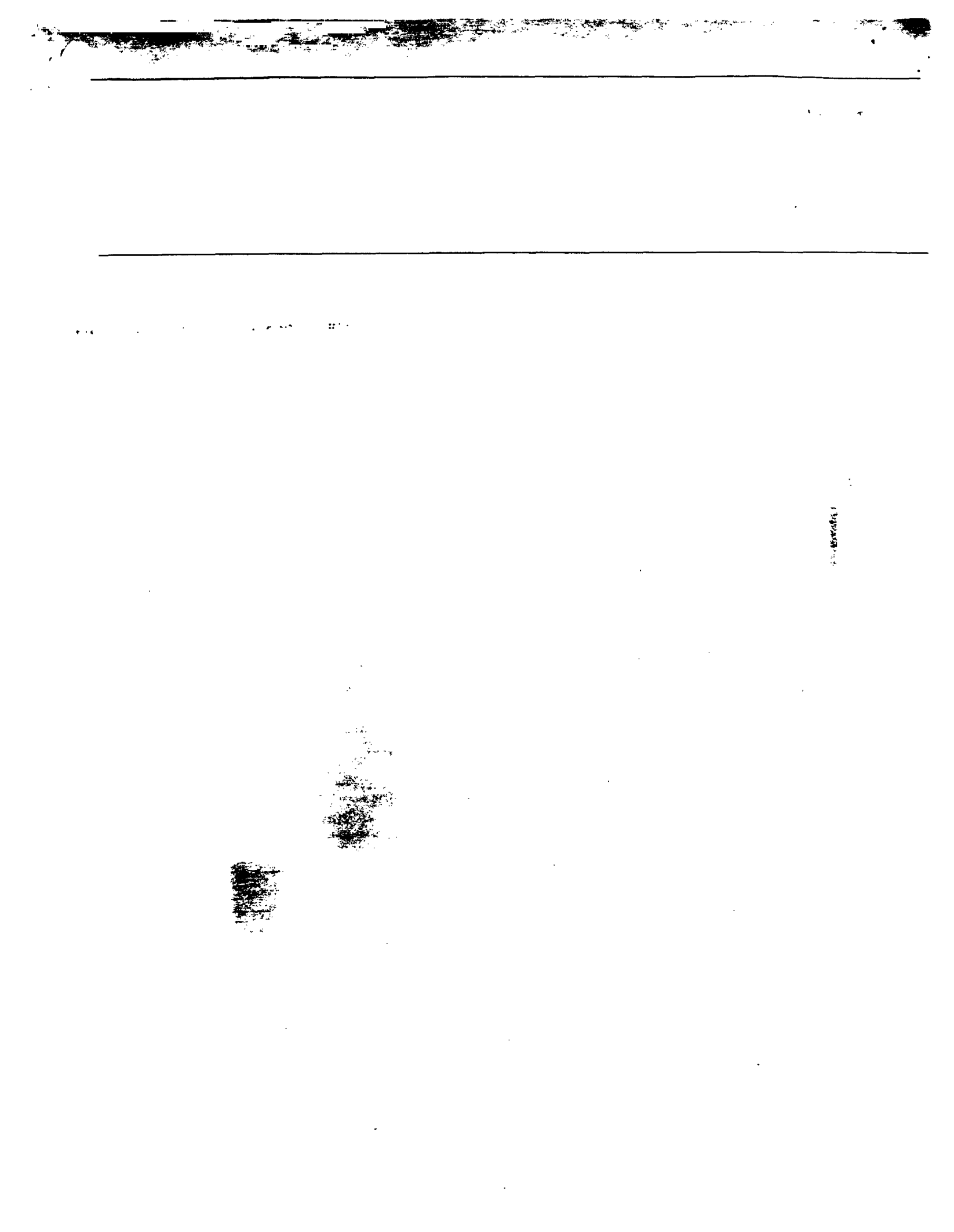


April 1988

SOUTH AFRICA

Trends in Trade,
Lending, and
Investment*Released*

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**National Security and
International Affairs Division**

B-226687

April 29, 1988

The Honorable Edward M. Kennedy
The Honorable Lowell P. Weicker, Jr.
United States Senate

This report responds to your letter of October 28, 1987, requesting that we examine 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. As agreed with your offices, this is an interim report summarizing our work to date on trade, credit, and disinvestment. We plan to provide a more in-depth report at a later date.

The Comprehensive Anti-Apartheid Act of 1986, as amended (Public Law 99-440, 22 U.S.C. 5001 et seq.), contains a number of prohibitions on trade with and lending to South Africa. These include a ban on (1) imports of agricultural products, coal, iron and steel, and textiles, (2) exports of oil, arms, nuclear materials, and computers to apartheid-enforcing agencies, and (3) new loans. The Act was preceded by Executive Orders 12532 and 12535, which imposed more limited sanctions against South Africa.

The results of our work are summarized in this letter and discussed in more detail in the appendices.

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, we used trade data developed through individual country reporting to multilateral organizations, which are expressed in U.S. dollars. These data do not have the effect of fluctuations in values of national currencies removed and it is difficult to do so because the currencies in which individual trade transactions are conducted are unknown. We have partially compensated for currency distortions by using the market share of South Africa's trading partners rather than absolute values wherever possible.

Most of South Africa's foreign trade is with six major industrial nations: the United States, the United Kingdom, West Germany, France, Italy, and Japan. It imports capital equipment and intermediate goods and

exports primary products, such as minerals. The South African economy depends more heavily on mineral exports and less on the export of manufactured goods than most economies of the same size.

In 1986, the last full year for which data from the International Monetary Fund (IMF) are available for all reporting countries, these six nations provided 79 percent of South Africa's \$8.2 billion in imports and markets for 78 percent of its \$12.4 billion in exports.

Changes in Trading Patterns Since 1982

World trade—both exports and imports—of the 24 countries that reported to the IMF consistently from 1982 through the first half of 1987 increased substantially. Yet, South Africa's exports to these countries decreased from \$5.6 billion during the first half of 1982 to \$5.2 billion during the first half of 1987 while its imports decreased significantly from about \$6.4 billion to about \$4.4 billion.

The concentration of South Africa's trade has decreased only slightly since 1982 among the 24 countries that have reported consistently; it remains with the six major industrial nations. In 1982, among the 24, the 6 major partners accounted for 84 percent of South Africa's imports and 84 percent of its exports. In the first half of 1987, the major partners accounted for 82 percent of the imports and 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.

Efforts to Circumvent Sanctions

Information on activities to circumvent sanctions is scarce. Data such as the number of investigations and prosecutions for illegal imports from and exports to South Africa under the Comprehensive Anti-Apartheid Act of 1986 provide indications of such activities.

Customs has investigated or is investigating 20 cases of potentially illegal imports into the United States, most of which involved falsifying a product's country of origin. Of these investigations, 7 have been closed without finding any apparent criminal violation and 13 remain open. Of the 7 closed cases, 2 were referred for administrative action. One of the cases handled administratively reached a settlement and the other is still pending. Of the 13 open criminal investigations, most involved attempts to disguise South African goods by transshipping them

through third countries. Most of the cases involved imported steel, textiles, or agricultural products. While determinations in these cases had not been finalized as of April 1988, Customs found apparent violations in 2 cases and seized merchandise in a third.

Customs has 28 ongoing investigations of potentially illegal exports to South Africa; 10 of them involve arms and ammunition, 7 involve aircraft and parts and related technical data, 6 involve computers and peripherals, and 5 involve other goods.

Conflicting views about whether significant efforts are being made by South Africa to engage in extensive circumvention of U.S. sanctions were expressed in the interviews we conducted with anti-apartheid groups, private researchers, U.S. embassy officials, and Southern African government officials. Little evidence exists to support any of these views. One view was that South Africa has no need to circumvent the sanctions because it has been able to find new markets for its goods. In contrast to those who think little circumvention is taking place, others think significant efforts are being made to evade sanctions. An organization that monitors the voluntary international oil embargo by many nations, including North Sea oil producers and the Organization of Arab Petroleum Exporting Countries, said that South Africa can still import most of the oil it needs, but at a premium due to the need to deal with middlemen who disguise the true nature of the transaction.

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.

Most of South Africa's approximately \$23 billion in foreign debt is short term (i.e., the loans come due in 1 year or less) and is lent to private sector borrowers. The last report by the South African Reserve Bank, published in 1985, showed that 72 percent of total South African foreign debt was short term and that about 66 percent of it was incurred by the private sector.

International banks hold \$16.12 billion of the approximately \$23 billion debt; the rest is 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.

Trends in Lending

In August 1985, Western banks, motivated by the perceived political instability in South Africa, did not renew existing loans and began to retire debt as payment came due. Because almost three-quarters of South Africa's debt was short term and would come due in the course of a single year, South Africa could not repay all of its loans. In September 1985, the South African government declared a moratorium on the repayment of principal on short-term debt. This was followed by two successive agreements that rescheduled South Africa's debt. Since the moratorium, international lending to South Africa has generally declined.

Continued decreases in lending by Western banks to South Africa have been attributed to the political and economic situation in South Africa. Also, the U.S. ban on new loans to the South African public sector initiated by an Executive Order in September 1985, the addition of a ban on new loans to the South African private sector by the Comprehensive Anti-Apartheid Act of 1986, and bans on new loans by some other Western nations probably had some effect. 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 1986 they decreased to just less than \$3 billion. However, U.S. bank lending increased marginally in the first 6 months of 1987 to just over \$3 billion. 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.

Bankers in the United Kingdom, some anti-apartheid groups, and private researchers said that loans to South Africa are still profitable and that banks seem more willing to make loans as South Africa's lending climate improves.

Trade Credits Are Exempt From the Ban on New Loans

Trade credits, which are used to finance specific sales of goods internationally, are not subject to the Comprehensive Anti-Apartheid Act. Thus, it is possible that South Africa is substituting trade credits, in buying products, for forms of prohibited credit. However, published data indicate that U.S. trade credits have declined since 1983.

Appendix II contains additional detail on lending to South Africa.

Status of U.S. Investment in South Africa

U.S. direct investment in South Africa decreased by about 10 percent between 1982-86. Net U.S. purchases of South African stocks and bonds for portfolio investment purposes decreased moderately in the past 2 years after a large increase in 1984 and no net change in 1985. No reliable data on the aggregate value of U.S. portfolio holdings of South African stocks and bonds are available.

The number of full-time employees working for U.S. companies in South Africa is also an indicator of the change in U.S. operations. This figure is valuable because, unlike financial transactions, it should be immune from currency fluctuations. According to Commerce's Survey of Current Business, the number of full-time employees working for U.S. companies in South Africa dropped from 135,900 in 1982 to 116,300 in 1985, the last year for which Commerce data are available. According to the Investor Responsibility Research Center, which has more recent estimates, the number of employees working for U.S. companies in South Africa dropped to about 82,940 as of February 1988, although this does not mean that these employees lost their jobs as a result of the withdrawal of U.S. companies. We conducted case studies which provide more specific insights into the impact of U.S. corporate withdrawal.

Since 1984, 156 U.S. companies have withdrawn from South Africa. As of March 1988, 157 U.S. companies still have direct investments or employees in South Africa, but 11 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 the operation, (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 selected five U.S. companies, each of which used a different method of withdrawal, to serve as disinvestment case studies.

Each company cited several reasons for choosing the particular method of withdrawal that it did. The two primary reasons, however, were (1) concern for its employees and (2) doing what was best for business, which often resulted in selling to the highest bidder.

An important consideration for the companies in implementing their withdrawal decisions was the dual currency rates instituted by the South African government to stem the outflow of capital: (1) the commercial rand rate, used for repatriating dividends and profits and for

conducting trade, and (2) the financial rand rate, used for lending, investing, and disinvesting in South Africa. The financial rate is less advantageous because it has a lower rate of exchange.

Two companies were able to structure their withdrawal transactions so that complete or partial payments were made in the form of dividends or consulting fees, which could be repatriated at the commercial rand rate. These companies have largely removed the asset sale proceeds from South Africa. Other companies have used or plan to use the proceeds of their withdrawal transactions within South Africa to avoid withdrawing their money from South Africa at the less favorable financial rand rate.

Royalty fees for the use of trademarks or ongoing consulting services were 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.

In all five case studies, the products or services the U.S. companies were selling were not covered by sanctions. Ultimately, 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.

Since their withdrawals, these companies have essentially continued to honor any funding commitments for social development or educational projects that extended beyond the dates of their withdrawals, but have stopped the funding for such projects when no such commitment had been made.

The five companies had a combined work force in South Africa of about 2,800 at the time of their withdrawals, about 45 percent, or about 1,270, of whom were non-white. It appears that most of the jobs lost by non-white employees occurred in the case of the one company which shut down its operations.

The reasons these companies most cited for their decision to withdraw were (1) forecasts of decreased business opportunities in South Africa and (2) selective purchasing laws which restrict state and local governments in their business dealings with firms that have interests in South

Africa. While only one of the companies said that its South African operations had been unprofitable in the years prior to the withdrawal, four companies cited business reasons for their decision.

Additional detail on U.S. investment in and disinvestment from South Africa is in appendix III.

We discussed a draft of this report with officials from the Departments of Commerce, State, and Treasury but, as requested, we did not obtain official comments. Representatives of each of the five companies interviewed for our case studies were given an opportunity to review the case studies and their comments were considered in preparing the final report.

Unless you announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to the Secretaries of Commerce, State, and Treasury and to other interested parties upon request.


for Frank C. Conahan
Assistant Comptroller General

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Abbreviations

BIS	Bank for International Settlements
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
UN	United Nations

Trade With South Africa

Trade data for South Africa come from its government and its trading partners. 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 this report we use data obtained from computer submissions of South Africa's trading partners to multilateral organizations, such as the United Nations (UN), International Monetary Fund (IMF), and Organization for Economic Cooperation and Development (OECD). These data are expressed in U.S. dollars and are computer-based for easy manipulation. We did not attempt to verify the accuracy of these data systems.

For our final report, we plan to analyze data on specific products under U.S. sanction from the UN data to show how world trading patterns in these products have changed during the past 5 years and particularly since the passage of U.S. sanctions. We will check the reliability of the UN data by comparing it with data on specific products found in the OECD trade data system. For this interim report, we are using aggregate data from the UN system and the IMF to show who South Africa's major trading partners are, the commodities they trade in, and how trading patterns have changed during the last 5 years.

Trade data submitted by different countries to multilateral trade data systems do not have the effect of fluctuations in values of national currencies in relation to one another removed. It is difficult to remove the effects of such fluctuations, because the currencies in which individual trade transactions are conducted are unknown. But using the market share of South Africa's trading partners rather than the absolute numbers can partially compensate for currency distortions due to fluctuations and provide a better basis for time series comparisons.

Major Trading Patterns and Partners

Trade with six major industrial countries makes up the bulk of South Africa's reported worldwide trade. In 1986, the last full year for which IMF data are available, Japan, the United States, France, Italy, the United Kingdom, and West Germany provided 79 percent of South Africa's \$8.2 billion in imports and markets for 78 percent of South Africa's \$12.4 billion in exports.

South Africa imports capital equipment and intermediate goods from Western industrial nations and exports primary products, such as agricultural products and minerals. Table I.1 lists South Africa's major

imports and exports and their dollar value and table I.2 lists its major imports from and exports to the six major industrial nations.

Table I.1: South Africa's Major Exports and Imports in 1986

Dollars in millions	
	Value
Imports	
Non-electric machinery	\$1,909
Transport equipment	1,254
Electrical machinery	1,032
Chemical elements and compounds	445
Instruments, watches, and clocks	308
Miscellaneous manufactured goods	292
Plastic materials	243
Chemical products	231
Metal manufactured goods	215
Iron and steel	181
Exports	
Non-ferrous metals	\$1,697
Coal, coke, briquettes	1,405
Iron and steel	1,278
Metalliferous ores	1,041
Nonmetal mineral manufactures	733
Fruits and vegetables	621
Chemical elements and compounds	576
Crude fertilizer and minerals	322
Textile fibers	300
Sugar and preparations of honey	195

Source: United Nations.

Appendix I
Trade With South Africa

Table I.2: South Africa's Major Imports From and Exports to Six Major Trading Partners in 1986

Dollars in millions

Country	Imported products	Value	Exported products	Value
France	Non-electric machinery	\$122	Coal, coke, briquettes	\$95 ^a
	Electrical machinery	76	Chemical elements and compounds	84
	Iron and steel	34	Fruits and vegetables	72
West Germany	Non-electric machinery	511	Non-ferrous metals	180
	Transport equipment	448	Coal, coke, briquettes	172
	Electrical machinery	263	Iron and steel	127 ^a
Italy	Non-electric machinery	131	Coal, coke, briquettes	214
	Electrical machinery	55	Non-ferrous metals	42
	Textile yarn and fabric	20	Textile fibers	40
Japan	Transport equipment	546	Coal, coke, briquettes	401
	Non-electric machinery	225	Non-ferrous metals	356
	Electrical machinery	175	Metalliferous ores	261
United Kingdom	Non-electric machinery	322	Metalliferous ores	322
	Electrical machinery	147	Nonmetal mineral manufactured goods	224
	Chemical elements and compounds	88	Fruits and vegetables	196
United States	Non-electric machinery	305	Non-ferrous metals	846
	Electrical machinery	140	Nonmetal mineral manufactured goods	339
	Transport equipment	123	Iron and steel	300 ^a

^aSome products in these categories are now under sanction, which should reduce or eliminate this trade.

Trading Patterns Since 1982

Although world trade of the 24 countries that reported to the IMF consistently from 1982 through the first half of 1987 increased substantially, South Africa's exports to these 24 countries decreased slightly and imports declined substantially. World exports to these countries increased from about \$649 billion to \$889 billion while world imports increased from about \$609 billion to about \$837 billion from the first half of 1982 to the first half of 1987. In contrast, South Africa's exports to these countries decreased from \$5.6 billion to \$5.2 billion while its imports decreased from about \$6.4 billion to about \$4.4 billion during the same period. The first 6 months of 1982 and 1987 are compared rather than the full years because lags in IMF data make data available only for the first 6 months of 1987.

From 1982 through mid-1987, most of South Africa's trade remained with its six major trading partners. But changing market shares indicate

that some redirection of trade occurred within the bloc of six nations. Among the 24 trading partners that reported consistently from 1982 through the first half of 1987, the six major trading partners accounted for 84 percent of South Africa's imports and 84 percent of its exports in 1982; in the first half of 1987, they accounted for 82 percent of the imports and 81 percent of the exports. (See table I.3.)

Table I.3: Concentration of South Africa's Trade^a

Figures in percent

Country	1982	1983	1984	1985	1986	Jan. - June 1987
Imports from:						
Top six trading partners	84.2	82.8	80.8	80.4	80.9	81.8
Other industrial nations ^b	13.4	14.5	16.1	16.8	16.0	14.7
Rest of the reporting nations ^c	2.4	2.7	3.1	2.9	3.0	3.5
Exports to:						
Top six trading partners	84.0	83.8	83.4	83.2	81.9	81.0
Other industrial nations ^b	12.5	11.8	12.1	11.5	12.3	12.5
Rest of the reporting nations ^c	3.5	4.4	4.6	5.3	5.8	6.5

^aA constant number of countries that reported data consistently from 1982 through the first half of 1987 was used for the table.

^bIncludes Austria, Belgium-Luxemburg, Netherlands, Norway, Sweden, Switzerland, Canada, Finland, Iceland, Ireland, Spain, Australia and New Zealand; data from Denmark were unavailable for the second quarter of 1987.

^cIncludes Portugal, Chile, Israel, Sri Lanka, and Hong Kong.

Sources of South African Imports

From 1982 through mid-1987, the United States, the United Kingdom, and France decreased their shares of South Africa's imports, Japan and West Germany increased their shares, and Italy's share remained fairly constant. (See table I.4.)

Appendix I
Trade With South Africa

Table I.4: Leading Suppliers of South African Imports

Figures in percent

Market Share of the Top 10 Countries, by Rank ^a												
1982			1983		1984		1985		1986		Jan. - June 1987 ^b	
1.	West Germany	21.3	1. United States	20.3	1. West Germany	20.4	1. West Germany	22.4	1. West Germany	23.7	1. West Germany	25.4
2.	United States	19.9	2. West Germany	18.6	2. United States	19.7	2. United Kingdom	17.2	2. Japan	16.7	2. Japan	18.0
3.	United Kingdom	17.5	3. Japan	16.6	3. Japan	16.0	3. United States	16.0	3. United Kingdom	15.3	3. United Kingdom	15.8
4.	Japan	13.8	4. United Kingdom	16.0	4. United Kingdom	14.0	4. Japan	13.6	4. United States	14.2	4. United States	13.4
5.	France	5.4	5. France	4.7	5. Italy	4.5	5. France	5.1	5. France	5.0	5. France	4.8
6.	Italy	4.6	6. Italy	4.5	6. France	4.4	6. Italy	4.4	6. Italy	4.3	6. Italy	4.4
7.	Switzerland	2.2	7. Netherlands	2.2	7. Netherlands	2.4	7. Netherlands	2.8	7. Netherlands	3.1	7. Netherlands	2.9
8.	Netherlands	2.0	8. Switzerland	2.2	8. Australia	2.4	8. Switzerland	2.6	8. Switzerland	3.0	8. Switzerland	2.9
9.	Belgium-Luxemburg	1.9	9. Belgium-Luxemburg	2.1	9. Belgium-Luxemburg	2.2	9. Belgium-Luxemburg	2.4	9. Belgium-Luxemburg	2.6	9. Belgium-Luxemburg	2.8
10.	Zimbabwe	1.6	10. Zimbabwe	1.8	10. Switzerland	2.0	10. Australia	1.5	10. Zimbabwe	1.6	10. Hong Kong	2.2

^aIn the IMF system, reported trade with South Africa includes the Customs Union countries of Botswana, Lesotho, and Swaziland but their trade is marginal.

^bZimbabwe did not report and Denmark reported only from January to March 1987

Source: IMF Direction of Trade Statistics.

- The U.S. market share decreased from 19.9 to 13.4 percent and the U.S. ranking among the six nations dropped from second to fourth place. (U.S. exports to South Africa as a portion of its world total dropped from 1.12 percent in 1982 to 0.50 percent during the first half of 1987. See table I.5 for individual countries' exports to South Africa as a percentage of their exports worldwide.)
- The United Kingdom's market share decreased from 17.5 to 15.8 percent. (The United Kingdom's exports to South Africa as a percentage of its world total dropped by almost half during the period.)
- France's market share decreased from 5.4 to 4.8 percent. (France's exports to South Africa as a percentage of its world total dropped by over half during the period.)
- West Germany's market share increased from 21.3 to 25.4 percent. West Germany was ranked as one of the top two countries supplying South Africa's imports for the entire period from 1982 through the first half of 1987. (West Germany's exports to South Africa as a percentage of its world total dropped by almost half during the period.)

- Japan's market share increased from 13.8 to 18.0 percent, allowing Japan to increase its rank from fourth to second place. (Japan's exports to South Africa as a percentage of its world total dropped from 1982 to 1985 and then increased through the first half of 1987.)
- Italy's market share decreased slightly from 4.6 to 4.4 percent. (Italy's exports to South Africa as a percentage of its world total declined by over half during the period.)

Hong Kong appeared as one of the top 10 sources of South African imports for the first time during the first half of 1987, nearly equaling its sales to South Africa for the entire year of 1986. Hong Kong's market share increased from 1.5 percent in 1986 to 2.2 percent during the first half of 1987. (Hong Kong's exports to South Africa as a percentage of its world total decreased from 1982 to 1985 and then increased through the first half of 1987.)

Table I.5: Individual Countries' Exports to South Africa as a Percentage of Their Exports Worldwide

Country	1982	1983	1984	1985	1986	Jan. - June 1987
United States	1.12	1.06	1.04	0.57	0.53	0.50
United Kingdom	2.16	1.83	1.72	1.28	1.16	1.12
France	.67	.52	.52	.38	.32	.30
West Germany	1.44	1.15	1.36	.92	.80	.79
Italy	.74	.65	.71	.42	.36	.36
Japan	1.19	1.28	1.08	.58	.65	.72
Hong Kong	.78	.70	.66	.31	.34	.45

Source: IMF Direction of Trade Statistics.

Recipients of South African Exports

From 1982 through mid-1987, the United States and the United Kingdom decreased their shares of South Africa's exports, Japan and Italy increased their shares, West Germany decreased its share early in the period and increased it later in the period, and France generally decreased its share until the first half of 1987, when its share increased. (See table I.6.)

Appendix I
Trade With South Africa

Table I.6: Leading Markets for South African Exports

Figures in percent

Shares of the Top 10 Countries, by Rank ^a											
1982		1983		1984		1985		1986 ^b		Jan. - June 1987 ^c	
1. United States	18.5	1. United States	21.5	1. United States	24.2	1. United States	19.8	1. United States	20.6	1. Japan	23.8
2. Japan	16.9	2. Japan	16.6	2. Italy	16.0	2. Japan	17.0	2. Japan	18.9	2. Italy	17.4
3. Italy	14.4	3. Italy	13.2	3. Japan	15.3	3. Italy	16.7	3. Italy	16.0	3. United States	12.6
4. United Kingdom	11.9	4. United Kingdom	11.9	4. West Germany	9.8	4. United Kingdom	11.4	4. West Germany	11.5	4. West Germany	12.1
5. West Germany	11.5	5. West Germany	11.0	5. United Kingdom	9.2	5. West Germany	9.8	5. United Kingdom	10.2	5. United Kingdom	10.1
6. France	6.7	6. France	6.0	6. France	6.4	6. France	5.8	6. France	4.1	6. France	5.1
7. Belgium-Luxemburg	3.5	7. Belgium-Luxemburg	3.2	7. Belgium-Luxemburg	2.7	7. Hong Kong	2.7	7. Belgium-Luxemburg	3.0	7. Belgium-Luxemburg	3.5
8. Zimbabwe	3.3	8. Zimbabwe	2.9	8. Hong Kong	2.1	8. Belgium-Luxemburg	2.5	8. Hong Kong	2.9	8. Hong Kong	2.7
9. Canada	1.8	9. Hong Kong	1.8	9. Zimbabwe	1.9	9. Spain	1.9	9. Spain	2.4	9. Spain	2.7
10. Denmark	1.7	10. Canada	1.8	10. Canada	1.8	10. Zimbabwe	1.7	10. Canada	2.2	10. Israel	2.1

^aIn the IMF data system, reported trade with South Africa includes the Customs Union countries of Botswana, Lesotho, and Swaziland but their trade is marginal.

^bZimbabwe did not report data.

^cZimbabwe did not report and Denmark reported only from January to March 1987

Source: IMF, Direction of Trade Statistics.

Like their shares of exports to South Africa, the United States and the United Kingdom have decreased their shares of imports from South Africa.

- The U.S. share fluctuated from 1982 to 1986, while it maintained its number one ranking, but declined from 20.6 percent in 1986 to 12.6 percent during the first half of 1987, when it dropped to third place. (U.S. imports from South Africa as a percentage of its imports from the world generally declined from 0.80 percent in 1982 to 0.32 percent during the first half of 1987. See table I.7 for individual countries' imports from South Africa as a percentage of their imports from the world.)
- The United Kingdom's share decreased from 11.9 to 10.1 percent. (The United Kingdom's imports from South Africa as a percentage of its imports from the world fluctuated during the period but generally decreased.)

- Japan's share declined from 1982 to 1984 but increased to 23.8 percent during the first half of 1987, thus moving from a third place ranking in 1984 to first place. (Japan's imports from South Africa as a percentage of its imports from the world declined from 1982 to 1984 but then increased from 1984 through the first half of 1987.)
- Italy's share increased from 14.4 to 17.4 percent. (Italy's imports from South Africa as a percentage of its imports from the world fluctuated from 1982 to 1986 but declined significantly during the first half of 1987.)
- France's share decreased from 6.7 percent in 1982 to 4.1 percent in 1986 and increased to 5.1 percent during the first half of 1987. (France's imports from South Africa as a percentage of its imports from the world fluctuated during the period but generally declined by almost half.)
- West Germany's share declined from 11.5 percent in 1982 to 9.8 percent in 1984 and 1985 and increased to 12.1 percent during the first half of 1987. (West Germany's imports from South Africa as a percentage of its imports from the world generally decreased during the period.)

Several other nations also increased their shares.

- Spain entered the top 10 markets for South African exports in 1985 and almost doubled its market share from 1.5 percent in 1982 to 2.7 percent during the first half of 1987. (Spain's imports from South Africa as a percentage of its imports from the world generally increased from 1982 but declined during the first half of 1987.)
- Israel's market share increased from 1.7 percent in 1986 to 2.1 percent during the first half of 1987, allowing it to enter the top 10 markets. (Israel's imports from South Africa as a percentage of its imports from the world fluctuated from 1982 to 1986 but dropped during the first half of 1987.)
- Hong Kong more than doubled its market share from 1982 to 1986, but it declined slightly during the first half of 1987. (Hong Kong's imports from South Africa as a percentage of its imports from the world increased from 1982 to 1986 but declined during the first half of 1987.)

Table I.7: Individual Countries' Imports From South Africa as a Percentage of Their Imports From the World

Country	1982	1983	1984	1985	1986	Jan. - June 1987
United States	0.80	0.78	0.76	0.60	0.64	0.32
United Kingdom	1.32	1.17	.94	1.16	.96	.73
France	.64	.56	.65	.60	.38	.36
West Germany	.82	.70	.69	.68	.72	.57
Italy	1.85	1.60	2.03	2.03	1.92	1.49
Japan	1.42	1.28	1.20	1.44	1.78	1.80
Spain	.54	.48	.57	.79	.81	.63
Israel	1.85	1.77	1.75	1.75	1.89	1.59
Hong Kong	.57	.75	.78	.99	.99	.64

Source: IMF Direction of Trade Statistics.

Efforts to Circumvent the Sanctions

Information on efforts to circumvent sanctions is scarce. Consequently, it is necessary to rely on certain indirect indicators.

One such possible indicator is trade data on exports of sanctioned products by frontline states (that is, states near South Africa) to Western nations. An increase in such exports after the sanctions against South Africa were imposed might be the result of efforts to evade the sanctions. Because many frontline states rely for their exports on transportation routes through South Africa to South African ports, a researcher, a U.S. diplomat, and government officials from the frontline states believe that South Africa could relabel its own goods to indicate that they are made in the frontline states and ship them from these same ports. Hence, if exports to the West from frontline states of products that are under sanction increase or if recent trade statistics indicate that these countries are listed as exporting products that they do not produce, then South Africa may be relabeling goods. As part of our continuing analysis, we plan to examine UN data on products under sanction to determine whether indications exist of such practices.

Another indicator of the extent of circumvention of sanctions is the number of investigations and convictions related to the Comprehensive Anti-Apartheid Act. Customs has investigated or is investigating 20 cases of potentially illegal imports into the United States, most of which involved falsifying a product's country of origin. Of these investigations, 7 have been closed without finding any apparent criminal violation and 13 remain open. Of the 7 closed cases, 2 were referred for administrative action. One of the cases handled administratively reached a settlement

and the other is still pending. Of the 13 open criminal investigations, most involved attempts to disguise South African goods by transshipping them through third countries. Most of the cases involved imported steel, textiles, or agricultural products. While determinations in these cases had not been finalized as of April 1988, Customs found apparent violations in 2 cases and seized merchandise in a third.

Customs has 28 ongoing investigations of potentially illegal exports to South Africa; 10 of them involve arms and ammunition, 7 involve aircraft and parts and related technical data, 6 involve computers and peripherals, and 5 involve other goods.

One conviction has been obtained under the Comprehensive Anti-Apartheid Act for exporting technical manuals for the C-130 military aircraft to South Africa through Argentina. Besides the Comprehensive Anti-Apartheid Act, violators can be prosecuted under the Arms Export Control Act and the Export Administration Act. For example, convictions under both of these laws were obtained for individuals exporting such commodities as military and civilian aircraft parts. In one active investigation, two individuals were indicted and are awaiting trial under the Export Administration Act for illegally exporting shotguns to South Africa through Peru.

The Commerce Department's Office of Export Enforcement, which also has jurisdiction over investigating potentially illegal exports, has as of April 1988 three ongoing investigations.

We also obtained some indications of illegal circumvention of the sanctions by interviewing anti-apartheid groups, private researchers in South Africa, Europe, and the United States, an international organization, U.S. embassy officials and host-government officials from the frontline states, and a U.S. embassy official in South Africa.

We obtained conflicting views about whether South Africa was making significant efforts to engage in extensive circumvention of sanctions, but little evidence exists to support any of these views. This is not surprising, given the nature of the activity.

Some experts believe that South Africa has no need to circumvent the sanctions because it is able to find new markets for its goods. A State Department official said that South Africans would rather pay the smaller costs of discounting their products to develop new markets than creating more expensive sanction-busting machinery.

Lending to South Africa

Although data on lending by individual countries to South Africa are scarce, aggregate data show that lending by foreign banks has decreased in recent years. According to bankers and anti-apartheid groups, the decrease is a reaction to South Africa's perceived political instability, poor economic performance, and initial freeze on debt repayment. However, the lending climate in South Africa may be improving.

Profile of South Africa's Foreign Debt

Most of South Africa's approximately \$23 billion in foreign debt is short term and is owed by the private sector.

In 1985, the last year the South African Reserve Bank published a detailed breakout of the total South African foreign debt to all creditors (that is, debt to foreign banks, foreign nonbanks, international institutions, and bond issues), about 72 percent of the debt was short term (that is, loans came due in less than 1 year) and 28 percent long term (repayment periods of 1 year or more). South Africa borrows money short term because international banks are reluctant to make long-term loans.

June 1987 semiannual data from the Bank for International Settlements (BIS), an organization of central banks of industrialized nations, confirm that most such lending is short term; 68 percent of Western bank lending to South Africa is due in 1 year or less.

According to the Federal Financial Institutions Examination Council, an interagency group in the U.S. government made up of agencies that regulate banks, 81 percent of the total value of U.S. bank loans to South Africa in June 1987 will come due in 1 year or less, 17 percent in 1 to 5 years, and 2 percent in more than 5 years.

According to the Bank of England, the United Kingdom's central bank, 67 percent of loans from banks in the United Kingdom will come due in less than a year, 22 percent in 1 to 5 years, and 9 percent in 5 years or more. The remaining 2 percent were unanalyzed loans.

Most foreign lending is to the private sector. The 1985 South African Reserve Bank breakout of total debt showed that about 66 percent was incurred by the private sector, including 17 percent by the banking sector, while 34 percent was incurred by the government and public corporations. Most of the public debt was long term (about 64 percent), while almost all of the private sector's debt was short term (about 90 percent).

BIS semiannual data for June 1987 show that 78 percent of South Africa's debt to Western banks is owed by the private sector—45 percent by banks and 33 percent by nonbanks—and 20 percent by the public sector, with the remaining 2 percent unallocated between the public and private sector.

U.S. bank lending was more heavily weighted toward banks. In June 1987, 63 percent of U.S. bank loans were made to banks, 24 percent to private nonbanks, and 13 percent to public borrowers.

South African banks are also the leading recipients of loans from banks located in the United Kingdom. In June 1987, about 43 percent of these loans were made to banks, 38 percent to public sector borrowers, and 19 percent to other borrowers.

While the BIS and several countries publish data on the maturity of South African debt and the principal borrowers, little data identifying South Africa's creditors is published by international organizations. A private researcher from the California-Nevada Interfaith Council on Corporate Responsibility has developed information on sources of credit for South Africa's debt at year end 1986. Table II.1 is adapted from this information. As can be seen, the United States, United Kingdom, West Germany, and Switzerland account for almost half of South Africa's international debt.

Table II.1: Sources of Credit for South Africa

Dollars in billions

Creditor	Amount	Percent of Debt
United States	\$3.0	13.3
United Kingdom ^a	3.6	15.9
West Germany	1.9	8.4
Switzerland ^b	1.8	8.0
Other banks	5.82	25.8
Total Bank Debt	16.12	
Bonds	3.1	13.7
IMF	0.5	2.2
Other	2.88	12.7
Total	\$22.60	100.0

^aThe previous figure cited for lending to South Africa by banks located in the United Kingdom included British-owned banks and foreign-owned banks located in the United Kingdom. This figure is the private researcher's estimate for lending only by British-owned banks.

^bThis is a year end 1984 figure, the latest figure available for Swiss lending to South Africa

Source: Adapted from information developed by the California-Nevada Interfaith Council on Corporate Responsibility.

Trends in Lending

Since South Africa's freeze on debt repayment in the third quarter of 1985, international lending to South Africa has declined. According to BIS quarterly statistics, lending to South Africa had been generally decreasing, as shown in table II.2. The estimated changes for each quarter, adjusted for currency fluctuations, are given.

U.S. bank lending to South Africa has also declined. From June 1982 through September 1984, lending generally increased from about \$3.7 billion to about \$5 billion but from September 1984 to December 1986, lending decreased about 41 percent to just less than \$3 billion. However, U.S. bank lending increased again marginally in the first 6 months of 1987 to just over \$3 billion. In light of the ban on most forms of new U.S. lending that took effect in mid-November 1986, we have not been able to explain this small increase.

Appendix II
Lending to South Africa

Table II.2: Changes in Lending to South Africa, 1984 to 1987

Dollars in millions	
Time Period	Change in Lending
1984:	
1st Quarter	\$-143
2nd Quarter	101
3rd Quarter	-573
4th Quarter	-803
1985:	
1st Quarter	72
2nd Quarter	24
3rd Quarter	-258
4th Quarter	-152
1986:	
1st Quarter	-858
2nd Quarter	-293
3rd Quarter	-738
4th Quarter	-138
1987:	
1st Quarter	-194
2nd Quarter	13
3rd Quarter	-424

Source: BIS quarterly data.

In recent years, lending from banks in the United Kingdom also decreased in value. Between the end of June 1985 and the end of December 1986, lending declined about 6.3 percent, from \$4.5 billion to \$4.2 billion but for the first 6 months of 1987, it increased slightly to \$4.3 billion.¹

One measure of the burden placed on South Africa by its foreign borrowing is the ratio of its foreign debt to gross domestic product. As borrowing as a proportion of all that is produced within a country's borders increases, paying the interest and principal on the loans becomes more of a burden on an economy. From 1980 to 1985, South Africa's foreign debt increased from 20.3 to 50 percent of gross domestic product, then

¹It is difficult to determine the extent to which changes in the United Kingdom's lending data are the result of currency fluctuations. One private researcher, however, believes most loans from banks in the United Kingdom are denominated in dollars, which might lessen the problem. Taking out currency fluctuations is not a problem with U.S. data, because the amount of U.S. loans denominated in foreign currencies is low.

dropped to 35.2 percent in 1986, probably as a result of decreased lending from Western nations.

Decreases in lending by Western banks to South Africa have been attributed to the political and economic situation in South Africa. Also, the U.S. ban on new loans to the South African public sector initiated by an Executive Order in September 1985, the addition of a ban on new loans to the South African private sector by the Comprehensive Anti-Apartheid Act of 1986, and bans on new loans by some other Western nations probably had some effect.

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. Because the South African rand dropped at the time the loans were due and some banks in South Africa had received Western short-term loans and had re-loaned the money on a long-term basis to South Africans, 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 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.

In recent years, South Africa's credit rating declined substantially and only in the last 6 months has it increased slightly. Institutional Investor, a leading financial magazine, semiannually ranks 100 countries according to their credit reliability, based on anonymous ratings from about 100 of the world's largest international banks. From September 1981 to September 1987, South Africa's credit rating dropped on the 100-point

scale from 61.9 to 31.3, a decline of 49 percent, with a drop of 9.9 points after the debt moratorium in 1985 and 7.8 points while the Comprehensive Anti-Apartheid Act was being passed (4th quarter 1986). From September 1987 to March 1988, South Africa's rating increased by one point to 32.3 but is still below the average rating of 38.9 for the 100 countries.

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 the South Africa lending climate improves.

Trade Credits Exempt From Ban on New Loans

Trade credits are used to finance international sales of goods. Without such financing, an importer would either have to pay cash or enter into barter trade arrangements, which are difficult to arrange. Currently, normal trade financing is not subject to the Comprehensive Anti-Apartheid Act.

Trade between the United States and other countries is financed in several ways, all of which entail an extension of credit, by (1) the exporter through sales on open account, drafts on foreign buyers, and consignment sales, or (2) a bank through letters of credit.

The Anti-Apartheid Act and Treasury regulation implementing it specifically exclude normal trade financing from the Act's prohibitions, although the Act prohibits the U.S. government from subsidizing trade with South Africa. The Act prohibits new investment in South Africa, which it defines as a commitment or contribution of funds or other assets and a loan or other extension of credit. In defining loan, the Act excludes, among other things, normal short-term trade financing, such as by letters of credit or similar trade credits and sales on open account, where such sales are normal business practice. Treasury's regulation further defines short-term trade financing as having a maturity not exceeding one year.

Because the Act permits normal trade financing while prohibiting other loans or extensions of credit, it is possible that South Africa is substituting trade credits for other forms of prohibited credit. However, data published by Treasury on nonbank trade credits and by the Federal

Appendix II
Lending to South Africa

Financial Institutions Examination Council on bank commercial letters of credit indicate that in the past year there has been an increase in nonbank trade credits to South Africa but that this has been more than offset by a decrease in the value of bank letters of credit. Table II.3 provides additional data from 1983 through 1987.

Table II.3: U.S. Bank and Nonbank Trade Financing Involving South Africa

Dollars in millions

Date	Bank	Nonbank
	commercial letters of credit	trade credits
December 1983	\$123	\$142
December 1984	110	128
December 1985	112	80
December 1986	42	50
September 1987	11	76

Sources: Federal Financial Institutions Examination Council for bank commercial letters of credit. Treasury Bulletin, U.S. Treasury Department for nonbank trade credits.

The only other data we found on other countries' trade credits for South Africa are West Germany's nonbank trade credits and BIS total world data on bank and nonbank trade credits guaranteed by governments. The West German data indicate that there has been little change in nonbank trade credits since 1984. BIS data indicate that trade credits guaranteed by governments worldwide totaled \$3.1 billion in June 1987, of which \$1.8 billion are bank claims and \$1.3 billion are nonbank trade credits.

U.S. Investment in and Disinvestment From South Africa

U.S. investment takes two forms: direct investment and portfolio investment. Direct investment is the ownership or control of 10 percent or more of a foreign business by a U.S. company or individual. Portfolio investment generally refers to the purchase of stocks and bonds without acquiring more than 10 percent of an individual company. Both direct and portfolio investment have declined moderately in recent years.

Measured in dollars, U.S. direct investment in South Africa declined from \$2.28 billion in 1982 to \$1.14 billion in 1986. However, almost all of this decline was the result of the sharp decline in the value of the South African rand. The decline resulted from converting the book value of U.S. investments in 1986 at the substantially devalued exchange rate for the rand prevailing in that year. If the impact of exchange rate changes on the value of investments is removed, the data show a reduction in U.S. direct investment of only about 10 percent, from \$2.32 billion in 1982 to \$2.10 billion in 1986.

U.S. investment in South African stocks and bonds decreased moderately in the past 2 years after a large increase in 1984 and no net change in 1985. Table III.1 shows the annual change in U.S. transactions from 1982 through 1987. This figure is not the total value of U.S. holdings of South African stocks and bonds but the net purchases of those assets. No reliable benchmark figures are available from which to ascertain the aggregate value of U.S. holdings.

Table III.1: Net U.S. Purchases of South African Long-Term Securities, 1982-1987^a

Dollars in millions			
Year	Bonds	Stocks	Net change
1982	\$-22	\$5	\$-17
1983	1	-118	-117
1984	13	137	150
1985	-8	8	0
1986	-10	-26	-36
1987 ^b	7	-20	-13

^aDoes not include transactions which occur through third countries, which would appear in the data for that third country. The extent of third-party transactions of South African stocks and bonds is unknown.

^bPreliminary.

Source: U.S. Treasury Department, Treasury Bulletin.

The Comprehensive Anti-Apartheid Act bans new investment in South Africa but does not prohibit the reinvestment of profits earned from existing investments that have majority U.S. ownership or the secondary market sales of South African stocks and bonds (i.e., stocks and

bonds issued prior to passage of the Act). Historically, about 80 percent of all foreign direct investment in South Africa comes from the reinvestment of profits.

Another good indicator of the change in U.S. operations in South Africa is the number of full-time employees working for U.S. companies in South Africa. This figure is valuable because, unlike financial transactions, it should be immune from currency fluctuations. According to Commerce's Survey of Current Business, the number of full-time employees working for U.S. companies in South Africa dropped from 135,900 in 1982 to 116,300 in 1985, the last year for which Commerce data are available. According to the Investor Responsibility Research Center, which has more recent estimates, the number of employees working for U.S. companies in South Africa dropped to about 82,940 as of February 1988.

U.S. Corporate Withdrawal From South Africa

Since 1984, a total of 156 U.S. companies have withdrawn from South Africa. (See table III.2.) As of March 1988, 157 U.S. companies continue to have direct investment or employees in South Africa, but 11 of them had announced their intention to withdraw. Generally, the companies that left through 1986 were relatively smaller. This helps to explain why the decrease in direct investment from 1983 through 1986 was under 10 percent although about 30 percent of the U.S. companies had withdrawn during this period.

**Table III.2: Number of U.S. Companies
That Have Withdrawn From South Africa
Since 1984**

	1984	1985	1986	1987	1988 ^a	Total
Companies	7	40	50	55	4	156
Employees ^b	70	5,885	9,395	13,070	515	28,935

^aAs of March 29, 1988.

^bEmployee numbers are approximations.

Source: Investor Responsibility Research Center.

Officials of U.S. companies still doing business in South Africa that we interviewed agreed that they were under increasing pressure from anti-apartheid groups in the United States to leave South Africa. A recent State Department document on American disinvestment in South Africa states that the main pressure for disinvestment comes from increasing state and local government selective purchasing laws and regulations which restrict state and local government business dealings with firms that have interests in South Africa. The document further states that

"poor economic prospects have declined as a reason for U.S. firms leaving..." Our interviews with U.S. companies that have withdrawn confirm the importance of state and local government selective purchasing laws but also suggest that forecasts of decreased business prospects were a significant factor in decisions to withdraw.

Case Studies of Corporate Withdrawal

We identified five U.S. companies to use as case studies of U.S. corporate withdrawal from South Africa — The Coca-Cola Company, Eastman Kodak Company, International Business Machines Corporation, Marriott Corporation, and Sara Lee Corporation.

While any number of withdrawal methods are conceivable, the principal methods of withdrawal available to the companies were (1) closing down the operation, (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. Each company chose a different one of these five methods.

Reasons for Withdrawal

The reasons most cited for withdrawing from South Africa were (1) forecasts of decreased business opportunities in South Africa and (2) selective purchasing laws by state and local governments in the United States.

Three of the five companies said their South African operations were meeting both profit and volume goals, a fourth had met profit but not volume goals, and the fifth had met neither profit nor volume goals. While only one of the companies said that its South African operations had been unprofitable in the years prior to the decision to withdraw, four companies cited business reasons, primarily the forecasting of decreased business opportunities, for their decision.

There may be a legal incentive to cite business reasons for withdrawing. According to an attorney in one of our case study firms, theoretically a company could be subject to a shareholder suit if it acknowledged other than sound business reasons for its withdrawal from South Africa. This could be an incentive for companies to under-emphasize the effect of political pressures and over-emphasize the business considerations for their decisions.

Three companies gave specific examples of selective purchasing laws imposed by municipalities which influenced their decisions, while two others said that such laws did not affect them since they relied on distributors to market their products in the municipalities instead of doing it themselves and therefore did not run into conflict with the laws.

Only one company stated that it withdrew in order to make a political statement about apartheid. This was reflected in that particular company's formal announcement of the decision to withdraw.

Shareholder actions, the President's Executive Order of 1985, and passage of the Comprehensive Anti-Apartheid Act appeared to be less significant to the companies' decisions to withdraw. There was, however, one strong exception, where pressure from stockholders was identified as the principle reason for the decision.

Implementation of the Withdrawal

All five companies completed their withdrawals between October 1986 and June 1987. The average length of time between the final decision to withdraw or announcement of planned withdrawal and its completion was 6 months.

In one case, the U.S. company closed down its South African subsidiary. It announced in November 1986 that no products would be shipped to South Africa after April 1987 and that the withdrawal would be completed shortly thereafter. Many South African dealers used the time from November through April to stock up on the company's products. The company's assets in South Africa were generally sold off to the highest bidders, which often meant at firesale prices. Most of its assets were sold to white South African companies or investors. One sizable portion of its operations was purchased by a white South African company in the same business, which now operates the facility. We were told that much of the proceeds from these sales were put toward outstanding liabilities to third parties and separation compensation packages for the former employees.

A second U.S. company sold its assets to the local management of its subsidiary's South African branch operations. The new company is composed of the approximately 100 previous employees of the branch, of which about 70 percent are black. Under current South African law, the proceeds of the sale of a foreign-owned asset must be remitted at the financial rand rate, which is presently about 30 percent less than that of the commercial rand rate. Therefore, the company does not plan to

remove these funds from South Africa but to use them for its ongoing social responsibility commitments in South Africa or to pay for miscellaneous services performed for it within South Africa.

The principal act of disinvestment for this company was the shutting down of its plant in South Africa, which manufactured components used by others to produce a final product. The company then opened a similar plant in Swaziland, which now supplies these components to the South African producers.

A third U.S. company sold its two South African operations to two different South African companies. The smaller of the two operations, a subsidiary with about 100 employees, was sold to a white-owned South African company in the same business. The larger operation had about 400 employees and involved a contract to supply a service to a South African government company. The South African government company bought back the contract rights and purchased some of the U.S. company's assets, thus releasing the U.S. company from its commitment. In fact, the U.S. company had initially found a U.S. buyer for all of its assets in South Africa and had negotiated the sale, but the South African government company rejected the contract because it did not want to be involved with another U.S. company where the same desire to withdraw could arise in the future.

Payment to the U.S. company for the two operations is to be spread over 8 years. This includes some ongoing consulting agreements, which are discussed in the next section. An advantage to the U.S. company of negotiating the consulting services was that they could be transacted at the more favorable commercial rand exchange rate.

A fourth U.S. company sold its South African operation, through an investment firm in London, to British investors after a competitor in South Africa had rejected an offer to purchase the company. The British investors are passive owners and the company is run by its own management, which has been left intact since the sale. The British investor company is white-owned.

In the final case, an offshore trust fund was established which became the owner of a newly independent company. Establishing the trust outside of South Africa had two distinct advantages for the U.S. company. First, it allowed the U.S. company to finance the sale without making a new investment in South Africa, which was prohibited by the Anti-Apartheid Act. Second, it allowed for the dividend payments to the

trust to be made at the more favorable commercial rand rate. The trust was to pay the purchase price plus interest to the U.S. company over a 10-year period. Subsequent to the sale, the newly formed South African company entered into a joint venture with a large South African conglomerate. As a result, the U.S. company has been completely paid off earlier than expected. The deal also provided that a fund be set aside in a South African bank and a line of credit opened to fund any separation payments should the need arise for the new company to reduce the number of employees. To date, the employment level has been maintained.

The newly formed independent company was composed of all the former employees of the U.S. company's subsidiary, about 25 percent of whom are non-white. This new company subsequently developed and implemented an employee profit-sharing and ownership plan.

Three of the five companies told us that they retained no option to repurchase their assets or business in South Africa. One company that did retain this option has not formally defined the circumstances under which it might repurchase the assets. However, we were told that the company's board of directors has decided that a repurchase would require the removal of apartheid or involve circumstances in South Africa satisfactory to the U.S. government. The fifth company was unwilling to provide this information.

Concern for employees and doing what was best for business, which often resulted in selling to the highest bidder, were most cited as the reasons why each company chose its particular method of withdrawal. However, the sale price was below book value in one case and at book value in a second. A third company, which closed down its operations, sold off its assets at what it described as "firesale prices." The fourth company's selling price was greater than book value. The fifth company which sold its South Africa operations to local management, was unwilling to say whether the sale price was above or below book value. One company stressed that its choice of withdrawal method was driven by a concern for the interests of its existing customers.

Business Relationships After Disinvestment

Four of the U.S. companies have maintained some relationship with a successor company in South Africa. Royalty fees for the use of trademarks or ongoing consulting services were maintained in three cases. Ultimately, in the three cases where there was a company product versus a service, there has been no change in the availability of the product.

as a result of the company's withdrawal. A fourth company which severed all ties acknowledges that its products are available in South Africa through third parties, but not with the company's approval. In fact, we did find this product to be available during our recent visit to South Africa.

For one of the companies which maintained a relationship with a successor, this newly formed successor company became the sole approved consignee of its products in South Africa.

A second 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. This U.S. company continues to have contracts with its South African distributors for the use of its trademark. As previously mentioned, components used in the final product are supplied to its South African customers.

A third company sold its South African operation yet maintains a licensing agreement whereby the new owners can use the trademark in exchange for royalty payments calculated at 3 percent of sales. Officials of the U.S. company emphasized that they would never have found a buyer for their South African operation if the purchaser had been refused use of this trademark. They advised us that their primary interest in having the trademark agreement was not financial but to preserve the integrity of the trademark. This U.S. company also has an agreement to provide informal consultation to the new company.

A fourth company has provided consulting services to each of the purchasers of its two South African operations. The contracts for consulting last 5 and 8 years, respectively. One know-how agreement was an effort to further compensate the U.S. company for the below-book-value sale. In the other transaction, the U.S. company had an existing contract with the eventual South African purchaser that extended through 1993. Therefore, any withdrawal package essentially required the approval of the South African company. We were told that inclusion of the know-how agreement was the only way the U.S. company could get out of the original contract.

The fifth company closed its operations, but still owns the equity of its South African affiliate, which now consists of a small bank account.

Since our interview, this U.S. company has purchased another multinational company which happened to have operations in South Africa and has announced that this newly acquired company will withdraw from South Africa in the same manner as the U.S. firm did, by closing down its operations. The withdrawal plans will be finalized soon, but it has already determined that no product will be shipped to South Africa after August 1988.

Status as Sullivan Signatories

All five U.S. parent companies were Sullivan Principle signatories. The Sullivan Principles are a voluntary business code of social responsibility for companies doing business in South Africa. Each signatory is evaluated on the basis of specific performance criteria, such as providing freedom of association, equal pay, benefits, training and advancement, and community development.¹

The Sullivan Principle rating categories are

(I) Making Good Progress

(II) Making Progress

(III) Needs to Become More Active

New Signatories (NS)—not required to report until the end of the first full fiscal year after they sign the Sullivan Principles.

In 1986 there were 165 U.S. signatories of the Sullivan Principles but this number dropped by about 45 percent in 1987, principally due to U.S. disinvestment. As of October 30, 1987, there were 90 U.S. signatories.

The last ratings of the companies in our case studies included two in category I, two in category II, and one NS.² In the latter case, the company was in South Africa for only 2 years and never completed a full cycle as a Sullivan Principle signatory. According to the 11th Report of the Signatory Companies, only one U.S. subsidiary that was sold to a non-U.S. owner between 1986-87 continued on as a signatory. None of the successors to the companies in our case studies continued as signatories.

¹Reverend Leon Sullivan ended his participation in the Sullivan Principle process in 1987, consequently they are now formally referred to as the Statement of Principles for South Africa. The signatories continue to follow the same code of principles. Arthur D. Little, Inc., continues to evaluate the signatories' performance in South Africa consistent with the standards of prior years.

²Four of the ratings are from the 10th reporting period, July 1985-June 1986, and one is from the 9th reporting period, July 1984-June 1985.

Two of the four companies which had successor companies in South Africa negotiated Sullivan-type obligations with the new owners, while two did not. Both companies that negotiated such obligations required successor companies to maintain the equal employment opportunity standards they had applied. In one of these cases, the successor company is required to draw up an annual equal opportunity employment plan, which is reviewed by the U.S. company, but the U.S. company commented that it is difficult to enforce such provisions.

The official of the Arthur D. Little consulting firm who has been responsible for running the Sullivan Principle program since its inception told us that, in his opinion, successor companies to U.S. firms that have left South Africa are not likely to uphold the same equal opportunity standards as their predecessors. As examples, he cited the instance of one such new South African company which fired all its workers on a Friday and posted an offer to rehire them at a lower wage rate the following Monday.

A second example was of a company which had made considerable progress in recent years, moving from a Sullivan rating of II to I. Shortly afterwards, the company was sold to a South African company and the subsidiary's president was told to halt the programs he had instituted, such as scholarships for children of employees and housing for employees.

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 have stopped the funding when no such commitment had been made. In particular, two of the companies had established large funds, totaling \$15 million and \$10 million, 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.

Two of the five companies' South African operations had employee unions. However, neither company formally included the unions in their withdrawal decision-making process.

Employment Impact

The five U.S. companies in our case studies had a combined work force 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. Some non-white employees certainly lost jobs in two of the companies due to the companies' withdrawal. In one of these companies, up to 85 non-white employees appear to have lost jobs while the 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 work force.

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. Close to 60 percent of the non-white employees were kept on by the new owners who purchased the facility intact and operate it, and some others were helped in starting their own businesses, especially as taxi drivers. Those most likely to have lost jobs were the unskilled workers. All the employees received a separation package, which consisted of approximately one year's pay for an employee with an average length of service (9-10 years), 4 months continued medical coverage and life insurance benefits, and re-employment counseling.

Officials of two companies felt that the black employees would likely be worse off following their companies' withdrawal, while officials of two other companies felt it was hard to say. Officials of the fifth company said there would be no difference for black employees before or after the withdrawal.

Objectives, Scope, and Methodology

Senators Edward M. Kennedy and Lowell P. Weicker, Jr., asked that we address a series of questions concerning

- trade with South Africa,
- public and private credit available to South Africa,
- U.S. disinvestment from South Africa, and
- strategic minerals.

As agreed with their offices, this is an interim report addressing trade, credit, and disinvestment. Strategic minerals will be addressed in the final report.

To review trade with South Africa, we obtained trade statistics from several sources, including the International Monetary Fund and the United Nations. We used these statistics to identify South Africa's major trading partners, trace changes in trading patterns over the past several years, and identify the major products in which South Africa trades. We also discussed trade and investment with State Department officials.

Regarding South African efforts to circumvent sanctions, we reviewed U.S. Customs Service and Commerce Department Office of Export Enforcement information on investigations involving compliance with the South African sanctions. We also talked with private and public officials in South Africa and in the border states of Botswana, Swaziland, and Zimbabwe. We discussed how South Africa obtains oil despite a worldwide oil embargo with officials of the Shipping Research Bureau, a private organization that monitors oil tanker movements to South Africa. To describe private and public credit available to South Africa, we obtained lending statistics for a number of countries from the (1) Federal Financial Institutions Examinations Council, an interagency body of the U.S. government, (2) Bank of England, (3) Bank for International Settlements, an organization that promotes cooperation among central banks and collects data on debt owed to banks in industrialized nations, (4) South African Reserve Bank, and (5) several private organizations that follow lending to South Africa. We used these data to report South Africa's foreign debt and changes to it, identify major lending countries, and provide a profile of that debt, including its maturity and public and private components among South African borrowers. We also obtained information on trade credits and their importance to South African trade from the Export-Import Bank of the United States, and the private organizations that monitor lending to South Africa.

To obtain information on U.S. disinvestment from South Africa, we reviewed statistics on the total value of U.S. direct investment in South Africa published by the Department of Commerce and on portfolio investment published by the Department of the Treasury. We also obtained information on the number of U.S. companies that have either withdrawn from or remain in South Africa from the Investor Responsibility Research Center, an organization that compiles and analyzes information on business activities in society. Its work is financed primarily by annual fees paid by more than 300 institutional investors.

To identify the major methods used to disinvest, we interviewed experts at the Investor Responsibility Research Center and reviewed several disinvestment studies. We then selected a U.S. company to serve as a case study of each method. We interviewed each company to obtain information on its business activities in South Africa, factors that led to the decision to disinvest, how disinvestment was implemented, the impact of its disinvestment on its black employees, and any continuing business relationships with South Africa. These interviews were all conducted in the United States. We also discussed disinvestment in general with representatives of several U.S. companies remaining in South Africa and of companies purchased by South Africans.

Our review was performed in accordance with generally accepted government auditing standards. We conducted our work between November 1987 and April 1988.

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