ACOA The American Committee on Africa
198 Broadway • New York, N.Y. 10038 • (212) 962-1210

M. William Howard, *President*
Elizabeth Landis, *Vice President*
Jennifer Davis, *Executive Director*

The Struggle for Comprehensive Sanctions

A Report to the
Workshop on Southern Africa and Sanctions
Against South Africa and Namibia
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The Anti-Apartheid movement won a significant victory in 1986 when the U.S. Congress overrode a veto by President Reagan and imposed a set of limited sanctions against the Pretoria regime. Despite their limited nature, the blow that was struck against the "Constructive Engagement" policy of the Reagan Administration had real impact and the Administration has been fighting back. The 1986 sanctions law required the President to report to Congress in 1987 and to outline what further sanctions would be imposed in the event that the Pretoria regime had taken no significant steps to dismantle apartheid.

In his October 2 report, the President admitted that no progress had been made in ending apartheid. But instead of recommending additional sanctions, the Administration used the Report as a means to reiterate all its longstanding arguments against sanctions on South Africa. The Report was an attempt to shift the terms of the debate away from which new sanctions should be imposed, and reopen the whole question of sanctions as a strategy for pressuring the racist regime.

In effect the President's Report was an attempt to place a new veto on sanctions. In summary the President's report concludes: "sanctions have had minimal impact...on trade because of [South Africa's] ability to find substitute markets ...", adding that "after years of contending with embargoes on arms and oil, South Africa has shown itself adept at evading sanctions."

He fails to report that even the limited potential impact of the weak sanctions adopted by Congress has been minimized by the Administrations's own lax enforcement of the law and its actions to prevent the imposition of coordinated sanctions by the international community.

Regulations enforcing sanctions have, in the main, been written and interpreted very weakly. For example, uranium hexaflouride is exempted from the ban on importing uranium and licenses have been granted for the import of uranium intended for reexport. The circumvention of the ban on uranium and the Administrations's failure to implement other provisions of the law has been documented in a report by the General Accounting Office.

Nor does the Report indicate that it has been easier for South Africa to find alternative markets because the Reagan Administration, in violation of the intent of the sanctions law, has consciously blocked international imposition of the limited U.S. sanctions against South Africa. In Section 107 of the current law, the Congress urges the President to seek international cooperation "as a prerequisite to an effective anti-apartheid policy..."

The Act mandated the President to convene an international conference within six months [by April 1987] to reach cooperative agreements to impose sanctions against South Africa. There have been no negotiations and no international conference. Moreover, the U.S. representative to the UN Security Council on February 20, 1987, vetoed the international imposition of sanctions identical to those adopted by the United States.

In a recent, comprehensive review of the President's Report, the Washington Office on Africa points out that to date the major industrialized nations have imposed weaker measures or have omitted sanctions included in the U.S. sanctions package. Coal exports, for example, are second only to gold in importance as foreign exchange earners for South Africa. The U.S., Australia, Canada, Denmark, France and Sweden have banned South African coal. However, Britain, West Germany, Italy and Japan continue to import coal in large. The U.S. prohibition on coal has been undermined by the Administration's failure to pressure these allies to join the ban on South African coal.

Other arguments against sanctions found in the President's Report have been heard many times before. They have no greater validity for being repeated yet again and it is unnecessary to rebut them here. They include the claim that to the extent that our sanctions contribute to South Africa's economic problems, "we will have contributed...to an increase in [black] unemployment..."

The Report also defends continued U.S. corporate investment in South Africa claiming "...the most painful impact of this trend toward disinvestment has been the disappearance of company-funded social, housing, educational, and job training programs designed to improve living standards and career opportunities for Black South Africans."

The President concludes that sanctions have resulted in "a marked reduction in our ability to persuade the South African government to act responsibly on human rights issues," and that "economic growth and the openness of the South African economy have been among the major forces eroding apartheid. They also offer the best chance of bringing about its end."

New Policy? The Same Dead Horse

Finally, having refused to extend sanctions [despite the requirement in the legislation that he do so if no significant progress has been made in ending apartheid], the President unveils a "new policy". The words "constructive engagement" do not appear -- but the policy is the same. The Report proposes a "period of active and creative diplomacy." Although the President says that the U.S. should "do all that is possible to bring the peoples of South Africa together for meaningful negotiations leading to the building of a democratic society", his Report proposes no tangible steps towards that goal.

1987 --Some Lost Momentum

In fact the Presidential Report had a chilling effect on the struggle for sanctions long before it was written.

Throughout the year there has been little willingness in Congress to take up the issue, until October -- the due date of the Report. This was particularly frustrating to anti-apartheid forces, which believed, correctly, that the Report would inevitably turn out hostile to past or future sanctions in South Africa.

The demobilization has not, however, been universal. In February 1987, anticipating the continued anti-sanctions position of the Reagan Administration and conservative forces, Congressman Ronald Dellums [D-CA] and Senator Alan Cranston [D-CA] introduced a bill [HR 1580/S556] which imposes almost total sanctions on South Africa, mandating complete disinvestment of all U.S. corporations from South Africa and Namibia and banning most trade [see Appendix I]. The bill also includes some of the stronger sections of the present sanctions law, such as the termination of the treaty permitting air flights between South Africa and the U.S.

Anti-apartheid activists have sought to build support for this legislation by a campaign of public education. It is likely that there will be a greater willingness amongst constituencies such as the churches and labor unions to pressure the Congress to focus on the issue now, as the last excuse for delay -- awaiting the President's October Report -- has disappeared.

In late October of this year, ACOA held a midwest regional organizers meeting on sanctions in St. Louis, Missouri. At this meeting participants from Iowa, Kansas, Illinois and Missouri came together and planned strategies about concrete ways that the organizing ideas that have worked so well in the divestment/people's sanctions movement could be put to use to build momentum for passage of national comprehensive sanctions legislation. The meeting was quite successful, and brought forth good ideas about how to generate interest and activity on the issue from trade unions, churches and community-based organizations. One of the most important recommendations that came out of the meeting was that we start making more explicit links between the campaigns for divestment and national sanctions legislation.

The Washington Office on Africa has also intensified its public education efforts. In November, it issued a detailed analysis of the President's Report, along with an Action Alert calling on anti-apartheid activists to seek Congressional sponsors for the Dellums/Cranston bills in the immediate future.

People"s Sanctions -- The Divestment Movement

The divestment or "people's sanctions" movement has continued to move ahead. The number of states, cities, colleges and universities and other institutions taking investment action against apartheid is still growing. There are now a total of 23 states, 73 cities and 128 colleges and universities that have taken action to divest themselves of investments in companies that do business with South Africa.

In the last two years there has also been significant growth in the willingness of cities and states to adopt selective purchasing criteria. Not only do these ban purchase of any South African origin goods, but they restrict the ability of U.S. corporations active in South Africa to bid for contracts in the U.S. In at least two cases companies have forfeited $500 million contracts.

We have seen some significant victories as U.S. corporations attempt to distance themselves from apartheid as a result of the pressures that divestment campaigns have put on them. As with many things, these victories have come with both positive and negative effects.

On the positive side, over the last 18 months well over 100 U.S. companies have taken steps to "withdraw" from South Africa. This means that the combination of continuing pressure from struggle and resistance inside the country, the weak South Africa economy, and divestment pressures at home have forced these companies to move away from a stance which advocated continued U.S. and other foreign investment as a curative to the ills of apartheid.

In the summer of 1987, Reverand Leon Sullivan announcedhis support for total disinvestment and full sanctions. Sullivan's code of conduct had provided the companies with their most heavily used defense against disinvestment. This moral fig leaf has now been stripped away. But in reality while many of these corporations, IBM, General Motors, Ford Motor Company and Coca Cola to name but a few, have claimed to "withdraw" from South Africa, they have said one thing and continued to do another. Many, indeed, most of these actions have been nothing but a rearrangement of ownership with the U.S. parent company selling out their interests to the South African subsidiary. The U.S. parent then continues to supply the newly formed South African company with the brand names, expertise and technology it needs through the use of franchise and licensing agreements. Under these conditions, the U.S. corporation continues to make a profit from the money paid to it for franchise and license fees, and the South African economy continues to benefit from the use of the technology and expertise that the U.S. corporation provides. Clearly this arrangement has come to be called "sham withdrawal" for good reason.

It is unmistakable that these attempts have been made by corporations as a way to deflect divestment pressures without having to forego the immediate and potential profits to be made from doing business with South Africa. This strategy has only had limited success. The movement that was to have been demobilized by these actions continues to expand its pressures.

Late in 1986, as corporations began restructuring their links to South Africa in the name of disinvestment, ACOA convened an urgent meeting of five national anti-apartheid organizations. The result of this meeting was a set of new divestment guidelines issued in January 1987 in order to clarify a response to the shifting nature of U.S. corporate involvement in South Africa. The new criteria directly challenge corporations like IBM, General Motors and Coca Cola that end their direct investment in South Africa but continue to do business with apartheid. [see Appendix II].

The guidelines were sponsored by ACOA, the American Friends Service Committee, the Interfaith Center for Corporate Responsibility, TransAfrica and the Washington Office on Africa. Release of the guidelines and an accompanying

statement was coordinated by ACOA and the criteria received press coverage in newspapers such as The New York Times.

According to the guidelines, a corporation is considered to be doing business in or with South Africa if it has direct investment in South Africa or Namibia, or has entered into a franchise, licensing or management agreement with any entity in those countries. Financial institutions which have not prohibited new loans, credits or related services, including those for the purpose of trade, and companies in the U.S. that are owned or controlled by a South African company will also be targeted.

"As a result of both the growing internal resistance to apartheid and the expanding divestment movement in the U.S., an increasing number of U.S. companies have moved to end direct investment in South Africa," read the accompanying statement. "However, we feel that it is essential to distinguish between those corporations for which withdrawal means the termination of all economic ties to South Africa, and those for which withdrawal merely indicates a restructuring of economic relations."

These guideline are being widely adopted. Just this past summer, the state of Missouri passed a divestment law that used as its definition of doing business with South Africa the new set of guidelines. The state of Massachusetts is currently debating selective purchasing legislation that would bar the state from purchasing goods and/or services from companies that continue to have ties, direct or indirect, to South Africa. There are a number of other laws in cities such as Los Angeles and San Francisco that continue to target "sham withdrawal" companies as well as companies involved in South Africa via the more traditional forms of investment.

Current U.S. -S.A. Investment Links

United States direct investment in South Africa has declined from $2,281 million at the end of 1982 to $1,143 million at the end of 1986. The decline in direct investment is a result of two different factors, the decline in the value of the rand (thus lowering the value of U.S. assets in dollar terms) and actual disinvestment by companies.

U.S. Direct Investment in South Africa

End of Year	$ million	R million
1982	2,281	2,477
1983	1,987	2,214
1984	1,440	2,125
1985	1,154	2,571
1986	1,143	2,610

(NOTE: Direct investment is a net figure, and thus does not reflect the full value of U.S. assets.)

U.S. direct investment in South Africa is concentrated in the petroleum and manufacturing sectors. During this period, U.S. corporations suffered from the general recession in the South African economy.

The falling off of U.S. investment reflects general corporate behaviour. The South African private sector has not been willing to invest despite low interest rates. Real gross domestic fixed investment declined 23.8% between the fourth quarter of 1981 and the end of the first quarter of 1986. The physical volume of production in the mining sector for 1986 was only at 100.9 (with 1980 being 100) and was only at 95.5 in manufacturing. Despite continued talk of "improvement" in the South African financial press, projections of economic growth for 1987 have recently been decreased.

This "domestic disinvestment" reflects the unwillingness of South African capital to invest in the economy.

Many U.S. companies have clearly felt a squeeze on their profitability in South Africa. And the decline in the exchange rate means that even increasing profits in rand can be decreasing profit in dollars. Although the petroleum companies seem to have continued to make a profit, U.S. manufacturing companies, especially those in the transportation sector, appear to have lost profitability. Thus it is hardly surprising that General Motors and Ford have ended their direct investment in South Africa, while maintaining a market presence by having their products made in South Africa under license.

Income of U.S. Affiliates in South Africa

$ millions

1982	1983	1984	1985	1986
206	88	-367	-49	176

U.S. bank loans to South Africa have also decreased. Under the Anti-Apartheid Act of 1986, new loans to South Africa are prohibited, with the notable exception of trade loans. However, most U.S. loans are short term loans covered by the debt standstill. [See accompanying paper by John Lind]. Successful efforts to get governments to cease to guarantee trade loans would be a significant victory. Loans have significantly increased as a percentage of South African foreign liabilities, and share capital has decreased.

U.S. Bank Loans to South Africa

End of	$ million
1982	3,676.0
1983	4,637.1
1984	4,704.5
1985	3,240.0
1986	2,957.0

International Co-operation on Corporate Campaigns

It is now more important than ever for anti-apartheid forces to co-operate to keep the victories in one country from being undercut in another. The Shell campaign is a good start. In the United States antiapartheid activists have also focused on Mobil and Caltex (a joint venture of Chevron

and Texaco). It should be noted that under U.S. law it is illegal to sell to the South African police, military or "apartheid enforcing agencies". U.S. oil companies currently get around these restrictions because apparently the oil they sell in South Africa is not exported or reexported from the U.S.

There has been some useful cooperation in targeting computer sales to South Africa. There is potential for more cooperation in this arena, and we list three brief examples:

1) The American Committee on Africa and the Interfaith Center on Corporate Responsibility have been pressing the Japanese company Hitachi, which sells IBM compatible mainframes via the German company BASF. Hitachi has said that they are following the U.S. guidelines in not selling to certain prohibited agencies. However, there is no government enforcement and clearly someone is selling to prohibited agencies.

2) American Telephone and Telegraph (AT&T) has several important international ties. First, it has granted numerous licenses for its computer operating system UNIX. Both Olivetti [Italian] and Siemans [German] are now selling UNIX in South Africa. UNIX has been described in the South African press as ideal for evading computer sanctions. AT&T also owns 22% of Olivetti, which is an increasingly important supplier of computers to South Africa. ACOA has spent considerable effort exposing the AT&T/Olivetti connection and are begining to coordinate these efforts with progressive Italian organizaions such as IDOC.

3) International Business Machines (IBM) is a major supplier of computers to South Africa. IBM ended its direct investment in South Africa, but openly admits that it continues sales through its former subsidiary, now called International Services Management (ISM). Recently it was announced that ISM will form a joint venture with the Barlow Rand subsidiary Reunart Computers. Although both companies will keep a separate identity, they will work together in customer support services, especially in software. It should be noted that IBM software dominates the mainframe market in South Africa. Although IBM claims that ISM does not sell to the police, military or apartheid enforcing agencies, as sales to these would violate U.S. law, it is hard to believe that these agencies do not, in fact, have access to IBM products, especially software and IBM's computer operating system. It should be noted that Reunart and Barlow Rand are major contractors and suppliers of the police and military.

It is our understanding that there are some Commonwealth sanctions on computer sales to the police and military; yet to date South African buyers appear able to tap any market they desire. Clearly computers are an area where international cooperation to enforce sanctions can be key.

The Current Organizing Context

In conclusion we feel it may be useful to touch on some problems which confront us in the U.S. and are likely to be common to the work of most activists in the "Western" context. Some common strategies might minimize their impact and release yet greater energies for the task of imposing universal comprehensive sanctions on South Africa.

1) South African press censorship and the failure of the U.S. press and media to combat this aggressively has removed the glare of publicity. As the spotlight fades, so does public awareness. We have sought to respond by "high visibility", non-confrontational campaigns such as the "Unlock Apartheid's Jails" campaign, but the problem is a serious one, which needs greater common action.

2) The continued ability of conservative forces to depict the struggle in southern Africa within the framework of an East-West confrontation rather than as a struggle for self-determination and democratic majority rule. This provides a constant shield for South Africa. There is increasing recognition in the U.S. that anti-apartheid forces must broaden their work, incorporating efforts to support the liberation struggle in South Africa and Namibia and the efforts of the frontline states to consolidate their political and economic independence within a general context of the right of self-determination.

3) The apparent debate about the links between divestment, disinvestment, selective and comprehensive sanctions that have surfaced to some extent in progressive quarters in South Africa have a potentially confusing and demoralizing effect unless clarified. It would be helpful to develop unified strategies on such issues.

We continue, in the U.S. to focus, at the national level, on the demand for legislation imposing comprehansive sanctions on South Africa. Campaigns such as the Shell Boycott, the Divestment Campaign and the Bank Campaign can all serve to build pressure for such overall sanctions, while seeking to impose moreimmediate constraints on corporations.

APPENDIX I

The following is a comparison of some key provisions of the current U.S. sanctions law now in effect and the pending comprehensive sanctions legislation, introduced on 19 February 1987 by Representative Ronald V. Dellums (D-CA) and Senator Alan Cranston (D-CA).

HR 1580/S.556	ANTI-APARTHEID ACT OF 1986/PL 99-440
1. Bans all investment in and bank loans to South Africa and Namibia. Requires disinvestment within six monthsofthepassage of the bill.	1. Does not require disinvestment, but includes a limited ban on new investment. Allows investment in companies owned by Black South Africans, allows companies to reinvest profits and permits U.S. ownership of South African stock market shares and securities. Prohibits bank lending to public and private sector but permits short term credits (trade credits) which account for a substantial portion of U.S. lending.
2. Bans all trade with South Africa, except certain strategic minerals if the President determines them vital.	2. Only bans 25% of two-way trade. Bans imports of coal, iron, steel, uranium, textiles, sugar, agricultural products and food from South Africa and legislates bans included in the 1985 Executive Order (i.e. imports of Krugerrands and exports of computers to some South African government bodies).
3. Prohibits all U.S. military and intelligence cooperation with South Africa (e.g arms sales and transfers and intelligence monitoring equipment).	3. Not included

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In addition to the comprehensive sanctions legislation proposed in HR 1580/S.556, a number of other bills which would impose specific and more limited sanctions are also before Congress.

HR 1005: introduced 4 February 1987 by Representative Charles Rangel (D-NY) seeks to deny foreign tax credit for any tax paid or accrued to the Republic of South Africa. Currently, U.S. companies doing business in South Africa can claim credit against their U.S. taxes for those paid in South Africa. HR 1005 would remove this credit, encouraging U.S. companies to leave South Africa.

HR 3328: the Apartheid Profits Disincentive Bill, introduced in September, 1987 by Representative Mickey Leland (D-TX), seeks to prohibit invvestment in U.S. capital markets by certain South African mining interests.

HR 3317: the Petroluem Sanctions bill, introduced by Representative Robert Wise (D-WV), would require U.S. companies and their subsidiaries to end petroleum trade with South Africa. The bill would prohibit companies which break the ban from bidding on Federal oil, coal and gas leases.

HR 1051: Prohibition on the importation of South African diamonds into the U.S. Introduced on 9 February 1987 as an amendment to the Anti-Apartheid Act of 1986, this legislation would prohibit the import of any South African or Namibian diamonds into the U.S.

Information compiled by: The American Committee on Africa
The Washington Office on Africa

APPENDIX II

Guidelines for Divestment

We support an end to all corporate involvement in or with South Africa and Namibia. A corporation is doing business in or with the Republic of South Africa or Namibia if it, its parent, or its subsidiaries:

1) have direct investments in South Africa or Namibia, or have entered into franchise, licensing or management agreements with or for any entity in those countries; or

2) are financial institutions that have not prohibited new investments, loans, credits or related services, or the renewal of existing financial agreements, including those for the purposes of trade, with any entity in those countries; or

3) have more than 5% of their common stock benefically owned or controlled by a South African entity.

A company with operations in South Africa or Namibia for the sole purpose of reporting the news shall not be considered doing business in those countries.

American Committee on Africa

American Friends Service Committee

Interfaith Center on Corporate Responsibility

TransAfrica

Washington Office on Africa

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APPENDIX III

A paper presented at the conference **South Africa and Sanctions**, Howard University, October 30 - 31, 1987

TRADE CREDITS
ECONOMIC PRESSURE POINTS ON SOUTH AFRICA

by

John E. Lind

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

1. Countries can refuse to permit the sale to South Africa of those necesary commodities and services,

2. Sanctions can be invoked to prevent the purchase of South Africa's exports, which provide the foreign currency to import the necessary foreign commodities and services mentioned 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, which is the subject of this paper.

The cutting off of financial credits and flows is not as comprehensive as sanctions against all trade, but it can be swift and effective. The barter trade required to take its place is slow and difficult to arrange. The hope is that the economy is so threatened in the short run that political concession will be made to avert the crisis.

An example of such a crisis was the pull out of short-term credit by U.S. banks in the summer of 1985. This pull out caused South Africa to impose a moritorium on the payment of most bank debt in September 1985. The announcement of the moratorium brought all transactions to a standstill for several days until the finance could be sorted out and guarantees made. At present the agreement on this standstill permits repayment of less than $500 million per year on principal and repayment of only trade credits, foreign government guaranteed credits and South African bonds. Thus the primary financial flow at present is trade credit.

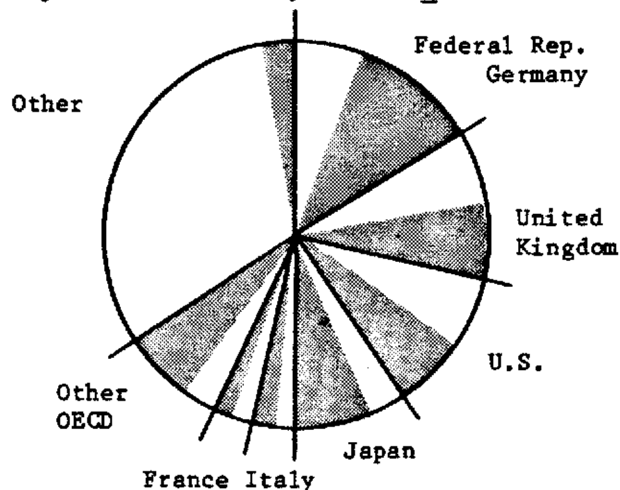
Before discussing trade credit further, let us look at the industrialized countries' exports to South Africa which keep the South African economy going and the imports which provide the foreign currency for their payment. The economy of South Africa is very similar to that of less developed countries because it imports most of its capital machinery and large amounts of manufactured goods while paying for them by the sale of gold and other raw materials from the mining sector. Two-fifths of South Africa's export earnings are from gold and another fifth is from other mining sector exports.

EXPORTS TO SOUTH AFRICA FOR THE MAINTAINANCE OF THE SOUTH AFRICAN ECONOMY

The analysis will begin with an overveiw of the 1985 trade, since it is the last full year for which there are data in complete detail at hand. Then changes that have occurred in the picture during 1986 and 1987 will be sketched.

In 1985 goods amounting to $10.356 billion were exported from various countries throughout the world to South Africa, as shown in figure 1. Some 70% were exported from the industrialized countries in the group called the Organization for Economic Development and Cooperation (OECD), which includes the countries of North America, Europe and Japan. Indeed the six major trading partners - Germany, Japan, U.K., U.S., Italy and France - supplied almost three-fifths of these exports to South Africa. These exports by the OECD countries are predominantly manufactured articles, chemicals and machinery. The catagory of machinery (SITC 7_) contains the larger capital equipment, which requires long-term trade credits (5 years or more), and motor vehicles and some consumer durables, which require medium-term trade credits of 1 to 5 years. The shaded regions in figure 1 shows this machinery catagory, which makes up 54% of the total OECD exports to South Africa. Thus we can say that exporters of the major trade partners supply most of the capital goods to keep South Africa's industry going and this trade, which requires trade credits with a maturity of a year or more, will dominate these countries' trade financing.

Figure 1. Exports by Country to South Africa in 1985. Shaded areas represent exports of machinery (SITC 7_).



Exports by Country to South Africa	Machinery	Total
	Million of US Dollars	
Germany	1133	1690
United Kingdom	622	1279
U.S.	573	1232
Japan	695	1020
Italy	196	330
France	212	389
Other OECD	661	1260
Other	296	3155
Total	4190	10356

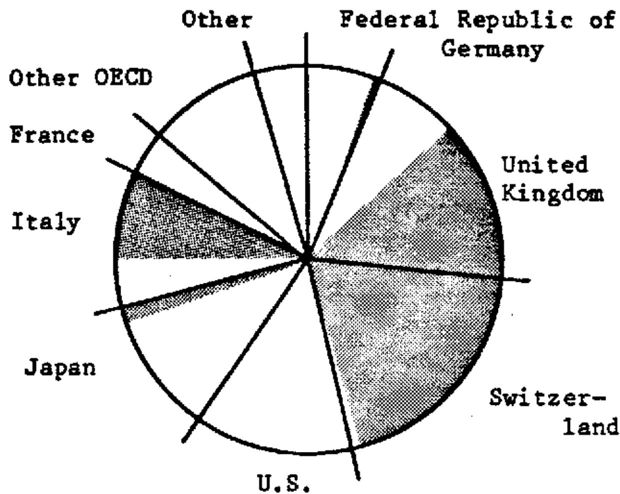
A careful analysis of 1986 exports of the major trade partners shows an increase of OECD exports to South Africa of $540 million over 1985. This increase is almost completely caused by the increase in the cost of machinery (SITC 7_ or equivalent), $375 million of which is attributable to increases in dollar amounts of exports from Germany and Japan. However, if the exports from these two countries are expressed in their own currencies, which have appreciated against the U.S. dollar, there is a decrease in the tons exported and deutsche mark amounts from Germany and only a slight rise in the yen amounts from Japan. The U.S. exports did decrease in 1986 by 11%.

The same phenomenon appears to be happening in 1987, with some slight increase in the actual amounts exported. Thus the demands for foreign exports to South Africa were relatively stable between 1985 and 1986, but may rise in the second half of 1987.

IMPORTS FROM SOUTH AFRICA

Figure 2 shows imports of various countries from South Africa, with gold amounting to two-fifths of these imports shown as the shaded portion of the figure. The three main purchasers of gold are Switzerland, the U.K. and Italy. The exact proportion of gold purchases between Switzerland and the U.K. is uncertain, but in this figure the ratio was assumed to be 60:40, respectively. However, the sum of these two countries' gold purchases is known with good accuracy. Thus in the pie chart the sum of the adjacent sectors for the two countries is accuarte and the uncertainty lies in where the radius separating the two sectors should be placed. In the U.K and Switzerland, the gold is immediately resold on the London and Zurich gold markets and re-exported. Thus these sales may even be done on open ac-

Figure 2. Imports from South Africa by Country 1985. Shaded portion represents imports of gold.



Imports by Country to South Africa	Gold	Total
	Millions of US Dollars	
Germany	76	1006
United Kingdom	2122	3420
Switzerland	3194	3264
U.S.	1	2239
Japan	221	1852
Italy	1235	1842
France	16	644
Other OECD	-	1441
Other	-	671
Total	6864	16573

count with the Reserve Bank of South Africa, making financing minimal. The gold bought by Italy is for jewelry manufacture and is probably financed short-term by Italian banks, primarily in Milan.

Less than 10% of the imports from South Africa is machinery (SITC 7_) and thus financing is almost entirely short-term with some bulk items financed up to one year.

U.S. sanctions have proven effective with U.S. imports from South Africa for the first half of 1987 at 54% of the imports of the first half of 1986. South Africa's coal sales have also been decimated by Denmark's sanctions and France's cutting of purchases.

FINANCING TRADE

Financing of capital projects, like electric power stations, has become more difficult since Septmber 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-Aparhteid 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 (ESKOM) 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, ESKOM 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.

First let us look more carefully at the major ways that export trade can be financed:

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 and is presumably 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 the credit. One way is to sell on open account with the buyer paying at a later date after the receipt of the goods. This method is presumably used by a company like IBM to ship goods to its distributor in South Africa.

The OECD reports the total amount of

government guarantees and insurance provided by OECD member countries for trade with South Africa, and this "cover" is divided into bank credits and supplier credits. These amounts are but a small fraction of total trade but presumbaly almost all of the large capital 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. Table I below shows the amounts of guarantees together with the amounts of machinery exports to South Africa.

Table I. Total amount of OECD countries' trade guarantees and insurance with total amounts of exports.

	1985	1986
Guarantees and Insurance:	Million U.S. Dollars	
Bank Credits	1966	1778
Supplier Credits	1076	1397
Total	3072	3175
OECD exports to S.A.		
Machinery (SITC 7_)	3894	est:4400
Total	7296	7836

Source: **Statistics on External Indebtedness: Bank and Trade Related Non-bank External Claims on Individual Borrowing Countries and Territories**, semi-annual, BIS/OECD, Paris and Basle.

Of the guaranteed credits of banks of $1778 million at the end of 1986, 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.

The total amount of trade credits is difficult to estimate for they are not separated out from loans in the reporting by banks and the reporting of data by suppliers is spotty at best. However, a rough estimate of total export finance can be made as follows. The short-term credits are no more than 180 days with a few exceptions and thus the short-term finance would be less than half the annual total exports less machinery exports. For 1985 the short-term finance would be less than $3083 million. If the financing term for machinery, which is mostly medium- and long-term finance, averaged about 2 years, then that financing would equal twice the total of machinery exports or $8380 million in 1985. The total financing would thus have been about $11.5 billion in 1985. 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 CREDITS

1. The OECD member governments should eliminate all trade credit guarantees and insurance for trade with South Africa by common agreement. Expecially important is the elimination of cover by the British ECGD. The U.S. should take the lead in urging this policy since it has already eliminated such cover.

2. The U.S. should eliminate the exemption, permitting trade credits for South Africa from the Comprehensive Anti-Apartheid Act of 1986 and urge other OECD member nations to similarly prohibit trade credits.

3. In lieu of the above, banks of the major trading partners should be pressured to cease their trade lending through a coordinated campaign.