ESCOM FINANCE

Lightening

Market-related policies and more realistic loan planning are paying dividends for Escom. The electricity utility, with total assets of some R32 billion, has slashed R1 billion from its funding requirement target for 1987.

The new target of R3,4 billion follows a R300m reduction in 1986 to R3,3 billion. In 1985, net expenditure on lixed assets hit a high of R4,76 billion, while total borrowings peaked at R4,9 billion.

iiBut it must be emphasised that the R3,4 billion is a provisional target _ unforeseen circumstances could still affect the cutback n original estimates," Escom financing anager Francois Botha tells the FM.

Botha is confident that R2,8 billion can be raised locally next year, and foreign funding will total some R625m, including project-related and export credit finance already arranged.

Escomis 1987 projections include savings of R250m on operating costs, while lower borrowing costs and interest on reduced requirements cut another R300m off the original bill. The balance of the R1 billion saving is made up primarily of lower capital expenditure flowing from the utilityis improved budget control systems and new cost-conscious management philosophy.

While Escom is busy bringing its funding and capital expenditure requirements back to more basic levels, it seems clear that this will not lead to the cancellation of any of its six giant R3,5 billion power stations now at various stages of completion (Business August 1).

Botha does not spell this out in detail, but e says he foresees no problem meeting Escomls funding requirements on the local markets.

Although provisional capital expenditure budgets for the period 1986 to 1989 has been reduced by R12 billion, no further major cuts are envisaged and the corporation is continuing with existing projects. Capital projects in 1987 should require some R3,7 billion, against R3,3 billion in 1986.

With sufficient funds available on the local capital and money markets, along with some innovative accounting and the limited use of export credit finance, the worst-case scenario the power giants at Tutuka, Lethabo, Matimba, Palmiet, Kendal and Majuba face could merely be deferment of construction for limited periods.

This will be good news for construction firms and other suppliers _ and their employees.

In the meantime, the possibility remains that unutilised surplus electricity capacity could put additional upward pressure on tar-

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iffs in the early Nineties. Until then, Escom intends to keep annual tariff increases below the inflation rate.

Scaling down SAis annual electricity

growth requirements to some 5,596 a year and the more cost-effective management approach seem to have come at the right time to enable Escom to meet the challenge posed by foreign loans difficulties. ,

uWe've already secured R1 billion of our revised R1,3 billion capital market requirements for this year," says Botha. "The remaining R300m will be taken up over the next few months." I

TECHNOLOGY BOYCOTT

Out of Africa

As international pressure for a technology boycott of SA mounts, the country is pinning its hopes on the apolitical stance of the world's foremost scientific organisation, the International Council of Scientific Unions (Icsu).

When Icsu meets next week there will no doubt be a strong lobby calling for the expulsion of the South African aflíliate, the Council for Scientific and Industrial Research (CSIR). lndia, for example, is expected to refuse to host any lesu conferences while SA is still a member, and may well be joined in the move by fellow Commonwealth members.

Making the case for SA. will 'be CSIR president Chris Garbers. He will claim that SAis exclusion from the world body would create an irreparable break in the international technology network, affecting Africa particularly severely.

Garbers recently told SA's Joint Council of Scientific Societies: uMost of the work carried out by research organisations in Africa is concerned with conditions peculiar to the continent and is undertaken precisely because scientific and technical knowledge from elsewhere is not always directly applicable. Co-operation should be regarded as one of the most important needs .. . in the era which is unfolding in Africa."

The CSIR alone has collaborated with 13 countries in Africa over the past three years, developing not only appropriate technologies for Third World use, but strategies for industrialisation and high technology.

Says Garbers: "To improve the standard of living, to reduce the birth rate, to accelerate development towards a brighter future and greater prosperity, to dope with enormous environmental problems, to realise and utilise southern Africais massive energy potential, to train the people of Africa to fulfil a role in a more industrialised society, science and technology will have to find their proper place.

iiln this the First World generally, and SA in particular, have a major role to play. I would even go so far as to say it is part of our commitment to the future.n

The only legal grounds on which Icsu might throw out the CSIR would be for nonpayment of membership fees - but then legal niceties have not always been a bar to SAls expulsion from international bodies.

The hope is that the Icsu general assembly will be swayed by Garbersy argument, and that it will remain as staunchly apolitical as it did in the face of Unescols bid to remove

SA last year.

And strong hope it must be, for the most serious long-term impact of sanctions would not be the lack of imported products, or even the closing of export markets, but a systematic erosion of the countryls access to technological ideas.

Research and development organisations may well be efficient, but capacity is small, particularly in terms of manpower, and the country cannot afford to reinvent the wheel every time industry has a new technology requirement.

Fulfilling its role in technology transfer to industry, South African science has so far made much of international databases which it has scanned for processes and products for adaptation to local needs and conditions. It has also sought new ideas which, if rapidly developed, could give the country an edge In export markets. Direct access to information is considered important because second-hand information from third parties often loses the innovative impact.

Access to international databases is already being restricted. particularly by SAis First World competitors who are battling against massive industrial development in the Pacific basin.

Foreign scientists and industrialists are being pressured by colleagues, companies and students to cut all ties with SA and local experts are invited overseas less often for fear of political disruption.

And, already, the net loss of technological skills as a result of political uncertainty is assuming serious proportions. SA is, simply, being shut out. ’

To counter the trend, it needs to prove that it has a role to play in international scientific endeavour and that it has specialised skills and products to barter in the worlds technology markets. I

MAIZE ,INDUSTRY

The axe falls

The new maize marketing system announced by the Maize Board in Pretoria last week, is already sending shock waves through agriculture.

In a bid to cut heavy recurring export losses on surplus yellow maize, provision has been made for local prices for the harvest due early next year to slide downwards according to the size of the crop (Business August 22). For example, a 6 Mt crop would attract R240/t, while a 10 Mt crop would earn farmers R173/t.

The system aims to allocate responsibility for crops heavily in excess of the local 5 Mt a year market directly to farmers. Uneconomic exports of 2 Mt of yellow maize this year will earn the industry only about RlOO/t against current local prices of R260/t.

Although thereis more flexibility. the new system still essentially represents a fixed-price, one-channel market. But even this could change.

The Maize Boardis GM Hermie Davel, tells the FM the board is now urgently investigating the possibility of regaining lost yellow maize sales to the feedlot industry by applying more flexible pricing. Hopefully, this will be finalised at the board’s meetings on September 29 and 30.

Davel says the local sale of udiscount maizen is receiving top priority. In principle, he strongly favours the move, but he warns that reaction from other customers paying increasing current prices could innuence the final decision. Nevertheless, he says feedlotters have already been informed of the board’s investigation.

Yellow maize sales of between 750 000t and 1 Mt to feedlots are already in jeopardy because the Maize Board refused to sell export maize to them at R200/t (FM August 22). This intransigencc could lose maize producers additional income of R75m-R100m because the grain is now being exported at only RlOO/t.

If the board decides to change its fixed price system, which has operated since the Thirties, implications for the future of the industry appear enormous. And the rest of agriculture will not escape unscathed.

SLOW DOWN FOR CARS

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Encouraging sales by motor manufactur-

ers in June and July have dbt been maintained in August. I
Total vehicle sales of 23 642 showed a decline of 6% on the previous month and a 9,8% fall from the figure for the same month last year. Car sales of 15 404 were 8,2% down on the previous month and 10.7% down on August 1985.
But within the total there were considerable fluctuations.
The best news came frdm Mercedes-Benz, which increased sales by 49,496, from 1675 in July to 2 503 in August. This follows supply shortages after the launch of the 124 series in April, but the company can now meet demand.
Nissan sales showed a 5,8% rise over the previous month to 2 887, but Toyota kept its preeminent position by notching up 7 096 sales, a 1% rise on July. The Corolla, with 2 705 sales, remained the best-selling new car in SA.
But it was generally bad news as eight of the 14 manufacturers saw sales slump from July levels. Volkswagen experienced a 35% decline and General Motors saw a 29% drop in sales.
Volkswagen MD Peter Searle describes the VW figure as a iihiccup" resulting from price increases. He points out VWis market share had grown considerably over the year to July from 12,9% to 20,6%.
But overall, National Association of Automobile Manufacturers of SA director Nico Vermeuien says that on a seasonally adjusted basis the sales trend for new cars and light commercials remains positive. ,
The continuing fall in interest rates and more reasonable valuation of company cars for fringe benefit tax will both help sales, he adds.
uOther farming sectors are bound to feel the spin-off from reduced maize production," says SA Agricultural Union director (SAAU) Piet Swart. liAlthough the SAAU in principle supports moves to more market-related systems, the current change comes at a very difficult time for farmers."
The SAAU has launched a top-level investigation into the implications of a more market-related maize pricing structure throughout agriculture, he adds.
If maize growers are forced into other sectors, these could be forced to follow the lead towards more market-related pricing.
This hypothesis is accepted by a Wheat Board spokesman, who says a wheat surplus following a spill-over into wheat production could lead to pressure for the industry to change its one-channel. iixed-price system.
While consumers will benefit from lower prices, producers will feel the chill draught of reduced incomes and disappearing credi lines.
Commercial bank spokesmen say they expect major repercussions as reduced financing leads to higher insolvency. But, says Volkskas agricultural economist Wikus Lighthelm, agricultural co-ops will be first in

the firing-line as they are the major sources of production credit.

With farmersl income reduced by lower maize prices, credit from financially troubled co-ops would come under severe strain. uFarmers whose average crop yields put them below the profltability cut-off point, will find their credit lifelines disappearing unless government throws them another life- 1 line? says Lighthelm.

The Maize Boardis chairman Hermie de Jager adds that government will have to give maize farmers additional short-term assistance. Other forms of State help suggested by Nampo include export incentive measures and a reduction of input costs. I

EXHIBITIONS

Heads together

The National Exhibition Centre (NEC) at Crown Mines has proved that tradition and modern business practice can combine comfortably. ’ i

The 51 ha site is owned by the Witwatersrand Agricultural Society (WAS), established in 1894 to run the Rand Show. But the i purchase of land and the contruction of facilities left the WAS with a debt of some R63m last year, according to WAS president Ian Louw. He says the size and sophistication of the NEC also involves considerably higher running costs than were incurred at the old Milner Park Showgrounds.

And so the WAS has put into operation the company it formed two years ago as the vehicle to finance the new site. The company is to streamline the activities of the WAS and develop a marketing strategy to maximise efficiency and the returns of the multimillion rand complex.

First task, says WAS GM and interim NEC MD Jan Kleynhans, is to look at alternative sources of funding. 70ur loan is now in the form of bankersi acceptances, the rate for which is under 10% - a sight lower than our original projection of an average 15% over 20 years. And yet, with a loan exposure of about R61m we think we should look at doing even better."

Finance charges for the year to end June were almost R10,5m, outstripping revenue by more than R4m.

Secondly, a marketing plan has been launched with the appointment of a consultant and a full-time promotions executive. The aim is to make the NEC much more than the site for the Rand Show by promoting its many facilities. Already it accommodates about 40 specialised trade exhibitions each year, and there are also conference centres, shops, banks and restaurants.