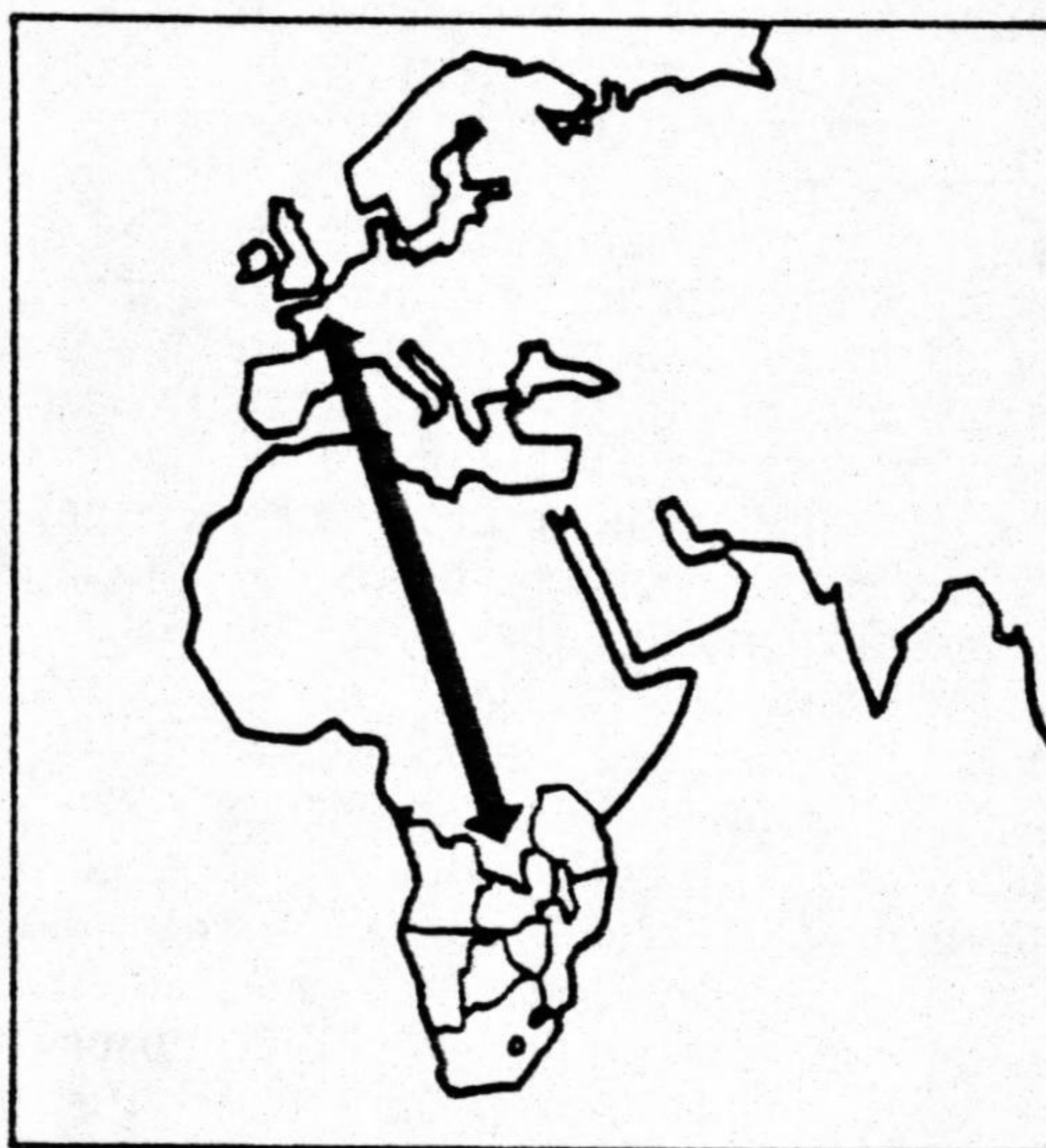


SOUTHERN AFRICA'S FUTURE: EUROPE'S ROLE

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March 23-30, 1988



TRADE CREDITS AND GOLD: FINANCING APARTHEID
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Gold, the untried sanction

GU 2004.87

With the unrest in South Africa reviving in the new form of burning suburban railway coaches the world is not paying enough attention to the price of the gold the Reef produces. The overrated metal, only 20 per cent of which is put to essential use, nudged \$450 an ounce this week, most immediately because of the current weakness of the US dollar. Gold underpins roughly half the South African economy. In the not so distant past the price came close to falling below the \$300 mark, which is held to be the point at which the South African economy would really be hurt. We are therefore obliged to assume, with the present price a comfortable 50 per cent above the danger level, that Pretoria is quietly laughing all the way to the nearest newly disinvested branch of Barclays National Bank.

Another factor in the steady rise of the gold price, which goes back much further than the latest troubles of the dollar, is by a cruel irony the international controversy about sanctions. South Africa is overwhelmingly the world's main supplier. The application piecemeal of some sanctions and the threat of more — not empty despite the recent and surely temporary loss of world interest in the subject — has therefore given a considerable boost to an economy busy preparing for a siege, just when it needed one most. Every dollar by which the price rises is estimated to mean a gain to the South African economy of \$20 million. In the year or so it has taken to rise from about \$320, therefore, Pretoria has raked in a cool \$2.6 billion at no cost. The fact that it gets away with pleading poverty to its foreign creditors shows how avidly gullible they are.

We have often argued here that while any sanctions against apartheid and South Africa's illegal occupation of Namibia are better than none, the one measure that would count as much as all others put together is an attack on gold — not just krugerrands but all of it. The irrational, mesmerising hold of the metal and the panic over the illusory shortage an embargo would cause undermine the effect of the sanctions already in place, precisely the opposite of what was intended. But there would be no difficulty at all with replacing gold in all its applications except the industrial (for which an ample sufficiency could be found elsewhere). Alternatively, and much more conveniently, if the West were genuine in its professed hostility to apartheid, it could painlessly force the price down by intelligent use of its huge reserves, a lever which could be dropped the moment an acceptable regime took over. In the campaign to end apartheid, gold is the only thing that glisters.

ICABA



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Citibank Commerzbank Deutsche Bank Morgan Guarantee

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International Campaign Against Banking on Apartheid

Newsletter No. 5

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FINANCING APARTHEID

JOHN LIND of the California/Nevada Interfaith Center on Corporate Responsibility explains the importance of trade finance, and how it sustains apartheid.

TRADE CREDITS

Calls have come from South Africa to apply economic pressure on South Africa in order to end apartheid. This translates into preventing South Africa from receiving the imported commodities and services it needs to keep its dependent economy going. It can be affected in several ways:

1. Countries can refuse to permit the sale to South Africa of those necessary commodities and services.
2. Sanctions can be invoked to prevent the purchase of South Africa's exports, which provide the foreign currency for the necessary imports in (1), and
3. The financing of these trade flows can be prevented by ceasing all lending, trade finance, etc.

The direct approach of preventing all imports and exports is most effective. However, such sanctions are slow to materialize, because the cut-off of exports to South Africa threatens jobs in the exporting country. The cutting off of financial credits then becomes the other option, and is the subject of this article.

Such a cut-off would force South Africa to use its precious foreign exchange for trade and would ultimately lead to a barter trade. Such trade is slow and difficult to arrange. The hope is that the economy is so threatened in the short run that politi-

cal concession will be made to avert the crisis.

Financing of capital projects, like electric power stations, has become more difficult since the September 1985 debt standstill. Only trade credits, credits insured or guaranteed by foreign governments and bonds have been exempt from this standstill.

However, the exemption of trade credits by both the South African standstill agreement and the U.S. Anti-Apartheid Act of 1986, together with the active insuring of credits by European and Japanese governments, provides for continued exports from these countries to South Africa. In terms of exports of capital goods to South Africa, Larry Harper of South Africa's Electricity Supply Commission (ESCOM) states: "If we place orders with overseas institutions we can still fund at least 85% of our import requirements. There has been no indication that that sort of finance will be withdrawn." (*Financial Mail*, 24 July 1987) Formerly, ESCOM raised money for many of its projects through bonds and syndicated loans. Now that these avenues are closed off, their source of funding is shifting to insured trade credits.

TYPES OF CREDITS

First let us look more carefully at the major ways that export trade can be financed from the U.S., U.K., Europe or Japan:

1. A domestic bank can loan to a foreign buyer directly, who then repays the bank directly.
2. A domestic bank can provide credits to the domestic supplier to finance production and export. The foreign purchaser pays the supplier who then

repays the bank. This is a form of bank supplier credit. Presumably, it is the most common form for Japanese exports to South Africa, since Japanese banks are technically forbidden to loan directly to South Africa.

3. The supplier can provide the credit. One way is to sell on open account, with the buyer paying at a later date after the receipt of the goods. Presumably, this method is used by a company like IBM to ship goods to its distributor in South Africa.

TRADE FINANCE FIGURES

The total amount of government guarantees and insurance provided by first world countries for trade with South Africa at the end of 1986 was \$3.2 billion, with \$1.8 billion in the form of cover for bank credits and \$1.4 billion in cover for supplier credits. These amounts are but a small fraction of total trade, but presumably almost all of the large capital

This edition of ICABA focuses on new sanctions against South Africa. John Lind and David Koistinen discuss the possibilities of cutting off trade credits and imposing gold sanctions. Elsewhere, Doris Peschke outlines the reasons for not lending to South African state corporations, and Johann van Kesteren, in the Groups' Report, follows up last issue's feature on 'alternative banking' with a look at 'clean' banks in the Netherlands.

Comments, criticisms and contributions for the newsletter are welcome.

items are covered by government guarantees and insurance, because of the large amounts of each transaction and the long-term duration of the financing agreement.

Of these guaranteed credits of banks of \$1.8 billion, over \$800 million were probably insured by the British Export Credit Guarantee Department (ECGD), since the Bank of England reports \$834 million of claims by U.K. banks guaranteed outside of South Africa. Germany and Japan would be the other largest guarantors, followed by France and Italy. U.S. banks can not obtain U.S. guarantees or insurance except with special approval. Thus U.S. guarantees are almost zero.

A rough estimate of total export finance can be made as follows. Based on 1985 figures, the short-term credits would likely be less than \$3.1 billion while medium- and long-term credits might be \$8 to \$9 billion. The total financing would thus have been about \$11.5 billion. At that time much of the capital expenditure for machinery would have been provided by bond issues, loans and the precarious practice by South African banks of on-lending. Today the \$11.5 billion, less long-term commitments from 1985, would have to be supplied by South African funds or by foreign trade credits. These trade credits would be both bank and supplier, including supplier credits on open account.

With such a large volume of trade credit necessary for the maintenance of the South African economy, trade credits are a crucial pressure point on that economy.

RECOMMENDATIONS ON TRADE CREDIT

1. First world governments should:
 - a. Eliminate all trade credit guarantees and insurance for trade with South Africa. Especially British ECGD cover should be eliminated.
 - b. Prohibit trade finance of all kinds, and
2. In lieu of the above, banks of the major trading partners should be pressured to cease their trade lending through a coordinated campaign.

GOLD: A POTENTIAL ECONOMIC PRESSURE POINT

DAVID KOISTINEN, of the C/N ICCR, puts forward a method of imposing gold sanctions.

Gold production is the mainstay of the South African economy. In 1986, the country exported \$7.3 billion worth of gold — 41% of that year's total exports of \$18 billion. Since gold plays an all-important role in the South African economy, the country's gold sales present an obvious point for putting pressure on the government to end apartheid.

South Africa is the largest gold producer in the world. The 640 to 680 tons it mines a year make up roughly 45% of the world's annual production. Italy, the U.K., and Switzerland are the principle buyers of South African gold. Italian buyers purchased about 121 tons in 1985 for use in the country's jewellery industry. Other countries purchased 31 tons. The remainder, approximately 521 tons, was sold on the London and Zurich gold markets, the world's primary distribution points for gold. Assuming a 60/40 ratio between the two markets, about 310 tons moved through the Zurich market, and 210 tons was sold in London.

A few international banks with substantial ties to South Africa exert significant control over the London and Zurich gold markets. In Zurich, the three largest Swiss banks — Union Bank of Switzerland, the Swiss Bank Corporation, and Credit Suisse — form a pool that completely controls the market. These three banks have an estimated \$1.3 billion in loans outstanding to South Africa.

In London, five firms led by Rothschild and Sons have guided the market for decades. One of the firms, Mocatta & Goldsmid, is wholly owned by Standard Chartered Plc., the British bank with the largest exposure in South Africa (\$1.2 billion) of

any bank in the world. The other firms are Samuel Montagu (owned by Midland Bank Plc.), and Australian-owned Mase Westpac (Westpac Banking Corp. Plc.). Recent reforms have loosened the control of these five firms over the market.

THE ITALIAN CONNECTION

It was noted above that Italy imports large quantities of gold directly from South Africa each year. These purchases are worth over \$1 billion annually, or more than 5% of total South African exports. It is thus worthwhile to look at the role of South African gold in the Italian economy more closely.

Italy is a world centre for the fabrication of jewellery, and is the world's leading maker of gold chain. The country imports 150 to 200 tons of gold a year, almost all of which is made into jewellery. Roughly half of this gold comes directly from South Africa, another third is purchased on the Zurich gold market, and other countries provide the remainder. Wholesalers in Milan purchase the gold from abroad and distribute it to jewellery manufacturers in the Northern Italian cities of Arezzo, Vicenza, Valenza, and Bassano del Grappa.

Jewellery manufacturers in these cities specialize in the fabrication of gold chain. Making the chain is a modern industrial process — high speed machines in large factories churn it out by the mile. The workers in these factories are organized in active unions, and there was a high incidence of labour unrest in the early 1980s.

Italian exports of gold jewellery are quite large. Italy sold \$2.36 billion worth of jewellery abroad in 1985; gold jewellery made up about 95% of this total. The U.S. is the largest buyer of Italian jewellery, purchasing \$1.03 billion worth in 1985. Four

oil-exporting Arab countries — Saudi Arabia, Kuwait, the United Arab Emirates, and Libya — bought \$580 million worth in 1985. The U.K. imported \$97 million in Italian jewellery in the same year, making it the second largest buyer in Europe after Switzerland which purchased \$116 million.

SANCTIONS

Could countries impose sanctions against the import of South African gold? Switzerland and the U.K. are unlikely to do so because of the importance of the gold markets in these countries. Moreover, the central role that gold plays in the world monetary system and as an investment instrument, and the fact that South Africa produces almost half of the world's gold supply, make it very improbable that sanctions would work.

We do see two methods of putting pressure on South Africa's gold sales:

1. The most obvious pressure point is Italy. Jewellery manufacturers in Italy could purchase their gold from Canada, Australia, the U.S., and other producing countries instead of from South Africa. Since the jewellery workers in Italy are unionized, the unions are a potential ally in a campaign to halt Italian imports of South African gold. Anti-apartheid groups in the U.S. and the U.K. could pressure Italian jewellery manufacturers by calling attention to the large imports of Italian jewellery into those countries.
2. The London and Zurich gold markets could be pressured through the banks that control these markets to separate new South African gold from other gold so that buyers such as Italy can avoid South African metal.