United States General Accounting Office 136178

GAO

Testimony

For Release
on Delivery
Expected at
9:30 a.m. EDT
Friday
June 24, 1988

U.S. Sanctions Against South Africa

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Before the Committee on Foreign Relations
United States Senate

GAO/T-NSIAD-38-34

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to discuss the results of our work involving South Africa. At the request of Senators Kennedy and Weicker, we have been examining trade with South Africa and changes in that trade over the past 5 years; public and private credit available and changes in availability; the status of U.S. disinvestment and how it has been implemented; and U.S. dependence on South African strategic minerals. We have issued two interim reports on our work--one on trade, credit, and disinvestment (GAO/NSIAD-88-165) and one on strategic minerals (GAO/NSIAD-88-201). This statement presents information from those reports and contains additional information on South Africa's trade that we have subsequently developed. We plan to provide a more in-depth report at a later date.

To address these subjects, we obtained extensive statistics on South Africa's trade and lending from U.S. government and international agencies as well as private organizations. We also talked with, and obtained data on these matters and the status of U.S. investment in South Africa from, public and private officials in the United States and several other countries, including South Africa. We obtained statistics on U.S. imports of South African minerals from the Bureau of Mines and discussed the extent to which alternative suppliers could be used with Bureau of Mines' officials, minerals traders, and U.S. industrial users.

SOUTH AFRICA'S TRADING PATTERNS

In recent years, South Africa stopped publishing specific data on its trade with individual countries, and because of a long history of economic sanctions, its data prior to this suspension might not be accurate. Therefore, in our work we used data provided by South Africa's trading partners to multilateral organizations, such as the United Nations and the International Monetary Fund (IMF). While these data are likely to be imperfect, they are considered the best available.

Using IMF Direction of Trade statistics, we analyzed changes in South Africa's aggregate exports and imports both worldwide and with 24 partner countries that reported to the IMF consistently from 1982 through the first half of 1987.[1] Although world trade of the 24 countries increased substantially, South Africa's exports to these 24 countries decreased slightly and imports from them declined substantially. Trade with South Africa represents a very small share of these countries' total exports and imports. For example, for the United States, South African trade is less than one-half of one percent of U.S. trade.

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[1]The 24 countries are the United States, the United Kingdom, West Germany, France, Italy, Japan, Austria, Belgium-Luxembourg, Netherlands, Norway, Sweden, Switzerland, Canada, Finland, Iceland, Ireland, Spain, Australia, New Zealand, Portugal, Chile, Israel, Sri Lanka, and Hong Kong.

Since 1982 South Africa's trade with the 24 countries that have reported consistently to the IMF remains concentrated with six major industrial nations--the United States, the United Kingdom, West Germany, France, Italy, and Japan. In 1982, these six major partners supplied 84 percent of South Africa's imports and purchased 84 percent of its exports. In the first half of 1987, the major partners supplied 82 percent of the imports and purchased 81 percent of the exports. Some shifting of market share occurred within the bloc of six nations, however; for example, the United States and the United Kingdom decreased their shares of both imports and exports, while Japan increased its share.

For exports to South Africa from 1982 through the second quarter of 1987:

-- The U.S. market share decreased from 19.9 to 13.4 percent.

-- the United Kingdom's market share decreased from 17.5 to 15.8 percent.

-- Japan's market share increased from 13.8 to 18.0 percent.

For imports from South Africa from 1982 through the second quarter of 1987:

-- The U.S. share fluctuated from 1982 to 1986, but declined from 20.6 percent in 1986 to 12.6 percent during the first half of 1987.

-- The United Kingdom's share decreased from 11.9 to 10.1 percent.

-- Japan's share declined from 1982 to 1984 but increased to 23.8 percent during the first half of 1987.

In addition to examining total trade, we are also analyzing data on trade in products under U.S. sanction. I should note that changes in trade are the result of many factors, not just U.S. sanctions. Changes in trade may be the result of formal sanctions, informal restraints by nations on trade with South Africa (voluntary restraints by a nation's business community), market forces, or a combination of these factors. However, trends of industrialized and newly industrializing countries' imports from South Africa can help in attempting to assess the effect of U.S. and other nations' sanctions.

U.N. data on South African exports to 20 industrialized and newly industrializing countries--representing the market for more than 96 percent of South Africa's exports--show that for the first three quarters of 1987, South Africa's total exports of commodities under U.S. sanction have declined. South Africa has not been able to replace its former exports to the United States of goods under U.S. sanction by redirecting trade to the other 19 nations and has suffered further losses in exports to these countries as well (see app. I). During this time, we estimate that U.S. sanctions cut South African exports by about $417 million. South Africa was not only unable to recover these losses by redirecting trade to the other 19 countries but lost additional trade in these markets resulting in a total trade reduction in goods under sanction of $624 million. In markets where South Africa lost exports, the losses appear to be caused, at least in part, by other nations making efforts to reduce imports from South Africa. (The attachment to my statement shows that imports of the U.S. sanctioned commodities by the other 19 countries from South Africa has declined at a greater rate or increased at a slower rate than their imports from the rest of the world.)

Although an overall decline in exports to these markets occurred, South Africa's ability to redirect exports varied from product to product. For coal, uranium, and iron and steel, South Africa was not able to redirect exports lost as a result of U.S. sanctions to the other 19 countries and experienced even further losses in these nations' markets. An apparent effort by others to reduce trade in these products with South Africa helped prevent South Africa from finding new markets for such exports.

South Africa's losses in textile exports were due to U.S. sanctions and South Africa's inability to redirect all of the lost exports to other markets, in part due to other countries' apparent efforts to reduce their trade with South Africa.

Only in the agricultural products market was South Africa able to offset losses from U.S. sanctions and to actually increase its total exports. However, while other countries increased their imports from South Africa, the increase was still less than the increase in their imports from the rest of the world.

To explore further the possible causes of the effect of the sanctions, we looked at the world market conditions for the sanctioned commodities. An examination of available price data on sanctioned commodities leads us to conclude that the effectiveness of sanctions appears to be influenced by market conditions. When markets for sanctioned commodities were weak and world prices were low--such as for coal--market conditions reinforced the sanctions and South Africa's total exports of the sanctioned commodities declined. Conversely, South Africa was able to reduce its losses or actually increase its exports of sanctioned commodities that were traded in tighter markets with rising prices--such as agricultural products, for which overall prices increased 34 percent from 1986 to 1987.

LENDING TO SOUTH AFRICA

Data on individual countries' loans to South Africa are scarce, but aggregate data show that lending by foreign banks has decreased in recent years because of South Africa's perceived political instability, poor economic performance, and its 1985 freeze on debt repayments. However, the lending climate in South Africa may be improving.

In August 1985, Western banks, motivated by political instability in South Africa, did not extend existing loans and began to withdraw them as payment came due. South African banks could not repay the debt. Banking experts said that South Africa had the ability to pay the interest on its debt but not the principal. In September 1985, the South African government declared a moratorium on the repayment of principal on short-term debt totaling $14 billion of the $24 billion total debt owed by South Africa at the time. The moratorium did not cover bonds, IMF credits, trade credits, and credits granted to the South African Reserve Bank.

After the moratorium, a committee composed of representatives of Western banks negotiated with South Africa the rescheduling of its debt. An agreement, called Interim I, was reached that required that 5 percent of the principal on current short-term loans be repaid between April 1985 and June 1987. The successor to Interim I, Interim II, requires repayment of another 13 percent of principal from July 1987 to June 1990. The negotiations to reschedule the remaining debt will be held when the Interim II agreement expires in 1990. Researchers in both Europe and South Africa knowledgeable about Western sanctions against South Africa stated that Western banks' recall of loans has been the most effective measure to date to pressure South Africa economically.

U.S. bank lending to South Africa has also declined. From June 1982 through September 1984, U.S. loans to South Africa increased from about $3.7 billion to about $5 billion, but from September 1984 to December 1987 they generally decreased to just less than $3 billion. However, a small increase in lending occurred during the first 6 months of 1987. In light of the ban on new U.S. loans that took effect in mid-November 1986, we have not been able to explain this small increase.

Representatives from banks and anti-apartheid groups and private researchers we spoke with said that because of the moratorium in 1985 and the slow growth rates of the South African economy, banks have been reluctant to make loans to South Africa. But representatives of some British banks, some anti-apartheid groups, and private researchers said that loans to South Africa are still profitable and that they are seeing more willingness by banks to lend as South Africa's lending climate improves.

In April 1988, South Africa's foreign debt was approximately $23 billion. International banks held $16.12 billion of this, and the rest was in bond issues or debt owed to foreign nonbanks and international institutions. Data collected by a private researcher from the California-Nevada Interfaith Council on Corporate Responsibility indicates that the United States, United Kingdom, West Germany, and Switzerland account for almost half of South Africa's international debt.

DISINVESTMENT

Since 1984, 162 U.S. companies have withdrawn from South Africa. As of June 1988, 150 U.S. companies still have direct investments or employees in South Africa, but 9 of them have announced their intention to withdraw.

The principal methods that U.S. companies have used to withdraw from South Africa are (1) closing down their operations, (2) selling the company to local management, (3) selling the company to a South African company, (4) selling the company to a non-South African company, and (5) transferring the company assets to a trust fund.

We identified five U.S. companies to use as case studies of U.S. corporate withdrawal from South Africa. Each company used a different withdrawal method. Four of them have maintained some relationship with successor companies in South Africa. Royalty fees for the use of trademarks or ongoing consulting services has been maintained in three cases. In one case, a newly formed independent company became the sole approved consignee of the U.S. company's products in South Africa.

Another U.S. company signed a contract with the newly formed independent company to supply marketing and advertising services for the U.S. company in South Africa. In effect, the same people will be providing these same services for the U.S. company as before the withdrawal, but now they work for the independent company rather than the U.S. company. Additionally, components used in the final product which were previously supplied from a plant in South Africa are now supplied to this company's South African customers from a newly built plant in Swaziland. The South African plant was shut down as part of the disinvestment.

In all five case studies, the products or services the U.S. companies were selling were not covered by sanctions. In three of the four cases where there was a company product, there has been no change in the availability of the product as a result of the company's withdrawal. In a fourth case, the only instance in which the company closed its operation in South Africa and severed all business relationships, the product is available through third parties, though not with the company's approval. The fifth company provides a service, not a product.

The five U.S. companies in our case studies had a combined workforce in South Africa of about 2,800 at the time of their withdrawals, of which roughly 45 percent, or about 1,270, were non-white. There were some lost jobs due to the companies' withdrawals. Most of the lost jobs occurred in the company which simply shut down its South African operations. According to company officials, about 30 percent of the non-white employees, or approximately 85 persons, lost jobs. A second company was unable to provide a racial breakdown of the 30 persons whose jobs were terminated. A third company provided continued employment for all of the previous employees. While no direct information was available for the remaining two companies, officials assumed that the new employers kept the existing workforce.

To the extent that U.S. companies sell their South African operations intact, the new owners apparently continue to operate the business with the same workforce. The impact on the black employment is consequently minimal. However, when a company simply shuts its doors, there is an adverse employment impact.

Each of the five case study companies cited social or educational programs that they had funded in the black community prior to their withdrawal. They have essentially continued to honor any funding commitments that extended beyond the dates of their withdrawals but are making no new funding commitments. In particular, two of the companies had established large funds, totaling $15 million and $10 million, respectively, to which they will continue to contribute through 1989 and 1990, respectively. A third company will honor certain commitments through 1988 but has ended any other funding. The remaining two companies have terminated programs they had previously supported.

STRATEGIC MINERALS

The extent of South Africa's role as a supplier of strategic minerals[2] to the United States has varied over the past 5 years. Between 1983 and 1987, the percent of U.S. imports of platinum-group metals and rutile from South Africa increased significantly and the percent of imports of chromium and manganese first increased and then declined, with 1987 imports somewhat higher than 1983 imports.

Antimony, chrysotile asbestos, and industrial diamond imports from South Africa decreased as a percent of total U.S. imports between 1983 and 1987. Direct imports of industrial diamonds have virtually ceased, with the United States importing most industrial diamonds from countries that serve as transshipment and marketing points for diamonds mined elsewhere. Imports of antimony fell by 50 percent. South Africa provided almost no cobalt to the United States throughout the period, but generally more than half of U.S. imports, which came from Zaire and Zambia, were shipped through South Africa.

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[2]The Department of State certified 10 minerals as strategic and essential for the economy or defense of the United States, thus exempting them from sanction under section 303 of the Comprehensive Anti-Apartheid Act. They are: andalusite, antimony, chrysotile asbestos, chromium, cobalt, industrial diamonds, manganese, platinum-group metals, rutile, and vanadium.

The Soviet Union is not now nor has it been a major supplier of any of the 10 minerals since at least 1983. The United States has imported no andalusite, chrysotile asbestos, cobalt, manganese, rutile, or vanadium from the Soviet Union since 1983 and has imported only a small percentage of antimony, chromium, and industrial diamonds in any one year. In 1987, the Soviet Union provided 10 percent of U.S. imports of platinum-group metals, down from a 5-year high of 13 percent in 1983.

Except for two of the platinum-group metals (platinum and rhodium), andalusite, and a specific type of industrial diamond and grade of chrysotile asbestos, alternative supply sources exist for the certified strategic minerals imported from South Africa according to Bureau of Mines' data and to officials of the Bureau and Commerce and Defense Departments. The other minerals could remain available to the United States in the case of a U.S. unilateral embargo, although, according to a recently issued Bureau of Mines' report there would probably be supply disruptions and increased economic cost to the United States.

The Bureau of Mines' report estimates the economic impact of a U.S. import embargo on 6 of the 10 certified minerals and concludes that there are sufficient alternative sources for manganese, chromium, palladium (one of the principal platinum-group metals), titanium (rutile), and vanadium to meet U.S. industrial demand in the event of an embargo, but not for platinum and rhodium (two other platinum-group metals). The report also states that cobalt supplies would remain available with the use of alternative routes for transporting cobalt from Zaire, the U.S. principal supplier. Cobalt from Zaire and Zambia is presently shipped via South African rail to South African ports for export.

The report estimates the 5-year cumulative direct economic cost of a U.S. embargo on South Africa for the six minerals at $9.25 billion, or $1.85 billion annually.

We discussed the Bureau of Mines' report with U.S. industrial users of strategic minerals. Although they had not had an opportunity to review the report, their initial reaction was that it understated the economic costs of an embargo and overstated the ability of other mineral-producing nations to replace South African exports to the United States. Industry officials also said the report did not address the potential illegal entry of South African minerals into the United States through false documentation showing another country of origin.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions.

Changes in South African and World Exports—First Three Quarters of 1986 to First Three Quarters of 1987

Product	South Africa's Loss of Exports to the U.S. (thousands)	Change in South Africa's Total Exports to 19 Other Countries (thousands)	Net Change In South Africa Exports (thousands)	Percent Change in South Africa's Exports to 19 Other Countries	Percent Change in World Exports (Exclusive of South Africa) to 19 Other Countries
Coal	-$ 35,794	-$238,656	-$274,450	-24.0	-9.7
Iron & steel	- 121,934	- 83,558	- 205,492	-15.0	5.5
Uranium	- 119,677	- 38,924	- 158,061	-25.2	20.4
Textiles	- 29,203	12,290	- 16,913	4.3	27.9
Agricultural products	- 110,435	141,832	31,397	13.8	14.8
Total	-$417,043	-$207,016	-$624,059	-6.9	16.9