

THE CORPORATE EXAMINER

A publication examining policies and practices of major U.S. corporations with regard to:

Labor Environment Consumerism Equal Employment Minorities Women
Agribusiness Military Production Government Foreign Investment

Vol. 14, No. 5, 1985

Interfaith Center on Corporate Responsibility

ISSN 0361-2309

U.S. CHURCHES PLEDGE INTENSIVE OPPOSITION TO U.S. CORPORATE INVESTMENT IN APARTHEID — PART TWO

In this special three-part Corporate Examiner series (Volume XIV, numbers 4, 5, 6, 1985), twelve companies with long histories of complicity with South African apartheid, will be profiled by industry. The companies have been selected for intensive action by U.S. church investors.

Part One (volume XIV, number 4) will focus on the computer industry — IBM, Control Data and Burroughs — and the banking industry — Citicorp. Part Two (volume XIV, number 5) analyzes the petroleum industry — Mobil, Texaco, Chevron and Fluor — and

manufacturing — General Electric. Part Three (volume XIV, number 6) covers the motor vehicle industry — Ford and General Motors — and mining — Newmont Mining. Reprints of all three special issues of the Corporate Examiner are available by contacting ICCR.

This issue of the Corporate Examiner opens with a resolution by the June 28, 1985 National Conference of the South African Council of Churches which supports economic sanctions against apartheid, including disinvestment. The resolution is followed by profiles of Mobil, Chevron, Texaco, Fluor and General Electric.

South African Council of Churches Calls for Disinvestment and Other Economic Sanctions Against Apartheid

With few dissenting voices, the National Conference of the South African Council of Churches passed a resolution expressing support for economic sanctions against apartheid, including disinvestment from South Africa. The conference declared that "disinvestment and similar economic pressures are now called for as a peaceful and effective means" to pressure "the South African government to bring about fundamental change".

On the morning of the debate, Dr. Beyers Naude, head of the SACC, was visited by South African security police who gave him a verbal warning from the Minister of Law and Order about the SACC leader's call for civil disobedience, made earlier in the week. Delegates then adopted a resolution which took note of possible charges against Dr. Naude and said that "God must be obeyed before man". Following is the text of the SACC's resolution on disinvestment:

This National Conference of South African Council of Churches, being deeply concerned at the violent conflict in which the people of South Africa are now being embroiled,

1. reiterates the statement which the Council has made in the past that foreign investment and loans have been used to support prevailing patterns of power and privilege in South Africa;

2. recognizes that many church leaders and Christian people in South Africa are in favor of (selective) disinvestment and economic sanctions because they believe that the situation is now so serious that economic action must be taken to strengthen political and diplomatic pressures on South Africa to force the South African government to take seriously the need for fundamental change in South Africa;

3. is agreed that fundamental change would include the dismantling of apartheid and the democratic involvement of all South Africans in the planning of new political, economic and social structures which would seek to guarantee, for all people, justice, development, freedom and peace;

4. welcomes the concern and support of our fellow Christians in other countries who are working to assist us in finding nonviolent ways in which fundamental change can be brought about in South Africa;

5. believes that the pressure in Western countries for disinvestment and divestment has been most effective in moving white South

Africans into a more serious consideration of the cause of the political conflict in this country;

6. concludes from the evidence placed before it that foreign investment does not necessarily create new jobs and that the contrary is often the case because new investment is frequently in the form of sophisticated technological equipment;

7. draws attention to the fact that the churches have for many years tried to address the problem of structural unemployment in black communities and has not been aware of any serious concern being shown by the business sector, foreign or South African, or by government until recent months when economic sanctions have become a legislative probability in the United States;

8. confesses that in the churches there has been no proper debate and consideration of the divestment question because we have allowed ourselves to be restrained by the severity of laws designed to prevent open discussion of economic sanctions. This has meant that the only arguments being heard in South Africa are those in opposition to divestment.

This conference therefore resolves:

1. to express our belief that disinvestment and similar economic pressures are now called for as a peaceful and effective means of putting pressure on the South African government to bring about the fundamental changes this country needs;

2. to ask our partner churches in other countries to continue with their efforts to identify and promote effective economic pressures to influence the situation in South Africa towards achieving justice and peace in this country and minimizing the violence of the conflict;

3. to promote fuller consideration of the issues by placing the case for imposition of economic sanctions and divestment before the Executive Committees of the SACC and the Regional Councils and the Councils of our member churches and organizations with the request that they encourage congregations to study and debate them;

4. to ask the Executive to appoint, in consultation with the director of Justice and Reconciliation, a task force to examine the whole question of economic justice as well as issues of disinvestment and economic sanctions, to review and coordinate the responses from the churches and to assist the church leaders by making available to them information and analyses.

5. to call member churches and individual Christians to withdraw from participation in the economic system that oppresses the poor, by reinvesting money and energy in alternative economic systems in existence in our region.

THE PETROLEUM INDUSTRY IN SOUTH AFRICA

Foreign oil companies operating in South Africa are compelled by Pretoria's laws to work hand-in-hand with the white minority government. Virtually barren of its own oil reserves, South Africa is vulnerable to interruption of supplies and well aware of the international pressure to isolate the country from oil resources. White South African leaders are determined to sustain their modern industrial economy in a racially segregated society. To do this the South African government is pursuing aggressive programs to make the country energy self-sufficient and to protect its petroleum industry from outside scrutiny and pressures.

Oil Is Vital to South Africa's Industrial Economy

Multinational oil companies in South Africa cannot avoid fueling the engines of apartheid. Just as apartheid permeates South African society, so do oil and its byproducts permeate the industrial economy. Without gasoline and oil, the paddy wagons and armored trucks used to police segregated black South African communities would grind to a halt. Without fuel for buses and trains, millions of blacks could not commute daily to major cities, where they are wanted only for their labor. The equipment used by poorly paid black laborers to mine the country's most precious resource, its gold, would rust away without the oil that lubricates it. The farms that are controlled by whites — in a country where blacks cannot own productive land — could not grow their crops without fertilizer made from petroleum byproducts.

Secrecy Shields the Strategic Oil Industry

Demonstrating its strategic significance, the oil industry is deemed a "munition of war" under South African law. Mobil's South African attorneys have explained this in letters to U.S. headquarters:

As oil is absolutely vital to enable the army to move, the navy to sail and the air force to fly, it is likely that a South African court would hold that it falls within the definition of munitions of war.

In pursuing its goal of energy self-sufficiency, Pretoria keeps tight controls both on the activities of multinational oil companies operating in the country and on the information available about their South African operations. Consequently, it is difficult to know in detail the extent to which U.S. oil companies in South Africa do business with the government, how much oil they refine or whether they import oil to South Africa. But it is certain that they must dance to Pretoria's tune.

For example, Mobil's chairman reports that Mobil's South African managing director refuses to answer certain questions about the company's wholly-owned South African operations because to do so would violate South African securities law. This is one of the clearest signs of the strategic role of the oil industry in South Africa.

OPEC Embargo Sparks Top to Bottom Regulation

Aware of the lifeline they supplied, in 1973 most of the major OPEC countries announced an embargo of oil shipments to South Africa; by 1978, all members of OPEC had joined the embargo. The South African government, concerned about the security of its sup-

plies, passed laws making it illegal for anyone in South Africa to publish or broadcast information about the South African petroleum industry and restricting the information all companies operating in the country may give to outside interests — including their shareholders. Business officials who violate the laws face heavy fines and possible jail terms. Some of these laws follow:

1. Regulations strengthening the National Supplies Procurement Act were passed by South Africa immediately after the November 1977 declaration of a UN arms embargo against the Republic. The government could use these regulations to force foreign-owned companies to produce strategically necessary oil products. Oil companies in South Africa are already required to set aside a certain portion of their refined oil for government purchase.

2. Under the National Supplies Procurement Act, the oil companies in South Africa are also forbidden to impose any conditions on the sale of oil products to customers. Chevron, joint owner of Caltex with Texaco, has explained that

It would be a crime under South Africa's law were Caltex-South Africa to undertake a commitment to not supply petroleum products for use by the South African military or any other branch of the South African government.

3. The Official Secrets Act of South Africa, according to Mobil and Caltex, makes it impossible for the headquarters of U.S.-owned oil companies to obtain information on sales by their South African subsidiaries.

4. It is also possible that the oil companies are covered by the National Key Points Act, extraordinary South African legislation which allows the government to take over company facilities and place military personnel on the premises during emergencies. In 1984, church shareholders wrote to major U.S. corporations operating in South Africa, asking the companies about their status under key points law. The four U.S. oil companies — Texaco, Mobil, Chevron and Exxon — refused to confirm whether or not their facilities had been designated as key points, though many other companies, including GM, responded saying they were not key points. According to Rawleigh Warner, Mobil's chairman:

It is a very serious crime under South African law to communicate information relating to a national key point. Our South African affiliate is, therefore, unable to identify any particular facilities or installations which may have been designated key points.

In South Africa oil companies are regulated from top to bottom. Longstanding laws direct how oil companies produce, transport, distribute and price their products. Regulations govern everything from the number of service stations a company may open to whether a firm must maintain its own security force to protect it from possible sabotage. Companies face heavy penalties if they reveal whether Pretoria has compelled them to sell their products to controversial buyers such as the police and military. The government also requires companies to participate in its program to build a strategic oil stockpile, now estimated to be the largest in the world.

Role of U.S. Companies

Three U.S. oil companies — Mobil, Chevron and Texaco — play critical roles in the South African petroleum industry. Chevron and Texaco jointly own an international oil company, Caltex Petroleum Corp., that in turn wholly owns one of four major refineries in South Africa. Mobil wholly owns another of the large refineries. According to the latest worldwide oil industry statistics,

the Caltex and Mobil operations together have the capacity to process 40 percent of all crude oil refined in South Africa. Mobil and Caltex also operate extensive distribution networks in the country. Together, the companies employ more than 5,000 workers and operate more than 200 supply depots and 1,500 service stations. Their combined assets in South Africa are well over \$600 million.

U.S. corporations are playing important roles in Pretoria's continuing quest for energy independence. Constructed by Fluor Corporation, South Africa's three huge state-owned synthetic fuel plants now produce an estimated 40 percent of the country's liquid fuel needs. In other ambitious projects, the government is moving ahead with plans to develop offshore natural gas reserves, both in the Indian Ocean near Mossel Bay and off the coast of Namibia where Chevron discovered a large gas field in 1974. According to oil industry trade press reports, the government is eyeing two Mobil-owned processes for converting natural gas to liquid fuels in the event development of the Mossel Bay fields is successful. Speculation is also that if exploration of the offshore Namibian field is successful, gas recovered from the field will be shipped to Cape Town, rather than risk operation of a fuel conversion plant in illegally occupied and politically volatile Namibia. Near Cape Town, Caltex operates South Africa's only refinery for conversion of gas to liquid fuels.

Oil Companies Defend Their Role

Both Mobil and Caltex have vigorously defended sales to the South African police and military using language which church critics contend whitewashes the repressive actions of the police and military and makes them seem innocent of the atrocities they have committed.

For example, Mobil stated in its 1981 proxy statement in response to a church sponsored resolution requesting an end to sales to the South African police and military:

Each Mobil subsidiary has traditionally followed the policy of observing the obligations of responsible citizenship in each of the countries in which it operates. Mobil's management in New York believes that its

South African subsidiaries' sales to the police and military are but a small part of its total sales and typical in relative size to its sales to such groups in other countries. Total denial of supplies to the police and military forces of a host country is hardly consistent with an image of responsible citizenship in that country. The great bulk of the work of both the police and military forces in every country, including South Africa, is for the benefit of all of its inhabitants. All have a basic interest in the maintenance of public order and safety. A policy of the character advocated would deny resources for response to grave emergencies, for the apprehension of common criminals and for the protection and security of all individuals and property including that of the corporation.

Texaco and Chevron have also made statements defending such sales.

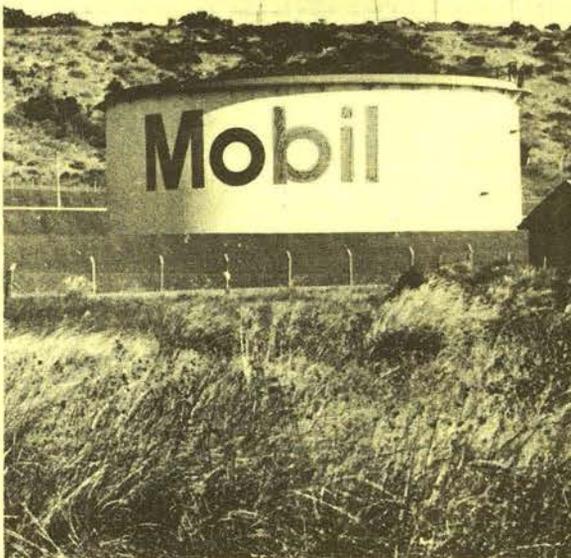
In the U.S., Chevron, Texaco and Mobil have been active in the campaign against the South African divestment movement. Company spokespeople are often quoted in the press. Mobil, in particular, actively lobbies at the state and city level against South African legislation and regularly testifies at hearings on Capitol Hill. Not only do these companies provide strategic support to the government in South Africa, they also lobby in the U.S. defending the South African government against federal, state and city legislation.

U.S. Companies Have Not Discouraged Apartheid

Both Caltex and Mobil argue strongly that their continued presence in South Africa will do far more to bring an end to apartheid and improve the economic well-being of all South Africans than would their withdrawal. There is little evidence, however, that these corporations have accelerated an end to apartheid or helped more than just a small percentage of black South Africans. In fact, for the most part they are powerless to change government policy and unwilling to use real leverage to confront the government. If indeed the government is a major customer of these companies, as many strongly suspect, it is not surprising that the companies would try to avoid antagonizing the government.

One example of this is the 40 percent rise in gasoline prices dictated by Pretoria in January which is expected to have a devastating effect on low-income South Africans most of whom are black. The gasoline price hike led to a 20 percent rise in railroad fares and a 12.5 percent rise in bus fares for blacks. Millions of black South Africans must commute to work by bus and train because South Africa law dictates that they live in segregated townships and reservations often miles from their jobs.

A leader of the white opposition party in the South African parliament predicted that "the rise in third class fares was almost pleading for urban unrest," according to a February 11 report in the *Johannesburg Star*, one of the country's leading daily newspapers. Trade unions predicted that the fuel and fare hikes would lead to increased wage demands. A leading white business association, the Association of Chambers of Commerce, noted that the steep price hike in black transportation fares would place a heavy burden on black commuters in particular. "The present economic climate makes it unlikely that employers will be able to compensate workers to any great extent," the association said. "Businessmen are simply not in a position to help on any large scale." Regardless of the expressed good intentions of companies like Mobil and Caltex, the apartheid regime dictates business decisions that maintain the daily indignities and hardships borne by black South Africans.



Mobil refinery outside Durban. Photo: United Church of Christ

MOBIL CORPORATION

Established in South Africa in 1897

Number of Employees

White	1,595
Asian/Coloured	688
African	1,059
Total	3,342

Total Assets

\$400 million, about 3.1 percent of Mobil's total worldwide assets as of December 31, 1983.

Total Sales

South African law prohibits oil companies from disclosing sales information.

Subsidiaries/affiliates

Mobil has seven subsidiaries and affiliates in South Africa. The two major affiliates are: Mobil Oil Southern Africa (Pty.) Ltd. Mobil Oil Refining Co. (Pty.) Ltd.

Description of Operations

Mobil buys and refines crude oil and distributes and markets petroleum products such as gasoline, diesel fuel, lubricating oils and greases through an extensive network of 120 supply depots and more than 1,200 service stations.

Strategic Role

Mobil refines crude oil into critically important gasoline, diesel fuel and lubricants us-

ed by the transport, industrial and agricultural sectors of the South African economy. Oil and its byproducts are vital to the daily operations of numerous economic and political sectors including the police and military; airlines, trains, buses, trucks and cars used to transport people and goods throughout the economy; factories, mines and mechanized farming.

History of Institutional Shareholder Action (includes year and resolution topic)

- 1980 No sales to military or police; no expansion in South Africa
- 1981 End sales to police and military
- 1983 Implement Bishop Tutu principles or withdraw

Company Position

Mobil has been a high-profile leader among U.S. corporations opposed to divestment. The company consistently has defended its investments in South Africa on the grounds that its progressive labor practices, impact on the economy and influence with the government play a positive and socially responsible role in improving conditions for black South Africans and acts as a catalyst for peaceful change. Mobil has testified and lobbied in Congress and on the city and state level opposing any legislation which would increase pressure on South Africa.

In response to charges that Mobil plays a key role in strengthening the South African police and military, Rawleigh Warner, Jr., chairman of the Mobil board, recently stood by the company's 1981 statement to shareholders that

the great bulk of the work of both the police and military forces in every country, including South Africa, is for the benefit of all of its inhabitants.

Sal Marzullo, a New York-based Mobil executive, is chairman of the newly formed Corporate Committee for Change in South Africa, which is lobbying against divestment proposals at the state and local level. As an outspoken advocate of U.S. investment in South Africa, Marzullo recently told the *Washington Post*:

We're the only country that has leverage in South Africa — why the hell would you want to shut it off?

Church Position

Mobil is one of the U.S. investors which church representatives have petitioned most often on apartheid in South Africa. Over the years Mobil has refused:

- to place a moratorium on new investments in South Africa;
- to stop sales to the police and military;
- to support Bishop Tutu's position that apartheid should be dismantled or investors should withdraw;
- to disclose information about sales to the South African government;
- to further investigate oil sales to Rhodesia in 1976 that violated United Nations sanctions.

In 1976 the United Church of Christ released secret Mobil reports, titled "The Oil Conspiracies", which showed how Mobil South Africa had devised a secret route to sell oil to Rhodesia in violation of United Nations sanctions and U.S. policy. While these documents came from a top official inside Mobil's Southern Africa operations, the company cited South African law blocking them from further investigating the matter. Given this history, church shareholders are not sure of the scope of Mobil's operations in South Africa.

TEXACO and CHEVRON

Caltex was established in South Africa in 1911.

Number of Employees

White	1,145
African	503
Asian/Colored	503
Total	2,151

Total Assets

Company has declined to provide information.

Total Sales

South African law prohibits oil companies from disclosing sales information.

Subsidiaries/affiliates

Chevron and Texaco have two subsidiaries/affiliates in South Africa, the major of which is Caltex Oil (South Africa) (Pty.) Ltd. (commonly known as COSA).

Description of Operations

Texaco and Chevron are equal owners of Caltex Petroleum Corporation, an international oil company that wholly owns one of four major crude oil refineries in South Africa.

Caltex buys and refines crude oil. COSA has an estimated 23 percent of the country's total refining capacity. COSA distributes and markets petroleum products such as gasoline, diesel fuel, lubricating oils and greases through extensive network of 100 supply

depots and more than 390 service stations. Another 790 independent dealers operate service stations carrying COSA products.

Strategic Role

Caltex refines crude oil into critically important gasoline, diesel fuel and lubricants used by the government, transport, industrial and agricultural sectors of the South African economy, including the police and military; airlines, trains, buses, trucks and cars used to transport people and goods throughout the economy; factories and mines; and mechanized farming.

History of Institutional Shareholder Action (includes year and resolution topic)

TEXACO

- 1976 No expansion in South Africa
- 1977 Withdrawal from South Africa
- 1978 Rhodesia
- 1980 No sales to military or police
- 1983 No sales to military or police
- 1984 Implement principles outlined by Bishop Tutu or withdraw from South Africa
- 1985 Implement principles outlined by Bishop Tutu or withdraw from South Africa

CHEVRON

- 1976 No expansion in South Africa
- 1977 Withdrawal from Namibia
- 1977 Withdrawal from South Africa
- 1980 No sales to military or police
- 1983 No sales to military or police
- 1984 Implement principles outlined by Bishop Tutu or withdraw from South Africa
- 1985 Implement Bishop Tutu principles or withdraw from South Africa

Company Position

Caltex officials have been active interpreters of the role of foreign corporations in

South Africa. In 1984 COSA's Chairman and Managing Director Dennis Fletcher told a meeting of black South African businessmen that the free enterprise system works best in "truly democratic societies" and has urged his fellow businessmen to do more to support education and training for black South Africans.

Texaco repeatedly has defended its investment in South Africa on grounds that are well expressed by, Texaco Corporate Secretary Carl B. Davidson (January 1985):

Caltex's presence in South Africa has produced, and we believe will continue to produce, ever increasing advancement, along with economic, social and educational benefits for the black population.

Church Position

Texaco and Chevron have been the recipients of numerous church shareholder resolutions on South Africa since the early 1970s. Over twenty discussions have occurred between top management and church representatives. Responding to church initiatives, Texaco and Chevron have refused:

- to place a moratorium on new investments in South Africa;
- to stop sales to the military and police;

— to disclose sales to the South African government;

— to support Bishop Tutu's position that apartheid should be dismantled or investors should withdraw.

In December, Texaco promised that the company would provide its plan to implement the fourth amplification of the Sullivan Principles. The fourth amplification requires that the companies press the South African government for changes in apartheid. COSA does not appear ready to take this step or announce a plan. In an interview that appeared in the March 11, 1985 issue of *Newsweek*, COSA's Managing Director, Denis Fletcher, commented "It must be understood that Caltex will never be party to any illegal activities." *Newsweek* also indicated that Caltex said it did not intend to oppose the government on political issues. According to Fletcher:

We will continue, as we have worked in the past, setting the very best example as an employer in South Africa.

FLUOR CORPORATION

Began in South Africa around 1960

Number of employees

African	10
Asian/Colored	11
White	161
<hr/>	
Total	182

Since it works on a contracting basis, Fluor's employment figures fluctuate greatly. The company has a small permanent staff of professional, administrative and clerical employees, based in Johannesburg. But in 1979 at the height of construction projects, Fluor paid and supervised about 11,000 workers. The company says it has trained 8,000 black workers in skills involved in construction and maintenance of synthetic fuels and production operations.

In November 1984, Fluor representatives recruited several hundred black South Africans from one of the country's "homelands", the bantustans, to work at the SASOL operations (facilities for making oil from coal) after the government fired SASOL workers who participated in a regional two-day work stoppage. The homeland workers said Fluor did not indicate their jobs would be

temporary. However, ten weeks later most were shipped back to their impoverished homelands after SASOL settled its labor dispute and began rehiring the permanent workforce.

Total Assets

\$9 million

Total Sales

\$50 million

Subsidiaries/affiliates

Fluor has two subsidiaries in South Africa; the major of which is Fluor Engineers South Africa, Inc. Fluor is one of the world's leaders in the design, engineering and construction of energy-related facilities. The company has been the managing contractor for two of three huge oil-from-coal plants owned and operated by SASOL, the state-owned South African Coal, Oil and Gas Corp. Ltd.

In late 1960s, Fluor participated in construction of two of South Africa's four crude oil refineries. In 1975, Fluor was named managing contractor for the \$3.3 billion SASOL I plant and in 1979, named managing

contractor for the \$4.2 billion SASOL III facility. Fluor received \$4.7 billion for its work on SASOL II and III.

In 1980, it was estimated that Fluor received 14-15 percent of its total revenues and 8-9 percent of pretax profits from South African projects. Fluor also lobbied the Export-Import Bank to extend credit to South Africa for SASOL. The company formed Fluor-Genrec in 1980 to take advantage of future South African construction projects. Fluor is the U.S. sales agent for SASOL technology.

Recent Activities

According to information Fluor filed this year with the Securities and Exchange Commission, the company has several ongoing projects in South Africa. It is involved in



“plant modification work” at SASOL. Several of its subsidiaries are involved in construction of a crude oil pipeline and the company was awarded a maintenance contract for a nuclear power station. According to the oil industry trade press, Fluor also tendered bids for part of a feasibility study Pretoria initiated in January to investigate developing a gas field off the coast of Namibia.

Strategic Role

Fluor has been a leading partner in South Africa’s effort to become self-sufficient in energy. Before construction of the SASOL II plant, only five percent of South Africa’s fuel came from synthetic sources. The three SASOL operations now supply the country with 40 percent of its liquid fuel needs, as well as the petrochemical sector’s entire ethylene feedstock requirements. Domestic coal in South Africa now provided 83 percent of primary energy needs. As a partner in South Africa’s renewed efforts to develop offshore gas fields, the company is further contributing to Pretoria’s program to achieve energy independence. It is estimated that the gas field

off the coast of Namibia could provide the country with another 30 percent to 65 percent of its remaining liquid fuel requirements.

History of Institutional Shareholder Action *(includes year and resolution topic)*

- 1979 Contracts with the South African government
- 1980 Contracts with the South African government
- 1981 Withdrawal from South Africa

Company Position

Following the company’s annual meeting in March 1985, Fluor Chairman David S. Tappan Jr. told a press conference: “Our continued involvement is in the best interest of all South Africans.” Tappan claimed the company has improved the standard of living for 20,000 blacks trained by Fluor in the course of its various projects in South Africa. Fluor has maintained that it follows a policy

of operating “by the laws, regulations and social customs of the countries in which it works.”

Church Position

Church shareholders have urged Fluor to withdraw from South Africa because of the strategic importance of Fluor’s services. The company has adamantly defended its extensive South African operations and questioned the “moral consistency” of shareholders raising concerns about South Africa.

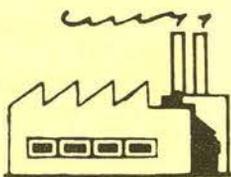
Fluor has become increasingly secretive about its South African operations. It has provided very little, if any, data on its labor practices and declined to cooperate with the Investor Responsibility Research Center which was developing profiles of the South African operations of major U.S. firms. Fluor failed to respond to requests for meetings from church stockholders to discuss shareholder resolutions on South Africa. At its annual meeting, the company expressed no concern about apartheid during discussions of a church-sponsored resolution on its South African operations.

MANUFACTURING

Since the early 1900s, when manufacturing activity in South Africa primarily provided attendant services for mining and agriculture, the country’s manufacturing sector has grown from a mere four percent of the gross domestic product to 24 percent in 1981 — the largest single contributor to the GDP. Together the third largest source of employment in the South African economy, manufacturing firms supply everything from cosmetics and medicines to refrigerators and heavy agricultural equipment needed by a modern industrial economy. Like all industry sectors in South Africa, the manufacturing sector depends heavily on cheap black labor to produce the high standard of living enjoyed by the country’s 15 percent white minority population.

Manufacturing Sector Takes Off

In the 1920s with the expansion of the state-run railways and harbors and the establishment of major state-owned industries such as the Electricity Supply Commission (ESCOM, the country’s electric utility system), and the South African Iron and Steel Industrial Corporation (ISCOR), South Africa began to develop the infrastructure needed to sustain a healthy manufacturing sector. Cut off from foreign sources of supply during World War II, the country began a program to replace imports with locally-made products, further boosting domestic manufacturing. After World War II difficulties were alleviated, the white population’s demand for consumer goods rose significantly. With new gold discoveries, further import restric-



tions and new markets for exports, the manufacturing sector took off at a 13 percent growth rate from 1945 to 1955, slowed down to seven percent for the next ten years, rose to nine percent during the 1960s and leveled off in the 1970s and early 1980s, averaging about 5.6 percent.

Supplying Cheap Black Labor to Feed Industrial Growth

South Africa’s manufacturing industry of the last five decades could not have been robust without the low-paid black laborers who were moving into urban areas in large numbers at the end of World War II. Moving to control this large-scale influx of blacks to urban areas, the apartheid government, which gained control of the South African government in 1948, established “labor bureaus” in urban and rural areas to control migration of black South Africans. Even today, black workers must be registered with a bureau and carry papers proving their registration and their right to be in an urban area. A local labor bureau may not recruit Africans from one of the homelands, or rural reservations set aside for Africans, unless “qualified” labor is unavailable locally. Africans who circumvent the laws and leave the homelands for the cities in search of work, risk arrest for violation of the influx control laws and the passbook laws requiring them to carry reference papers with them at all times. In 1984, there were 163,000 arrests for influx control and pass law violations. A March 1985 report in a South African newspaper indicated how the laws invade the everyday lives of blacks:

Government officials are carrying out round-the-clock checks to monitor the influx of blacks into urban areas. . . . “Every vehicle (with black people in it) has been stopped systematically. . . .” [a government official said.]

Having imposed such restrictions on the movement of blacks within the country, the government has tried to match the number of

legal black workers with the needs of the economy. According to Pretoria's central statistics for 1983, Africans employed in the manufacturing sector made up 54 percent of the total manufacturing workforce of 1.4 million in 1983. All blacks — Africans, "colored" or mixed-race persons, and Indians — provided 77 percent of manufacturing labor. Yet they earned only 48 percent of the year's total payroll. In May 1983, the average monthly wage paid to blacks in the manufacturing sector was \$288 — less than one quarter the average wage paid to whites working in the same industry.

U.S. Manufacturers Make Profits

U.S. companies have been involved in South Africa's manufacturing fortunes since as early as 1894, when General Electric opened its first operation there. The South African General Electric Company (SAGE) became South Africa's largest electrical company.

While huge firms such as SAGE have profitted handsomely from large contracts with major state-owned customers, numerous other American manufacturing firms in South Africa operate in the private sector, many producing consumer goods for the white majority. According to *Foreign Investment in South Africa*, a directory of U.S. corporations operating in South Africa published in late 1984 by the Investor Responsibility Research Center, more than 150 American firms with nearly \$2 billion of investments in South Africa are involved in some kind of manufacturing or production there.

In the past, U.S. corporations invested in South Africa, have enjoyed very high rates of return, although with the current recession they have been dropping. Between 1979 and 1982, the average return on U.S. investment was 18.7 percent, compared with an average rate of return of 16 percent for U.S. companies world-wide. Companies have enjoyed higher returns due to the cheap labor of black workers provided by the apartheid system.

For the opportunity to invest in South Africa and produce goods there, companies must: 1) accommodate the laws and regulations of a system designed to provide the cheap labor on which their remarkably high earnings depend; 2) collaborate with the South African government in working toward its goal of developing a militarily powerful, self-sufficient economy to serve the white minority rather than to meet the needs of all South Africans; and 3) pay taxes to support that government.

Strategic Role

The South African General Electric Company (SAGE) is included in the churches' intensive focus list because of its long history of extensive involvement in South Africa's apartheid economy, particularly the strategic nature of the products and services it provides. GE has manufactured and imported a wide range of consumer and capital goods, including electrical controls used in ISCOR plants. These controls facilitated the automated, round-the-clock monitoring of ISCOR machinery and plants. ISCOR's development of an efficient powerful iron and steel industry has been a cornerstone of Pretoria's plan for achieving industrial and military self-sufficiency.

SAGE also constructed control relay panels for the South African-run terminal of a huge hydroelectric project on the Mozambique border. In 1983, a GE subsidiary won a contract to provide switch gear for a power station owned by ESCOM.

ESCOM's objective, established in 1922, "is to provide an adequate supply of electricity at cost price so that it can be used for the economic advancement of South Africa," according to a government publication. That "advancement" has not included the 73 percent black majority who live in ghettos and reservations, which have been denied access to ESCOM's impressive power grid until this decade. Only in 1980 did the government approve an agreement initiating township-wide "electrification" of Soweto — the country's largest black city with more than 1.5 million people. Most black townships still have no electricity.

Historically, SAGE also has supplied Pretoria with a large portion of the diesel locomotives used by the state-owned South African Railways (although recently the state is using more and more electrically-fueled locomotives). In the mid-1970s, the company supplied 80 percent of the diesel locomotives then used by the state-run system. In 1976 they contracted to provide 40 new locomotives for a major railway and port development project initiated by ISCOR. ISCOR exports high-grade iron ore from an ISCOR mine in the northern Cape Province through a new harbor developed northwest of Cape Town. The project is controlled by the state-run South African Transport Service. That project, and other rail systems managed by the state and traversed by SAGE locomotives, are vital to the economy, providing infrastructure on which the rest of the economy is built.

THE CORPORATE EXAMINER Yearly Rates

Vol. 14, No. 5, 1985

Editor: Diane Bratcher

Single Subscription \$25
(Group Rate for 5 or more copies, \$20 each)

© 1985 Interfaith Center on Corporate Responsibility, a sponsored related movement of the National Council of Churches.

The *Corporate Examiner* is published ten times yearly by the Interfaith Center on Corporate Responsibility for church and other organizations and individuals concerned about the social impact of corporations and the application of social criteria to investments.

Detach and return:

Name
Street
City State
Type of Subscription
Amount Enclosed

Send check or money order payable to:

Interfaith Center on Corporate Responsibility
475 Riverside Dr., Room 566
New York, New York 10115

GENERAL ELECTRIC

Established in South Africa in 1894

Number of Employees

White	300
African	422
Asian/Colored	130
Total	852

Total Assets

Less than \$120 million as of 31 December 1983.

Total Sales

Less than \$140 million as of 31 December 1983.

Subsidiaries/affiliates

GE has four subsidiaries or affiliates, the major of which is South African General Electric Co. (Ptv.) Ltd., known as SAGE.

Description of Operations

GE's South African subsidiaries and minority-owned affiliate manufacture a variety of light industrial electrical equipment and service heavy industrial electrical equipment such as motors and transformers used by the public and private sectors. In addition to importing a wide range of consumer and capital products made by GE facilities outside South Africa, products manufactured in South Africa range from highway and commercial lighting fixture to locomotive oil filters. Imported products include locomotive replacement parts, lamps and medical diagnostic equipment.

In 1983, a GE subsidiary was awarded a \$5.5 million contract to develop switchgear

for the government-owned electric utility company. Also in 1983, the company briefly considered investing in a \$140 million coal mining venture but shelved the idea after shareholders, including the State of Connecticut, pressured the company not to expand in South Africa. GE makes some sales to South African government agencies, including ISCOR, ESCOM, the state-owned railroads and the South African Transport Service.

Strategic Role

As a supplier of components such as locomotive parts used by the South African state-owned railway system and switchgear used by the state-owned utility system, GE is directly benefiting from the South African government's control of the black majority population and assisting in maintaining the country's racially segregated society. Only recently has the government started to supply black townships with electricity and most still have none. Trains, central to the functioning of South Africa's mining and manufacturing sectors, are also used by the government to control the movement of black workers within the country and to ship unwanted blacks to remote, impoverished "homelands."

History of Institutional Shareholder Action (includes year and resolution topic)

1977 Withdrawal from South Africa

1983 No expansion in South Africa until apartheid is ended

Company's Position

GE opposes divestment. Ford C. Slater, GE's manager of special issues planning and communications, wrote to a major church shareholder in December 1984 of GE's belief that should divestment initiatives influence

U.S. companies to withdraw from South Africa, they

would have the principal effect of harming significant numbers of individual black South Africans, without redeeming compensatory effect.

Church position

The South African General Electric Co. (SAGE) became South Africa's largest electrical products company. It manufactures and imports a wide range of consumer and capital goods. SAGE has assisted the development of an efficient, powerful iron and steel industry, a cornerstone of Pretoria's plans for achieving industrial and military self-sufficiency. SAGE also constructed control relay panels for the South African-run terminal of a huge hydroelectric project on the Mozambique border. In 1983, a GE subsidiary won a contract to provide switchgear for a power station owned by ESCOM another state-owned agency critical to the government's control. SAGE also has supplied Pretoria with a large portion (as high as 80 percent in the 1970s) of the diesel locomotives used by the state-owned South African Railways, although recently the state is using more electrically-fueled locomotives. In 1976 GE contracted to provide forty new locomotives for a major ISCOR railway and port development project to export high-grade iron ore from an ISCOR mine in the northern Cape Province through a new harbor developed northwest of Cape Town.

In 1983, following reports that one subsidiary of the company was considering an investment in a "homeland," church shareholders filed a resolution asking the company not to expand in South Africa until apartheid is abolished. The company refused to place a moratorium on further investments.

**INTERFAITH CENTER ON
CORPORATE RESPONSIBILITY**
475 Riverside Drive—Room 566
New York, New York 10115