

## Still Banking on Apartheid: U.S. Banks Cling to South Africa by John Lind

*In Part One of this brief, John Lind explains the current status of U.S. bank relations with apartheid South Africa and describes the campaign by religious investors and the antiapartheid movement to break those ties. In Part Two the banks describe their positions on South African business in their own words and policy statements.*

*John Lind is Executive Director of CAN-ICCOP, an interfaith agency in San Francisco, which provides research and leadership on corporate responsibility and international banking. Contact: CANICCOP, P.O. Box 6819, San Francisco, CA 94101; (415) 885-5102.*

*Keith Girvan, a Duke University student and intern at ICCR during the summer of 1990, contributed to this brief.*

Despite the rescheduling of South African debt, U.S. creditor banks retain substantial leverage to press for the abolition of apartheid. At this time, when the potential for peaceful change challenges the perils of continuing apartheid and bloodshed, financial pressures to end apartheid is critical.

### Easier Terms Negotiated

About \$8 billion of South Africa's total \$21 billion debt fell due under an interim arrangement on July 1, 1990. Essentially all of the U.S. bank loans were originally in this category. The renegotiation of that debt provided a crucial economic focal point for antiapartheid work. After a heated round of negotiations in September and October 1989, eight months ahead of schedule, the banks concluded an interim arrangement in which South Africa will repay \$1.5 billion over three-and-a-half years. This repayment period is considerably longer than the one year repayment period which religious institutions had urged.

### Variable Impact on the South African Economy

The impact of this arrangement on the South African economy depends upon the price of gold. Gold is still South Africa's largest single export, accounting for 30 percent of all export sales. The price, however, like South Africa's overall balance of payments, is extremely volatile and fluctuates according to a variety of international factors.

While the Gulf crisis elevated gold prices, it raised the cost of imported oil even higher. As a result, as of September 1990, the crisis was costing South Africa an estimated \$2.5 million a day.

### Financial Pressure Encourages Political Change

At present, the recession which began in 1989 has been characterized by "unusual mildness," according to the South African Reserve Bank, a prognosis, which does not change for the near future. Thus, religious investors and antiapartheid organizations are urging that financial pressures be maintained so that economic constraints help move the political situation.

### Banks Urged to Take Action

Until 1993-1994, when South Africa's arrangement must again be renewed and there is another major credit crunch, banks can exert effective pressure on the white minority regime through the following measures:

1.) No loans should be converted to long-term "exit" loans.

Both the previous and present rescheduling agreements permit banks to convert the short-term debt, which must be periodically rescheduled under these arrangements, into ten-year loans with fixed payment schedules. These repayment schedules set the

major part of the repayment for the end of the ten years and give South Africa grace periods requiring no repayment when South Africa's other debt burdens are heaviest. As the table shows, U.S. banks have reacted very differently to the call of religious and antiapartheid organizations for no conversions to exit loans.

2.) U.S. banks should sell their South African loans on the secondary market.

This strategy is part of Chicago's new antiapartheid legislation. Such a sale is usually to a foreign bank. The foreign bank is then less likely to make new credits available to South Africa after its purchase of loans at a discount on the secondary market and resulting increased exposure through the loan purchase. Should the loan be sold directly to South Africa, it causes an immediate drain on South Africa's foreign currency holdings already in short supply. Such sales to another bank or to South Africa usually cost the bank a 30 percent loss on the face value of the loan, but the bank recovers most of the value of the debt quickly and has an immediate effect on South Africa's credit needs.

3.) Banks should sever correspondent banking relations with South Africa.

Correspondent banking relations are used to facilitate trade, even if no credit is supplied, by providing payment mechanisms. Cutting correspondent ties would require all payments in dollars to go through dollar accounts of foreign banks, especially European banks. This would include the payments of most of the \$84 million in claims by U.S. non-bank businesses on South Africans and of the \$146 million in debts of such enterprises to South Africans as of the end of 1989.

4.) Banks should cease being repositories of South African stock shares, particularly shares in gold mines.

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While U.S. antiapartheid legislation precludes U.S. nationals from further investment in South Africa, South African stock shares are held in trust by several U.S. banks from before antiapartheid legislation went into effect.

Trust arrangements were set up so that stock, trading only in South African currency, can be traded in U.S. dollars. Banks issued American Depository Receipts (ADRs) for each stock they hold and the ADRs trade in dollars on the U.S. stock market. Such ADRs are reported to account for over \$5 billion of U.S. portfolio investment, an amount about twice as great as the maximum direct investment in subsidiaries and officers of U.S. corporations in South Africa.

When a bank decides to terminate its ADR business, it attempts to sell the business to another U.S. institution. If no buyer is found, it has to repurchase the ADRs and sell stock in foreign markets. Such sales would tend to depress South African stock prices, making it more difficult for strategic industries like mining, to raise money.

### Activists Escalate Bank Campaigns

Antiapartheid organizations are encouraging U.S. banks to sever their South Africa ties and urging opponents of apartheid to join in the following strategies:

1.) Support local selective purchasing and contracting laws (such as those passed by Chicago and New York City) and federal financial sanctions to deny contracts to banks with substantial ties to South Africa.

2.) Sponsor and vote in favor of shareholder resolutions demanding banks end business with South Africa.

3.) Campaign for individual banks to cut their South Africa ties by writing letters, building coalitions and joining acts of antiapartheid public witness.

For more information on antiapartheid bank campaigns, contact ICCR's South Africa Program.

## PART TWO:

### What the Banks Say on South Africa

#### Banks with No Remaining South Africa Ties:

##### **BANK AMERICA**

"We have entirely divested our loans to South African borrowers. We never had any offices in South Africa or investments in South Africa and now we have no loans either."

--letter to Sr. Annette Sinagra, Adrian Dominican Sisters, 21 May 1990.

Note: BankAmerica does not maintain correspondent banking ties with South Africa.

#### Banks with other Significant South Africa Ties:

##### **AMERICAN EXPRESS**

"In March 1989, American Express Bank Ltd. completed the sale of all of its remaining loans to either public or private borrowers located in South Africa. As a result, neither American Express Bank Ltd. nor any other subsidiary of

American Express Company has any loans to reschedule and will not be participating in the process."

--letter to Mr. Francisco L. Borges, Treasurer, State of Connecticut, 5 September 1989.

Note: American Express maintains card-member service in South Africa and through its holdings in Shearson Lehman, is one of several U.S. investment banks that make markets for South African ADRs.

#### Banks which have Severed Ties and Committed Not to Convert Outstanding Loans to 10-year Exit Loans:

##### **BANK OF NEW YORK**

"The Bank...is not currently making new loans to either public or private sector borrowers in South Africa.... The Bank does not now intend to convert any additional loans. The bank holds no South African public sector accounts and presently intends to close the remaining accounts of South Africa private sector banks over the next several months."

-- letter to Sr. Pat Daly, Dominican Sisters of Caldwell, New Jersey, 2 March 1990.

##### **CONTINENTAL BANK**

"Continental Bank affirms that it meets the requirements that have from time to time been presented to various banks by the Interfaith Center on Corporate Responsibility. It has adopted a policy not to provide new trade credits... does not provide correspondent banking services...affirms it will not convert any further South African exposure into 10-year term loans."

-- letter to ICCR, 29 June 1989.

##### **REPUBLIC NEW YORK**

"The Association shall not hold any account of any public or private South African entity, except for an account that is maintained in connection with an existing rescheduling arrangement with a South African entity to collect payments

or principal interest thereon, nor shall it provide any other correspondent banking services such as transmission of funds, for South African entities. The Association shall not hereafter convert any further South African exposure into 10-year exit loans.... The Association shall not provide new trade credits...."

-- letter to Mr. Borges, 12 December 1989

**Banks which have Severed Ties after Converting All Outstanding Debt to Exit Loans**

**SECURITY PACIFIC CORPORATION**

It is the policy of the Corporation and its subsidiaries and affiliates "...not to expand existing or establish new business operations in South Africa...not to renew existing loans and not to make any additional or new loans to any South African corporation or to the government of South Africa.... The Corporation and each of its subsidiaries and affiliates do not intend to convert any of its loans to South African entities into 10-year exit loans.... It is the practice of the Corporation and each of its subsidiaries and affiliates to refrain from providing correspondent banking services...."

-- Management response to shareholder resolution, 15 December 1989.

**Note:** The bank has said that it no longer holds South African ADRs, and that it has converted virtually all its South African outstandings to longer term loans.

**Banks with Correspondent Banking Ties but a Policy Not to Convert Outstanding Loans to 10-year Exit Loans:**

**J.P. MORGAN**

"As stated in our 1989 First Quarter Interim Report to Stockholders, our policy is neither to extend to public or private borrowers in South Africa

any new loans, including trade credits, nor to renew any loans voluntarily, until the government of South Africa takes significant steps aimed at ending apartheid. In addition, as stated in the same report, converting existing obligations into long-term loans, in our analysis, is not the best of alternatives currently available to achieve our goal of expeditiously reducing Morgan's outstandings. We do, however, continue to believe that providing correspondent banking services to certain clients is in the best interest of our stockholders...."

-- Management response to shareholder resolution, 9 May 1990.

**Note:** J.P. Morgan is a member of the Technical Committee, which negotiates the periodic rescheduling of South Africa's outstanding foreign debt.

**BANKERS TRUST**

"Bankers Trust Company's exposure in South Africa is related entirely to extensions of credit to correspondent, private sector banks, which were subject to the unilateral standstill announced by the South African Government in 1985. Since then we have refrained from increasing our credit exposure in South Africa."

-- Management response to shareholder resolution, 17 April 1990.

**Note:** In a meeting with ICCR religious shareholders on 31 January 1990, Bankers Trust representatives summarized the bank's South Africa position. The bank reportedly does not issue any loans (including trade credits) to South African entities, will convert no additional debt to 10-year loans, but does maintain correspondent banking ties.

**Banks with No Correspondent Banking Ties but an Unclear Policy on Converting Outstanding Debt to 10-year Exit Loans,**

**CHEMICAL BANK**

"The Bank maintains no accounts for the South African government or any related entity; provides no correspondent banking services for any South African banks; and maintains accounts for a few South African banks utilized solely to effect repayment of principles and interest on credits extended to such banks by Chemical Bank prior to September 5, 1989. There are only two available repayment options under the provisions of the various interim arrangements referred to by proponents: convert debt due into 10-year term loans...or accept a shorter term arrangement which provides for only partial repayment of principle."

-- Management response to shareholder resolution, 19 February 1990.

**Note:** During the summer of 1990, a Chemical Bank representative reported that the bank had converted approximately 65 percent of its \$200 million South African exposure into 10-year loans. At Chemical's 1990 shareholder meeting, the bank's chief executive officer explained, "We have no additional plans to convert. That doesn't mean that in six months or a year we won't."

**Banks which have Converted a Significant Percent of their Outstanding Loans to 10-year Exit Loans and Retain Correspondent Banking Ties.**

**CITIBANK**

"Management says that Citicorp's correspondent banking relationships with private South African banks involve only routine payments transactions and "do not constitute making 'international financing available in South Africa' as claimed by the proposal."

"As for the debt reschedul-

ing issue, management says it has already converted 'virtually all' of Citicorp's outstanding South African debt into long-term debt under Section 12 of the second interim arrangement. Citicorp argues that this conversion 'reduces the risk of repayment suspension while, at the same time, eliminating an element of flexibility from the South African government's options.'

-- *Investor Responsibility Research Center report, 18 April 1990.*

"Our ties (correspondent banking) are not financially significant. We could close the accounts. Correspondent banking ties to South Africa have no material significance one way or the other."

-- *John Reed, Chief Executive Officer, Citicorp, annual meeting, 17 April 1990.*

**Note:** Citibank was South Africa's largest U.S. lender prior to the 1985 debt moratorium and was the last U.S. bank to close its offices there. An original member of the Technical Committee, Citibank withdrew just prior to the committee's decision to reschedule the South African debt, an agreement concluded eight months before the previous agreement expired.

### CHASE MANHATTAN

"Chase's position has been very clear since the late 1970s. Chase adopted a lending policy which excluded new extensions of credit to any sector of the South African economy until management was satisfied with political and economic conditions there. It is too early to tell whether any policy changes should be made with respect to South Africa."

However, management goes on to argue that restrictions on correspondent banking and loan conversions "...could prevent management from taking action to protect the assets of

the Corporation and have a direct adverse effect on the interests of the Corporation and its stockholders."

-- *Management response to shareholder resolution, 17 April 1990.*

"Basically, we have converted all of our debt."

-- *Willard Butcher, Chief Executive Officer, Chase Manhattan, annual meeting of shareholders, 17 April 1990.*

### MANUFACTURERS HANOVER TRUST

"At last year's annual meeting the bank stated correctly that it had 'minimal conversions' (to 10-year exit loans). Then we took a more significant bite and wound up at 45 percent."

On correspondent banking ties the bank argued that its ties were "not all that significant in the revenues of the overall operations of MHT."

-- *John F. McGillicuddy, Chief Executive Officer, Manu-*

*facturers Hanover Trust, annual meeting of shareholders, 20 April 1990.*

**Note:** MHT is now one of the primary U.S. correspondent banks for South Africa and sits on the Technical Committee.

### NCNB

"As of August 13, 1990, current outstandings amount to \$78,307,000. As I advised in earlier letters, the majority (\$56 MM) of the outstanding was acquired when we obtained our Texas franchise in 1988. This amount has various maturities under various repayment schedules running through the year 2000. It is anticipated that by July 1, 1991, the outstanding amount will be reduced to less than \$40MM."

-- *Letter to Rev. J. Andy Smith III, National Ministries, American Baptist Churches, 17 August 1990.*

**Note:** NCNB has confirmed that it maintains correspondent banking ties to South Africa.

### SOUTH AFRICA'S BIGGEST U.S. CREDITORS

Bank	Outstanding Loans as of 1990	Amount Converted to 10-year loans	Correspondent Ties	ADR Depository (yes/no)
American Express	none	none	no	yes
BankAmerica	none	none	no	no
Bank of N.Y.	\$170 million	\$40 Million; pledged no more conversions	*	yes
Bankers Trust	\$150 million	\$10 million; pledged no more conversions	yes	no
Chase Manhattan	\$284 million	\$284 million	yes	no
Chemical	\$200 million	\$130 million	no	yes
Citicorp	\$660 million	\$660 million	yes	yes
Continental Bank	\$30 million	\$28 million; pledged no more conversions	no	no
Manufacturers Hanover	\$166 million	\$75 million	yes	no
J.P. Morgan	\$195 million	policy not to convert	yes	yes
NCNB	\$78 million	some conversions	yes	no
Republic N.Y.	\$50 million	committed not to convert	no	no
Security Pacific	\$110 million	\$110 million	no	no

\* Bank of New York is in the process of terminating its correspondent banking ties.

**Note:** An ADR (American Depository Receipt) is issued by a U.S. bank for foreign stocks, which a bank holds in trust and trades in U.S. dollars. ADRs promote trading of a foreign stock, in this case, stock of South African gold, diamond and platinum mines and South African government-owned SASOL coal gasification plants. The bank holds the shares of South African stock abroad and issues an ADR against those shares to ensure the shares can be traded in dollars.