F W de Klerk.

Sacob says the ANC's threat to pull out of talks will damage business sentiment both in and out of SA. It also criticises the ANC's tax proposals, saying "a positive future tax scenario is essential if foreign and even local investment are to be promoted."

Business confidence, says Sacob, seems to be stabilising but remains vulnerable, par-

continued

FM 12/4/91 (180)

ticularly to political factors. March BCI was static because negative influences were offset by positive ones.

Negative influences include:

- ☐ Falls in the dollar price of gold and the rand/dollar exchange rate;
- ☐ A rise in consumer price inflation to 15% from 14,3%;
- ☐ A fall in merchandise imports, exports and physical volume of manufacturing production; and
- ☐ A lower real value of building plans passed.

Positive influences include:

- ☐ An upward trend on the JSE;
- ☐ A lower three-month bankers' acceptance rate;
- ☐ An increase in the number of passenger cars sold and expected real retail sales; and
- ☐ A decline in the number of insolvencies of individuals and partnerships.

March confidence levels in manufacturing indicate a more optimistic outlook, Sacob says. This is mainly as a result of rising activity since September and improving sales expectations. Production volumes are also expected to increase, giving rise to hopes that capital expenditure will be higher in the next 12 months than in the previous 12.

On the negative side, high interest rates and slow turnarounds mean the cost of holding stock remains high, Sacob says. Most respondents believe profits will stay under pressure in the next year. ■

FSI/W&A (180)

DEBT STILL A BURDEN

FM 12/4/91

W&A's slide in EPS for the year to end-December has done little to improve the market's already depressed rating of the consumer goods and industrial conglomerate and its pyramids, Waicor, FSI and FS Group.

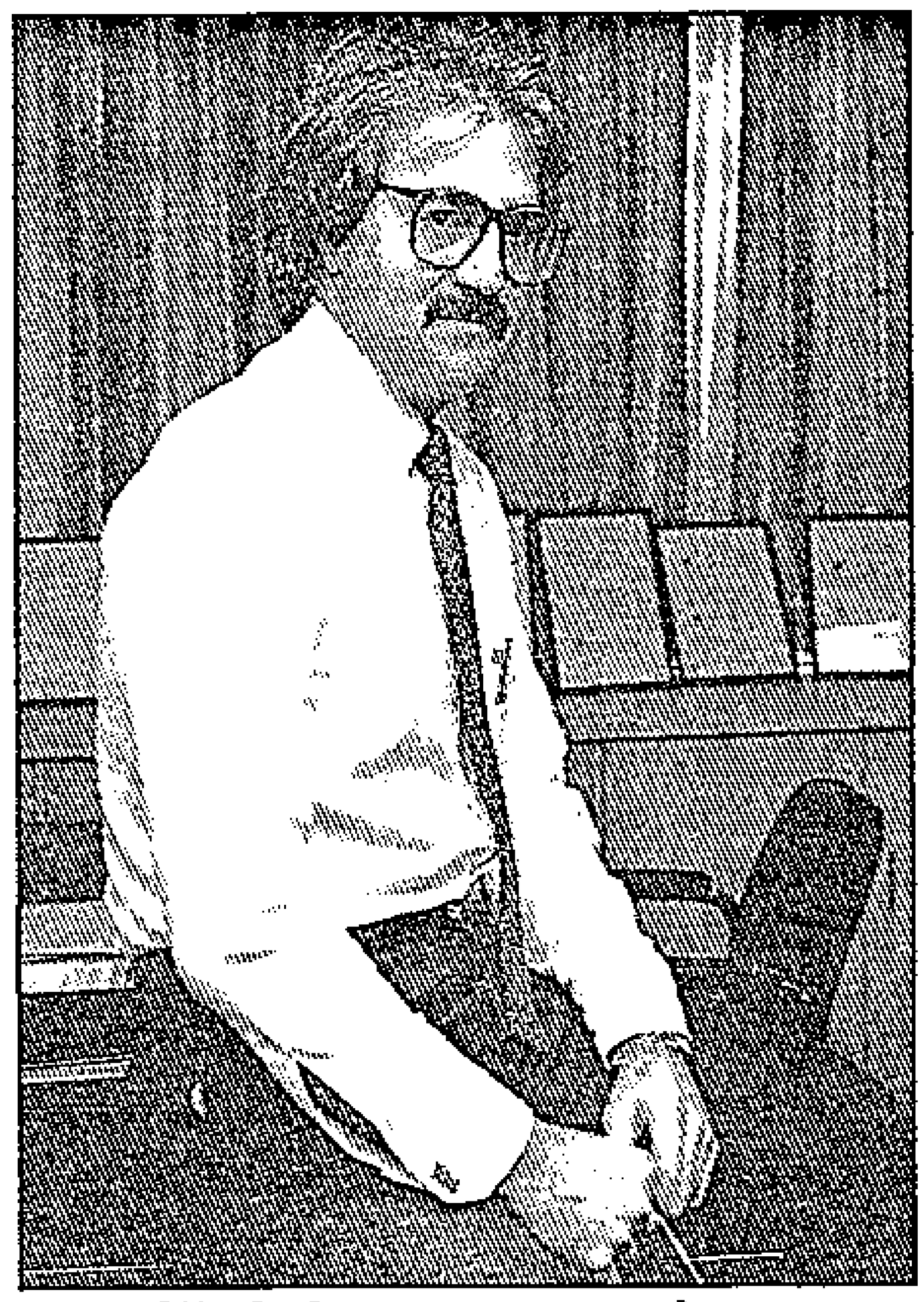
EPS at W&A, which became the holding company for the group's worldwide interests after a major restructure effective from July, fell 13,6% after the earnings dilution that resulted from the issue of convertible debentures and prefs at mid-year. At FSI, the bottom-line earnings slumped by 16,4% — well down on the expectations of analysts canvassed by the *FM* last week, most of whom expected W&A and FSI to maintain earnings.

Chairman Jeff Liebesman argues that expectations for the group's performance were unduly high and failed to take full account of the recession's effect on its industrial operations as well as warnings at the interim that the turnaround at loss-making footwear company Edworks was taking longer than management had expected.

At the interim FSI's earnings showed almost no growth, while W&A's had advanced 6,6%. W&A's full-year operating margin slipped significantly compared with the previous year, when the former structure was in place and trading conditions were more buoyant.

Last year's reshuffle has again made direct comparisons problematic. But it is plain that debt has remained a major bugbear. W&A's operating profit increased, from R294m to R317m, but the gains were swamped by a 79% rise in the net interest bill, to R117m. At the 1989 year-end, trading profit was covering the finance cost 4,5 times; last year it was only covered 2,8 times.

Liebesman reckons the performance of the three holding companies this year will be more in line with that of W&A. He attributes much of W&A's drop in EPS to difficult trading conditions at Edworks and at the toy supplier Hygienia, as well as restructuring costs at associate company Elcentre. Trading losses of R11,4m at Edworks and of R4m at Hygienia, and a R3,7m drop in Elcentre's earnings contribution cost W&A 15c a share.



FSI's Liebesman ... *no changes to debt structure*

Contributions from operations that supply the mining and motor industries, such as Williams Hunt and V&R Engine Spares, as well as the hosiery operations, were also down.

Major earnings generators were the listed operating subsidiaries Gentyre, JD Group, MacPhail and UK-based AAF, as well as unlisted Form-Scaff, National Bolts and Housewares. Offshore operations generated 17% of group earnings. Foreign earnings rise to 25% if exports are included.

Earnings at Gentyre, the biggest single profit contributor, were up 58% at R68,8m. But much of this improvement was due to a fall in the tyre firm's effective tax rate from 34,5% to almost zero, because of changes in capital allowances. This, with assessed losses, reduced W&A's from 28% to just over 10%. Liebesman expects it will take several years before W&A's effective rate creeps up to what he considers sustainable levels of 25%-30%.

There is no change to the philosophy of using high gearing to acquire and improve what are seen as underperforming assets. FSI, which Liebesman now calls an investment holding operation, retains long-term debt of R174m and redeemable prefs of R111m, and its interest charges are offset by income from convertible debentures and prefs it holds in W&A.

Long-term liabilities at W&A — which holds the operating companies — climbed from R639m at December 1989 (based on pro forma figures issued during the restructure) to R942m at the end of financial 1990 because of capital expenditure and acquisitions totalling R300m. Liebesman points out that total assets climbed from R2,7bn to R3,1bn over the year. Revaluation of plant and equipment added R539m to W&A's asset value and effectively reduced gearing from 67% to 48%.

Liebesman says he sees no reason to change the debt structure. Cash flow, he says, remained positive before acquisitions and capital expenditure, and interest cover has improved from 2,2 times at June to 2,7 for the full year.

Though trading will generally remain difficult, management expects benefits from the restructure, such as better cash flow and improved efficiency, to be felt this year. But Liebesman offers no forecast on earnings.

Investors continue to take a bleak view of the group. W&A's share price of 480c — down from 585c last week — reflects a p:e of 5,1 on the latest results. The rating is unlikely to improve significantly until investors can see a more encouraging and consistent performance.

Simon Cashmore

DILUTED PROFIT

12 months to	Dec '89	Dec '90
W&A		
Turnover (Rbn)	2,3	3,0
Pre-tax profit (Rm)	228	199
Attributable (Rm)	86	113
Earnings (c)	110	95
Dividends (c)	42	42
Waicor		
Earnings (c)	45,9	39,2
Dividends (c)	16,8	16,5
FSI		
Earnings (c)	132	110,4
Dividends (c)	35	35
FS Group		
Earnings (c)	66	55,2
Dividends (c)	17,5	17,5

Safeguards against dumping required

Star 12/4/91

By Sven Lünsche and David Canning

(180)

The plan by the Industrial Development Corporation (IDC) to fundamentally restructure South Africa's trade policy has received a mixed reaction from the business sector.

The proposals by the IDC are designed to replace past protectionist policies with others aimed at achieving an export orientated environment and making local industry more competitive.

The SA Chamber of Business said it was not yet in a position to comment fully on the far-reaching proposals, which include calls for an immediate lifting of import surcharges and a modification of tariff protection policies.

In a statement Sacob stressed that any changes in tariff structures should form part of an overall industrial strategy and should be only one of the elements of a policy to strengthen the international competitiveness of industry.

"An adequate phasing in period of progressively lowering tariffs is also an essential procedure in this process," Sacob says.

However, Natal Chamber of Business president Errol Rutherford warns that the unplanned removal of tariffs could knock out some companies already battling to survive in a recessionary environment with high interest rates and high corporate taxes.

The report shows import tariffs have inhibited the country's export performance and have cost the country the equivalent of 12 percent of its gross domestic product. If the impact of the surcharge is added, the burden rises to 14 percent of GDP.

However, Mr Rutherford's plea is likely to be repeated by many companies whose cosy domestic environments may be disturbed.

The textile industry, for example, already claims great hardship has been caused by policies which allow foreign competitors to dump products in local markets.

The clothing industry, in contrast, has a long-standing complaint about local textiles.

Brian Brink, the executive director of the Textile Federation, welcomed the overall plan to create a more competitive trading environment but stressed that safeguards against disruptive international trade and dumping were required.

"It is difficult to implement effective anti-dumping measures and efforts to apply the Anti-Dumping Code of GATT have largely failed and been replaced with quota systems in many countries," Mr Brink says, referring to the IDC's recommendation that SA should sign the GATT's Anti-Dumping and Subsidies Code.

No distortion expected in money supply statistics

BDay 15/4/91. (180)

SHARON WOOD

A CORPORATE debt market — in which companies fund themselves through commercial paper by bypassing the banking sector — would not affect money supply figures, but would increase the velocity of money, analysts said last week.

The velocity of circulation is the rate at which money changes hands in the economy — an indication of individuals' desire to hold money.

The analysts were reacting to remarks in certain quarters of the banking industry that a corporate debt market — also known as disintermediation — could affect money supply statistics.

They said that initial doubt about the accuracy of money supply figures might be unwarranted. This was because although this financing occurred outside the formal banking system, the money would pass through banks anyway and thus be reflected in the statistics.

Activities in the corporate debt market would thus simply lead to a shift in the ownership of money but would not affect the overall level of activity, said Nedbank chief economist Edward Osborn. It would, however, accelerate the velocity of circulation of money.

The formal inclusion of the company commercial paper market in money supply figures was not desirable, said Reserve Bank economic head Jaap Meijer.

In the past disintermediation caused an underestimation of money supply figures, which are an important indicator of the economy's financial activity and are used to determine monetary policy.

But recently a substantial portion of "grey market" activities — financial activity outside the banking sector — was eliminated. In February banks were required to bring off-balance sheet financing back on-balance sheet in accordance with the Deposit-Taking Institutions Act.

The effects of reintermediation, when money outside the formal banking system is brought back into the system, on money supply statistics were shown in February. Money supply growth surged to 14,6%, while when the effects of the Act were taken out of the figures, money supply grew by only 12,2%.

In response to the question of whether the Reserve Bank planned to measure the size of the corporate debt market, a Bank spokesman said there was no immediate plan to do so. But it would probably be desirable to follow the system used by the Bank of England, he said. There, companies issue returns to the Bank.

The Reserve Bank's aim was to create a proper market which could be enhanced through adequate protection, said Reserve Bank Registrar researcher Nico Marais.

Sacob objects to Bill's neglect of Sunday trade

BD 15/4/91 MARCIA KLEIN (180)

THE SA Chamber of Business (Sacob) has hit out against the fact that no provision for Sunday trading has been made in the proposed Business Practice Bill.

The chamber has submitted a memorandum to the authorities recommending that Sunday trading be fully deregulated, in response to what it said was the "silence of the proposed Business Practice Bill on the question of Sunday trading".

Sacob said laws that could not be enforced — such as the existing Sunday trade by-laws — must be abolished or modified.

An economist said last week that the law was openly flouted, and if local authorities implemented the law to the dot, many traders would be subject to fines.

Laws on Sunday trading have not been addressed in the proposed Bill, and Sunday trading remains prohibited with the exception of specified goods.

The new Bill does address the issue of deregulation, and accommodates 24-hour trading.

Sacob said Christians were not necessarily opposed to Sunday trading and those who objected were free not to go shopping on Sunday.

Although there had been some objections by trade unions, Sacob said worker interests were accommodated in other legislation.

Consumer convenience was enhanced by Sunday shopping. This included convenience to the growing number of women who were becoming part of the workforce, black consumers "who spent much of the week travelling" and the reduction of peaks and troughs of trading and traffic conjestion.

Sacob also evaluated the arguments against trading on Sundays, which could be inflationary as longer trading hours did not necessarily mean increased sales. The possibility that workers could be exploited and their jobs threatened by increasing reliance on part-time non-unionised workers was another disadvantage.

Sunday trading might also force small business to open on Sunday in order to compete with big business.

Low gold price, VAT setbacks for owners

(180)

The depressed gold price and the introduction of VAT have serious implications for the owners of commercial and industrial property, says John Whiting, chairman of Pangbourne Properties (Panprop). Star 16/4/91.

"About 50 percent of such property on the Witwatersrand is directly or indirectly dependent on gold mining," he says.

"If the gold mining industry takes a knock, so does the property industry."

Mr Whiting also saysthe closure of mines and cutbacks in production affects hundreds of goods and service suppliers in the industrial sector.

This could lead to a serious fall in demand for factory and warehouse space as well as office accommodation.

"The imposition of VAT at a rate of 12 percent from October 1 could lead to serious cash flow problems for commercial and industrial property owners.

Reclaim input

"Landlords will be obliged to pay the tax within 30 days of rendering month-end rental statements.

"They may, however, reclaim their input from the Receiver only when tenants settle their rental accounts.

"Unfortunately, many tenants, particularly in the current difficult economic climate, are late payers.

"This could tie up at the Receiver, interest-free, substantial funds which could be more profitably deployed elsewhere."

World Bank

Departing Europeans open door for local companies

BD 17/4/91 (180) (356)

OUTH AFRICAN companies are queueing to egister as consultants with the World Bank so hey can tender for billions of rands worth of usiness on bank-financed projects in outhern Africa.

Finance department deputy director of economic information Fred Browne ays at least 20 companies have registered in the last year.

The bank will spend about $20bn this financial year, 40% of which will end up in Africa. This represents about 40% of project cost as normally its deals include co-financing by commercial banks.

The main attraction for SA companies in working on projects financed by the bank is the guarantee that they will be paid.

Browne says the bank normally finances only that part of project payable in foreign exchange — for example, the importation of heavy equipment — with the rest supplied by grants or co-financing by agencies such as the European Development Fund and the African Development Bank.

Co-operation between local companies and the bank has been "tried and tested" on the R6.5bn Lesotho Highlands Development Project.

He says SA has had "normal relations" with the bank since its inception in 1945. Government received 11 loans before 1966, all of which have been repaid.

The bank is not a political institution — countries are not allowed to turn down tenders for political reasons — and Browne says SA companies have not been aware of the opportunities it offers.

Excluded

However, SA companies have been excluded from projects involving the African Development Bank and were excluded from the bank's special "Africa facility".

He says there are two reasons for greater local involvement with the bank.

First, European companies which have traditionally done the development work in Africa are focusing their attention on Eastern Europe.

With the advent of European economic integration in 1992 and the opening of the former Soviet bloc, about 30% of companies have withdrawn from Africa and "resettled" in Europe.

SA has the opportunity to fill the vacuum.

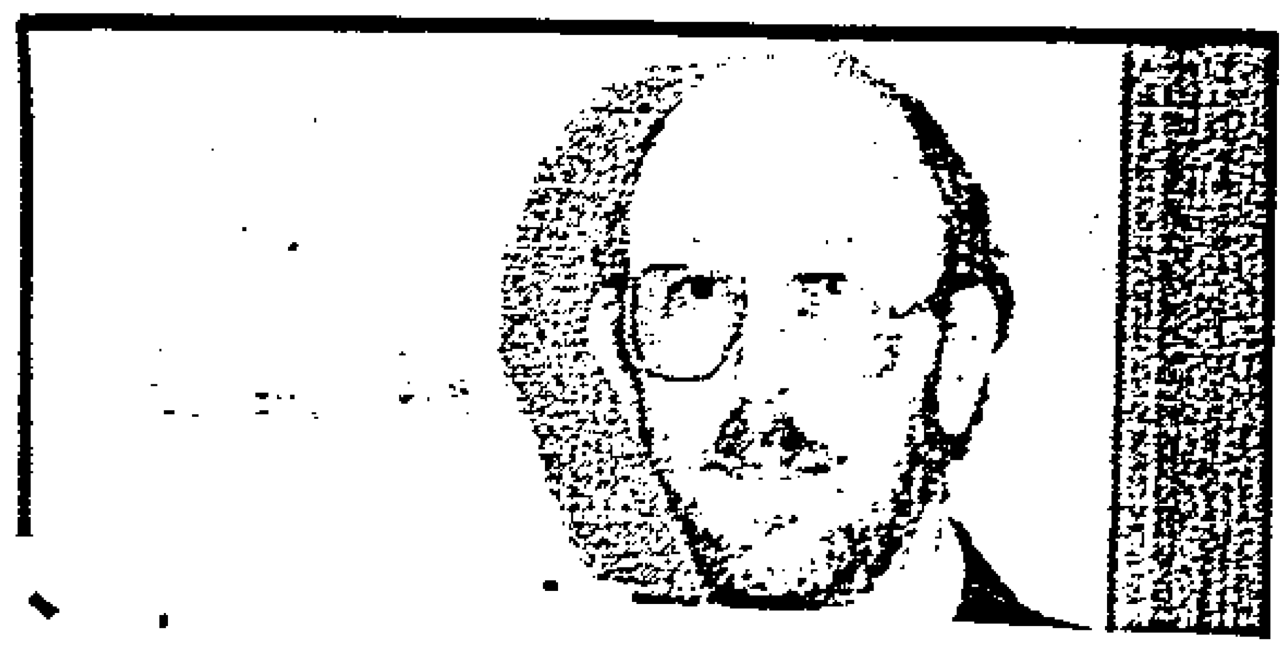
Secondly, the bank has had no dramatic development success story in Africa for a variety of reasons, one of which is the problem of "compatibility" between Western companies and agencies, and African conditions.

Browne says his department has detected bank enthusiasm for SA involvement in schemes on these grounds, prompting the Finance Department, rather than government, to launch its informal initiative to encourage SA involvement with the bank.

Benefit

He says: "SA stands to benefit from the inflow of foreign exchange.

"Companies will also profit from the snowball effect of working on bank projects, which tend to flow from one another."



Frame Group executive director Mervyn King, left, Institute of Directors executive director Richard Wilkinson and Anglo American legal adviser Alec Dawson, right, at yesterday's conference in Johannesburg on the Duties and Responsibilities of Directors in a New SA. Pictures: ROBERT BOTHA

Directors' duties 'ill-defined'

180

SHARON WOOD

THE ill-defined duties of company directors must be addressed in order to improve the position of the minority shareholder and enhance the image of free enterprise in a new SA.

This was the central message that emerged yesterday from a conference on Duties and Responsibilities of Directors in the New SA, hosted by the SA Institute of Chartered Accountants and the Institute of Directors.

"Directors cannot have extensive obligations imposed upon them without being informed of the content of those obligations", said tax advisory committee chairman Michael Katz.

Neither the present Companies Act, nor any of its predecessors, had tried to exhaustively codify the duties of directors, he said. Both the fiduciary duties of directors and their duties of care and skill had their source in the common law and in extensive case studies, he said.

But the task of educating directors would not be achieved by amending existing company legislation because it would not be exhaustive and would allow loopholes to develop, he said.

Instead the task should be fulfilled by organisations such as the Institute of Chartered Accountants and the Institute of Directors, which should arrange symposia and publish guidelines as to the duties of directors..

JSE executive president Tony Norton differed with Katz on how the duties of directors should be clarified. He said a clarification would possibly be best achieved through statutory amendment and in serious breeches of standards of care by directors, a director should possibly become personally liable for his actions.

In his speech, Norton focused on the need to improve the position of minority shareholders.

"The protection of minority shareholders is particularly important given that the corporate environment is characterised by the existence of a majority of companies controlled by stated interests," he said.

He added that although minority shareholders had good theoretical legal representation, this was not as attractive in practice.

Norton said "the appointment of a shareholder ombudsman to screen and process small shareholder grievances is worthy of dicussion and debate".

Norton added said this could be dealt with under the Securities Regulation Panel.

Most speakers at the conference expressed concern about insider trading and questioned whether the new legislation introduced to deal with insider trading would effectively combat it.

Anglo American signs up as regional interest grows

BDay 17/4/91.

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ANGLO American registered as a consultant with the World Bank in the middle of last year as interest in the role SA can play in regional economic development has grown.

Senior technical director Jack Holmes says the bank is keen on the involvement of SA expertise in development projects in the rest of Africa.

Holmes says the bank's interest in SA was probably prompted by three developments.

The Lesotho Highlands Water Project brought the bank into direct contact with SA engineering contractors.

SA companies have won a major share of contracts for the R6,5bn project, set to be financed by world aid organisations, including the bank, the European Development Fund, the European Investment bank, the Overseas Development Association and CIM of Germany.

Among the companies involved are Concor, Group 5, LTA and Grinaker Construction, which have joined a consortium with European companies to build the Katse Dam and associated infrastructure.

The changing political climate in SA is another influence in the bank's decision to take a closer look at what SA can offer the rest of the continent.

The final factor is the realisation of the "considerable" expertise SA companies have accumulated in the planning and execution of projects in many parts of Africa.

Projects such as Mossgas have demonstrated the extent of SA engineering competence.

Holmes says that Anglo is able to develop business opportunities in countries where it is established, such as Botswana, Zimbabwe and Zambia.

In other countries, the involvement with the bank might assist in the development of similar opportunities for Anglo in the medium to longer term.

With its experience of operating in Africa, Anglo is also "a source of intelligence" on the sort of development problems affecting the sub-continent.

Holmes says, subject to commitments to its own businesses and investments, "Anglo has the capability to provide technical advice, management of engineering and construction and procurement services and will look at any inquiry on its merits".

He says the corporation has had most contact with the bank's International Finance Corporation (IFC) as co-investor in Latin American projects.

The IFC is "a comforter" for international investors, he says.

Global entrepreneurial revolution flourishing

Cit Int 17/4/91 (180) (9102) (8032)

Own Correspondent

GENEVA. — A new study by the Geneva-based International Labour Organisation (ILO), says the world is in the midst of its third entrepreneurial revolution, far bigger than those of the 1880's and 1920's, because this time it is truly global.

The economic advantages of entrepreneurship are visible everywhere, the ILO study says.

Large bureaucratic institutions are reeling under the impact of smaller, innovative, fast-moving, market-driven entrepreneurial organisations.

In the US venture capital outlay to fuel new businesses registered a 200-fold increase in 10 years.

While 1 000 of the biggest US companies shed a million jobs.

Smaller companies added 20m in the same 10-year period.

The recent flight of young Japanese managers to small entrepreneurial companies has been attributed to the inability of bureaucratic industrial giants to reward bright young managers with a flair for entrepreneurship.

Large Swedish companies have also noted a similar brain drain.

In China, since 1977, a million private businesses have been created.

The replacement of bureaucracy by enlightened enterprise, and the transformation of bureaucrats into entrepreneurs, are signs of the times, the ILO says.

As fewer upward opportunities become available in the big organisations, ambitious people start to think about going elsewhere or starting up on their own.

The trend towards decentralisation, privatisation and labour flexibility requires a completely new set of managerial skills, and new training to produce managers who are more customer-oriented and less boss-oriented.

IN BUSINESS

Investment the key - UF chief

Sowetan 18/4/91

(180)

By JOSHUA RABOROKO

EVEN an acceptable political solution and the lifting of sanctions would not of their own bring an automatic influx of investment on the scale South Africa needed, a leading industrialist said this week.

Speaking at the launch of the R2,5 million Cape Town Job Creation Project, trustee of the Independent Development Trust and chairman of the Urban Foundation Mr Mike Rosholt said before that could materialise the new government would have to persuade potential investors that its economic system was sound and acceptable.

He said the private sector in turn would have to demonstrate it could provide adequate returns.

He said: "Our recovery, initially at least, will have to be internally driven. This will result in a measure of employment creation by the private sector.

"But sad to relate, history shows that on the whole, large businesses have not created meaningful numbers of new jobs in recent years - this is an international, not just a South African phenomenon.

This was partly due "to the fact that particularly in the manufacturing sector they have had to resort to increased mechanisation to remain competitive in international markets".

"In contrast, history has shown that small business has had a very good record in job creation, both in the formal and informal sector," Rosholt said.

Businessmen, by and large, were not particularly adept at politics and were unable to contribute meaningfully in that sphere.

But they had a tremendous responsibility to promote socio-economic progress which alone could tackle the issues of poverty and deprivation in this country, without which the stability and growth "we see so desperately need will not be attainable".

"The end of apartheid does not mean that all South Africa's problems will be over. No political solution, however perfect, will work unless it is matched by a strong economy, which will in turn provide the funds for really significant social investment."

He said in Cape Town alone, the population growth rate was already seven percent and 30 000 new jobs were needed a year to meet the expectations of a population which could conceivably double to five million by the year 2000.

"There is no easy or quick solution. Certainly the State, by ditching necessary fiscal disciplines and endangering longer term recovery, could produce projects calling for considerable employment."

Mr Eric Ismay, the chairman of the Cape Town Job Creation Project, said: "Our initiative involves more than job creation. We are in the business of developing new entrepreneurs and creating new businesses."

Govt acts on VAT delaying tactics

180

B\Day 17/4/91

BILLY PADDOCK

CAPE TOWN — Government took action yesterday to prevent companies delaying the purchase of capital goods until the implementation of VAT on September 30.

Finance Minister Barend du Plessis said in a statement that government would allow companies to write off a greater proportion of depreciation costs in the first year to discourage them from delaying their purchases of capital goods.

He said government was concerned that firms would stop buying capital goods until a full credit for tax paid on capital and intermediate goods was introduced to coincide with implementation of VAT.

The financial authorities introduced an anti-avoidance clause in the VAT Bill to prevent companies from delaying purchase of capital goods and abusing tax benefits introduced by the payment of a full credit for tax paid on capital goods.

Deputy Finance Minister Theo Alant warned during the VAT debate that anyone who tried to use tax benefits for transactions that were not in good faith would be subject to the usual tax.

The concession announced by Du Plessis means that companies which purchase capital goods up to September 30, excluding passenger cars and hired cars, may write off an extra 15% to depreciation in the first year.

As firms may currently write off 20% a year for five years on depreciation, they will be able to write off 35% during the first year and write off the balance during the following four years.

Government said it was hoped that this incentive, coupled with the inflationary advantage of buying now rather than later, would help avoid delaying tactics.

An Inland Revenue official said that with company tax at 48% plus GST at 13%, the new concession would put actual tax cost to companies at 6,76%.

Opening debate on the VAT Bill, Alant said the new system had proved itself internationally. Thorough research had been done for SA conditions.

☐ To Page 2

VAT

B\Day 19/4/91.

180

☐ From Page 1

ZILLA EFRAT reports that Industrial Development Corporation (IDC) GM Louis Kingma said the move would roughly negate the GST paid on capital goods during the period until end-September.

Kingma confirmed that the IDC had come across cases in which investors had postponed their expansion plans in order to gain the advantage of not paying VAT on capital goods.

He said the new measure was a welcome step towards reversing such delays in investment.

Sacob economist Keith Lockwood said the move would benefit many manufacturers of smaller capital goods, as many of their customers might have delayed their purchases ahead of what could effectively have been a 13% saving.

Some manufacturers of smaller capital goods might have suffered severely from purchasing delays of up to six months, he said.

The move avoided a stop-start effect on the economy, ensured that local investment went ahead and indicated that government had not changed its position on granting credits. "Ultimately cheaper capital goods should mean lower prices in the long term."

However, Lockwood said it was unlikely that larger capital projects would have been delayed as this could have added to costs.

This was confirmed by some of the groups involved in large capital expenditure programmes.

Iscor acting public relations manager Ernest Webb-Stock said all of Iscor's planned capex — R1,26bn for the year to June — had been committed, and there would be no delays in its capex programme.

A Sasol spokesman said his group had not planned to delay any of its capex programmes ahead of the introduction of VAT. "Most of Sasol's projects are long-term and cannot be delayed without cost implications."

Making industry lean and mean

w/mail 19/4-25/4/91

A government-commissioned report on reshaping the protection of local industry by import taxes entails South African industry going on a nasty diet of international competition. **Reg Rumney** reports (180)

TAX reform to lower the company tax rate in South Africa is a cornerstone of a proposed new government policy to beef up industry to compete internationally.

This is revealed in the just published report by the Industrial Development Corporation on protection policy.

The report, which is being studied by the government, has been released for comment from trade and industry.

The "Modification of the Application of Protection Policy" advocates a comprehensive package of measures, among them lower tariff protection, to shift the emphasis of trade policy towards export orientation.

It remains to be seen whether the recommendations make it through the gauntlet of vested interests it is bound to run. While it is certain to receive acclaim from most in the business community in principle, few will voluntarily welcome its tougher implications. Already there has been criticism that South Africa has a lot of disadvantages compared to exporting countries and the report's measures hold the danger of an elimination of South African industry rather than its enhancement.

It is as well that the long-awaited report warns against piecemeal adoption of its recommendations, which are designed to ensure South African industry becomes competitive in international markets as well as being competitive domestically.

Key recommendations are the reduction of tariffs, scrapping of surcharges and a stable foreign exchange value of the rand.

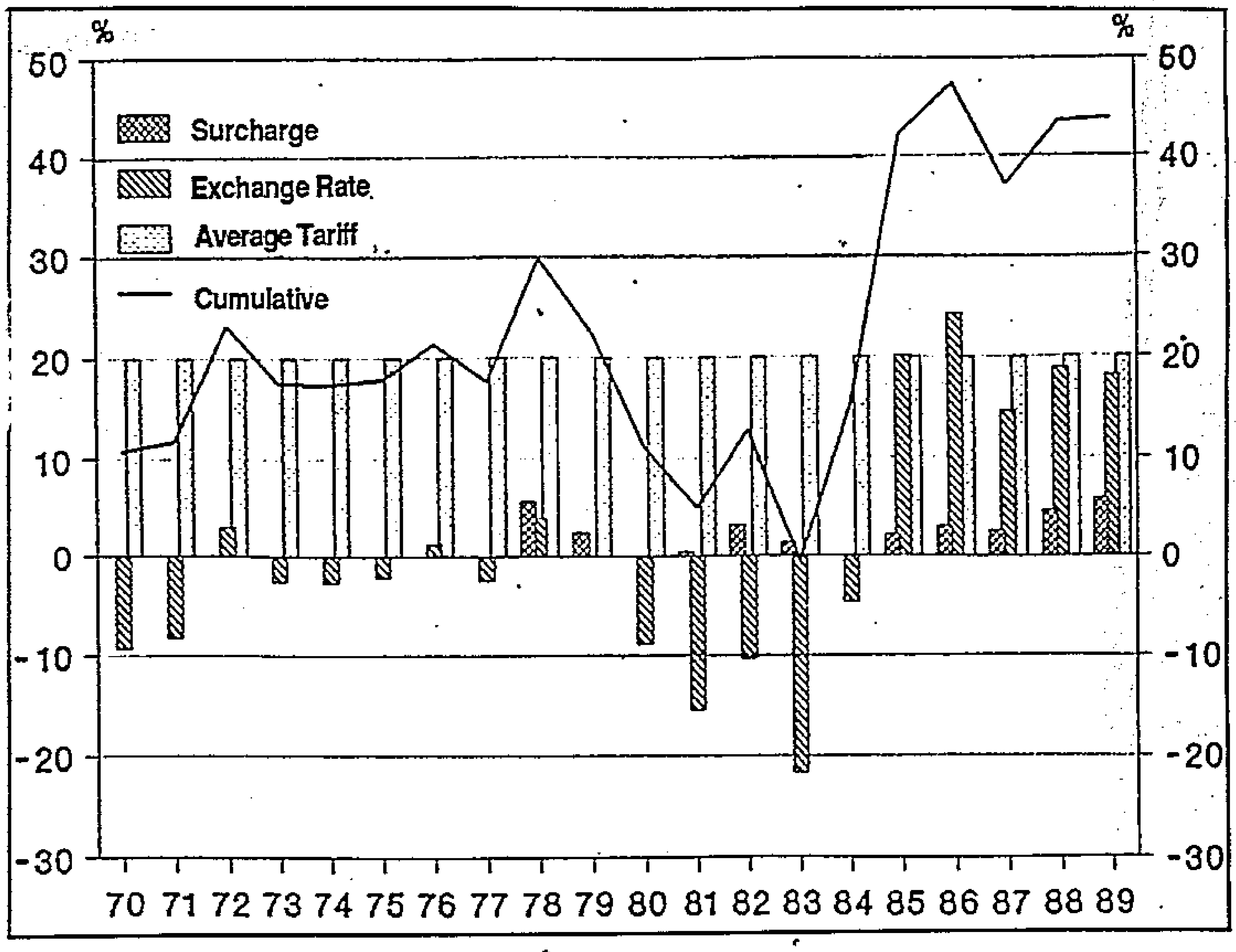
It recommends a general reduction in tariffs over the next five years towards target rates yet to be determined, with higher tariffs being moved down faster than lower tariffs. It remarks that in other countries tariff reductions have never taken place in less than five to six years and have often taken longer, so industrialists need not panic.

In the short term it recommends scrapping import surcharges — taxes introduced to protect the balance of payments in times of crisis — to slash the "import parity price level". Surcharges keep prices of some imports high, so that local manufacturers can (and do) price their competing goods accordingly.

It recommends in the first year of the phased reduction a general cut in tariffs of 10 percentage points on all tariffs of 40 percent and higher, and five percentage points on all tariffs between 20 percent and 39 percent.

It recommends a phasing out of tax incentives and export subsidies accompanied by a lower nominal company tax rate to stimulate exports.

The report notes export incentives designed to help along particular projects which emphasise beneficiation — increasingly processing raw materials into products with a higher value instead of merely exporting them — are destined to be phased out next year. At the same time the tax-based export marketing allowance and an electricity subsidy will expire. There may also be lower export subsidies under the general export incentive scheme and in the long run the GEIS should be phased out.



The graph above shows the combined effect of high tariffs, import surcharges and an undervalued rand in protecting industry in South Africa against foreign competition. The black line indicates that between 1980 and 1983 protection even disappeared in some years because of the rand's overvaluation. Protection is now abnormally high.

Graph: IDC REPORT

"This abolition of assistance to existing beneficiation plants is acceptable because their profitability has been increased sharply by the depreciation of the rand." However, the report remarks that this doesn't apply to new beneficiation projects, which are hampered by South Africa's high nominal company tax rate. "Other countries where international companies could just as well establish these projects normally have nominal tax rates lower than those in South Africa." The abolition of export subsidies and the less favourable formula for working out depreciation also raise the local effective tax rate here.

The problem is compounded by high inflation, high interest rates and political uncertainty.

In view of this, the report notes, and declining earnings from gold, it is urgent to encourage new export projects as well as upgrading existing projects towards higher value added exports.

Tax incentives specifically for exports run counter to the General Agreement on Trade and Tariffs, with which South Africa as an exporter must contend. Also, lower company taxes will soften the blow to South African companies of a reduction in protective tariffs.

The recommendations conflict with ANC thinking on industrial policy. The ANC's last discusssion document on the economy mapped out a policy of stimulating production of basic goods by domestic industry, and redistributing wealth to the poor to buy these goods. The IDC report stresses export-orientation and notes South Africa is exceptional in using anti-dumping or formula duties — which penalise cheaper goods particularly and are designed to stop countries dumping goods on our shores at below cost to keep production volumes up or get rid of an excess.

Formula duties, however, lead to high tariffs and in some industries keep out low but normally priced goods. The report says if producing such low-priced goods needed for "inward industrialisation" fails, anti-dumping duties would push the price of basic goods beyond the means of many.

FOX FM 19/4/91

operations.

At 1 600c, the share price has almost doubled from a year ago. The final dividend of 28c brings the total to 43c, which puts the share on a yield of 2,7% and a p:e of 15,6. For a counter that looks capable of doubling its earnings every three years the price is not excessive. *Gerald Hirshon*

FM 19/4/91 (180)

UNIT TRUSTS FM 19/4/91 (180)

INDUSTRIAL BULLS

Investors looking to unit trusts for signals about the future of the high-riding industrial sector are not likely to be disappointed.

While at face value there was a split in attitudes among fund managers in the past quarter — general equity trusts such as Momentum, Southern Equity, Safegro and Syfrets Growth significantly increasing their holdings of industrials, in contrast to declines at UAL, for example — sentiment remains reasonably bullish.

As a percentage of the total value of general equity trusts, industrial shares edged up two points to 41% (R2,7bn). Much of this appreciation reflects reduced liquidity, though improved market values also helped.

The biggest mover into industrial equities, in rand terms, was Syfrets Growth, which increased the value of its industrial portfolio by R39m to R137m (44% of its total portfolio). The trust raised its investment in Berzack and moved strongly into Unitrans.

However, Syfrets Managed Assets fund manager Anthony Gibson is cautious about the prospects for industrial equities and suggests that the surge in the Industrial index reflects buyers' anxiety of being left out of a market recovery. "This fear has superseded conventional investor logic, which would suggest that investment fundamentals do not justify present prices," he says.

Safegro Unit Trust director Kevin Cockcroft is not wildly bullish about the industrial sector and says the depressed mining industry and sliding interest rates limit other opportunities. Most industrial groups are much better managed than during the recession in the early Eighties, he says; he expects selected industrials to deliver 15% growth.

Though Safegro pulled out of Barlow Rand and cut stakes in Rembrandt, Tollgate and SA Breweries, it jacked up holdings in industrial stocks from 38% to 48% of its portfolio, moving into Safren and buying more Anglovaal Industries, C G Smith, Tiger Oats, Afrox and Rembrandt Beh.

Momentum had the biggest percentage exposure among general equity trusts to industrials, at 60% of its portfolio. Momentum Asset Trust MD Peter du Toit says exposure is likely to remain high. He believes government will have to stimulate the economy in the latter part of the year and adds that there is a serious shortage of investment opportunities. The fund built up holdings in SunBop and SA Breweries and moved into W&A (though Du Toit now calls that a mistake).

At the other end of the scale, UAL's general equity trust cut investment in the sector by R21m, among other things moving out of Kersaf, NEI Africa, NEI Holdings, Robor Industries and Iscor. Contrary to the trend, but in common with general equity trusts such as Norwich NBS and BoE, liquidity rose.

UAL Merchant Bank senior GM Michael Eustace says these moves do not reflect a decision to limit exposure to the sector but are rather part of a shift in the portfolio mix. Liquidity is likely to come down to around 25% in the next six months as the fund moves into other investments — some of which will be in the industrial sector.

"The Industrial index has had a good run and is due to level out, but I doubt it will come off much," says Eustace.

Similarly Metfund equity manager Hendrik du Toit says the value of the trust's industrial holdings was maintained, as it was fullly invested.

Sanlam increased the exposure of its Dividend and Industrial specialist funds to industrials, which make up more than 40% of the portfolios of its two general equity trusts. Senior portfolio manager Stafford Thomas says that while the group is a strong supporter of industrials it has tried to maintain a balance and has probably retained a greater investment in mining stocks than most rivals. Some mining stocks, particularly in diamonds, still have much to offer, he says.

"The industrial market is still in a bull trend but I don't think our exposure can go a lot further," says Thomas.

With high liquidity no longer attractive as interest rates ease, portfolio managers are likely to channel increasing funds into industrials — last quarter's R331m net inflow was the third highest ever. This in itself could bolster the sector. *Simon Cashmore*

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IDC

SALE HOPES DASHED

A statement in February signed jointly by then Ministers Wim de Villiers and Kent Durr and Industrial Development Corp (IDC) chairman Koos van Rooy said the IDC was expected to expand its role as financier of industrial enterprises and mobilise its full financial resources to this end.

It added that assets would be realised to provide finance, triggering expectations that the IDC could soon sell some large investments. Such hopes, it seems, were misplaced.

No such sales are thought necessary immediately, and almost certainly not this year. In a presentation to the Investment Analysts' Society this week, MD Carel van der Merwe listed the IDC's marketable investments — and explained the obstacles to realising them with any urgency.

That in itself is no surprise. The IDC has never shown much enthusiasm about selling mature investments to the private sector. And, as was clear from the February statement, the purpose of disposals would be to provide finance; there was no indication that privatisation was the objective.

Van der Merwe adds that the IDC has never been limited so much by lack of finance as by a lack of project opportunities.

Listed holdings include 170m Sasol shares, with a market value of about R2,1bn; 300m Iscor (R580m); 144m Industrial Selections (R370m); 180m National Selections (R300m); 3m Sappi (R170m); and 15m Sentrachem (R84m). These total about R3,5bn, but, Van der Merwe points out, it is

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unlikely that they could be realised in a market as tight as the JSE without depressing prices.

The Iscor shares cost R609m, more than their current value, so the IDC would be reluctant to sell, particularly as it has undertaken to market the bulk of the shares as a pro rata rights offer, implying a discount to market value. "At the price the IDC would like," says Van der Merwe, "the offer might be one an Iscor shareholder could refuse."

The IDC also feels that its overhang has depressed the Sasol price, which at about R12 is thought by some analysts to be well below value. But this of course is circular — as long as the market thinks the IDC shares may be sold, the discount may continue.

A problem with such a large rights offer is that four or five institutions would have to take a large portion. The IDC hopes to find other solutions, which could arise when State pension funds enter the equity market.

Sappi and Sentrachem are relatively small parcels that could easily be placed. But these are seen as important "partnership" shares. Though the IDC controls Indsel and Natsel it has limited room to manoeuvre with these.

The big unlisted holding is Foskor. Van der Merwe says any decision to sell would have to be taken by the State, as this would be in the nature of privatisation. The IDC feels that Foskor is not suitable for widows and orphans — it is a single product company, operating in difficult, cyclical markets (sounds just like a gold mine!).

Van der Merwe reckons it could fit well in diversified institutional portfolios. "You then enter the debate on the concentration of economic power, and other politically sensitive subjects, so it's a difficult decision."

The IDC has two large operating subsidiaries, Atlantis Diesel Engines and Sapeko. The former is not doing well, is being restructured and is not expected to be a candidate for sale of control for many years. The latter, an agricultural development arm, is not deemed suitable for a sale because, while it yields positive returns, there is no potential for adequate cash yields to private investors — though that surely depends on the price.

Borrowings and cash flow will remain the first source of finance for new projects. Van der Merwe says sales will, however, have to be made if only a small proportion of the projects now being considered get the green light — but there is no clarity on when this point will be reached.

One or more of Van der Merwe's objections, of course, could be applied to virtually any privatisation — or, indeed, most flotations. Any decent merchant bank could get around them in five minutes; some can be proved or disproved only by being put to the

continued

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test. It should be more important to mobilise capital — in the process, making the JSE a more liquid market — than hold on to listed shares indefinitely, waiting for a "right" moment to sell — that may never come.

The whole performance smacks more of self-justification for refusing to dismantle an empire which the IDC really has no business to maintain than of economic logic.

Andrew McNulty

Big business warns on violence

(180)

By Michael Chester Star 19/4/91

Big business has renewed warnings to the ANC that the whole investment climate in South Africa has been badly damaged by the combination of its ultimatum to the Government and violence in black townships.

The warnings were delivered when the SA Chamber of Business (Sacob) held top level talks with ANC leaders at a 90-minute meeting in Johannesburg yesterday.

The business delegation was led by Sacob president John Hall and the ANC team by Walter Sisulu, chairman of its internal leadership corps.

Sacob said in a statement today it had expressed deep concern over the combined effect the ANC ultimatum and continued violence was having on business confidence.

It had stressed that if a favourable investment climate was to be created,it was essential that violence should be eliminated and that the political negotiating process should continue.

"Certain active proposals emerged from the discussions aimed at promoting reconciliation and negotiation, which will be further considered by Sacob and the ANC," it added.

Details were not divulged.

Capital investment given vital fillip

B/Day 22/4/91

LESLEY LAMBERT

CAPE TOWN — The cost of imported capital goods will have declined by almost 20 percentage points by October this year — a development which will provide a vital incentive for capital investment in SA.

Until the beginning of this month, imported capital goods, such as industrial plant and machinery, were subject to a 10% import duty, a 10% surcharge and 13% GST on the total cost of the item.

In his Budget in March, Finance Minister Barend du Plessis reduced the import surcharge on capital goods to 5% and that on intermediate goods — consumables used in the production process — from 7,5% to 5%. These two concessions would result in an estimated loss to the fiscus (and a saving to the importers) of R756m.

When VAT is introduced on September 30, purchasers of capital and intermediate goods will be entitled to a full and immediate credit for tax paid on these goods — at an annual cost to the fiscus, and saving to commerce and industry, of R7,5bn.

Du Plessis took steps last week to prevent local buyers from deferring the purchase of capital goods until September 30 in order to benefit from the tax concession.

To encourage the purchase of capital goods, he announced that companies which bought capital goods between now and September 30 would, for tax purposes, be entitled to write off an extra 15% to depreciation in the first year.

"If you add the import surcharge and tax concessions to the benefits to foreigners of investing through the financial rand, we are virtually giving away opportunities to invest in this country," says David Bridgeman, CE of Wesgro, which promotes economic growth in the western Cape.

Bridgeman, who has hosted industrial and financial delegations from most countries in the world on fact-finding visits to SA, says it is vital for the country to offer incentives which enable it to compete with other countries for foreign investment.

Global investment has become increasingly mobile, identifying and flowing to the areas which offer opportunities for the best returns.

As an example, Bridgeman refers to a major international chemicals company which recently decided to locate a plant in SA but changed its mind and invested in Singapore instead because the country offered it 10 years' tax-free.

The Finance Minister stressed in his reply to the Budget debate last week that efforts to reduce company tax were also a crucial factor in the bid to make the SA economy more attractive to foreigners.

Trade-offs 'could open can of worms'

Stern warning to govt over VAT changes

BIDay 22/4/91 (180)

MATTHEW CURTIN
and BILLY PADDOCK

BUSINESS leaders have issued a stern warning to government that if it continues to bow to political pressure and softens the impact of VAT, it will irreparably damage the effectiveness of the new tax and business confidence.

SA Chamber of Business (Sacob) senior economist Ben van Rensburg said yesterday government risked "opening a can of worms" if it made more trade-offs on VAT.

On Friday Finance Minister Barend du Plessis announced that municipal rates would be exempt from VAT. Earlier he announced a preferential write-off rate for capital purchases before the VAT implementation date of September 30.

Government's handling of the new tax was sharply criticised by Parliamentary opposition parties and there were indications that elements within the NP had also resisted VAT on municipal rates.

Van Rensburg said VAT's success depended on it being a "fully taxable" system, without exclusions, which would not be incorporated in businesses' cost systems. One of its main attractions was that it would help to bring down inflation.

Van Rensburg, who has praised government for choosing efficiency at the risk of endangering political support in its plans for implementing VAT, said government's priority was now to set its arguments in place to convince the community to accept a "clean VAT system". If government was to show flexibility, it should be on the VAT rate, even if other routes had to be found to make up lost funds from a lower rate.

Sacob's chief concern was that government would end up with a crippled VAT system. The business community was already making investment plans based on the implementation of VAT as it now stood and counting on the benefits derived from the demise of GST.

Van Rensburg said as SA prepared to return to the international business fold the reduction of import surcharges and the institution of VAT were "a badly needed shot in the arm" to make SA more competitive and stimulate foreign investment.

Government had rejected Vatcom's recommendation that VAT on capital goods be phased in because of the problem of definition. Capital goods were already defined differently for income tax and GST purposes, and if VAT was subjected to the same scrutiny it would only increase uncertainty surrounding the tax.

He said providing VAT exemptions for municipal rates and taxes would be open to abuse or make consumers pay more for the services, rather than pay VAT, as local authorities passed on as costs the VAT they had to pay on inputs.

No amendments to the VAT Bill are possible at this stage and it has to be accepted or rejected in its totality as introduced in Parliament. Because of this, separate legislation will apparently have to be submitted to exempt rates from VAT.

☐ To Page 2

VAT changes

BIDay 22/4/91 (180)

☐ From Page 1

Government hopes the backdown on rates will be enough to neutralise or split opposition to the Bill and allow it to pass into legislation without further retreat.

Both the DP and the CP have vowed to keep up the pressure and force more concessions, particularly on the 12% rate at which VAT will be introduced.

Early on Friday there were rumblings in Parliament, including from many NP MPs, that government had underestimated opposition to the Bill.

Vatcom members said arguments against VAT on rates had not been strongly submitted by anyone and they believed the arguments from municipalities had arisen only recently after ratepayers realised what effects VAT would have on them.

According to MPs and commentators, the Bill united political parties against government in a way not seen since the inception of the tricameral system.

NP caucus members who had problems with the Bill said the United Municipal Executive had a large constituency and considerable political clout, and they were concerned that when they returned to their constituencies they would not be able to sell VAT.

Raw deal doled out to commodity producers

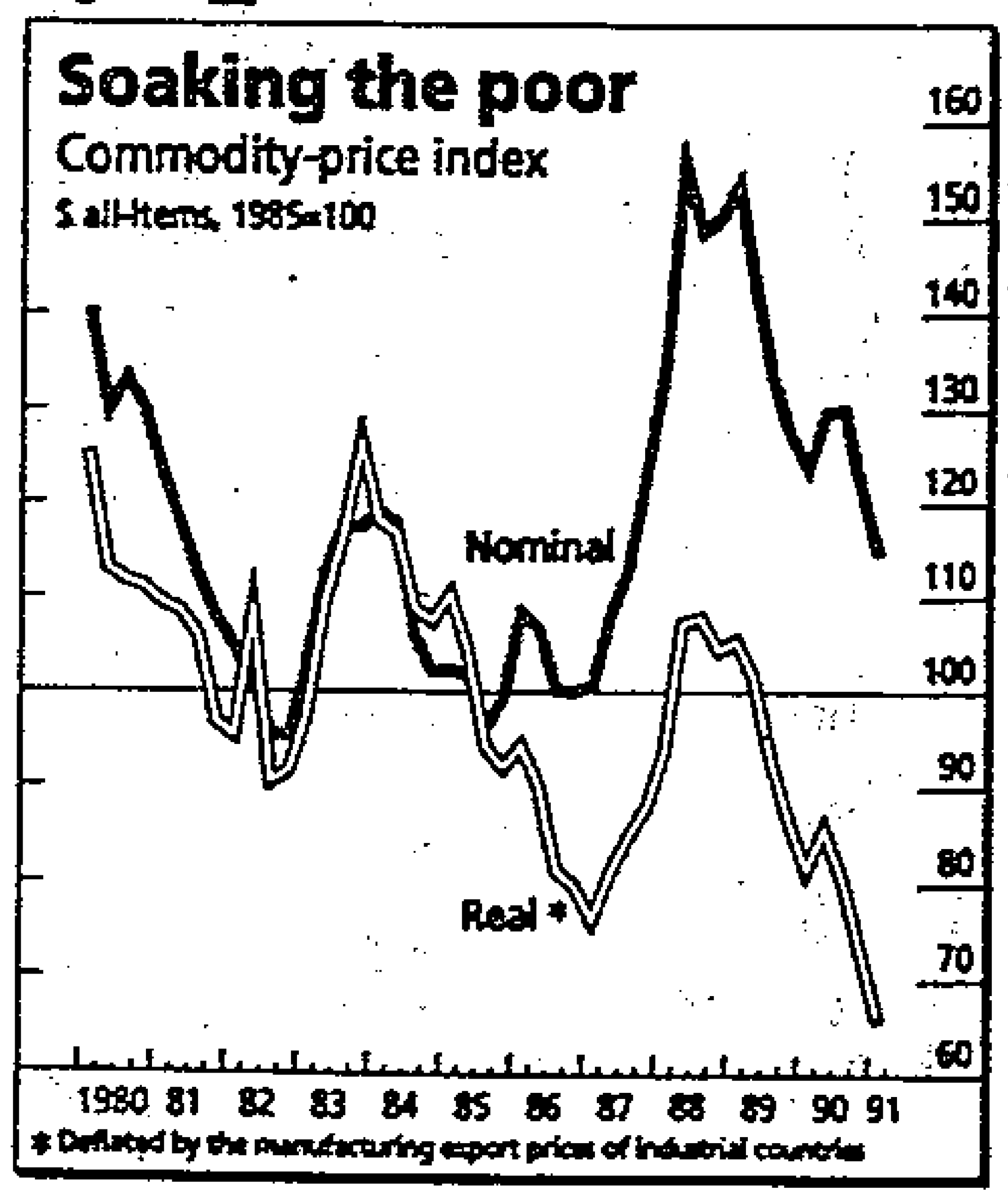
180

Star 22/4/91

LONDON — The all-items commodity-price index (which excludes fuels) published by the Economist is at a record low in real terms — almost 50 percemt below its recent 1988 peak.

Other commodity-price indices, such as the one calculated by the IMF which uses different weights, show even bigger drops in real terms over the past two decades.

But few statistical series claim so long an ancestry as the Economist's index. This newspaper first published an index in 1845, initially to highlight the rise in prices after gold was discovered in Australia and California.



Good news

The collapse in commodity prices is good news for industrial economies, as it helps the fight against inflation. But cheap commodities add to the woes of those developing countries struggling to introduce economic reforms and to service their debts.

Low commodity prices constrain their investment and growth. The OECD calculates that real GDP a head grew by an average of only 0,2 percemt a year between 1965 and 1987 in poor countries which depend on non-fuel commodities for at least 60 percent of their exports, compared with average growth of 2,7 percent in all developing countries.

If commodity prices regained their average real level of the 1970s and 1980s, then (ignoring any volume changes) the export revenues of poor countries which are non-fuel-commodity exporters would be a third higher.

Bounce back

For food-exporting poor countries the best hope for a recovery in price lies with the rich. If (a very big if) rich countries cut back farm protection and subsidies significantly, world grain and meat prices, for example, would bounce back.

The prices of many other commodities, particularly metals, have been depressed by overcapacity created by heavy investment in the early 1980s when prices were high.

While prices may pick up over the next couple of years, there are reasons for expecting the long-term slide in real prices to continue.

The shift within developed countries from heavy industrial to computer and service businesses means that a given increase in GDP produces a smaller increase in the demand for basic materials.

Meanwhile, demand in developing countries will remain constrained by low incomes.

Technological advances have both increased supply (eg, higher crop yields) and cut demand thanks to cheaper substitutes.

Artificial sweeteners replace sugar; plastics replace metal; fibre optics replace copper wire, and so on.

Thanks to these two trends, the world today uses about a quarter less copper a unit of GDP than 20 years ago, 40 percent less iron ore and 50 percent less tin. And that demand is lost forever. — The Economist.

Black business 'ready to boom' 180

1438 THEO RAWANA 1438

BLACK business has the capacity to develop into a massive wealth and job-creating machine, believes Foundation for African Business and Consumer Services (Fabcos) general secretary Joas Mogale.

"The British 'grandlords' still command 80% of the economy and the Afrikaners have consolidated their muscle through 40 years of National Party rule," he said in an interview. B/Day 23/4/91

Fabcos, an umbrella body of 13 business organisations representing 1,2-million individual businesses, seeked to mobilise black business forces, Mogale said.

"We believe that, given the opportunity to realise its potential, black business has the capacity to develop into a massive, self-generating process — triggering an economic cycle on a scale that will cut across the entire spectrum of income and work-creation among South Africans."

Fabcos will hold its three-day AGM at the Nasrec centre from May 4 and, in line with its policy of non-affiliation to any political grouping, has lined up speakers from a wide political spectrum.

Speakers will include ANC international affairs director Thabo Mbeki, PAC deputy president Dikgang Moseneke and Institute of Multiparty Democracy president Oscar Dhlomo.

Consumer markets are set for a change

(180)

O|Day 23/4/91.

A COMBINATION of a deregulated competitive environment, growth in black buying power and the return of the multinationals will alter the nature of business in local consumer markets in the '90, says Perry & Associates MD Neil Ross.

"The informal sector has developed as a direct consequence of deregulation — but the established captains of industry and commerce do not understand how it operates or how this can be used to their companies' advantage.

"For instance, white businessmen need to understand black ways of doing things, and the fuctioning of the burgeoning black distribution networks.

"It is not enough for white businessmen to be aware of such developments as spazas and stokvels when the integration of their business with the informal sector can give them a competitive edge in the new SA," Ross says.

Much has been said about the size and importance of the black market — but Ross says it will be open only to companies with access to the networks that reach the consumers.

Not only is the informal sector complex — but the situation is made more so by the rate of urbanisation.

Another factor which will impact on the local scene is the imminent lifting of sanctions and the return of multinational competitors.

"Local businessmen must keep an eye on global as well as local competition.

"They need to consider the advantage that could be obtained by a multinational competitor with regional domination of southern Africa.

"Multinationals will require instant distribution networds to launch their products — especially in the consumer sector.

"Regional dominance will start with dominance of South African distribution channels," he says.

Because of this, it is essential for local companies to select and develop their distribution channels.

BIDay 23/4/91

Use your cash, business told

(180) (8?)

CAPE TOWN — South African conglomerates and insurance companies were sitting on a pool of cash and their wait-and-see attitude was counter-productive to economic growth. Hennie Bekker (NP Jeppe) said yesterday.

Speaking during the debate on the Finance Vote, Bekker said it was time for capital investment to get the economy going.

He said a lesson could be learnt from post-war Germany and Japan.

"Their economics were virtually destroyed, but with their determination and with an export-oriented policy, they have built up their countries into the present economic giants."

SA should become part of existing trade blocks, he said. — Sapa.

JCCI outgoing president Jonny Frankel, left, addresses the organisation's AGM at the Wanderers Club in Johannesburg yesterday. Delegates to the meeting included, from top: Rudi Frankel, formerly of Tiger Oats; Barlow Rand executive chairman Warren Clewlow and Transvaal MEC for health services Fanie Ferreira. Mike Cato was appointed the new JCCI president. Pictures: ROBERT BOTHA

PWV deserves a better deal

(180)

SHARON WOOD

JOHANNESBURG and the PWV region — backbone of the SA economy — should not be excluded from regional industrial incentive programmes as they had been in the past, outgoing Johannesburg Chamber of Commerce and Industries (JCCI) president Jonny Frankel said yesterday. B/Day 24/4/91

A new industrial incentive package was currently being negotiated and the PWV again would not qualify for any incentives for further investment development, Frankel said at the JCCI annual general meeting in Johannesburg yesterday.

But Johannesburg deserved to benefit even more from the implementation of those policies because of its strategic importance and indispensable position as SA's key generator of economic growth and jobs.

A new policy approach was needed.

Frankel said rural regional development should not be ignored but regional development should be for the welfare of the people and concentrations of people, and not for the welfare of places.

ZILLA EFRAT reports that Regional Development Minister Amie Venter said the national regional development programme, now being compiled, would be released in the next few months.

Hani accuses Anglo of crime against SA

Star 25/4/91.

By David Braun
Star Bureau

WASHINGTON — Anglo American Corporation had committed a crime against the people of South Africa by keeping its workers in squalid conditions while reaping profits, Chris Hani, a member of the national executive of the ANC, has said in the US.

Mr Hani told the National Press Club in Washington yesterday that in spite of Anglo's accumulation of profits, the company had built housing for its workers which was not fit for animals. Its discriminatory conditions and labour practices were terrible.

A future South African government would have to set up guidelines for companies in this regard. They would be allowed to take their profits, but they would also have social obligations.

Mr Hani said South Africans were discussing their country's future economic programme. Even the non-Marxists agreed something had to be done about redistributing the wealth in the country.

Everyone was entitled to at least three meals a day, to shelter that was not a squatter shack and access to education and medical facilities.

He said he did not think South Africa should be looking for models elsewhere in the world.

The Afrikaners had nationalised sections of the economy in order to uplift their people, and equally today the blacks were emerging from disastrous poverty and needed to do the same.

The ANC certainly wanted to nationalise industries such as Eskom, Iscor and Sats, but at the same time it wanted a mixed economy. In doing so, it wanted to avoid the mistakes of Eastern Europe and Africa.

However, the government had to ensure Mr and Mrs Average also had a slice of cake, he said.

Mr Hani said the ANC wanted to assure whites that nationalisation did not mean their houses would be grabbed. Simplistic people believed the ANC was going to be rushing to grab people's cars and houses. Every South African would retain his or her private property, he said.

Industry incentive plan will benefit W Cape

Cape Times 26/4/91

Political Staff

A NEW five-year programme by the Economic Community of Southern Africa will provide a major boost to coastal areas, including the Western Cape, and other regions.

The Ecosa states are South Africa, Transkei, Bophuthatswana, Venda and Ciskei.

The programme is to replace the controversial decentralisation measures on May 1.

Key benefits of the new system — an establishment grant and profit-based incentives — will apply partly to regions around the Western Cape, PWV and Durban and fully to all other parts of SA and the homelands, except the PWV and Durban's core.

The incentive package replaces the cost-related subsidies to companies in the 43 decentralised industrial regions.

Regions around the PWV and Durban and the entire Western Cape will qualify for 60% of the establishment grant and 100% of the output-based incentive. All other regions, other than the PWV and Durban's core, will get 100% of both.

● Govt plan for better economic structure — Page 7

Business Report

Need to invest in manufacturing industries in SA

Cape Times 26/4/91

(180)

By AUDREY D'ANGELO
Business Editor

SA should invest in manufacturing industries rather than in office blocks and shopping malls, Christo Nel, an executive director of PG Bison, told the Insurance Institute of SA at its annual conference at the Cape Sun yesterday.

He told delegates it was "crazy" that SA should be de-industrialising at a time when jobs were urgently needed.

Goods like hotplates were manufactured in the Far East from SA steel, using SA coal, and then exported back to this country.

Instead of being used to build factories where raw materials could be beneficiated by the SA workforce, money was being invested in office blocks and shopping malls which did not create wealth "but just shuffle it around".

It was also "crazy" that, although SA had a 30% over-capacity to produce electricity, 70% of township dwellers were still without it. The money spent on Mossgas would have been sufficient to electrify all township houses, giving their occupants a "quantum leap forward" in quality of life.

Electricity was a cheaper fuel than coal or paraffin and refrigerators would enable black people to buy food more cheaply, in bulk, from supermarkets instead of expensively from their corner cafe.

Nel blamed the present violence on overcrowding in townships and the fact that black family life had been broken down and the authority of the father figure undermined, either because he was absent for most of the time or because he had been seen by his children to be degraded.

Discussing the problem of over-population, he said the "best contraceptive is a rising general domestic expenditure (GDE)".

The average size of white families had declined dramatically over the past three generations as wealth increased and the standard of living improved. The same thing would happen to blacks.

But, stressing the need for both redistribution of wealth and economic growth, he said neither could succeed without the other.

The process of "trickling down" would not happen in SA because the poorest people could not escape from the poverty trap without help.

What was needed was "a virtuous self re-inforcing cycle" of interdependence.

Redistribution of wealth required growth, growth required investor confidence, investor confidence required stability, stability required perceived justice, perceived justice required social investment, "social investment requires redistribution of wealth and so on."

Nel said he had hope for the future of this country because it had been discovered that if whites and blacks, even of extreme views, talked to each other as people in the workplace and discovered they had similar problems and needs hostility disappeared.

Assist blacks to advance - Viljoen

Sowetan 26/4/91

(180)

By ISMAIL LAGARDIEN
Political Correspondent

BIG corporations should investigate ways of promoting black economic advancement, the Minister of Constitutional Development, Dr Gerrit Viljoen, said yesterday.

Addressing businessmen in Cape Town, Viljoen said if South Africa were to grow into a regional and international economic power, black people would have to be part of such a base.

He said one of the greatest concerns was the lack of black people's participation in the economy.

As a starting point, big business should consider intensifying and accelerating advancement programmes for blacks.

The public service also had a responsibility to recruit and train "people of colour".

"It is realised that power sharing resulting in a majority of black faces in political structures would have to be reflected by more black faces in important places in the civil service," Viljoen said.

The Government's economic reform initiatives must be supported by a commitment by big business "to inform the broad community of their merits and by the creation of economic opportunities through the allocation of resources".

He said black politicians had refused to accept the principle of maximum economic growth as a means of addressing disparities in South African society.

It had been argued that the Government and the private sector wanted to accelerate the economic advancement of the poor responsibly.

Because of this, it must be made clear to communities "what constitutes a realistic, yet sustainable social responsibility for the business sector," Viljoen said.

Black economic empowerment, accelerated advancement programmes and black leadership in economics could happen without a threat to the existing "positions of persons of merit" in the private and public sectors, he said.


DR GERRIT VILJOEN

10/4

Union once again rejects wage offer

Sowetan 26/4/91.

THE National Union of Metalworkers has rejected - in fresh talks - a wage offer by employers in the motor vehicle and tyre manufacturing industries.

In the motor vehicle industry increases ranged between 70c for unskilled workers to R1,35 an hour for skilled workers. Tyre industry employers had offered increases of 11 percent of the actual earnings, according to a union statement.

"During the weekend shop stewards from both sectors reiterated the rejection of these offers," the statement said.

Talks will resume next week in a bid to find a compromise settlement on wage and conditions of employment. - *Sapa.*

SMALL BUSINESS FM 26/4/91.

SQUARING UP FOR BATTLE

180

When government instructed the Industrial Development Corp (IDC) earlier this year to "concentrate on assisting medium-sized and smaller enterprise," the message was loud and clear for the Small Business Development Corp — a turf war was about to begin.

Even though the announcement stressed that the IDC would limit itself to projects that "fall between the large groups and those served by the SBDC," the SBDC had no doubt that its territory would soon be encroached upon.

At the time, SBDC MD Ben Vosloo admitted there could be some overlapping between the two bodies (*Business* February 15), but SBDC officials are saying little about the situation now. Make no mistake, however, the battle lines are being drawn.

IDC GM, industrial finance, Jan de Bruyn denies that any overlapping will occur. But he confirms that the IDC — whose traditional role is to fund large-scale industrial projects — will consider any applications received from small industrialists, without necessarily referring them to the SBDC.

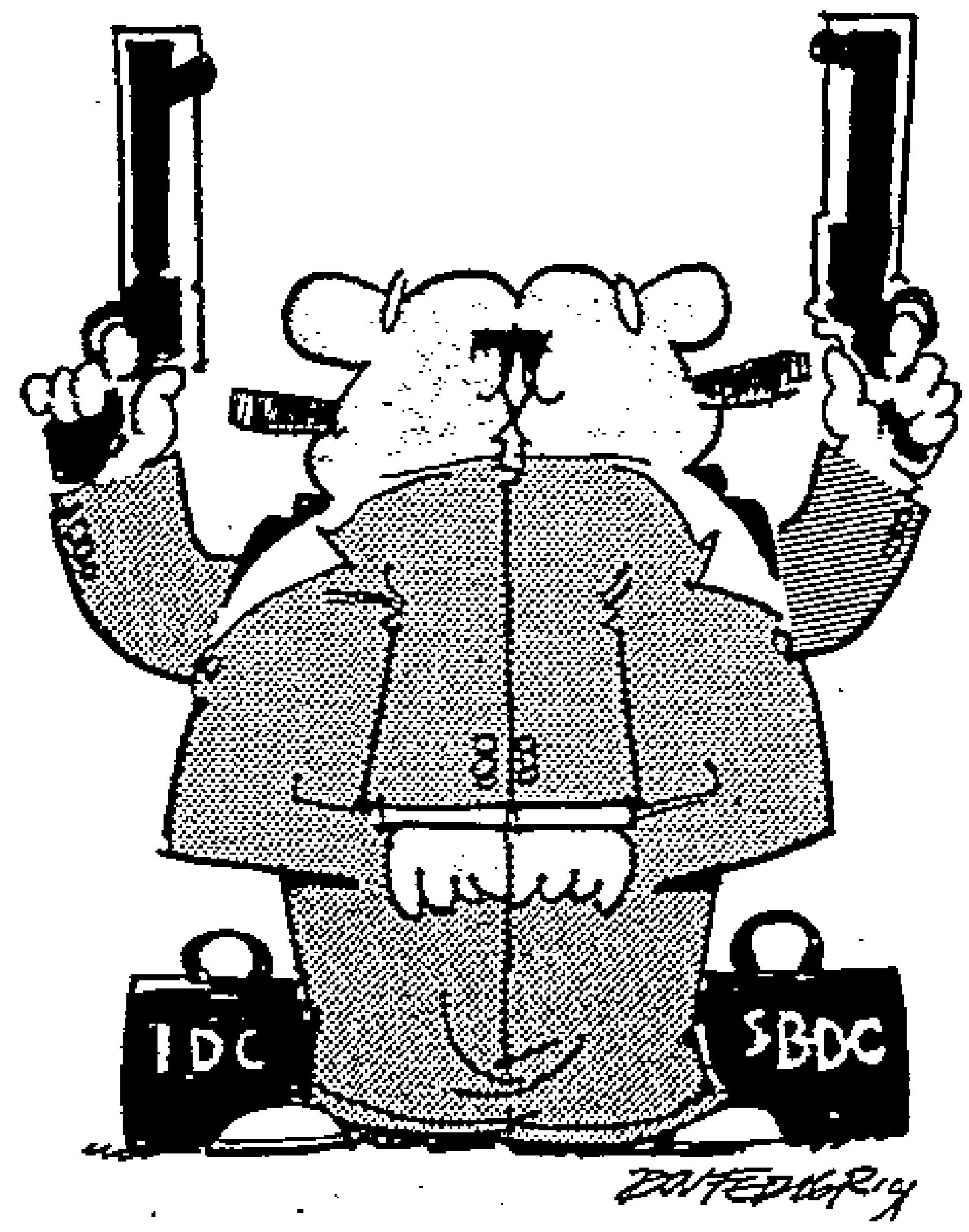
Forming the background to the conflict is SA's worsening unemployment problem and low economic growth, as well as the impact that crime, unrest and political pressures are having on foreign investor confidence.

The SBDC is regarded as being the most successful government organisation at creating jobs at the lowest cost. But the SBDC says it's starved of funds, while the IDC sits with billions in unrealised assets. In the March Budget, the SBDC received a R75m handout from government, far less than it believes it needs. The Development Bank of Southern Africa on the other hand, which mainly funds rural infrastructure projects, will receive R1bn over the next two years from the sale of IDC assets.

Understandably, the SBDC feels that it is being sidelined. This could be because it has less clout and a lower political profile, the result of its less spectacular development work.

The announcement in February sharply outlined the threat to the SBDC. In a statement, the late Minister of Economic Co-ordination Wim de Villiers and then-outgoing Trade & Industry Minister Kent Durr told the IDC to "expand its role as a financier of industrial enterprises and to mobilise its full financial resources to this end." They added that "this development task will require an increasing commitment by the IDC because this category of enterprise (medium-sized and smaller) can make a significant contribution to generating employment."

But the IDC seems unprepared for this larger role. It mainly consists of a head office staff that focuses on large investment projects and funding. The SBDC, on the other hand, has developed a countrywide network to serve its thousands of clients and has hands-on experience in providing follow-up and training services.



De Villiers and Durr estimated that the IDC "should be able to mobilise R10bn over the next six years for investment in industry," and that this could lead to "a total investment of R30bn in the industrial sector."

But giving the IDC carte blanche to expand into assisting smaller enterprises (utilising its massive funding) could push the SBDC out of its most profitable area. The SBDC's viability depends on its funding of formal business enterprises, which allows it to finance the high-risk informal sector.

The SBDC fears that by allowing the IDC to move on to its terrain, it could be left with only the unprofitable informal sector. So the SBDC argues that it, too, should receive a huge funding boost from the IDC.

But, says the IDC's De Bruyn, it is not for the IDC to determine whether it should fund the SBDC — that is government's decision.

With the focus on the IDC and the R1bn grant to the Development Bank, it appears that what is at stake is a choice between targeting development financing on maximising job creation and economic growth at the grassroots level, or on huge industrial and infrastructure projects.

The first option — the SBDC's speciality — is less sexy, but appears to create more jobs less expensively. The second option absorbs mammoth capital resources but may render a meagre crop of new jobs.

For example, over the last 10 years, the SBDC lent R1bn and says it created about 280 000 jobs at a cost to the corporation of R3 600 per job. By contrast, the IDC, in its 1990 financial year alone, approved a record amount of R660m for industrial financing, creating only around 9 400 jobs at a cost of R70 000 per job. ■

FM 26/4/91

AIR TICKET DISCOUNTING

STILL GROUNDED

When Nedtravel and Travelink joined forces this year to launch SA's first discount international air ticket agency — Just the Ticket — they invited the travel industry to a kick-off lunch to celebrate what they hoped would be the advent of a new era.

Nedtravel MD Gordon Young and Just the Ticket MD Bob Williams asked the airlines to sell them spare capacity at cost. They could then sell tickets to the public at a large discount. The timing seemed perfect. Faced with an unprecedented slump in air travel due to the Gulf War, it seemed the airlines could only benefit from giving travel-starved South Africans cheaper tickets through the services of a consolidator such as Just the Ticket. But the hosts were in for a shock. The airlines asked Just the Ticket personnel to leave the room; they then debated the proposal behind closed doors and rejected it.

Nevertheless, Just the Ticket went ahead, offering the public discounts on overseas fares to about 40 destinations (*Business* March 1). SA Airways and British Airways announced their own discounts and the travel agents feared that the price-cutting could put them out of business.

Two months later, however, Just the Ticket has still not been able to convince the airlines to turn over their unsold tickets at bulk discount rates. Williams has sold his shares and will leave the fledgling operation at the end of the month to run two other travel businesses. But he denies that Just the Ticket is in trouble. "Just the Ticket has exceeded expectations. We have met our budget for the past six weeks and the amount of phone calls we receive — some 750 a day — indicates that there is a big market for discount tickets."

New MD Kevin Rawnsley says the intention is still to establish a consolidation service for airlines to dispose of excess tickets. "At present, we operate on narrow profit margins. We pass on some of our 9% commission from the airlines to the customer, and we have special (consolidation) deals with a few airlines. But the true potential of a discount operation depends on the co-operation of a broad spectrum of airlines that allow us to sell at discount rates."

Just the Ticket is known to be buying in bulk from at least two of the smaller airlines, Alitalia and TAP, but the larger airlines —

'S

Taking in the sights . . . businessmen and politicians tour Alexandra. From left in the front row are Avroy Shlain, Tom White of S C Johnson Wax, Sandton MP Dave Dalling and civic organisation leader Moses Mayekiso.
Picture: Ken Oosterbroek

Businessmen taken on tour of Alex

By Julienne du Toit 26/4/91

High-powered businessmen were urged to open their chequebooks and mobilise their resources for the community of Alexandra as they toured the township in a minibus yesterday.

Moses Mayekise, chairman of Alexandra Civic Organisation (ACO), hosted the tour, which was aimed at eliciting promises of money and involvement in the community from the various chairmen, managing directors and presidents from a wide variety of companies.

Celebrities on the tour included Democratic Party MP for Sandton Dave Dalling, the mayors and mayoresses of Sandton and Midrand, recently released detainee Mzwanele Mayekiso and ACO executive member Richard Mdakane.

Chris Aitken, who was involved with the Alexandra Development Fund and now with the Eden Trust, said he realised that budgets were under pressure.

Tom White of S C Johnson Wax, who sponsored the tour, urged businessmen not just to give handouts but to become involved with the community and to consult community leaders.

Mr Mayekiso suggested that a forum of employers could possibly become involved in the development of Alexandra.

SOWETAN BUSINESS

'Hive' system pays off for operators

Sowetan 26/4/91 180

By JOSHUA RABOROKO

MANY *promising* **small black businesses fall by the wayside because they cannot afford to move from the home or the backyard to commercial offices or industrial space.**

The prospect of paying for fittings and equipment, long leases and of having staff there to handle inquiries while the entrepreneur visits customers, often proves too daunting for the budding small business sector.

These problems came to the attention of many sympathisers of the small businessmen when the high level of unemployment and the crippling economic circumstances in the South African black community took their toll.

An urgent need arose to speed up the advancement of small manufacturers and an innovative and creative solution was required. The one that was arrived at was the one started by the Small Business Development Corporation, through its "hive of industry."

Concept

The hive concept has been duplicated throughout the country and is seen as one of SBDC's most successful industrial initiatives.

To date there are 25 such hives throughout the country.

One such hive is the one that the SBDC has temporarily structured in the Central Business district of Johannesburg to the tune of about R10-million.

It is expected to house more than 250 small entrepreneurs from the Witwatersrand.

The *Sowetan Business* visited the new "hive" and found 80 small entrepreneurs who manufacture and do an assortment of jobs, including welding, fashion designing; car repairs and rebuilding old cars; clothing; electronics; upholstery; florists; cupboards and kitchen units.

This unique hive, unlike others, will have a shopping mall where the small business will display, as well as sell, their products and make contact with customers.

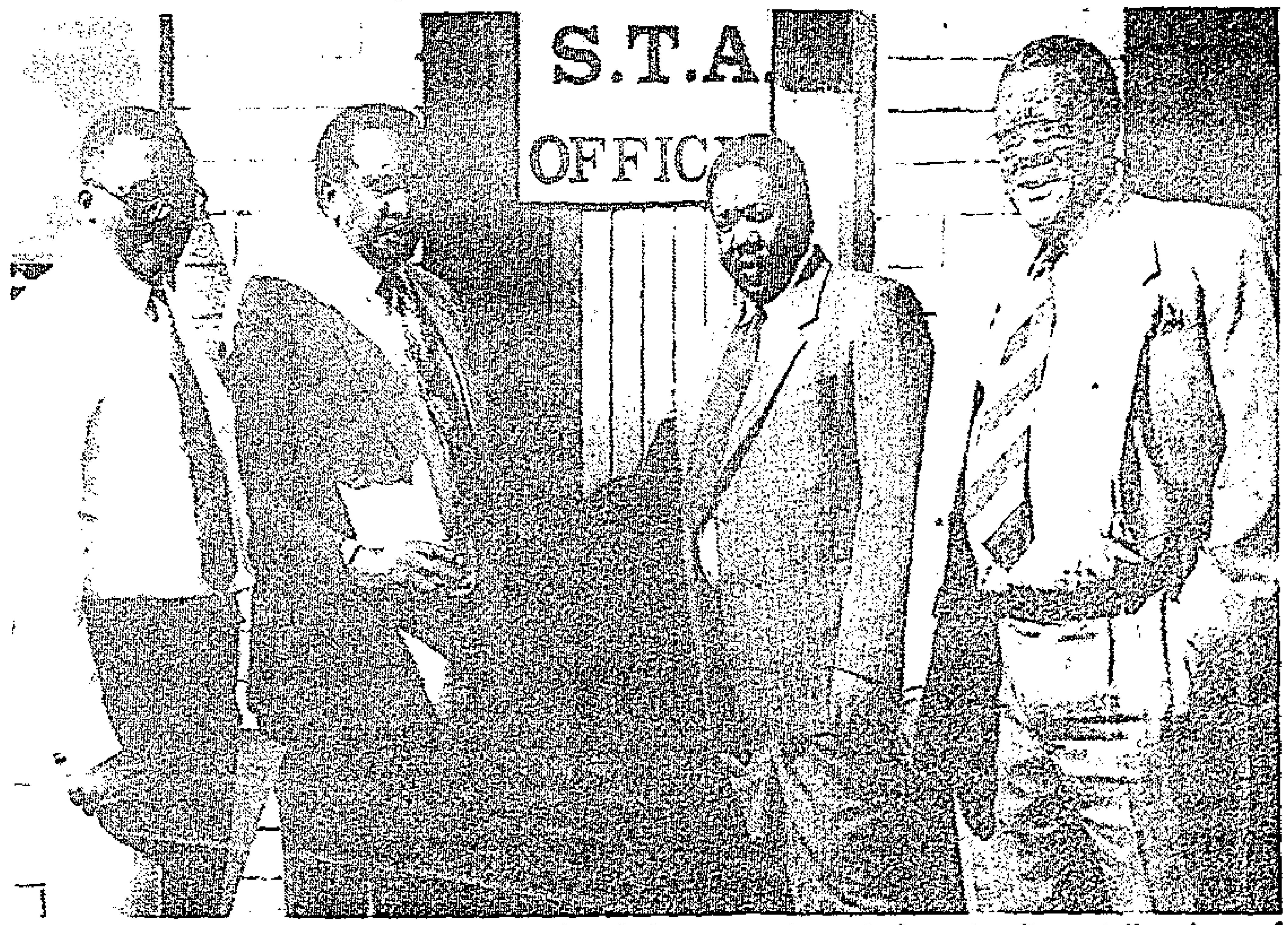
The "hive" concept works not only because small manufacturers can rent their premises at low rentals, but also because they share communal facilities such as welding machines, mechanised saws and other carpentry equipment at relatively low cost.

"The beauty of the concept is that we can recycle disused factory buildings, old showrooms, railway sheds, and even old jail buildings and fit a large numbers of small contractors into individual "hives" at a very reasonable cost," according to the manager of financing and support services, Mr Terry Mclaughlin.

One such example is that of the six members of Mmasakhane Women's Club who started their businesses in the townships.

As a result of the problems they encountered at their homes, they decided to rent a site jointly at the new city "hive".

One of the members of the Ikageng Womens' Club, Mrs Maria Letsoalo, at her unit.



ABOVE: Executive members of the National Taverners Association standing at the door of their newly-opened Mofolo offices in Soweto. They are Mr Oupa Motloung, Ray Mollison, Mr David Hlatshwayo and Mr Peggy Senne. Below: Mr Ray Mollison celebrates with some of the Taverner's logistical staff.
PIC: MBUZENI ZULU

Minister urges business to change attitudes of blacks

BDay 26/4/91

BILLY PADDOCK

CAPE TOWN — One of the most important contributions the business sector could make during a transition period would be to lock black political and business organisations into the economic debate and change their attitudes, Constitutional Development Minister Gerrit Viljoen has said.

He told the Cape Town Chamber of Commerce yesterday these organisations' arguments must be analysed and constructively criticised "to provide a meaningful alternative that will address some of the socio-economic issues involved".

Behind the unacceptable plea for nationalisation, the undeniable fact of poverty had to be acknowledged and alternative, practical solutions to eliminate unemployment and poverty had to be found.

He said business's discussions with the ANC on nationalisation had borne fruit and he suggested the next area it should tackle was higher taxation for social spending.

Business had to manage its constitutional interests by adopting a more pro-active strategy to strengthen the argument for a market economy with minimum state involvement, Viljoen said.

One of the greatest concerns of black political and business organisations was their lack of participation in the economy, and big corporations should investigate methods of promoting black economic empowerment.

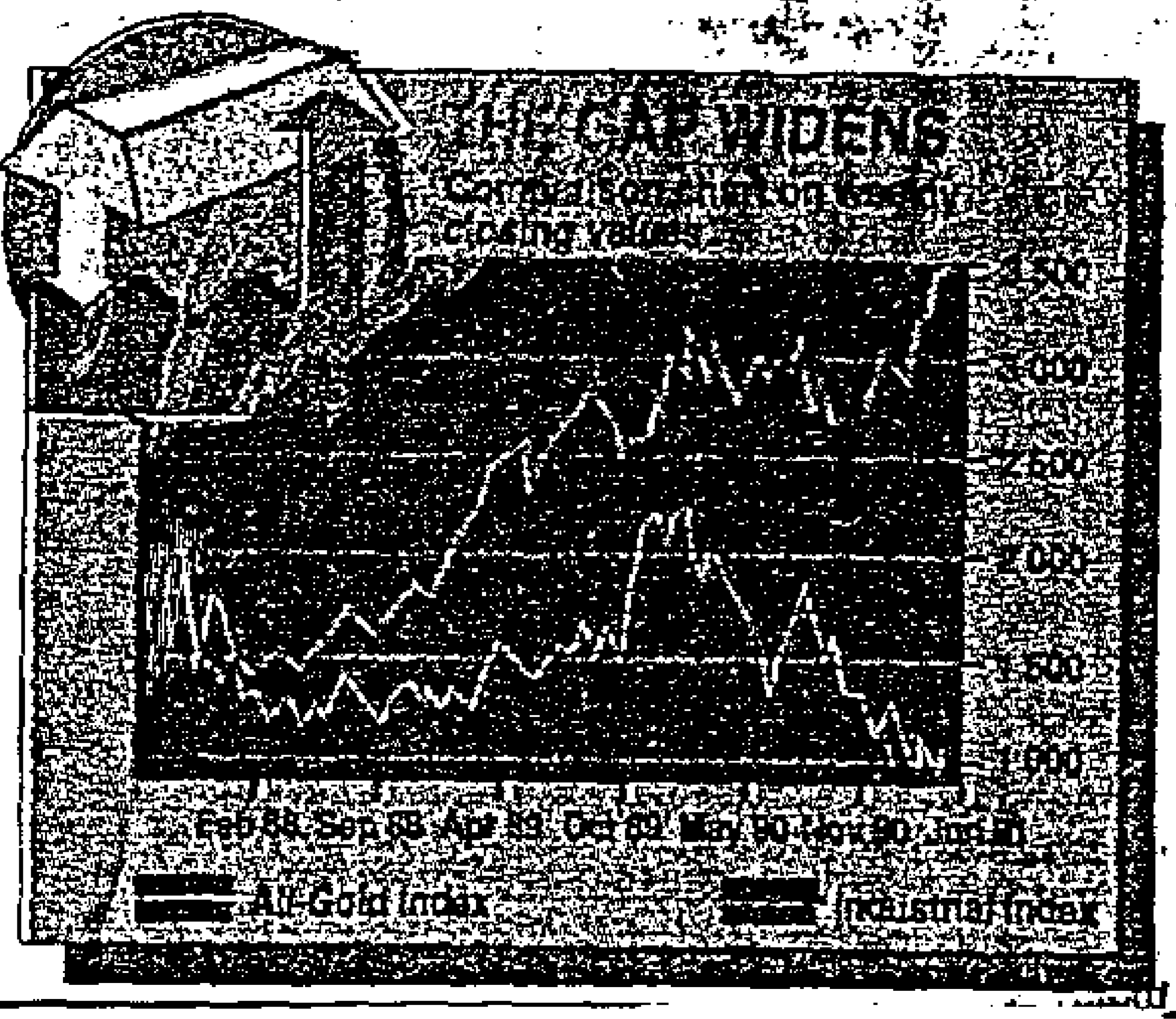
Business should intensify and accelerate advancement programmes for people with potential and greater support should be given to black business activities.

Urgent attention also had to be given to improved labour relations. Far too many members of the workforce did not share business' belief in the "market" and the free-enterprise system even though they were very fortunate to be in that system with so many unemployed who would willingly swop positions, he said.

The policy of maximising economic growth and allowing the trickle-down effect to address the problems of the underprivileged in time was unacceptable to black political and business organisations and more was required.

Understanding, in conjunction with the communities, of what constituted realistic and sustainable social responsibility of the business sector had to be reached.

(180)



Tax uncertainty lifts industrials

S/Times Bus/T 28/4/91. 180

By CURT VON KEYSERLINGK

THE GOVERNMENT'S failure to make clear rules for taxing profits on *share dealings* has helped push the industrial share index to a record high, say brokers.

The index hit 3 552 points on Friday for a gain of 34% since last October.

"Prices are rising because there are few sellers," says Dawid Meades of Meades De Klerk. "Many people are holding on to their shares because they do not know if they will be taxed on the profits they make if they sell.

"I have a client who bought shares for R1,30 apiece last year," says David Cobbett of Simpson McKie. "He wants to sell now, but fears he may be taxed because they are now quoted at R2,10."

Receiver

The confusion over tax has arisen because the Government has not yet given guidelines to distinguish between someone who buys shares in the expectation of selling at a profit in the short term — he is classified as a dealer and therefore taxed on his profits — and an investor who manages his portfolio to maximise his long-term gains.

All that is known for sure is that the Receiver will not tax profits on shares sold after they have been held for at least 10 years. There is less clarity on the tax implications of dealings with shares that have not been held that long.

Mr Meades says that by world standards, the value of shares traded on the JSE is a small percentage of total market capitalisation.

Quoting from a recent presentation by the Old Mutual, Mr Meades says shares are so tightly held that it would take an investor between three and six months to acquire R10-million worth in companies such as Nedcor, Liberty, UBS, Amic, AECI, Sappi and Safren if he were able get 25% of those shares coming on the market.

It would take between 12 and 18 months to build up a similar position in companies such as First National, Stanbic, Fedsure, Murray & Roberts, Premier, Pick 'n Pay and TSL.

It would take more than 18 months to do so in NBS, Volkskas, Afrox, Dorbyl, Ellerine, McCarthy, SA Druggists, Consol, Edgars and Foschini.

"There is such a shortage of scrip that Sappi's share price hit an all-time high even though it reported a 38% drop in earnings earlier this month," says Mr Meades.

Mr Cobbett says: "SA Breweries is a good share, but its price seems high because it will soon face competition in beer."

Other factors in the market's rise are: strong institutional cash flows, a dearth of rights issues, an improved political outlook and better economic prospects. Lower inflation trends have given hope of further interest rate cuts in the next quarter.

Consolidated Fund Managers says *the fact that few big rights issues are likely soon will put more pressure on fund managers to buy industrials.*

"Gold shares are no longer in fashion," says Sanlam senior general manager Ronnie Masson. "So a lot of institutional money is flowing into industrials. Industrial shares are becoming expensive, but I do not expect a crash — perhaps a minor correction.

Nervous

"Foreigners have for some time been net sellers of SA stocks, but recently it seems that some are shifting out of *golds into industrials. Others, who have never done so before,* are asking about *industrials.*

"It is perhaps because they are considering investing in SA, but are still nervous about setting up their own factories here. They are dipping their toes in the water by buying shares that they can get out of at short notice."

Mr Masson says the gold index was higher than the industrial index before the October 1987 crash, but the opposite is now true.

Govt could lose R1,5bn in GST if companies delay capital spending

B Day 29/4/91

180

GILLIAN HAYNE

GOVERNMENT could lose up to R1,5bn in GST revenues if companies delay their capital purchases until after the introduction of VAT, tax experts say.

And, they add, the 15% deduction allowance, announced by Finance Minister Barend du Plessis to encourage companies not to postpone their capital good purchases, is not a sufficient incentive for companies to continue buying under the GST system.

Coopers Theron du Toit tax adviser Andries le Roux said: "It does not really seem a worthwhile incentive for accelerating such purchases."

He said in the final analysis it would probably be left to the vendors of capital goods to find practical ways of convincing their buyers not to delay capital purchases through rental and lease transactions and other innovative means.

However, one tax expert warned that companies choosing the rental route stood the risk of having the scheme attacked as having insufficient substance.

In other words, Revenue could declare the scheme a disguised sale and as such the company would have to pay the 13% GST. It would also risk being fined 10% a month on the unpaid GST and it would lose the 15% depreciation option.

Another tax expert defended the use of rental schemes saying: "As the law stands now, rentals with an option to purchase are not shams. As long as they are carefully drawn up Revenue will not be able to attack them — unless specific anti-avoidance legislation is introduced."

Le Roux explained that the 15% deduction means the enterprise will deduct an amount equal to 15% of the cost price of all capital goods purchased before September 29 1991 and thereafter also apply the normal wear and tear allowances.

The deduction is therefore comparable to the initial allowance that was, and in certain circumstances still is, allowed as a deduction. A further implication is that the deduction will be taxable once the capital asset is sold above or equal to its cost price.

"It is clear the concession is nothing more than an acceleration of depreciation," Le Roux said.

In fact, in terms of current Income Tax provisions, a company buying R100 000 worth of capital goods before VAT, will be R6 760 worse off over a five-year period.

Turnaround planned for cash-strapped NCI

B/Day 29/4/91

MARC HASENFUSS

DESPITE market speculation that New Company Investments (NCI) has serious liquidity problems, chairman Mike Clarke remains optimistic about the group's future.

"There is no disputing that times are tough, but this venture capitalist is not running away."

Clarke said at the weekend that the group would be embarking on a very specific turnaround strategy. Details of the strategy were not disclosed by Clarke, but letters would be sent to shareholders this week.

The group's last interim report showed a net loss of R3,5m for the six months to end September 1990, resulting in an accumulated loss of R12,4m.

The JSE has been a major stumbling block in NCI's growth path. Clarke maintains that the JSE's rules and regulations made it virtually impossible for NCI to get an underwriter for a rights offer.

He said the JSE had come to a point where a major attitude shakeup was necessary. "The JSE has degenerated into a vehicle that no longer encourages entrepreneurship but instead promotes risk aversion."

The share has not come close to its 23c high in June last year after contradictory market rumours pushed the share down to well under 10c. It moved from its 1c low to 2c on Friday.

Initially shareholders perceived that the share would reach 40c-50c after listing, and tried to persuade the market to rate the share by feeding the market with information, Clarke said.

He said his agenda was long term, and he did not want to hype the share before NCI consolidated its businesses.

Clarke said because the share never performed to expectations resentment became apparent among those shareholders.

This resulted in other, mostly inexperienced, shareholders being phoned by anonymous sources claiming to have inside information about NCI, causing the share price to fluctuate in recent months.

Three-month trial phase for proposed JSE second-tier index

B. Day 29/4/91 . SEAN VAN ZYL (180)

THE JSE research department's proposed second-tier index will be put on a three-month trial phase beginning next month, said spokesman Reiner Buss.

He expected the index would come on line by the beginning of September with no additional costs passed on to JSE members. However, it would also have to be put before the JSE's general committee for approval.

With over 80% of the market's total capitalisation tied up in about 77 companies out of a total of 753 counters, Buss said keen interest has been expressed by brokers and investors to establish a reliable actuarial monitor on medium-sized companies.

The JSE overall actuaries index is driven largely by the true blue chip stocks, about 20 companies controlling over 50% of total market capitalisation, which therefore determine the index's movement.

Although the response to the JSE's second-liner index proposal last month was generally positive, Buss said uncertainty on the selection of the companies represented in the index has come up, and the JSE has requested interested parties to submit recomendations. "I will be meeting with Johannsburg parties who responded, over the next two weeks."

Cornerstone

However, he added that the trial run, consisting of three different indices from the upper, middle and lower end of the market, based on market capitalisation, will be monitored until the end of August: "The final selection of 100 companies from these indices will then be chosen for the index."

Buss said the "cornerstone" in selection will be the marketability of shares. "The liquidity of the shares will have to be above the market average." The financial well-being and performance of the companies would also be a determining factor. However, he conceded that low capitalised companies would be automatically ruled out in the selection process.

While most brokers commented that the introduction of a second-tier index would stimulate both institutional and small investor interest in medium-sized companies, a senior partner at a leading firm felt it would just create confusion in the market. He said there are already two indices monitoring the industrial sector and a third would complicate the issue.

Furthermore, he said the existing indices are determined on a weighted capitalisation basis, which has also been proposed for the second-tier index, which distorts the true picture of the market. He also felt it would be a long time before the index would be accepted by traders.

Buoyant demand for capex loans

B/Day 29/4/91 180

GREETA STEYN

DEMAND for credit to finance capital spending has remained surprisingly buoyant in the face of recession and is set to rise further as sanctions go, interest rates ease and sales tax on capital goods is scrapped, bankers say.

Reserve Bank figures confirm the surprising strength of private sector spending on fixed investment in the face of a recession and high real interest rates. Private spending on fixed investment fell by only about 0,5% last year with an increase in manufacturing investment outweighing falls in mining and agriculture.

Fixed capital stock in the manufacturing industry rose by a strong 3% in real terms last year. This was the second year of increase after four years of decline during and after the last recession.

"Negative" factors underpinning private sector investment included replacement of labour with capital and the need to replace obsolete capital goods.

Some project finance divisions of the major banking groups report a doubling in facilities granted over the past year. These credit facilities are not taken up immediately but over the period of the project.

Apart from the Lesotho Highlands Water Project, other neighbouring states

☐ To Page 2

Capex

B/Day 29/4/91 · 180

☐ From Page 1

are also presenting opportunities for SA banks to provide finance for capital projects.

A Standard Bank spokesman said a "surprising" increase in project finance granted over the past year would be drawn down over the next 12 months, with a spurt of new demand expected when VAT was introduced in October.

He did not believe the recent measures to prevent stalling of capital goods purchases would succeed, as they meant an effective saving of 5% compared with 13%. Demand for project finance was most buoyant in manufacturing and processing industries.

But, he added, smaller companies had put projects on ice and it was mainly the larger ones which faced long investment lead times that had continued to invest.

Finansbank's Montie Lloyd believed World Bank involvement in the southern African region would present SA merchant banks with opportunities.

Senbank senior manager Andre Pieterse said the past six months had seen activity pick up in anticipation of the lifting of sanctions. Companies were investing in manufacturing equipment for exports. He also believed interest rates at their present levels would not work against capital investment.

Customs and Excise figures show machinery imports have been firm in recent months. Safto economist Bruce Donald said retrenchments suggested that there had been "substantial" replacement of unskilled manpower with machinery.

Enforceable ethics codes will root out business corruption

(180)

BRENDA GREYLING

Bloem 24/4/91

PHILOSOPHERS and others have worked for hundreds of years to come up with a uniform definition of ethics. Mark Twain said: "An ethical man is a Christian holding four aces."

The Ethics Resource Centre, a Washington-based non-profit corporation, conducted a survey and determined that 86% of all people interviewed associated ethics with standards and rules of conduct, morals, right or wrong, values and honesty. It seems that while the average person is unable to give a concise definition of ethics he has the ability to recognise a lack of ethics.

The centre states further that "Ethical behaviour recognises and rests with a shared interest.... Behaviour becomes unethical when it favours a special interest out of proportion to and without consideration for the interest of the society as a whole."

The timing of the recent investigations into wrongdoing in our financial markets could not be worse. The markets are severely depressed. Political groups are drooling with anticipation at an opportunity to criticise and change the system, and the public is fed up with rhetoric. Given the need for injecting overseas capital into our economy, we must ensure that our financial markets are beyond reproach.

The financial markets should not be singled out. Corruption and unethical behaviour seem to permeate our society, from mismanagement of banks and lack of accountability, to bribery and corruption in public corporations.

Businesses and business schools have increasingly realised the importance of training in "ethics" or professional conduct. Empirical research indicates employees of companies that provide such training are less likely to believe they have to bend the law to get ahead in their careers. Ethical behaviour also lessens the probability that a company will have regulatory or costly legal problems. In other words, good conduct is good business.

The onus cannot be placed only on the regulators. When the law-breakers and the law-maker share a common perspective, latitude exists for interpreting the law. On the other hand, no impartial observer can as clearly evaluate appropriate ethical behaviour as a community itself.

Issues and disciplines have become more specialised. Employees need to understand the law, regulations, compliance, and be aware of "grey areas" where the law is unclear or does not reach. They need to know the consequences of unprofessional conduct on the individual, his company and the industry as a whole. Ultimately the best regulator is the consumer. Consumers will simply take their business to those companies which adhere to a written code of business ethics and conduct.

This code should establish high values expected of employees, and the standards by which they must judge their own conduct and that of their organisation. The company must train employees concerning their responsibilities under the code. It must enforce the code and, if necessary, mete out punishment.

A free and open atmosphere must be created that allows and encourages employees to report violations to the company without fear of retribution. The company must be obliged to govern itself by monitoring compliance with laws and voluntarily to disclose violations.

After a recent inquiry into corruption, graft and bribery in the US defence procurement industry, dubbed Operation Ill Wind, a Business Ethics and Conduct Committee was formed which now requires suppliers annually to answer the following questions and adhere to a code of ethics:

☐ Does the company have a written code of business ethics and conduct?
☐ Is the code distributed to all employees?
☐ Are new employees provided any orientation around the code?
☐ Does the code assign responsibilities to operating management and others for compliance with the code?
☐ Does the company conduct employee training programmes regarding the code?
☐ Does the code address standards that govern the conduct of employees in their dealings with suppliers?
☐ Is there a corporate review board, ombudsman, ethics office or similar mechanism so employees can report suspected violations to someone other than their direct supervisor?
☐ Does the mechanism protect the confidentiality of employee reports?
☐ Is there an appropriate mechanism to follow up on reports of suspected violations?
☐ Is there a mechanism for letting employees know the result of any follow-up into reported charges?
☐ Is there a programme of communication to employees, spelling out and re-emphasising their obligations under the code of conduct?
☐ Does the company have a procedure for voluntarily reporting violations to governmental agencies?
☐ Is implementation of the code's provisions one of the standards by which all levels of supervision are expected to be measured in their performance?
☐ Is there a programme to monitor continuously, adherence to the code and compliance with the law?
☐ Does the company belong to the industry's association?
☐ Are periodic reports on adherence to the principles made to the company's board of directors or its auditor or other appropriate committee?
☐ Are independent public accountants or a similar independent organisation required to comment to the board on the efficacy of the internal procedures for implementing the code? and
☐ Is the code kept up to date? A code can be a significant force only if it is relevant and practical. At the same time, periodic revision maintains a sense of involvement by employees.

The actual writing of an ethical statement or code of conduct should include legal counsel's advice from the outset, and they should be involved not only in the writing, but also in modifying, interpreting or enforcing the code.

Codes without enforcement procedures are effective only as moral directives and do not mandate obedience. Unless ethical codes are backed by penalties for lack of observance, their purpose is defeated.

The recently formed Institute of Financial Markets sets a code of ethics and standards of professional conduct for its members. Membership is open to those who have passed the required examinations of the institute and whose detailed applications have been approved by its board of governors. The institute uses disclosure and expulsion as its enforcement mechanism.

If a standard of conduct or code of ethics is to enhance the public image of a profession, then its disciplinary procedures and results must be made known to the public. If a group conducts an investigation, a disciplinary hearing followed by an appeal, and finds that a member has been guilty of a violation, then it should be willing to publicise that finding in some manner.

It is the only way to shed the image of corruption and dirty dealing. The public deserves and should demand no less.

☐ **Greyling is MD of the SA Futures Industry Association.**

LETTERS

Genbel helps boost flagging Gencor

(180)

B Day 30/4/91.

MATTHEW CURTIN

GENBEL, Gencor's investment arm, confirmed its position as the rising star in the group as six months of large transaction surpluses offset a 16% drop in Gencor's operating income and boosted earnings by almost 3c a share to 62,6c.

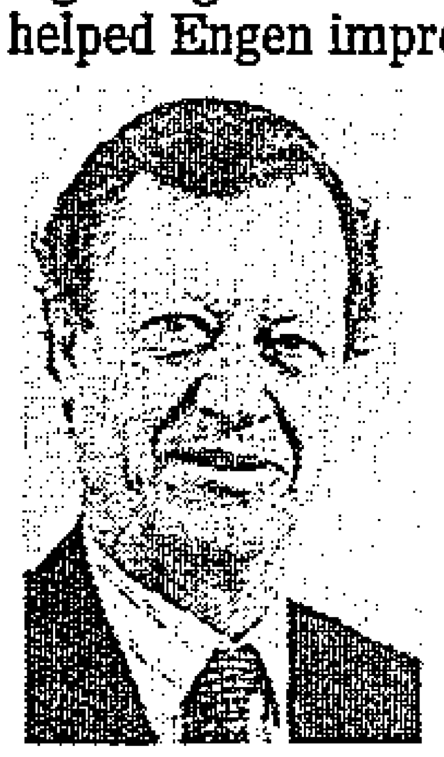
In the six months to end-February, attributable income from Genbel and investments rose from R179m to R331m, while attributable income for the group as a whole rose to R738m (R701m). In 1990, Genbel and investments contributed 29% of the group's income, a contribution which now stood at 45% at the interim stage.

However, Gencor executive chairman Derek Keys said that over the year "the level of operating income is likely to be in line with that reported during the first six months". Transaction surpluses would be modest in the next six months and earnings would fall below last year's levels (R1,4bn).

Keys said in a statement yesterday the upgrading of Genbel's portfolio in recent years was bearing fruit, and "together with substantial transaction surpluses arising principally from disposals of gold mining shares in July 1990, this resulted in a sharp rise in its contribution". In contrast, performances of most of Genmin's businesses were badly affected by lower commodity prices and a stronger rand.

The group's gold mining, platinum, and ferrochrome operations all suffered reduced earnings, and while TransNatal weathered lower coal sales volumes, attributable earnings from Genmin fell to R208m (R278m) in the interim.

Engen, the group's fuel and energy arm, and Malbak, which holds the group's industrial interests, turned in stable but relatively weaker contributions. Better refining margins in the wake of the Gulf war helped Engen improve earnings, but Keys said its contribution to Gencor was dampened by higher North Sea exploration expenditure.



● KEYS

Malbak pulled through the unfavourable local economic climate, and Keys said "profits at a pre-tax level showed a pleasing rise in the circumstances. Earnings on an increased number of shares were marginally higher".

However, Sappi's contribution to earnings fell by R53m in comparison with the first six months last year.

There would still be a "modest increase" in the year-end dividend, and the interim dividend was raised a cent to 15c a share.

Gencor Beherend, whose only asset is a 54,8% interest in Gencor, earned 56,9c (54,7c) a share in the interim, while its dividend rose to 13,3c (12,5c) a share.