

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 86/2

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TABLE 4

ESTIMATED COSTS TO DIVEST HOLDINGS OF CORPORATIONS AND BANKS THAT
DO BUSINESS IN SOUTH AFRICA FROM ALASKA INVESTMENT FUNDS

| | |
|---|--------------------|
| <u>Corporate bonds</u> | |
| (difference between cost and market price as of 2/30/83) | \$4,696,165 |
| Transaction costs | 7,039 |
| (.50 per \$1000 market value or .50 x (\$14,078,350 /1000))* | |
| <u>Corporate Stocks</u> | |
| Transaction costs @ .05 per share: | |
| Permanent Fund | \$83,055 |
| Public Employees Retirement Fund** | 22,950 |
| Teachers Retirement Fund** | <u>21,200</u> |
| | 127,205 |
| TOTAL | <u>\$4,830,409</u> |

*\$14,078,350 is the market value of all corporate bonds to be divested.
(see table 3).

**Shares to be divested from Public Employees Retirement Fund and
Teachers Retirement Fund are estimated.

Prepared by: House Research Agency, February 1984.

Massachusetts, in January 1983, passed legislation that required the sale, from their public pension portfolio, of all investments in firms doing business in South Africa. The state treasurer's office initially projected a \$16 million loss to the state as a result of this divestment, mostly from the sale of corporate bonds. This loss was determined by calculating the difference between the market value of the bonds and the face value of the bonds (which is their value at maturity).

This method of determining the financial impact of divestment has been criticized by several pro divestment groups who claim that it overstates the loss to the state. They claim that the \$16 million dollar decline in the value of the bonds had already taken place and was unrelated to the divestment law. In addition, proponents of the divestment law claim that by "bond swapping", exchanging old bonds for new ones, Massachusetts could realize a \$2,377,987 net gain if the transactions had been effective as of November 30, 1982.

Mr. Robert Schwartz, investment advisor for Shearson-American Express, supports bond swapping as a method of minimizing loss in bond value:

A restructuring of the portfolio to exclude debt of corporations with activities in South Africa, I believe, could be done in a reasonable period of time, with no adverse effects on the returns earned by the fund. Bonds that are presently valued below their cost could be swapped for other bonds with similarly depressed prices and the fund would recover the loss when the bond matures at par value. There would not be any loss of income or additional risk with regard to this part of the portfolio.⁵

A third way to calculate the effect of divestment on the bond portfolio is the difference between the cost of the bonds and the market value of the bonds. This is the approach taken in calculating the loss to Alaska's investment funds that appears in Table 4. It should be noted again that, according to some investors, some or all of this loss can be avoided depending on the success of bond swapping at the time of divestment.

Most analysts agree that the divestment of repurchase agreements, commercial paper and corporate stocks would have little adverse impact on the value of the portfolio. Commercial paper and repurchase agreements are short-term investments that would mature normally and the

⁵Dr. Robert Schwartz, Vice President, Shearson-American Express Company, 666 5th Avenue, New York, New York 10103, 212-974-3200. Testimony before the Subcommittee of Fiscal Affairs and Health of the House District of Columbia Committee, January 31, 1984.

proceeds could be reinvested in holdings of companies and banks that do not do business with South Africa.

Corporate stocks are generally held for longer periods of time, but the market value of stocks fluctuates sufficiently, that, over a period of time, stocks could be sold to minimize loss. Dave Rose noted that, currently, the market value of securities held by the Permanent Fund is higher than the cost of the securities. Therefore, although some stocks might be sold at a loss, this loss would be offset by gains from the sale of others. Generally, the value of the portfolio would be unchanged by the divestment of corporate stock. This is the assumption used in this report.

Future Performance of the Portfolio. Some investment professionals that we talked with criticized divestment laws because they felt that these laws infringed upon their fiduciary responsibility to produce the highest possible return on investments.

In recent years, three following empirical studies of stock performance have attempted to analyze the effect on large portfolios of excluding investments in banks and corporations doing business in South Africa:

- (1) "Pension Funds and Ethical Investments" prepared for the State of California Retirement System by the Council on Economic Priorities examined the effects on large portfolios of excluding firms that have investments in South Africa and firms with poor employee relations;⁶
- (2) a report published by Franklin Research and Development of Boston that analyzed the effects of divestment on the Washington D.C. retirement portfolio;⁷ and
- (3) an internal study by Chemical Bank of New York that reviewed the banks own "buy list", assuming exclusion of corporations that do business in South Africa.⁸

⁶Pension Funds and Ethical Investment, Council on Economic Priorities, 84 Fifth Avenue, New York, New York.

⁷Franklin Research and Development Corporation, 222 Lewis Wharf, Boston, Mass., 02110, 617-723-1670.

⁸Chemical Bank of New York, 20 Pine, New York, New York, 10017, 212-770-1234.

Robert Schwartz, summarizing the findings of these studies concludes:

Each of these studies has in their own way found that for virtually any given period of time in the past, portfolio performance would have been no worse, and in some cases would have been better if a screen of avoiding investments in South Africa would have been placed on the fund... Each of these studies has documented the statistical fact that, all other things being equal, a portfolio that avoided stocks of United States companies in South Africa would have outperformed a portfolio that had included these companies.⁹

It is important to note however, that there are two generic problems with the studies discussed above. The most important is that the past performance of a stock should not be used to predict its future performance. Therefore, although the studies indicate that past performance would not have been worse if South Africa related stocks were excluded, this does not mean that future performance will follow the same pattern.

The second problem is that for the majority of the time period covered by the studies, small companies have performed better in the stock market than the larger multi-national companies which tend to be invested in South Africa. This problem is compounded by the recent poor market performance of major petroleum companies which are heavily invested in South Africa and thus tend to pull down the overall performance of companies that do business in South Africa.

In summary, it is difficult to determine the financial consequences of a divestment law on Alaska's investment funds. Table 4 summarizes the possible effects of divestment assuming: (1) that all stocks and bonds to be divested would incur transaction costs; (2) the divestment of bonds would cost the State the difference between the cost of the bonds and the market value of the bonds (as of 12/30/83) and that no savings would occur through bond swapping; and (3) no portfolio loss would occur from divestment of commercial paper, repurchase agreements or corporate stocks. Based on these assumptions, ~~it would cost Alaska approximately \$4,830,000 to divest.~~

~~These assumptions present a worse case scenario,~~ as some transaction costs could be saved through natural turnover of securities, especially if divestment occurs over a period of years. Also, as we have reported, financial analysts claim that bond swapping can reduce or possibly eliminate any loss in the value of corporate bonds that are to be divested.

⁹Dr. Robert Schwartz, Testimony before the Committee of Fiscal Affairs and Health of the House District of Columbia Committee, January 31, 1984.

Representative Vaska
February 16, 1984
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The impact of divestment on the future financial performance of Alaska's investment funds is also difficult to determine. Evidence from empirical studies appears to indicate that it is possible to maintain similar portfolio performance after corporations and banks that do business in South Africa are excluded. If this is true, divestment would not infringe upon the fiduciary responsibility of investment managers or upon the prudent man investment rule that applies to some Alaska funds.

Other Issues

During the course of our research, several investment professionals that we talked with commented on the nonfinancial implications of a divestment law. The most common of these comments was that to legislate the divestment of funds that do business in South Africa would set a precedent of politicizing the funds. This was especially dangerous, it was felt, in the case of the Permanent Fund which is supposed to be established as an independent corporation within the State, free of outside influence. The fear expressed most often was that once this fund was used for special interests, it would be difficult to restrict other special uses in the future, thereby endangering its economic stability and integrity.

A second implication of divestment laws concerns situations in which corporations and banks, subject to divestment, are companies that the State is encouraging to invest in Alaska. This conflicting policy could send mixed signals to these corporations, possibly affecting their decision to invest in the state.

The third comment made by investment professionals involved the strategy of divestment as a means of influencing corporate policy. Some professionals felt that the State would have greater ability to influence corporate policy through ownership of stock rather than through divestment. However, this influence would depend upon the amount of stock of the particular company the State owned and the participation of the State in voting the stock.

I hope this information is useful to you. If you have any questions or would like additional research performed, please call.

JL

Attachments

APPENDIX 1

STOCKS AND BONDS OF COMPANIES THAT DO BUSINESS IN SOUTH AFRICA HELD
BY THE STATE OF ALASKA PUBLIC INVESTMENT FUNDS

Corporate Bonds (all Funds)

| <u>Company</u> | <u>Cost</u> | <u>Market price</u> | <u>Loss</u> |
|--------------------------|---------------------|---------------------|--------------------|
| American Express | \$2,000,015 | \$ 1,987,120 | \$ 12,895 |
| Pfizer | 2,429,000 | 1,952,670 | 476,330 |
| Gen. Motors Acc. Corp. | 3,187,500 | 2,220,000 | 967,500 |
| Exxon Corporation | 2,055,000 | 1,440,520 | 614,480 |
| Mobil Corporation | 2,525,000 | 1,818,750 | 706,250 |
| General Electric | 2,115,000 | 1,490,000 | 625,000 |
| Standard Oil, Indiana | 1,957,500 | 1,393,510 | 563,790 |
| American Hospital Supply | 1,495,500 | 1,055,520 | 439,980 |
| Exxon Pipeline Co. | 1,010,000 | 720,260 | 289,740 |
| | <u>\$18,774,515</u> | <u>\$14,078,350</u> | <u>\$4,696,165</u> |

Corporate Stocks (Permanent Fund)

| <u>Company</u> | <u>Shares</u> | <u>Current Price</u> | <u>Market Value</u> |
|---------------------------|---------------|----------------------|---------------------|
| Abbot Labs | 9,000 | 45.25 | \$ 362,000 |
| American Broadcasting | 2,000 | 55.625 | 111,520 |
| American Cyanimid Co. | 2,400 | 50.00 | 120,000 |
| American Express Co. | 16,450 | 32.265 | 536,681 |
| American Home Products | 12,800 | 49.625 | 635,200 |
| American Hospital Supply | 6,000 | 39.625 | 237,750 |
| Am. International Group | 6,000 | 64.25 | 385,500 |
| Armco Inc. | 10,400 | 20.875 | 217,100 |
| Baker International Corp. | 8,900 | 19.250 | 171,325 |
| Becton-Dickinson & Co. | 4,600 | 36.750 | 169,050 |
| Black & Decker | 6,500 | 26.375 | 171,438 |
| Blue Bell Inc. | 5,200 | 39.125 | 203,450 |
| Boeing Company | 6,300 | 43.750 | 275,625 |
| Borden Inc. | 3,000 | 56.50 | 169,500 |
| Borg-Warner Corp. | 6,400 | 24.750 | 158,400 |
| Bristol Myers Co. | 8,900 | 42.250 | 376,025 |
| Burroughs Corp. | 3,500 | 50.375 | 176,313 |
| Carnation Co. | 3,100 | 56.00 | 173,600 |

Coporate Stock (Permanent Fund) continued

| <u>Company</u> | <u>Shares</u> | <u>Current Price</u> | <u>Market Value</u> |
|--------------------------|---------------|----------------------|---------------------|
| Caterpillar Tractor | 6,200 | 47.250 | 292,950 |
| CBS Inc. | 2,400 | 66.250 | 159,000 |
| Celanese Corp. | 2,100 | 69.00 | 144,900 |
| Champion Int. Corp. | 5,900 | 28.875 | 170,363 |
| Chase Manhattan Corp. | 3,400 | 45.50 | 154,700 |
| Cheeseborough Ponds Inc. | 4,200 | 37.125 | 155,925 |
| Citi-Corp. | 10,200 | 37.125 | 378,675 |
| Coca-Cola Co. | 11,200 | 53.500 | 599,200 |
| Colgate-Palmolive Co. | 6,900 | 21.500 | 148,350 |
| Control Data Corp. | 3,600 | 45.250 | 162,900 |
| CPC International Inc. | 5,000 | 38.500 | 192,500 |
| Cummins Engine Inc. | 2,000 | 38.50 | 192,500 |
| Dart & Kraft Inc. | 3,600 | 66.625 | 239,850 |
| Deere & Co. | 3,200 | 38.50 | 123,200 |
| Dow Chemical Co. | 16,900 | 33.375 | 564,038 |
| dresser Industries Inc. | 8,400 | 20.750 | 174,300 |
| E.I. DuPont | 19,600 | 52.00 | 1,019,200 |
| Dun & Bradstreet | 3,700 | 62.00 | 229,400 |
| Eastman Kodak | 13,600 | 76.125 | 1,035,300 |
| Eaton Corp. | 4,600 | 55.25 | 254,150 |
| Englehard Corp. | 7,100 | 38.50 | 273,350 |
| Exxon Corporation | 72,000 | 37.375 | 2,691,000 |
| Firestone Tire | 9,100 | 22.250 | 202,475 |
| Fluor Corp. | 17,000 | 17.250 | 293,250 |
| FMC Corp. | 4,300 | 46.125 | 198,338 |
| Ford Motor Co. | 14,950 | 42.375 | 633,506 |
| Foster Wheeler Corp. | 12,800 | 15.50 | 198,400 |
| Fruehauf Corp. | 4,600 | 46.50 | 213,900 |
| Gen. Electric Corp. | 37,300 | 58.625 | 2,186,713 |
| Gen. Motors Corp. | 25,900 | 74.375 | 1,926,313 |
| Gillette Co. | 3,400 | 48.625 | 165,325 |
| Goodyear Tire | 8,200 | 30.375 | 249,075 |
| W.R. Grace & Co. | 2,600 | 45.25 | 117,650 |
| Hewlett-Packard Co | 20,600 | 42.375 | 872,925 |
| Honeywell Inc. | 2,400 | 130.00 | 312,000 |
| Hughes Tool Co. | 7,900 | 20.875 | 164,913 |
| Ingersoll Rand Co. | 2,300 | 52.375 | 120,463 |
| Int. Business Machines | 50,100 | 122.00 | 6,122,200 |
| Int. Tel. & Teleg. | 11,200 | 44.750 | 501,200 |
| Int. Flavors and Frag. | 5,200 | 27.25 | 141,700 |
| Johnson and Johnson | 15,700 | 40.875 | 641,738 |
| Joy Mgf. Co. | 6,600 | 30.250 | 199,650 |
| Kellog Co. | 5,000 | 32.375 | 161,875 |
| Kimberly-Clark Corp. | 1,700 | 92.00 | 156,400 |

Corporate Stocks (Permanent Fund) continued

| <u>Company</u> | <u>Shares</u> | <u>Current Price</u> | <u>Market Value</u> |
|-------------------------|----------------|----------------------|---------------------|
| Marriot Corp. | 2,100 | 71.25 | 149,625 |
| Martin-Marietta | 4,350 | 35.75 | 155,513 |
| McGraw Hill Inc. | 2,700 | 42.25 | 114,075 |
| Merck & Co. Inc. | 6,100 | 90.375 | 551,288 |
| Minnesota Mining & Mfg. | 9,700 | 82.50 | 800,250 |
| Mobil Corp. | 34,400 | 28.75 | 989,000 |
| Monsanto Co. | 2,700 | 105.25 | 284,175 |
| Motorola Inc. | 2,600 | 136.25 | 354,250 |
| Nabisco Brands | 3,200 | 41.00 | 131,200 |
| NCR Corp. | 1,900 | 128.00 | 243,200 |
| Newmont Mng. Corp. | 2,900 | 50.75 | 147,175 |
| Pepsico Inc. | 6,100 | 38.25 | 233,325 |
| Perkin-Elmer Corp. | 5,500 | 29.375 | 161,563 |
| Pfizer Corp. | 10,400 | 35.75 | 371,800 |
| Phibro-Soloman | 11,500 | 31.875 | 366,563 |
| Revlon Inc. | 3,500 | 33.00 | 115,500 |
| Rohm & Haas Co. | 1,700 | 60.75 | 103,275 |
| Schering Plough Corp. | 4,000 | 37.25 | 149,000 |
| G.D. Searle & Co. | 2,300 | 43.875 | 100,913 |
| Sedco Inc. | 7,700 | 37.50 | 288,750 |
| Smithkline-Beckman Co. | 6,900 | 56.50 | 389,850 |
| Sperry Corp. | 4,000 | 47.125 | 188,500 |
| Squibb Corp. | 2,600 | 45.625 | 118,625 |
| Standard Oil, Ohio | 20,900 | 44.75 | 935,275 |
| Stauffer Chemical | 6,400 | 25.00 | 160,000 |
| Sterling Drug Co. | 6,000 | 27.125 | 162,750 |
| Tenneco Inc. | 9,100 | 41.00 | 373,100 |
| Time Inc. | 9,100 | 62.875 | 239,925 |
| Timken Co. | 2,600 | 64.75 | 168,350 |
| Union Carbide | 1,600 | 82.50 | 132,200 |
| United Tech. Corp. | 3,600 | 72.50 | 261,000 |
| Upjohn Corp. | 2,100 | 59.25 | 124,425 |
| Warner Communications | 5,200 | 26.875 | 139,750 |
| Warner Lambert Co. | 5,500 | 29.625 | 162,938 |
| West Point Properties | 3,800 | 51.500 | 195,700 |
| Westinghouse Corp. | 5,700 | 54.75 | 312,075 |
| Xerox Corp. | 10,300 | 49.50 | 509,850 |
| Total | 830,550 | | \$40,138,020 |

Corporate Stocks (PERS)

| <u>Company</u> | <u>Market Value</u> |
|---------------------------------|---------------------|
| American Cyanamid | \$ 1,125,000 |
| Boeing Co. | 1,185,625 |
| Champion Int. Corp. | 698,775 |
| Colgate Polmolive Co. | 191,350 |
| Control Data Corp. | 588,250 |
| Dart & Kraft | 766,188 |
| Dresser Industries | 1,630,950 |
| Eastman Kodak | 738,415 |
| Exxon Corp. | 317,688 |
| FMC Corp. | 733,388 |
| General Electric Co. | 1,530,113 |
| General Motors | 4,246,113 |
| Goodyear Tire & Rubber | 753,300 |
| Honeywell | 1,209,000 |
| International Business Machines | 6,600,200 |
| Int. Mineral & Chemical | 563,875 |
| Martin Marietta Corp. | 321,750 |
| McDermott International | 174,125 |
| Motorola | 1,090,000 |
| NCR Corporation | 1,728,000 |
| Phillips Petroleum | 600,300 |
| Pfizer | 1,036,750 |
| Phibro-Soloman | 1,306,875 |
| Sperry | 570,213 |
| Sterling Drug | 235,988 |
| Westinghouse | 1,204,500 |
| Xerox | 683,100 |
| TOTAL | <u>\$30,453,427</u> |

Corporate Stock (TRS)

| <u>Company</u> | <u>Market Value</u> |
|--------------------------|---------------------|
| American Cyanamid | 1,125,000 |
| Boeing | 1,185,625 |
| Dresser Industries | 1,531,350 |
| General Electric | 1,500,800 |
| General Motors Corp. | 3,491,875 |
| Honeywell Inc. | 1,209,000 |
| Int. Business Machines | 5,904,800 |
| Intl. Mineral & Chemical | 563,875 |
| Motorola | 1,090,000 |

Corporate Stocks (TRS) continued

| <u>Company</u> | <u>Market Value</u> |
|----------------------------|---------------------|
| NCR Corp. | 1,792,000 |
| Pfizer | 1,100,725 |
| Phibro Soloman Inc. | 1,310,062 |
| Westinghouse | 1,204,500 |
| Colgate Polmolive | 167,700 |
| Control Data Corp. | 398,200 |
| Dart & Kraft | 646,263 |
| Eastman Kodak | 593,775 |
| Exxon Corporation | 265,363 |
| EMC Corporation | 608,850 |
| Goodyear Tire & Rubber Co. | 601,425 |
| Phillips Petroleum | 496,800 |
| Sperry Corp. | 471,250 |
| Sterling Drug Inc. | 206,150 |
| Xerox | 549,450 |
| TOTAL | <u>\$28,375,838</u> |

Disinvestment Is Anti-Black

By MANGENITHU G. BUTHELEZI

In the struggle for liberation any black leader worthy of the title recognizes that the responsibility for bringing about radical change in South Africa rests on black shoulders. It is a South African struggle, and blacks have to lead in that struggle until we pass the point where the drive for improvements becomes nonracial. We have to shape events in our own chosen direction, and we have to fashion our society after the models that we ourselves emulate.

It must not, however, be forgotten that in life and death situations decency is so often under siege. Bloody revolutions fought against terrible oppression do not automatically bring about great improvements. Decency in South Africa is under siege at the moment in the sense that decency and democratic nonviolent opposition to apartheid are under threat by white recalcitrance, which is polarizing society and driving blacks to despair and anger. Decency is also under siege in the sense that time-honored civilized values and Western democratic principles are being viewed as impotent by an ever-increasing number of blacks. The struggle for liberation in South Africa still could take ugly turns; the prospects of widespread devastation of property and a sharp escalation of violence leading to a race war remain an ever-present possibility.

Need All-Party Attempt

It is against these background thoughts that I ask Americans to consider attitudes toward investment in South Africa, and attitudes toward President Reagan's constructive engagement policy. As a black leader I cannot be jubilant yet about the Reagan administration's South African policy. We don't know yet what deeds will be added to words, but we are aware that sufficient political time has not passed for anybody to make judgments on Mr. Reagan's approach to South Africa. As a black leader I must welcome his attempt to formulate a South African policy for the first time in the U.S.'s history, even if it has not yet been demonstrated that the U.S. government and the American people have the will and the ability to take South African issues out of U.S. party politics. Black South Africans still don't know whether petty politicking between Democrats and Republicans will turn apartheid into an American political football for party gain.

I make the point that for the U.S. the South African situation is distant and unimportant. The remoteness of South African issues from the daily vested interests of U.S. citizens does not demand that any U.S. government make more than vague moral pronouncements on what should and should not be happening in my country. The South African issue, however, does challenge Americans' moral fiber and the U.S.—as the world's leading democracy—should make an all-party attempt to side with the oppressed in South Africa.

This thought, however, does not belie the fact that medium- and long-term economic developments in South and Southern

Africa have implications for U.S. interests. South Africa after liberation will be a great gateway to the African hinterland where the process of industrialization must inevitably be talked of in terms of many millions of dollars. At this juncture, however, the immediate challenge to the U.S. is a moral challenge.

If we are to avoid a destructive conflagration of forces in South Africa, the process of change in the country must be speeded up. I fail to see how those who agree with this statement can possibly talk of our effective economic isolation. Isolation will bring stagnation to the economy and perhaps even destroy its growth base. Yet it is in the circumstances of a rapidly expanding economy, where the interdependence of black and white is vastly increased, that the propensity of the country to change is enhanced. Black vertical mobility is a concomitant of economic growth. Anybody who knows anything about a soci-

large American companies to opt out of the South African situation is to opt out of the prospects of being catalysts in the process of change.

Increased economic investment in South Africa by U.S. companies associated with a U.S. constructive engagement policy with real meaning is a moral option that the U.S. now has. In the circumstances that now appertain, withdrawal of investments in South Africa by Americans is a strategy against black interests and not a punitive stick with which to beat apartheid.

Life and Death Difference

There is a great deal of genuine interest in South Africa among many Americans, but I really am fearful that the upsurge of the current debate on the disinvestment issue and on Mr. Reagan's constructive engagement policy is in part fired by Americans for Americans on American issues. Apartheid should be more than some kind of looking glass in which Americans see themselves. Apartheid is real; it is out there and millions of black South Africans suffer indescribably under it. Americans should profess a humanitarian approach to the question of what the U.S. should do about apartheid. To stand on American indignant principles by withdrawing diplomatically and economically from South Africa is a luxury that the vastness of American wealth could afford. But indulgence in that luxury for the sake of purity of conscience, whatever genuine motives produce that conscience, would do no more than demonstrate the moral ineptitude of a great nation in the face of challenges from a remote area of the globe.

Black South Africans have to confine their options to realities, and we have to seek to bring about radical change in such a way that we do not destroy the foundations of the future. More than 50% of all black South Africans are 15 years old or younger. A huge population bulge is approaching the marketplace. To greatly exacerbate unemployment and underemployment, and to greatly increase the already horrendous backlog in housing, education, health and welfare services, would be unforgivable. Millions of black South Africans already live in dire squalor in squatter areas and in shantytowns. Jobs make the difference between hunger and starvation and between life and death. For Americans to hurt the growth rate of the South African economy through boycotts, sanctions and disinvestment would demonstrate a callous disregard for ordinary people, suffering terribly under circumstances that they did not create, and would be a gross violation of any respect Americans may have for the principle that people should be free to exercise their rights to oppose oppression in the way they choose. Black South Africans do not ask Americans to disinvest. The strident voices calling for confrontation and violence are the voices most dominant in calls for disinvestment.

To stand on American indignant principles by withdrawing diplomatically and economically from South Africa would only demonstrate the moral ineptitude of a great nation.

ety such as ours will know that the ceilings that apartheid imposes on this vertical mobility, produce the rubbing points that mobilize opposition to apartheid where it is most vulnerable.

Apartheid has lined white pockets and succored white privilege. When white privilege and standards of living are threatened through the prosperity of blacks and there is a rising claim to recognition, then the prospects of negotiated advances are the greatest. While protected by a wide range of apartheid measures, big business in South Africa has for decades sided with the oppressor and exploited black South Africans unmercifully.

That era has passed. No big business today can secure future plans without challenging apartheid. It was the large corporations that broke the apartheid barriers that led to real advancements for black workers. Ford Motor Co.'s bold indenturing of black apprentices against the law hastened the day when job reservation had to be abandoned. Progressive managements talking, dealing and negotiating with workers hastened the day of black trade-union recognition.

It is big business that keeps institutions such as the Institute of Race Relations alive, and it is very often big business that provides the financial muscle to challenge the government in the courts on civil-rights issues, on labor issues and on contradictions and ambiguities in law; and it is international capital that can back educational and development programs. For

Mr. Buthelezi is hereditary leader of the Xhosa people of South Africa.

Fact Sheet Regarding South Africa And My Recent Visit There

By Jerry Falwell

WHY DID WE GO TO SOUTH AFRICA?

In recent years, I have watched the entire continent of Africa threatened by Communist takeover. It has broken my heart to watch the Soviets and the Cubans steal nation after nation across Africa. This must not happen to South Africa!

Several basic statements are provided below to offset the erroneous media reports about my reasons for going to South Africa and my personal convictions on the critical policies and conditions in that globally strategic nation.

1. Nine pastors and religious leaders left New York for South Africa on this fact-finding mission on Wednesday, August 14, 1985. We did not talk in advance with the American or South African governments. We wanted to find out the facts for ourselves with no political pressure being imposed upon us. The persons making the tour were Rev. Jerry Prevo, Anchorage, Alaska; Dr. Ben Armstrong, National Religious Broadcasters' Director; Rev. LaVerne Butler, Louisville, Kentucky; Rev. Don George, Dallas, Texas; Rev. Ron Adrian, New Castle, Delaware; Rev. Marvin Rickard, Los Gatos, California; Rev. Jerry Falwell, Lynchburg, Virginia; Rev. E. G. Robertson, Miami, Florida; and Dr. Ronald Godwin, Washington, D.C. Also on the tour were Cal Thomas, *Los Angeles Times* syndicated columnist, John Lofton of the *Washington Times*, and my son Jerry Falwell, Jr.
2. Every person on this fact-finding mission vehemently opposes the repressive policy of apartheid—and said so repeatedly to every person and group with whom we met.
3. We went to South Africa to determine how American Christians could best accomplish three goals:
 - A. Bring an expeditious end to apartheid;
 - B. Provide humanitarian and spiritual help to the suffering blacks, coloreds, and Indians of South Africa (as we are now doing in Sudan and Ethiopia); and
 - C. Prevent the fall of South Africa into the Soviet orbit.

FUNDAMENTAL FACTS ABOUT SOUTH AFRICA TODAY

1. South Africa does, indeed, operate a racially unfair social and political system called apartheid. I AM against apartheid!
2. South Africa is torn by civil unrest. This is being instigated primarily by Communist-sponsored persons who are capitalizing on many legitimate grievances that are created by apartheid, unemployment, and police confrontations.
3. The Marxist-leaning organizations—African National Congress (**ANC**), United Democratic Front (**UDF**), and **AZAPO** are constantly creating violence and bloodshed among the blacks of the country who are the true victims.
4. The National Party is in power. President P. W. Botha is perceived by many non-whites as attempting to move his National Party away from a radical apartheid position toward the creation of a consensus government where **all** South Africans participate in the political process. We left South Africa believing this to be the case.
5. Because of President P. W. Botha's efforts toward reform and democracy, his own National Party has split. Now the extreme right wing of his party is attempting to oust Botha and take over the government. For that reason, President Botha must move carefully toward accomplishing reforms—or else lose the presidency. This could mean a total reversal of direction for the government as it attempts to bring democracy to South Africa.
6. The South African population is 30 million. The breakdown on the population is as follows: Blacks—20 million (in 10 tribes); Coloreds—3½ million; Indians—1 million; Whites—5½ million.
7. The Dutch Afrikaners (whites) arrived in Capetown, South Africa, in 1652. More than 100 years later, they encountered the first major black settlements. They did not displace natives, as early Americans did. **They are not colonialists.**

8. Sanctions against the South Africans by the United States and disinvestment by American business will, in my judgment, eliminate all leverage we might have toward pressuring the Pretoria government to abolish apartheid as rapidly as politically possible. Worse than that, the non-whites, in unison, advised us that sanctions and disinvestment cause unemployment among poor blacks—which then causes starvation, violence, and bloodshed—while doing little or nothing toward effecting governmental policy changes.
9. The non-whites advised us that Bishop Tutu and Rev. Allan Boesak speak for the South African Council of Churches (a part of the World Council of Churches). While they speak respectfully of Bishop Tutu, they reminded us that these religious leaders do not speak for the majority of the poor non-whites of South Africa.
The non-whites are upset that the international media always go to those pastors of the South African Council of Churches when they want to know what the blacks are thinking—instead of going to the people themselves.
10. One and a half million blacks from other countries like Mozambique, Lesotho, Swaziland, Zimbabwe, and Angola are now in South Africa (some illegally) in order to find work and support their families in their homelands. Disinvestment will eliminate these jobs for 1½ million aliens. Each of these workers provides food and clothing for six others. Millions would be hurt by disinvestment.

HOW CONCERNED AMERICANS CAN HELP SOUTH AFRICA SOLVE ITS RACIAL AND POLITICAL PROBLEMS

The pastors and religious leaders who participated in the recent fact-finding mission to South Africa returned to America with certain determinations as to how we might become part of the solution in this troubled nation on the African continent.

1. We must organize a massive prayer effort for South Africa. God-fearing Americans must pray daily for the 30 million South Africans, of all colors, who are going through a very stressful experience. We must pray that South Africa will achieve racial equality and will not follow the example of other nations that have fallen into the hands of the Soviets and the Cubans.

We must also pray, in obedience to I Timothy 2:1-2, for the leadership in South Africa. We must pray that God will move upon the hearts of every member of the Pretoria government so that proper decisions and bold, responsible action will be taken toward guaranteeing freedom and democratic opportunities for all citizens there.

We must likewise pray for President Reagan and the United States Congress that they will carefully, yet courageously, move toward helping South Africa eliminate discrimination while avoiding a Communist takeover.

In simple terms, we must commit ourselves to the removal of the "cancer" without killing the patient.

We believe apartheid can be eliminated without losing South Africa to Communism. The United States and the free world will suffer greatly, not to speak of the horror for 30 million South Africans, if we do not ask God to perform a miracle in this great nation.

2. Pastors and religious leaders must educate the American people, beginning with our own congregations, as to the complexities of the problems in South Africa. Most Americans, because of distorted press information, feel that the South African racial problem is identical to the American one. This is not so.

The ten black tribes, totaling 20 million persons, are in many cases hostile toward each other. Few, if any, of these tribes would want one man, one vote government. They would never have another, larger tribe rule over them.

Likewise, the coloreds and Indians have unique political problems and needs. All minority groups in South Africa, including the whites, agree that a consensus government is the only answer. They agree that no one minority may rule over all the rest. This is a bold declaration for the Botha government to make. But a consensus type government is where all hope lies.

3. We must communicate with our two U.S. senators and congressmen and urge them to oppose sanctions and disinvestment because of the great injury the sanctions will inflict upon the blacks of South Africa and their children. A vote for sanctions is a vote against the poor and needy non-whites of South Africa.
4. We should, if possible, accelerate investments in South Africa, including the purchase of Krugerrands, because this inevitably improves the standard of living for non-whites in South Africa.

Economic muscle gives blacks a new chance

THE STAR

Johannesburg

July 16, 1985

What can be done by the West to speed up the dismantling of apartheid? Many options are presently under consideration, with disinvestment and sanctions much to the fore: campaigns for such actions have indeed reached tidal wave proportions in the US. Let me say at once that if I thought these would work, they would have my unconditional support.

Not only do I not believe these campaigns would be effective — I believe they would be counter-productive.

I understand, respect and do not argue against the moral motivation for disinvestment and sanctions. But, once gone from the scene, any influence that may have been exercised has gone too: any good that may have resulted from quiet diplomacy, or Codes of Employment Conduct for Companies with Interests in South Africa (as adopted by the European Community) will go by the board.

The Sullivan and European Community Codes have certainly made businessmen more conscious of their social responsibilities, and have led not only to improvements in employment practices, but also to assistance in education and housing for employees and their families.

And more recently — perhaps because of the threat of disinvestment — organised business as represented by the Chambers of Commerce and Industry, have expressed their objections to the detention of trade unionists and are pressing for the repeal of influx control.

The vacuum left by the withdrawal of US and European firms will be filled — if it is filled at all — by companies with less interest in the welfare of their black employees. Moreover, if it is fondly imagined that the South African Government will buckle under such pressure and abandon apartheid faster than it intends to do, this illusion should be immediately dispelled. Far more likely, far more in keeping with the temperament of the Government and of the majority of the white inhabitants, would be the development of a siege mentality.

Nor should the idea that

economic hardship would lead to a successful black revolution, followed by a black majority socialist government to replace the white capitalist regime, be seriously entertained — it just is not on, as anyone acquainted with the ferocity and determination of the South African Army and police will agree. Nor incidentally, is there any guarantee that the replacements would be any better or more democratic than the present regime, should a revolution succeed.

That disinvestment, lack of foreign capital and imposition of sanctions would be effective as a punitive measure is, of course, undeniable. But it would not be selective of its victims.

Indeed, although white South Africans would be affected, the major sufferers would be black — South African blacks and also blacks from neighbouring states in southern Africa which are heavily dependent on South Africa for financial aid, grants, markets and jobs, some of which countries, like BSL countries, are also part of a customs union with South Africa, and are linked to the rand monetary system.

Blacks don't care if there is mass unemployment," people say.

My main opposition to disinvestment or sanctions or any steps to inhibit economic expansion of South Africa, is that such action blunts the only weapon that blacks have — the economic muscle that accompanies upward mobility on the economic ladder.

And I say (who am on the receiving end of many requests from recent job losers for assistance in obtaining jobs) that blacks who don't care are those whose jobs are not endangered or who have never had a job to lose.

However, my main opposition to disinvestment or sanctions or any steps that inhibit economic expansion of South Africa, is that such action in fact blunts the only weapon that blacks have, or are in the process of acquiring — the economic muscle that accompanies upward mobility on the economic ladder by virtue of greater skills and increased consumer power.

Slowly — too slowly, but nevertheless surely — blacks are obtaining the leverage with which

to demand redress in the imbalances in power and wealth and privilege in South Africa.

It is totally counter-productive to put obstacles in the way of the economic forces which so far have led to those changes which are more than cosmetic — trade unionism, skilled job opportunities, urbanisation.

And it is counter-productive to drive whites, a growing number of whom are increasingly disillusioned with apartheid and who have begun to accept power-sharing, back into the laager.

I have to admit I really resent the way in which people living many thousands of miles away from South Africa totally ignore the hundreds of thousands of white South Africans who abhor race discrimination, and who have been fighting apartheid for many years.

The Progressive Federal Party, with its policy of no statutory discrimination and full adult suffrage with no domination,

obtained 20 percent of the votes of the white electorate at the last election.

We will do better next time, but not if the country is under grave economic stress — liberalising forces are not strengthened in such circumstances.

So what in fact can or should the West do to help bring apartheid to an end without causing chaos in South Africa? Firstly I must say there are limits to what can be done from outside if peaceful reform is the objective.

Most helpful would be for Western interests to stay in South Africa and use their concerted influence with the Government in particular and with white South Africans in general.

In an address to the European Democratic Group in Luxembourg last week, veteran Progressive Federal Party MP, Mrs Helen Suzman, made it clear that she was not in favour of disinvestment as a means of achieving change in South Africa. She outlined instead a three-point plan with which she believes the European Economic Community could achieve far more positive results.

Contact, not isolation, is needed. In one area only — sport — has isolation been successful in helping to break down segregation. It worked because of South Africa's longing to get back into international sport, but also because desegregation in sport did not affect the power structure. I might add that the fact that there have been no rewards forthcoming in sport is not conducive to South Africans making changes in other respects.

I think European firms should accelerate their efforts to uplift black participation in the South African economy. The latest report on the implementation of the Code by British firms is quite healthy. I don't know what the position is regarding other countries in the EEC, but all firms not adhering to the Code should have penalties imposed on them.

The US is considering making the Sullivan Code compulsory for American firms in South Africa. I appreciate the problems in monitoring, but certainly there have been positive results from all the codes, and this should be considered.

You should all raise your voices long and loud against apartheid in general, and in particular against any outrageous actions by the South African Government. Never mind about double standards — South Africa claims to have Western values and as such must be judged.

I have no doubt whatever that protest by Western envoys helped to unban people like Beyers Naude, and was instrumental in freezing forced removals such as at Crossroads.

The South African Government is more sensitive than you think. It does not enjoy being a pariah. It would like to be welcomed back into the Western community of nations.

But not at any cost.

Rather should you aim at attainable objectives than adopt measures that could reduce the country to economic chaos, with totally unpredictable consequences.

U.S. investment in South Africa

- the \$2,5 billion question

The basic issues under debate

Hugh Murray, editor and publisher of the authoritative quarterly magazine "Leadership SA" interviewed some personalities closely involved.

There are indications that the debate on disinvestment or, to put it more correctly, the limitation of United States' investment in SA, is gathering momentum; and a victory for US presidential candidate Walter Mondale in November could certainly see this campaign intensify.

But the views of many personalities central to this polemic who could influence events from outside South Africa reflect considerable divergence, and pose a real question: Will the disinvestment lobby ever be able to organise itself sufficiently to convince the US government to back it convincingly?

Even Democratic Representative Stephen Solarz, architect of the Solarz Bills on limitation of investment in SA conceded to me that there would be compromise.

He went even further when asked about how much of the

US corporations have invested some \$2,5 billion in South Africa. Because of that country's internal policies pressure is being applied for the withdrawal of US investment from South Africa and, more immediately, for an investor boycott of the US corporations involved.

The following pages set out the case for continued investment in South Africa. Contributions have come from widely differing sources—among them heads of neighbouring southern African states, a black South African politician, a white civil servant, a US corporate spokesman and a black South African trade unionist.

Their views represent no consensus except, perhaps, the fact that disinvestment is more likely to harm those it is intended to help.



legislation would be approved. "I suppose I have as much chance of getting all this legislation through as Chief Galsha Buthelezi of the Zulus has of persuading Prime Minister P. W. Botha to hold a National Convention."

Solarz adds, however, that he is more hopeful now than ever that he will be able to come out of the conference committee with some legislation which those who have been behind his efforts will consider truly meaningful.

He explains: "We fundamentally reject the view that American investment can play a significant role in serving as a catalyst for major change in South Africa. But just as I reject the argument of those who believe that increasing American investment will bring about fundamental change, I also reject the argument of those who say that by withdrawing all American investment we can bring about this change. I do think, however, that restricting additional investment can have a useful political impact in a number of ways.

"Firstly it would serve notice on the white establishment in South Africa that it cannot hope for any significant or sustained relationship with the US so long



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as apartheid continues. In that sense I think it will help to eliminate whatever illusions may have been created by the policy of constructive engagement. Secondly I think it sends a useful signal to the black majority in South Africa that the US is on the side of change rather than of the status quo. If one assumes as we do that sooner or later the black majority will be in a position to determine the destiny of South Africa, our prospects for a constructive relationship with South Africa will be enhanced if the black majority feels we have been working in this direction."

Congressman Solarz seems to have found an important Southern African convert in the President of Zambia, Dr Kenneth Kaunda. Asked for his views on US moves to limit investment in South Africa in the light of current peace initiatives in Southern Africa, President Kaunda said: "I remember one very prominent leader of a multi-national organisation asking me this question as far back as 1960. I told him then that this would hurt the black masses of our people more than the white oppressors. Since then Zambia has had the opportunity to participate in British initiated UN sanctions against the then Rhodesia led by Ian Smith. Because of the lessons learned from that struggle I no longer quite think the way I did in 1960.

"The US and her Western allies directly support South Africa politically, diplomatically, economically, socially, culturally, scientifically and technologically, as well as in matters

of defence and security. This is total support.

"But the West, led by the United States of America, has a direct responsibility to those who are oppressed in South Africa, and if economic sanctions against modern Poland were in defence of human rights, if intervention in Nicaragua is in defence of human rights, if the smashing of Grenada is in defence of human rights (not that I accept any of these theses), then the least we can expect from the United States is a limiting of investments in SA."

Mr David Rockefeller, an old friend of President Kaunda and confidant of many African leaders, has a different view. Says Rockefeller: "I feel very strongly that American investment in South Africa can be used and indeed has been used, through the Sullivan Principles and other ways, to bring about significant modifications in the treatment of Blacks in South Africa. I am all in favour of accelerating that process because I believe that the real hope for a basic change, in the attitude of Afrikaners in South Africa toward apartheid, is not likely to come if there is not progressive improvement in the economic well-being and education of blacks. I think this will force ultimate change even though at the moment they are still not prepared to talk about such change."

"I should add though that one of the greatest irritants on the disinvestment issue is the policy of forced removals. This is viewed – correctly I believe



Mr David Rockefeller – former Chairman of the Chase Manhattan Bank.

– as a particularly flagrant example of the abuse of human rights. Each example of this strengthens the forces favouring disinvestment and undermines those who favour a more constructive course of action. I am afraid the disinvestment lobby is gaining a new momentum and I think this is a great pity."

The Republican administration generally takes a similar line on this issue. While rejecting the South African system as repulsive it believes the continuation of constructive engagement is central to stability and reform in the region.

One of the most articulate proponents of this view is Alan Keyes, US Ambassador to the United Nations responsible for dealings with the Third World. Keyes, a 32 year old black Harvard PhD, reports to Jean Kirkpatrick. Keyes accepts that apartheid is a system which evokes great passion. Indeed he has visited South Africa and says he had a very slight taste

of what it must be like for local Blacks.

"By the end of my visit there was nothing but emotion – raw emotion," he told me. One need only experience a few of the indignities that exist in that society in order to project some sense of what the full weight of suffering must be like. It didn't take me very long to appreciate how much greater it must be for those who live with oppression on a daily basis. It seems to me, however, that different people deal with that in different ways."

His problem, he maintains, lies in how to approach the matter.

"I mean, would one celebrate the independence of a South African majority regime amid the rubble of South African hopes and progress – the hopes and progress of Blacks as well as Whites in South Africa. On balance, it's not clear to me that this would be a net gain for the people in South Africa, or for the people of the region who would lose the tremendous potential that South Africa represents. So what I think of as the isolationist approach really strikes me, in a way, as sacrificing a great many of the values we are pursuing for the progress of the black people of South Africa.

"Those economic forces which are building this society are also ones that are making it more difficult to sustain the unjust apartheid system. Therefore, the question I would have to ask is, how do you encourage that? The answer seems to me to lead in a direction quite opposite to the one which concludes that foreign companies should get out, disinvest,

"Practically every major step forward [in the whole history of racial progress in the US] was linked with economic progress. . . . The opening up of equal opportunities for black Americans . . . could have happened only against a background of growth, while [it] would have been unthinkable during the depression. Economic growth did not strengthen the system of institutionalized racism in the US: it effectively destroyed it."
Herman Nickel—FORTUNE, June 1978.

and have nothing to do with South Africa. The more we try to point this activity in the direction of positive change in political and social relationships within South Africa, the more we are doing to put real pressure on the system of apartheid.

"And when I say pressure on the system of apartheid that should not be construed as pressure on the South African government or pressure on white South Africans or anything like that, because it seems to me, and my experience in South Africa has confirmed it, that all human beings after a certain point become the victims as well as the creators of their circumstances. They reach a point at which whatever may be their wish today, their history puts them in a position that makes it very difficult for them."

There can be little doubt that disinvestment, or even limitation of US investment, would have a serious effect on general business confidence in South Africa. It is widely accepted within and without the country that big business in the region has been the most potent of all forces for change. A blow to private enterprise, in the view of many, could slow down the process of reform. Dr. Chester Crocker, US Assistant Secretary of State for Africa, sums up the role of free market and private enterprise in the region succinctly.

Explains Crocker: "Clearly, the role of private enterprise is central. It is the only system that works. By generating growth it generates jobs and rewards. It brings into play new demands for qualified manpower. It

provides a basis for creative foreign involvement – the flow of ideas, know-how, technology and capital. It also serves as the basis for the constructive cross-border links between neighbours." ■

Disinvestment – why I must say no



Mangosuthu G Buthelezi – Chief Minister of KwaZulu, President of Inkatha and Chairman of The South African Black Alliance.

On 15 April this year in Soweto, a sprawling township outside Johannesburg, more than 12 000 black South Africans roared "No" to disinvestment as a strategy against the government's abhorrent apartheid system.

I was addressing a prayer meeting of working-class blacks, people typical of the hundreds of thousands of others whom I address throughout the country every year.

For me, the first question that must always be asked in the disinvestment debate is what the people of South Africa themselves say about it. I have

yet to meet a humble worker who does not echo the sentiments of my Soweto audience.

How can I give approval to pressures regardless of the suffering they will entail for my people? I cannot bring myself to tell the poor of this country that I am working for the cessation of foreign investment in South Africa, investment which means jobs for the unemployed, clothes for the naked and food for the hungry.

We blacks manage to do the little we can towards our liberation and the welfare of our families *because* of the meagre investment that comes our way. Investment is, in fact, a strategy for liberation.

Every foreign investor who has created employment opportunities in South Africa knows that every Monday morning there are hordes of unemployed at the factory gates seeking jobs. These people need a cash wage so they and their families can survive. Only when there is food in their bellies can they afford to take the time to consider their political horizons.

There are more than 20 million blacks in South Africa. I am the Chief Minister of KwaZulu, a so-called "homeland" where six million men, women and children eke out a living mostly as subsistence farmers, laborers, domestic and clerical workers and so on. The desperate poverty of these people can be seen in the 1980 census figures, which reveal that 50 per cent of KwaZulu's rural population earned less than \$650 a year and 50 per cent of urban

dwellers less than \$1 500 a year.

People starve to death in KwaZulu.

The isolation of South Africa and the crippling of its economy seem to many to be a moral course of action. I understand the moral indignation of the world and I am glad for it. However, disinvestment is a wrong strategy, a misguided strategy, and will do nothing to aid the struggle for liberation within the country.

It is a historical truism that every oppressed people have the responsibility for liberating themselves. Black South Africans have to conduct their own struggle to achieve their own victories and to establish a just, open and race-free society in their own land of birth. The liberation of South Africa cannot be achieved from without and it cannot be achieved by forces in the international community. Essentially apartheid must be defeated on the domestic front by people in the country pursuing strategies and tactics that are most effective on the fronts where they struggle in their day to day lives.

I claim considerable knowledge of the feelings of ordinary blacks because I wear another and more important hat than that of Chief Minister. I am President of Inkatha, a liberation movement of more than 900 000 members. Inkatha is the biggest political organisation in the history of South Africa, and we have debated the issue of disinvestment at several of our congresses. Delegates from more than a thousand Inkatha branches scattered throughout

“People in the US are demanding two totally contradictory things. On the one hand they want to help the blacks by not investing in South Africa and, on the other, they demand that wages and other conditions be improved. But you cannot achieve improvements in the field of wages and other working conditions if industry is not registering a steady growth. The only way to bring about peaceful change is to allow a modern economy to build up which cannot exist without the participation of vast numbers of black people holding down skilled and highly paid jobs.”
Harry Oppenheimer, former Chairman of Anglo American Corporation of South Africa.



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the country report total opposition to the whole idea.

I felt bound to make it clear, and I will reiterate, that the present government's commitment to racist politics is giving rise to deepening black anger. As anger deepens so will black politics become increasingly careless about the economic consequences of black political action.

If change is not brought about by democratic and non-violent opposition to apartheid (principles of Inkatha) then it will sooner or later be brought about by violent means. That there will one day be a new dispensation in South Africa there is no doubt. But what sort of South Africa will we all inherit in which to share power?

It is unfortunate that many people who are in the forefront of the disinvestment campaign rely on the ANC for their guidance. My brothers and sisters in exile are sadly out of touch. They forget that most of us work, live and die within the borders of apartheid South Africa. I must stress that we cannot afford to adopt the attitudes of theoreticians towards our own suffering.

Why are supporters of disinvestment so insistent on pushing disinvestment even with the knowledge that we blacks (whom they purport to be helping) are the ones who will suffer most? Already we fail to do more for ourselves because we are caught in the vicious cycle of poverty, ignorance and disease. Disinvestment would strip us bare. So I must conclude that those who advocate disinvestment do so in complete

disregard of what black people themselves think.

In a country such as ours you cannot have an expanding political vision in shrinking economic circumstances. Ever-increasing poverty is an increase in political radicalism.

We believe the struggle for liberation must be waged by the people of this country and we will continue to reject any suggestion that external forces should move in to rectify our position for us.

Dialogue between America and black South Africa needs to go far beyond intercourse between radical pressure groups in the US and protest black politicians in South Africa. American national interests and South African national interests are not served by pressure groups that reject black marketplace pragmatism in favour of the magnification of forces of conflict. ■

Rights through leverage

Mrs Lucy Mvubelo – General Secretary of the National Union of Clothing Workers.

The world has the impression that without external pressure no internal change will ever come about in South Africa. This assumption totally disregards the very powerful forces at play within the country itself.

I have spent my life in endeavouring to achieve trade union rights to assure all South African workers the necessary economic advancement and

security that would in turn give them the clout and leverage to gain the political rights now denied to black workers. This clout can be obtained only if South Africa remains economically sound. This approach is scoffed at by some of the leaders of the new emerging unions, who seem to think that their new-found power can succeed even with the total collapse of the economy. Do they think that unemployed workers will be union members who can be still called out on strike? How do they think they can motivate those still in employment to walk out of their jobs when they will readily be replaced by the starving jobless mass outside.

Are we blacks in South Africa to achieve our political rights on empty stomachs? Did not the Industrial Revolution in Britain, with very little violence, result in a democratic system and the extension of the vote to all? This history of the world must surely teach us that democracy and freedom can be achieved only within a climate of economic security? ■

US business – an effective force for constructive change

William J DeGenring – resident, American Chamber of Commerce in South Africa.

Since 1977 the US business community in South Africa has spent more than \$78 m helping to alleviate the plight of black South Africans. Americans have devoted much

of their resources to black education and training, to health care and housing for the poor and disadvantaged, and in the establishment of black-owned businesses. Through these black-owned businesses we are developing programs that will assist black entrepreneurs in acquiring US franchises, in setting up manufacturing operations under licence, and in expanding markets for their products both here and abroad.

Without question, the American business community is a strong, effective and contributing force for constructive change in South Africa. Highly visible programs catering to the needs of our employees have been established and these programs are being held as an example for other companies to emulate. We have produced highly skilled workers, supervisors and managers who are regularly sought after by other corporations. Collectively, corporations with American interests are spending millions every year in the development of a skilled work force.

Our facilities are totally integrated and compare very favourably with comparable facilities in the US. We place the same emphasis on the health and safety of our workers, and the same emphasis on individual achievement, as a basis for advancement. We pay equal wages for equal work. The color of one's skin has no role whatsoever.

The logic behind divestment as a means of improving the plight of black South Africans doesn't make any sense whatsoever. This is

// We know of no part of the world where American companies are doing more to promote equality and opportunity in the workplace than in South Africa. They are exerting an influence out of proportion to the size of US investments in the country. American business is evolving strategies than can make even greater progress and have an even stronger impact if its efforts are encouraged and supported in the United States. If moves to bring about disinvestment are successful then this progress will die. //
American Chamber of Commerce in South Africa.

precisely why we are committed to improving the quality of life for black South Africans. We will continue to help build schools and clinics, to create jobs and opportunities, and to help our employees improve their standard of living through education both here and in the US. We intend to continue to lead the way in wage standards so that our employees and their families can have the same things we want for our families – whether it be a home of our own, a new car or a new TV. ■

The ripple effect –

A southern African perspective on disinvestment



Dr Simon Brand – Economic advisor to the Prime Minister of South Africa and Chief Executive of the Development Bank of Southern Africa.

The arguments for disinvestment from South Africa usually focus on the effects it might have on the

South African economy and on ways in which they could lead to desirable social and political consequences in South Africa. However, a further dimension that cannot be ignored is the impact that disinvestment would have on the other countries in southern Africa. In this respect the following questions need to be addressed:

- Is the economic impact on other countries in the region a relevant issue in the disinvestment debate?
- How well equipped are those other southern African countries to cope with the effects of disinvestment from South Africa?
- Are the governments of those countries prepared to accept the consequences that disinvestment from South Africa is likely to have for their economies?
- Is there a reasonable prospect that those countries can be assisted effectively in coping with those consequences?

Economic interdependence in southern Africa

There is a high degree of economic interdependence between South Africa and the other countries in the sub-continent. Moreover, because of the relative size and diversification of the South African economy, that interdependence is of much greater direct significance for the other countries than for South Africa.

Only some 10 per cent of South Africa's merchandise exports are destined for markets elsewhere in Africa; very little, if any, essential South African

imports come from these countries, and although contract workers from several of the neighbouring countries used to make up a significant component of the labor force in certain sectors of the South African economy, their relative importance for those sectors has declined greatly in recent years. Even where South Africa makes use of infrastructure situated in neighbouring countries, such as hydro-electric power and transport facilities in Mocambique, it has alternative facilities at its disposal to meet its overall needs.

As against this, the much smaller and less diversified economies of the neighbouring countries rely much more strongly on the South African economy:

- Reliable transport routes through South Africa play a crucial role in providing countries such as Botswana, Lesotho, Swaziland, Zambia, Zimbabwe, and even Zaire with access to imports and to export markets.
- Mocambique depends to a large extent on South African traffic and maintenance support to utilize some of its important infrastructure facilities, such as the Maputo harbour and rail route and the Cabora Bassa hydro-electric scheme.
- South Africa is a reliable and in some instances the most important source of essential imports, not only of foodstuffs, but also of a variety of other products, such as consumer goods and mining equipment.
- Notwithstanding the declining role of foreign contract workers,

the South African economy remains an important, and in some cases a crucial provider of employment opportunities for workers from other countries in southern Africa. For every wage-earning job in Lesotho, six workers from that country are employed in South Africa for example, and the corresponding ratios are three to two for Botswana, and two to one for Swaziland. The wage remittances of these contract workers to their families make up a correspondingly significant proportion of the purchasing power in those countries.

□ Future development plans of several neighbour countries could be viable only with access to a healthy South African economy. Cases in point are a sizable soda-ash project in Botswana, which would have to sell virtually its whole output in South Africa, and the huge Highland water project in Lesotho, one of the very few possibilities for that country to generate income from its natural resources, but only economically viable if its water could be sold to South Africa.

Should disinvestment from South Africa be effective in harming the South African economy, these factors would ensure that every other country in the subcontinent would be harmed as well. For the smallest countries most closely linked with South Africa, the impact could be very severe indeed.

Development levels of southern African economies

As an upper middle-income country (GNP per capita

“The situation is agonising. But it is not static, it is churning. To say that it gives sufficient cause for despair is so palpably false as to be immoral. Back home, the House has passed a measure to force substantial American disinvestment in South Africa. When you ask about it here, almost all black and white anti-apartheid activists look at you like you're crazy. They cannot imagine why you would want to threaten the economic growth that has been the chief engine of racial progress.”

Suzanne Garment, Wall Street Journal columnist reporting from South Africa – March 2nd 1984.



U.S. INVESTMENT IN SOUTH AFRICA

US\$2 770 in 1981) in World Bank terms, with a diversified economy, South Africa could adjust to the effects of disinvestment on its economy by accepting a cut in the standards of living of the more well-off sections of its population, by shifting resources between different sectors of the economy and, if need be, by protecting employment opportunities for its own population through a further reduction in the number of contract workers accepted from neighbouring countries.

None of these adjustments would be possible for any of the other countries in the region – the least so for those that would be most seriously affected. Botswana, Lesotho and Malawi are classified by the World Bank amongst the least developed countries in the world, and all the others are in the lower middle-income groups of countries with GNP per capita well below or only just over US\$1 000 in 1981. Only Zimbabwe and Zambia have fairly diversified economies, but both have already had to cope with severe adjustment problems. The economies of Mozambique and Angola have been seriously run down by war conditions.

The views of southern African governments

Against this background it is not surprising that government leaders of virtually every country in southern Africa have either expressed themselves clearly against disinvestment from South Africa, or have refrained from giving their unqualified

support to such measures.

Deeds speak louder than words, and it is therefore significant to note the large extent to which governments in southern Africa who have in other, more token ways aligned themselves with anti-South African initiatives, have been prepared to give institutional recognition to their close economic ties with South Africa.

Several neighbouring countries have labor agreements with South Africa. There is a longstanding customs union agreement between South Africa, Botswana, Lesotho and Swaziland. South Africa, Lesotho and Swaziland are also partners to the Rand Monetary Union, and Malawi and Zimbabwe have bilateral trade and other intergovernmental agreements with South Africa.

The possibility of compensatory arrangements

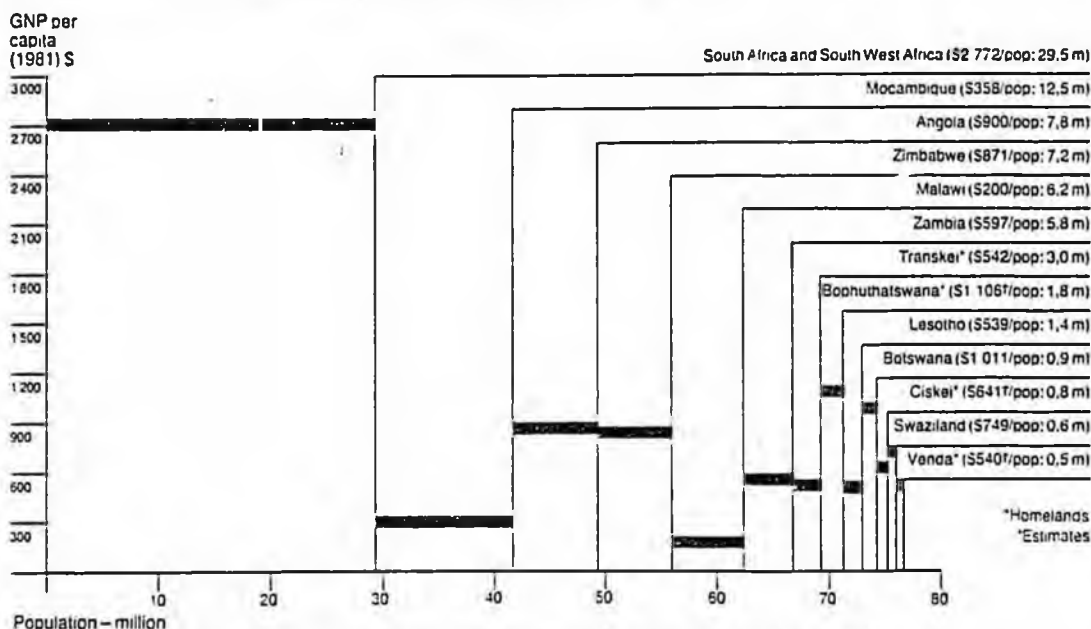
It is hard to see any way in which the other countries in southern Africa could be adequately assisted in coping with the negative impact that disinvestment from South Africa is sure to have on their economies. To create viable alternatives for the markets, facilities and other arrangements in respect of which these countries now rely on a healthy South African economy, would be not only enormously expensive, but also extremely difficult to arrange.

In the present political climate surrounding foreign aid programmes, it is doubtful that substantial and consistent financial support will be forthcoming to assist southern African governments in coping

with the efforts of a disinvestment campaign. Neither can it be assumed that any private funds disinvested from South Africa will be reinvested in the neighbouring countries. In fact, recent experience has pointed rather towards increasing reluctance of private investors to commit funds, either in the form of loans or direct investment, to these countries. That reluctance is sure to be strengthened by the assessment that private investors would undoubtedly make of the impact that disinvestment from South Africa would have on the rest of the subcontinent.

The conclusion must inevitably be that the rest of southern Africa would in effect be left to cope by themselves with the effects on their economies of a disinvestment

Population and GNP per capita (\$ per year, 1981) in southern Africa



Sources: World Bank Atlas, 1983; World Tables, Vol 1; World Bank, 1984 Statistical Survey of Black Development, Benso 1982.

// Pressure for change should be a central ingredient in American policy and that pressure must be credibly maintained if we are not to send misleading signals to South Africans. But pressure is not enough. Also required is a clear Western readiness to recognise and support positive movement, and to engage credibly in addressing a complex agenda of change. //

Chester Crocker – "South Africa: strategy for change".

campaign directed against South Africa.

The real alternative

Given all the above, it is hard to see how disinvestment can be justified from a broader southern African perspective.

In fact, on the basis of the perceived and urgent needs of southern Africa, a much more convincing case can be made for quite the opposite course of action. Each and every country in southern Africa, including South Africa, urgently needs external resources to support their development efforts — resources in the form of official and private loan capital, direct private investment, and management and other skills. However, South Africa is the only country in the region that inspires enough confidence with private investors to attract such resources on a significant scale. It is also the only country that can provide the rest of southern Africa with access to markets for some products and with essential imports, with locally adapted technological backup, and with readily available maintenance services.

Recent developments on the political and security fronts not only clearly show that South Africa is prepared to play such a role, but also strongly suggest that at least some of the other countries in the region are prepared to accept it in such a role. What is needed from a southern African perspective is therefore not disinvestment from South Africa, but a stepped-up program of investment in southern Africa through investment in South Africa. ■

Hope for reconciliation?

South Africa's position in the United States



John H. Chettle — Director for North and South America, South Africa Foundation.

South Africa's relationship with the United States has some of the characteristics of a troubled marriage. There are fond though somewhat fading memories, present disagreements and irritations, mutual dependence and needs, and hopes for a better future.

Underlying the relationship is a consciousness of shared values — a strong opposition to communism, a history of shared sacrifices in two world wars and in Korea, a belief in a vigorous private sector, free from excessive government interference, and a commitment to most of the appurtenances of western democracy.

But between the two countries lies a persistent obstacle to any reasonable conjugal relationship, the obstacle of South Africa's

domestic policies. So great is that obstacle that there are not lacking family members who insist that the relationship is irrevocably compromised, and that it should be abandoned.

Like even the most ailing of marriages, it is subject to variations in amiability. It is currently on a high, at least as far as the principals are concerned. That may put the matter too coolly. There may, indeed, be profound changes at work which may change irrevocably the nature of the relationship.

These changes proceed from the Reagan policy of "constructive engagement". This policy, one of the most detailed and clearly thought out foreign policy initiatives of the Reagan Administration, proceeded from the experience and deep knowledge of the region of the Assistant Secretary of State for Africa, Dr Chester Crocker.

He understood, more clearly than any of his predecessors, not only that a peaceful settlement of disputes in southern Africa would exclude the Soviet Union and its surrogates from the region, but that to get such an agreement the legitimate political and strategic needs of all the states concerned, including South Africa, had to be recognized and satisfied. He also realized that the differences between the various countries in southern Africa, though considerable, were less than what they had in common. Most notable, they were less than their common need for peace and economic development.

But peace could not be one-sided. It could not result if South Africa were expected to abstain from action while black ruled countries on her borders gave bases to those who then infiltrated South Africa and committed acts of violence.

Nor could mere retribution for such acts bring about peace. It needed also a mediator, a country with the capacity to make contact with all the parties involved, to help patiently to define the issues, to seek areas of agreement, to suggest compromises and to help to structure agreement. This is the role, perhaps an historic one, that has been played by the United States. This is the process that has led to the most significant agreements to have been reached in the area since the great advance of the black states towards independence in the late 1950's and early 1960's.

It has led to a Non-Aggression Pact with the Marxist-Leninist state of Mozambique, another with Swaziland and a disengagement agreement with the other Marxist-Leninist state of Angola. It may lead, perhaps faster than even the most optimistic diplomats would have expected, to a solution to the long-troubled question of the independence of Namibia, and to a general peace agreement in the area.

The Reagan Administration has also recognized the courage of the South African prime minister, Mr P.W. Botha, in being prepared to split his own party in the process of seeking reform, and instituting a new constitution that provides for common citizenship for whites.

// The Soviet specialists in both Moscow and Africa assigned to plan and manage policy in southern Africa mirror the new thrust of Soviet policy towards strategic and international economic concerns and away from developmental and ideological concerns . . . In pure political terms and to ensure survival of the free enterprise system in southern Africa, we must do all we can in South Africa to provide the top notch education, training, job development and related reforms which are necessary to guarantee stability and economic growth. //
Clarence McKee — "A black American visits South Africa" in the Lincoln Review.



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coloreds and Indians — though not yet blacks. The constitution provides for their representation in a single parliament, and will ensure that this year some men of color will be ministers in the South African Cabinet and in charge of some of the great departments of state. At the same time, a cabinet committee is examining the future role of blacks within the system.

While it is obvious that these proposals do not satisfy American opinion, nor yet black opinion in South Africa, it is recognized by the Administration that the process of reform is inevitably a slow, complicated, and frequently tortuous one.

The Democratic Party diverges sharply from these assessments, and has taken a far more pessimistic and skeptical view of the process of reform in South Africa. It has seen this as grudging and frequently dictated rather by pressure from abroad than by the desire on the part of the government to see a more just society in South Africa. The House of Representatives, controlled by the Democratic Party, has passed, by large majorities, amendments to the Export Administration Act. At the time of writing, the fate of this legislation is still uncertain. The Senate has passed none of these amendments, and it is not clear which, if any of them, will emerge from the conference between the two Houses or whether the President will then veto the legislation.

The other challenge to the relationship has come in some of the states where legislation

has been introduced, and in several of them passed, to require state pension funds to divest themselves of stock in companies doing business in South Africa. There are strong constitutional objections to such proposals, which have been held by some legal authorities to conflict with the vesting of foreign policy powers, as well as powers over interstate and foreign commerce, in the federal rather than the state governments. Some court challenge to this legislation may well be in prospect.

These, then, are the disagreements and irritations that trouble the relationship. What of the bonds that hold it together? One of the greatest single bonds, one that has influenced both parties while in power, though it may be convenient to forget them when a party is in opposition, has been the dependence of the US on South African strategic raw materials. South Africa, by a trick of geography and geology, controls a very large portion of the world's reserves of several particularly strategic raw materials, notably chrome, manganese, platinum and vanadium. Chrome was the first mineral put on the US strategic stockpile, even before the outbreak of the Second World War. Every F15 jet engine requires 4 000 lbs of chrome. Both chrome and manganese are indispensable for hardening steel. Similarly, platinum is a vital catalytic agent in the process of oil refining.

By an equally curious trick of geography, the other major producer of each of these

minerals is the Soviet Union. And, as a recent *Washington Post* story noted, "Few seem to dispute the Administration's characterization of Soviet aims 'to put the West's access to petroleum and other strategic raw materials at risk'." Similarly, South Africa's position astride one of the world's great strategic choke points has a significance that few, particularly in the Navy, have refused to recognize, though many contend that its relevance, particularly in any war between the superpowers, would be small.

There have been some who have attempted to minimize the importance of these factors. They have suggested that dependence on raw materials could be diminished by stockpiling them and that any conflict between the superpowers would be short and sharp, and would exclude the historical dependence on naval bases. But none of these points can be regarded as certain, and some are downright dubious.

These, then, are the factors that serve to inhibit divorce. But it is possible that the whole relationship between the two countries could improve dramatically. Such a transformation would be dependent on the continued progress of reform in South Africa. If there can be continued evolution towards a just society in South Africa, and a constitutional framework genuinely acceptable to all sections of its population, the consequences both to South Africa and the United States would be profound. As David Lamb, the Africa

Correspondent of the *Los Angeles Times*, has written:

"I can think of no single event that would bring more benefit to all of Africa than the peaceful advent of an integrated multiracial society in South Africa. If South Africa could trade freely with the rest of the continent, its political and economic influences would be gigantic. It would dominate Africa as no single country dominates Europe or South America. It could take the leadership role in the Organization of African Unity (of which it is not even a member now). Its technicians and experts could travel without restriction and help other governments develop their countries the way the Afrikaner has developed his own. They could make the ports and railroads and telephones of Africa work again. The resultant economic stimulation to the continent would be nothing short of revolutionary. The Russians would have to pack their bags and go home, for without poverty, instability and discontent they have little hope of gaining the foothold they seek in southern Africa."

It may seem a remote prospect, but then the prospect of a pact between sternly anti-communist South Africa and Marxist-Leninist Mozambique seemed just as forlorn. So did a disengagement pact with Angola, though that has since resulted in joint military commitments of South African and Angolan troops preventing SWAPO guerrillas trying to infiltrate into Namibia. The basis may now exist for something no less startling. ■

// How do we in government see the role of US business in South Africa? Well, frankly, we're impressed . . . US corporations have brought an important part of America to South Africa . . . I am sure that if the record of US business in South Africa were understood there would be little reason for the rash of disinvestment bills which has swept State capitals. //
George Shultz, Secretary of State, Addressing businessmen in Washington, March 1984.

What of minority groups?

Pat Poovalingam – Prominent South African Attorney and Chairman of Solidarity Party.

Those in the United States and elsewhere who could impose economic sanctions against South Africa would strap the victim as well as the perpetrator of the crime to the electric chair. Most who would call for a trade boycott of South Africa just have not thought the matter through to its logical conclusions.

In the main theirs is a swift reaction, a desire to do something, to take some personal action to demonstrate their abhorrence of apartheid.

That they feel this strongly is good; that most of them find themselves frustrated at not being able to do anything decisive is natural. But that they would destroy a whole country because of the wrongs of the ruling white oligarchy is to be deplored.

South Africa's tiny Asian community of 850 000 is, with a few exceptions, terrified of even a reasonably successful economic war upon South Africa. The Asians in South Africa are in a position somewhat analogous to that of the Jews in Europe of the 1930's: most of them poor enough to be despised, yet some of them rich enough to stick out like sore thumbs. Many of them are traders. And they know only too well how vulnerable they will be if large-scale violence erupts.

The threat is directed not merely at the wrong-doers among the whites, but against all 27 million South Africans.

There are those who argue, rather glibly, that it is inevitable that suffering will be imposed on black and brown South Africans by economic sanctions: that this is a price that has to be paid. Interestingly, most of those who purvey this argument are living outside South Africa. ■

A choice of moralities

How US companies look at the issue of disinvestment



Sal Marzullo – Chairman Industry Support Unit, US Sullivan companies

Some of the US companies operating in South Africa think that disinvestment is an abdication of our moral responsibility to co-operate with all those forces, both here and in South Africa, working to eliminate discrimination.

We agree with Derek Bok, President of Harvard University, when he said: "This argument for disinvestment reflects the hope that one can achieve moral purity by separating

oneself entirely from evil practices. Aspirations of this kind can be criticized for counselling us to run from evil rather than work to overcome it." We strongly oppose racial discrimination anywhere – in South Africa or in the United States; but, like Derek Bok, we seek to solve problems not to run away from them. We do not question the morality of those who disagree with us, but their position is not the only moral one that can be taken; indeed many people believe it may not be the best moral position at all.

The strength of the case for disinvestment, in moral as well as practical terms, depends primarily on whether it achieves or contributes to the achievement of its purpose. As opposed to the hypothetical nature of the benefits of disinvestment, there are some very tangible benefits that have accrued, since 1977, when the Reverend Leon Sullivan, a veteran of the US Civil Rights Movement, and twelve US companies came together to promulgate the now famous Sullivan Principles.

Companies supporting the Principles are committed to peaceful and meaningful change in South Africa. Our way to change is not easy, and is often frustrating, but it is possible and has produced measurable results. What we are doing is not the total answer – we have never pretended that it was – but it is a part of the answer and along with our efforts many European and South African companies are undertaking similar projects. From 1977 to mid-1983, Sullivan companies have contributed

over \$78 million to education, housing, training, inter-racial programs of all kinds, health, and community development.

US Sullivan signatory company accomplishments to date have been significant. I cite only the most obvious areas of progress. There are more.

- Throughout South Africa, plants of US signatory companies have been desegregated.
- Blacks are being upgraded to administrative and supervisory positions.
- Blacks are supervising whites.
- Blacks are being trained for skilled jobs in increasing numbers.
- Registered and unregistered black trade unions are being recognized.
- Technical schools training blacks are being built.
- Black businesses are being initiated in increasing numbers.
- Equal pay for equal work has been instituted.
- Companies have improved the quality of life for blacks outside the work place in housing, health care and education.
- Companies are beginning to lobby for an end to all racially discriminatory laws in the work place.

We are sometimes criticized on the grounds that the Sullivan Principles are only cosmetic and that they do not produce "meaningful" change. That charge is without substance, not least because of the role the Sullivan companies played in helping to introduce progressive labor legislation in South Africa.

// If we cut off investments we would lose jobs in this country and we wouldn't necessarily help blacks in that country. //

Andrew Young, former US Ambassador to the UN.



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Prior to 1979, black trade unions had no juridical standing. In addition, there were restrictions on the number of black workers a company could employ; they were not permitted employment in certain skills; and they could not legally be enrolled and registered in apprentice training programs.

Many Sullivan signatories lobbied, both directly and through trade associations, for changes in these laws. In 1979, a comprehensive new labor law was passed. It removed restrictions on employment and training of black workers and permitted black trade unions to be registered with the government, thus giving them equal standing before the law with white unions.

One result of this legislation has been a dramatic growth of black trade union membership and bargaining strength. Certainly no one familiar with American labor history would claim that the strengthening of collective bargaining rights for workers is a "cosmetic" improvement.

I want to make it clear, however, that the Sullivan Principles are not a guaranteed method of bringing quick and effective resolution of the injustices in South African society. Only South Africans themselves (all of them) will evolve the final solutions to their problems.

We strongly believe, however, that US company presence in South Africa is the best available alternative by which American companies can appropriately contribute to the achievement of racial justice in South Africa. If American companies had heeded those urging disinvestment in the 1960's and 1970's, tens of thousands of blacks would be worse off today economically, socially and educationally, and

they probably would not have gained the trade union rights they now enjoy. The effort has been worthwhile, and will continue.

Both the Carter and Reagan Administrations have endorsed the Sullivan Principles. Mayor of Atlanta, Andrew Young, former US Ambassador to the UN Don McHenry, journalists William Raspberry, Vernon Jordan, Congressman Stephen Solarz, the *Washington Post* and the *New York Times* have all come out against disinvestment and for the Sullivan Principles.

Black South African journalist, Percy Qoboza, Nieman Scholar at Harvard and former editor of *Third World Affairs* puts things this way:

"If you want a complete transformation of this society, the easiest thing to do is get everybody packing up their bags, taking money out of the country. But of course, the moment that you do that you create economic chaos. And that is a sure guarantee for full-scale, bloody, racial confrontation, which would unleash a bloodbath such as we have never seen. Therefore, this is clearly not consistent with my own belief that we must seek a peaceful transformation of the society."

For many reasons, disinvestment must be fought and defeated at all levels, both federal and state, but it must be fought primarily because disinvestment would serve to hurt the very people who are most helped by our presence in South Africa — the black population of that country.

I repeat what I stated earlier: From my point of view, disinvestment would be a moral abdication of our responsibility to work with those people, groups, institutions, both here and in South Africa, who seek peaceful and orderly change in South Africa. ■

This space has been paid for by a number of prominent South African organisations who have one common interest. As active proponents of progress in South Africa they wish for a greater understanding of how such progress may best be achieved.

The organisations are:

African Oxygen Ltd.
 Anglo American Corporation of South Africa Ltd.
 Barlow Rand Ltd.
 Central Merchant Bank Ltd.
 Egoli Consolidated Mines Ltd.
 Electricity Supply Commission
 Federale Volksbeleggings Bpk.
 General Mining Union Corporation Ltd.
 Goldfields of South Africa Ltd.
 Industrial Development Corporation of S.A. Ltd.
 Murray and Roberts Holdings Ltd.
 National Acceptances Ltd.
 Nedbank Ltd.
 Premier Group Holdings Ltd.
 Sage Holdings Ltd.
 Sasol Ltd.
 South African Breweries Ltd.
 South African Iron and Steel Industrial Corporation Ltd.
 South African Marine Corporation Ltd.
 South African Mutual Life Assurance Society
 South African Reserve Bank
 Standard Bank Investment Corporation Ltd.
 Sun International Ltd.
 Toyota South Africa Ltd.
 Trust Bank of Africa Ltd.
 Volkskas Ltd.
 and the American Chamber of Commerce in
 South Africa, on behalf of its members

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

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December 16, 1985

DEC 23 1985

The Honorable Katherine T. Hurley
Chairman
House State Affairs Committee
1024 West Sixth, Suite 200-A
Anchorage, AK 99801

Dear Representative Hurley:

Katie

I would like to respond to your letter of November 25 concerning the financial consequences of divestiture of State funds invested in U.S. corporations doing business in South Africa. I trust this response will suffice to answer the same questions you asked of Commissioner Eleanor Andrews in a letter which she has referred to me.

With respect to the Permanent Fund, I would like to refer your questions to the Permanent Fund Corporation so that they may respond to you directly. I shall answer your questions in the order presented with regard to all other funds.

1. What is the breakdown of Alaska investments and public funds invested in South Africa?

Please see the enclosed table which provides amounts as of September 30, 1985 which were invested in banks or corporations with operations in South Africa. These banks and corporations were identified on the basis of a January 1985 list of 284 companies published by the Investor Responsibility Research Center (IRRC).

I would like to stress that no funds are invested by the State in South Africa, either in the equity or debt securities of South African banks or corporations, the debt securities of the South African government, or directly in gold, property, or mortgage loans on property in South Africa. It is even arguable whether State funds are invested indirectly in South Africa since in purchasing securities of companies with operations in South Africa State funds go to the seller of the security, not the company that issued the security. (All State purchases of corporate securities are in the secondary market.)

I would like to note that the IRRC list is not necessarily an adequate or fair measure of the significance of U.S. corporate activity in the South African economy. Many other corporations without employees in South Africa sell goods, either directly or through middlemen, or buy South African

exports--particularly strategic metals such as platinum, manganese, chrome, etc.--in quantities which far outweigh in economic significance the activities of many companies on IRRC's list.

These questions about the scope of economic activity as well as very practical information-gathering problems lead to widely divergent rosters of corporations involved in South Africa. They vary in number of companies from 201 to 6,000. With all the merger, divestiture, buy-out, and raider activity going on in today's corporate world, monitoring of South African connections necessarily is quite imprecise.

That said, you will note that the enclosed table shows that 40 percent of domestic common stock investments, 82 percent of commercial paper, 24 percent of corporate bonds, and 100 percent of interest-bearing bank deposits were invested in firms with operations in South Africa on September 30, 1985. It is probable that the percentage for foreign common stock investments is higher than domestic, but we do not have any information to identify such companies at this time.

The domestic companies in which the State was invested on September 30, which were in South Africa, include General Motors, Ford, General Electric, Mobil, Xerox, IBM, Kodak, Westinghouse, Dow, DuPont, Gillette, Revlon, Johnson & Johnson, John Deere, NCR, Coca-Cola, Pepsico, Sohio, Good Year, Boeing, Lilly, Hewlett-Packard, 3M, Bristol-Meyer, Singer, and many other household names.

2. What is the risk of losing public funds invested in South Africa? What is the degree of non-market risk? What is the risk if we don't divest?

There is almost no risk of loss of public funds. Again, we do not invest funds in South Africa. We invest some funds in the stock of U.S. and foreign multinational corporations which may or may not do business in South Africa.

Those corporations which actually have physical assets in South Africa are heavily capitalized. The value of the South African assets is such a small portion of their total wealth that loss of the entire value of those assets would not have material long-term affect on the value of the shares of stock held by the retirement funds.

The following information from the "Statistics of Income Bulletin" published by the IRS and covering 1980, the most recent year available, illustrates how peripheral South African operations are to U.S. corporations. Assets of South African companies controlled by U.S. corporations were \$5.1 billion, less than 1/2 percent of the \$1,457.5 billion in total assets of the 1,474 controlling corporations. The \$493 million in taxable income from South African operations was slightly more

than 1/2 percent of the \$77.7 billion in total taxable income for these corporations and only 1 percent of their total taxable income from foreign sources.

Individual corporations which are heavily invested in assets in South African would not be suitable as investment opportunities in any event. Given current conditions in South Africa, such stocks would not accord with the statutorily mandated "prudent investor rule."

A similar question is presented when discussing the stock of corporations which trade with South African corporations but have no physical assets located in South Africa. At that point one must examine the volume of sales or purchases from South Africa-based companies to determine the relationship to total sales or purchases. A significant percentage of sales or purchases to total volume would indicate a degree of risk to the corporation which should not be taken by the retirement funds, again, in any event. Thus, a corporation dealing, for example, in South African metals deemed of industrial or strategic importance would be a high risk investment which would be inappropriate as an investment vehicle unless that trading was a minor part of the corporation's business.

As an illustration of these points, consider General Motors which has an assembly plant and distribution network in South Africa. The retirement funds' risk depends on the United States economy, GM's worldwide sales, and foreign competition, particularly from the Japanese. Loss of all GM's assets in South Africa would have negligible effect on share values or profits.

Non-market risks associated with divestment include the need to diversify investments and to assure liquidity. Some of the problems in doing so are addressed in articles enclosed with this letter.

3. How would limiting the portfolio to non-South Africa investments affect performance in the short and long term?

Enclosed is a calculation of the effect on the retirement funds' performance estimated over a five-year period. As you can see, the overall loss is estimated at approximately \$178 million. This is not a dollar outflow but a loss of opportunity. The effect on the retirement funds would be to increase the required employer contributions.

The retirement fund employer contribution rates are set annually at a level to fund retirement benefits for current employees as well as to retire the accumulated unfunded liability over a 25-year period. Both funds are deemed on an actuarial basis to be funded in excess of 80 percent. We are gradually liquidating the balance to achieve 100 percent funding. The rate of liquidation of the unfunded liability has been

accelerated because of the performance of the funds' portfolios. However, were the retirement funds constrained in the scope and quality of their investments, we might be unable to adhere to the liquidation schedule under the present contribution rates. If that were to occur, rate increases would be applied not only to the State but to all of the municipalities and school districts who are members of the funds. Enclosed are lists of these other employer members and their contribution rates.

Also enclosed are three documents that provide some background on the effect of South African divestiture on investment performance. One--"South African Divestment: The Investment Issues"--is a research piece that appeared in the Financial Analysts Journal. The other two are letters from Trinity Investment Management Corporation to the New Jersey Department of Treasury that point out some of the very practical problems that divestment poses for investment performance.

4. What would be the effect of divestment if it were conducted gradually over a two, six, twelve, or twenty-four month period?

The only prudent time frame for divestment would be five years unless extraordinary losses were acceptable. In order to adhere to any extent to the prudent investor rule, replacement investments must be sought which will minimize risk. Because the funds would be limited to corporations of lower capitalization, the amounts invested in any one firm would have to be scaled down. Thus, finding alternatives and achieving a balanced portfolio would take several years. It could not be accomplished in months if the prudent investor rule is retained.

5. If the State decided to divest, what would be the actual transaction costs?

The following estimate of trading costs is based on an analysis by Thomas Loeb as summarized in the "South African Divestment: The Investment Issues" article. The estimate includes direct broker commission costs, market-maker spreads, and the impact on price as a result of trading.

The one-time cost of selling South Africa-related stocks would be 1.5 percent, or \$2,190,000, of the value of the stocks sold, \$146, 100,000 as of September 30, 1985. If the State were to buy South Africa-free replacement stocks (which is not assumed in the enclosed estimate of portfolio performance, rather South Africa-related stocks are replaced with fixed income securities whose acquisition cost would be less than stocks), the acquisition cost would be \$3,300,000 as of September 30, 1985. These costs would increase in the future as the State's stock portfolio grows and the average size of the State's position in any one stock increases.

The size of stock holdings in any one company is important because the greater the size of the holdings, relative to a company's total market

capitalization, the greater the impact a trade of that holding has on market prices. The average position size of the State's holdings of any one company on September 30, 1985 was \$1,078,000. Interpolation of the Loeb analysis for a position of this size means that the State would incur trading costs of 1.5 percent for South Africa-related companies (large blue chips) as opposed to 2.3 percent for replacement stocks (small capitalization stocks).

A second trading cost effect would be attributable to divestment because of the .8 percent higher cost of trading the replacement stocks on an on-going basis. For the first quarter of FY 86, total domestic common stock sales and purchases for the retirement systems were \$131 million, or \$524 million at an annual rate. Multiplying the September 30, 1985 ratio of South Africa-related stocks in the retirement system, 40 percent, by the .8 percent higher trading costs that would be incurred permanently on the turnover in this portion of the portfolio, and the projected \$524 million turnover for FY 86, one gets an increase in FY 86 trading costs related to divestment of \$1,677,195. Escalating this cost by the projected growth in the retirement funds stock portfolios (as contained in James Wilson's enclosed memo) one would get the following annual and total trading costs for divestment:

Divestment's Effect on Trading Costs

Annual Increased Turnover Costs

| | |
|-------|------------------|
| FY 86 | \$ 1,677,195 |
| FY 87 | 2,322,770 |
| FY 88 | 2,961,855 |
| FY 89 | 3,656,090 |
| FY 90 | <u>4,386,010</u> |

Total Increased Turnover Costs \$15,003,920

One-Time Divestment Costs

| | |
|----------|------------------|
| Sale | 2,190,000 |
| Purchase | <u>3,300,000</u> |

Total Five-Year Trading Costs \$20,493,000

In conclusion, the Department of Revenue believes that there would be significant costs attached to a South African-related divestment program. In addition to the approximately \$200 million in opportunity losses and transaction costs detailed in this letter, there would be real if non-quantifiable costs for additional administrative efforts to monitor and ensure compliance.

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December 16, 1985
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In the 1970s and early 1980s, corporations of lesser capitalization out-performed the blue chips which constitute the core of State investment portfolios. Because of this, there are those who will assert that divestment would not harm investment performance, even though the record for small capitalization stocks since 1981 has not been good.

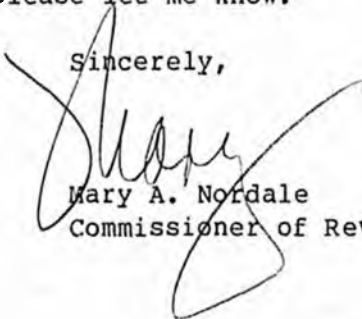
Small capitalization stocks are more risky and the returns from them more volatile. It is widely recognized in the research literature on this issue that no study has addressed what the returns would be for a South Africa-free portfolio that is restructured so as to maintain the same level of risk. The returns might not necessarily be greater than portfolios with South Africa-related stocks.

The possibility of diminished returns would be compounded in Alaska's case because of statutory restrictions on investments that are designed precisely to avoid greater risk. Such statutory provisions as limiting common stock investments to companies that have paid dividends in each of the last three years would be a much more onerous restriction if the field were limited to small company stocks rather than blue chips.

Thus, divestment cannot be viewed in isolation but must be considered in light of the overall risk posture of State investments. Divestment would precipitate a major restructuring of State investment portfolios with results that would be less than certain.

If there is any additional information that the Department can provide or if you have additional questions, please let me know.

Sincerely,



Mary A. Nordale
Commissioner of Revenue

MAN/MB/gb
85-125

Enclosures

STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1984

| <u>Employer</u> | <u>Percentage</u> |
|---|-------------------|
| Alaska, State of | |
| Policemen, Firemen | 19.90 |
| Inland Boatmen | 14.31 |
| All Other Employees | 13.20 |
| Alaska Housing Finance Corporation | 13.70 |
| Alaska Municipal League | 29.79 |
| Alaska State Housing Authority | 17.02 |
| Alaska, University of | 12.04 |
| Alaska, University of, Geophysical Institute | 12.04 |
| Aleutian Region School District | 8.62 |
| Anchorage, Municipality of | 14.83 |
| Anchorage School District | 15.29 |
| Annette Island School District | 10.10 |
| Barrow, City of | 12.60 |
| Bering Straits School District | 11.46 |
| Bethel, City of | 12.58 |
| Bristol Bay Borough | 8.45 |
| Bristol Bay Borough School District | 15.96 |
| Chatham School District | 11.62 |
| Chugach Regional School District | 7.94 |
| Copper River School District | 9.08 |
| Cordova, City of | 16.23 |
| Cordova Community Hospital | 10.10 |
| Cordova Public Schools | 16.34 |
| Craig, City of | 10.14 |
| Dillingham, City of | 10.00 |
| Fairbanks, City of | 16.98 |
| Fairbanks Public Utilities | 16.98 |
| Fairbanks North Star Borough | 11.57 |
| Fairbanks North Star Borough School District | 11.57 |
| Fort Yukon, City of | 12.54 |
| Galena, City of | 13.28 |
| Galena City Schools | 11.93 |
| Haines Borough | 13.73 |
| Haines, City of | 12.10 |
| Hoonah City Schools | 12.26 |
| Hydaburg City School District | 12.03 |
| Iditarod Area Schools | 10.88 |
| Juneau Borough Schools | 13.19 |
| Juneau, City and Borough of | 10.89 |
| Kenai, City of | 9.88 |
| Kenai Peninsula Borough | 14.39 |
| Kenai Peninsula Borough School District | 15.42 |
| Ketchikan, City of | 23.50 |
| Ketchikan Gateway Borough | 11.75 |

STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1984

Continued

| <u>Employer</u> | <u>Percentage</u> |
|---|-------------------|
| Ketchikan Gateway Borough School District | 15.72 |
| King Cove, City of | 10.30 |
| King Cove City School District | 12.46 |
| Kodiak, City of | 13.29 |
| Kodiak Island Borough | 12.17 |
| Kodiak Island Borough School District | 13.35 |
| Kotzebue, City of | 11.53 |
| Kuspuk School District | 11.17 |
| Lake & Peninsula School District | 11.30 |
| Lower Kuskokwim School District | 10.28 |
| Lower Yukon School District | 10.54 |
| Matanuska-Susitna Borough | 13.42 |
| Matanuska-Susitna Borough School District | 13.42 |
| Nenana, City of | 14.97 |
| Nenana City Public Schools | 13.64 |
| Nome, City of | 15.66 |
| Nome City Schools | 13.39 |
| Nome Joint Utilities | 7.41 |
| North Pacific Fisheries Mgt. Council | 10.89 |
| North Pole, City of | 12.81 |
| North Slope Borough | 10.29 |
| North Slope Borough School District | 11.01 |
| Northwest Arctic School District | 10.06 |
| Palmer, City of | 14.98 |
| Petersburg, City of | 15.45 |
| Petersburg General Hospital | 15.45 |
| Pribilof Region School District | 9.70 |
| Railbelt School District | 10.42 |
| Saint Paul, City of | 9.55 |
| Sand Point, City of | 11.29 |
| Sand Point City School District | 11.19 |
| Saxman, City of | 12.03 |
| Seward, City of | 15.21 |
| Sitka, City and Borough of | 16.68 |
| Sitka Community Hospital | 11.84 |
| Sitka Borough School District | 16.68 |
| Skagway, City of | 16.97 |
| Soldotna, City of | 10.88 |
| Southeast Islands School District | 10.13 |
| Southeast Regional Resource Center | 11.37 |
| Southwest Region Schools | 10.44 |
| Tanana, City of | 12.03 |
| Tanana City School District | 12.03 |
| Unalakleet, City of | 13.89 |
| Unalaska, City of | 11.63 |

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1984

Continued

| <u>Employer</u> | <u>Percentage</u> |
|-------------------------------|-------------------|
| Valdez, City of | 11.23 |
| Valdez City Schools | 10.91 |
| Wasilla, City of | 12.03 |
| Wrangell, City of | 13.06 |
| Wrangell City Schools | 20.11 |
| Yukon Flats School District | 8.82 |
| Yukon Koyukuk School District | 11.95 |

STATE OF ALASKA
TEACHERS' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1984

| <u>Employer</u> | <u>Percentage</u> |
|---|----------------------------------|
| Adak Region School District | 8.71 |
| Alaska Gateway Schools | -----Same for all Employers----- |
| Alaska, University of | |
| Alaska, Unviersity of, Geophysical Institute | |
| Aleutian Region School District | |
| Anchorage School District | |
| Annette Island School District | |
| Association of Alaska School Boards | |
| Bering Straits School District | |
| Bristol Bay Borough School District | |
| Chatham School District | |
| Chugach Regional School District | |
| Copper River School District | |
| Cordova School District | |
| Craig School District | |
| Delta-Greely School District | |
| Department of Education, State of Alaska | |
| Dillingham School District | |
| Fairbanks North Star Borough School District | |
| Galena City School District | |
| Haines City Schools | |
| Hoonah City Schools | |
| Hydaburg City School District | |
| Iditarod Area School District | |
| Juneau Borough School District | |
| Kake City Schools | |
| Kenai Peninsula Borough School District | |
| Ketchikan Gateway Borough School District | |
| King Cove City School District | |
| Klawock City Schools | |
| Kodiak Island Borough School District | |
| Kuspuk School District | |
| Lake & Peninsula School District | |
| Lower Kuskokwim School District | |
| Lower Yukon School District | |
| Matanuska-Susitna Borough School District | |
| National Education Association | |
| Nenana City Public Schools | |
| Nome City Schools | |
| North Slope Borough School District | |
| Northwest Arctic School District | |
| Pelican School District | |
| Petersburg City Schools | |

STATE OF ALASKA
TEACHERS' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1984

Continued

| <u>Employer</u> | <u>Percentage</u> |
|------------------------------------|------------------------------|
| Pribilof Region School District | 8.71 |
| Railbelt School District | ---Same for all Employers--- |
| Sand Point City School District | |
| Sitka Borough School District | |
| Skagway City School District | |
| Southeast Islands School District | |
| Southeast Regional Resource Center | |
| Southwest Region School District | |
| St. Mary's School District | |
| State Legislature | |
| Tanana School District | |
| Valdez City Schools | |
| Wrangell Public Schools | |
| Yakutat School District | |
| Yukon Flats School District | |
| Yukon Koyukuk School District | |

by Wayne H. Wagner, Allen Emkin and Richard L. Dixon

South African Divestment: The Investment Issues

Divestment restrictions on companies that do business in South Africa may have substantial impacts on the investment management activities of large portfolios. In general, they will increase investment risk, reduce investment and diversification opportunities, and increase the costs of research, trading and administration. Large funds may have to alter their investment targets and restructure their investment process.

South African Divestment: The Investment Issues

More and more U.S. cities and states are weighing legislation that would restrict public pension plans from investing in companies that do business in South Africa. Divestment has potentially serious implications for the investment policies and practices of large funds.

Consider what happens if each of the 152 South African-related companies in the Standard & Poor's 500 is replaced by the largest "unrestricted" company in its industry. The new Alternative Universe amounts to less than 62 per cent of the capitalization value of the "old" S&P 500. Large multinational companies are replaced by smaller, domestic companies. The capitalization weights of some industries (including drugs, motor vehicles and product equipment) are more than halved. The Alternative Universe has 8 per cent more risk, as measured by beta, and 3 per cent less diversification than the S&P 500.

A pension fund restricted to this universe may expect higher trading and administrative costs inasmuch as its portfolios will contain smaller, riskier and less liquid companies. The larger the fund, the more likely it will have to restructure its plan investments completely in order to achieve targeted risk/return goals.

A COALITION OF RELIGIOUS, political and labor groups opposed to South Africa's race policies is placing increasing pressure on public pension funds to restrict or eliminate investments in companies doing business in South Africa. Massachusetts, Connecticut and Nebraska, New York City, Philadelphia and Washington, D.C. have already imposed such restrictions on their pension fund portfolios. This article does not attempt to address the moral, political or ethical issues involved. Rather, it addresses the practical implications of divestment for pension fund managers.

Several studies have argued that prohibitions on investment in South African-related companies would not have a significant impact on pension fund portfolios:

"The effect on portfolio risk of excluding the companies operating in South Africa . . . is, contrary to intuition, not particularly important."¹

" . . . such a restrictive policy really is not all that inhibiting."²

"A skilled investment manager should be confident that exemplary returns can be achieved within the guidelines of the proposed legislation."³

According to the opinions gathered for the Washington, D.C. Retirement Board, professional investment managers disagree. The vast majority of managers felt that performance would be reduced. Nine out of 10 thought diversification would be hampered. Three out of four thought that quality would be impaired. Half said they would refuse to accept fiduciary responsibility under such conditions.

The National Association of State Investment Officers, concerned about compromising fidu-

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1. Footnotes appear at end of article.

ciary responsibilities, has adopted a resolution opposing laws that force managers to make investments based on "anything but the best interests of pension fund members." State retirement officers also question whether it is possible to implement restrictions, particularly on large portfolios, without reducing investment opportunities and, ultimately, investment results.

Investment officers, advocates of divestment and previous studies all agree that divestment restrictions have minimal practical effects on portfolios of \$50 million or less. But what about larger funds that have billions of dollars to invest? Would they be able to continue their current risk-reward strategies to fund future benefits, or would radical restructuring be required?

The Scope of the Challenge

A list of all companies with employees in South Africa or business relations with the government of South Africa includes 229 companies with a market capitalization on December 31, 1983 of over \$600 billion. This represents over half the total capitalization of the Standard & Poor's 500 (often considered to be the "opportunity set" for institutional investors) and almost 35 per cent of the weight of all common stocks as represented by the Wilshire 5000 index. Included are 31 of the 50 largest U.S. companies—such institutional favorites as IBM, Exxon, Merck and 3M—and 49 of the 100 largest.

The 229 companies on the list tend to be concentrated in those industries whose products or production processes are readily transportable and whose maturity, size and product acceptance have led them toward international markets. As Table I shows, companies on the list account for virtually all of the capitalization

weight of some S&P 500 industry groups and large percentages of others. Utilities, trucking, real estate, and other industries that are by nature domestic are not heavily represented by the companies on the list.

The size of a company and its industry clearly affect the probability of its being on a divestment list. Companies that are too small or too localized to have developed international markets are not likely to be affected by investment restrictions. Unfortunately, neither are these companies likely to offer the reduction in risk available from the size, financial strength, diversification of product line and dispersion of markets enjoyed by the large, international companies that are the likely candidates for any "prohibited" list. The challenge for restricted investment managers, then, is to construct from a reduced universe of smaller, generally riskier companies, portfolios that offer, at comparable risk levels, returns comparable to those offered by investments in large companies.

To analyze the effects of divestment and to examine the practical problems it creates, we constructed an "alternative investment universe" that is free of South African influence. We replaced each prohibited company in the S&P 500 with another company in the same industry. In total, 152 companies were replaced. In all cases, the substitutes were the largest available American companies without South African connections.

The Alternative Universe

At the end of the first quarter of 1984, the S&P 500 was worth over \$1.175 trillion. The 152 companies doing business with South Africa accounted for \$554 billion of the S&P 500's capitalization value. Their 152 replacements

Table I Industry Weightings and Companies Eliminated by Divestment

| Industry | % of S&P 500 Cap. Wt. Eliminated | Largest Company Eliminated | Replacement Company |
|----------------------|-------------------------------------|-------------------------------|---------------------------|
| Industrial Equipment | 99 | General Electric | Dover |
| Banks | 97 | Citicorp | Texas Communications |
| Photographic | 93 | Eastman Kodak | Xidex |
| Chemicals | 87 | DuPont | Diamond Shamrock |
| Drugs | 87 | American Home Prod. | Syntex |
| Conglomerates | 86 | MMM | Greyhound |
| Tire & Rubber | 85 | Goodyear | Gencorp |
| Office Equipment | 84 | IBM | Commodore |
| Motor Vehicles | 81 | General Motors | Mack Trucks |
| International Oils | 76 | Exxon | Murphy Oil (domestic oil) |

were worth \$107 billion. The Alternative Universe thus came to \$728 billion—less than 62 per cent of the value of the S&P 500.

Rates of Return

Some researchers have noted that the average investment return on those companies that would be affected by divestment is significantly lower than the returns on companies free of South African connections. Indeed, it has been suggested that investment results could actually be improved by a divestment policy.

Our computations show that one dollar invested five years ago in the 152-stock portfolio of companies doing business in or with South Africa would have grown by now to \$1.94, including dividends. A dollar invested in the 152 replacement stocks would have grown to \$2.60—a difference in annual rate of return of over 7 per cent. But what is the source of this substantial difference?

Numerous studies have indicated that stocks of small firms have been outperforming those of large firms by substantial amounts.⁴ Wilshire Associates estimates that the 500 largest U.S. companies returned 9.7 per cent per year over the last 10 years, whereas the second largest 500 returned 17.9 per cent annually.⁵ The higher return on the replacement portfolio may thus be a reflection of this small firm effect.

Smaller, riskier companies promise higher returns and, in recent years at least, have delivered them. But high returns do not accrue without incurring greater investment risk. In the down market from July of 1983 through June 1984, the largest 500 stocks decreased in value 6.6 per cent; the second largest 500 declined 15.0 per cent.

Retirement plans are not free to take unlimited risks in pursuit of higher returns. The appropriate level of risk depends on the actuarial requirements of the plan, its funding status, legal restrictions and the retirement board's interpretation of fiduciary responsibility. All these factors affect a fund's ability to bear added risks in the hopes of higher, but uncertain, returns. Relative rates of return can be judged only in the context of risk assumed.

Investment Risk

A portfolio's risk tolerance is appropriately measured by its beta—i.e., its sensitivity to changes in the overall market. The market, as represented by the S&P 500, has a beta of 1.0. A

portfolio whose beta is greater than one is more volatile than the market, whereas one with a beta of less than one is less volatile. Another measure of portfolio risk is its R-squared—its degree of diversification in comparison to the market benchmark. The market, as proxied by the S&P 500, has an R-squared of 1.0. An actively managed portfolio concentrated in favored securities and sectors would be less diversified than the market and have an R-squared below the 1.0 indicating perfect diversification. Most active equity portfolios have an R-squared between 0.80 and 0.92; the R-squares of index funds approach 1.0.

The Alternative Universe is very well diversified, having an R-squared of 0.968, partly because of the high percentage of common holdings with the S&P 500. Although well diversified, it is riskier than the market, having a beta of 1.08. The Alternative Universe will rise or fall, on average, by 8 per cent for every 1 per cent change in the S&P 500.

Large funds that employ a multiple manager structure often specify a target beta as a means of controlling total portfolio risk. To meet a specified target with securities selected from the riskier Alternative Universe, managers may either have to select from among the least risky alternative stocks or hold larger cash positions.

Divestment may also involve strategic risks that are more difficult to quantify than investment or diversification risk. For example, during late 1983 and early 1984, energy was the only sector to show positive price appreciation.⁶ But energy stocks would have been heavily affected by divestment restrictions. Divestment may thus lead to diversification loss beyond the manager's control; the fund must bear the risk of foregoing profitable investment opportunities.

To construct the Alternative Universe, some large companies in the S&P 500 were replaced by other, smaller companies in the same industry. The relative importance of these industries was thus reduced in the Alternative Universe, while industries less affected by divestment gained in importance. Table II shows how industry weights of the Alternative Universe differ from the weights of the S&P 500. Note that the industries that have gained weight in the Alternative Universe are primarily domestic in nature. These industries are thus more susceptible to U.S. economic risk, which is not offset by sales and earnings from foreign countries.

Table II Industry Weight Changes

| Industry | % of S&P 500 | % of Alternative | % Difference |
|----------------|--------------|------------------|--------------|
| Business Mach. | 8.7 | 3.1 | -5.6 |
| Inter. Oil | 8.0 | 4.5 | -3.5 |
| Drugs | 6.2 | 3.1 | -3.1 |
| Motor Vehicles | 4.0 | 1.8 | -2.2 |
| Prod. Equip. | 4.1 | 2.0 | -2.1 |
| Insurance | 2.2 | 3.3 | +1.1 |
| Railroads | 1.9 | 3.0 | +1.1 |
| Paper | 2.0 | 3.1 | +1.1 |
| Energy Explor. | 3.5 | 5.4 | +1.9 |
| Domestic Oil | 6.6 | 8.9 | +2.3 |
| Utilities | 5.6 | 8.8 | +3.2 |
| Telephone | 5.8 | 9.2 | +3.4 |

Investment Desirability and Quality

Value Line publishes Timeliness Ratings, which measure stocks' anticipated 12-month price performance, and Safety Ratings, which measure companies' relative financial strengths.⁷ Table III compares the S&P 500 and the Alternative Universe on the basis of the distribution of timeliness ranks.

The Alternative Universe contains almost as many companies ranked in the top two categories for timeliness as the S&P 500. However, their capitalization value is substantially less. Institutions currently hold \$203 billion of the top rated stocks, representing 41 per cent of the total institutional holdings in S&P 500 stocks. Divestment would reduce institutional holdings of top rated stocks by \$110 billion; only 34 per cent of institutional holdings would be top rated.

The effects of divestment on Safety Rating are shown in Table IV. In terms of top Safety Ratings, the Alternative Universe falls short of the S&P 500 by 42 companies and \$372 billion in market capitalization. Companies rated highly for safety represent 59 per cent of the market capitalization of the S&P 500 but only 43 per cent of the Alternative Universe. Institutional managers now have 58 per cent of their S&P 500 holdings in the top Safety Ratings; only 42 per cent of institutional holdings in the Alternative Universe are top rated in safety.

Restricted institutional managers attempting to maintain the same standards of portfolio desirability and safety would be forced to compete for the smaller share of top rated Alternative Universe companies. If all institutional managers were subject to the same constraints, \$285 billion of current investments in high safety companies and \$203 billion of current investments in high desirability companies could be forced into \$116 billion worth of high safety companies and \$93 billion worth of high desirability companies in the Alternative Universe. It seems clear that only smaller funds could easily make such a transition without compromising portfolio attractiveness and, in particular, investment safety.

Liquidity and Trading Costs

Liquidity is one of the key areas in which large funds may experience difficulties not encountered by smaller funds. Thomas Loeb constructed a table of actual dealer quotes to show how company size and trade size affect transac-

Table III Proportions of S&P 500 in Top Two Value Line Timeliness Ranks

| Universe | Number of Stocks | Capitalization (billions of dollars) | % of Total Cap. | Institutional Holdings (billions of dollars) | % of Inst. Hold. |
|-------------|------------------|--------------------------------------|-----------------|--|------------------|
| S&P 500 | 137 | 440 | 37 | 203 | 41 |
| Alternative | 133 | 216 | 30 | 93 | 34 |
| Difference | 4 | 224 | 7 | 110 | 7 |

Table IV Proportions of S&P 500 in Top Two Value Line Safety Ranks

| Universe | Number of Stocks | Capitalization (billions of dollars) | % of Total Cap. | Institutional Holdings (billions of dollars) | % of Inst. Hold. |
|-------------|------------------|--------------------------------------|-----------------|--|------------------|
| S&P 500 | 179 | 688 | 59 | 285 | 58 |
| Alternative | 137 | 316 | 43 | 116 | 42 |
| Difference | 42 | 372 | 16 | 169 | 16 |

tion costs.⁸ Loeb's cost of trading includes direct commission costs, market-maker spreads and trading impact.

According to Loeb's study, larger trade sizes lead to higher trading costs. For example, the cost of acquiring a \$250,000 position in a billion dollar company is estimated to be 1.6 per cent, whereas a trade of \$2.5 million—10 times the size—would cost 3.9 per cent, or more than double. Similarly, trading in smaller companies is significantly more expensive than trading in larger companies. A \$500,000 trade involving a \$100 million company is more than twice as expensive as a \$100,000 dollar trade involving a billion dollar company (4.1 per cent vs. 2.0 per cent).

We used Loeb's figures to estimate transaction costs for acquiring (or selling) \$25,000, \$250,000 and \$2,500,000 positions in each of the 152 companies involved in South Africa and their 152 replacements. These three position sizes imply equally weighted portfolios of \$3.8 million, \$38 million and \$380 million. Table V shows the results. The replacement companies are significantly more expensive to trade than the original companies because of company size. Furthermore, the cost of trading increases as fund size increases.

The problem may be even more severe than Table V suggests. Because large portions of many of the smaller replacement companies are held by company officers and employees, the amount of stock actually available on the open market is in many cases substantially less than the apparent supply. Furthermore, if restrictions were implemented at about the same time, large funds' demand for replacement stocks could raise execution costs significantly higher. Finally, the higher transaction costs will persist after initial portfolio adjustment, as restricted

portfolios continue to trade among generally smaller companies.

Research and Administrative Costs

The larger a company and the greater its institutional ownership, the easier it is to obtain reliable information about it. The replacement companies in the Alternative Universe are less well known than their counterparts and are currently followed by fewer analysts. Brokerage house analysts submitted to Lynch, Jones & Ryan's I/B/E/S Service an average of 19.9 estimates on each of the companies involved in South Africa, but only 10.9 estimates on each replacement company.⁹ It may be expected that funds would require additional manpower to follow the replacement companies.

In addition, to the extent that the replacement stocks are riskier, hence subject to more frequent changes in fortune, higher turnover—executed at higher transaction rates—can be expected. More transactions lead to higher custodial activity, hence higher administrative costs.

Implications for Management Style

In the investment environment of the 1980s, managers are often retained as specialists, utilizing specific investment skills to attain particular investment objectives. Plan sponsors often hire a complementary set of managers, hoping to employ different expert manager skills within the context of an overall objective and structure.

Not all management styles would be equally affected by restrictions on South African companies. An "emerging growth" manager, for example, would be likely to be less affected than a "core" manager. Table VI gives some idea of how divestment might affect management structure. Core-oriented managers would be

Table V Transaction Costs

| Company Size (millions of dollars) | No. Companies | | % Transaction Cost for Position of | | |
|---|---------------|-------|------------------------------------|-----------|-------------|
| | So. Afr. | Repl. | \$25,000 | \$250,000 | \$2,500,000 |
| Under 100 | 1 | 1 | 2.0 | 3.0 | 7.9 |
| 100-500 | 19 | 57 | 1.1 | 1.6 | 4.0 |
| 500-1,000 | 21 | 67 | 1.0 | 1.6 | 3.9 |
| 1,000-1,500 | 20 | 17 | 1.0 | 1.4 | 3.1 |
| Over 1,500 | 91 | 10 | 0.6 | 0.7 | 1.4 |
| South African-Related Average Cost (%) | | | 0.8 | 1.0 | 2.3 |
| Replacement Average Cost (%) | | | 1.0 | 1.5 | 3.7 |

Table VI Manager Style and Divestment Effects

| Style | % Cap. Eliminated | R-Squared | | Beta | | Std. Error (%) | |
|-----------------|-------------------|-----------|-------|----------|-------|----------------|-------|
| | | So. Afr. | Repl. | So. Afr. | Repl. | So. Afr. | Repl. |
| Passive Core | 47 | 0.99 | 0.96 | 1.00 | 1.08 | 0.2 | 0.4 |
| Active Core | 40 | 0.97 | 0.91 | 1.01 | 1.07 | 3.0 | 5.7 |
| Yield Defensive | 46 | 0.90 | 0.88 | 1.02 | 1.04 | 5.9 | 6.6 |
| Rotator | 46 | 0.93 | 0.89 | 1.02 | 0.95 | 4.8 | 5.9 |
| Contrarian | 26 | 0.94 | 0.93 | 1.09 | 1.10 | 4.6 | 5.1 |
| Small Cap | 26 | 0.79 | 0.79 | 1.36 | 1.39 | 12.0 | 12.4 |
| Growth | 8 | 0.86 | 0.83 | 1.21 | 1.27 | 8.4 | 10.0 |
| Aggressive Grow | 22 | 0.68 | 0.65 | 1.48 | 1.46 | 17.6 | 18.3 |
| Combined | 31 | 0.94 | 0.92 | 1.17 | 1.22 | 5.2 | 6.3 |

affected the most, because they tend to hold the "blue chip" investments that are most affected by divestment. Growth-oriented managers would be less affected, but would face higher market risk (beta) and less diversification.

The growth and risk-oriented portfolios of most multimanager plans represent a substantially smaller part of the total fund than the core portfolio. With divestment, core managers would be forced either to hold larger amounts of securities not eliminated as a result of divestment or to select new companies from the Alternative Universe without changing the target portfolio characteristics.

If divestment makes it impossible for the core managers to hold to target investment characteristics, the plan administrator may have to compensate by requiring growth stock managers to lower their risk-taking. This would imply a complete restructuring of plan investments. How any particular manager would adjust is beyond our speculation, but the evidence cited above indicates that restructuring would not be simple or inexpensive.

One other factor should be considered. Many investment management and brokerage firms are part of or affiliated with companies on the divestment list. In particular, most of the largest, best capitalized and most frequently used brokerage and investment banking firms have contacts with South Africa. Use of the services of these organizations would presumably be prohibited under a divestment policy.

Fixed Income Management

The implications of divestment for fixed income portfolios are similar to those for equity portfolios—a smaller universe of corporate issues with lower average quality. At the end of 1983, the amount of outstanding corporate debt rated Baa or higher by Moody's approximated

\$300 billion. Of this, the 152 S&P 500 companies doing business with South Africa accounted for \$133 billion, or 44 per cent. The 152 replacement companies had only \$28 billion in outstanding debt at the end of 1983. The total amount of corporate debt available from the Alternative Universe was \$195 billion. This represents a 35 per cent reduction in the amount of corporate debt securities.

Furthermore, the corporate debt universe under divestment is of lower average quality. The companies that would be eliminated by divestment are larger, financially stronger and more diversified than the replacement companies. Table VII compares the original and replacement companies in terms of the distribution of corporate debt by Moody's ratings.

Ninety-two per cent of the securities that would be eliminated by divestment are rated Baa or better, versus only 72 per cent of the debt securities of the replacement companies. Fixed income managers subject to divestment will have substantially less corporate debt of investment grade available. They would have to accept lower quality bonds or compete for the remaining higher quality issues.

Table VII Corporate Debt Outstanding

| Moody's Rating | South African-Related | | Replacement Companies | |
|----------------|----------------------------|------------|----------------------------|------------|
| | Debt (billions of dollars) | % of Total | Debt (billions of dollars) | % of Total |
| Aaa | 10.40 | 8 | 0.00 | 0 |
| Aa | 60.60 | 46 | 0.65 | 2 |
| A | 36.60 | 28 | 9.50 | 35 |
| Baa | 15.00 | 10 | 4.60 | 16 |
| Ba | 1.40 | 1 | 4.70 | 16 |
| B | 2.20 | 2 | 0.85 | 3 |
| Caa | 1.30 | 1 | 0.00 | 0 |
| NR | 5.50 | 4 | 7.90 | 28 |

Table VIII Effects on Commercial Paper Quality

| Moody's Rating | No. of So. Afr. Related Companies | No. of Replacement Companies |
|----------------|-----------------------------------|------------------------------|
| Prime-1 | 91 | 29 |
| Prime-2 | 20 | 14 |
| Prime-3 | 3 | 0 |
| Not Rated | 46 36 | 109 |
| | 116 152 | 118 152 |

The effects of divestment on fixed income managers are softened, however, by the large supply of government issues available. At the end of 1983, government and corporate bonds outstanding amounted to approximately \$954 billion, only 12 per cent of which was related to South Africa. When government debt is included, 85 per cent of the debt securities free of South African influence are rated Baa or higher by Moody's. The effects of divestment would thus be felt most by managers who take advantage of higher yields from corporate issues and by managers who actively move from industry to industry to take advantage of yield spreads.

Cash Management

Cash management will be affected if managers are not permitted to purchase the commercial paper of companies doing business with South Africa or certificates of deposit of banks lending money to South African businesses or government agencies. Prime commercial paper is typically issued on an unsecured basis only by large, financially secure, diversified corporations, such as the companies on the divestment list. Most other companies are unable to issue commercial paper unless it is insured or guaranteed. Thus divestment would reduce the universe of companies issuing commercial paper and its average quality.

Table VIII shows the distribution of Moody's commercial paper ratings for the 152 companies on the divestment list and their replacements. Of the ~~116~~¹⁵² eliminated companies, ~~78~~⁷⁵ per cent are rated Prime-1, whereas only ~~67~~⁶⁰ per cent of the replacement companies achieve that rating. Most importantly, of the 152 eliminated companies, 75 per cent are rated. Only 28 per cent of the replacements are even rated. Divestment would reduce substantially the commercial paper available to cash-equivalent managers.

If divestment prohibits managers from purchasing certificates of deposit from banks that make loans to South African companies or government agencies, 13 of the 15 largest banks and 64 smaller banks would be affected. Divestment would thus reduce the universe of available bank CDs to only CDs from smaller, less diversified banks, which would carry more default risk.

Conclusion

Divestment restrictions may have a substantial impact on the investment management activities of large portfolios. In general, the restrictions will increase investment risk, reduce investment and diversification opportunities, and increase the costs of research, trading and administration. And the larger the fund, the greater the impact will be. ■

Footnotes

1. Andrew Rudd, "Divestment of South African Equities: How Risky?" *The Journal of Portfolio Management*, Spring 1979.
2. Stanford Calderwood, Working paper and presentation to the Conference on South African Investment Policy, University of Michigan, December 1 and 2, 1983.
3. Robert A. Schwartz, Testimony before the Committee on Consumer and Regulatory Affairs, City Council, District of Columbia, March 4, 1983.
4. See, for example, Rolf W. Banz, "The Relationship Between Return and Market Value of Common Stocks," *Journal of Financial Economics*, March 1981; Marc R. Reinganum, "Abnormal Returns in Small Firm Portfolios," *Financial Analysts Journal*, March/April 1981; and Ivan L. Lustig and Philip A. Leinbach, "The Small-Firm Effect," *Financial Analysts Journal*, May/June 1983.
5. Stephen L. Nesbitt, "Hot Money' Can Trip Up Fast-Track Advisory Firms—Stockpicker's Universe Contracts As Assets Grow," *Pension and Investment Age*, September 5, 1983.
6. "The Forbes/Wilshire 5000 Review," *Forbes*, ongoing.
7. *The Value Line Investment Survey* (New York: Value Line, Inc.).
8. Thomas F. Loeb, "Trading Cost: The Critical Link Between Investment Information and Results" *Financial Analysts Journal*, May/June 1983.
9. I/B/E/S (The Institutional Brokers Estimate System) is a service of Lynch, Jones & Ryan, New York.

TRINITY INVESTMENT MANAGEMENT CORPORATION
TEN TREMONT STREET, BOSTON, MASSACHUSETTS 02108-2008 • (617) 742-9525

September 4, 1984

Mr. Roland M. Machold
Director
Division of Investment
Department of the Treasury
State of New Jersey
Trenton, New Jersey 08625

Dear Mr. Machold:

Thank you for your request that we share with you some of Trinity's experiences in managing a portfolio for Michigan State University, whose policy prohibits us from using common stocks of companies doing business in South Africa. You seem to have information that we have had good performance, and that our example might be an endorsement--in investment terms--for the policy proposed for the State of New Jersey.

Yes, we won't deny it, we have been very successful with the MSU portfolio using the investment community's traditional benchmark--the S&P 500. Because our record is in the public domain, we see no point in not telling you what it has been:

| | Total Return Since Inception <u>7/30/82 to 8/31/84</u> |
|------------------------------|--|
| S&P 500 | + 71.9% |
| South Africa Free Universe* | + 68.7% |
| INDATA Median Equity Manager | + 57.5% |
| Trinity's MSU Portfolio | +105.0% |

*A capitalization-weighted universe of 470 stocks of USA companies not doing business in South Africa.

Unfortunately, a Misleading Example

We are both proud and pleased that we have been able to serve MSU so well.

But, we would be professionally negligent, if not downright misleading, if we were to tell you--or let you infer--that we would have done as well with New Jersey's \$3.5 billion in equities as we have managed to do with MSU's mere \$9.6 million.

Quite the contrary--in our judgment based on our day-to-day experience of identifying undervalued stocks within the limited South Africa Free Universe and then going into the market to buy them--we are convinced that what we have been able to do with Michigan State University's portfolio could not be translated into much larger portfolios, such as the New Jersey portfolio.

The Critical Difference

Market liquidity is the critical difference.

For MSU, we run a portfolio of about 60 issues. That many issues, by the way, is more than most managers would use for a portfolio with total assets of only \$9.6 million.

With rare exceptions, when we identify an undervalued issue within the SAF Universe that we want to use in the MSU portfolio, we can buy that position within a single day, and without disturbing the market price because we are taking, on balance, less than 20% of a single day's volume. On rare occasions we may be in the market for two days.

But if we had your problem of investing \$3.5 billion in equities--that's over 360 times the size of the MSU portfolio--we honestly wouldn't know how to do it and still preserve any selectivity capability.

Remember, Trinity's record with MSU was built on being able to select what we felt were the 60 most undervalued stocks out of a Universe of 470 stocks. We used virtually every stock we felt confident was in fact undervalued--and the 20% of the SAF Universe we ranked as solid BUYs is a much higher percentage than most investment processes are willing to rank as solid BUYs.

A Vivid Example

Let's assume we know for sure that the 60 stocks now held in MSU's portfolio will be as successful over the next year as were the stocks we held one year ago.

Furthermore, assume that the only New Jersey dollars that you want to invest in those stocks are dollars that would have to be raised by selling off stocks now held in the New Jersey equity fund that includes companies doing business in South Africa.

That would mean you are faced with finding a new home for the proceeds from 43 stocks that you would be forced to sell off by the adoption of such a policy. Those 43 now prohibited stocks are equal to 36.8% of your portfolio or \$1.4 billion.

Now, we wave the magic wand, and tell you to BUY what Trinity is owning in MSU. After all, look at the record on the previous page. After all, those guys at Trinity know what they are doing. They have a record to prove it.

It wouldn't be easy:

- o You have some advantage. You only have to sell off 43 stocks and you have 59 stocks into which to invest the money.
- o But, because the South Africa Free stocks are smaller, and because they have much lower average daily trading, it would be an impractical transition.
- o We begin by using two common sense rules:

--trading in any stock will be limited to 20% of that day's volume

--no new position in the New Jersey portfolio will be less than 0.5% of the total portfolio, nor more than 5.0% and/or 5.0% of a company's capitalization. (This latter rule is, in fact, New Jersey's own operating guideline.)

Under those perfectly proper realities, here's what any manager would face in making the transition:

- a. The minimum number of days it would require to establish a full position in some stocks would be 20 days.

The median days required to trade all the stocks would be 71 days.

For some of the stocks it would require more than 100 days, and for one stock an impossible 1,429 days.

- b. It would take 27 trading days (more than a calendar month) to complete only 50% of the program.

You know by experience that how you would rank a stock on Day One may be a whole lot different than on Day 27. Many stocks you start out to buy might well give you second thoughts as they run up in price and/or have other problems.

An Unfair Example?

Perhaps so. After all, the SAF Universe was designed for MSU's very small portfolio. To put part of New Jersey's money into those 59 stocks might be rigging the answer.

Let's loosen the noose. Let's assume:

- o You can use every stock on the current New Jersey Approved List except the 67 that would have to be eliminated by an SAF policy.

This means that there will be absolutely no selectivity whatsoever involved. You simply are going to take the money you must raise because of the proposed SAF policy, and invest it in the stocks that have been carefully identified as a suitable universe from which you are now identifying undervalued stocks for the portfolio.

- o You use only the existing New Jersey guidelines; i.e., at least 0.5% positions, and no position more than 5.0% and/or 5% of a company's capitalization.

Here's what you would be faced with:

- a. The minimum number of days it would require to establish a position in some stocks would be 9. That's less than the 27 to get into the MSU portfolio, but still a great many days at the minimum.

The median days required would be 29--nearly 1.5 calendar months.

The maximum required would be 607--better than 1,429 for the MSU list, but still a silly number.

- b. It would take 12 trading days to reach 50% of the transfer.

In both cases--using the highly successful MSU list or in using New Jersey's entire approved list less the restricted stocks--the time at the trading desk would be very costly in terms of performance.

There is no way of telling how much damage would be done while you were in there day after day after day taking 20% of the volume of a stock. But we would be suspicious of any so-called "expert" who said there wouldn't be a market impact.

You may decide--as an investment decision--to buy a \$50 stock. But after you have been in there steadily for a month buying 20% of the volume, that stock is likely to move up, and may no longer be undervalued in your investment judgment.

And this problem is a two way street. Getting into any stock that is thinly traded in the context of a portfolio's needs can be costly. Generally, it is more costly to get out. When you don't want it any longer, much of the rest of the world feels the same way and will extract a penalty as you try to unload.

One Final Scenario

Let's assume that you do want to exercise some selectivity, not simply buy everything on your approved list.

Thus, instead of using your 177 issue approved list, we use the much larger universe of SAF stocks, and then through a selectivity process agree to buy only issues of above-average quality that are also ranked in the top 3 deciles by Trinity's Multiplex model. (This is a looser constraint than we use for MSU, where we limit BUYS to the top 2 deciles.)

Let's compare all three possible portfolios:

| | <u>MSU's Current Portfolio</u> | <u>New Jersey's Current Approved List</u> | <u>Selected BUYs From 674 Stock Universe</u> |
|----------------------------------|--|---|--|
| # of Issues Available | 59 | 177 | 136 |
| Average Market Cap. (Billions)\$ | 1.9 | \$ 2.0 | \$ 1.5 |
| Days needed to get 50% Done | 27 | 12 | 18 |
| Median Days to Trade | 71 | 29 | 54 |
| Minimum Days to Trade | 20 | 9 | 21 |
| Maximum days to trade | 1,429 | 607 | 1,231 |

What drives the trading days--and thus the price pressure up--in all of these cases is the reality that a SAF policy eliminates from consideration stocks with more than \$300 billion in market capitalization that are the backbone of any large portfolio such as New Jersey's.

In the current New Jersey portfolio, the average market capitalization is \$4.5 billion. But the average market capitalization of the stocks that would have to go out of the current portfolio is \$7.0 billion.

Finding a new place to invest money that comes out of stocks with an average \$7.0 billion in market capitalization when you are forced to use stocks whose average

market capitalization is only \$2.0 billion, or roughly 72% smaller, is at the heart of these difficult trading scenarios.

Focus Only on Trading

In this letter we have focused only on the trading problems. We have not discussed the distorted characteristics of a SAF Universe in other terms. Virtually entire Industry Groups are eliminated by a SAF policy, and this means opportunity cost. Being sealed off from the complete market will create diversification problems and thus non-market risk problems that other managers don't face.

And so on. The list is a long, long one and we assume you already know those hazards.

Yes, Trinity's MSU Experience is Meaningless in New Jersey's Terms

Let me conclude by coming back to your basic request. You said in your call that other "professional investors" had cited our MSU experience as an example that a SAF policy is manageable without inhibiting investment results.

Trinity does not see it that way. What we did for MSU worked for their \$9.6 million dollars--and we hope it continues to work.

But, by first-hand experience, we would be the first to tell you that we haven't the foggiest idea how to translate our investment process--working in such an inhibited and limited universe--into New Jersey's needs for its \$3.5 billion.

To cite Trinity as an example is ridiculous. It's like some promoter watching his neighbor's kid make a very succesful sled run down a gentle slope and deciding that kid is just right for the Olympic bobsledding team. Hungry for business, the promoter has nothing to lose.

But the kid on the sled--who knows his capabilities--has much to lose (and in our analogy that kid would be Trinity). More importantly, the parent of the kid, holding the ultimate responsibility, should know the risks involved and listen to both his kid on the sled and his own common sense, before he signs up. That parent is perhaps your legislature.

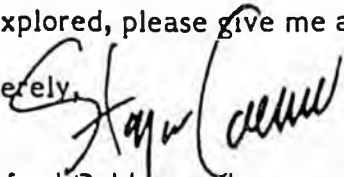
Data Available

You can meet with our Paul Reeder who crunched the summary numbers cited in this letter. He has pages and pages of computer printout that explore many other aspects of the challenge you face with a SAF policy. From that work you will find a great many other cautions over and above the liquidity ones cited in this letter.

Please keep in mind that our comments in this letter are limited to the investment aspects of the SAF policy. We are personally very sympathetic with the aims of such a policy, but as professionals in response to your question, we are willing to point out the risks being taken in investment terms.

If you have more specific aspects you would like explored, please give me a call.

Sincerely,



Stanford Calderwood

SC:wp

TRINITY INVESTMENT MANAGEMENT CORPORATION
 TEN TREMONT STREET, BOSTON, MASSACHUSETTS 02108-2008 • (617) 742-9525

September 4, 1984

Mr. Roland M. Machold
 Director
 Division of Investment
 Department of the Treasury
 State of New Jersey
 Trenton, New Jersey 08625

Dear Mr. Machold:

This is my second letter of this date. In our telephone conversation, I mentioned tongue-in-cheek that the challenge you face with a possible SAF policy is very akin to a man going into a poker game with a deck stacked against him. You asked if I could be specific.

This letter tries.

Methodology

We first had to relate an individual stock to a particular card.

I don't have to tell you that when you manage billions of dollars in an equity portfolio it is much more complicated than simply finding undervalued stocks that are going to outperform the S&P 500.

Under New Jersey's rules you have to buy at least 0.5% positions, but no more than 5% of a company. At the same time, you cannot have more than 5% of your dollars in any one company. These are common sense rules, widely used. Clearly, even if both stocks had equal chance of outperforming the S&P 500, there is considerable difference between the index's largest and smallest stock:

| | <u>Largest</u> <u>IBM</u> | <u>Smallest</u> <u>Eagle-Picher Ind.</u> |
|-----------------------|------------------------------|---|
| Market Capitalization | \$ 67,635 mm | \$ 217 mm |
| Average Daily Trading | \$ 154.9 mm | \$ 0.1 mm |

Thus, to relate stocks from top to bottom, from Aces to Twos, we multiplied the market capitalization times the daily trading (and then took the square-root for an easily read figure).

Under such a scheme, IBM would be an Ace. The smallest company, Eagle-Picher, would be a Two.

Next, we ranked stocks in your total universe and broke the list into 13 equal levels to represent each card in the deck--Two to Ace.

Thus, there were 21 stocks ranked as Aces, 21 ranked as Kings, and so on down to 21 ranked as Twos.

As you might expect, in your actual portfolio, you had many more Aces (19 stocks) than you did Twos (4 stocks). This simply validated the underlying assumption that stock size and trading were important considerations beyond simple selectivity.

Impact of SAF Policy

We next looked at the cards (stocks) that would be eliminated by an SAF Policy from your total Universe.

Here's what we found:

| <u>Card Category</u> | <u>Stocks Lost</u> | <u>% of Cards Lost</u> |
|----------------------|--------------------|------------------------|
| Ace | 10 | 47.6% |
| King | 12 | 60.0% |
| Queen | 9 | 42.9 |
| Jack | 9 | 42.9 |
| Tens | 3 | 14.3 |
| Nines | 8 | 38.1 |
| Eights | 4 | 33.3 |
| Sevens | 11 | 52.4 |
| Sixes | 4 | 33.3 |
| Fives | 3 | 14.3 |
| Fours | 7 | 33.3 |
| Threes | 7 | 33.3 |
| Twos | 3 | 14.3 |
| Total | 90 | 32.7% |

So there you sit at the table.

- o The other players around the table are getting cards from a 52-card deck. They have available to them all the Aces, all the Kings, all the Queens, and so on.
- o But you are getting cards from a deck that has been reduced by 17 cards to a total of only 35.
- o And among the 17 missing cards are ones you need desperately in your \$3.5 billion fund:
 - 2 Aces
 - 2 Kings
 - 2 Queens
 - 2 Jacks

But, take heart, you at least have: 3.4 Tens and about as many Eights.

What is The Opportunity Cost?

The casual investment "expert" who is testifying that the SAF policy won't inhibit performance tends to answer the opportunity question with "...nobody knows for sure." The implication is that because stocks that are SAF do have, on balance, performance that about equals the normal institutional stocks, there isn't any real problem. The question of size and liquidity, the basis for classifying our cards, is generally ignored and passed over lightly.

But the money at stake is not that of the experts who say there are no investment implications of working from a list that denies about \$400 billion in market capitalization to the portfolio manager.

If it were your money, would you want to sit at the table and be denied 17 critical cards the other players could use if they wished?

Missing the Point

It does not boil down to a comparison of the performance of stocks in an SAF Universe and those in a non-SAF Universe.

The dimensions of size and trading liquidity are critical to large funds such as New Jersey's.

What good is it if there are stocks in a SAF Universe that perform as well as the prohibited stocks, if the portfolio involved is so large it can't practically buy enough of those better performing stocks.

It is economically costly in terms of research to identify an undervalued stock. And that cost is not related to size or trading liquidity. If anything, it costs more to identify the smaller stocks that are thinly traded because so few Street Analysts are watching such stocks.

So, you wind up paying more to identify a stock you can use under an SAF policy and then find out you can't buy as much as you would like. You look around the table, discover that the other players have identified an Ace at much less cost, and can buy all they want and need easily. You could have identified that Ace, but you can't buy it.

Valid Analogy?

We can't say for sure, but we suspect it can be tested easily.

The next time an "expert" testifies that dropping \$400-plus billion in market capitalization isn't going to be costly, invite him to the back room to play a little poker.

My guess is he wouldn't want to expose say \$50,000 of his own capital in a game where he was being dealt from a deck of only 35 cards and you were being dealt from a full deck. If he doesn't want to play that game in the real world with his own real money, why is he so generous about going into a much more serious game with such obvious inhibitions and with billions at stake?

He may be looking for business. He may be using his role as an "expert" to push a perfectly good social cause he feels strongly about.

In any event, we urge strongly that the situation be explored in real terms, not in

global terms that can hide the realities of the trading desk where big stocks with big daily trading are mandatory for multi-billion dollar funds.

Again, let me stress that these views are based purely on investment considerations, and are not an expression of any opinion about the social issue involved.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stanford Calderwood". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

Stanford Calderwood

SC:wp



Alaska State Legislature

House of Representatives

Committee on State Affairs

Official Business

November 25, 1985

Commissioner Mary Nordale
Department of Revenue
Pouch S
Juneau, Alaska 99811

Dear Commissioner Nordale:

As you are aware, House State Affairs Committee held a public hearing on HCR 17 "Relating to Investment of State Assets in Companies Doing Business with the Republic of South Africa." At that time, various questions and concerns were raised regarding the possible affect of divestment of state funds. The committee hopes you will be able to provide information, differentiating between the general fund, public employee retirement fund and the Permanent Fund, which addresses the following questions:

1. What is the breakdown of Alaska investments and public funds invested in South Africa?
2. What is the risk of loosing public funds invested in South Africa? What is the degree of non-market risk? What is the risk if we don't divest?
3. How would limiting the portfolio to non-South Africa investments affect performance in the short and long term?
4. What would be the effect of divestment if it were conducted gradually over a two, six, twelve, or twenty-four month period?
5. If the state decided to divest, what would be the actual transaction costs?

On behalf of the committee, I want to express appreciation for providing this information which will be of great assistance as the members consider the complex issue of divestment.

Sincerely,

Katie

Rep. Katie Hurley, Chair

Pouch V
State Capitol
Juneau, Alaska 99811

(907) 462-4882

RECEIVED
ALASKA DEPARTMENT OF REVENUE

DEC 05 1985

OFFICE OF THE COMMISSIONER

Mary

STATE OF ALASKA
DEPARTMENT OF REVENUE

M E M O R A N D U M

TO: Milt Barker *MB*
Deputy Commissioner

FROM: James R. Wilson
State Investment Officer

DATE: September 9, 1985

RE: South African Divestment Effects

The proposed divestment of investments in companies doing business in South Africa would have the effect of removing

62% of the 50 largest U.S. companies,
57% of the Fortune 100 companies,
47% of the S & P 500 companies, and
35% of the Wilshire 5000 companies

and would constitute avoiding, to name a few,

91% of international oil companies,
90% of office equipment companies,
89% of drug companies,
88% of chemical companies, and
87% of automobile manufacturers.

The common stock portfolios would have to avoid most of the large, heavily capitalized, successful, and relatively secure U.S. companies and would have to concentrate on utility, transportation, and retail stocks. Because the smaller companies in which investments would have to be made are inherently riskier on a credit basis, they also have more volatile stock prices and hold a greater chance of losing money on the investments. The non-South African S & P 265 (what is left of the 500) has been shown to be 1.84 times more volatile on the upside but 2.27 times more volatile on the downside. This translates to a drop of 18.9% in the probable rate of return over long periods of time. For large funds like the Alaska Retirement Systems, common stock holdings would have to be excessively diversified into too many small holdings. It has been demonstrated that common stock portfolios approaching 100 or more stocks have virtually no chance of surpassing the general stock market's average performance -- ergo, a lower

Milt Barker
September 9, 1985
Page 2

return than we currently enjoy. Consequently, we would find it necessary to reduce our potential risk by reducing what otherwise would be the size of our common stock portfolios.

The divestment would also affect our bond and money market portfolios by removing much of our potential investment universe; i.e.,

77% of commercial paper issuers,
87% of bank issued paper, and
60% of industrial corporate bonds.

The loss of money opportunities would reduce our yield by .25% in those areas, but the loss of most of the best credits in the corporate bond area would have more pronounced effects. Because the remaining industrial bonds would be substantially more risky, we would have to maintain a smaller, relative position -- although it would cost us 1.1% in yield. Prudence would also demand a smaller utility bond position as well so we would not be overly weighted in that riskier and less call protected area.

Divestment would have similar but somewhat reduced effects on the State's General Fund and on the Public School and University of Alaska Funds. These endowment funds would lose their only equity investments (convertibles) and more than half of their high yielding corporate bonds. The General Fund would be practically trapped into only U.S. Treasury issues for a give-up of about \$1 million a year.

In order to quantify the effects on the Retirement Systems' investments, I have calculated their probable average positions and rates of return for each of the next five fiscal years. Then, after allowing for the divestment effects on the portfolio's positions and yields -- as previously noted in this memorandum -- I have recalculated the rates of return for the same five fiscal years. The results of these calculations are shown in the attached table. The divestment portfolios have smaller common stock and corporate bond positions and larger U.S. Treasury positions, and yields on common stocks are lower. The net result for the sum of the five years is a reduction in returns on investments totalling \$177,890,000.

JRW/gb

Attachment

State of Alaska Investment Funds
Assets as of 9/30/85*
(\$ Millions)

| | General Fund | Public Employees Retirement Fund | Teachers Retirement Fund | Public School Fund | U of A Permanent Fund | International Airport Fund | Total | % of Total |
|---------------------------------|-------------------|---|--------------------------------|--------------------------|-----------------------------|----------------------------------|--------------|---------------|
| Repurchase Agreements | 170.0 | 41.4 | 18.9 | | | | 230.3 | 5.2% |
| South African Amount* | (0.0) | (0.0) | (0.0) | | | | (0.0) | (0.0) |
| Commercial Paper | 370.0 | 35.0 | 25.0 | | | | 430.0 | 9.6 |
| South African Amount | (295.0) | (35.0) | (25.0) | | | | (355.0) | (7.8) |
| Interest Bearing Bank Deposits | 3.7 | .4 | - | | | | 4.1 | - |
| South African Amount | (3.7) | (.4) | - | | | | (4.1) | - |
| Alaskan Certificates of Deposit | 43.2 | | | | | | 43.2 | 1.0 |
| Government Obligations | 1,390.3 | 486.0 | 310.6 | 66.0 | 6.0 | 41.6 | 2,300.5 | 51.6 |
| Corporate Bonds | 2.9 | 84.0 | 56.0 | 8.2 | 2.3 | | 153.4 | 3.4 |
| South African Amount | (.0) | (18.0) | (12.0) | (4.8) | (1.2) | | (36.0) | (.8) |
| Government Agency Obligations | | | | 3.0 | 1.7 | | 4.7 | - |
| Domestic Corporate Stock | 31.8 | 220.9 | 141.9 | | | | 394.6 | 8.9 |
| South African Amount | (.0) | (90.0) | (56.1) | | | | (146.1) | (3.3) |
| Foreign Corporate Stock | | 49.3 | 31.9 | | | | 81.2 | 1.8 |
| Mortgages & Loans | 74.5 | 295.1 | 199.9 | | | | 569.5 | 12.8 |
| Real Estate Equities | <u> </u> | <u>88.6</u> | <u>58.3</u> | <u> </u> | <u> </u> | <u> </u> | <u>146.9</u> | <u>3.3</u> |
| TOTAL | 2,086.4 | 1,300.7 | 842.5 | 77.2 | 10.0 | 41.6 | 4,458.4 | 100.0 |
| South African Amount | (298.7) | (143.4) | (93.1) | (4.8) | (1.2) | | (541.2) | (11.9) |

* The figures shown in parentheses for "South African Amount" are investments of State funds in U.S. banks or corporations which do business in South Africa. It is likely that a significant portion of foreign corporate stock investments are in banks or corporations which do business in South Africa. However, information is not available to identify those corporations. No State funds are invested in banks or corporations domiciled in South Africa.

Calendar No. 206

99TH CONGRESS
1ST SESSION**H. R. 1460**

IN THE SENATE OF THE UNITED STATES

JUNE 10 (legislative day, JUNE 3), 1985

Received, and read the first time

JUNE 26, 1985

Read the second time and placed on the calendar

AN ACT

To express the opposition of the United States to the system of apartheid in South Africa, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Anti-Apartheid Act of
5 1985".

6 **SEC. 2. POLICY DECLARATIONS.**

7 The Congress makes the following declarations:

8 (1) It is the policy of the United States to encour-
9 age all nations to adopt political, economic, and social

1 policies which guarantee broad human rights, civil lib-
2 erties, and individual economic opportunities.

3 (2) It is the policy of the United States to con-
4 demn and seek the eradication of the policy of apart-
5 heid in South Africa, a doctrine of racial separation
6 under which rights and obligations of individuals are
7 defined according to their racial or ethnic origin.

8 **SEC. 3. PROHIBITION ON LOANS TO THE SOUTH AFRICAN**
9 **GOVERNMENT.**

10 (a) **IN GENERAL.**—No United States person may make
11 any loan or other extension of credit, directly or through a
12 foreign affiliate of that United States person, to the Govern-
13 ment of South Africa or to any corporation, partnership, or
14 other organization which is owned or controlled by the Gov-
15 ernment of South Africa, as determined under regulations
16 which the President shall issue.

17 (b) **EXCEPTION FOR NONDISCRIMINATORY FACILI-**
18 **TIES.**—The prohibition contained in subsection (a) shall not
19 apply to a loan or extension of credit for any educational,
20 housing, or health facility which—

21 (1) is available to all persons on a totally nondis-
22 criminatory basis, and

23 (2) is located in a geographic area accessible to all
24 population groups without any legal or administrative
25 restriction.

26 (c) **EXCEPTION FOR PRIOR AGREEMENTS.**—The prohi-

1 bition contained in subsection (a) shall not apply to any loan
2 or extension of credit for which an agreement is entered into
3 before the date of the enactment of this Act.

4 (d) ISSUANCE OF REGULATIONS.—The President shall
5 issue the regulations referred to in subsection (a) not later
6 than 90 days after the date of the enactment of this Act.

7 SEC. 4. RESTRICTIONS ON NEW INVESTMENTS (INCLUDING
8 BANK LOANS).

9 (a) PRESIDENT TO ISSUE REGULATIONS.—The Presi-
10 dent shall, not later than 90 days after the date of the enact-
11 ment of this Act, issue regulations prohibiting any United
12 States person from making, directly or through a foreign affil-
13 iate of that United States person, any investment (including
14 bank loans) in South Africa.

15 (b) EXCEPTIONS FROM PROHIBITION.—The prohibition
16 contained in subsection (a) shall not apply to—

17 (1) a loan or extension of credit permitted under
18 section 3;

19 (2) an investment which consists of earnings de-
20 rived from a business enterprise in South Africa estab-
21 lished before the date of the enactment of this Act and
22 which is made in that business enterprise; or

23 (3) the purchase, on a securities exchange regis-
24 tered as a national securities exchange under section 6
25 of the Securities Exchange Act of 1934, of securities
26 in a business enterprise described in paragraph (2).

1 SEC. 5. GOLD COINS.

2 (a) PROHIBITION.—No person, including a bank, may
3 import into the United States any South African krugerrand
4 or any other gold coin minted in South Africa or offered for
5 sale by the Government of South Africa.

6 (b) UNITED STATES DEFINED.—For purposes of this
7 section, the term “United States” includes the States of the
8 United States, the District of Columbia, the Commonwealth
9 of Puerto Rico, and any territory or possession of the United
10 States.

11 SEC. 6. WAIVERS.

12 (a) AUTHORITY OF THE PRESIDENT.—

13 (1) INITIAL WAIVER.—The President may waive
14 the prohibitions contained in sections 4 and 5 for a
15 period of not more than 12 months if—

16 (A) the President determines that one or
17 more of the conditions set forth in subsection (b)
18 are met,

19 (B) the President submits that determination
20 to the Congress, and

21 (C) a joint resolution is enacted approving
22 the President’s determination.

23 (2) ADDITIONAL WAIVERS.—The President may
24 waive the prohibitions contained in sections 4 and 5 for
25 additional 6-month periods if, before each such
26 waiver—

1 (A) the President determines that an addi-
2 tional condition set forth in subsection (b) has
3 been met since the preceding waiver under this
4 subsection became effective,

5 (B) the President submits that determination
6 to the Congress, and

7 (C) a joint resolution is enacted approving
8 the President's determination.

9 (b) STATEMENT OF CONDITIONS.—The conditions re-
10 ferred to in subsection (a) are the following:

11 (1) FAMILY HOUSING NEAR PLACE OF EMPLOY-
12 MENT.—The Government of South Africa has elimi-
13 nated the system which makes it impossible for black
14 employees and their families to be housed in family ac-
15 commodations near the place of employment.

16 (2) RIGHT TO SEEK EMPLOYMENT.—The Gov-
17 ernment of South Africa has eliminated all policies that
18 restrict the rights of black people to seek employment
19 in South Africa and to live wherever they find employ-
20 ment in South Africa.

21 (3) ELIMINATING DENATIONALIZATION.—The
22 Government of South Africa has eliminated all policies
23 that make distinctions between the South African na-
24 tionality of blacks and whites.

1 (4) ELIMINATING REMOVALS.—The Government
2 of South Africa has eliminated removals of black popu-
3 lations from certain geographic areas on account of
4 race or ethnic origin.

5 (5) ELIMINATING RESIDENCE RESTRICTIONS.—
6 The Government of South Africa has eliminated all
7 residence restrictions based on race or ethnic origin.

8 (6) NEGOTIATIONS FOR NEW POLITICAL
9 SYSTEM.—The Government of South Africa has en-
10 tered into meaningful negotiations with truly represent-
11 ative leaders of the black population for a new political
12 system providing for the full national participation of
13 all the people of South Africa in the social, political,
14 and economic life in that country and an end to dis-
15 crimination based on race or ethnic origin.

16 (7) SETTLEMENT ON NAMIBIA.—An internation-
17 ally recognized settlement for Namibia has been
18 achieved.

19 (8) FREEING POLITICAL PRISONERS.—The
20 Government of South Africa has freed all political
21 prisoners.

22 (c) PROCEDURES FOR CONSIDERATION OF JOINT RES-
23 OLUTIONS.—

24 (1) REFERRAL OF JOINT RESOLUTIONS.—All
25 joint resolutions introduced in the House of Represent-

1 atives and the Senate shall be referred immediately to
2 the appropriate committees.

3 (2) COMMITTEE DISCHARGE.—If the committee
4 of either House to which a joint resolution has been
5 referred has not reported it at the end of 30 days after
6 its introduction, the committee shall be discharged from
7 further consideration of the joint resolution or of any
8 other joint resolution introduced with respect to the
9 same matter.

10 (3) CONSIDERATION OF RESOLUTIONS.—A joint
11 resolution under this subsection shall be considered in
12 the Senate in accordance with the provisions of section
13 601(b)(4) of the International Security Assistance and
14 Arms Export Control Act of 1976. For the purpose of
15 expediting the consideration and passage of joint reso-
16 lutions reported or discharged pursuant to the provi-
17 sions of this subsection, it shall be in order for the
18 Committee on Rules of the House of Representatives
19 to present for consideration a resolution of the House
20 of Representatives providing procedures for the imme-
21 diate consideration of a joint resolution under this sub-
22 section which may be similar, if applicable, to the pro-
23 cedures set forth in section 601(b)(4) of the Interna-
24 tional Security Assistance and Arms Export Control
25 Act of 1976.

1 (4) RECEIPT OF RESOLUTIONS FROM THE OTHER
2 HOUSE.—If before the passage by one House of a joint
3 resolution of that House, that House receives a joint
4 resolution with respect to the same matter from the
5 other House, then—

6 (A) the procedure in that House shall be the
7 same as if no joint resolution had been received
8 from the other House; but

9 (B) the vote on final passage shall be on the
10 joint resolution of the other House.

11 (5) COMPUTATION OF LEGISLATIVE DAYS.—In
12 the computation of the period of 30 days referred to in
13 paragraph (2) of this subsection, there shall be ex-
14 cluded the days on which either House of Congress is
15 not in session because of an adjournment of more than
16 3 days to a day certain or because of an adjournment
17 of the Congress sine die.

18 (6) JOINT RESOLUTION DEFINED.—For purposes
19 of this subsection, the term “joint resolution” means a
20 joint resolution the matter after the resolving clause of
21 which is as follows: “That the Congress, having re-
22 ceived on a determination of the Presi-
23 dent under section 6(a) of the Anti-Apartheid Act of
24 1985, approves the President’s determination.”, with

1 the date of the receipt of the determination inserted in
2 the blank.

3 **SEC. 7. EXPORTS TO SOUTH AFRICAN GOVERNMENT.**

4 Section 6 of the Export Administration Act of 1979 (50
5 U.S.C. App. 2405) is amended by adding at the end the
6 following:

7 “(1) EXPORTS TO SOUTH AFRICA.—(1) No computers,
8 computer software, or goods or technology intended to serv-
9 ice computers may be exported, directly or indirectly, to or
10 for use by the Government of South Africa or any corpora-
11 tion, partnership, or other organization which is owned or
12 controlled by the Government of South Africa.

13 “(2) For purposes of paragraph (1), the term ‘computer’
14 includes any computer that is the direct product of tech-
15 nology of United States origin.

16 “(3) The prohibition contained in paragraph (1) shall not
17 apply to donations of computers to primary and secondary
18 schools.

19 “(4) Notwithstanding any other provision of this or any
20 other Act, the prohibition contained in paragraph (1) shall
21 apply to any contract or agreement entered into before the
22 date of the enactment of this subsection, and to any license or
23 other authorization in effect which is issued under this Act
24 before such date of enactment.

1 “(5) The termination provisions contained in section 20
2 of this Act shall not apply to this subsection, or to sections 11
3 and 12 of this Act to the extent such sections apply to viola-
4 tions of, and the enforcement of, this subsection.”.

5 **SEC. 8. NUCLEAR EXPORTS.**

6 (a) **COOPERATION.**—Cooperation of any kind provided
7 for in the Atomic Energy Act of 1954 is hereby prohibited
8 with respect to the Republic of South Africa.

9 (b) **NUCLEAR REGULATORY COMMISSION AUTHORIZA-**
10 **TIONS.**—The Nuclear Regulatory Commission may not issue
11 any license or other authorization under the Atomic Energy
12 Act of 1954 for the export to the Republic of South Africa of
13 any source or special nuclear material, any production or uti-
14 lization facility, any sensitive nuclear technology, any compo-
15 nent, item, or substance determined to have significance for
16 nuclear explosive purposes pursuant to section 109 b. of the
17 Atomic Energy Act of 1954, or any other material or tech-
18 nology requiring such a license or authorization.

19 (c) **DISTRIBUTION OF NUCLEAR MATERIAL.**—The au-
20 thority of the Atomic Energy Act of 1954 may not be used to
21 distribute any special nuclear material, source material, or
22 byproduct material to the Republic of South Africa.

23 (d) **SUBSEQUENT ARRANGEMENTS.**—No department,
24 agency, or official of the United States Government may
25 enter into any subsequent arrangement under the Atomic

1 Energy Act of 1954 which would permit the transfer to or
2 use by the Republic of South Africa of any nuclear materials
3 and equipment or any nuclear technology.

4 (e) AUTHORIZATIONS OF SECRETARY OF ENERGY.—

5 The Secretary of Energy may not provide any authorization
6 (either in the form of a specific or a general authorization)
7 under section 57 b. (2) of the Atomic Energy Act of 1954 for
8 any activity which would constitute directly or indirectly en-
9 gaging in the Republic of South Africa in activities which
10 require an authorization under that section.

11 (f) EXPORT LICENSES.—

12 (1) NUCLEAR RELATED USES.—The Secretary of
13 Commerce may not issue any license under the Export
14 Administration Act of 1979 or other provision of law
15 for the export directly or indirectly to the Republic of
16 South Africa of any goods or technology—

17 (A) which are intended for a nuclear related
18 end use or end user;

19 (B) which have been identified pursuant to
20 section 309(c) of the Nuclear Non-Proliferation
21 Act of 1978 as items which could, if used for pur-
22 poses other than those for which the export is in-
23 tended, be of significance for nuclear explosive
24 purposes; or

1 (C) which are otherwise subject to the proce-
2 dures established pursuant to section 309(c) of the
3 Nuclear Non-Proliferation Act of 1978.

4 (2) PROHIBITION ON ADDITIONAL EXPORTS.—In
5 addition, the Secretary of Commerce shall use the au-
6 thorities set forth in the Export Administration Act of
7 1979 (notwithstanding section 20 of that Act) to pro-
8 hibit any export directly or indirectly to the Republic
9 of South Africa of any goods and technology contained
10 on any of the lists prepared pursuant to paragraph (3)
11 of this subsection. Export controls shall be imposed
12 pursuant to this paragraph without regard to the re-
13 quirements otherwise applicable to the imposition of
14 export controls under the Export Administration Act of
15 1979.

16 (3) LIST OF PROHIBITED GOODS AND TECHNOLO-
17 GY.—Not later than 6 months after the date of the en-
18 actment of this Act, the Nuclear Regulatory Commis-
19 sion, the Secretary of Commerce, the Secretary of
20 Energy, and the Secretary of State shall each prepare
21 a list of all goods or technology, whose transfer to the
22 Republic of South Africa is not otherwise prohibited by
23 this Act, which in their judgment could, if made avail-
24 able to the Republic of South Africa, increase the abili-
25 ty of that country to design, develop, fabricate, test,

1 operate, or maintain nuclear materials, nuclear facili-
2 ties, or nuclear explosive devices. Such lists shall in-
3 clude goods or technology which, although not
4 intended for any of the specified nuclear related end
5 uses, could be diverted to such a use.

6 (g) INFORMATION.—No officer or employee in any de-
7 partment or agency of the executive branch (including the
8 Nuclear Regulatory Commission) may make available to the
9 Republic of South Africa, directly or indirectly, any tech-
10 nology or other information which could increase the ability
11 of that country to design, develop, fabricate, test, operate, or
12 maintain nuclear materials, nuclear facilities, or nuclear ex-
13 plosive devices. This subsection does not require that an offi-
14 cer or employee withhold information in published form
15 which is available to the public from such officer or
16 employee.

17 (h) PRIOR LICENSES AND AUTHORIZATIONS.—Any li-
18 cense or authorization described in this section which was
19 issued before the enactment of this Act is hereby terminated.

20 SEC. 9. REGULATORY AUTHORITY.

21 The President shall issue such regulations, licenses, and
22 orders as are necessary to carry out this Act.

23 SEC. 10. ENFORCEMENT AND PENALTIES.

24 (a) AUTHORITY OF THE PRESIDENT.—The President
25 shall take the necessary steps to ensure compliance with the

1 provisions of this Act and any regulations, licenses, and
2 orders issued to carry out this Act, including establishing
3 mechanisms to monitor compliance with this Act and such
4 regulations, licenses, and orders. In ensuring such compli-
5 ance, the President may conduct investigations, hold hear-
6 ings, administer oaths, examine witnesses, receive evidence,
7 take depositions, and require by subpoena the attendance and
8 testimony of witnesses and the production of all books,
9 papers, and documents relating to any matter under investi-
10 gation.

11 (b) PENALTIES.—

12 (1) FOR PERSONS OTHER THAN INDIVIDUALS.—

13 Any person, other than an individual, that violates the
14 provisions of this Act or any regulation, license, or
15 order issued to carry out this Act shall be fined not
16 more than \$1,000,000.

17 (2) FOR INDIVIDUALS.—

18 (A) IN GENERAL.—Any individual who vio-
19 lates the provisions of this Act or any regulation,
20 license, or order issued to carry out this Act shall
21 be fined not more than \$50,000, or imprisoned
22 not more than 5 years, or both.

23 (B) PENALTY FOR SECTION 5.—Any individ-
24 ual who violates section 5 of this Act or any reg-
25 ulation issued to carry out that section shall, in

1 lieu of the penalty set forth in subparagraph (A),
2 be fined not more than 5 times the value of the
3 krugerrands or gold coins involved.

4 (c) **ADDITIONAL PENALTIES FOR CERTAIN INDIVID-**
5 **UALS.—**

6 (1) **IN GENERAL.—**Whenever a person commits a
7 violation under subsection (b)—

8 (A) any officer, director, or employee of such
9 person, or any natural person in control of such
10 person who knowingly and willfully ordered, au-
11 thorized, acquiesced in, or carried out the act or
12 practice constituting the violation, and

13 (B) any agent of such person who knowingly
14 and willfully carried out such act or practice,
15 shall be fined not more than \$10,000, or imprisoned
16 not more than 5 years, or both.

17 (2) **EXCEPTION FOR CERTAIN VIOLATIONS.—**
18 Paragraph (1) shall not apply in the case of a violation
19 by an individual of section 5 of this Act or of any regu-
20 lation issued to carry out that section.

21 (3) **RESTRICTION ON PAYMENT OF FINES.—**A
22 fine imposed under paragraph (1) on an individual for
23 an act or practice constituting a violation may not be
24 paid, directly or indirectly, by the person committing
25 the violation itself.

1 SEC. 11. NEGOTIATIONS.

2 (a) IN GENERAL.—The President shall, by means of
3 both bilateral and multilateral negotiations, including through
4 the United Nations, attempt to persuade the governments of
5 other countries to adopt restrictions on new investment (in-
6 cluding bank loans) in South Africa, on bank loans and com-
7 puter sales to the South African Government, and on the
8 importation of krugerrands, and other restrictions in effect
9 under United States law with respect to South Africa. The
10 President shall submit annual reports to the Congress on the
11 status of negotiations under this section.

12 (b) FUTURE ANTI-APARTHEID MEASURES.—The Con-
13 gress urges the President to consult with other countries,
14 particularly the major allies of the United States, with re-
15 spect to the implementation in the future of any anti-apart-
16 heid measures being considered by the United States or any
17 such country, in order to encourage multilateral, rather than
18 unilateral, implementation of such measures.

19 SEC. 12. REPORT ON STATUS OF APARTHEID AND HUMAN
20 RIGHTS IN SOUTH AFRICA.

21 (a) MONITORING AND REPORT.—The President shall
22 monitor the status of apartheid and human rights in South
23 Africa and shall report annually to the Congress on the
24 progress or lack of progress of the Government of South
25 Africa in eliminating apartheid and promoting human rights
26 in that country.

1 (b) ADDITIONAL ANTI-APARTHEID MEASURES.—It is
2 the sense of the Congress that the United States should take
3 measures in addition to the sanctions imposed by this Act
4 unless the Government of South Africa makes substantial
5 progress toward the goals set forth in subsection (a).

6 SEC. 13. TERMINATION OF PROVISIONS OF ACT.

7 (a) DETERMINATION OF ABOLITION OF APART-
8 HEID.—If the President determines that the system of apart-
9 heid in South Africa has been abolished, the President may
10 submit that determination, and the basis for the determina-
11 tion, to the Congress.

12 (b) JOINT RESOLUTION APPROVING DETERMINA-
13 TION.—Upon the enactment of a joint resolution approving a
14 determination of the President submitted to the Congress
15 under subsection (a), the provisions of this Act, and all regu-
16 lations, licenses, and orders issued to carry out this Act, shall
17 terminate.

18 (c) DEFINITION.—For purposes of subsection (a), the
19 “abolition of apartheid” shall include—

20 (1) the repeal of all laws and regulations that dis-
21 criminate on the basis of race; and

22 (2) the establishment of a body of laws that as-
23 sures the full national participation of all the people of
24 South Africa in the social, political, and economic life
25 in that country.

1 SEC. 14. DEFINITIONS.

2 For purposes of this Act—

3 (1) INVESTMENT IN SOUTH AFRICA.—The term
4 “investment in South Africa” means establishing, or
5 otherwise investing funds or other assets in, a business
6 enterprise in South Africa, including making a loan or
7 other extension of credit to such a business enterprise.

8 (2) UNITED STATES PERSON.—The term “United
9 States person” means any United States resident or
10 national and any domestic concern (including any per-
11 manent domestic establishment of any foreign concern),
12 and such term includes a bank organized under the
13 laws of the United States;

14 (3) SOUTH AFRICA.—The term “South Africa”
15 includes—

16 (A) the Republic of South Africa,

17 (B) any territory under the administration,
18 legal or illegal, of South Africa, and

19 (C) the “bantustans” or “homelands”, to
20 which South African blacks are assigned on the
21 basis of ethnic origin, including the Transkei, Bo-
22 phuthatswana, Ciskei, and Venda.

23 (4) FOREIGN AFFILIATE.—A “foreign affiliate” of
24 a United States person is a business enterprise located
25 in a foreign country, including a branch, which is con-
26 trolled by that United States person.

1 (5) CONTROL.—A United States person shall be
2 presumed to control a business enterprise if—

3 (A) the United States person beneficially
4 owns or controls (whether directly or indirectly)
5 more than 50 percent of the outstanding voting
6 securities of the business enterprise;

7 (B) the United States person beneficially
8 owns or controls (whether directly or indirectly)
9 25 percent or more of the voting securities of the
10 business enterprise, if no other person owns or
11 controls (whether directly or indirectly) an equal
12 or larger percentage;

13 (C) the business enterprise is operated by the
14 United States person pursuant to the provisions of
15 an exclusive management contract;

16 (D) a majority of the members of the board
17 of directors of the business enterprise are also
18 members of the comparable governing body of the
19 United States person;

20 (E) the United States person has authority to
21 appoint a majority of the members of the board of
22 directors of the business enterprise; or

23 (F) the United States person has authority to
24 appoint the chief operating officer of the business
25 enterprise.

1 (6) LOAN.—The term “loan” includes an exten-
2 sion of credit as defined in section 201(h) of the Credit
3 Control Act (12 U.S.C. 1901(h)).

4 (7) BANK.—The term “bank” means—

5 (A) any depository institution as defined in
6 section 19(b)(1)(A) of the Federal Reserve Act (12
7 U.S.C. 461(b)(1)(A)),

8 (B) any corporation organized under section
9 25(a) of the Federal Reserve Act (12 U.S.C. 611
10 et seq.),

11 (C) any corporation having an agreement or
12 undertaking with the Federal Reserve Board
13 under section 25 of the Federal Reserve Act (12
14 U.S.C. 601 et seq.), and

15 (D) any bank holding company as defined in
16 section 2(a) of the Bank Holding Company Act of
17 1956 (12 U.S.C. 1843(a)).

18 (8) BUSINESS ENTERPRISE.—The term “business
19 enterprise” means any organization, association,
20 branch, or venture which exists for profitmaking pur-
21 poses or to otherwise secure economic advantage.

22 (9) BRANCH.—The term “branch” means the op-
23 erations or activities conducted by a person in a differ-
24 ent location in its own name rather than through a
25 separate incorporated entity.

Calendar No. 206

99TH CONGRESS
1ST SESSION

H. R. 1460

AN ACT

To express the opposition of the United States to the system of apartheid in South Africa, and for other purposes.

JUNE 26, 1985

Read the second time and placed on the calendar



Meeting
the
Mandate
for
Change

A Progress
Report
on the
Application
of the Sullivan
Principles
by U.S.
Companies in
South Africa

The Sullivan Principles and the Role of U.S. Companies in South Africa

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Non-segregation of the Races in All Eating, Comfort, and Work Facilities
Equal and Fair Employment Practices for All Employees
Equal Pay for All Employees Doing Equal or Comparable Work for the Same Period of Time

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Initiation and Development of Training Programs That Will Prepare Blacks, Coloreds, and Asians in Substantial Numbers for Supervisory, Administrative, Clerical, and Technical Jobs

8

Increasing the Number of Blacks, Coloreds, and Asians in Management and Supervisory Positions

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Listing of the Signatory Companies of the Sullivan Principles

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The Sullivan Principles and the Role of U.S. Companies in South Africa

In 1971 the Rev. Leon H. Sullivan of the Zion Baptist Church in Philadelphia was elected to the board of directors of the General Motors Corporation and to the astonishment of his fellow directors proposed that GM should "get out of South Africa" in protest against the apartheid system.

Persuaded that withdrawal was not a practical possibility, the Rev. Sullivan, at the urging of black South Africans, settled in 1977 for his second choice — If GM and other U.S. companies were going to stay in South Africa, they should operate by a stringent code of conduct that would help raise up the blacks economically, educationally and socially, and they should use their influence to change the system.

Today, the Sullivan program is part of a broader effort by South African Companies and those of many nationalities to advance the status of blacks. The efforts of the Sullivan organization are being multiplied by many businesses and business-related and-supported organizations in South Africa.

The code drawn up by the Rev. Sullivan, in conjunction with 12 companies, was formalized in 1977. In 1984, the number of signatories has risen to 121, including most of the major U.S. employers in South Africa. Seventy-four percent of the workforce employed by U.S. companies work for Sullivan Signatories.

By the late 1970's the main elements of the monitoring apparatus were in place:

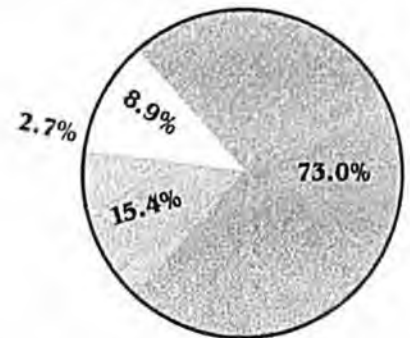
- An administrative arm, the International Council for Equality of Opportunity Principles, Inc. (or ICEOP), with Daniel Purnell as administrator, located in Philadelphia not far from the Zion church;
- A consulting firm, Arthur D. Little, Inc., of Boston, to provide annual

ratings for the signatory companies on their performance in South Africa, with Reid Weedon, senior vice president, as the supervising executive;

- An Industry Support Unit, composed of representatives of the signatory companies serving as the fund-raising arm to provide for expenses and to coordinate policy and planning; and
- A series of eight U.S. Task Forces made up of signatory company representatives, each concentrating on a particular aspect of the Sullivan Principle effort and coordinating company efforts in that area, with Sal Marzullo of Mobil Oil as general chairman.

Similar Task Forces were established in South Africa, with groups of local businessmen working on the application of the principles in concert with their U.S. counterparts. In 1983 a coordinator for the South African Task Groups was appointed. He is Roger Crawford, of Ethnor, a Johnson & Johnson affiliate.

Year by year new requirements have been adopted by the companies. A new questionnaire is developed by Arthur D. Little each spring — the 1983



| Group | Percentage | Population |
|--------------|------------|-------------------|
| Blacks | 73.0% | 21,322,000 |
| Whites | 15.4% | 4,488,000 |
| Coloreds | 8.9% | 2,612,000 |
| Asians | 2.7% | 794,000 |
| Total | | 29,216,000 |

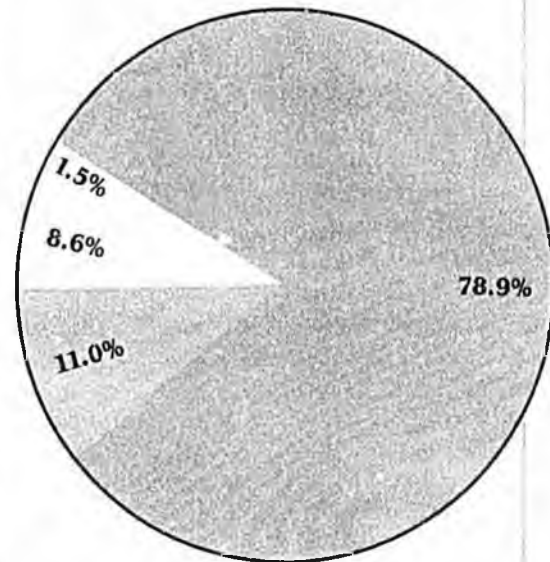
*Figures provided by South African Embassy. Combined with separate figures for Homelands.

questionnaire was 55 pages long — for completion by each member company. These reports, detailing the companies' activities in behalf of blacks in South Africa, are then certified by and filed with Arthur D. Little. Each autumn, about November 1, new ratings for each signatory company's performance in South Africa are published.

These and other matters are discussed in regular meetings between the signatory company representatives and the Rev. Sullivan.

The effort of the signatory companies to the Sullivan Principles is in several ways unique:

- It is a voluntary organization of the U.S. companies who have agreed to follow a code, and who have agreed to be rated annually by an objective process on their performance as socially responsible citizens;



| Population as of 2010** | Percentage | Count |
|-------------------------|------------|-------------------|
| Blacks | 78.9% | 55,694,000 |
| Whites | 11.0% | 7,753,000 |
| Coloreds | 8.6% | 6,074,000 |
| Asians | 1.5% | 1,052,000 |
| Total | | 70,573,000 |

**Projections for 2010 provided by State Department. The same rates of population increase by race within Republic of South Africa were used to develop estimates for Homelands.

- It is an organization supported by voluntary contributions of funds by the members; and
- It is probably the only group of financial and industrial companies in history devoted to helping the advancement of particular racial groups in a country other than their own.

This booklet chronicles the accomplishments of the companies that have signed the Sullivan code and thereby committed themselves to operate by that code in South Africa. In reading it, it should be noted:

- The term "black" as used in these pages also includes two minorities in South Africa — coloreds, or persons of mixed race, who constitute 8.9% of the population, and Indians, (known in South Africa as "Asians"), who make up 2.7% of the population. Blacks form the preponderance of the South African population— 73%, compared to 15.4% whites.
- The statistical presentations are the best that can be managed. Statistic-keeping rules for the program have been changed and expanded during these early years and the emphasis of the program has changed and evolved as well. But such statistics as are available (beyond those presented in brief form here) all tend to confirm the general lines of the trends indicated. It should also be noted that no comparable statistics exist covering either non-signatory U.S. companies or South African-owned businesses engaged in this field of socially responsible conduct. All data, unless otherwise specified, have been supplied by Arthur D. Little. (Arthur D. Little expenditure statistics were provided in rand. The rand figures were converted to dollars for each reporting year based on the exchange rate as reported in the Wall Street Journal for the first business day in January.)



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**Some Data on
the South
African work-
force and the
Sullivan
Initiative**

Of South Africa's 9.4 million-member* workforce, only one in six today is a white person. Almost three-quarters of the workforce is black.

By the end of 1982, 146 U.S. companies had committed their support to the Sullivan Principles. In 1983 the number of signatories fell to 120 when the Sullivan organization dropped some companies for failure to pay their annual "dues" to the Industrial Support Unit and some others chose not to remain active signatories.

Significantly, the number of signatory companies filing annual reports remained almost stationary, 99 in 1983 compared to a high of 101 in 1981.

*Based on figures supplied by South African Embassy for 1980 and where available, from representatives for the four independent Homelands. It was necessary to project a figure for Ciskei based on relationship of black population in SA with number of blacks employed in SA. This figure (36.4%), applied to Ciskei FY '80 population of 1.2 million.

**Sullivan Participation
by U.S. Signatories**

| | # Sullivan Sigs. | # Employees | # Reporting Sigs. | % Reporting Sigs.** |
|------|------------------------|----------------|-------------------------|---------------------------|
| 1977 | 105 | — | — | — |
| 1978 | 117 | 51,488 | 81 | 94.2 |
| 1979 | 135 | 55,671 | 97 | 94.2 |
| 1980 | 137 | 78,572 | 100 | 87.0 |
| 1981 | 144 | 83,133 | 101 | 87.1 |
| 1982 | 146 | 69,013 | 93 | 82.3 |
| 1983 | 120 | 66,175 | 99 | 88.4 |

** Percentage calculated by dividing the number of Reporting Signatories by the number of Sullivan Signatories who should have reported. (Eliminates Endorsers, New Signatories, etc.)

**Total South African Workforce:
9.4 Million**

Of South Africa's 9.4 million workforce, 7.9 million are nonwhite, or 84%. Blacks make up 86% of the nonwhite workforce.



Black 72%

White 16%

Colored 9%
Asian 3%

99% of the Sullivan Signatory companies are in compliance with Principle One — desegregation of all facilities — and have been for the past two years.

All of the Sullivan signatory companies are in compliance with Principle Three — Equal Pay for Equal Work — and have been for the past three years.

Since 1980 the average annual pay increase for whites employed at Sullivan signatory companies in South Africa has been 16%; and for black employees at the same companies it has been 20%.

Most U.S. companies in South Africa pay well. The Sullivan Principles require that signatories pay their lowest paid employees at least 30% more than the minimum established level. In 1982, 80% of reporting companies fulfilled this requirement. By 1983 the compliance rate had increased to 90%.

Wage of Lowest Paid Employee Related to Minimum

| Percentage by which entry pay exceeds MLL* or HSL** | 1982 Reporting Units | | 1983 Locations † | |
|---|----------------------|------------|------------------|------------|
| | # | % | # | % |
| less than 0 | 4 | 3 | 5 | 3 |
| 0 | 1 | 1 | 2 | 1 |
| 1-29 | 17 | 15 | 11 | 6 |
| 30-50 | 53 | 44 | 97 | 53 |
| 51-75 | 28 | 23 | 48 | 27 |
| 76-100 | 11 | 9 | 12 | 6 |
| more than 100 | 5 | 4 | 7 | 4 |
| no answer | 1 | 1 | 0 | 0 |
| TOTAL | 120 | 100 | 182 | 100 |

*MLL - minimum living level established by the University of South Africa.

**HSL - household subsistence level established by the University of Port Elizabeth for families of 5 or 6.

† Data not necessarily comparable to 1982. In '83 data was collected on reporting units who broke out separate statistics for different plant locations.



Non-segregation of the Races in All Eating, Comfort, and Work Facilities

Equal and Fair Employment Practices for All Employees

Equal Pay for All Employees Doing Equal or Comparable Work for the Same Period of Time

PRINCIPLE ONE

PRINCIPLE TWO

PRINCIPLE THREE



Desegregation* & Equal Pay** Sullivan Reporting Signatories

| % Desegregated | % Equal Pay/Equal Work | % White Pay Increase | % Black Pay Increase | Inflation Rate † | |
|----------------|------------------------|----------------------|----------------------|------------------|-------------|
| 69 | — | — | — | — | 1977 |
| 73 | 96 | — | — | — | 1978 |
| 75 | 98 | 12 | 16 | 13.2 | 1979 |
| 80 | 99 | 14 | 20 | 13.8 | 1980 |
| 95 | 100 | 18 | 25 | 15.2 | 1981 |
| 99 | 100 | 19 | 23 | 14.7 | 1982 |
| 99 | 100 | 15 | 19 | 12.1 †† | 1983 |

*All corporate facilities desegregated — cafeteria, toilets, work areas, recreation facilities, etc.

**Some caution is recommended in interpreting this data since there was no inquiry to determine if the data related to integrated job categories.

† Source: South African Consulate, N.Y.C.

†† First 6 months, calendar '83

PRINCIPLE FOUR

Initiation and Development of Training Programs That Will Prepare Blacks, Coloreds, and Asians in Substantial Numbers for Supervisory, Administrative, Clerical, and Technical Jobs –

Education and Training Programs for Black Employees

| | Number of Black Employees Participating in Education and Training Programs | | Dollar Contributions to Run Black Employee Education and Training Programs | |
|---------------------------|--|--------|--|-------------|
| | 1982 | 1983 | 1982 | 1983 |
| Basic Training | 3,286 | 12,383 | \$ 277,285 | \$ 215,090 |
| Industry Training Centers | N/A | N/A | 2,919,856 | 5,460,044 |
| Scholarships | 1,009 | 986 | 406,700 | 337,274 |
| TOTAL | 4,295 | 13,369 | \$3,603,841 | \$6,012,408 |

Racial Composition of Training Programs Sullivan Signatories

Blacks as % of Total in Training Programs

| | Skilled | Sales | Clerical | Supervisory | Managerial |
|------|---------|-------|----------|-------------|------------|
| 1980 | 43 | 21 | 56 | 72 | 25 |
| 1981 | 55 | 30 | 53 | 42 | 11 |
| 1982 | 51 | 32 | 50 | 48 | 15 |
| 1983 | 52 | 34 | 38 | 40 | 14 |

Numbers of Blacks in Training Programs

| | Skilled | Sales | Clerical | Supervisory | Managerial | TOTAL |
|------|---------|-------|----------|-------------|------------|-------|
| 1982 | 2,388 | 880 | 815 | 1,174 | 287 | 5,544 |
| 1983 | 3,374 | 1,002 | 861 | 1,454 | 251 | 6,942 |

Increasing numbers of black employees at U.S. companies in South Africa are being trained in "basic" skills – language training (for proficiency in English), mathematics, and other basics.

The rapid expansion of "Industry Training Centers" in South Africa, where blacks are provided job training, is being supported in growing measure by the financial backing of U.S. companies.

Scholarships and bursaries continue to be heavily supported by U.S. companies, with about 1,000 being funded each year for employees of U.S. companies in South Africa.

Blacks in rapidly increasing numbers are being trained for advancement in skilled, sales, clerical, supervisory, and managerial positions.