MANUFACTURING – Chemicals and Products

1998

livered to Minorco shareholders by getting rid of the discount at which the share stands to its net asset value — now about 33%

But, before investors pile into the shares, they should take note of the warning sounded by Ogilvie Thompson over the impact on this year's earnings caused by the drop in commodity prices after the Asian economic crisis

Barnard Jacobs Mellet analyst Robinn Kearney estimates Minorco's earnings in the year to December could drop to US113c from last year's 146c

"The restructuring is bound to unlock a lot of value at Minorco I could get really excited about Minorco's prospects but not yet," she says

Brendan Ryan

HOECHST

House getting back in order

But drain needs fixing

Hoechst bounced back strongly last year after a disappointing 1996, when there was an outbreak of problems in its businesses

The improved results came after a realignment, the disposal of noncore businesses and some disciplined management This had two important results operationally it sang and gearing was reduced to its lowest level in five years

Hoechst's biggest division, polymers and derivatives, however, continues to be negatively affected by the depressed polyester staple fibre markets, which sent Trevira results into the red again last year and knocked divisional operating profit down by 3%

Something needs to be done to improve the returns from this division, considering that it accounts for 74,1% of net assets and produces only 39% of operating profit Chairman Chris Liebenberg, formerly SA's Finance Minister, says the group is considering various options for dealing with this drain on overall profitability, but does not specify further

The performance from the rest of the activities was encouraging The health-care operation benefited from restructuring and from the worldwide merger of the pharmaceutical interests of Hoechst (Germany), Rousel Uclaf (French) and Marion Merrell Down (US)

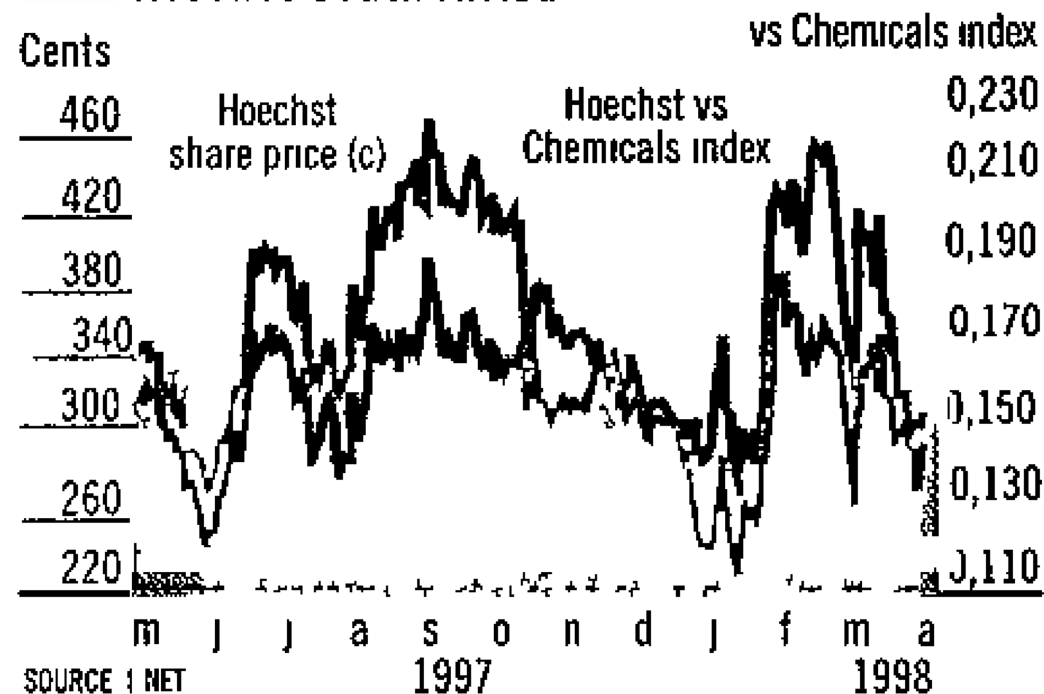
The much reduced speciality chemicals division performed admirably

On prospects, Liebenberg and MD Steffen Beuthner are deliberately vague Beuthner hopes for consistent earnings growth With gearing at 12,9%, Hoechst is in a strong financial position to grow organically and look for new acquisitions But with further losses at Trevira expected and tough competition all round, management will have its work cut out

Beuthner says the company is scouting around for businesses to put into its chemicals operation and is hoping to purchase the remaining 50% of polyolefin producer Safripol from Sentrachem Its right to buy this stake is in dispute, however, and the two parties expect to go to arbitration soon

Much needs to be overcome before Hoechst can start to really achieve The share price has been under pressure since the listing in 1995 and now at 315c it is just off its historic low, on a p e of 9 times This may rerate radically if Hoechst gets its hands on the rest of Safripol and if markets turn — but it holds no immediate appeal

Stuart Rutherford



ACTIVITIES *Produces health care, polymer and derivatives and speciality chemical products*

CONTROL *Hoechst AG 73,8%*

CHAIRMAN *C Liebenberg, MD W Beuthner*

CAPITAL STRUCTURE *155m ords Market capitalisation R488m*

SHARE MARKET *Price 315c Yields 3,7% on dividend, 11,1% on earnings, p e ratio, 8,95, cover, 4,3 12-month high, 470c, low, 220c Trading volume last quarter, 4,2m shares*

Year to December	*'94	'95	'96	'97
ST debt (Rm)	154,6	134,7	144,4	5,7
LT debt (Rm)	50,0	47,8	159,7	64,6
Debt equity ratio	0,51	0,27	0,54	0,13
Shareholders' interest	0,62	0,47	0,36	0,56
Int & leasing cover	2,2	2,5	1,4	3,1
Return on cap (%)	11,2	9,7	11,2	17,2
Turnover (Rm)	1 513	1 754	1 694	2 011
Pre-int profit (Rm)	60,8	99,6	58,3	83,8
Pre-int margin (%)	3,8	5,3	3,4	4,2
Earnings (c)	30,0	45,6	26,7	49,7
Dividends (c)	nil	7	8	11,5
Tangible NAV (c)	228	316	238,9	288,2

* Pre-listing

PROFURN

Controls look good

Hold on to your shares

Profurn pessimists, hang in there

So far, there's no sign of the debt collection disaster many expected Expansion beyond SA's borders continues apace, chairman Gerald Rubenstein couldn't be more confident Even the most conservative analysts are being won over That's because latest annual report details indicate that the stores are selling goods fast, *and* maintaining a tight debtors book

Look at working capital control Day's sales in average debtors, a key indicator of how well the company is handling its debtors relative to sales, is improving Similarly, stock control is good

Still, the market is concerned about the debt risk of sales to southern Africans unused to credit shopping Profurn sells mostly big-ticket items Investors' anxiety

ACTIVITIES *Retails furniture and household appliances in southern Africa through five chains*

CONTROL *KAP Beteiligungs-AG (German)*

CHAIRMAN *G B Rubenstein FD G Walker*

CAPITAL STRUCTURE *721m ords Market capitalisation R3,9bn*

SHARE MARKET *Price 538c Yields 0,8% on dividend, 3% on earnings, p e ratio, 32,9, cover, 3,8 12-month high, 550c, low, 136c Trading volume ave (m), 25,8/mnth*

Year to December 31	'94	'95	'96	'97
Debt equity ratio	0,16	0,27	0,04	0,06
Interest cover	11,9	5,5	40,3	27,2
Return on cap (%)	24,8	29,7	31,4	37,1
Turnover (Rm)	233	371	497	936
Operating profit (Rm)	31,8	55,7	57,0	145,7
Operating margin (%)	13,6	15,0	11,5	15,6
Earnings (c)†	4,5	7,0	9,7	16,3
Cash loss/share (c)	2,9	5,7	8,7	23,0
Dividends (c)	1,5	2,5	3,0	4,25
Tangible NAV (c)	26	29	35	71

† Diluted

naked eye and in no way affects the quality of the stone The technique can be used as a competitive marketing tool if awarded only to the stones marketed by the CSO

Says Oppenheimer "Those in the industry know that   in every aspect of diamond mining and marketing, including its unique knowledge and skills in sorting, classification and pricing, De Beers remains the ultimate authority "

These are medium-term issues What's on the mind of investors is De Beers' short-term prospects in the financial year to end-December

At first glance, the prospects are grim because of the economic crisis in Japan and southeast Asia Taken together, these markets constitute 40% of demand for retail diamond jewellery

De Beers has cut back sharply on the amount of stones it offers its customers at the "sights" through which the diamond trade buys rough diamonds from the CSO

The aim is to clear out the excess inventories of rough and polished diamonds that have been hitting profit margins and threatening to destabilise the trade De Beers MD Gary Ralfe estimates that in January stocks held by the trade were 15%-20% too high

This action must hit De Beers earnings, and maybe even its dividend, in the current financial year But recent moves in the share price indicate that investors believe the impact will not be that serious

From a low of R86 in January, the shares have rebounded to around R130 now despite doom and gloom warnings by some analysts in January that the share could drop further **Brendan Ryan**

MINORCO

Rearranging the blocks

Hobson's choice for gold mines sale

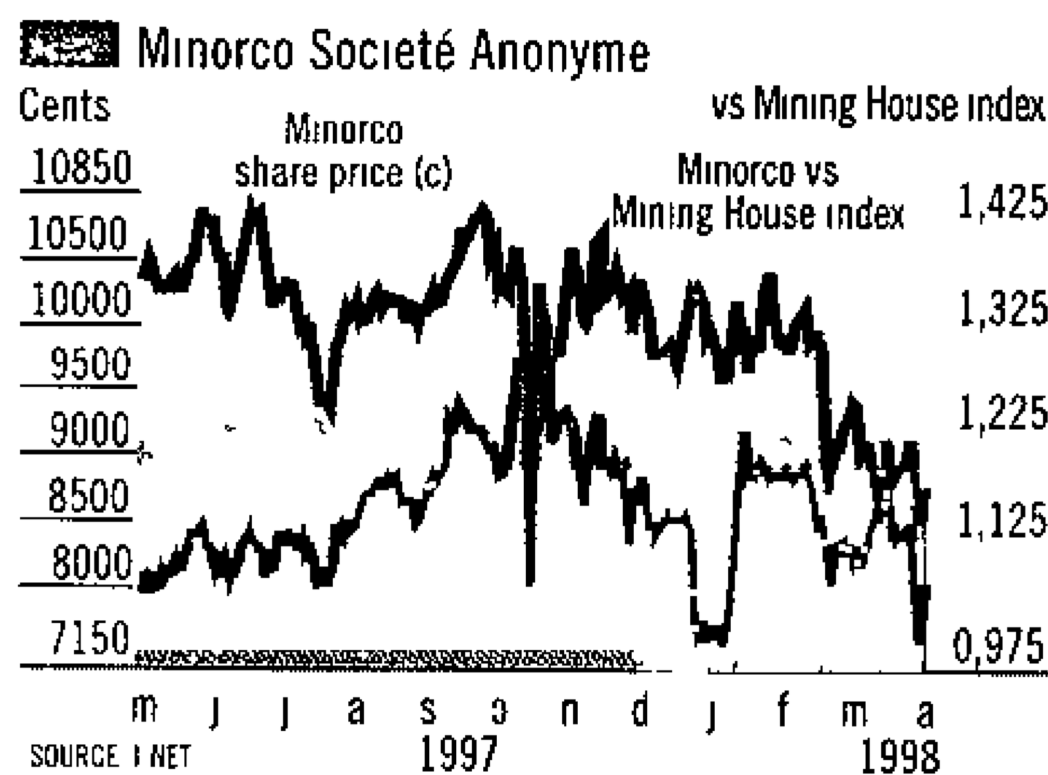
Just who does Minorco chairman Julian Ogilvie Thompson think he is fooling when he implies that Minorco might have a choice regarding the sale of its gold mines to Anglogold?

Likewise Minorco CEO Hank Slack, co-author of the "letter to shareholders" in which this view is put and who in March implied the sale of the gold mines was not necessarily inevitable

It's obviously time for a reality check Anglo American Corp holds 45,6% of Minorco and De Beers Centenary owns another 22,5%

Anglo and De Beers are, of course, closely entwined through equity cross-holdings And Ogilvie Thompson just happens to be chairman of Anglo and deputy chairman of De Beers

Anglo maintains that Minorco is an independent corporation that runs its own affairs It used to say the same thing about JCI and only dropped the pretence when it decided to throw JCI to the black economic empowerment wolves



So, regardless of whatever "politically correct" corporate statements Slack and Ogilvie Thompson may make for the benefit of Minorco minority shareholders, the reality is that if Anglogold wants Minorco's gold mines, it will get them

Here, for the record, is the official view according to Slack and Ogilvie Thompson "While negotiations continue with Anglogold, we are examining various other options for our gold interests so as to maximise the potential and value of these assets "

No doubt the transaction will be carried out in a fashion that will be sanctified as "arm's length" and "fair and reasonable" by suitably prestigious merchant banks and auditing firms — but it is going to happen anyway

The glaring omission from the Minorco annual report is an indication of its future, given that it could be seriously affected by Anglo's decision to split its interests along commodity lines

Minorco was originally set up to be Anglo's international arm, headquartered in Luxembourg It was able to operate outside the constraints of SA exchange controls and as a multinational somehow untainted by SA connections despite its shareholding structure

Minorco's assets are a mix of base metal, gold, agribusiness, pulp and paper and industrial minerals operations located mainly in Europe and the Americas

With SA now politically kosher, Anglo can operate directly wherever in the world it likes, hence the view that it would be more efficient to split along commodity lines

Where does that leave Minorco? The answer depends on how far Anglo intends taking the restructuring

A case can be made for Minorco's Colombian coal assets going into Anglo American Coal (Amcoal), for its stakes in pulp and paper held through Mondi Minorco Paper to end up in Anglo American Industrial Corp (Amic) and for its agribusiness side also going into Amic

In his review published earlier this month, Amic chairman — and Anglo deputy chairman — Leslie Boyd said Amic had been designated the industrial pillar of the Anglo group

That would still leave Minorco an international base metals powerhouse with its industrial mineral operations in Europe as well as the various copper and nickel mines in South America and the Hudson Bay zinc and copper operation in Canada

The restructuring could also be a two-way street If Minorco is to be Anglo's international base metals arm, then surely it should take over the Konkola copper project in Zambia, as well as whatever else may be on the cards there and in other countries like the Democratic Republic of Congo?

In the process of this restructuring it seems likely that extra value could be de-

ACTIVITIES *Luxembourg head quartered natural resources group which is the international arm of Anglo American Corporation*

CONTROL *Anglo American Corporation 45,6%, De Beers 22,5%*

CHAIRMAN *J Ogilvie Thompson CE H R Slack*

CAPITAL STRUCTURE *22,7m ords Market capitalisation R18,5bn*

SHARE MARKET *Price 8 200c Yields 3,8% on dividend, 8,7% on earnings, p e ratio, 11,5, cover, 2,1 12-month high, 10 600c, low, 6 900c Trading volume last quarter, 7,6m shares*

Year to December 31	*'94	'95	'96	'97
LT debt (US$m)	1 297	2 238	2 408	2 807
Turnover (US$m)	4 636	4 247	5 014	5 662
Pre-tax profit (US$m)	540	665	600	666
Net profit (US$m)	427	540	336	305
Earnings (USc)	154	163	150	136
Dividends (USc)	95	63	63	64

* 18 Months to December 31

US puts SA on watch list over generic medicines

(83) Star 2/5/98

The United States yesterday placed South Africa on a "watch list" of countries deemed to be harming intellectual property rights

SABC television news reported the move followed objections by US pharmaceutical manufacturers over certain provisions in SA's controversial Medicines Control Act.

The act proposes that SA import US-patented drugs from countries such as Bangladesh, India and Argentina, which sell the drugs cheaply

An SABC correspondent in Washington saw the development as a further step by the US towards a trade war with SA He believed the matter would eventually end up at the World Trade Organisation for arbitration

US pharmaceutical companies are worried that Health Minister Dr Nkosazana Zuma's move to import the drugs through third parties will prejudice them.

Zuma wants to buy the drugs on the open market, where the US companies sell them at cut prices. – Sapa

Medicine act lands SA on US trade 'watch list'

(183) BD 4/5/98

Simon Barber

WASHINGTON — As expected, the US government announced at the weekend that it was placing SA on its latest "watch list" of countries this year where US intellectual property rights were deemed to be under threat

The move was prompted by the US pharmaceutical industry as part of its campaign against language in the recently adopted Medicines and Related Substances Control Act which the industry contends gives the health minister carte blanche to trample its patent rights

Announcing SA's inclusion on the list, the office of the US trade representative noted that the law had not been implemented and was being challenged in court as unconstitutional

"During the coming year, we look to the government to make clear in regulations or legislation that the powers granted in the medicines act are consistent with its international obligations and to clarify what action may be taken pursuant to the act and under what circumstances," the office said

The act gives government the authority to disregard pharmaceutical patent rights and to acquire medicines outside the marketing channels of the patent holders The act's intention is to reduce the costs of treatment for SA's low-income majority

The office said it was committed to "working with the SA government" to bring its law into line with World Trade Organisation standards "while addressing serious health care concerns in SA"

This is SA's second watch listing In 1995, the trigger for the listing was a dispute over the trademarks of the McDonalds hamburger chain.

The US drug industry originally asked that SA be singled out as a "priority foreign country" in terms of US trade law That is a category reserved for the worst offenders and SA's inclusion could potentially have triggered the loss of US trade preferences and would possibly have deterred investment in SA.

The office of the trade representative, which answers directly to the White House, opted for a less draconian tack, declining to place SA among the 15 countries assigned to the "priority watch list".

In finding SA worthy only of inclusion in the vanilla, nonpriority "watch list" with the likes of Canada and Australia, the office said its concerns went beyond the offending clauses of the medicines act.

"Undisclosed data also is not adequately protected under SA law," it said "The need to provide such protection quickly is demonstrated by the approval in SA of a generic copy of a medicine which still has undisclosed data protected from competitors' use in many countries "

The reference, according to Tom Bombelles, a lobbyist for the American industry, is to SA's decision to license a cancer drug made by a Dutch firm The firm used confidential information to produce a generic version of the drug, which was developed but not patented by a US company, sooner than allowable under World Trade Organisation rules

Virtually no US trading partner escapes some kind of complaint when the trade representative releases its so-called "Special 301 annual review" of foreign intellectual practices

The office said SA's intellectual property laws still contained "deficiencies"

It also urged more active enforcement of the laws protecting software and other copyrighted items, citing US industry estimates that piracy in SA increased 26% between 1996 and last year

SA PLACED ON US WATCH LIST OVER ZUMA'S PROPOSED DRUGS LAW

(183)

Washington, DC — The US has placed South Africa on a watch list of countries that may violate copyrights, international property rights and other US trade interests because of health minister Nkosazana Zuma's proposed law on drugs

"South Africa amended its Medicines Control Act in December 1997 The new law appears to empower the minister of health to abrogate patent rights for pharmaceuticals It would also permit parallel imports," Charlene Barshefsky, the US trade representative, said at the weekend

There are 32 countries on the watch list Being listed means South Africa is under suspicion that it may violate intellectual property rights, unless the state amends the Medicines Control Act. The US pharmaceutical industry believes the act will grant the health minister a blank cheque to void patent rights in South Africa — Rich Mkhondo, Independent Foreign Service

8/5/4 (Star)

Learning to run with the big boys will take compromise

SA should consider a rethink over its proposed health legislation because it might find itself put in its place by the US, writes Washington correspondent Simon Barber

EACH year, the US trade representative, which is both a person — at present Charlene Barshefsky — and a bureaucracy attached to the White House, is obliged by Congress to identify countries that "deny adequate and effective protection of intellectual property rights or fair and equitable market access to US persons that rely upon intellectual property rights"

Further, the law states that the trade representative must determine which of said countries should be designated "foreign priority countries", defined as those "that have the most onerous or egregious acts, policies, or practices with the greatest impact on the relevant US products"

This year, the lobby representing the US pharmaceutical industry petitioned to have SA designated a "foreign priority country" because of the SA Medicines and Related Substances Control Act, specifically those clauses which permit the health minister to abrogate patent rights and authorise the purchase of patented medicines outside the patent holders' own marketing channels

The trade representative, on its own initiative, has developed categories for intellectual property offenders not egregious enough to be deemed "priority foreign countries" These, in declining order of heinousness, are "priority watch list", "watch list" and "special mention" In this year's report, the distribution of ratings went like this foreign priority countries, one (Paraguay), priority watch list, 15 including the European Union en bloc, watch list, 31 plus SA, special mention, 15

SA's companions on the plain vanilla watch list include such rogue states as Australia, Canada, Denmark, Sweden, Ireland and Japan Their sins do not seem spectacular Sweden's vice, for example, is that its ministries grant public access to "documents that are filed with them, even though such documents may be unpublished and protected by copyright law". The wicked Canadians charge a levy on blank audio tapes and use these funds to compensate local recording artists, but not American ones How unfair!

It would seem that the trade representative treated SA kindly by placing it in such inoffensive company Such lenience was partly in recognition of the fact that the medicines act is not yet in force as its constitutionality is being tested before the courts Another factor may be that SA is still special in the eyes of President Bill Clinton More certainly, the trade representative hopes that the SA medicines bill can still be fixed — that is, brought into line with SA's own World Trade Organisation (WTO) commitments — should (heaven forfend) it pass constitutional muster That might not even entail amending the law

The intent of the offending clauses is to counteract the monopoly pricing power which drug makers hold over their products by virtue of their patents on them and thereby to keep the nation's medical bill within the capacity of its purse This is not a goal to which the Clinton administration objects (it would love to see medical price controls in this country, too, were they politically feasible — which they are not) The problem is the means

On those, the trade representative is prepared to work with SA What it needs is some assurance that the act will not be implemented as its plain language suggests, for that, in the US view, would be inconsistent with SA's undertakings to the WTO About 42 senators and congressmen who figure their re-election depends on drug industry money have called for the act to be repealed The trade representative says it might be satisfied by the right wording of the rules implementing the act if it goes into effect

At this point, it is fair to say that the Clinton administration does not want a fight with SA on this issue, notwithstanding a recent acrimonious clash in Harare between SA Trade and Industry Minister Alec Erwin and the newly created assistant US trade representative for Africa, Rosa Crawford Crawford was trying to sell the US Africa Growth and Opportunity Bill, of which the SA government is critical, at a forum of Organisation of African Unity ministers Erwin apparently felt she was crashing the party Unpleasantness ensued

The SA government is unhappy with US legislation which offers expanded trade benefits — including duty and quota-free access to the US market for African clothing and textiles — to countries that jump through certain hoops One of those hoops is respect for US intellectual property rights

Theoretically, if the Africa trade bill were to become law, SA could be denied expanded trade preferences SA export manufacturers would have to suffer for the sake of imposing price controls on medicines, the makers of which say they already discount heavily to the SA public sector

In actual fact, the US can put the screws on SA with or without the Africa trade bill

Right now, SA could be denied existing benefits under the US generalised system of preferences even if the WTO were to find the US complaint against the medicines act invalid The US, under WTO rules, is free to extend or withhold preferences as it sees fit. Even countries on the vanilla watch list — Honduras, for example — have had their US preferences taken away

Scoff at the US trade representative rating system as much as you like — it is laughable — but also recognise that if you want access to the world's largest market, you have to compromise

This needs saying because the SA government, under the banner of African renaissance, seems to be getting the idea that it can mess with the big boys Would that it were so Alas, the economy Deputy President Thabo Mbeki is about to inherit remains on a par with that of Maryland, a relatively insignificant US state And Maryland's formal unemployment rate is about a 10th of SA's. SA, though big in its neighbourhood, is a microdot in the global economy

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BDFM A BDFM publication

Tax officials to crack down on financial services and oil industries

(183) BD 6/5/98

Linda Ensor

CAPE TOWN — Inland revenue planned to target specific sectors such as financial services and the oil industry which it believed were not paying sufficient tax proportionate to their profit, commissioner Trevor van Heerden said yesterday

Briefing Parliament's finance committee on the SA Revenue Service's budget vote, he said Soweto and townships in KwaZulu-Natal and the Western Cape would also come under the spotlight in an accelerated drive to broaden the tax base

Special attention would also be given to improving value added tax and pay as you earn collections where the returns were quicker

Inland revenue has projected an increase in revenue collection of R16bn to R180bn (R164bn) this fiscal year

Van Heerden said special audit teams would investigate the tax paid by some economic sectors where the use of tax avoidance schemes appeared to be widespread and where the amount paid in tax was low compared with the nominal tax rate

For instance, financial institutions had made extensive use of losses in trusts for their own benefit. This would be addressed through legislation.

Consideration was also being given to the highly successful Swedish approach of concentrating on the top 200 companies which generated most of the tax. Swedish tax authorities were also helping SA determine the size of the tax gap and identify sectors on which to concentrate.

Avhashoni Netshivhungululu, the director of tax structure development, told the committee the revenue service had successfully employed other initiatives to enhance collections such as visiting businesses to check whether they were registered. Successes had also been made in dealing with outstanding returns and collecting outstanding tax.

However, Van Heerden warned that improvement in tax collections was being hampered by the "inability of the present justice system to deal with the increased flow of prosecutions" and the low tax morality in the country.

He said a new income tax system at end-December would give the revenue service an interface with banks, though the benefits would only filter through in later years This would result in "huge productivity gains" as a number of manual processes would become automated, reducing duplication and loss of revenue

Deputy commissioner Pravin Gordhan said ways of extending services in collaboration with the Post Office and municipalities would be explored

UNLEADED PETROL

Cost and performance fuels resistance

Search is on to persuade motorists about merits of unleaded fuel

Unleaded petrol has produced a miserable growth record in SA despite a price differential of 4c/l against leaded petrol

It was introduced amid much fanfare in February 1996 but now government, the oil industry and motor manufacturers are desperately seeking the magic formula that will see the fuel account for between 20%-25% of the market against the current 9,9%

What will it take? Industry analysts say octane enhancement — unleaded petrol currently has an octane rating of 91 compared with leaded at 93 — is top of the list Second, an increase in the price differential and finally an extension to the availability of unleaded petrol, particularly at petrol stations in rural areas

But lurking in the wings is perhaps the most potent weapon of all — fitting restricted fuel nozzles that will only dispense unleaded petrol

Already a number of local manufacturers, including BMW and Mercedes-Benz, are fitting catalytic converters on new vehicles in line with world environmental standards As converters can only run on unleaded fuel these vehicles, along with some Fords and a host of imports, all come with the restrictive fuel nozzles

The oil industry has spent over R300m in making unleaded petrol available and now obviously wants to turn a profit on its investment

At the time the differential was set the petrol price was R1,70c/l Currently it's R2,25c/l Oil companies argue that a differential of 6c/l is needed if the gap between leaded and unleaded is to be maintained at 1996 levels

Department of Mineral & Energy Affairs director for transport energy Teuns Burger says "No firm decision has been taken yet but government is in intensive discussions with all the role players But as it's a financial matter the ultimate decision will also obviously involve the Department of Finance"

Burger says there appears to be a "residual fear about unleaded petrol" among SA motorists He says achieving 15% of market share would be a significant milestone

Nico Vermeulen range of measures required to win over motorists

Executive director of the SA Petroleum Industry Association (Sapia) Colin McClelland says to raise market penetration to between 15%-25% a differential of at least 6c/l is needed He also feels that if government reduced its tax on unleaded it would give impetus to sales

Sapia reports that sales of major petroleum products continue to grow — up 4,5% from 4,9bn l in the first quarter last year to 5,1bn l in the first three months this year Petrol, which accounts for half the sales, rose 2,4% to 2,7bn l

National Association of Automobile Manufacturers of SA (Naamsa) director Nico Vermeulen says it was at the request of his industry that unleaded fuel was produced

"Internationally, the trend is towards greater use of unleaded fuel In the US and Japan and many countries in Europe you won't even find leaded fuel Engine technology and development is centered on unleaded fuel But what was found overseas was octane ratings had to be increased because of the high performance requirements of vehicles

"There is general acceptance within government and the oil industry that a 20% market penetration is the level needed to justify the investments the oil industry has made in the manufacture and distribution of unleaded"

Vermuelen admits that introducing smaller inlet nozzles is being looked at by the industry, but that on its own this won't be sufficient to increase unleaded's market share

"If they want to get to 20% in the short to medium term then the two most effective mechanisms are increasing the octane rating and increasing the price differential We admit that the introduction of restrictive nozzles is an option and the industry is looking at it"

SA is learning that tinkering with behaviour patterns is a tricky business While South Africans proudly proclaim themselves to be enviromentally conscious, the paltry growth record of unleaded bears testimony to the fact that local motorists still inhabit a different historical time zone

However, the stakes here are welfare not warfare To win over hardline motorists it appears that government has tacitly accepted it must forgo some of its precious tax revenue on unleaded

But the oil industry should beware — it might just be overreaching itself

The *FM* has it on good authority that should market penetration exceed 25% the industry might not be able to deliver due to limited capacity

Mick Collins

AUTOMOBILE ASSOCIATION

Beware of pirates

In an *FM* corporate report on the Automobile Association on April 17, an AA employee advised SA motorists to avoid imported vehicles because of potential problems with spares and service back-up Group MD Barney Mostert, however, says this view is not endorsed by the AA Many imported makes, he says, have full back-up around the country "The AA only cautions motorists not to buy illegally imported cheaper pirate parts, which have no warranty and no back-up in case of failure," he says ■

The State-owned Post Office Savings Bank was reported to be down Z$300m in the scandal while the National Social Security Association (NSSA) was said to have lost Z$60m

Banks, discount houses, one building society and many fringe operators — unregistered investment houses and market dealers — have all been caught up in the bank failure Just how government proposes to handle the problem is far from clear No public funds will be used to bail out unfortunate depositors, whose claims are put at more than Z$2bn or 1,5% of GDP

The RBZ has come up with a "liquidity support facility" at 2,5% above Treasury Bill rate (that is at 34%) but which will normally extend only until August 31 this year This is a typical bureaucratic solution for what is ultimately a political problem — the need to ensure that innocent people don't lose because of the combination of incompetence on the part of both the central bank and the Ministry of Finance on the one hand and the alleged fraud at UI IB on the other

More realistically, one government Minister says privately that the "agreement" with the IMF — still to go to the Fund's board in Washington — for a $175m 12-month standby facility is now dead and will have to be renegotiated since bailing out the banking system will bust the agreed national budget Others point out that because the central bank's inspection team last year advised the finance ministry to withdraw Boka's licence — advice that was ignored for political reasons — the government itself is morally obliged to rescue those who risk losing their money

Bankers believe that Finance Minister Herbert Murerwa who has looked way out of his depth since becoming Minister, ought to resign, or failing that, be sacked Others feel that Governor Tsumba should also fall on his sword along with at least one other top Treasury official The signs are that all three will hang on to their jobs, especially now that Tsumba has been asked to head the inquiry into the bank and who will be expected to hush up anything politically damaging to the Mugabe government

Meanwhile, the RBZ's rescue plan will make a mockery of the money supply and inflation targets trotted out only last week by Tsumba These project inflation, now at 28%, falling to 19% by the year-end

Tsumba who last September said the Zimbabwe dollar was "just about right" when standing at Z$12,6 to the US dollar, now believes the Zimbabwe currency is appropriately valued at Z$17 to the US The markets seem not to agree and dealers expect the currency to head south towards Z$20 later in the year

A strong push factor is the tobacco price With 10% of the crop sold, tobacco is averaging US125c\kg, down 37% on last year This plus depressed prices for other exports, especially gold, ferrochrome, nickel and cotton, suggest the hoped-for improvement in the balance of payments is unlikely to materialise this year

An IMF deal might stabilise the rate temporarily but what the markets are really looking for is firmer leaf prices, expected in late May and June, along with the restoration of confidence in the financial sector

The markets are jumpy too ahead of the 1998 wage negotiations which promise to be traumatic Union leaders are demanding more than 30% pay awards, which employers say they cannot pay

The Zimbabwe Congress of Trade Unions is threatening to bring the country to a standstill again, as in March, thereby signalling to employers that the balance of power has shifted against them The signs are that pay awards will, in fact, average close to 30% this year, further fuelling inflation while blowing a hole in everyone's budgets, including the government's

Special Correspondent

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It's a big rip off, say the healers

Herb power: Traditional healer Sipho Mndaweni fears being shut out. PHOTO: SHAUN HARRIS

Angella Johnson

Traditional healers have accused the pharmaceutical industry of trying to muscle in on their lucrative natural herbal market after a company was ordered to stop producing products to be sold over the counter.

Pharmacare, a division of South African Druggists, was told by the Medicines Control Council (MCC) to stop making four cure-all herbal remedies sold as "Healers Choice" because of legislative constraints

The company has refused, citing "a difference of opinion with the MCC" over an interpretation of the law It also argues that the products are already widely available for sale in Europe and the United States.

"The natural-remedy market is worth some $16,5-billion worldwide and is growing at a phenomenal rate," says Rodney Hesketh-Mare, general manager of Pharmacare

"Local healers do not have a monopoly on these remedies. It may be that some healers will feel threatened, but we are approaching the market from a different angle and do not see any reason for conflict Rather, they are complementary to what is sold on the streets."

Hesketh-Mare says his company is only producing a limited supply from indigenous plants — such as buchu, used for stomach ailments — which are cultivated specifically for Pharmacare's production.

"We are not plundering the environment and will provide uniform dosages with consistent quality and efficacy They are standard formulae that offer well-documented therapeutic delivery," he says.

This doesn't satisfy Sipho Mndaweni, president of the Interim Co-ordinating Committee of Traditional Practitioners in South Africa. He complains that his members may end up being squeezed out of the market.

He insists South African Druggists is just testing the water before marketing more traditional medicines to be sold over the counter.

Mndaweni says his organisation has a membership of more than 200 000 sangomas, inyangas and "birth attendants" from affiliated associations across the country.

"We won't see a cent of the vast profits they will make, even though people will buy these goods thinking it's the same as what we do."

His committee has made submissions to Parliament for recognition as a registered national council similar to that of doctors and other professional bodies. "That way we would be able to have some control over the trademark 'traditional medicines' and stop this kind of abuse," says Mndaweni

Meanwhile the MCC admits it has reached an impasse with South African Druggists, which has failed to register the ingredients used in Healers Choice, as required under the national drug policy

Says Bada Pharasi, chief director of registration, regulation and procurement· "The company is legally bound to . show that clinical trials have been held and produce documented evidence of the tests carried out, but at the moment we have . a difference of opinion."

OIL *Strategic Fuel Fund general manager twiddles thumbs as inquiry drags on*

UNIVERSITY OF CAPE TOWN
SALDRU LIBRARY

Suspended fuel chief nets R½m

CT(BR) 11/5/98 (183)

NCABA HLOPHE

Johannesburg — More than R500 000 of taxpayers' money has been paid in salary since March last year to Kobus van Zyl, the suspended general manager of the Strategic Fuel Fund (SFF)

Van Zyl was suspended on full pay on the instruction of Penuell Maduna, the minerals and energy minister, for alleged overpayments on oil contracts

The Central Energy Fund (CEF), the holding company for SFF, has been paying for Van Zyl's cellphone and part of his home telephone bills

Van Zyl said yesterday he had not heard from the disciplinary committee for five months

Keith Kunene, the acting chairman of the CEF board of directors, said the disciplinary action against Van Zyl was continuing and the suspended director was still receiving full pay

He would not be drawn further on the matter, saying it was in the hands of lawyers

However, CEF sources said Van Zyl had been employing stalling tactics and red herrings to delay the progress of the disciplinary action against him

"In one instance, his doctors had written that he was sick and the date (of a hearing) had to rescheduled, while in another instance his lawyers requested documentation they already had," one source said

Van Zyl said: "I never asked for postponement because even when I reported that I was sick in December, there was nothing on the table to be postponed I have not heard about the disciplinary action for the last five months"

He is alleged to have overpaid two foreign oil companies the state-owned Egyptian General Petroleum Corporation (EGPC), by 1,5c a barrel in a 1996 contract, and Amoco, a US company which acted as a conduit for the Egyptians, by 6c a barrel

These allegations were raised in the findings of a forensic audit by Nkonki Sizwe Ntsaluba released early last year The findings slammed Van Zyl for breach of corporate governance.

The auditors found that he had misled the minister by exaggerating the influence of Fakhry Abdelnour, an Egyptian oil agent who supposedly acted as an agent between the SFF and the Egyptians

The Egyptian government has also denounced Abdelnour's role in influencing EGPC pricing structures

Van Zyl is also alleged to have misled the minister and South African refineries not to buy the SFF's Egyptian crude oil

"The SFF was experiencing problems in placing the Egyptian volumes in South Africa because Iranian crude oil had been cheaper for the best of the year relative to the Egyptian crude oil," the auditors argued

The auditors noted that Van Zyl had also manipulated the internal auditing process in the SFF

ON FULL PAY *Kobus van Zyl, suspended general manager of the Strategic Fuel Fund*

PHOTO JOHN WOODROOF

Force change, say black oil firms

BT (BR) 12/5/98 (183)

NCABA HLOPHE

Johannesburg — Black oil companies had called on the government to use strong-arm tactics to accelerate transformation if negotiations with multinationals failed to give them a 20 percent market share within five years, Dominic Sewela, a spokesman for black oil companies said yesterday

Sewela said the state should intervene and force multinational oil companies to transfer assets to black companies if they resisted negotiations to empower them within that time But the transfer had to be on commercial terms, as black oil companies preferred a negotiated transformation of the liquid fuels industry

"Should black oil companies not achieve the 20 percent market share target within that time due to lack of co-operation from the South African Petroleum Industry Association (Sapia), the government should manage the enforced transfer of Sapia member sites on commercial terms in favour of black companies to meet targets," said Sewela, who is also the managing director for Exel Petroleum

Colin McClelland, the executive director of Sapia, said there would be no need to transfer assets as the oil industry was committed to transformation

"Sapia wants to support transformation and would not need government enforcement because such strident interventions would amount to nationalisation and discourage investors," he said

Analysts said the proposals amounted to a "backdoor entry into the market" and were "inconsistent with government policy"

The radical proposals have been submitted by the African Minerals and Energy Forum (Amef) to the minerals and energy department as part of its recommendations on the long-awaited national energy policy

"The biggest but by no means only stick here is the immediate scrapping of the in-bond landed cost system, which would affect the major oil companies' profitability," Sewela said

Amef members should have first option on all new site developments and their zoning applications should be favourably considered as part of levelling the playing field ahead of full-blown deregulation, he said

Police to probe fatal explosion

By Norman Chandler and Ryan Cresswell

The police are to probe the cause of an explosion which killed four people and injured several others at the Denel Mechem test range near Pretoria yesterday.

Explosives experts were trying to detonate unstable substances.

The explosives were part of a commercial consignment from AECI. (183)

Denel chief executive Seshi Chonco said last night he regretted the deaths and injuries.

Meanwhile, army officers who had been in charge when eight soldiers died in accidents at the Lohatlha battle school in November could end up in court

Six soldiers died in a mortar blast and two others died in parachuting accidents during war exercises.

An SANDF spokesman said police were waiting to see the army findings before starting their own investigations

BD 14/5/98

SAFRIPOL

Chemical giants in tug of war

FM 15/5/98 (183)

Arbitration sought over question of ownership

A bizarre battle has broken out between two of SA's chemical giants, Hoechst and Sentrachem, over control of the plastics producer Safripol, valued at about R800m

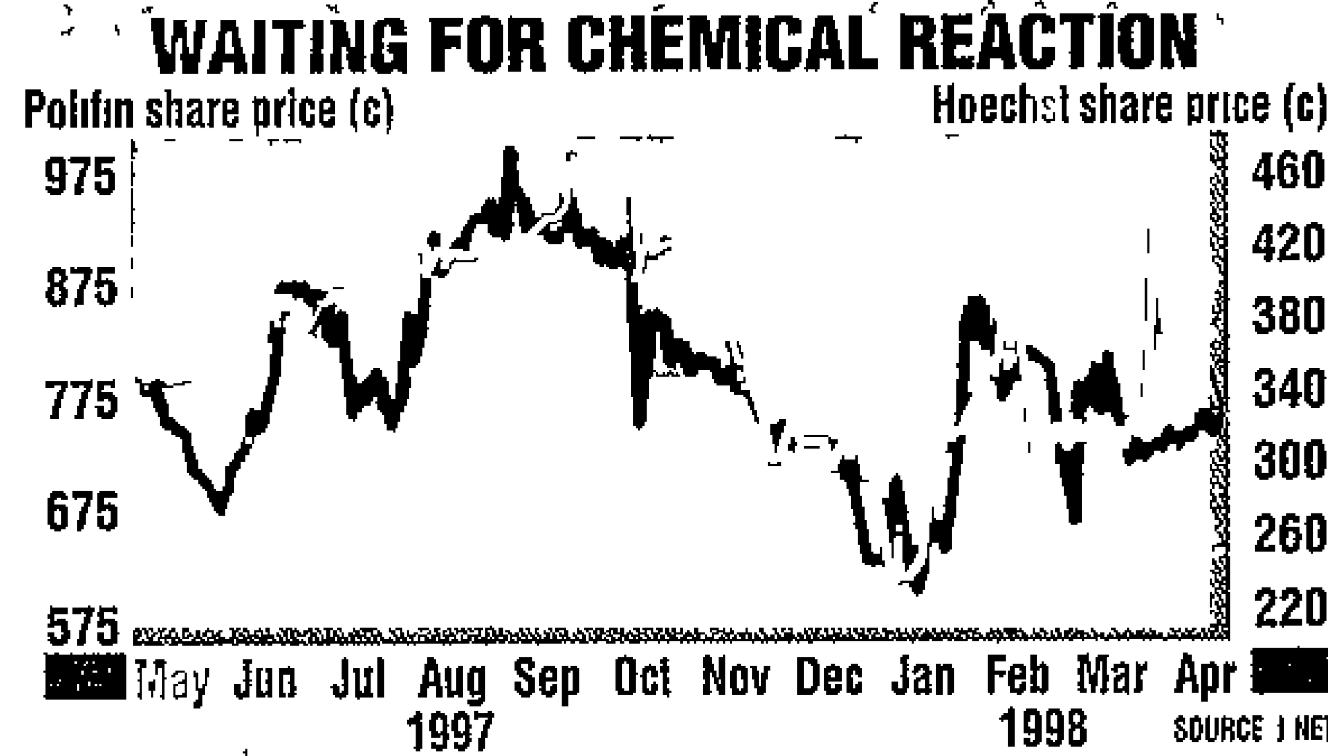
After months of confrontation, the two companies have resorted to arbitration in a bid to resolve ownership of Safripol Both hold a 50% stake

Hoechst SA's case is that under the joint venture agreement with Sentrachem it was entitled to a pre-emptive right to buy Sentrachem's stake in the event of a change of ownership Sentrachem was bought by US chemical giant Dow late last year

Hoechst SA MD Steffan Beuthner says the company made an offer to buy Sentrachem's stake even before the Dow takeover He adds that after the takeover Hoechst SA felt it had the right to take over the "second half" of Safripol The offer was rejected

"We are convinced that our arguments are stronger than Sentrachem's They have agreed to go to arbitration and we are preparing for the hearings," Beuthner says

Hoechst warned shareholders this week to "exercise caution in dealing with Hoechst's shares", noting that arbitration is "well under way"



Sentrachem is challenging Hoechst's claim and also attempting to secure control of Safripol, having made an offer for Hoechst's 50% stake

Besides confirming arbitration is under way, Sentrachem spokesman John Counihan refuses further comment

The fall-out between Hoechst and Sentrachem is puzzling analysts Hoechst and Dow, though local rivals, have co-operation agreements in other parts of the world

One industry source asks "Why is Hoechst fighting so hard to keep Safripol? Dow has obviously made a businesslike offer, a responsible offer Why is Hoechst AG permitting its local operation to drive so hard for full ownership of Safripol?"

Analysts believe the answer lies in Hoechst SA's over-dependence on its polymer business The 1997 annual report shows that polymers (used to manufacture synthetics) accounted for 74% of assets compared with health care (23%) and chemicals (3%) Polymers contributed 70% to net revenue against 24% from health care and 6% chemicals

Strip out polymers, say analysts, and shareholders are left exposed "It's going to be embarrassing to have to tell shareholders that they will end up with an investment that doesn't look like any kind of an investment at all," says one market observer, adding that there is a "high degree of anticipation as to the outcome" of the battle

The murky waters could be further muddied by rival Polifin, which analysts believe also has its eye on Safripol With its strong cash flow, Polifin could handle a deal of this size at a canter

The domestic turf battle takes place against an international shake-up in the polyethylene sector Hoechst AG is in negotiations with third parties, including BP, to sell its US$457m/year worldwide polyethylene business

The one exception to this strategy has been the SA investment Beuthner says when Hoechst AG announced its intention to get out of plastics in late 1996 it made it

MORTGAGE RATES

Making a leap of faith

The big four banks — Absa, Standard, First National and Nedcor — are always reluctant to make an early reduction in their lending rates Their reasoning is the cut might prove premature and they would be forced to reverse the move — creating uncertainty in the market

They are once again holding out against a rate reduction, though their own funding costs have been falling steadily It seems they are waiting for a reduction in the cost of funds provided by the Reserve Bank, at daily tenders, to fall further

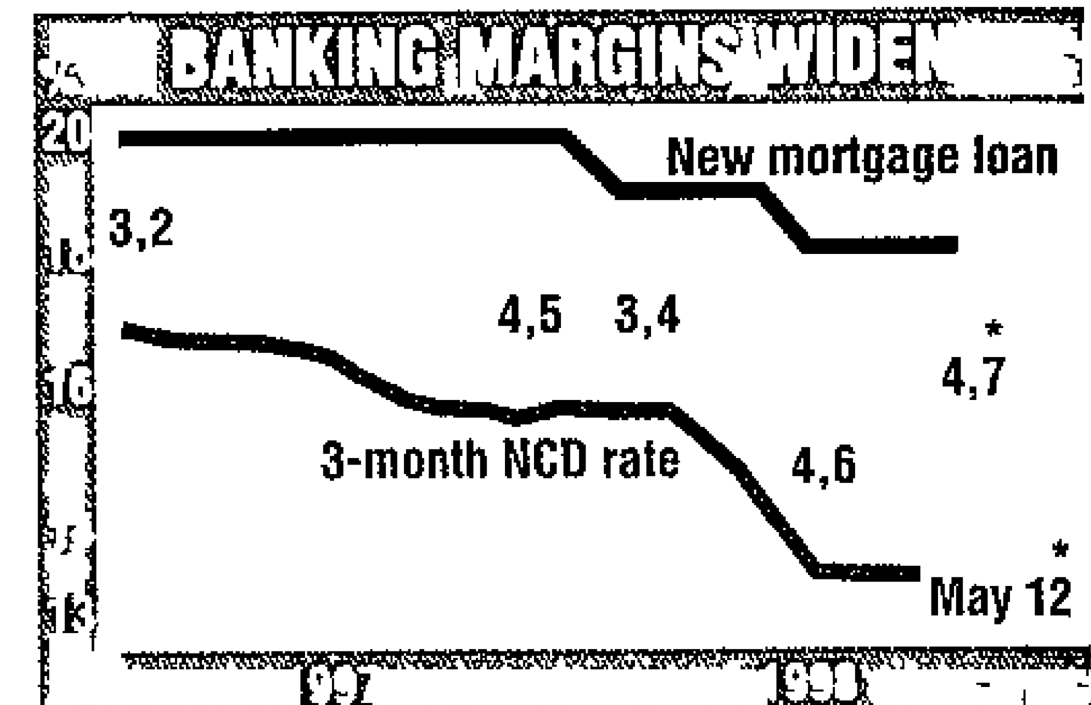
But these rates are proving sticky They were just under 14,8% at the end of last week and the start of this week, which is only about two basis points lower than they were a month ago

However, a comparatively small amount is raised by banks from this source And for practical purposes, the important rates are those at which banks raise funds in the market

A useful proxy of these costs is the three-month rate on negotiable certificates of deposit (NCDs) The spread between the mortgage rate and this rate has widened from 3,4 percentage points at the end of 1997 to 4,6 percentage points at the end of April (see graph)

Meanwhile, Mercantile Lisbon Bank has once again made the first move After a one percentage point reduction in February, to 18%, the small retail bank has now brought its mortgage rate down another 50 basis points

Who knows when the major players will think it safe to follow Ethel Hazelhurst



Seeking a new image for medicine

Star 15/5/98 (183)

Health Reporter Anso Thom speaks to the doctor tasked with taking South Africa's medical controls into a new era

If scientists were to develop a drug which allows a person to be in more than one place at a time, Dr Helen Rees would probably be their first customer

Recently appointed as chairman of the controversial Medicines Control Council (MCC), Rees added this new responsibility to her numerous jobs

Until recently, her titles included chairman of the Planned Parenthood Association, adviser on reproductive health to the national Health Department, director of the reproductive health research unit at the Chris Hani Baragwanath Hospital, head of a team of researchers funded by the United Nations Aids Project, groundbreaking researcher into the re-use possibilities of the female condom and member of the MCC

The MCC has had its fair dose of controversy which has been exacerbated by the Virodene controversy and clashes between former MCC chairman Dr Peter Folb and Health Minister Dr Nkosazana Zuma

On April 28 Zuma announced that she would not be renewing Folb's contract and Rees was appointed to replace him

"I was concerned at first because I have many other responsibilities, but I have wonderful, supportive people working with me on all the projects Without them I would not have been able to juggle all the work," Rees said

Rees identifies many tasks for the MCC, but she is adamant that it needs to get rid of the "cloak-and-dagger" image "We need to become more pro-active. In the United States everyone knows about the FDA (Food and Drug Administration) People have a good understanding of what the FDA does"

Rees has identified several challenges that need to be taken up by the MCC until the new proposed Medicines Regulatory Authority has been formed

These include a more efficient and effective MCC, looking at the advantages of non-orthodox medicine such as homeopathic and traditional medication, dealing with the enormous growth in clinical trials which are taking place in South Africa dealing with the backlog in the registration of medication, establishing whether the MCC is autonomous or parastatal, bringing down the cost of medicine and promoting good prescribing practices.

"Our main responsibility is ensuring that drugs in this country are safe, effective and of the required quality Our actions have to be for the good of the public health interest In this definition alone lies a lot of work," Rees says

On the subject of being more efficient and effective, Rees points out that the medicines policy needs to be fundamental to the health policy

ANDREAS VLACHAKIS

Opening up ... Dr Helen Rees, newly appointed chairman of the Medicines Control Council, wants the MCC to be more transparent and accessible.

"Should we lack medicines policy or should it not be of a high standard, our drugs would be of a low standard," Rees says "That is why there is a real need for a proper, efficient, effective and technically competent medicines regulatory system

"Our present system has all this, but the workload is growing. More multinational companies are entering the market and I think the structure set up in 1965 is starting to creak under the strain," Rees says

Clinical trials are also growing enormously, Rees points out, with South Africa becoming an attractive destination to run clinical trials "Many factors play a role Our scientists are of a high quality and our labour is cheaper than that in the States," she says

Rees agrees that clinical trials are a particularly sensitive area with "this mechanism also beginning to creak a little bit"

A priority was finding ways to deal with the backlog in the registration of clinical trials and new medication. Rees says in both cases proper, new systems need to put in place with the MCC seriously considering charging a higher fee for their services.

"We are charging terribly little for the services provided and I am sure pharmaceutical companies would be willing to pay if they were receiving an efficient service"

Rees is passionate when she speaks about bringing down the cost of medicine. "We're a developing country, but internationally we have some of the most expensive medicine in the world

"We have to seriously look at generic drugs, but it is our responsibility to ensure they are safe and of a high quality"

Another area of concern for Rees is the long time it takes to register a drug "Should there be a new drug that could cure or treat Aids, we have a very good motive for fast-tracking the process As long as it is critical for public health interest"

Turning to Aids, Rees says that the disease has become commonplace in clinics "Aids is truly beginning to hit us. It is appropriate that we are at the forefront of doing clinical and vaccine trials We have such an enormous problem, but we have good researchers with a lot of people running trials for an Aids cure"

As far a Virodene is concerned, the MCC is in ongoing dialogue with the researchers A small working committee is assisting the researchers in coming to some sort of an answer

"We have given them considerable feedback on the difficulties we have with their proposals and they (the researchers) are now addressing these issues. They realise the drug has to be ethically impeccable. At the end of the day if the trial is not done properly, the researchers will not be able to defend it.

"It is, however, important to bear in mind that Virodene is separate from the substantive need to restructure the MCC"

Is Rees able to sketch the bigger healthcare picture, lost among the controversy engulfing our health system?

"We are trying to achieve a better standard of health for all South Africans Other factors such as literacy, electrification and water contribute to this

"Transformation is jolly difficult, but our aim is to develop accessible, more equitable services without destroying the sophisticated, more hi-tech services

"Yes, Johannesburg Hospital is more overcrowded than 10 years ago, but drive to the Northern Province and you will see clinics being built.

"But it is important not to damage or destroy things you want to keep in the long term. Transformation doesn't take five years We're in the middle of the transformation process and I think it's going to take us another three years."

Folb revises decision to stay on drugs body

(189) PMO 18/5/98

Josey Ballenger

PROF Peter Folb, former chairman of the Medicines Control Council (MCC), has stepped down from the drugs regulatory body, despite saying earlier that he would remain while it was being restructured.

Folb said from his Cape Town home at the weekend that he did not want to be "hanging around" under a new chairman

However, he had pledged his support to Dr Helen Rees, his successor, and the health department

Health Minister Nkosazana Zuma named Rees, another MCC member, as chairman three weeks ago after months of speculation that the minister would replace Folb because of differences on issues such as the Virodene saga Folb's term as chairman technically lapsed last August

Folb would not say when he had resigned, saying only he had "finished off (his) work with Zuma amicably".

Folb and Zuma's spokesman, Vincent Hlongwane, previously indicated that Folb would remain on the MCC until a new regulatory body was established this year. Zuma, who was abroad, and Hlongwane could not be reached for comment yesterday

Rees said Folb was not "pushed" He had two weeks ago verbally indicated his intention to her that he would step down as it would be "difficult to sit in the audience" after being chairman for 18 years.

"He is not turning his back He is offering a lot of support and feedback. Any action he'll take will be with good intent."

COMPANY NEWS

Drilling of wells in Mozambique's Temane field may start next month

Sasol in R50m search for gas

ET(BR) 18/5/98 (183)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Sasol Petroleum International, Sasol's oil exploration and production subsidiary, and its Mozambican partners were to spend more than R50 million on drilling and gas exploration work on the Mozambican Temane gas field, Sasol said yesterday

Drilling in Temane is expected to start next month Sasol says further wells will be drilled, if any gas is found, to assess the potential size of the gas field

It said the $10 million to be invested in drilling and seismic work would also include development of related infrastructure and financial assistance to train Mozambican citizens

The investment will be made under a production-sharing agreement with Arco Mozambique, a Bahamian subsidiary of the Atlantic Richfield Company, Zarara Petroleum Resources and Empresa Nacional de Hidrocarbonetos de Mocambique, the state oil company

The production-sharing deal follows Sasol's acquisition last July of 47,6 percent of three exploration blocks in alliance with Arco International and Zarara Petroleum Resources

The three blocks are Temane, Sofala and M10, jointly held under a technical evaluation agreement between Arco and Zarara The new blocks are in addition to Sasol's 100 percent interest in the Mazenga block in southern Mozambique under a memorandum of understanding with Mozambique's state oil company

"The newly signed agreement provides for Arco to be the operator in all these blocks, with Sasol Petroleum International taking over the operatorship three to six years after the first sales of commercial gas or oil.

"The partners will jointly evaluate all the blocks in detail, and negotiations regarding production-sharing agreements will commence shortly thereafter with the government of Mozambique," Sasol said at the time

In May last year Sasol announced it had started developing its first oil discovery at the 4 000 barrels-a-day Djambala field 55km offshore from Congo

Fuel inferno after refinery rocked by huge explosion

ARG 19/5/98

Blast near Durban airport

(183)

ARGUS CORRESPONDENT

Durban – Millions of litres of fuel went up in flames after an explosion rocked the Sapref refinery, south of here, early today.

Residents were woken by a thunderous explosion and sirens from the refinery near Durban International Airport about 1 30am

The explosion caused a major fire

A Flying Squad policeman said· "It was like someone had switched on a big light, I have never seen anything like that in my life "

A local resident said the explosion had been so violent it had rattled the windows of her house

No injuries have been reported The cause of the blast is not known, but foul play is not suspected

Sapref spokesman Lora Rossler said it appeared the explosion had happened near the centre of the refinery plants

She said there were three separate fires which were "contained" but still burning after several hours

Ms Rossler allayed fears that the fire could endanger surrounding communities "There is no risk to anyone outside of the refinery "

The Durban Metro Fire Emergency Services responded with three fire engines and assisted the refinery's own fire and rescue teams, which kicked into action immediately after the explosion

"The Sapref emergency plan was activated immediately," said Ms Rossler

Firefighters and emergency teams were still battling to extinguish the hydro-carbon blaze, using water and foam well into the morning.

"A full investigation will be made to establish the cause of the explosion," said Ms Rossler

The Sapref refinery, owned by Shell and BP, is a strategically important site, being the largest crude oil refinery in Southern Africa

This is the first major incident at the refinery

Said Ron Storrer, human resources manager at the refinery "Since the refinery came on line in 1963 we have had a few minor incidents, but nothing of this size."

There were about 50 workers at the plant at the time of the explosion, as well as several security personnel

"In order to extinguish a hydrocarbon fire we need to find the source of the petroleum feeding the fire and shut it down," said Mr Storrer.

"For example, if a pipeline is broken in half it could be feeding the fire from two sides – so we need to find which pipe it is and depressurise it."

Most of the refinery has been shut down as a result of the fire Although this will affect production, Mr Storrer said it was necessary for safety reasons

"Once the damage has been assessed we will see how much production we can sustain," he said.

Asked whether this would mean a fuel shortage for consumers, Mr Storrer said "Not in the short term We had full stocks before this and the stocks are not in danger. Once the damage is assessed production will go on "

The fire caused a lot of smoke pollution, which was blowing out to sea It will only be known later whether the waters around the refinery have been contaminated "At the moment pollution seems to be contained within the refinery," said Mr Storrer.

Prevention of diesel mixing could capture R500m in lost revenue

(183) BD 20/5/98

Linda Ensor

CAPE TOWN — More than R500m in lost revenue would hopefully be captured by the SA Revenue Service by preventing mixing diesel with kerosene as a way of avoiding the fuel levy payable on diesel, deputy commissioner Kosie Louw said yesterday

The oil industry found that in the fourth quarter of last year, kerosene sales increased 12% while there had been a decline in the sale of diesel, with an average turnover growth of 7% and 3% respectively The price difference between the two is 65c

Louw told Parliament's portfolio committee on finance on the draft Taxation Laws Amendment Bill — which gives effect to the tax proposals in Finance Minister Trevor Manuel's March budget — that kerosene for uses other than engine fuel would be marked with a colorant in customs and excise warehouses Its distribution would be subject to controls such as the issuing of invoices and keeping of records

Officers would monitor the distribution and test the contents of containers and tanks of vehicles and anyone found guilty of an offence would not only have to forfeit their goods, containers, engines or vehicles, but also be subject to stiff penalties amounting to treble the amount of duty payable

Regarding the publication of the names of tax offenders in the Government Gazette, commissioner Trevor van Heerden said he would specify the class of offences for which this would be done

In a separate development, Parliament's portfolio committee on finance learnt yesterday that about 700 000 Sanlam policyholders — about a third of the total — had a monthly income of less than R2 000 a month and would benefit substantially from the life assurer's demutualisation

The committee was briefed on Sanlam's pending conversion into a public company by CEO Marinus Daling and his demutualisation team

Sanlam legal adviser Emile Wessels said that as it had been decided to parcel the shares in economic baskets There would be an effective redistribution of value in favour of the small policyholders who would get a substantial windfall from the process

Because pension and provident funds would get a big slice, the benefits would be spread even wider.

A strong inflow of foreign investment could be expected as a result of the demutualisation of Old Mutual and Sanlam, Wessels said, because their listings would boost the market-capitalisation of the Johannesburg Stock Exchange (JSE).

This would create a gap between the weighting of the JSE on the emerging market index — which should rise about 15% — and the holdings by foreign investors which were normally kept level with the index. Adjustments would therefore have to be made, accelerating foreign investment

Wessels said after the committee meeting that amendments to the Insurance Act were planned to facilitate the demutualisation. These would enable a mutual assurer to convert itself into a company and not transfer its business to one, as the latter process would require it to renegotiate all its contracts with policyholders. This amendment would have significant advantages for the protection of policyholders.

Another proposed amendment would entitle a life insurance company to hold shares in its holding company as an investment of its policyholder funds An existing exemption in the Companies Act would be extended to life companies Wessels said this was important for the demutualisation process as a lot of pension funds were not allowed to hold shares in their own name, but had to invest everything they had in policies Instead of recirculating those shares through cash, it made sense to just add the demutualisation shares to the policies and thereby enhance their value

Sapref shuts refinery after massive explosion

ET (MR) 20/5/98 (183)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — An explosion yesterday shut down South Africa's largest oil refinery, taking 25 percent of the country's refining capacity out of production.

Sapref, a joint venture refinery between BP and Shell, yesterday said it had shut the Durban refinery.

Ron Storrer, the refinery's human resources manager, did not have a full damage assessment and did not know how long it would take to bring it back into full operation. Teams had started work on bringing the refinery's utilities back on line. He hoped limited production would start within a couple of days.

Damage from the huge explosion was concentrated on an alkylation unit, which produced high-octane product for use in petrol. But several pipes serving other parts of the refinery had also been damaged.

He said the refinery had been planning a routine shutdown and thus had full product stockpiles, which would ensure there would be no short-term supply interruptions.

Patrick Henderson, a spokesman for the South African Petroleum Industry Association, said there was no cause for concern over the continuity of supply.

Sapref said although an oil leak had occurred, the oil had been contained to a canal and had not reached the sea. The spilt oil had been cleaned up by yesterday afternoon.

But Bobby Peeke, a Durban environmental activist, said the explosion raised broader concerns over the advisability of locating petrochemical industries alongside residential areas.

Peeke said environmental organisations had called on Sapref to delay its start-up until the arrival of more favourable weather conditions, which would mitigate the effects of pollution on the community.

Refinery start-ups created more pollution than normal operations. These pollutants would be trapped by the current cold front over Durban, he said.

SASOL/AECI

THE CHEMISTRY IS RIGHT FOR A DEAL (183)

Competition Board will decide FM 22/5/98

Sasol's plan to take over one of SA's oldest industrial companies — AECI — is soundly based on classical synergies

First, AECI is significantly undervalued by the market in relation to its long-held base of fixed assets, including holdings in outstanding chemical companies Chemserve and Polifin, plus important areas of undeveloped land Stockbroker David Cobbett points out, for example, that fixed assets have a net book value of R2,8bn but an insured value of R13bn So the net book value of R20 per share sharply understates true value Current market price is R26,50

The magic card is plastic

Then, the attractive synergies between the two chemical giants are not difficult to discern Take Polifin, jointly controlled by AECI and Sasol Polifin relies on supplies of monomers — ethylene and propylene — obtained as co-products from Sasol's fuel synthesis operations at Secunda To cater for future expansion, a major project is contemplated, known as Project 2003 This will comprise a new cracker to produce additional ethylene and downstream polyethylene plants

With the rejection of Mossgas as a site for this venture, the remaining contenders are Sasol and Sapref (the Durban oil refinery jointly owned by Shell and BP) Final sanction will be sought by the end of 1999 Sasol's stated intention remains the diversion of increasing feedstock at Secunda to higher-value chemicals To secure its position as a future supplier of feedstock to Polifin might alone have triggered thoughts about gaining sole control of this important plastics manufacturer

What's more, the mining explosives business has been turned upside down in recent years Nitroglycerin-based explosives (dynamite) have been ousted by newer and better blasting agents This is a field where Sasol has become competitive

Most recently, there has been a corporate upheaval involving AECI and ICI, resulting from the decision by the British chemical giant to withdraw from the explosives business worldwide AECI bought ICI's 51% share in their explosives partnership

So what must have been intense competition between Sasol and AECI can now be rationalised without reference to a third party The current state of stagnation of the SA fertiliser market also offers attractive opportunities for rationalisation

From the viewpoint of AECI parent Amic, a period of refocusing on core operations and shedding peripheral operations would reflect the back-to-basics philosophy now espoused by its ultimate parent, Anglo American It can't be denied that the greater Anglo group is not a match for Sasol in specialised chemical knowledge and management And the retirement through illness of former chairman and earlier MD Mike Sander has been a heavy blow for AECI considering his great ability and driving force

All in all, we have the ingredients for a happy marriage if the Competition Board gives its blessing There could be an announcement from Sasol in about two weeks' time **Robin Friedland**

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New medicines control chief pledges efficiency drive

(187) ARG 25/5/98

Not your average doctor: Helen Rees

ANSO THOMM
Argus Correspondent

Johannesburg – If scientists were to develop a drug that allowed a person to be in more than one place at a time, Helen Rees would probably be their first customer.

Recently appointed chairwoman of the controversial Medicines Control Council, Dr Rees added new responsibility to her numerous jobs

Until recently, her titles included chairman of the Planned Parenthood Association, adviser on reproductive health to the Health Department, director of the reproductive health research unit at Chris Hani Baragwanath Hospital, head of a team of researchers funded by the United Nations Aids Project, a ground-breaking researcher into re-use possibilities of the female condom and a member of the MCC

The MCC has had its fair dose of controversy, exacerbated by the Virodene controversy and clashes between former MCC chairman Peter Folb and Health Minister Nkosazana Zuma

On April 28, Dr Zuma announced that she would not be renewing Dr Folb's contract and Dr Rees was appointed to replace him

Dr Rees wants the MCC to be more pro-active "In the States, people have an understanding of what the FDA does," she says.

Dr Rees has identified several challenges for the MCC pending the proposed Medicines Regulatory Authority These include a more efficient and effective MCC, the advantages of unorthodox medicine, dealing with the growth in clinical trials here, establishing whether the MCC is autonomous or a parastatal, cutting the cost of medicine and promoting good prescribing practice

"Our workload is growing," she says

Wage negotiations in major sectors end in disputes

Reneé Grawitzky

BD 26/5/98 (183)

WAGE negotiations in some of the major sectors of the economy have ended with disputes being declared at relatively early stages in the negotiation process.

Disputes exist in metal and engineering, motor, petroleum, glass, industrial chemicals, pharmaceuticals and the fast-moving consumable goods sectors.

In general, disputes have been declared with employer offers ranging between 4,75% and 6,5% and union demands fluctuating between 13,5% and 15%

Industrial relations analysts warned that parties were not exhausting internal remedies before referring wage disputes to the Commission for Conciliation Mediation and Arbitration

The commission said it was being used as a springboard to determine the parties' different positions and should be used as a measure of last resort once internal procedures were exhausted

Andrew Levy & Associates consultant Brian Allen said it was extremely difficult to expect labour negotiators to consider settlements in the region of 5% when average settlements last year were more than 9%.

"There is almost a convention in SA labour relations that what parties settled on last year becomes the benchmark for this year Settlements have been dropping slowly in recent years but to expect a quantum leap downwards is optimistic and will be difficult for union negotiators to sell to members," Allen said.

Wage negotiations in the vehicle manufacturing sector are progressing, with parties investigating options based on a wage model Negotiations in the motor and metal sectors have, however, ended in dispute between employers and unions, including the National Union of Metalworkers of SA.

The parties involved in the dispute in the metal industry meet today, in terms of the industry's bargaining council dispute resolution procedure, to determine which dispute settlement option should be followed. Parties could either consider reverting back to negotiations, going to conciliation, arbitration or advising the council's general secretary that the dispute remained unresolved.

The Chemical Workers Industrial Union indicated yesterday that disputes existed in five of the seven sectors in which negotiations were taking place.

Soekor plans to double oil yield off Mossel Bay

CT (APR) 26/5/98 (183)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Soekor, the state-owned oil exploration group, said at the weekend it would invest $75,9 million to double the output of its Oribi oilfield off Mossel Bay by the end of next year

Marcus Banga, a spokesman, confirmed the announcement by Penuell Maduna, the minerals and energy affairs minister, on Friday that Soekor planned to develop its Oryx oilfield to boost the production of the Oribi field

He said Oryx was a relatively small, marginal field, but it would boost the lifespan of Oribi from four years to about nine years, raising capacity from 26 million barrels to about 35 million barrels Production would be kept at 25 000 barrels a day, or about 6 percent of South Africa's oil needs

The expansion project would be financed from own income and loans. About "four or five" other prospects were being evaluated and would be announced as they neared finalisation

During the debate on his budget vote, Maduna also said the Cabinet had approved plans by Mossgas, the oil-from-gas producer, to use R180 million to finance the expansion of its gas fields The cost would be recovered over four years from cash surpluses generated by Mossgas

EXPLORATION *Penuell Maduna announces new plans*

Maduna also gave a few hints about his proposed new policy on the liquid fuels industry, which is expected to be spelled out in greater detail when he releases his energy white paper on June 1

He planned to phase out current controls over industry margins as well as the rationalisation plan, which controls the siting and allocation of petrol stations

Synthetic fuel subsidies would be phased out, and oil companies would only have to uplift synthetic fuels from Mossgas and Sasol for as long as the two were still barred from the retail sector

AG resolute about decision on fuel fund irregularities

Vuyo Mvoko (183) BD 27/5/98

CAPE TOWN — The auditor-general stuck to his guns yesterday and said he had received "no assurance" from a management audit into alleged irregularities at the Strategic Fuel Fund (SFF) that findings would not have an adverse impact or place doubt on the fair presentation of the fund's financial statements

Directors of the Central Energy Fund (CEF), of which the SFF is a subsidiary, were adamant in their report for the year ended March 31 1997 that, in their opinion, results of investigations into the SFF over missing millions of rands would not adversely affect the presentation of the CEF's financial statements

The saga involved the disappearance of hundreds of millions of rands that were linked to two 1992 oil contracts between SA and Egypt CEF GM Kobus van Zyl had already been suspended pending a disciplinary hearing, while some members of both management and the board were also implicated

CEF directors wrote their report after Mineral and Energy Affairs Minister Penuell Maduna had appointed audit firm Nkonki Sizwe Ntsaluba to conduct an investigation into the alleged irregularities at the SFF, in addition to an audit that was conducted by the auditor-general

At the time Parliament was awaiting reports from the Public Protector, who was also investigating the alleged irregularities, and from a special parliamentary committee that was investigating Maduna's conduct in Parliament on the matter

The auditor-general's report yesterday said "Having now had the sight of the two reports prepared as a result of the investigation into the alleged irregularities, I remain satisfied that the contents contained in the report of the auditor-general to Parliament, dated 31 July 1997 — as far as the role of the auditor-general was concerned — are appropriate and correct"

SA to take steps to protect its indigenous medicines

BD 1/6/98 (183)

Louise Cook

SA COULD for the first time draw up laws to protect its ancient indigenous knowledge of medical remedies and herbs from commercial exploitation.

The Council for Scientific and Industrial Research's (CSIR) department of technology for development, in conjunction with several universities, is probing the scientific development possibilities of typically African remedies and home brews

Institutions like the Agricultural and Medical Research Councils are involved in the painstaking task of putting together the country's first national audit of indigenous knowledge and technologies. The idea is to back up the project with laws to prevent commercial exploitation, often by overseas companies, and to ensure that any unique products and associated African-based skills and knowledge can be legally patented and royalties paid to the relevant communities.

At present, national and international legislation makes no allowance for anyone other than individuals to receive royalties from patents.

The plan is driven by Wally Serote, chairman of Parliament's standing committee on arts, culture, science and technology. He hopes to submit a private member's draft bill on the "protection and promotion of SA indigenous knowledge" to the standing committee in the next few months.

However, the plan is already meeting with scepticism in legal circles and from opposition parties.

"It's a great idea if we can get it to work," National Party committee member Johan Steenkamp said. "But how do you patent knowledge? Nowhere in the world is there provision for a group of people like a community to earn royalties. These are the biggest hurdles."

CSIR project co-ordinator Mogege Masimege said: "India brought out legislation to protect these very elements. It can now claim compensation from a US company that cashed in on manufacturing products without paying the community whose original knowledge the technology was based on."

Another hurdle is the need for SA's neighbours to play ball If this does not happen, protection in SA will be lost by indigenous plant species being obtained from neighbouring states All Southern African Development Community countries would be included.

GOLD FIELDS NAMIBIA LIMITED

BoP

Continued from Page 1

BD 1/6/98

policy tight

The April trade performance suggested the current account deficit this year could exceed 2,5% of gross domestic product from 1,5% last year.

"The recent sharp rises in the repo and marginal lending rates are expected to be reversed when the financial markets have stabilised, but beyond that the case for interest rate cuts has clearly diminished," it said.

Exports were down 6,5% from March to R10,37bn in April, reflecting a fall in precious stones and metals. Imports were down 2,8% from March to R11,12bn as machinery imports fell

The central bank said the pressure on the rand had not been caused by any fundamental deficiencies in the SA economy. "On the contrary, the domestic situation still justifies some relaxation of macro-economic policies."

The Bank said it had defended SA's financial position against a wave of negative sentiment towards emerging markets with a package that included partly financing the foreign exchange deficit and partly resorting to exchange and interest rate adjustments. "It had tried to provide maximum protection for the fragile domestic economic situation in an adverse international financial environment

Exports surge: Page 4

Tax

BD 1/6/98

Continued from Page 1

position than others For example, Gauteng would benefit more (from a surcharge on personal income tax) because it has a bigger tax base".

While he would prefer the revenue service to collect any provincial taxes, Moleketi said another proposal was that the provinces use outside agencies, similar to those used to collect regional services council levies.

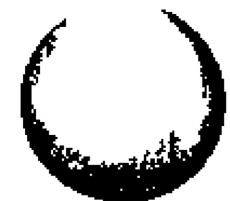
KwaZulu-Natal finance MEC Peter Miller was sceptical about how much his province would benefit from taxation powers and insisted that, should the powers be granted, the revenue service should be the only collection agency "The situation in KwaZulu-Natal is desperate regarding our ability to deliver services. Heavier taxation on businesses or individuals will blight our economy."

Eastern Cape finance MEC Enoch Godongwana said reducing the national tax burden to allow provinces to collect taxes would "reduce the broader cake if some provinces have nothing to tax. Gauteng would benefit, but most provinces would lose."

Two finance MECs, who asked not to be identified, said they would fight moves to allow provinces to raise taxes

The FFC has said granting taxation powers to provinces would increase accountability if provincial governments were spending taxes collected locally.

One observer suggested this could be a reason for some provinces' aversion to the idea — that they are more comfortable with their inevitable overspending if they cannot be called to account by a provincial electorate.



Mossgas wants R180m from CEF

BD 2/6/98 (183)

Linda Ensor

Mossgas has asked government authorisation for R180m to be paid to it by the Central Energy Fund (CEF) for the development of the Bredasdorp Basin gasfields, pending approval of its plea for a R1,9bn investment to extend its lifespan.

The R180m would enable Mossgas to meet the commitments of the E-M gas field development project up to the end of April 1998

But Parliament's Public Accounts committee has requested that the ministries of finance, trade and industry and mineral and energy affairs become formally involved in assessing the viability of investing further funds in Mossgas. This would have to be considered in the light of overall government policy towards the energy sector

The committee also believed the three ministries should become formally involved in the long-delayed negotiations between the oil industry, Mossgas and the department of minerals and energy affairs on the price the industry should pay Mossgas for uplifting its petroleum products.

These delays were costing the taxpayer a substantial amount of money, Parliament's standing committee on public accounts noted.

In a letter to the ministries the committee noted that there was a potential conflict of interest insofar as they wanted to ensure that Mossgas got the best possible deal but also had a responsibility to the taxpayer and motorist to ensure that the funds of the petroleum products equalisation fund were applied prudently.

Last year auditor-general Henri Kluever tabled a special report questioning the reasonableness, from the taxpayer's perspective, of the subsidies paid out of the equalisation fund to oil companies to compensate them for the "harm" caused by the existence of Mossgas

Instead of paying Mossgas the in-bond landed cost of fuel, it was paid the lower export price for as long as oil companies were obliged to export excess supplies The equalisation fund, financed by a synfuel levy paid by motorists, then recompensed Mossgas for being paid the lower price.

Meanwhile, CEF acting chairman Keith Kunene strongly recommended that the state retain control of its oil interests when they were privatised to form a national integrated oil company. This was a strategic issue for the country — nowhere in the world had the state relinquished control over its oil interests, Kunene said in an interview after briefing Parliament's mineral and energy affairs committee

"The clear message from government is that the CEF group of companies need to be restructured to an integrated national energy company," Kunene told the committee

Meanwhile Sapa reports that the results of an internal inquiry into allegations of corruption against suspended CEF GM Kobus van Zyl would hopefully be finalised by the end of the month, according to Kunene.

This comes more than a year after Van Zyl was suspended in March last year after claims of irregularities linked to two 1992 oil contracts between Sou 'i Africa and Egypt

ws

CENTRAL ENERGY FUND *Board complains activities limited to damage control*

Frustration rules the roost

CT (BR) 2/6/98 (183)

Lynda Loxton
Parliamentary Correspondent

Cape Town — Frustrations over the bad public image of the state-owned Central Energy Fund (CEF) because of controversial decisions by the department of minerals and energy spilled over in a parliamentary committee yesterday.

Keith Kunene, the acting CEF chairman, admitted to the portfolio committee on minerals and energy that the board had been unable to do anything more constructive in the past year "than manage damage control" over press leaks about various controversial decisions by the department, including the appointment of Emmanuel Shaw as an adviser on a R3 million contract.

The board then heard through the press that Penuell Maduna, the minister, was calling for fresh nominations to the board "shortly after we had had letters to say that our term of office had been confirmed for three years

"Obviously there was something going on in the minister's office and we had problems trying to get ministerial approvals because they were not reaching him Things have now been sorted out, it appears, with the new director-general "

CRISIS *Penuell Maduna, who called for fresh nominations*

At the root of the problem, he said, was that "there are two types of people at the CEF There are those people who belong to the new era and there are those people who belong to the old era Before (we) as board members could know about certain issues, they are already in the press "

At the same time, the CEF Act was "incongruous" in that it gave the board little or no power over major issues These had to be approved by the minister but the board bore the blame when things went wrong

Board members were also non-executive members and were not paid enough to encourage them to sacrifice time otherwise spent earning their living to deal with problems at CEF These ranged from the suspension of Kobus van Zyl, the former chief executive, the appointment of Emmanuel Shaw's International Advisory Services (IAS) and the allegation "that we did not apply our minds, which I find an insult And then the minister is advertising in the newspapers for a new board Why should I break my back and try and help?"

Kunene took over as acting chairman two months ago from Don Mkhwanazi, who had appointed the IAS

"Relations between the minister and the board have now been streamlined and there seems to be a flow of information between the two," he said

Maduna and Kluever 'cover-up' inquiry kicks off

Ncaba Hlophe

Johannesburg — The inquiry into the Auditor-General's alleged cover-up of millions of rands missing from the Central Energy Fund (CEF) defied the odds to make a successful start yesterday

The inquiry has been dogged by hiccups which resulted in at least two postponements since the beginning of the year

It is expected the inquiry will conclude the wrangle between Penuell Maduna, the minerals and energy minister who made the allegations, and Henri Kluever, the auditor-general, by the end of the month But it is still expected to be a difficult, month-long plod as legal representatives continue to jostle for a headstart against each other

Eduard Bruwer, representing Kobus van Zyl, the suspended general manager of the Strategic Fuel Fund, yesterday called for a rearrangement of the order of witnesses and the rejection of two documents submitted by Maduna's auditors

Selby Baqwa, the public protector, settled the matter and stressed the inquiry's role was to clarify issues rather than to vilify individuals

Bruwer slammed Nkonki Sizwe Ntsaluba for failing to interview Van Zyl when conducting the audit "The report is neither a forensic audit, neither is it a management audit The best it can be described as is that it is the scrambled egg of a one-man commission in which Barend Peterson (the auditor) was policeman, prosecutor and judge "

Kessie Naidu, representing Maduna, said Van Zyl had already been questioned by the minister and had submitted his responses

Howard Roberts, acting general manager of CEF, was first to stand in the witness box yesterday He would be followed by other CEf officials this week to explain administrative procedures

INSIDE PARLIAMENT

CT (PTR) 8/6/98

Detail bedevils Penuell Maduna's energy white paper

(183)

LYNDA LOXTON

The long-awaited release last week of the draft white paper on energy once again bears out the dictum the devil is in the detail

Though the paper makes all the right-sounding kinds of noises about deregulating the energy sector while ensuring that national needs and black economic empowerment goals are met, there are many ambiguities about what the department of minerals and energy really plans for the sector

The liquid fuels industry, for example, is told quite emphatically in one section of the paper that synthetic fuel subsidies will be phased out by 1999, but is then told in another that this will only happen in about three years' time

Sasol, the oil-from-coal producer, will no doubt make strong representations for phasing out its subsidies over the longer period before the July 31 cut-off date for comments

The joint standing committee on public accounts and the portfolio committee on minerals and energy will have to bear some of these things in mind (if they have managed to get hold of the white paper) when they meet today to consider the whole issue of synthetic fuel subsidies and the wisdom of further investments in Mossgas

Penuell Maduna, the minerals and energy minister, said in his recent budget speech that the Cabinet had given Mossgas the go-ahead to invest R180 million in the first phase of its expansion programme aimed at lengthening its life. But it will clearly be expected to fund this from its own resources, as the white paper says "Government will not increase its involvement in the manufacture or marketing of synthetic fuels."

This raises the question whether parliament has any say over future business decisions by Mossgas As long as those loans are guaranteed by the government, as they are, many will no doubt insist that it should

The portfolio committee on public enterprises will put the final touches to the Eskom Amendment Bill today, which paves the way for the corporatisation of the public utility This means it will, for the first time, have to pay tax

Eskom officials last week expressed some reservations about this, although they know it is inevitable when the government is tapping every available source of income Their argument was that any taxes due would have to be eased in if paying tax would affect Eskom's ability to deliver on the government's electrification programme.

Again, the energy white paper gives some idea of the department's thinking on this issue It said that Eskom should pay tax, but this would have to be carefully introduced because it could mean that Eskom would have to raise its tariffs, with inflationary implications

There would also be a "transaction cost" to the government in collecting the tax while introducing a tax on the electricity industry meant that local authorities would also be affected

This, it said, could be "problematic There is little rationale or precedent for a central government tax on local government's services Moreover, selective taxation of Eskom's profits and not local authorities' profits would introduce further distortions into an already problematic market," it said

"Finally, the application of income taxation to the industry could change the incentive structure facing utilities, who could increasingly seek to maximise after-tax returns, which might be in conflict with public interest or other economic goals "

The white paper concluded "Government will systematically investigate the implications of taxing the electricity industry" So Eskom might yet get the breathing space it wants before having to become a full taxpayer

On Wednesday, Shell could have its chance to air its view on the energy white paper when it briefs the portfolio committee on transport, even though it is supposed to talk mainly about transport-related matters

Also, the portfolio committee on trade and industry will be briefed today by the trade and industry department on its draft competition bill, which has raised mixed feelings in the business sector Many are relieved that it is not as "anti-big business", as had been feared, but others still see all sorts of bogies lurking in vague clauses and phrases that still wait fleshing out

THE ROAD AHEAD: Mozambican President Joaqim Chissano (left) and President Nelson Mandela met in the border town of Ressano Garcia on Saturday, to launch the toll road linking Maputo and Witbank *PICTURE. AP*

DRAFT ENERGY POLICY UNVEILED

Proposal to scrap massive aid for synthetic fuel sector

THE MINISTER of Energy Affairs proposes to restructure the distribution of electricity and allow municipalities to tax this service **JOVIAL RANTAO** of our Parliamentary Bureau reports.

(183) CT 8/6/98

THE multibillion-rand subsidies paid to the synthetic fuel industry should be phased out, according to the first policy paper on energy affairs in 13 years, published on Friday by Minister of Mineral and Energy Affairs Penuell Maduna

It also calls for the scrapping within three to five years of prohibitions on self-service stations, wider access to energy for rural communities and better management of the sector

Hailed as a key component of the government's attempts to transform the economy, redistribute wealth and stimulate growth, the draft White Paper contains key proposals to change a sector steeped in monopolistic practices and secrecy

These include ending the huge subsidies paid to the synthetic fuel industry, restructuring state assets, lowering the cost of diesel, developing a competitive gas industry and alternative energy sources, establishing an Energy Efficiency Agency, and encouraging small and black business involvement

Mossgas has cost the government R12 billion in start-up capital and subsidies, the nuclear industry R40bn, four oil refineries R6,5bn and Sasol plants R40bn

The paper proposes that regional electricity distributors be set up and that consumers be allowed a choice of services, with differing tariffs

As local authorities determine charges, there are more than 1 100 tariffs The draft White Paper also proposes that municipalities tax electricity and that the state subsidise connection fees

Maduna said the government was committed to promoting access to affordable energy by small businesses, disadvantaged households, schools, clinics and rural areas

"This draft White Paper has been written to clarify government policy (on) the supply and consumption of energy for at least the next 10 years," Maduna said

The energy sector contributes about 15% of the gross domestic product and employs 250 000 people

There have been fears that deregulating the fuel industry would cause severe job losses Allowing self-service stations would affect at least 50 000 attendants

NEW

Energy white paper plans to encourage new investment in pipeline industry

(183)

State threatens gas monopolies

CT (BR) 8/6/98

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The draft energy white paper released last week poses a threat to the long-standing monopoly of the gas pipeline industry by Petronet and Sasol — by aiming to encourage new investment in the potentially huge new sector

In line with International Energy Agency recommendations, it lays the basis for a more level playing field through the establishment of a new gas regulatory authority

It said this would "inhibit monopolistic abuse of pipelines by requiring pipelines to provide non-discriminatory open access to uncommitted capacity, transparency of tariffs and disclosure of cost and pricing information to the gas regulatory body"

Sasol, the main gas producer, has a web of pipelines for its own use and has a deal to use most of the capacity of Petronet's gas pipelines

Many more entrants are likely to enter the market soon, mainly from Mozambique's Pande and Namibia's Kudu gas fields Waterberg's coal bed methane is also ripe for exploitation Many have seen Petronet's high tariffs as a stumbling block to these developments

But Sasol said on Friday the policy proposals were "based on the assumption that the pipeline gas industry in South Africa is a mature one". It said it was still in a developmental stage, with no commercially viable natural gas reserves having yet been developed

Sasol was surprised the white paper did not focus on measures to encourage investment in the development of a pipeline gas industry

The paper said the natural monopoly characteristics of gas transmission pipelines presented the potential for the exercise of market power, including restricted access of gas industry competitors and maintenance of high prices

Where newcomers wanted access to a pipeline, decisions would be made on a reasonable basis and at the expense of the applicant who requested the upgrading

The white paper accepted the argument that the current tax regime for gas pipelines, in which depreciation on pipelines is not allowable for tax purposes, discouraged investment It said the department of minerals and energy would make representation to the department of finance to change the rules

It envisaged the establishment of a Gas Licensing Authority to implement a minimal regulatory regime and said the businesses of the transmission, storage, distribution and merchandising of gas would be kept separate to prevent anti-competitive behaviour

"On the other hand, the security of gas supply/demand to encourage development of the industry may require some form of vertical participation by the principal players"

But this would require proof of functional separation and arms-length relationships between the companies

The white paper said distributors were vulnerable to predatory actions by producers, who could attract the steady-demand medium-sized consumers, thus destroying the distributor's ability to aggregate sales and enter into a take-or-pay contract with the producer

This could limit the expansion of the gas industry into the household market As a result, distributors would be awarded licences for franchised areas to market gas to small gas consumers

Department promises action on Mossgas policy

CT (PM) 9/6/98 (187)

Lynda Loxton
Parliamentary Correspondent

Cape Town — Duma Nkosi, the chairman of the portfolio committee of minerals and energy, yesterday pledged to take up the drive to resolve the government's policy vacuum on Mossgas, the state-owned oil-from-gas producer

He told a special sitting of the standing committee on public accounts (Scopa) that he would be helped by the long-awaited release of the draft energy white paper and his committee's planned hearings during the third parliamentary session starting at the end of next month

But he warned that, because of the long policy-making hiatus in the minerals and energy department until last week, he had several pressing issues to deal with, including the pricing of jet fuel

Scopa had called the meeting after the lack of any official response to its repeated resolutions that Mossgas should resolve its pricing impasse with the oil industry and that the government should commission an independent verification of the viability of further investments in Mossgas

Ken Andrew, the Scopa chairman, told the meeting the future of Mossgas had now become a policy issue needing urgent resolution, and that the portfolio committee would be best placed to push the process through

Chris Stephen, a consultant to the office of the auditor-general, said the office was particularly concerned about the fact that Mossgas continued to receive about R12 million a month in synthetic fuel subsidies because of its pricing disagreement with the oil industry

Sasol's R7bn share plunge 'fuelled by white paper'

CT (MR) 9/6/98 (183)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — The share price of Sasol, the synthetic fuel producer, has fallen 23 percent over the past two weeks, reducing its market capitalisation by more than R7 billion

Expectations of lower earnings, competition-related difficulties over its planned acquisition of AECI and government-inspired uncertainty over the future of its tariff protection have hit the share price hard

Analysts now place the blame for last week's fall, in which Sasol shares shed 450c, largely at the feet of the government's new white paper on energy policy

At present, Sasol receives a subsidy if the oil price falls below a floor of $17 a barrel

The white paper says subsidies to the synthetic fuel industry will be progressively lowered to level the playing field between the oil refining and synthetic fuels industries

"It is expected that these subsidies will be phased out by 1999," the paper states On the very next page, when talking about a phased approach to deregulation, it says "it is foreseen that the duration of the first phase will be approximately three years and will end with the termination of subsidy payments to the indigenous synthetic fuels industry"

In its response to the white paper, Sasol welcomed government's decision to phase the deregulation process over three years "to coincide with the target date of June 2000, set by Cabinet in December 1995, for the review of the synthetic fuel industry's tariff protection structure"

'Government's intention to phase out subsidies was weighing down shares'

Analysts said that uncertainty over the government's intention to phase out subsidies was weighing down the share price

Meanwhile the board of AECI, the Anglo American-controlled chemicals producer, advised shareholders to accept a takeover offer by Sasol at R30 a share The board said its own restructuring proposal, which would entail selling off AECI's commodity chemicals businesses, could release value of more than R30 a share

It said shareholders holding about 75 percent of the group had already decided in favour of the takeover bid Sasol's shares closed 50 cents higher at R35,90 on the JSE yesterday

Bombshell rocks CEF inquiry

CT (PR) 12/6/98 (183)

Ncaba Hlophe

Johannesburg — Brian Cassey, the acting general manager of the Strategic Fuel Fund (SFF), yesterday confessed that the SFF had sent Penuell Maduna, the minerals and energy minister, an incorrect report which was intended to mislead him

He told the public inquiry into the alleged cover-up by the auditor-general of millions of rands missing from the Central Energy Fund (CEF) that the SFF management, headed by Kobus van Zyl, SFF's suspended general manager, had sent an incorrect report about the value of a contract between the SFF and an Egyptian oil agent

A minerals and energy department statement said that Cassey's legal team requested a postponement before he could elaborate on details of the report His counsel told Selby Baqwa, the public protector, there was a potential danger to Cassey's personal safety if he continued his testimony The legal team also cited fears of Cassey's self-incrimination if he spoke further

"They feared Cassey (would incriminate himself) and the possible disclosure of sensitive information before consultation with his legal representatives," said a spokesman for the department of minerals and energy

"After questions posed by (Baqwa), permission was granted for the SFF team to advance their reasons in camera," the department said.

Baqwa also agreed to postpone the inquiry until next Wednesday so that Cassey could consult his counsel further

Cassey was the second person this week to take the witness stand after Howard Roberts, the acting general manager of CEF, who was cross-examined last week Van Zyl and Maduna are also expected to testify

The inquiry was established at the behest of parliament last year after Maduna accused Henri Kluever, the auditor-general, of failing to disclose that R170 million was missing from the CEF

He implied that Kluever might have played a part in the cover-up by not disclosing this in his annual report, but Kluever responded that the R170 million was merely a book loss entry from the devaluation of stock

Competition Board to probe AECI deal

BD 15/6/98 (183)

Amanda Vermeulen

THE Competition Board is to launch a formal investigation into Sasol's proposed takeover of chemicals and explosives group AECI from Anglo American Industrial Corporation (Amic)

Board chairman Pierre Brooks said at the weekend that the size of the transaction — roughly R4,6bn — combined with the competition implications and the nature and extent of some of the unsolicited submissions to date, had obliged the board to conduct a formal investigation

Sasol spokesman Alfonso Niemand said the group could make no comment until it had met the board on Wednesday to discuss the investigation. Amic also had no comment

AECI MD Mike Smith said the news of the investigation was not unexpected, but he could not comment further as AECI still needed to examine the terms of the investigation when it was officially announced Should Sasol get the go-ahead to buy AECI it would control about 70% of the local fertiliser business and about 85% of the explosives industry.

Formal approval for the transaction from the Competition Board within a short timeframe was one of the conditions cited by the AECI board last week when it gave its support for the R30 a share offer made by Sasol to Amic

Brooks said the investigation would be gazetted in about two weeks' time, and the entire process should be completed within three months The board had been considering the matter for some time, so the investigation was under way in an informal sense.

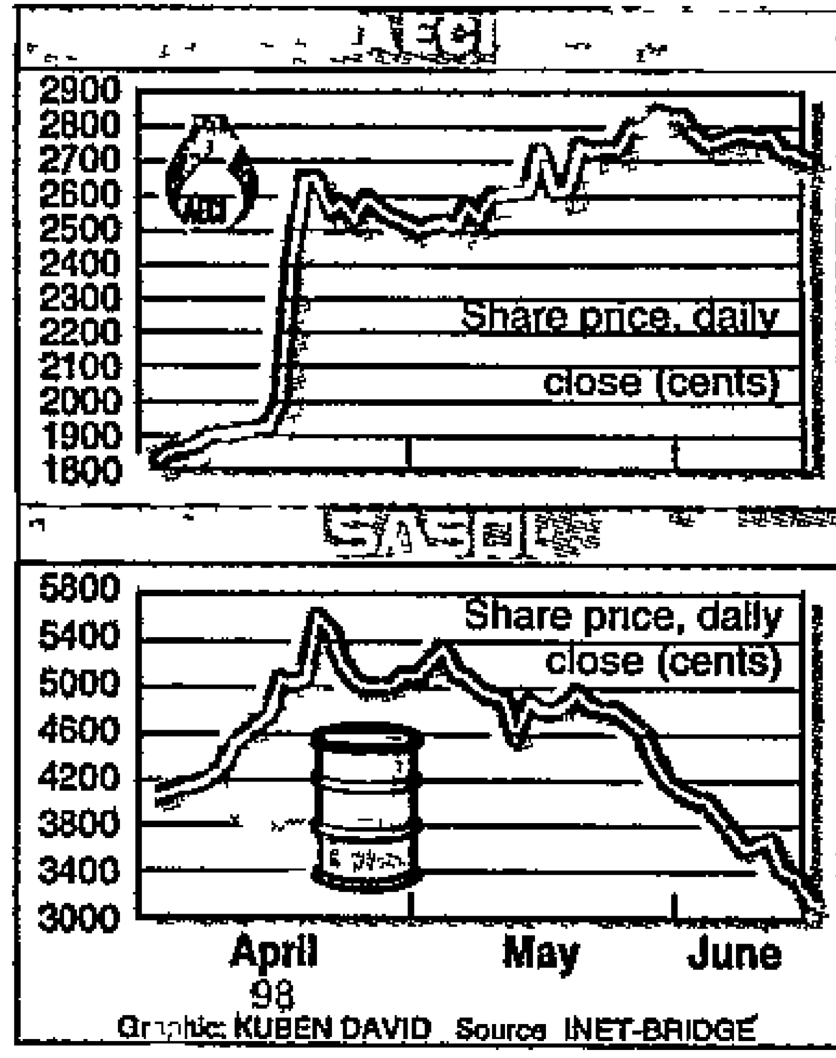
The formal enquiry should be wrapped up by mid-September, but it was "not an everyday, run-of-the-mill transaction". Should the investigation drag on, the AECI board would be allowed to proceed with its own alternative restructuring proposals, independent of the Sasol offer.

A number of parties have already made submissions to the board, including representatives of the mining industry, agriculture, chemical companies and the trade unions.

The trade and industry department had also made a submission, a move considered unusual

Although the contents of the submission has not yet been released, sources said the department had recommended speedy approval of the transaction to avoid further negative effects on AECI's business

One of the reasons behind the AECI board's conditional support for the Sasol offer was the detrimental effects of the prolonged uncertainty over the deal on its business.



State sets out plan for deregulating petrol industry

Draft paper proposes ending Mossgas and Sasol subsidies, but seeks solutions for job losses, writes ANDREW GILL

(183) ST(DT) 7/6/98

THE government has proposed broad-based deregulation of the liquid fuels industry which could see retailers setting their own petrol prices within three years

A draft energy white paper released on Friday recommends that subsidies for Mossgas and Sasol be phased out by 1999.

It says the energy market should be deregulated to allow competition in liquid fuels and in gas and electricity distribution.

Market forces should determine liquid fuel prices within three to five years.

A major thrust of the 114-page document is increased access for disadvantaged South Africans

The government would promote access to affordable energy services for the disadvantaged, small businesses, small farms and community services, Energy Minister Penuell Maduna said

The document is open to public debate until August.

The paper sees no forced short-term redundancies at petrol stations A social plan will be drawn up to cope with later job losses.

It concedes the deregulation — which will in time allow self-service — may result in job losses among SA's 45 000 pump attendants It plans a moratorium on self-service and vertical integration where wholesalers can operate service stations.

The initial three-year deregulation phase includes the state restructuring its liquid fuel assets, allowing for interim adjustments to fuel-price mechanisms, negotiation of intra-industry agreements and settling over- and under-recovery accounts

The second phase of price deregulation will begin after that

Sasol welcomed news that the deregulation of the liquid fuels industry would be in phases.

"We fully agree with the recommendation that the first phase of the deregulation process extend over a period of about three years to coincide with the target date of June 2000 set by Cabinet in December 1995," Sasol said.

The policy document proposes the progressive lowering of subsidies in synthetic fuels to zero next year to level the field.

It says synthetic fuels account for 28% of SA's energy needs.

The report says government should assess the true costs of electricity generation at Koeberg, which produces about 5% of SA's electricity.

But it says the government does not plan to abandon nuclear power generation, and recommends a study on new nuclear plants.

Eskom will be divided into separate generation and distribution entities, initially under one holding company.

Attempts will be made to improve energy efficiency and reduce harmful emissions on economic, environmental and health grounds.

Exploration for oil and gas will be opened up to international competition.

A national tariff structure will be set for gas and electricity distribution, and more powers will be given to the National Electricity Regulator.

SA Petroleum Industry Association chief Colin McClelland said deregulation plans were in line with what SAPIA had been seeking.

"But we will have to wait and see whether deregulation will be a big bang or phased in. My own suspicion is that it will be phased in gradually"

He said deregulation would be in line with international trends and lead to a more competitive and efficient industry.

Fuel fund inquiry must proceed, public protector decides (183)

Louise Cook

BD 18/6/98

PUBLIC Protector Selby Baqwa refused yesterday an application for a three-day postponement of the inquiry into whether there had been a cover-up by the auditor-general of millions of rands allegedly missing from the Strategic Fuel Fund

He gave counsel for the fund and its acting GM, Brian Cassey, until lunchtime today to sort out documents claimed to shed more light on Cassey's testimony last week

The inquiry resumed in Pretoria yesterday after a postponement last week when Cassey confessed the fund had sent Minerals and Energy Minister Penuell Maduna an incorrect report intended to mislead him.

Yesterday Baqwa said the decision not to grant a three-day postponement until Monday had not been taken lightly He ruled that proceedings had to go on this afternoon, despite a three-day postponement not having been opposed by any of the legal teams present. They supported the application, arguing that it would "allow everything to come out now" and ensure that Cassey had a fair hearing

The hearings had been plagued by breakdowns and had to stop early in May when Baqwa took ill and had to be admitted to hospital. Baqwa ruled that Cassey's legal team had until 1pm today to distribute copies of all the relevant documents to the other legal teams, and gave the lawyers until 3pm tomorrow afternoon to distribute copies of any additional papers

Last week, Cassey told the inquiry the fund's management, headed by suspended GM Kobus van Zyl, sent an incorrect report about the value of a contract between the fund and an Egyptian oil agent However, the hearing was postponed before Cassey could elaborate on the details of the report

Baqwa heard there was a potential danger to Cassey's personal safety if he continued his testimony. The team also cited fears of Cassey incriminating himself if he continued A spokesman for the minerals and energy department said the legal team feared Cassey "would incriminate himself" and risked "the possible disclosure of sensitive information before consultation with his legal representatives" After questions posed by Baqwa, the fund's team advanced reasons for a postponement in camera, the department said last week

The inquiry was established after Parliament requested the public protector to investigate allegations by Maduna last year that Auditor-General Henry Kluever failed to disclose R170m was missing from the Central Energy Fund

He accused Kluever of "nimble footwork" and said he might have played a part in a cover-up

Plastics workers on strike

MOSES MTHETHELELI MACKAY
STAFF REPORTER

(183)

SA Chemical Workers Union members at the CIC Packaging plastic-making plant in Epping are on strike over a pay dispute.

Peter Roman, a regional union organiser, said nightshift workers downed tools yesterday and had been joined by dayshift workers today

Workers were singing and toyi-toying outside the premises under the watchful eye of the police.

Mr Roman said the workers wanted the minimum wage upped from R1 100 to R2 000 a month.

"We reject this (R1 100) because it's too little for our families. We also demand a 15% across-the-board increase. We demand six months' maternity leave, four months on full pay."

The union proposed that should the company retrench an employee with a mortgage, the company would pay 15% of the worker's bond repayment for two years It demanded a minimum service allowance of R10 a month for each year of service and a minimum housing allowance of 20% of basic wages

John Watters, acting general manager at the company, said. "We hope to meet the union representatives today and try to address the problem."

Inquiry told of GM's secret meeting with Maduna

BD 19/6/98 (192) (183)

Louise Cook

PRETORIA — Minerals and Energy Minister Penuell Maduna had a secret meeting with Strategic Fuel Fund acting GM Brian Cassey and colleague Mark Buncomb in 1996 when Maduna told Cassey not to keep records of their meetings

Cassey said yesterday at the public protector's inquiry into the fund that Maduna had told him to "keep a low profile, be careful"

Cassey said under cross examination that the secret meeting had been arranged by Nico Schaeffer, a businessman who "came to the fund with a very complicated bond scheme" and that he had understood the minister's comments to mean that he should "not assume a new posture" and not "look as though I know him (Maduna)"

Cassey said that the purpose of the meeting was to give him — in his capacity as deputy GM of the fund's crude oil department in September 1996 — and Buncomb an opportunity to raise concerns about what they regarded as money wasted on nondirect crude oil contracts

He conceded that he never made a formal submission to the fund's board of directors to raise his concerns

Cassey told Eberhard Bertelsmann, the advocate for the auditor-general, that he was told by his superior Kobus van Zyl to "keep your mouth shut" when he tried to talk to him about direct contracts which would have boosted the profitability of the fund.

Van Zyl was suspended by Maduna as MD of the fund some time ago pending the outcome of a disciplinary hearing.

Cassey told the inquiry that because he was told to "take care" by Maduna and realised that he would have to disclose details of the "continuing stream of payments to Interstate", a US crude oil company, he became concerned for his safety and that of his family Last week part of an application for a postponement was held in camera owing to a potential threat to Cassey's safety.

Yesterday Bertelsmann told public protector Selby Baqwa that to hold a meeting in camera was "no small matter" and suggested the request for a postponement was made only when it became apparent that Cassey's "double role" and contact with Maduna "outside company structures" would be disclosed.

The inquiry continues today.

ENERGY *Maduna implicated in allegations*

Spying claims emerge at SFF inquiry

CT (IR) 19/6/98 (183)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Penuell Maduna, the minerals and energy minister, had asked an employee of the Strategic Fuel Fund (SFF) to spy on his superiors, an inquiry headed by Selby Baqwa, the public protector, heard yesterday.

After last week's bombshell in which Brian Casey, the acting general manager of the SFF, told the inquiry the fund had sent Maduna an incorrect report intended to mislead him, Casey introduced new evidence distancing himself from any effort to mislead Maduna

Casey said he had met Maduna in September 1996 and raised his concerns over the payment to a middleman of a $0,075 commission on oil purchases from Egypt

He said Maduna had asked him to dig deeply for further evidence of an irregularity and to keep his investigation secret.

Casey said he had attempted to keep his role as an informant to Maduna secret as he had concerns for his safety

He told the inquiry that the addition of $0,075 to the cost of a barrel of oil could add up to $100 000 on a shipment of oil

Casey said he was alerted to the issue of the overpayment when he met two representatives of Amoco, an oil company producing oil in Egypt, who told him that South Africa could deal directly with Egyptian producers and cut out the middlemen

In his evidence, Casey said he had previously raised his concerns with Kobus van Zyl, the then general manager of the SFF, and on two occasions with Roy Pithey, the then chairman of the Central Energy Fund (CEF)

Casey claimed he was forced to take his concerns to Maduna after Pithey and Van Zyl failed to halt the payments

Early last year Van Zyl was suspended by the CEF board at the urging of Maduna, ostensibly over his role in authorising the payments

Van Zyl has never been formally charged or disciplined by the company and remains suspended on full pay more than a year later

At the Baqwa inquiry yesterday, counsel for Henri Kluever, the auditor-general, and for Van Zyl questioned Casey's version of events and asked why he had not informed the inquiry of his role as an informant to the minister

In addition, Van Zyl's counsel went so far as to say that Casey's introduction of new evidence was a further attempt to deceive the inquiry

"He (Casey) chose to use these documents in the attack he launched against my client He chose not to disclose his relationship with the minister and continued as it were his role of deceiver as far as Mr van Zyl was concerned," Van Zyl's lawyer argued

The Baqwa inquiry is investigating allegations that the auditor-general covered up the alleged disappearance of R170 million from the SFF

Soekor signs four deals worth over R250m

(183) CT(PR) 19/6/98

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Soekor, the state-owned oil exploration and licensing company, yesterday signed four oil exploration deals with international oil companies that could generate exploration investment well in excess of R250 million over the next nine years. The company also announced a new oil find that could double South Africa's offshore oil reserves.

The largest of the deals signed yesterday gives Anschutz, a Denver-based company, the exclusive rights to explore for offshore oil in Block 2 on the West Coast.

During the first 30-month period, Anschutz will be required to drill two exploration wells, reprocess existing seismic data and contribute $100 000 a year to a training trust fund that will train South African students in upstream oil exploration skills. The exploration agreement can be conditionally renewed at various intervals for the next eight years.

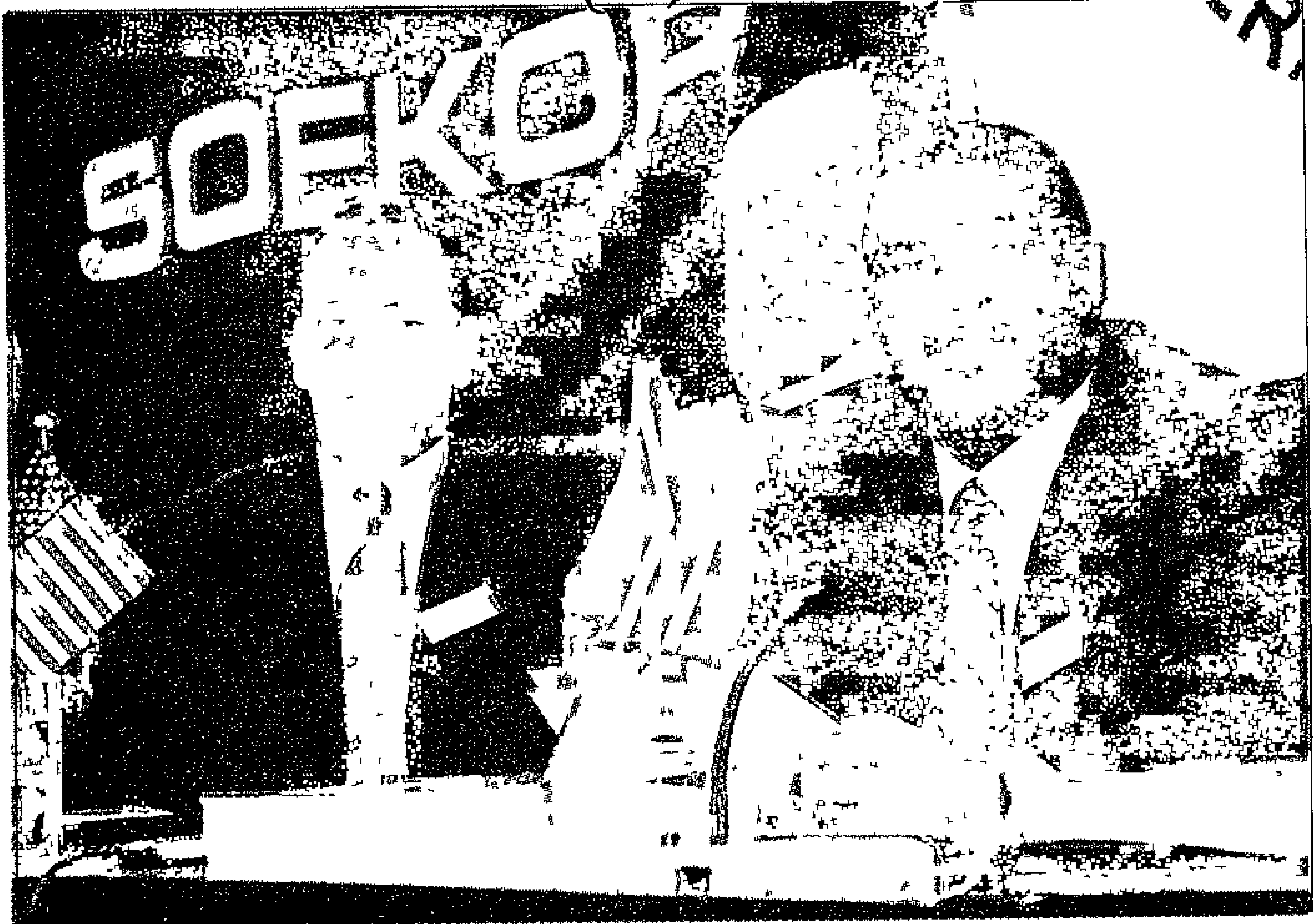
Other agreements signed gave two international companies exploration and production sharing rights with Soekor over tracts of block 9, off the South Coast. The companies are Pioneer Natural Resources, a Dallas, Texas-based independent exploration and production company, and Petroleum, a Swiss and US based company involved in exploration and production activities in Spain and South Africa.

Energy Africa, an upstream subsidiary of Engen, the JSE-listed oil company, renewed its prospecting and production rights over block 9.

The agreements require the companies each to make available up to 9 percent of the participating interest for black empowerment programmes approved by the government. The companies are also required to contribute $100 000 a year to the training trust.

Soekor said as about 20 percent of the direct cost of exploration would be spent in the domestic economy, the agreements would put around $14 million into the South African economy over nine years.

Penuell Maduna, the minerals and energy minister, said he had reduced the effective tax rate applicable to offshore exploration to 35 percent from 75 percent.



OFFSHORE PARTNERSHIP *Kevin Corbett, new ventures manager for Anschutz, and Penuell Maduna, the minerals and energy minister* PHOTO JOHN WOODROOF

Sector swallows corporate change pill

CT (BR) 19/6/98 (187)

Ann Crotty

Within the week, Aukland, the medical and pharmaceutical group, is expected to announce details of an unbundling that will see the company's assets split between Macmed and Medi-Clinic

Macmed, which has grown rapidly in recent years during an aggressive acquisition strategy, is expected to buy Aukland's medical supplies business Medi-Clinic, the country's second largest hospital group, is expected to buy Aukland's hospitals

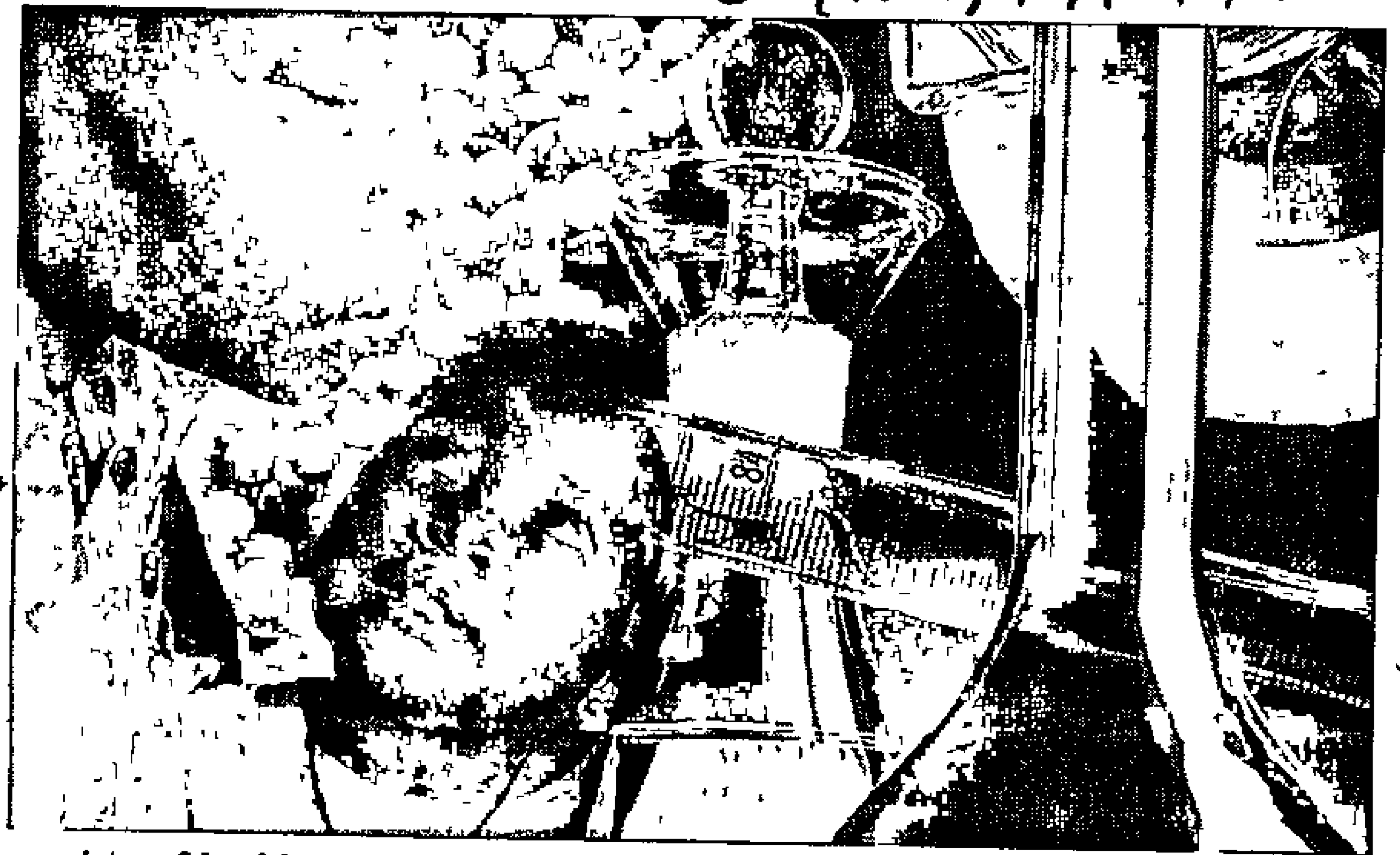
Analysts believe such a deal would value Aukland at as much as 350c a share

Given the negative market sentiment towards Aukland, its disappearance will not disappoint too many investors.

The Aukland deal follows hard on the heals of the recent announcement by Netcare, the hospital and clinics group, that it was acquiring Excel Medical Holdings, a doctor-owned hospital and medical clinic company, in a deal worth R650 million.

These and a variety of other deals in the past year highlight the dramatic change that is sweeping through the industry Not too long ago, the JSE's Pharmaceutical and Medical sector could be relied upon to provide a refuge for investors who preferred a quiet life There was little corporate action but lots of earnings growth as companies reaped the benefits of the almost limitless price increases that were loaded on to a public desensitised by the inefficiency of medical aid management.

The opening up of the South African economy at a time when global pharmaceutical companies were effecting mergers of staggering proportions marked the beginning of inevitable change The appointment of Nkosozana Zuma as the minister of health quickly reinforced the inevitability of that change. While Zuma exhibited uncertain judgement in some areas, it quickly became apparent she would not allow vested interests to nudge her off course.



That course was directed at achieving the ANC's goal of making affordable, quality health services accessible to the broader population In his recently published report on the sector, Alec Abraham, a Societe Generale-Frankel Pollak analyst, says the core policy documents tabled by the government to achieve the necessary restructuring of the healthcare system were the white paper on the transformation of the healthcare system and the national drug policy Both required dramatic changes in the management of health services and consequently precipitated widespread controversy

"The white paper essentially outlines the state's aim of redirecting resources to establishing a comprehensive non-hospital primary healthcare system which is believed to be the cornerstone of a healthy population," says the report

The drug policy is devoted to drug prices, which Zuma believes to be a major factor in the high cost of healthcare. Abraham describes the policy's measures:

- The formulation of an essential drug list at the primary care level in the public sector "This is largely aimed at simplifying the purchasing and administration functions",
- Generic prescription and substitution to encourage the use of cheaper generic drugs where they are available;
- The establishment of a standardised pricing structure of factory exit prices for the various therapeutic categories of drugs "A single pricing structure will exert pressure on inefficient drug manufacturers and encourage consolidation within the sector to improve cost efficiencies in line with global trends",
- The procurement of drugs and medical supplies by the public sector on the basis of national and international tendering;
- The deregulation of pharmacy ownership, and
- Restricting the extent of promotional activity by pharmaceutical manufacturers This is a response to the view that much of manufacturers' expenditure has little to do with research and development and much to do with marketing

While many of the proposals were aimed at the laudable objective of providing cheaper healthcare for the public, Abraham says the fear in the industry is that the pending legislation will seriously impede the operations of companies in the sector, preventing them from achieving above-average returns

But Abraham argues that this response is inappropriate He believes "the net effect on most of the South African hospitals and drug companies will at worst be only slightly negative".

The negative investor perception can be attributed to Zuma's poor handling of the issue and the vocal outcry from interested parties "The large multinational pharmaceutical manufacturers stand to lose the most, given their exposure to the high-priced ethical drug market, which makes them particularly sensitive to many of the sections in the new legislation, which was passed late in 1997 "

In the longer-term, Abraham forecasts generally lower costs for pharmaceutical and medical goods and services, and lower medical contribution costs, which will be shared by employers and employees He refers to early evidence of a sharp reduction in medical aid inflation

In time, there will be a shift in patient volumes from the public medical sector to the private, enabling the latter to generate greater returns driven through volumes rather than increased prices While all this is happening there is certain to be much corporate activity in the sector.

CAPE ARGUS, FRIDAY, JUNE 19, 1998

Basson: TRC told of secret Mandrax deal

'Slush fund' used to bribe officials

(ann) ARG 19/6/98

Secret dealings between Croatia and agents of the apartheid government to buy half a ton of methaqualone, the active ingredient of Mandrax, have been described to the Truth Commission

The Mandrax was ostensibly to be used as part of a chemical and biological warfare programme to develop an "incapacitating agent" which could be loaded into weapons such as grenades

Yesterday's hearing in Cape Town was also told of the involvement of a mysterious character named Dr Chu, who was paid $36 000 to assist the head of the programme, Wouter Basson, after he was arrested in Switzerland

Dr Chu was to help conceal from the Swiss authorities details of Dr Basson's previous purchases and research in Switzerland

The hearing resumed yesterday with further testimony from Defence Force surgeon-general Niel Knobel, who took over as project leader of the programme in 1988

Dr Basson was project officer of the programme, initially code-named Project Coast but later changed to Project Jota for security reasons

General Knobel said he had been concerned about Dr Basson's financial handling of the programme for some time, but Dr Basson had repeatedly denied fraudulent activity or involving the programme in "Third Force" abuses

"He consistently indicated to me that he was not guilty of any misconduct either within the project or in any other capacity," General Knobel testified.

"He further said he was certain he was being confused with other persons also known as W Basson At this stage I had no concrete reason to doubt his word

"He obviously had the trust of the entire defence force and the cabinet His word was accepted "

General Knobel said it was only in February 1994, after a briefing by National Intelligence Service agents, that it became "abundantly clear" that Dr Basson had acted outside the official mandate of the programme and had probably abused aspects of it

General Knobel was questioned closely on a report, marked "Top Secret – Only Copy", written by Dr Basson and signed by himself as project leader

JOHN YELD

ON THE TRUTH COMMISSION

Niel Knobel: 'Basson had trust of entire Cabinet'

He said the report, headed "Final Report USA dollar advance" dated May 7, 1994, was compiled in response to concerns about possible financial abuses

According to the report, Dr Basson was given $75 000 in cash from a front company of military intelligence

It was paid in November 1991 as six months' advance expenses for flights to transport "samples and materials" through Africa to Europe, to pay for fuel, landing fees and "discretional" expenses

The report explains that such expenses were cash payments to airport security officials to "expedite clearances and inspections"

Payments from the amount included

- $12 000 to the security chief of Ndjamena airport in Chad in December 1991
- $5 000 to customs officials at Douala airport in Cameroon to prevent the aircraft being searched
- $10 000 to Croatian border guards in September 1993 to allow Dr Basson to enter Croatia for discussions with government officials
- Another $10 000 to Croatian army officials to make appointments for Dr Basson with "involved government officials and bankers"

General Knobel said Dr Basson went to Croatia to attempt to recover funds from the programme lost when an agent used to facilitate a "transaction" was arrested

Dr Basson was himself arrested in Switzerland in December 1993

According to the transaction report, a Dr D Chu was paid $36 000 on March 24 in connection with expenses incurred relating to Dr Basson's arrest

These expenses included

- Travel expenses of $2 500 because he (Dr Chu) was subpoenaed to appear in Zurich
- The proactive closing of accounts and cancellation of security boxes which could have linked him to Dr Basson during investigation by the Swiss police "He (Dr Chu) was at that stage unsure of what the police were investigating and which compromising documents they had found on the project officer"
- $28 000 for the destruction of two computer hard disks containing information about Dr Basson's purchases and research activities in Switzerland to prevent it falling into the hands of the police

According to report, the total $75 000 was "certified" by General Knobel as being expenses incurred legitimately in terms of the programme

Asked to explain how he could have signed the certification when he had already been convinced for several months that Dr Basson was abusing his position, General Knobel said he took the report to the SADF's co-ordinating management committee, who approved it He confirmed that bribes were routinely paid in connection with the programme

The hearing was postponed to an as-yet undetermined date next month

Medical aid gets a growing dose out of what you earn

Generic medicines (copies of the originals) form part of a much broader range of issues around health-care funding and cost-effectiveness in South Africa, says Aslam Dasoo, director of policy at the Representative Association of Medical Schemes (Rams).

"Medical aid contributions rose in the past six years from 7% to 18% of employees' pay," says Dr Dasoo

"Medical schemes have been put on notice by employers and trade unions that year-on-year increases in medical contributions have been too high and must fall in line with salary increases and inflation," he says.

Dr Dasoo points out that the medical scheme industry will spend about R24-billion in 1998 on services rendered its members, who constitute only 15% of the population

This compares with the estimated R21-billion the Department of Health will spend this year on 85% of the population's health-care needs

Medical schemes will spend more on their 7-million members than the state can afford to spend on the other 30-million South Africans

Hospitals account for about 30% of medical-scheme payouts, medical practitioners about 22% and medicines about a third – at least R8-billion is spent on medicines

According to Dr Dasoo, the resulting attempt by private-sector funders to bring down medical payouts, and the state's emphasis on the provision of affordable primary health care, have created a state of flux in the health-care sector

"The attempts by funders to manage-down medical costs, together with the state's new strategic approach to national health care and the challenges of transformation, have combined to create an environment of change in the industry

"In order to manage this new health-care environment, and meet the challenges the disparities in access to quality health-care have created, the public and private sectors will have to act synergistically," he says

Dr Dasoo believes the use of generic medicines is increasing because of economic pressures on drug budgets

He says that, in many countries, the practice of generic substitution is strongly supported by health authorities, and South Africa should not be the exception

> *'Neither Government nor the medical schemes can afford the high prices of original medicines'*

For example, in the United States, up to 65% of all drugs dispensed are cheaper generics, whereas in South Africa less than 20% of drugs dispensed in the private sector are generics – even although generic medicines are up to 60% cheaper than their patented originals

This adds weight to the belief that South Africa spends too much on medicines, because of the skewed purchasing ratio of original drugs over their generic equivalents

"Rams has noted the furore surrounding proposals in the Medicines and Related Substances Control Amendment Act, which seeks to intensify the use of generic medication," says Dr Dasoo

"The fact is neither the Government, nor the medical schemes can afford the high prices of original medicines, and generic medicines are often significantly cheaper

Dr Dasoo says other positive attributes to the proposals are

■ The responsibility placed on the dispenser to inform the patient of the availability of a generic substitute gives the consumer information they previously did not have

■ The prohibition on generic substitution in certain instances is logical, in that it does not impinge on the rights and independence of the prescribing practitioner

However, the pricing and mark-up of drugs throughout the distribution chain is also important in keeping down costs

Dr Dasoo believes the Government's attempts to remove perverse incentives from the medicine distribution chain and introduce a professional fee for pharmacists will contribute to attempts to make health care more affordable

"This will also create a more competitive ethos

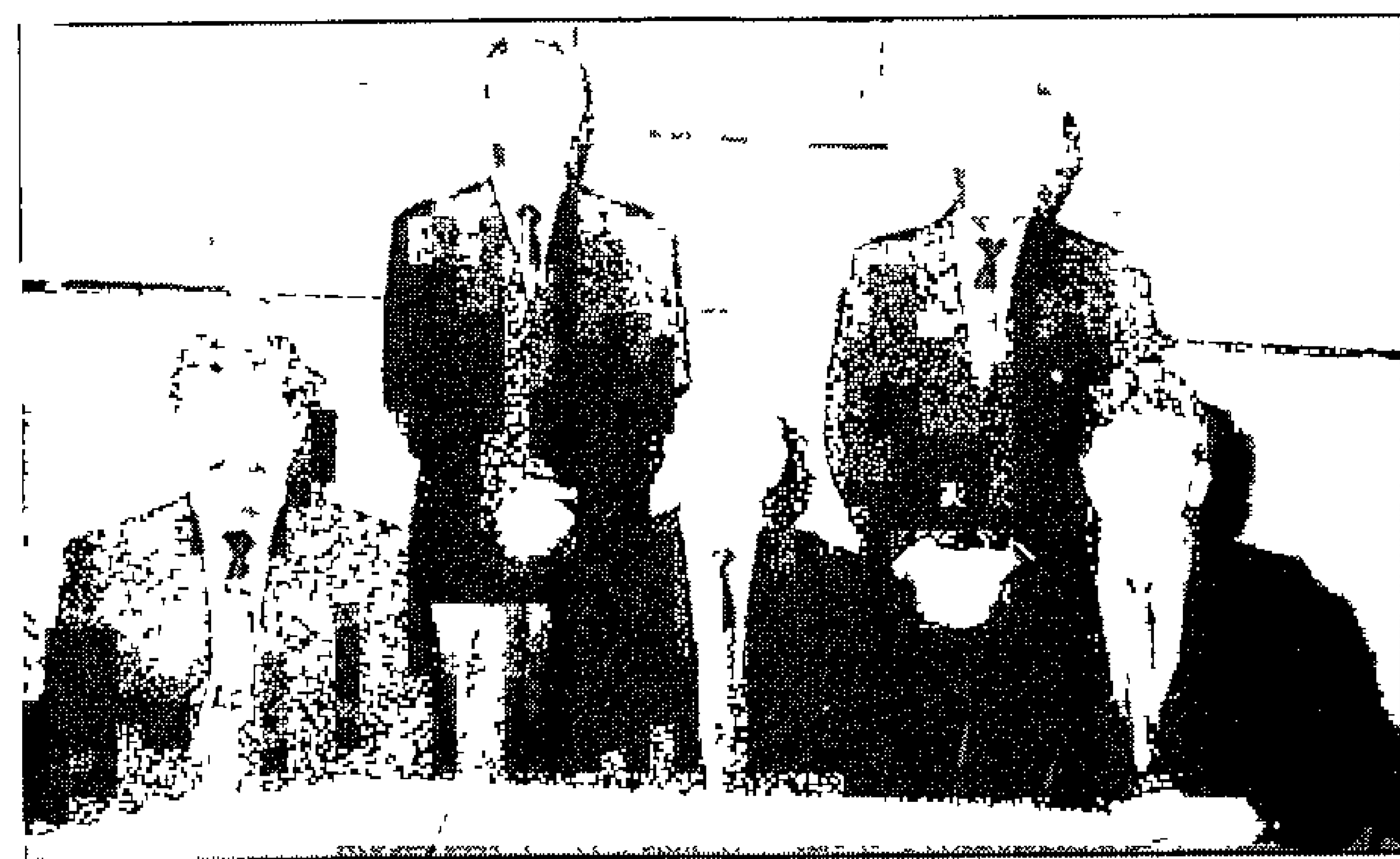
"Removing perverse incentives is going to cause a major reformation in the way drugs are sold, and is sure to bring down prices "

Rams has taken the policy decision – whatever the outcome of the legal action challenging the Medicines and Related Substances Control Amendment Act – to commit itself to the precepts of the National Drug Policy, and the Rams system of reimbursement, in future, will be based on those precepts

"We believe it will not only make the industry more competitive, but more ethical," says Dr Dasoo.

Operation takeout: hospitals account for about 30% of medical schemes' payouts, which is a hefty percentage

Advertorial



SAKAV Medical Aid Funds's management team. Front from left to right: Nico Balsamo (Manager: Administration), Leon Laubscher (General Manager) and Philip van Zyl (Manager: Marketing and Member Services). Back: Roelof Viljoen (Manager: Finances) and Dr Dirk Wagener (Manager: Clinical Audit).

Pharmacists wary of sweeping changes to Act

The Pharmaceutical Manufacturers' Association (PMA) supports government's goal of ensuring an adequate and reliable supply of cost-effective, quality drugs.

However, the association is concerned that a number of the provisions contained in the new Medicines and Related Substances Control Amendment Act will do little to realise these objectives, but will instead endanger consumer safety and harm the industry

The PMA contends that the Act abrogates patent protection for the industry, introduces wide and arbitrary powers for the Minister of Health, removes the autonomy and independence of the Medicines Control Council (MCC), allows for unequal registration and safety standards and mandates generic substitution

While the Act became law on December 12, 1997, its provisions will only take effect at a date still to be determined. It is technically possible that different dates will be used to phase in full implementation of the Act

According to a PMA position paper "Despite intensive lobbying efforts by the PMA, our associate international organisation and the governments of the US, Germany, Switzerland and France, legislation was passed without significant changes

"The members of the PMA have therefore unanimously authorised the PMA to challenge aspects of the legislation in South Africa's Constitutional Court The PMA is being joined in this action by 40 individual pharmaceutical companies and parent companies are presently lobbying their respective governments to initiate World Trade Organisation action "

The PMA is the trade association representing the research-based pharmaceutical industry in South Africa The PMA's members account for around 80% of the R10-billion-a-year industry, which employs about 17 000 people. Pharmaceutical exports from South Africa have risen by 903% in the past five years

The PMA says there is no reason why South Africa should not become a major world centre for clinical trials, thereby attracting further large investments in foreign currency

"Research investment is easily transferable into other countries and the hostile operating environment that will ensue if the Act takes effect unchanged will certainly see South Africa lose considerable investment "

While the PMA concedes that end-prices of pharmaceuticals to private sector patients are high, the association says they are affected by distribution charges that are among the highest in the world and are beyond the control of manufacturers

The PMA's major concerns are with regard to intellectual property rights, the powers of the Minister being too broad and parallel importation

The PMA argues that proposals are unacceptable that force mandatory generic substitution on the public, or which establish a dual system of evaluation criteria and quality standards for drug registration and control and which allow arbitrary interference with legitimate business and trading practices – for example, price fixing, the denial of volume-based discounts and interference with legitimate marketing practices

The industry does not oppose the use of generics to help government achieve savings at the end of the productive life cycle

"The use of quality generic drugs can meet patient needs and provide savings to the health-care system, but they should be used in accordance with the doctor's knowledge of individual patient needs and in an environment that encourages market competition," says the PMA

"We are opposing only the mandatory nature of the principle of generic substitution as contained in the recently approved legislation

"Furthermore, at a time when South Africa desperately needs to attract foreign investment, the country can ill afford an international challenge at the WTO who will insist South Africa honours its obligations to respect the intellectual property rights contained in the agreement on Trade Related Aspects of Intellectual Property Rights, which the country signed in 1995 "

generic alternatives

PHARMACIES and doctors dispensing cheaper generic alternatives to patients instead of expensive medication could result in a substantial saving on medical expenses

The supply of generic alternatives could, if implemented and managed efficiently, save both medical aids and its members millions of rands annually – once the proposed Pharmacy Act is promulgated

This is the view of Dr Dirk Wagener, manager clinical audit at SAKAV, one of South Africa's leading and most successful open medical aids

"A precondition for the dispensing of generic substitutes is that it should at all times be of a high quality – putting the patient or member first

"It is however, a fact that an individual's reaction on generics may vary and care will have to be taken especially in potentially life-threatening conditions The position of the pharmacist in respect of liability should be addressed in legislation

With spiraling medical inflation, healthcare in South Africa has become very costly If medical aids would like to continue giving their members access to cost effective and value added services, it will have to continuously identify new ways of curbing costs

Cheaper generic alternatives is one of the issues which could make a significant difference in managed healthcare in South Africa," Dr Wagener said Since Dr Wagener's clinical audit department was established in 1996 at SAKAV, it has saved the Fund a considerable amount of money

SAKAV has furthermore implemented effective measures to manage hospitalisation costs, ambulance services and optical benefits The Fund is presently also preparing to extend its managed healthcare policy to prescribed medicines (chronic and acute)

SAKAV (established in 1942) presently has more than 29 000 principle members countrywide and was awarded the Golden Arrow award from PMR as best medical scheme in 1997

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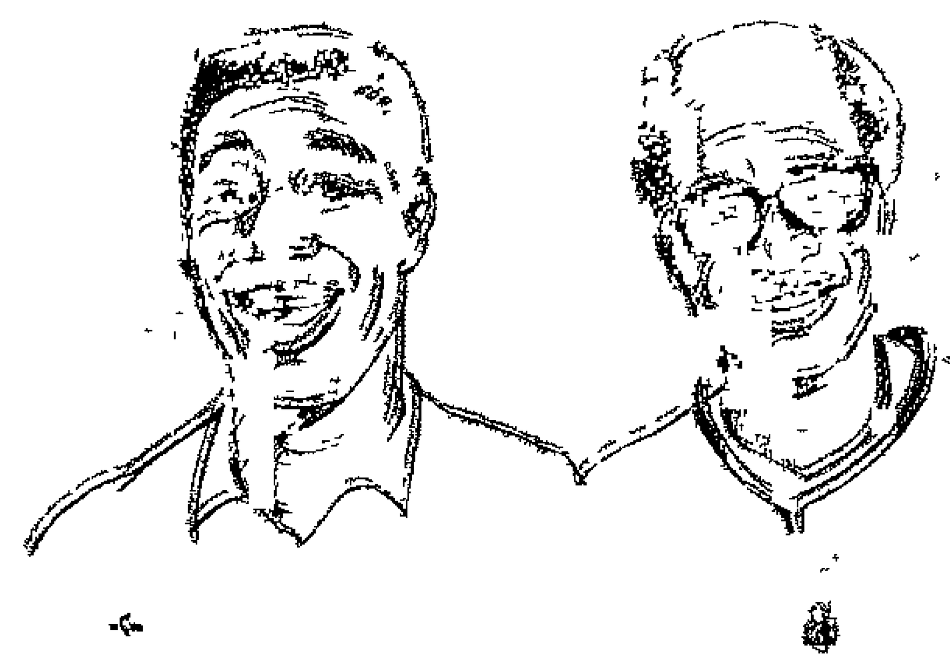


REAL HEALTH

Part of the Norwich Group of Companies

Generic – what to look out for

In the pharmaceutical industry, "generic" refers to a group or range of products all having the same quantity or strength of the "active ingredient"

That is the chemical part of the medicine that acts against the disease or disorder, according to Barney Sachs, executive director of the National Association of Pharmaceutical Manufacturers (NAPM)

The dictionary defines generic as

- applicable or referring to a whole class or group, general;
- of relating to, or belonging to a genus, the generic name;
- (of drug or food product) not having a trademark.

While generic medicines are generally cheaper than the branded products, the choice of a medicine cannot be based solely on cost and it is important that the generic substitute and the branded product are equivalent

Other terms to look out for when purchasing a medicine are:

- Pharmaceutical equivalents are products which contain the same active ingredients and are identical in dosage form, route of administration and strength or concentration
- Therapeutic equivalents are pharmaceutical equivalents that can be expected to have a comparable therapeutic effect when administered to patients under the conditions specified in the package
- Bio-equivalent – when a generic medicine is therapeutically equivalent to the innovator's product
- Bio-availability – if the active drug in a formulation can be demonstrated to be absorbed into the bloodstream at the same rate, and in the same amount as another preparation, the therapeutic effects of the two products will be the same.

M AUG 19/6/98

Quality care for low-income earner

Affordable, good quality health care is now within the reach of low-income earners thanks to a ground-breaking deal between Norwich Healthcare and the Soweto Independent Practitioners' Association (SOIPA).

Together they have launched Real Health, a managed health care company which markets and administers an affordable managed health care product providing medical cover to all, especially formally employed and self-employed people for whom medical cover was too expensive

Real Health's main market is categorised as "blue-collar and unstarched white-collar" workers earning at least R1 500 a month in the formal employment sector who have the choice of contributing to their company's medical aid schemes managed by Real Health

Doctors registered with Real Health may also sell individual medical cover policies to their patients which will give them the same benefits as the formally employed.

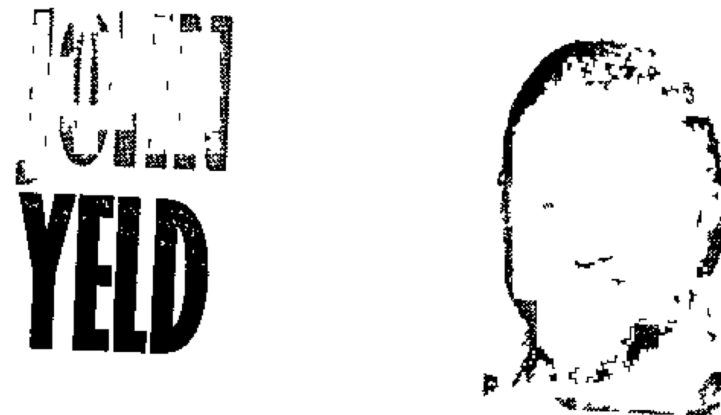
Real Health aims to attract 100 000 people (members and their dependants) to the scheme before the end of 1999 The product is priced at an affordable level for low-income earners yet offers the full spectrum of benefits. The few limitations apply to highly specialised procedures such as specialised dentistry

Dr Kenosi Mosalakae, chairman and a founding member of SOIPA and executive chairman of Real Health, says that providing affordable health care to low-income earners will have a major impact on health services. Patients will source treatment from the private sector, thus relieving pressure on government facilities, resulting in better treatment for the poor at hospitals and clinics

Basson: TRC told of secret Mandrax deal

'Slush fund' used to bribe officials

(ARG) ARG 19/6/98



JOHN YELD

ON THE TRUTH COMMISSION

Secret dealings between Croatia and agents of the apartheid government to buy half a ton of methaqualone, the active ingredient of Mandrax, have been described to the Truth Commission.

The Mandrax was ostensibly to be used as part of a chemical and biological warfare programme to develop an "incapacitating agent" which could be loaded into weapons such as grenades

Yesterday's hearing in Cape Town was also told of the involvement of a mysterious character named Dr Chu, who was paid $36 000 to assist the head of the programme, Wouter Basson, after he was arrested in Switzerland

Dr Chu was to help conceal from the Swiss authorities details of Dr Basson's previous purchases and research in Switzerland

The hearing resumed yesterday with further testimony from Defence Force surgeon-general Niel Knobel, who took over as project leader of the programme in 1988

Dr Basson was project officer of the programme, initially code-named Project Coast but later changed to Project Jota for security reasons

General Knobel said he had been concerned about Dr Basson's financial handling of the programme for some time, but Dr Basson had repeatedly denied fraudulent activity or involving the programme in "Third Force" abuses

"He consistently indicated to me that he was not guilty of any misconduct either within the project or in any other capacity," General Knobel testified

"He further said he was certain he was being confused with other persons also known as W Basson At this stage I had no concrete reason to doubt his word

"He obviously had the trust of the entire defence force and the cabinet His word was accepted "

General Knobel said it was only in February 1994, after a briefing by National Intelligence Service agents, that it became "abundantly clear" that Dr Basson had acted outside the official mandate of the programme and had probably abused aspects of it

General Knobel was questioned closely on a report, marked "Top Secret – Only Copy", written by Dr Basson and signed by himself as project leader

Niel Knobel: 'Basson had trust of entire Cabinet'

He said the report, headed "Final Report USA dollar advance" dated May 7, 1994, was compiled in response to concerns about possible financial abuses

According to the report, Dr Basson was given $75 000 in cash from a front company of military intelligence

It was paid in November 1991 as six months' advance expenses for flights to transport "samples and materials" through Africa to Europe, to pay for fuel, landing fees and "discretional" expenses

The report explains that such expenses were cash payments to airport security officials to "expedite clearances and inspections"

Payments from the amount included:

■ $12 000 to the security chief of Ndjamena airport in Chad in December 1991

■ $5 000 to customs officials at Douala airport in Cameroon to prevent the aircraft being searched

■ $10 000 to Croatian border guards in September 1993 to allow Dr Basson to enter Croatia for discussions with government officials

■ Another $10 000 to Croatian army officials to make appointments for Dr Basson with "involved government officials and bankers"

General Knobel said Dr Basson went to Croatia to attempt to recover funds from the programme lost when an agent used to facilitate a "transaction" was arrested.

Dr Basson was himself arrested in Switzerland in December 1993.

According to the transaction report, a Dr D Chu was paid $36 000 on March 24 in connection with expenses incurred relating to Dr Basson's arrest

These expenses included

■ Travel expenses of $2 500 because he (Dr Chu) was subpoenaed to appear in Zurich

■ The proactive closing of accounts and cancellation of security boxes which could have linked him to Dr Basson during investigation by the Swiss police. "He (Dr Chu) was at that stage unsure of what the police were investigating and which compromising documents they had found on the project officer"

■ $28 000 for the destruction of two computer hard disks containing information about Dr Basson's purchases and research activities in Switzerland to prevent it falling into the hands of the police

According to report, the total $75 000 was "certified" by General Knobel as being expenses incurred legitimately in terms of the programme

Asked to explain how he could have signed the certification when he had already been convinced for several months that Dr Basson was abusing his position, General Knobel said he took the report to the SADF's co-ordinating management committee, who approved it He confirmed that bribes were routinely paid in connection with the programme.

The hearing was postponed to an as-yet undetermined date next month

ROY WIGLEY

Quite a trolleyload: Constable Robert Constable, left and his team with a stolen washing machine, bed base and lounge chair which were recovered from a shopping trolley near Paarden Eiland

Shopping-trolley getaway checked in

SHARKEY ISAACS
STAFF REPORTER

Times are tough, even for thieves – they must be when their getaway vehicle is a shopping trolley.

Two men pushing a trolley loaded with an automatic washing machine, a double bed base and a lounge chair towards a Khayelitsha-bound train at Esplanade Station near Paarden Eiland yesterday were checked out by policemen Gabriel Hawkins, Michael Diedericks and Robert Constable

The two men confessed to stealing the goods from the grounds of a property in Kloof Nek Road, Tamboerskloof, and returned with police to point out the scene of the crime

Police believe a safety gate at the back door prevented the men from getting into the house.

A spokesman said suburban trains were often used to transport stolen goods

As for the shopping trolley it may have had shortcomings as getaway wheels, but it certainly had carrying capacity

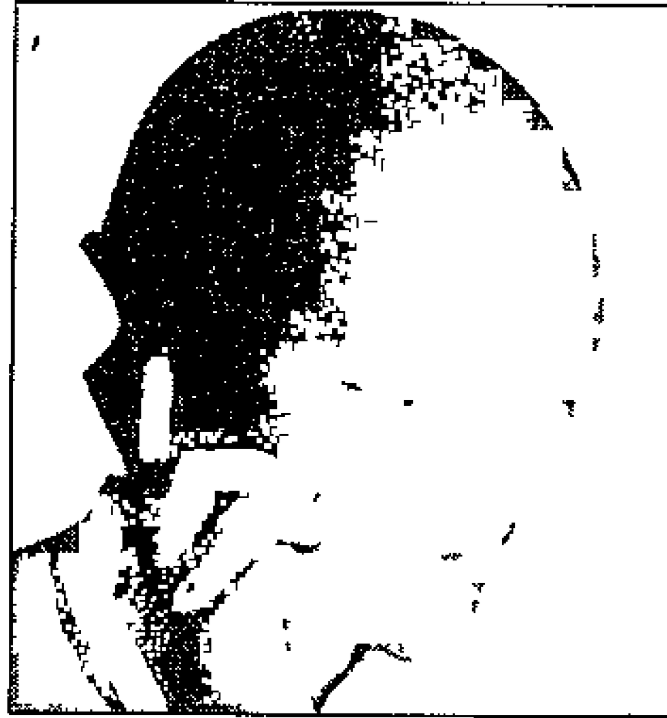
YES! FINANCIAL

Generics: Zuma holds firm

ARG 20/6/98 (183)

Health minister adamant on delivering cheaper medicines to poor

South Africa spends the second-highest amount in the world on medicines. Health Minister Nkosazana Zuma wants to bring down these costs. Consumer Writer Shalo Mbatha investigates ...



One of the ways Health Minister Nkosazana Zuma and her department want to use to bring down the cost of medicines is "parallel importing", and provisions for this have been made in the new Medicines and Related Substances Control Amendment Act

But, what is parallel importing and what are the positive and negative implications?

The act allows the Government to import branded drugs from any factory in the world, where they are cheaper than those available in South Africa

Pharmaceutical multinational companies manufacture medication in several factories around the world, then designate which lots go to which countries at different prices This effectively sets prices for every country in the world

As far as the Department of Health is concerned, manufacturers exhaust the right to set the prices after selling to the first wholesaler, making it legitimate to scour the world for cut-price brands "The South African pharmaceutical manufacturers have been trading in a protected environment for many years and are uncomfortable with change So long as the local product is costly and the manufacturers refuse to bring the prices down, we shall soldier on," said a spokesperson from the Department of Health

The Pharmaceutical Manufacturers' Association (PMA), which represents the large multinational pharmaceutical companies in South Africa, is strongly opposed to the act The PMA and nearly 50 co-applicants have challenged it in court The respondents are not only the minister of health and her two directors-general but the president, deputy president, the Speaker of Parliament and the minister of finance

South Africa is not the only country to legalise parallel importing Argentina, Brazil, India and many others allow parallel imports

For the majority of the poor that depend on public health facilities, it is seen as a means to quality and affordable medicine

The African National Congress Government promised the needy affordable, quality health care once in power "The Government finds the pharmaceutical manufacturers' stance laughable We live in a market forces-driven economic system, and scouring the world for cheap supplies for the public sector is free trade, isn't it?" Dr Zuma was quoted as telling the New York Times recently

The health ministry's consultant, Ian Roberts, emphasised the ministry had no intention of abrogating patent rights and said South Africa was a signatory to the Trade Related Aspects of Intellectual Property Rights – and one of the clauses of this treaty was the right of importation

Kobus Nel, the chief executive of Pharmacare, the largest supplier of generic medicines to the Government, said his company was not worried about the impending foreign competition, but added "I'm afraid some local manufacturers will not be able to compete with foreign imports"

The PMA argues that parallel importation would also allow the flooding of the market with cheap, expired and repackaged counterfeits as well as substandard medicines

"Allowing parallel imports of medicines into South Africa could create opportunities for unscrupulous operators to import counterfeit products through the alternative distribution systems that would be established" says a PMA discussion document

The Government, on the other hand, says the dangers will be lessened because it will insist on a "paper trail" with medication imports to prove they are genuine

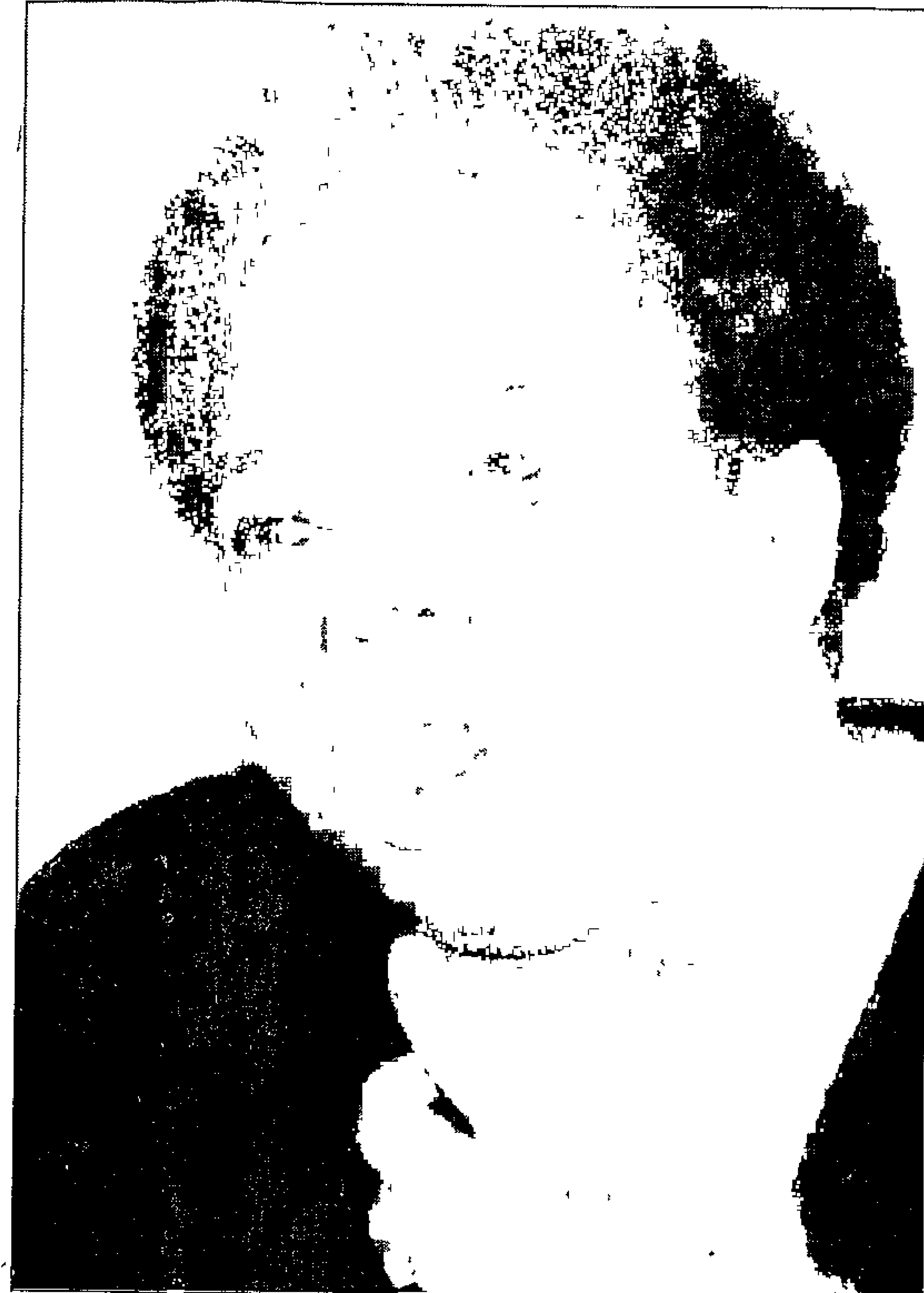
The Representative Association of Medical Schemes (Rams) policy director, Dr A Dasoo, rejects the manufacturers' fears about counterfeit drugs

Dr Dasoo said Rams was "stupefied" by some of the assertions by the manufacturers about the alleged levels of fake drugs in Africa

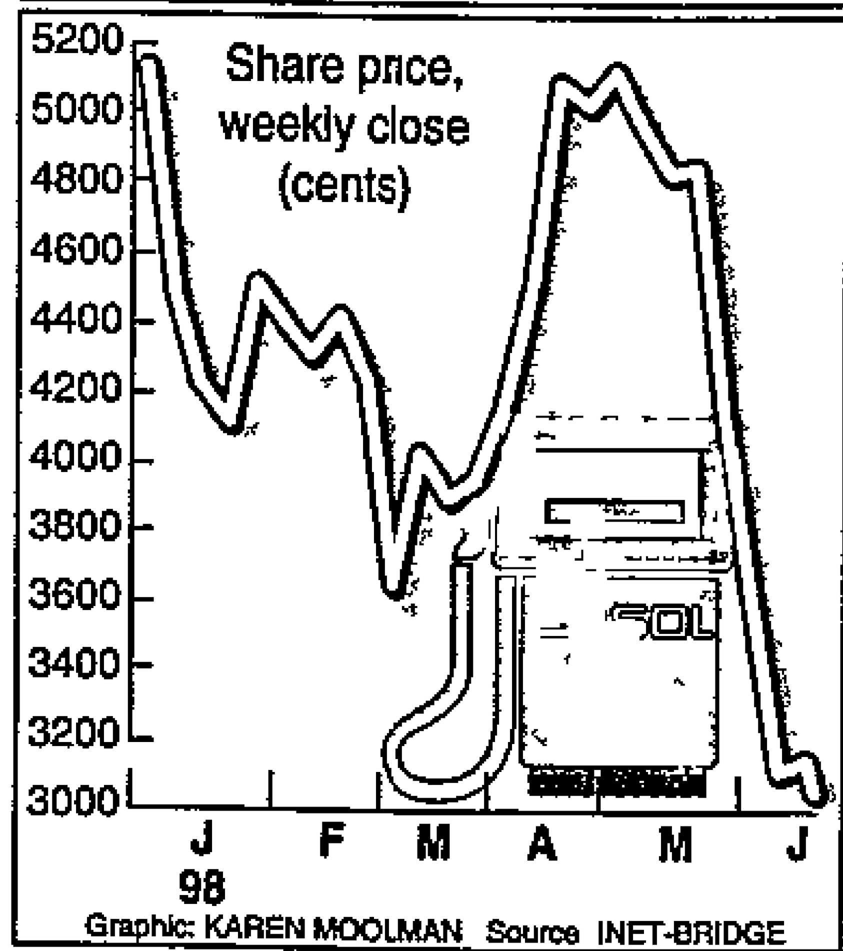
"Firstly, this is well nigh impossible to measure and secondly, a significant proportion of drugs entering some African countries are produced right here"

He said Rams agreed with the Department of Health that "international tendering will increase access to quality medicines"

Dr Dasoo added "Let's face it, the provision of quality healthcare is not profitable for the Pharmaceutical Manufacturers' Association – that is why they are vehemently opposed to it"



STANDING HER GROUND: Dr Zuma wants to bring down medicines costs



Graphic: KAREN MOOLMAN Source INET-BRIDGE

Sasol to push for protection beyond 2000

(183) BD 22/6/98

Reinie Booysen

SASOL, the oil and chemicals group, will insist on continued protection for its synthetic oil output beyond 2000, says CE Pieter Cox

Sasol will challenge any attempt by government to renege on its "binding agreement", which guarantees the group a minimum price equivalent to $17 a barrel of good quality crude oil, against Friday's price of just under $13

The white paper on energy policy recently released by Minerals and Energy Minister Penuell Maduna suggests that Sasol's subsidy protection will end next year, although this is also contradicted twice The paper says the subsidy should end once Sasol has established its own retail network, and that the subsidy should end in the year 2000

Sasol would negotiate with government about the new protective regime after the year 2000 "There may be a simpler way of structuring it," Cox said at the weekend

He said it was clear the "spirit and intent" of the subsidy agreement reached with government in 1995 contemplated continued protection for Sasol after 2000 From July 1 1999, the minimum crude oil equivalent price that Sasol is guaranteed drops from $17 a barrel to $16 Cox said the guaranteed minimum price would remain at $16 after the year 2000

"That is the basis upon which investments have been made by Sasol," Cox said. Sasol nonetheless agreed with "much of the intent" of government's energy policy white paper

"It sets out a process for moving from the current dispensation towards deregulation," said Cox.

"It spells out the challenges facing the industry with regard to maintaining quality standards, and the labour and social issues involved in deregulation. And instead of a big bang approach, government has elected for a process

"We realise that this is inevitable, and provided it happens in an orderly manner we are in support of it"

Meanwhile, Sasol has cautioned shareholders that the group is unlikely to repeat the record profit level of the 1997 financial year, in view of the slump in international oil prices

In a cautionary announcement on Friday, the company said earnings for the second half of the current financial year were expected to be lower than in the first half, although it anticipated that the dividend would remain unchanged.

"In the medium and longer term, the significant investments made in both existing and new businesses will continue to improve profitability materially, and real profit growth is expected," said Sasol

Inquiry hears fuel fund MD 'horrified' by bribe he did not report

BD 23/6/98 (183)

ouise Cook

PRETORIA — Strategic Fuel Fund acting MD Brian Cassey said yesterday he was horrified" by a bribe offered to Minerals and Energy Minister Penuell Maduna and other individuals in the crude oil business in 1996, but failed to report the incident to the fund's board of directors

Stating his reason for not reporting it, Cassey told the public protector's inquiry into aspects of the fund that when Interstate chief Fakhry Abdelnour said at a lunch in 1996 "tell Emmanuel there is enough for everybody — and get Maduna lined up", he kept the information from the board and his former superior, Kobus van Zyl, because he was acting under the minister's instructions

He said Abdelnour was referring to Emmanuel Shaw, an oil expert whose company Inspectorate M&L had done a quality and quantity audit of the fund in 1995

Interstate is an oil company particularly involved in supplies of crude oil to SA during the sanctions era

Cassey said when he reported the incident to Maduna, he was told to "continue as before" and "carry on as discussed"

He understood this to mean he should withhold the information from the board and continue with his "September stance" when Maduna told him to "keep a low profile, be careful"

He said under cross-examination once he had reported the proposed bribe to the minister, he was happy to let it rest, as "the matter was in capable hands", and he maintained "the role required by the minister"

Cassey and colleague Mark Buncombe, had a secret meeting with Maduna in September 1996 The purpose was to raise concerns about payments to intermediaries like Interstate, in crude oil transactions for which the fund was not getting any significant value

The meeting was held at the house of Bryanston businessman Niko Shefer who is now on bail on charges of fraud of R116m. Shefer's mining company, Tandan SA, provided the cellphones used to keep up the secret contact with Maduna.

Cassey said last week he feared the fund phones might have been bugged

Yesterday Cassey testified that Shaw confirmed he (Shaw) had received $10 000 from Abdelnour to alleviate temporary cash-flow problems

Public Protector Selby Baqwa put it to Cassey that it was "within his means" to find out what Abdelnour had meant by "enough for everybody", but Cassey said Abdelnour had been "very agitated" and did not explain the matter further

The inquiry by the public protector was set up to probe various aspects of the fund and a possible cover-up by the auditor-general of R170m which disappeared from the fund Parliament requested the inquiry after Maduna accused Auditor-General Henry Kluever of "nimble footwork" regarding the R170m.

Maduna named in 'phone bug' fears

(183)

BD 22/6/98

Louise Cook

PRETORIA — Two cellular phones belonging to Bryanston businessman Niko Shefer's mining firm Tandan SA were used in secret communications with Minerals and Energy Minister Penuell Maduna, acting GM Brian Cassey told the inquiry into the Strategic Fuel Fund (SFF) on Friday

He said using the cell phones was Maduna's decision as the SFF phones may have been bugged He said he had no proof the phones were in fact bugged

Shefer, who has been charged with fraud involving R116m and linked to the SFF, is currently out on bail

He called Business Day on Friday to confirm he had loaned two cellular phones to Cassey He said he had no knowledge of what was discussed by Maduna, Cassey and a colleague, Mark Buncombe

Cassey testified earlier that the meeting was arranged to raise concerns with Maduna about payments to intermediaries in crude oil transactions as the SFF GM at the time, Kobus van Zyl, told him to "keep your mouth shut" when he tried to raise the issue

State fuel fund 'a party to oil fraud'

CT (BR) 23/6/98 (183)

Jonathan Rosenthal
Industrial Editor

Johannesburg — The Strategic Fuel Fund (SFF), the government's oil trading arm, was party to a conspiracy to fraudulently purchase oil from Egypt at lower prices than it had contracted to, the public protector's inquiry into alleged irregularities at the SFF heard yesterday

Brian Casey, the acting general manager of the SFF, told the inquiry the fund had contracted to buy a shipload of Egyptian crude oil, to be loaded in late June 1996 at a price linked to that of Brent oil, an international benchmark

But in the middle of the month the Egyptian authorities had reduced the price, relative to the Brent benchmark, that would be paid for oil that July, he said

Under cross-examination by counsel acting for the auditor-general, Casey described a sequence of events during which the SFF was led by its intermediary to believe that if the ship could somehow be delayed as if "by an act of God" and only load in July, the SFF would save $1,2 million on the deal

Casey said he had discussed this possibility with Fakhry Abdelnour, a European oil trader who acted as the go-between on the oil deals between the SFF and Egypt and received a commission of $0,075 on every barrel of oil bought from the Egyptian General Petroleum Corporation Casey said Abdelnour had said he could arrange the delay

Casey said that at the time, he "believed he (Abdelnour) played a role that gave us something that we were not entitled to in the normal course of events"

But he testified that he later discovered that the ship had experienced genuine mechanical difficulties and that the delay had nothing to do with Abdelnour's intervention

"There was not a contrived late arrival," Casey said "The vessel actually broke down "

In his testimony Casey also said he had informed Penuell Maduna, the minerals and energy minister, in 1996 that Abdelnour had hinted he would be willing to pay bribes to retain his lucrative commission on the Egyptian oil purchases

Casey said that days after Abdelnour had paid $10 000 to Emanuel Shaw, an oil consultant who reportedly told Abdelnour he could influence Maduna, Abdelnour had met Casey for lunch and told him to "tell Emanuel there is enough for everybody, get Maduna in line"

Casey said he reported this to Maduna but did not tell the board of the SFF, his superiors or the police because he had believed Maduna wanted him to keep it under wraps Last week Casey revealed himself as Maduna's spy in the SFF

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While stocks last or 30 June 1998.

Madunaʼs lawyer concedes there was no R170m loss from fuel fund

Louise Cook (183)(60)

BD 24/6/98

PRETORIA — Legal counsel for Minerals and Energy Minister Penuell Maduna conceded yesterday that there had been no loss from the Strategic Fuel Fund, as claimed by Maduna.

In Parliament in June last year Maduna accused Auditor-General Henry Kluever of "nimble footwork" in covering up an alleged loss of R170m. He repeated the allegations outside Parliament in August.

Eberhard Bertelsmann, counsel for the auditor-general, said at the public protector's inquiry into the affair that Strategic Fuel Fund acting GM Brian Casey told Maduna within a few days of Maduna making the allegations in Parliament that there was no theft or loss of R170m from the fund. Maduna's legal counsel, Kessie Naidu, conceded that it was "common cause" there had been no theft.

Naidu said accountant Barend Petersen's report confirmed there was no theft of R170m or stock. "The minister's statements (last year) are significant, but Bertelsmann is trying to show the minister in a bad light," he said. Maduna appointed Petersen, a chartered accountant from Nkonki Sizwe Ntsaluba, to probe SA-Egyptian crude oil deals.

Public Protector Selby Baqwa said the minister had made either a justifiable or an unjustifiable error. The reason for his lack of an apology to the auditor-general up until now would be made clear when the minister testified.

Bertelsmann said it was the first time the auditor-general's innocence regarding the R170m had been placed on record. "The minister's statements (last year) led to grave prejudices against the auditor-general that were heightened because it was left there," he said.

Casey's statement under cross-examination indicated that within days of Maduna making the allegations, Casey tried to set up a meeting between the minister and Kluever's office to "put an end to this speculation". The meeting did not take place, but about two months later Kluever submitted a special report to Parliament denying any cover-up or loss.

"To my mind there never was a theft of R170m. Those aware of how the R170m came into being knew it was the result of a very complicated accounting calculation," Casey said.

Casey's cross-examination will continue today.

SA not ready for

ENERGY *There never was a theft or loss of R170m worth of stock, inquiry told*

Mystery of fuel fund millions 'solved'

(183) CT (MR) 24/6/98

NCABA HLOPHE AND
JONATHAN ROSENTHAL

Johannesburg — The R170 million which "disappeared" from the Strategic Fuel Fund was never missing and all parties involved in the furore knew this all along, the Public Protector's tribunal heard yesterday

Brian Casey, the acting general manager of the SFF, made the startling revelation, adding that Penuell Maduna, the minerals and energy minister, and Nkonki Sizwe Ntsaluba (NSN), the auditing firm that blew the whistle, last year accepted there was never such a loss

Observers believe the costs of the tribunal could total R10 million

The issue blew up when Maduna accused Henri Kluever, the auditor general, of "hiding" the fact that the money was missing

But Casey said the auditor general's (A-G's) explanation of the "missing" R170 million had been accepted by NSN and was also conveyed to Maduna.

"I told the minister that there was nothing untoward about the R170 million as it had been as a result of a change in accounting policy and strategic stock transfers The minister also accepted the explanation," Casey said.

However, this was after Maduna had made the initial allegations in parliament on June 18 last year that Henri Kluever, the A-G, had "done some nimble footwork" and had failed to disclose the loss of the R170 million.

"They (the A-G) will have to say exactly what happened to our money in the fiscus," Maduna charged last year. "They still have to come up and say how, short of a big fire, they lost stock to the tune of R170 million. They have not accounted for that as yet."

Several parties to the inquiry believe the legal costs could well exceed R10 million, much of which will be borne by the taxpayer The auditor-general's office said last night it had budgeted to spend R2,5 million on the case to the end of June This includes costs for senior counsel as well as fees to Price Waterhouse, the auditor that performed the SFF audit, and Deloitte & Touche, the new employer of Bertie Loots, the deputy A-G at the time of the audit.

The SFF is paying not only the costs of its counsel but also the legal fees of two former chairmen of the board and of Kobus van Zyl, the suspended general manager of the SFF

Maduna has senior counsel present while Shell, the multinational oil company, has a legal team watching the proceedings lest its name comes up.

Advocate Kessie Naidu, Maduna's counsel, concurred last night that the R170 million was never missing. Instead, he argued that the nub of the inquiry has been into the way the A-G had reported to parliament about the R170 million.

"The minister agreed to such a meeting but requested that the A-G's office write a letter to confirm to attend such a meeting But the office of the A-G turned down such a meeting. And I was disappointed," Naidu said.

Casey said after all the parties had realised the mistake about the loss, he had volunteered to arrange a meeting between Kluever and Maduna to sort out the "problem"

Advocate Bertelsman, Kluever's counsel, argued that the proposal suggested that the A-G's office had to request such a meeting, which Loots, the deputy A-G, was not welcome to attend. Casey denied creating such an impression or stipulating any condition when proposing the meeting.

☐ Business Watch, Page 2

FACE-OFF *Penuell Maduna, left, accused Henri Kluever, right, of "some nimble footwork" over the R170 million* PHOTO: JOHN WOODROOF

Fuel fund investigation cost estimated at R10m

BD 25/6/98 (183)

Stephané Bothma

PRETORIA — The estimated cost of R10m for an inquiry into the affairs of the Strategic Fuel Fund was justified despite a concession this week by Minerals and Energy Affairs Minister Penuell Maduna that his earlier claims of a R170m loss to the fund were unfounded, public prosecutor Selby Baqwa said yesterday

The inquiry would focus its investigation on other claims of irregularities totalling millions, Baqwa said

The inquiry was ordered after Maduna accused auditor-general Henry Kluever last year of covering up a R170m theft from the fund

Lawyers representing Maduna at the inquiry conceded for the first time this week that it was common cause that the loss had not occurred

"The fund is a wholly owned state company dealing in oil worth billions of taxpayers' money We must test the correctness of the propriety of the auditor-general's report because allegations of irregularities have been made," Baqwa said, adding that his mandate included a wider investigation

The other issues under investigation included the R7m so-called Salem ship scandal, a R1,45m payment by the fund to the former government in 1992/93 and allegations of irregular payments regarding SA's oil deals with Egypt

"At the end of the day, we must be able to say to the taxpayer that the fund has a clear bill of health or we must take action if irregularities occurred We will spend a few million to save billions," Baqwa said

He said the exact costs of the inquiry had not yet been calculated, but he did not dispute the early estimation of about R10m The inquiry's work will continue until October, but Baqwa could not say when he expected to release his findings

"We are not unmindful to the costs of this exercise, but we are trying to save the taxpayer a much bigger amount than the costs involved," he said

Meanwhile, acting fund GM Brian Casey, who had alerted Maduna to the payments of 6 US cents for each barrel of crude oil purchased by SA from Egypt, to Fakhri Abdulnour, based in Geneva, Switzerland, said he had been aware of the payments for several years

Casey said Abdulnour added no value to the crude oil deals and therefore should not have received compensation SA could have dealt directly with Egypt

Casey had, however, never informed former Energy and Mineral Affairs Minister Pik Botha about the "problem"

"It did not cross my mind to do so," Casey told the inquiry.

Casey said Abdulnour was a personal friend and also a business acquaintance He testified that Abdulnour believed he was entitled to the payments for adding value to SA's oil deals with Egypt "He said he was responsible for arranging direct access for the fund to the Egyptians and also to that country's pricing committee He also explained his historic role in obtaining oil for SA," Casey said

Abdulnour had been acting as middleman for SA in sanction-busting oil deals since the 1980s Casey also had not informed Abdulnour of his intention to raise the payment issue.

Eddie Bruwer, representing suspended fund GM Kobus van Zyl at the inquiry, said the Egyptian oil contracts favoured SA. "The supply is very reliable and the quality of crude is very desirable," Bruwer said, which was not the case with other potential suppliers such as Saudi Arabia, Iran, Iraq or Dubai

The inquiry continues today

ENERGY *Witness disagrees that value was derived from Interstate's intervention*

Fuel fund 'benefited' from Egyptian agent

(183)(?) CT(BR) 25/6/98

NCABA HLOPHE

Johannesburg — The Strategic Fuel Fund (SFF) had benefited from the intermediary role played by Interstate, the oil agent that facilitated trade between South Africa and Egypt, the inquiry by the public protector heard yesterday

Interstate is owned by Fakhry Abdelnour, the European oil trader who allegedly received 6c a barrel for rendering logistical service in the purchase of crude oil from Egypt

Advocate Edward Bruwer, counsel for Kobus van Zyl, the suspended general manager of the SFF and Central Energy Fund, said Interstate had assisted the SFF to gain access to the Egyptian Pricing Committee, helped the SFF to charter ships, and performed other trouble-shooting functions

Bruwer intended to emphasise that the SFF had been justified in dealing with Egypt because there was no other viable oil provider in the Middle East

However, Brian Casey, the acting general manager of the SFF and the witness under cross-examination, argued that no value was derived from the intervention of Interstate in chartering ships and influencing the pricing on the Egyptian committee

Casey said the minerals and energy minister had intervened in 1996 and cancelled the Interstate contract It entered into a direct contract with the Egyptian General Petroleum Corporation (AGPC) "Mr Abdelnour said or threatened that chaos would ensue after we had cancelled the contracts He created the impression that he was indispensable But no trouble occurred "

COUNTER TESTIMONY *Brian Casey (left) with his legal team, Gerhard Johannes and Timothy Bruinders* PHOTO SELWYN TAIT

The SFF was paying the 6c to Abdelnour and an additional 1,5c to AGPC for an average of 1,8 million barrels of crude oil for each transaction At today's prices this would amount to over R500 000

Meanwhile, Advocate Kessie Naidu said emphasis should not placed on the "missing" R170 million, as it was not the sole issue to be investigated by the public protector The parliamentary inquiry had not even specified the R170 million in its terms of reference for the inquiry

"We have to dispel the notion that the R170 million had been the sole crucial issue The crux of the matter relates to the way the auditor-general reported about the money to parliament and other irregularities in the SFF "

Fund's profit fell after it cancelled deal with agent

Stephané Bothma

PRETORIA — The Strategic Fuel Fund's profit fell from R200m in 1996 to R50m in 1997 after it cancelled a deal under which it paid an agent $0,06 a barrel of oil, a lawyer for suspended fund GM Kobus van Zyl told an inquiry into the fund yesterday.

The agreement between the fund and Fakhri Abdulnour was cancelled at the end of 1996 after complaints by acting fund GM Brian Casey that Abdulnour and his Swiss-based company Interstate were not adding value to SA's crude oil deals with Egypt

The payment of $0,06 a barrel to Abdulnour is one of the alleged irregularities in the fund's affairs being investigated by Public Protector Selby Baqwa Other issues to be investigated include the R7m Salem ship scandal and a payment by the fund in 1992/93 of R1,45m to the previous government

Under the deal between the fund and Interstate, the fund would pay the official selling price for oil plus $0,06 for all oil bought from Egypt, while Interstate would buy crude not used by the fund for SA's needs at the official price plus $0,05

During cross-examination by Eddie Bruwer, representing Van Zyl, Casey said there were several reasons for the decrease in profits in 1997

He maintained that Abdulnour's involvement in the fund's crude oil purchases added no value and that the fund saved 6c a barrel by dealing directly with the Egyptian oil authorities

"The Egyptian authorities expressed no problem with dealing directly with the fund and there was also no other negative fallout whatsoever after the cancellation of the Interstate contract," he testified

Casey, who informed Minerals and Energy Minister Penuell Maduna about the margin being paid to Interstate, told the inquiry that he had raised his concerns with Van Zyl and fund chairman R Pithey on several occasions However, they had done nothing to rectify the situation, he said

He was not the first person at the fund to express concern about the agreement, Casey said A document drafted in 1992 by the fund's former crude oil deputy GM Johan de Jager said the payment of additional margins to intermediaries must be stopped when sanctions against SA were lifted

Casey admitted that he never raised the issue at a board meeting, although the subject of the $0,06 payment was discussed at board level

Opposition parties call on Maduna to quit

(183) Star 26/6/98

POLITICAL CORRESPONDENT

New information that the R170-million which "disappeared" from the Strategic Fuel Fund was never missing has led to renewed calls from opposition parties for the resignation of Mineral and Energy Affairs Minister Penuell Maduna

It was revealed at the Public Protector's Tribunal in Pretoria that Maduna and the auditing firm that blew the whistle on the "missing" millions had accepted that there was never such a loss.

The tribunal was established after Maduna accused Auditor-General Henri Kluever of misleading Parliament He made the allegation during an interpellation in the National Assembly on June 18 last year

The DP said Maduna's attack on Kluever was in breach of the Constitution and called on him to resign, or for President Mandela to fire him. "The Constitution requires Government functionaries such as Maduna who exercise power in terms of the Constitution, to assist and protect the A-G and ensure his independence, impartiality, dignity and effectiveness. Maduna did not do this," said James Selfe, the DP's spokesman on mineral and energy.

The Freedom Front said Maduna owed Kluever a public apology for having made false accusations against him Spokesman Dr Willie Botha said Maduna should testify at the hearing chaired by Public Protector Selby Baqwa

Shaw haunts Maduna

M+G 26/6-2/7/98 (183)

Mungo Soggot

Penuell Maduna's efforts to distance himself from Liberian consultant Emanuel Shaw II have been undermined by testimony from his own confidant at the state oil company

The minister of minerals and energy's main contact at the company, Brian Casey, has given Public Protector Selby Baqwa's inquiry into the Strategic Fuel Fund (SFF) detailed evidence of Shaw's close association with Maduna as an unofficial adviser

Casey's testimony helps to explain some of the mysteries surrounding Shaw's key role in the state oil industry

Casey has outlined the controversial Liberian's duties as middleman between himself and Maduna while the three collaborated on information that was eventually used to justify the ousting of Casey's boss, Kobus van Zyl.

Casey has hinted that Shaw could have exaggerated his relationship with the minister, — "I was led to believe by Mr Shaw that he was doing various research projects on behalf of the minister" — but he also testified that Shaw clearly had a direct line to Maduna.

Casey opened the door this week to the sensational concession by Maduna's counsel that there was never a R170-million theft of oil — supposedly the main focus of investigation by the public protector

The concession prompted many participants at the probe to mutter there was no point in continuing, but Baqwa pointed out there were other matters that still require investigation

Kluever said he felt that as far as his office was concerned, the concession "more or less wraps it up"

He said there were nevertheless still matters at the SFF Baqwa had to explore The taxpayers' legal costs for six legal teams at the inquiry are expected to exceed R10-million

Apart from discussion of his relationship with Shaw and Maduna, Casey's testimony has concentrated on a questionable commission of six United States cents a barrel the SFF paid to Interstate, a "middleman" company that continued to help the SFF buy oil from Egypt after the oil boycott was lifted. Casey said there was no need for Interstate — South Africa could have bought directly from Egypt But he admitted the commission was no secret at the SFF

It was this commission that Maduna used to justify his suspension of Van Zyl last March. Four months later, Shaw was sitting in Van Zyl's office on a R3-million consultancy contract, which was arranged by the state oil company's chair, Don Mkhwanazi.

Mkhwanazi was forced to resign this year in the wake of the scandal surrounding Shaw's appointment

Casey was initially reluctant to disclose to the Baqwa panel his close association with the minister — an association that has exposed him to a blunderbuss cross-examination by Van Zyl's counsel. "You worked in the coal industry for seven years And then you became a spy for the minister," was Eddie Bruwer's opening growl to Casey this week.

Under cross-examination last week by Kluever's counsel, Eberhard Bertelsmann, SC, Casey testified he had co-operated with Maduna in late 1996 while Maduna prepared his attack on Van Zyl and commissioned his own auditors, Ntsaluba Nkonki Sizwe, to probe the SFF's books.

Casey said he fed information to Shaw, who reported to the minister "I could clearly see that a chain reaction had been set in place" Casey also said Shaw advised him to play a low key role and that he had been provided with a special mobile phone to communicate with both Shaw and the minister

Maduna repeatedly tried to distance himself from Shaw when the *Mail & Guardian* ran a series of articles about the Liberian — particularly when it reported how Shaw had allegedly extorted $10 000 from Fakhry Abdelnour, the Egyptian oil trader who was getting the 6c commission He denied that Shaw was his adviser, but talked of how, for example, Shaw had helped him with computer problems while was writing his doctoral thesis

After the *M&G* reported Maduna had asked another businessman to repay Abdelnour, the minister angrily promised to resign if it could be proved he knew of the bribe

Casey said on Monday both Shaw and Abdelnour had informed him of the R10 000 transaction, which he understood was supposed to alleviate Shaw's "cash flow shortages"

Casey also said Abdelnour appeared to believe Shaw was the key to furthering his business interests with the minister, who had by then said he wanted to end the 6c commission

Casey claimed Abdelnour said there were more bribes on tap for Shaw and Maduna. He also said he reported Abdelnour's alleged words to Maduna, but did not specify whether this included a mention of the $10 000 Casey said he was "horrified" by the idea of this bribery, but remained tight lipped because of the minister's and Shaw's instructions to lie low

The next day Casey opened the door to the R170-million concession Although Maduna's counsel, Kessie Naidu, SC, sought to downplay the concession by claiming it was "common knowledge", one of Baqwa's assessors indicated it was not trite

"Am I correct in understanding that at present, whatever the reasoning behind it, it is common cause between all the parties that there was no theft or loss of stock to the tune of R170-million ? Is that what you say?" asked J Record, an auditor

Shaw worked on a management audit at the state oil company in 1995, after which he developed his unofficial position as Maduna's access man Casey said in 1995 Shaw had a mandate from the deputy president, and Casey was instructed to let Shaw see anything he wanted Casey said one of his meetings with Maduna took place at the house of Essop Pahad, deputy minister in Thabo Mbeki s office

Shaw is suing the *M&G* for R7 million

A track record worse than Troussier's, PAGE 22

M&G cover-price rise

Despite efforts over the past year to keep the cover price down, rising costs have finally forced the *Mail & Guardian* to increase the cover price to R4,50 from this week The *Mail & Guardian* is still among the lowest-priced national weekly newspapers

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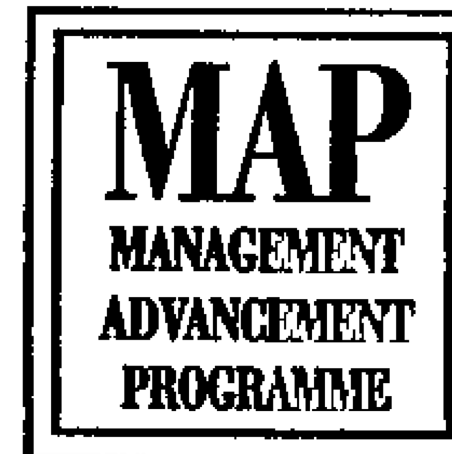

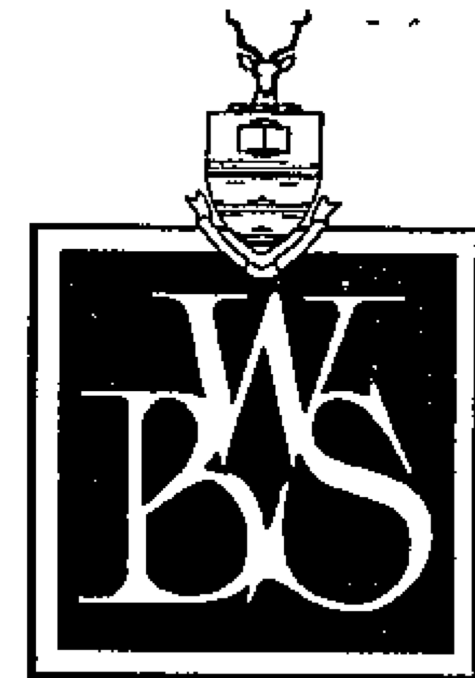

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New law to reveal true cost of drugs

(183) ARG 27/6/98

Effects on health industry 'revolutionary'

Why are we paying so much for our medicines? A number of Health Minister Nkosazana Zuma's proposed new laws have generated heated controversy. Consumer writer **Shalo Mbatha** investigates

The Government has passed a law allowing it to set up a pricing committee for the health sector. The committee will ensure a transparent pricing system for all medicines and scheduled substances, as well as setting an appropriate dispensing fee to be charged by authorised dispensers.

It is believed that medicine prices will automatically be reduced by the new system.

The pricing committee will be a statutory body, comprising stakeholders as well as other people chosen by the minister.

The new Medicines and Related Substances Control Act seeks to eliminate the inflated prices of the current system where dispensing doctors, wholesalers and pharmacists buy their medicines directly from manufacturers and are charged different prices. These prices are published in what is known as the "blue book", or electronically via computer.

The dispensing doctors, wholesalers and pharmacists add their mark-up and also charge VAT, all of which increase the price paid by the consumer.

Pharmaceutical manufacturing companies make it lucrative for dispensers to prescribe expensive drugs by offering them incentives.

The higher the price of the medicine, the bigger the mark-up and profit, and, therefore, the more incentive to prescribe or sell it.

An investigation by the Representative Association of Medical Schemes (Rams) revealed that most of the prices published in the "blue book" or on computer bore little relationship to the true cost of drugs.

Rams policy director Dr Aslam Dasoo told Consumer Alert that his organisation believed the manufacturers were also making excessive profits by inflating their "exit" or wholesale prices.

> *'Drug companies are inflating exit and wholesale prices'*

Dr Dasoo said the changes in the law would provide a true reflection of the cost of medicines and would help to stop dispensers being overcharged.

Rams will publish the manufacturers' cost prices for drugs and the appropriate professional dispensing fee twice a year.

The medical aid societies will pay only for the published prices. The dispensing fee will be adjusted regularly to keep it in line with inflation.

The dispensing fee would eliminate the "padding" of prices by dispensers who might argue that they could charge for professional services.

The process will also eliminate the incentive to sell expensive drugs instead of generic equivalents and will encourage dispensing doctors and pharmacists to inform patients of available generics, as required by the Department of Health.

If the Government manages to pass the law – currently being challenged in court by the Pharmaceutical Manufacturers' Association – the effects on the health industry could be revolutionary.

The effects of the medication will be made clearer and consumers will be able to make more informed decisions about their well-being, assisted by a pharmacist or a dispensing doctor.

Pharmacists told Consumer Alert they believe they will have more importance in society as professionals. They feel they are regarded only as "glorified salespeople".

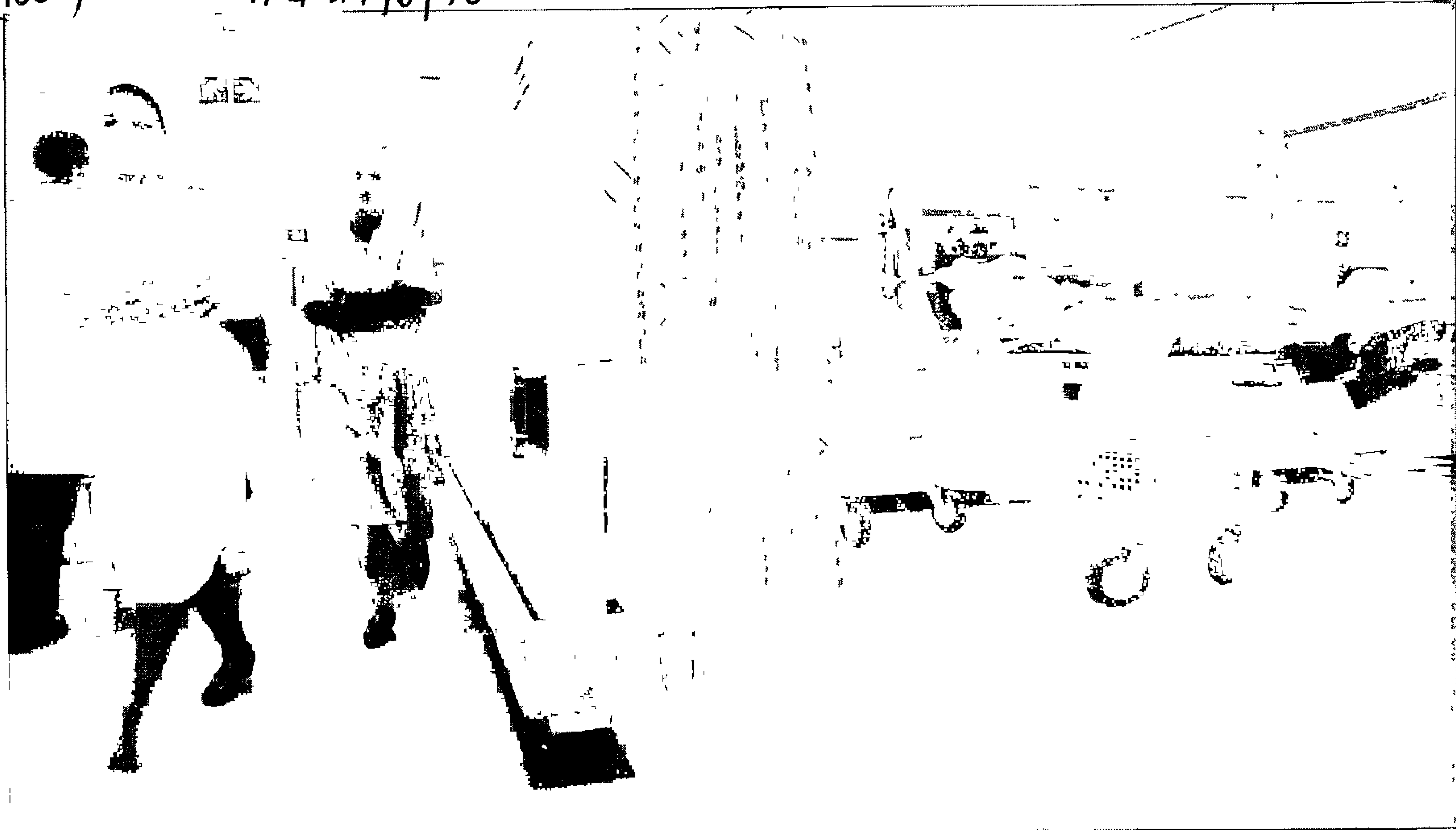
The new law does not mean that the professionalism or independence of doctors will be challenged.

When a prescription has the phrase "n/s" on it, dispensers or pharmacists cannot substitute it without authorisation from a doctor. However, if the prescription does not have "n/s" on it, it is mandatory that the pharmacist or dispenser inform the consumer about generic alternatives which may be cheaper.

Doctors and pharmacists who do not abide by the new regulations could be prosecuted.

The National Association of Pharmaceutical Manufacturers – which mainly represents the makers of generic products – has told the parliamentary health committee that the publication of price lists would be misleading as "they will only show the highest price for each product and not tell the full picture of discounts of bulk buying".

The view of the Pharmaceutical Manufacturers' Association is that the Government buys high volumes of medicines at very low prices and that the private sector buys low volumes and pays higher prices. "What is the point of the act other than to make sure that we do not profit from the 20% sold to the private sector?" asked a member of the association.



BE PATIENT: a trauma ward at Groote Schuur Hospital. Patients could benefit financially from generic alternatives. Picture: OBED ZILWA

How does South Africa measure up?

We looked at some commonly prescribed drugs and preparations, comparing current retail prices in South Africa with those in our northern neighbour, Zimbabwe. In only one case would South African consumers be paying less than their counterparts north of the Limpopo.

	South Africa	Zimbabwe
Amoxycillin 250mg (common antibiotic)	R1,87 a tablet	R0,12 a tablet
Captopril 25mg (blood pressure medication)	R1,80 a tablet	R4,06 a tablet
Glibenclamide 5mg (diabetes treatment)	R0,92 a tablet	R0,64 a tablet
Paracetamol 250mg (painkiller)	R0,42 a tablet	R0,28 a tablet
Loperamide Syrup 50ml (anti-diarrhoea)	R3,80 a 5ml dose	R1,26 a 5ml dose
Betamethasome Cream 15g (steroid cream)	R17,30 a tube	R11,57 a tube

Fuel fund boss 'tried to destroy evidence'

BD 30/6/98 (183)

Stephané Bothma

PRETORIA — Strategic Fuel Fund GM Kobus van Zyl told his secretary to destroy evidence that he had faxed a confidential document to an outsider the day he was suspended, the public protector's inquiry into alleged irregularities at the fund heard yesterday.

Minerals and Energy Minister Penuell Maduna was, at the time, asking questions about the payment to a Swiss-based intermediary of $0,06 for each barrel of oil bought from Egypt.

Van Zyl's former secretary, Bets Niewoudt, stated in an affidavit that while she was on leave from December 10 1996 to January 10 last year, three files and documents that were kept in Van Zyl's desk drawers disappeared.

Acting fund GM Brian Casey told the inquiry he had spoken to Van Zyl on March 26 last year — the day Van Zyl was suspended. According to Casey, Van Zyl said: "I've already cleared out my files in December."

The payment of $0,06 a barrel to oil trader Fahkri Abdulnour since 1992 was one of several alleged irregularities under investigation by Public Protector Selby Baqwa and two assessors.

In her affidavit, read out by Kessie Naidu, counsel for Maduna, Niewoudt said Van Zyl had faxed Abdulnour a letter from Maduna in which the payments were questioned.

On the day of his suspension, Van Zyl telephoned Niewoudt and asked her to destroy any evidence that he had faxed the document to Abdulnour. Niewoudt did not follow Van Zyl's orders. Van Zyl told his secretary he was suspended because he had sent the fax and had approved payment to Abdulnour after Maduna had ordered the payment to be stopped.

Naidu told the inquiry he would prove that a conspiracy existed deliberately to defraud the fund. The conspiracy involved Abdulnour and "other people at the fund. But at this stage it is not permissible for me to state who from the fund was involved in the fraud. It is, however, very clear that Abdulnour was involved."

Continued on Page 2

Van Zyl

Continued from Page 1

The inquiry heard that Abdulnour had been buying oil for SA in sanctions-busting deals in the 1980s. Intermediaries who were prepared to bust sanctions to purchase oil for SA were paid up to $0,50 a barrel

In the mid-90s, SA could have entered into a government-to-government contract with Egypt, thereby cutting costs by not having to pay an intermediary. Despite this the fund continued to pay Abdulnour although he was not adding value. "A misrepresentation was made to the fund by Abdulnour which resulted in prejudice to the fund It was more than a case of Abdulnour simply not adding value; it was deliberate fraud," Naidu said.

The hearing continues today.

Sasol's Chemcity project to boost SA's energy supply

CT(MR) 20/6/98 (183)

One of the great success stories of the South African chemical industry and its offshoots has been the emergence of Sasol

In the field of synthetic fuels and chemicals, Sasol has realised the visions of scientists and industry leaders who were generations ahead of their time

Started as South African Coal, Oil and Gas Corporation with venture capital provided by the Industrial Development Corporation, there are now six divisions - Sasol (Pty), Sasol Synthetic Fuels, Sasol Petroleum International, Sasol Chemical Industries (SCI), Sasol Oil and Sasol Mining

It is through SCI that Sasol has seen some of its greatest developments The company's ability to manufacture synthetic fuels contributes significantly to South Africa's energy supply needs and the economy

This is likely to continue well into the future with the planned Chemcity project at Sasolburg

This initiative aims to facilitate and increase growth and strengthen Sasol's place in the world's chemical commodities markets

It also involves the creation of new opportunities for core business interests in the fields of small business development, education and training, and environmental conservation and management

The original idea of a chemical industrial park has grown in scope and concept It aims to house many of the chemical industry players on prime land owned by SCI.

This development will enable a wide range of chemical raw materials from Sasol and other Sasolburg producers to downstream main businesses to be available on site and at market related prices

There will also be a range of on-tap utilities like water, steam, gas and oxygen

Professional technical services and skills, including engineering, research and development, health, safety, management, site establishment and other business assistance will be offered along with on-site services such as fire protection, effluent removal, treatment and management training

Sasol recognises its responsibility to the environment and the community and is applying the Responsible Care value system as an integral part of its business The value system and ISO 14000 standards encourage communication with the public and responsiveness to their concerns.

Fuel fund denies fraud innuendo

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — The Strategic Fuel Fund yesterday dismissed suggestions it was party to attempts to fraudulently purchase oil from the Egyptian General Petroleum Corporation (EGPC) at better prices than those it was contractually obliged to

The issue arose out of testimony before the Public Protector's inquiry into alleged irregularities at the fund.

Last week Brian Casey, the acting general manager of the fund, told the inquiry that the fund had been led to believe that Fakhry Abdelnour, a European oil trader who acted as a go-between on oil deals between the fund and the EGPC, had engineered to delay a ship to take advantage of an increase in the discounts offered by the Egyptian corporation These were to take effect days after the ship was to dock.

Casey testified that at the time he "believed that (Abdelnour) played a role that gave us something that we were not entitled to in the normal course of events"

Labour watchdog comes of age

(183) CT(BR) 30/6/98

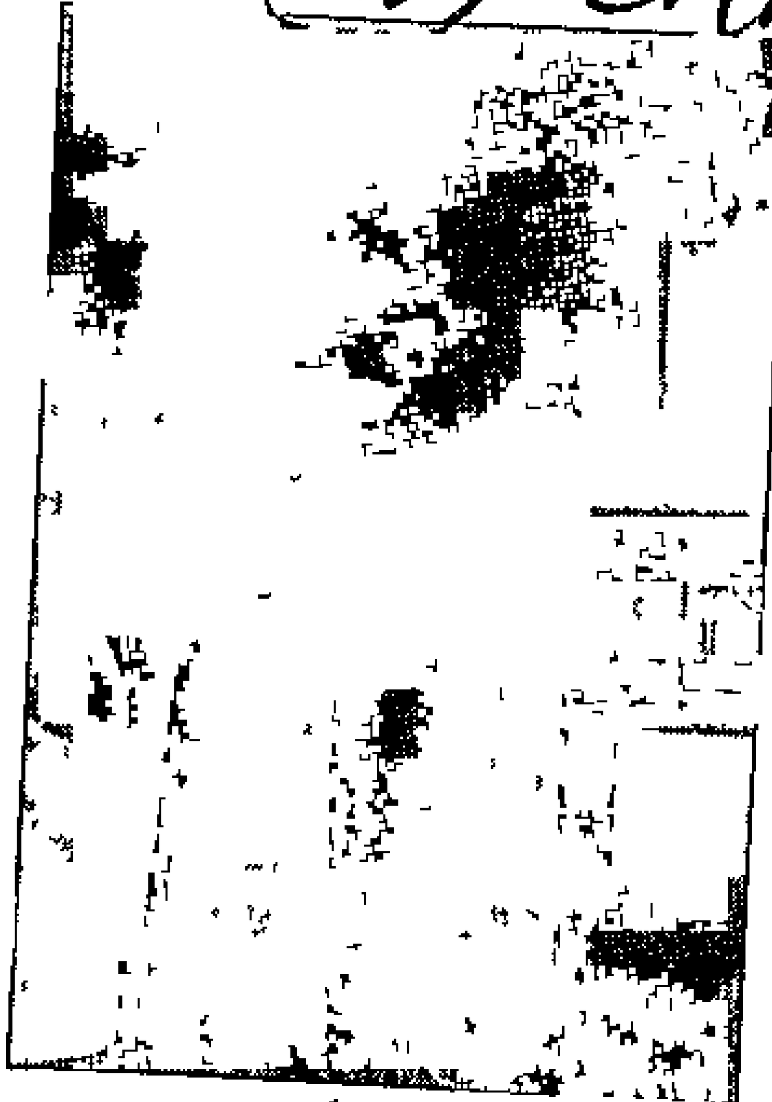
The organisation which now looks after the interests of South Africa's chemical industry has come a long way since it started out more than 50 years ago

Sam Goodman, the honorary life president of the Chemical and Allied Industries Association (CAIA) and a former chairman of the Chemical Manufacturers' Association, recalls how the trade unions were party to the dissolution of the Chemical Industrial Council, only to find that the trade unions are now seeking centralised bargaining, one of the mainstays of the old industrial council.

Associated with the industry in general for well over a half century, Goodman says the present-day CAIA has a proud record which began with the establishment of the Transvaal Chemical Manufacturers' Association, at that time a division of the old Transvaal Chamber of Industries, as a watchdog on labour and economic affairs within the industry.

The association changed its name to the Chemical Manufacturers' Association to provide national trade coverage

In the early days it was mainly the voice of the smaller players in the industry, the larger companies began to enter the scene, and with them came a desire to broaden the scope of the association



WELL-GROUNDED *The Chemical and Allied Industries Association has a proud record as voice of the chemical industry*

This was done by renaming it as the Chemical and Allied Industries Association, which plays a major role in representing all sectors, but is driven particularly by the larger industries

"This means that the industry speaks with a more united voice than ever before "We are no longer a registered employer body but a trade organisation However, we still, of course, deal with labour matters, no longer at a formal level but through external structures," Goodman said

"Environmental issues are a very important facet of our lives, both locally and internationally and our association has created a powerful 'responsible care' organisation "

Social responsibility has also not been overlooked The CAIA strives at all times to improve skills through education

"This is in the national interest as we required skilled labour," said Goodman

Other social responsibilities are a clear indication that the industry as a whole is not just profit-driven

"Any positive step we can do in the direction of social responsibility is an excellent barometer of our organisation," he said

Traditional trader-distributor is being replaced by organisations

Growth in chemical distributors cuts costs

ET(MR) 30/6/98(83)

The hottest trend in the international chemical industry is the growth of professional chemical distributors.

The traditional trader-distributor is being rapidly replaced by transparent organisations that add real value in the marketplace.

Crest Chemicals of Midrand, is one such organisation which adds value by managing the chemical user's supply chain, operating with a clear mandate to reduce the overall costs of getting products to the user's process.

Manufacturers and users recognise that dealing direct is normally less cost-effective than in dealing through a modern chemical distributor.

Crest's distributor relationship with most of South Africa's chemical raw materials manufacturers, and with many of the region's major industrial chemical consumers, is typical of this trend.

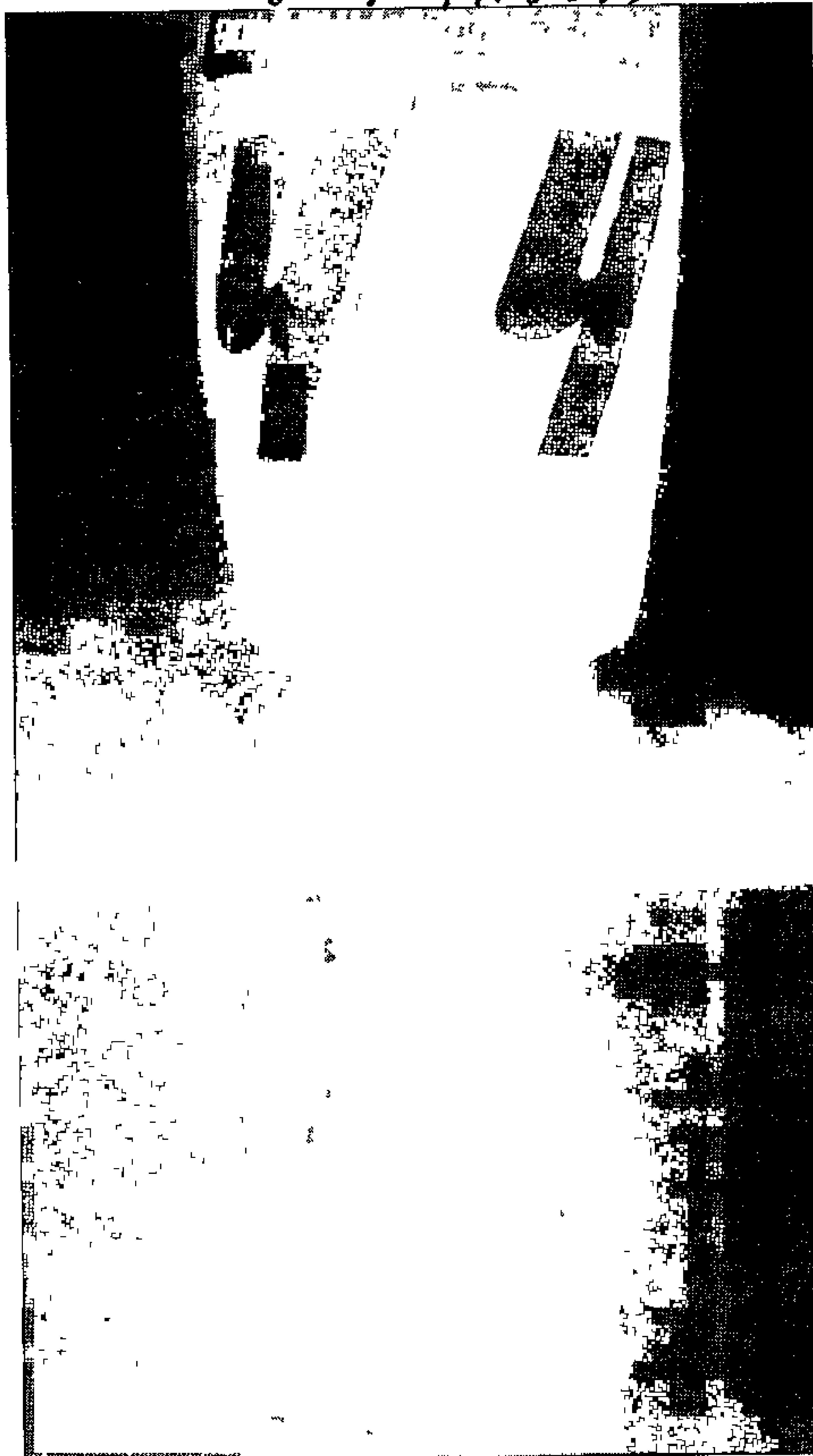
Relationships have developed on the strength of the industry's increasingly professional and analytical approach to the modern science of chemical logistics and procurement, and it is recognised that value can be added by the inclusion of an additional step in supply-side logistics. This outweighs the profit margin earned by the distributor.

Part of the value, says Crest, lies in a reduction through just-in-time deliveries of the user's inventories and in addition, the user deals with one source for delivery — reducing transaction costs and allowing manpower and resources to be focussed on core business.

Crest operates as an extension of the consumer's procurement department, eliminating the burden of moving products from their manufacturing source into production sites. A logistics service integrates with the manufacturer's sales and delivery mechanisms. The ability to add value to the process is based on an increasing level of professional commitment from both users and supply partners.

The company runs warehousing and delivery fleets in all major centres, delivering products through southern and central Africa. With modern bulk-breaking facilities, the company is able to decant bulk liquid chemicals into small packs.

Crest is a signatory to the responsible care charter managed by the Chemical and Allied Industries' Association, and invests substantially in safety, health and the environment.



ADDING VALUE *New trends in product distribution means better service and lower costs for the industrial chemical consumer*

International supply-side partners include Polifin, Union Carbide, Hoechst, Kynochem, Lee Chang Yung Industrial Chemicals (Republic of China), Sasol, Kanoria Industrial Chemicals (India), Amylum (Netherlands), Soda Ash Botswana, Golvay (Belgium), Unid (South Korea), NCP, Olfin, Alliance Peroxide, Shell Chemicals, Pan-Century (Malaysia), Giat-Brocades (Netherlands), Genencor (Netherlands), and Wiesby (Germany).

Chemserve Fine Chemicals, the South African company, is to become part of Crest, and is also taking over the activities of former competitor Surfachem. The mergers take the company into a leading position in the southern African chemical distribution business.

The company has also formed an alliance with Holland Chemical International), which brings to it access to international best-practices and supply-side relationships.

Sasol plans takeover of AECI

(183)

CT(BR) 30/6/98

One of the biggest chemical industry takeovers in South African history is on the cards.

Sasol wants to takeover AECI, part of Anglo American Industrial Corporation (Amic), in a R4,6 billion deal

It is expected that a final decision on the takeover will only be taken in about two months after a Competition Board investigation into the proposal

According to reports, the trade and industry department has asked the Competition Board to complete its report as soon as possible

Taxpayer faces R20m bill for 'Maduna' probe

BD 1/7/98 (183)

Stephané Bothma

PRETORIA — The inquiry by Public Protector Selby Baqwa into the affairs of the Strategic Fuel Fund was running behind schedule, forcing Baqwa to make an additional month available for testimony

The extended lifespan of the probe will see the taxpayer footing a bill of an estimated of R20m

The probe was ordered after Minerals and Energy Affairs Minister Penuell Maduna accused Auditor-General Henri Kluever of covering up a R170m theft from the fund

However, during a sitting of the inquiry last week, Maduna's lawyer, Kessie Naidu, placed on record for the first time that Maduna had conceded that the loss never occurred

Maduna, who made the allegations against Kluever in Parliament and at a media conference later, has refused to apologise to Kluever to date

Responding to media queries last week about why the costly inquiry continued despite Maduna's concession that the theft never occurred, Baqwa said a number of other allegations of irregularities at the fund needed to be probed

These included the payment of $0,06 to an intermediary for every barrel of oil purchased by the fund from Egypt, the R7m Salem ship scandal, and a payment of R1,45m by the fund to the previous government in 1992/93

Baqwa again defended the cost of the inquiry yesterday, saying that billions of taxpayer rands were being handled by the fund each year and that the public, therefore, had a right to know whether or not irregularities had occurred

Asking lawyers to find additional time in their diaries for the inquest, Baqwa said "not much progress had been made in terms of the number of witnesses called"

He said that the month set aside from October 19 to November 19 would not be sufficient

More than 16 people appear on the witness list and to date — despite sitting for several weeks — the tribunal has heard only three

The rest of the inquiry would now be heard from October 19 to December 18, Baqwa said

Plastics staff dig in for wage strike

(183)

MOSES MTHETHELELI MACKAY
Staff Reporter

ARG 2/7/98

SA Chemical Workers Union members, on strike at a plastics plant in Epping for two weeks over pay, say they will not return to work until their demands are met, no matter how long it takes.

Both the dayshift and nightshift at CIC Packing are taking part in the action. Union organiser Peter Roman said the workers were demanding their minimum wage be increased from R1 100 to R2 000 a month, as well as a 15% across-the-board increase.

They also want workers to be given six months' maternity leave, four months of it on full pay.

The union has also proposed that if the company retrenches an employee, it should be responsible for 15% of that employee's bond repayment for two years.

Mr Roman said union representatives met management this week at a meeting chaired by Kate Owen, commissioner for the Council for Conciliation, Mediation and Arbitration, and strike rules were agreed on.

The workers have demanded the company does not employ temporary or contract workers during the strike. Mr Roman said CIC had told the union it was experiencing financial difficulties and would have to restructure. He found this difficult to believe since, on May 1, CIC was one of three companies bought for R60,75-million by Astra Packing Group in Johannesburg. John Watters, CIC's acting general manager, refused to comment on the strike.

Mossgas row 'turning nasty'

CT 2/7/98 (183) (65)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The pricing row between Mossgas, the state-owned oil-from-gas producer, and the oil industry appeared to be coming to a head yesterday, with sources saying the finance department might be called in to sort it out

The argument, which is costing the state up to R15 million a month in subsidies to Mossgas, is understood to have turned nasty in recent weeks

Mossgas allegedly made "irresponsible allegations" about the oil industry and its willingness to settle the dispute

The sources said that although the two sides were closer than ever to an agreement, a major sticking point was still whether the oil industry should pay the higher landed cost for all of the oil Mossgas plans to produce from semi-processed, imported crude oil as part of its bid to increase output

"There has to be some give and take now," one source said

"If nothing is agreed on within a week or two, then someone will have to be brought in from the finance department to act as a facilitator"

Gordon Sibiya

But Gordon Sibiya, the deputy director general in the minerals and energy department, said yesterday that he did not believe such a facilitator could achieve anything until the new policy on the synthetic fuels industry had been finalised

He said any new policy on synthetic fuel subsidies would be finalised only later in the year

This scenario is unlikely to go down well with the office of the auditor-general or the finance department, given the cost to the state of the continued dispute

Although the cost is technically being met by the Equalisation Fund, this is said to be running dry because of the continued subsidy payments to Mossgas and Sasol, and alternative funding will be needed

Sibiya acknowledged that the fund would need to be replenished soon He said discussions were under way on how this problem could be resolved

Duma Nkosi, the chairman of the portfolio committee on minerals and energy, said yesterday that he planned to hold a special hearing on the Mossgas issue on July 29, after being asked by the standing committee on public accounts to help resolve the long-standing dispute

The committee made the request out of desperation after receiving no official response to its repeated resolutions that Mossgas should resolve its pricing impasse with the oil industry and that the government should commission an independent verification of the viability of further investments in Mossgas

☐ **Business Watch, Page 2**

Maduna hits back at AG

183

M+G 3-9/7/98

Mungo Soggot

Minister of Minerals and Energy Penuell Maduna has hit back after his embarrassing concession that the auditor general was not party to the theft of R170-million worth of oil by releasing documents to help explain his attack on the finance watchdog

Maduna's office handed out the documents at the inquiry into the Strategic Fuel Fund (SFF) on Friday June 26 after Public Protector Selby Baqwa denied the minister a chance to explain himself on the R170-million

The documents include correspondence between state oil officials and the office of the auditor general which suggests a surprisingly close relationship, considering the watchdog reports to Parliament.

In one memo, an SFF finance official suggests to the auditor general wording for a note explaining why the auditor general should not bother auditing certain state oil subsidiaries

It appears from the documents that the office of the auditor general was concerned that its agent for the SFF, Price Waterhouse, was too close to the oil company

Price Waterhouse wrote to the auditor general. "We do not accept the view that we are too close to the client or take the side of the client in dealings with your office"

The bundle also contains correspondence between Maduna and suspended state oil chief Kobus van Zyl over the allegation that the SFF paid an unnecessary six United States cents a barrel to a middleman company in a deal to buy oil from Egypt

In one letter to the minister, Van Zyl refers to "the distrust shown by you to the management of SFF"

Maduna's correspondence to Van Zyl indicates the minister was consulting closely with the Office of the Deputy President on the matter

Meanwhile, Baqwa conceded that the R170-million allegation was the trigger which persuaded Parliament to call for his probe. He ducked the question whether he would formally censure Maduna's office for not retracting it earlier

The hearing resumes in October

Bungled Mossgas sale cost SA R11m

ET(BR) 3/7/98 (783)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — The government's bungled attempt in 1996 to sell Mossgas, the synthetic fuel-from-gas producer, cost the taxpayer more than R11 million in fees paid to consultants and merchant bankers

And it paid another R7,3 million to a group of consultants investigating the viability of further investments in Mossgas during the same period

The latest financial statements for the Central Energy Fund, the state's holding company for many of its liquid fuel assets, show that in the two financial years to 31 March, 1997, the fund paid R11 million in consultancy fees relating to the aborted sale of Mossgas

At the time, well informed sources said the sale was botched through political interference and that the government had approached the sale as a "market testing exercise", with little intention of actually concluding a deal with a genuine buyer

The biggest beneficiary of the R11 million in fees is believed to have been Rand Merchant Bank, the institution brought in to handle the sale

Others believed to have been richly rewarded were two consultancies, Arthur D Little and Chemsystems

Charles Stride, once described as the highest-paid civil servant in the country, received several hundred rands an hour for his contribution to the bungled sale

The financial statements reveal that the companies that were paid R7,3 million were hired at the insistence of parliament's public accounts committee to independently verify whether further investments in Mossgas were financially justified

A source close to the process at the time said the committee delivered little and, when the time came, it was unable to provide an unequivocal answer to Pik Botha, then the minister of minerals and energy, as to whether further investments were justified

The latest financial statements did not include reports on the fund's subsidiaries, in particular the Strategic Fuel Fund, because of an investigation by the public protector into alleged irregularities there

FM FOCUS

Edited by Sharon Wood

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AUDITOR-GENERAL

YEBO MINISTER, OIL'S WELL

Minerals & Energy Minister Penuell Maduna made an ass of himself when he accused Auditor-General Henri Kluever of covering up the "theft" of R170m by the Central Energy Fund (CEF) The money wasn't missing, but hidden by an obtuse entry in the books

But Maduna may have been in the right company Documents and letters in the *FM*'s possession throw into sharp relief a close and even conniving relationship between the AG's office and the CEF This raises serious questions about the judgment and loyalties of the AG's office

Just before the first democratic election, on February 9 1994, a meeting takes place in the office of the then deputy AG, Prof J A "Bertie" Loots, between Loots and senior officials of the CEF Minutes of the meeting record agreement that *"in the light of the current circumstances* (the end of apartheid) *the CEF is requested to suggest reasons why the* (CEF income) *statements may not be published or to create alternative statements that can be published"*

This is interesting! Remember, the AG's client here isn't the CEF, but parliament Yet the AG's office is assisting the CEF to find a way around the inconveniences of transparency about to be thrown up by the advent of democracy

Even more amazing, this meeting takes place two days after Price Waterhouse, agents for the AG and auditors of the CEF, officially sign off the 1993 accounts in which R170m is shown as a loss

A few days later, on February 17, the CEF sends Price Waterhouse a revised income statement and balance sheet (newly created as per understanding with the AG), in which the R170m no longer appears, let alone as a loss Instead, it has become part of an item called net trading income from strategic and commercial crude oil transfers, worth R660m

Back to the official audit, which wasn't presented to parliament by the AG, and that number can be arrived at by adding trading income of R797m and a R42m transfer from deferred income and then subtracting the R170m (allow for rounding out)

Confused? So, probably, was Maduna when he decided the R170m was missing and hit the Kluever abuse button

Why the official trading loss was later hidden remains unclear Why Kluever presented the revised accounts, and not Price Waterhouse's official originals, he has yet to explain to the Public Protector's hearing on the dispute between him and Maduna That the relationship between the CEF and the AG's office worked to the detriment of parliament seems undeniable

A year later, in March 1995, the CEF sends a suggested "explanation" to the AG of how the AG can get around reporting to parliament on the finances and activities of a host of CEF affiliates, most of them incorporated in foreign tax havens The document reads "I suggest the annex to the list be changed as follows 'I was not instructed to audit the following affiliates of the CEF group as indicated and no report from my office is therefore required The companies are audited by external auditors I have ascertained for myself the reasons for which the companies are used and have no reason to present any additional information regarding this issue to parliament ' "

die state nie gepubliseer kan word nie

Aangesien dit in terme van artikel 1E(5) van die SEF Wet die keuse van die Ouditeur-generaal is om state en paragrawe na oorleg met die Ministers van Mineraal- en Energiesake en Finansies asook met die Staatspresident, te publiseer is SEF (Edms) Beperk gevra om in die lig van die huidige omstandighede redes aan te voer waarom die state nie gepubliseer mag word nie of om alternatiewe state op te stel wat wel gepubliseer kan word

The subsequent report by the AG to parliament accepts this helpful suggestion almost entirely and repeats it

Maduna's intemperate outburst against Kluever has probably poisoned any chance of a proper investigation into the apartheid oil trade Maduna must therefore carry responsibility for a monumental mistake

But is Kluever the angel we established media have made him out to be? Certainly, the documents in the *FM*'s possession, which we will continue to publish, reek of a patronising disrespect for parliament and the people on the part of the AG's office

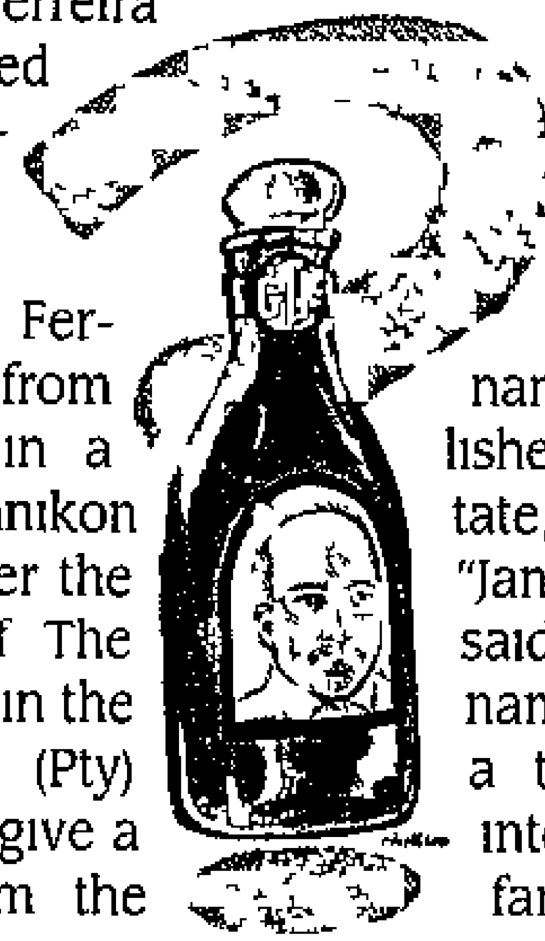
Public Protector Selby Baqwa is right to continue his inquiry despite Maduna's team having conceded that the R170m has not been stolen

Peter Bruce

WINE FARMS

NAME SEARCHING

FirstRand chairman G T Ferreira (see *People*) is looking for a name for his wine farm, which, propitiously, lies between Thelema and Rustenburg One person, mindful of the millions that Ferreira has already poured into the farm, cheekily suggested "Last Rand"



That was rejected Ferreira now operates from a suite of offices in a converted old technikon in Stellenbosch under the irresistible name of The Best Little Company in the Whole Wide World (Pty) Ltd He says he will give a barrel of wine from the farm's maiden vintage to the person who comes up with a name

"In researching the history of the farm, the first portion of which was set out in 1692, I discovered that part of it was called Rust en Vrede," says Ferreira Being of a mischievous bent, the next time he saw former Springbok rugby player Jannie Engelbrecht, who was manager of the Boks a few years ago, Ferreira told him he'd have to change the name of his long-established Rust en Vrede Estate, also in Stellenbosch "Jannie went white when I said I'd discovered the name wasn't registered as a trademark and that I intended using it for my farm "

Linda Stafford

(60)

Sasol profits from rand's woes

ST (Bt) 5/07/98 (183)

RAND-HEDGE UPSIDE

By SVEN LUNSCHE

AMID the economic chaos in the wake of the plunging rand, there are a number of companies reaping significant benefit from the currency's woes

Sasol managing director Peter Cox said a sustained R1 drop of the rand's value against the dollar over a year would add R1 7-billion to pre-tax earnings

He also warned that Sasol would walk away from its proposed R4 6-billion takeover of AECI if the Competition Board imposed "undue" conditions on the deal

"We believe that at R30 a share we offered Amic (AECI's controlling shareholding) a fair price which includes a premium for control and recognises the benefits that AECI brings to Sasol in economies of scale

"We expect the Board to add conditions, but if they are too onerous we will walk away from the deal," Cox said

This would apply if the Board ruled that AECI must sell its fertiliser and/or explosives business before the takeover The Board has until mid-September to complete its inquiry

With Sasol's year-end just completed, analysts estimate that the rand was 50c weaker than in the 1996/97 financial year — adding an estimated R850-million alone to pre-tax profit In the year to end-June 1997, profit was R4 2-billion

TANKING UP . . . Pieter Cox says Sasol could make R1.7bn

The market on Friday recognised Sasol's rand hedge qualities and pushed the share up by 9% to a close of R40 It reached a R44 high at one point

Two weeks ago hit a low of R29, almost 50% down from its April high, amid low oil prices and its cautionary announcement warning of lower profits in the 1997/98 financial year

Analysts said companies like Sasol which made most of their earnings in foreign currency stood to benefit

"People have woken up to the fact that Sasol is a good rand hedge and it is now looking cheap," an analyst told Reuters Some of Sasol's petroleum and chemical products are sold for dollars on the world market

Dealers also said Sasol was benefiting from OPEC's recent decision to restrict oil supplies in a bid to push oil prices up.

Analysts doubt whether the R850-million estimated boon from the weak rand will be enough to offset the impact of lower oil prices and falling exports to the Asian market

In the six months to December Sasol's attributable earnings fell to R1 1-billion and for the 12-month period they could be down by 10% to R2 3-billion

□ Sasol launched its R250-million downstream chemical park Chemcity at Sasolburg in the northern Free State on Friday

Cox said in his opening address the SA chemical industry was now predominantly a commodity industry, exporting chemical commodities without adding value "By stimulating the development of a downstream industry in SA, at least R6-billion could be saved in foreign currency by replacing speciality chemical imports"

Plasgroup expands its factory network

Mzwandile Jacks(on)

(183) BD 7/7/98

PLASTICS manufacturer Plasgroup, which intends listing on the Johannesburg Stock Exchange next month, is expanding its network of plastics manufacturing clusters to the Western Cape, where it plans to launch 10 mini factories by the end of the year

The move follows the launching earlier this year of a cluster of owner-managed mini factories adjacent to its factory at Centurion in Gauteng, adding to the group's 10 mini factories already established there

MD Peter Jackson said the scheme was adopted from the Far East, where it was successful in stimulating small, medium- and micro-sized enterprises

The scheme was designed with considerable input from the trade and industry department in accordance with the broad goals of the government's growth, employment and redistribution macroeconomic policy

Jackson said the scheme was being promoted as a black economic empowerment opportunity Half the mini factory licences already signed were held by people from previously disadvantaged groups who would form joint venture licensees with specialised skills The latter were selected from a group of either plastics specialists, entrepreneurs or people with strong managerial and administrative backgrounds

Each mini factory is a dedicated single-product manufacturer under licence to Plasgroup Plasgroup buys and markets the entire output, and provides training, technical assistance and quality control to allow optimum use of synergies through centralised buying and distribution of raw materials to site

The mini factories will manufacture products not sold by Plasgroup, but for which there is a demand from existing Plasgroup customers Start-up costs average R600 000 and a licence agreement is signed for three years, after which it is renewable.

The mini factories are expected to contribute 25% to Plasgroup's turnover this year and 40% next year The scheme promises to triple Plasgroup's turnover with a negligible increase in overheads

US withholds benefits over Zuma's bill

BD 15/7/98 (183)

Simon Barber

WASHINGTON — US President Bill Clinton's trade negotiators are withholding trade benefits from SA to back up the US drug industry's complaint that its intellectual property rights are being threatened by government's efforts to reduce medical costs via the Medicines and Related Substances Control Amendments Act.

The tactic, unannounced by the office of the US trade representative but confirmed by multiple sources, comes as talks to resolve the dispute have effectively been suspended pending the outcome in SA courts of a constitutional challenge to the act.

Rosa Whittaker, US assistant trade representative for Africa, has told government that recently announced decisions granting or extending duty-free treatment to a range of SA products — including gold for electronics and dentistry, heavy construction vehicles and certain vanadium compounds — will not be implemented until government has made "substantial progress" in satisfying US demands.

Among companies affected is Connecticut-based Strategic Minerals, whose imports of vanadium carbonitride, a steel additive, from SA subsidiary Vametco were $16m last year and $9,5m in the first four months of this year.

Stratcor had successfully petitioned for the material, of which SA is the world's principal source, to be kept on the list of goods on which the US waives duties. The company argued that the money it would save on imports otherwise facing tariffs of 3,7% would enable it to increase its investment in Vametco.

Preferences for semi-manufactured gold otherwise facing duties of 5% were sought by government as part of its strategy to promote the local beneficiation of SA minerals for export.

Bell Equipment, an SA heavy construction and mining equipment manufacturer, requested preferences for a class of heavy off-road dump truck it exports in kit form for assembly by its US subsidiary. Removal of the 10% duty, it said, would enable it to expand exports by 150 trucks a year.

All three petitions, and several others covering smaller SA exports, were initially approved by the White House. However, the office of the US trade representative used its discretion to stop the decisions going into effect.

The office, which unlike other departments is directly a part of the White House bureaucracy, has already placed SA on its "watch list" of intellectual property violators because of the medicines legislation that gives Health Minister Nkosazana Zuma the power to abrogate patent rights as a price control measure.

Tom Bombelles, of Pharmaceutical Research and Manufacturers of America, said he was aware of the administration's suspension of benefits and welcomed it as "the type of thing we are looking for them to do".

It remains unclear what SA authorities must do to demonstrate the "substantial progress" the US is demanding to release what one US trade lawyer, representing an affected importer, called the "hostages" taken by the US trade representative.

Emerging market index has dropped 40% in past year

Tim Cohen

LONDON — The Morgan Stanley Capital International emerging market index has dropped 23,68% over the past three months to end-June, and 40% for the past year.

Standard & Poor's Micropal unit trust survey, which measures up to the beginning of June, shows that emerging market equity funds have dropped in value by significantly less than the market. But they have lost ground, slipping 7,62% over the past three months, although this is better than the 20,35% decline of the past year.

Matthew Ridely of Ermitage Emerging Markets, which had shown a rise of 48% over the past three years partly because it excluded Asia, said he would continue to hold off investing in the region until the dust settled. Not being invested in SA "probably did us no harm", he said. SA was excluded because it was considered not so much an emerging market as a "dual market" — its relatively developed financial markets meant many stocks were already fully valued.

"Why invest in Asia, when there are so many bargains in Eastern Europe and Latin America," Ridely said, reflecting a trend toward countries which are geographically proximate to developed markets.

Michael Power, fund manager of Baring Asset Management's Simba Fund, said wealth seemed to be radiating out from core developed markets in concentric circles. This explained why Mexico, Poland and Greece had been strong performers recently.

In the African context, Tunisia, Morocco and Egypt were considered to be somewhat protected from the emerging markets crisis because of their quasi-European status, and Botswana and Namibia were protected to a more limited extent by their proximity to SA, although they suffered the repercussions of SA's currency plight.

Stan Maphologela reports most of SA markets moved into positive territory and continued firmer yesterday.

Continued on Page 2

Zuma 'will not bow' on drugs bill

(183)

FROM SAPA

CT (MR) 16/7/98

Johannesburg — The government was determined to bring into force the Medicines and Related Substances Control Amendment Act regardless of Washington's stance on the proposed legislation, the department of health said yesterday

Vincent Hlongwane, the department's spokesman, was responding to reports that US officials planned to withhold trade benefits in sympathy with their drug makers' complaint that the act threatened their intellectual property rights

He said the benefits derived from the legislation outweighed the interests of a few pharmaceutical companies

"We do not know whether these reports are accurate However, even if the US might not like it, the legislation is good for the majority of the country's people as it will reduce medical costs"

The only snag at present was the court action brought against the state by the pharmaceutical industry Once this constitutional challenge was out of the way, the government would speedily implement the legislation, he said

The act gives Nkosazana Zuma, the health minister, the power to abrogate patent rights as a price control measure

Reacting to the latest furore over the legislation, the South African Municipal Workers' Union urged the government not to capitulate to US demands

Govt resolute on Medicines Act

(183) CT 16/7/98

JOHANNESBURG: The government is determined to bring into force the Medicines and Related Substances Control Amendment Act regardless of the US government's stance on the proposed legislation, the Department of Health said yesterday

Responding to reports that US officials planned to withhold trade benefits from South Africa in sympathy with their drug manufacturers' complaint that the act threatened their intellectual property rights, health department spokesman Vincent Hlongwane said the benefits derived from the legislation outweighed the interests of a few pharmaceutical companies

"We do not know whether these reports are accurate However, even if the US might not like it, the legislation is good for the majority of the country's people as it will reduce medical costs," he said

The only snag at the moment was the court action brought against the government by the pharmaceutical industry

Once this constitutional challenge was out of the way, the government would move with speed to implement the legislation

The act gives Health Minister Nkosazana Zuma the power to abrogate patent rights as a price control measure

Reacting to the latest furore over the legislation, the SA Municipal Workers' Union urged the government not to capitulate to US demands

"The excuse that it needs to back up the US drug industry, which is supposedly having its rights threatened by the bill, ignores the rights of millions of South Africans who cannot afford even the most basic of medicines

"The statement by Rosa Whittaker, US assistant trade representative for Africa, that recent aid measures would not be implemented until the government had made substantial progress in satisfying US demands, is nothing more than undemocratic, unbridled arrogance," it said — Sapa

US 'protectionist' stance lashed

BD 17/7/98 (74) (183)

Josey Ballenger

THE National Progressive Primary Health Care Network has criticised the US for withholding certain trade benefits, saying its protectionist approach to trade was threatening SA's future health prospects

"At the very time that the US Congress is considering the African Growth and Opportunities Bill, an act that is supposedly for the promotion of development in Africa, the US government is practising protectionist policies that undermine the very principles they ask others to accept," the nongovernmental organisation's executive director, Dr Irwin Friedman, said yesterday.

The US trade representative's office has suspended the granting or extension of duty-free status to certain SA products because of its objection to legislation regarding patented drugs A number of US pharmaceutical companies, or their SA subsidiaries, have joined a Constitutional Court challenge to the Medicines and Related Substances Control Amendment bill passed by Parliament last year.Pharmaceutical industry sources said the amendments, which are not yet in force because of the legal challenge, abrogated their right to charge different prices around the world for their intellectual property.

OPEN SEASON

Stuart Rutherford

FM 17/7/98

SAB FAILS SIMPLE TEST IN SALESMANSHIP

(182)

SA Breweries is a heavyweight in a lightweight division That means it has the power to do things the way it chooses — and generally does This is perhaps best demonstrated in the recent asset disposals involving Da Gama, Conshu and Lion Match Two of the sales have been concluded

From the outside the process appeared extraordinary no formal announcements, no call for bids and some world-record signing times From the inside it seemed even more peculiar I talked to five bidders, whom we'll call A, B, C, D and E They provided some information and criticism of the process

All five bidders described SAB as being arrogant and buyer-unfriendly throughout the process But all offered different interpretations of the brewery's motives

"All they wanted was the best price They constantly conveyed to people that they didn't have to sell If your price wasn't right or if you buggered them around then they wouldn't sell," says B

"They knew they had good assets and that there were enough people out there wanting them, with the exception perhaps of Conshu," adds A

Says E "They laid down strict rules for the bidders but they did not always stick with these They failed to explain what was important and what was not "

There were three rounds in the sale process The first round was open to all, the second limited the field to a select handful and finally a preferred bidder was chosen for the third round, during which negotiations were concluded

First up, A suggests the way that SAB went about getting bidders was flawed since there was no advertising "One wonders if every potential buyer was given an opportunity to find out about the process It was a case of registering your interest and if you hadn't registered you were unlikely to be invited to make a bid "

All five bidders described SAB as being arrogant and buyer-unfriendly

But there was enough buyer interest "More and more people were knocking on their door, and in the beginning they said 'No' But then someone in SAB decided they would sell and this would be through public tender," says D

In the first round, the bidders were given just two weeks from when they were informed of the sale and given information packs about when they had to make a bid

All of them point to a lack of time and information as a problem at this stage "We had to work throughout the Easter weekend putting together a bid and initially they only gave us publicly available documents," says C

"There was not enough time to look at the business, the information they gave us was no better than you got in the annual report and we couldn't even talk to the management," says D

B agrees "It was almost as if they had to see how far up the ladder you would be before divulging more information to you "

There seems little apparent justification for the speed As A says SAB had obviously been working on the sale for some time to organise the mechanics of a deal that moved so quickly

As the bidders entered rounds two and three, information became more accessible "Everyone at SAB was on call 24 hours a day," says C But the time pressures remained and SAB negotiators started to drive the price up

"In the second round you had to have an irrevocable bank guarantee before you could even play, and they wanted the deal to be as clean as possible They wanted a check, as if I was buying Liberty on the JSE," says E

"They were hard and fast in their approach, they had a 'take it or leave it' stance," says A

The bidders agree SAB was concerned about price, little consideration was given to the bidders' business plans or to empowerment connections They also say the relevant trade unions were not consulted during the process

"I believe that even if there had been no empowerment people involved, they would have sold it to the highest bidder," says B

The *FM* understands the Industrial Development Corp, a large funder in the Fasic consortium, which took control of Lion Match, threw down the gauntlet to SAB, warning it not to advertise the Lion sale as an empowerment deal, since no concessions were given for the empowerment aspects of the consortium

When it came down to fixing a final price, A says SAB insisted it was a "clean sale", meaning "nonconditional, cash on delivery and not subject to onerous conditions"

Despite these comments and criticisms, all the bidders agree the process ensured that SAB made top money from the sale Some, predictably, believe it meant some groups overpaid for the assets

Several voice warnings to SAB

D says this type of disposal process is effective only if the asset is a quality one and the sale is speedy and well contested Then people will pay top money to secure the asset — even if there is a problem of poor disclosure But as in a public auction, if there isn't a good response, the seller can suffer big losses

"If this public process is followed again and the deal is not wrapped up, then you expose yourself Everyone knows the company is on the chopping block and this affects your staff morale and your business dealings," he says

"In some cases you will have no alternative but to accept the highest offer because you can't back out Whereas if you quietly talk to someone you can always back out and cause no permanent damage "

E believes the lack of even-handedness, evident in the fact that some of the deals ran way over the stipulated time, raise serious questions about the ethics of SAB He says the brewer has certainly not made many friends through the sales

"Granted, they made good money, but the question is at what expense and whose expense?" ■

Chemical industry workers plan disruptions

Reneé Grawitzky

THOUSANDS of members of the Chemical Workers' Industrial Union (CWIU) and SA Chemical Workers' Union (Sacwu) plan to disrupt operations in the chemical industry today after conciliation in wage talks failed.

Today's strike will affect only those companies that have members from both unions, such as AECI.

Sacwu advised employers that it planned to strike from today while the CWIU said it would ballot for a strike this week as provided for in the union's constitution.

However, companies with members from both unions had been informed that they could be hit by strikes today. Employers' spokesman Fanie Ernst said the CWIU had advised employers of the strike.

The purpose of the notice, the CWIU said, was to prevent any conflict between members of the two unions.

The uncoordinated strike has been called after negotiations in the seven subsectors of the chemical industry, which include petroleum, rubber, plastic, pharmaceutical and glass, ended in dispute during the initial stage of negotiations.

The unions rejected employers' offers of between 4,75% and 6,5%. The unions wanted between 13,5% and 15%.

Employers' offers now stand at between 6% and 8%, while the unions lowered their demand to 10,5%.

BD 20/7/98 (183) ([illegible])

Violence mars chemical workers' wage strike

(183) BD 22/7/98

Reneé Grawitzky

A WAGE strike by hundreds of chemical workers at Adcock Ingram Critical Care in Aeroton near Johannesburg has been marred by numerous incidents of violence, including the killing of a nonstriker, the shooting of three others and 13 petrol bomb attacks.

The strike — not directly linked to the chemical industry strike called by the SA Chemical Workers' Union (Sacwu) — began four weeks ago after a dispute over interim wage increases covering a three-month period

The unions involved — Sacwu and the Chemical Workers' Industrial Union (CWIU) — claimed management did not want to negotiate and had adopted a hardline approach during conciliation proceedings in the Commission for Conciliation, Mediation and Arbitration.

The company confirmed parties began to "dig their heels in" at conciliation hearings, with the unions demanding a 5% increase for the three-month period and the firm offering only 2,25%. Company spokesman Andy Pickerell said both unions had agreed to meet in mediation later this week.

However, the company expressed concern that the unions had failed to formally condemn the violence which erupted last week

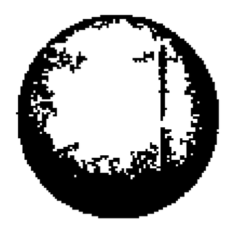
Both unions said they did not condone the violence. A Sacwu shop steward said: "We cannot monitor what happens in the townships at night." He said workers were getting frustrated with the lack of progress as the strike continued.

The company said attempts at negotiating picketing and strike rules prior to and during the strike failed. The unions claimed the firm's use of replacement labour was problematic.

Meanwhile, the national wage strike by thousands of Sacwu members in the chemical industry enters its third day while the CWIU plans a programme of action next week.

Employer spokesman Fanie Ernst said the majority of Sacwu plants had been affected by the strike. However, the overall picture was quite mixed, with some AECI plants, for example, being heavily affected and others not.

The strike in the broader chemical industry — affecting sectors like industrial chemicals, pharmaceuticals, plastics, fast-moving consumable goods and petroleum — is to support higher wage demands and other conditions of employment.



NE

ENERGY *Demoralised industry strives to define its role in post-apartheid SA*

Atomic Energy Corporation agrees it should be split in two

CT (BR) 22/7/98

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

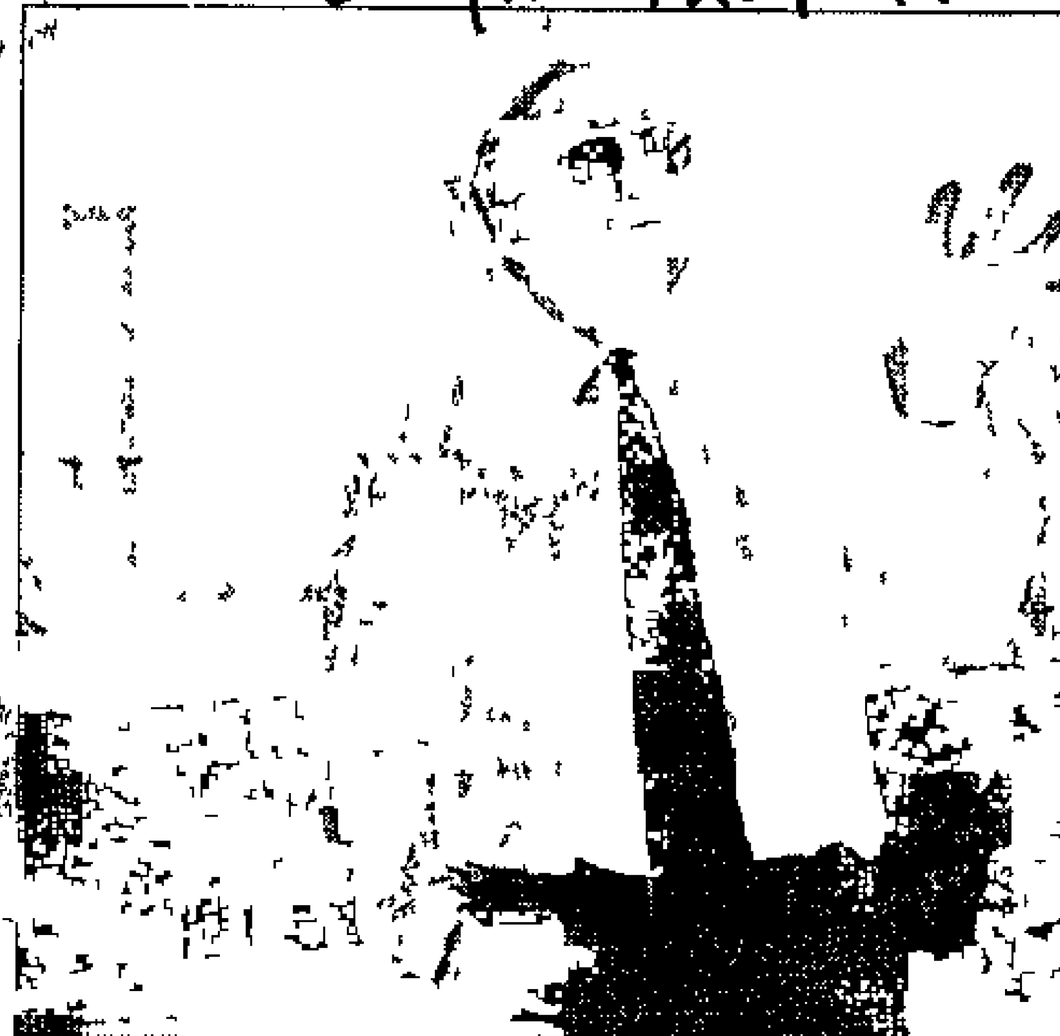
Cape Town — The Atomic Energy Corporation should be divided into two separate organisations within the next year or two, with the commercial technology side being privatised, a parliamentary committee heard yesterday

This suggestion was made by several speakers during the first day of the portfolio committee on minerals and energy's hearings this week on the energy white paper Waldo Stumpf, the chief executive officer of the AEC, supported the suggestion

He welcomed the release of the white paper and said he hoped this would lead to greater certainty for the nuclear fuel industry, which had been demoralised by its virtual dismantling now that it was no longer needed for strategic and military reasons

He said significant progress had already been made in restructuring the corporation to meet post-apartheid needs and to ensure it contributed to South Africa

Any further restructuring of the corporation had to take into account its inherited liabilities. These included its state-guaranteed loans, its decontamination and decommissioning role, and the "extraordinary skewed ratio of pensioners to serving staff" because of retrenchments



NEW LIGHT *Waldo Stumpf, the chief executive officer of the AEC, reports good progress in restructuring the corporation* PHOTO NEIL SPENCE

Stumpf said the corporation was working closely with Eskom on plans to increase the country's nuclear energy capacity through the construction of mini power stations, or pebble-bed modular reactors

Tony Stott, Eskom's manager in charge of nuclear operations, told the committee that a final decision on the building of mini-nuclear power stations to meet future energy needs was still a year away

He said the concept stage for the pebble-bed modular reactors had been completed as part of Eskom's integrated electricity planning process

"It looks promising, so we have decided to take it forward," he said

The next phase would be to undertake the technical design and apply for the necessary licences from the Council for Nuclear Safety and the National Electricity Regulator

An environmental impact assessment, with full public participation, would also have to be undertaken Eskom was also looking for foreign investment partners

He denied reports that Eskom had already received the licences from the government Gordon Sibiya, the deputy director-general in charge of energy, said Eskom should publicly deny the reports because his office had been "inundated with sometimes positive comments — like one foreign company that wanted to invest in this thing that is still on paper"

Stumpf said the pebble-bed modular reactor was "very promising technology", but would only be introduced if it was commercially viable

(183)

Sasol chief defends AECI takeover bid

(183)

ET (BR) 22/7/98

NCABA HLOPHE

Johannesburg — Pieter Cox, the managing director of Sasol, yesterday defended the R4,6 billion takeover bid of AECI as a positive move to boost South Africa's foray into international markets.

He said the proposed Sasol acquisition should be viewed in the "national interest" because it would create a strong chemicals group with adequate economies of scale to compete with the best in the world.

"Checks and balances are in place to make sure that we do not abuse our position

"The markets are the first significant check, and the new Competition Bill will entitle government to regulate and intervene when we are seen to be abusing our position," he said.

The deal would give Sasol a dominant position in the fertiliser and explosives industry It has sparked off concerns on its implications for competition.

The Competition Board has already begun a formal investigation after submissions from the mining, agriculture and chemical industries.

The investigation will take at least three months. Analysts have said the Competition Board could block the deal completely or stipulate conditions.

Cox said Sasol would pull out of the deal if the board attached "onerous conditions" that would affect the value of the acquisition to its shareholder.

AECI has indicated it was already talking to foreign companies about selling its equity stakes should the deal fail.

City paint workers join wage strike

ARG 22/7/98 (183)

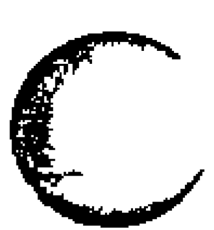
CHARLES NGULUWE, VINCENT LALI
AND NORMAN JOSEPH
STAFF REPORTERS

About 200 Epping paint workers have joined a national strike, demanding a 12% wage increase

The employees, all members of the South African Chemical Workers' Union (Sacwu), joined 80 000 other Plascon Paint workers in the strike

The strikers gathered yesterday on the factory's premises in Packer Avenue, Epping 2, chanted and sang, and dispersed peacefully after about three hours.

General manager Ian Knight said centralised bargaining negotiations with Sacwu and other unions were under way



Union to act after talks fail

(183) Sowetan 23/7/98

By Mzwakhe Hlangani
Labour Reporter

THE Chemical Workers' Industrial Union (CWIU) is heading for a showdown with the chemical industry's employers after wage talks this week failed to resolve the protracted strike in the industry, the union warned yesterday

CWIU deputy general secretary Mr Nelson Mthombeni will today announce the programme of action to be embarked upon by the union's members in protest against employers' "failure to accede to workers' reasonable demands"

Meanwhile, the SA Chemical Workers' Union (Sacwu), also involved in the same interim central bargaining forum, yesterday reported progress in the negotiations with employers

Sacwu spokesman Mr Masindi Mavhivha expected "possible change of positions by both parties" this week

The unions are demanding a 12 percent wage increase and a minimum salary of R2 000 a month

Mavhivha said some employers had indicated they were prepared to meet the R2 000 a month demand

Chemical and industrial sector employers' coordinator Ms Christine Randall agreed that talks on resolving the strike continued

- Picket demonstrations by workers at the Sasol plant in Vanderbijlpark continued for the second day yesterday

Cosatu revs up on fuel deregulation

UP TO 80 000 jobs could be lost if government goes ahead with the deregulation of the energy industry as proposed in the draft white paper on energy, according to the Congress of SA Trade Unions

Cosatu told the parliamentary portfolio committee on minerals and energy on Friday that the planned phasing out of the Rationalisation Plan and the introduction of self-service could lead to major job losses and create obstacles to entry for black business

EMPLOYMENT FEARS

By THABO KOBOKOANE

The paper, released in June, proposed complete deregulation of the liquid fuels industry, including the phasing out of price controls and industry margins in three to five years

The document also proposed the termination of Mossgas and Sasol subsidies by next year

In its submission to the committee, the SA Petroleum Industry Association said it was concerned about the lack of time frames on deregulation and the absence of detail on government thinking regarding black economic empowerment

Colin McClelland, director of Sapia, said there was no indication of the nature of the measures that could further black empowerment

"We need to know what actions the new government will take to further its national strategic objectives of black economic empowerment and reconstruction and development," said McClelland The state should use the subsidies that Sasol enjoyed to enhance black business entry into the oil industry, he said

The African Mineral and Energy Forum said the planned phase-in period of three years suggested in the paper was too short to facilitate the effective entry of black economic empowerment

It said deregulation should commence only after certain targets were met, such as a 20% minimum market share for black oil companies

ST (BT) 26/7/98

Union members set to strike

By Mzwakhe Hlangani

THE chemical industry is facing nationwide, crippling industrial action.

This appears inevitable as the estimated 40 000 members of the Chemical Workers Industrial Union are currently conducting strike ballots, the union has warned.

Its deputy general secretary Mr Nelson Mthombeni said last week that about 300 plants in the seven sectors of the chemical industry would be affected by the strike. Workers at 25 pharmaceutical, 15 petroleum, 12 industrial, rubber, 10 glass companies, 100 industrial chemicals and plastics companies and Sasol Collieries may strike on August 3.

While waiting for ballot results, workers will stage lunch-time pickets, said Mthombeni.

The union is demanding a 10,5 percent across-the-board increase and a minimum R2 000 salary. The employer body offered a 9,5 percent increase.

Sowetan 17/7/98 (183)

(57)

Cheap crude may impel an 8c/l oil increase

Sasol raises hackles on fuel price

(183) CT (BR) 29/7/98.

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Sasol, the listed synthetic fuel company, came under fire in parliament as concerns grew that the fuel price might have to be increased by a further 8c a litre to fund the state subsidies it enjoys

This would be over and above the 10c rise expected next month because of the weak rand

During the last day of their hearings on the energy white paper on Friday, several members of the portfolio committee on minerals and energy strongly objected to statements by Ernst Oberholster, Sasol's refining and planning manager

Oberholster said that if crude oil prices hit $9 or $10 a barrel by the time the subsidies were up for review in 2000, the government would either have to continue paying the subsidies "or close down Sasol and count the cost to the economy"

He confirmed calculations made earlier by Colin McClelland, the director of the South African Petroleum Industry Association, that the equalisation fund levy would have to be increased by 8c a litre soon

He said the current levy of 0,5c a litre was "not enough to fund the protection required today at these extremely low crude oil prices (of around $12 a barrel). So we would require the equalisation fund (levy) to increase by 8c a litre in the future to enable it to fund the protection to Sasol"

Committee members said Sasol, which received R500 million in subsidies (synfuel protection) last year, could operate more efficiently so that it did not need subsidies no matter what the oil price was

Sasol used to get synfuel protection as soon as the oil price dropped below $23 a barrel, but this has gradually been reduced to the current $17 and is due to go down to $16 in July next year

The white paper made conflicting statements about what would happen after that, but Oberholster said the minerals and energy department had confirmed that the price where protection takes effect would only be reviewed in July 2000

Meanwhile, Petronet, Sasol and the oil industry hammered out an agreement last week to cut the cost of jet fuel at Johannesburg International Airport by 3c a litre

Charl Moller, the chief executive of Petronet, told the portfolio committee on minerals and energy that the cost of the cut, which went into effect yesterday, would be borne equally by the three parties

It would mean a saving of R36 million a year by the South African airline industry alone, although it would apply to all airlines using the airport The high cost of jet fuel at the airport has been raising hackles in the airline industry, with many applying in vain for permission to import their own fuel

Moller said the cut had been made possible by applying a pipeline tariff to the jet fuel sold at the airport instead of a tariff based on railing fuel to Johannesburg from Durban, as had happened in the past In a presentation to the committee Shell recently took a lead in objecting to this method of pricing the fuel

Competition Board awaits druggists

CT (BR) 27/1/98 (183)

ADELE SHEVEL

Johannesburg — The Competition Board was awaiting a response from several major drug manufacturers who had been accused of anticompetitive behaviour by drug wholesalers and pharmacists, Pierre Brooks, the board chairman, said last week

The complaints are aimed at manufacturers who have or intend establishing direct distribution channels which intrude on the wholesalers' traditional domain

The direct distributors are International Healthcare Distributors, jointly owned by nine major international drug manufacturers, and Project Nasa, the direct distribution mechanism being developed by five multinational companies and Pharmacare, a division of SA Druggists

"They say the combination of pharmaceutical manufacturers into a single distribution channel has a strong anti-competitive effect, especially with regard to certain pharmaceutical products," said Brooks

He said the voluminous complaints would first have to be evaluated and a response received from the direct distributors before the board could decide if an investigation was necessary

The complaint document was substantial and Brooks said he expected the response to be equally voluminous

Chemists and wholesalers voiced concern last week that direct marketing mechanisms would remove wholesalers from the distribution loop, leaving retailers in a weaker position to negotiate prices with major drug producers

But industry players believe some wholesalers' days are numbered anyway, as a rationalisation through amalgamations is expected in the industry because there are too few products available for the current number of wholesalers plying the market

They say emerging market forces require new strategies and ground rules to ensure the industry remains healthy

Brooks said the healthcare industry was in a state of flux, with different nuances, players and schemes coming into the market

He said the Competition Board was already involved in a long-term investigation into the medical schemes arena, to assess the interface between medical schemes and service providers

The Government Gazette said in November last year that the Competition Board would investigate whether the scale of benefits laid down by the Representative Association of Medical Schemes were restrictive

Chemical industry prepares to limit effect of strike

Pearl Sebolao (183) (132) BD 28/7/98

CHEMICAL plant processes throughout the country have been reorganised and fuel supplies stockpiled in a bid to minimise the effect of the 24-hour strike by the Chemical Workers' Industrial Union (CWIU) tomorrow

Although the whole chemical industry will be affected by tomorrow's action, the petroleum sector was expected to be the hardest hit, with 18 companies being affected, National Petroleum Employers Association chairman Chris Clucas said yesterday

He said on the whole the petroleum industry "would be able to ride it through as contingency plans had been put in place"

CWIU members would march in all major centres of the country, including Johannesburg, Durban, Port Elizabeth and East London

Memorandums would be handed to the employers, demanding that they agree to the union's demands for a 10,5% wage increase, a R2 000 minimum wage and the improvement of other conditions of employment, CWIU general secretary Nelson Mthombeni said.

Mthombeni said if the union's demands were rejected members would embark on a full-blown strike next Monday, joining the SA Chemical Workers' Union which went on strike last week

Meanwhile, the national stay-away by the National Union of Mineworkers to protest against the Eskom Amendment Bill, which was due to take place yesterday, was called off

Real power is economic

Petrol firms hoard supplies for strike

THE fuel industry has been stockpiling supplies in anticipation of a strike next week by chemical workers demanding a wage increase, Fanie Herbst, negotiator for the employers, said yesterday

This followed Friday's announcement by the Chemical and Industrial Workers Union (CIWU) that workers would protest on tomorrow

If their demands were not met, at least 40 000 chemical workers would strike from next Monday

"As a contingency, plants have been stockpiling and reorganising their plant processes, making it possible to continue with the remaining workers," Herbst said

Shell spokeswoman Koosum Kalyan said the company did not expect any problems but as a contingency would make sure its customers received fuel supplies before mid-week

Beverley Benjamin, manager of the Engen garage on Durban's Esplanade said she topped up her supplies when she heard about the protest

Normal trade

By yesterday afternoon filling stations were reporting normal trade

CIWU general secretary Nelson Mthombeni said yesterday that the union planned marches tomorrow and a memorandum would be handed over to employers asking them to agree to the union's demand for a 10,5 percent across-the-board wage hike

Employers are offering between 6,5 and eight percent

Herbst said the employers would wait until they had received the memorandum tomorrow before considering the workers' demands again

"We don't know yet if they will come with new demands We will see if we can resolve it before Monday," he said.

The industries affected include manufacturers of industrial chemicals and glassware, fast-moving consumer goods such as detergents, soaps and cosmetics, industrial rubber, plastic converters and pharmaceuticals

Salary negotiations between the affected industries and their unions started in May

After arbitration with the Commission for Conciliation Mediation and Arbitration, a deadlock was declared on July 10 – *Sapa*

(183)

Source: 28/7/98 [handwritten]

(811)

Fuel industry stockpiles for strike

CT 28/7/98 (183)

JOHANNESBURG The fuel industry has been stockpiling supplies in anticipation of a strike this week by chemical workers demanding higher wages, employers' negotiator Fanie Herbst said yesterday

On Friday the Chemical and Industrial Workers' Union announced that workers would protest tomorrow.

If their demands were not met, about 40 000 chemical workers would strike from next Monday

Herbst said: "As a contingency, plants have been stockpiling and reorganising their plant processes, making it possible to continue with the remaining workers "

Shell spokesperson Koosum Kalyan said the company did not expect any problems tomorrow, but would make sure its customers received fuel supplies before then

The union's general secretary Nelson Mthombeni said the union planned countrywide marches for tomorrow and that a memorandum would be handed to employers calling on them to accede to the union's demand for a 10,5% across-the-board wage increase

Employers are offering between 6,5 and 8%

"If this is rejected, there will be a full-blown strike on Monday," Mthombeni said

Herbst said the employers would wait until they had received the memorandum tomorrow, and would then re-consider the workers' demands

"We don't know yet if they will come with new demands We will see if we can resolve it before Monday "

The industries affected included manufacturers of industrial chemicals, fast moving consumer goods that include detergents, soaps and cosmetics, industrial rubber, plastic converters, pharmaceuticals and glassware manufacturers — Sapa

Oil group Engen fuels African drive

BD 29/7/98 (183)

Samantha Sharpe

CAPE TOWN — Oil group Engen has extended its African operations into the Democratic of Congo, Rwanda and Burundi through a series of deals with Brussels-based oil company PetroFina and British Petroleum (BP).

The move is in line with Engen's strategy to increase its market presence in sub-Saharan Africa and comes after the acquisition of a major oil storage terminal in Dar es Salaam and satellite depots in Isaka and Kigoma.

Engen CEO Rob Angel said yesterday the first of the deals was a joint venture with PetroFina in Congo, which included a marketing and sales network, distribution and land transportation assets, storage depots and a twin pipeline stretching more than 350km from Ango-Ango to Kinshasa. PetroFina would retain operatorship and the products would be co-branded.

The group had also acquired the marketing and distribution activities of PetroFina and BP in Rwanda and Burundi where the two had previously operated as partners. Engen would assume both operatorship and management of the operations under the Engen brand.

Declining to put a rand amount to Engen's investment, Angel said the venture would give the group an approximate 30% market share in Congo and Burundi and a 25% market share in Rwanda. It would add 15c to earnings a share this financial year (5% to 6%) representing a R27m earnings contribution on a net basis.

Angel said Engen's performance for the six months to August was expected to be "significantly" better than the first half when earnings rose 34,4% to 121c a share, following improved refining margins, tight cost controls and the benefits of the weaker rand.

He said the countries in which Engen had invested were of particular strategic importance because of their vast mineral and natural resources.

Graphic KUBEN DAVID Source ENGEN

SA Trade Unions national treasurer Ronald Mofokeng addresses members of the Chemical Workers Industrial Union at the Johannesburg Library Gardens yesterday to demand higher salaries and improved worker benefits. Union members also held protests in Durban, Cape Town, East London, Port Elizabeth and Pretoria.

PIC: ANTONIO MUCHAVE

Union workers take to streets

sowetan 30/7/98 (183)

By Mzwakhe Hlangani

MORE than 5 000 members of the Chemical Workers Industrial Union (CWIU) took to the streets nationwide yesterday as part of a campaign by 40 000 workers to demand pay increases

Demonstrations preceding an "all-out strike" planned for next Monday were held yesterday in Gauteng, Eastern and Western Cape and in Kwazulu-Natal

High on the list of the union's demands are a 10,5 percent increase or a minimum of R2 000 a month, six months' maternity leave with four months at full pay, a 40-hour week and annual leave of 20 days

Addressing marchers at Johannesburg's Library Gardens, Congress of SA Trade Unions national treasurer Mr Ronald Mofokeng assured the CWIU of the support of 18 Cosatu affiliates next Monday

Mofokeng also announced that Cosatu would take the lead in a campaign to "resist exploitation" by employers who retrenched workers and then re-engaged some as casual workers and cheap sub-contractors

CWIU secretary Mr John Appolis said the union would not compromise its legitimate demands as it prepared to engage industrial chemical employers in a "war"

He warned shopstewards and local and branch members not to negotiate strike or picket rules with management at plant level, pointing out that strike rules should be negotiated with the union's national office

"We call upon chemical industry employers to seriously review their position and come back to the negotiating table with nothing less than a reasonable 10,5 percent offer before we embark on the full-blown strike next Monday"

Marchers proceeded to Total House in Braamfontein, where a memorandum was handed to industrial chemical employers' national coordinator Mr Fanie Ernst, who said he hoped the strike could be averted as the industry and the unions had reached agreement on many issues

Drug law gets trade support

Josey Ballenger

BD 30/7/98

THE trade and industry department would continue to support controversial health legislation which has resulted in the US suspending preferential tariff treatment for certain SA products, a senior department official said yesterday

Bahle Sibisi, chief director of foreign trade relations, said Trade and Industry Minister Alec Erwin would discuss the matter, which concerns patented drugs, with US Commerce Secretary William Daley, at the binational commission meeting in Washington next week

"I do not want to pre-empt their discussion, but in general we have indicated we are disappointed the US has linked GSP (generalised system of preferences) benefits to the intellectual property rights issue," Sibisi said.

The dispute centres on amendments to the medicines act which aim to allow the parallel importation of drugs and the promotion of generics

Sibisi declined to speculate on what would happen if Erwin was unable to convince Daley, saying only "we hope this meeting will make it clear how we can resolve any misunderstandings"

The US trade representative's office decided earlier this month to delay extending GSP to some SA exports until SA made "substantial progress" in changing the amendments

The amendments have not come into effect because of a Constitutional Court challenge launched by pharmaceutical companies, which claim the law allows the health minister to abrogate intellectual property rights on patented medicines.

"There is nothing wrong with the law (or its) compliance with World Trade Organisation obligations There is no difference of opinion between the trade and industry and health departments," Sibisi said

Chemical industry faces full-blown strike

(183)

ARG 30/7/98

STAFF REPORTER AND ARGUS CORRESPONDENT

Thousands of chemical workers have taken to the streets across the country in marches to put pressure on their employers to accede to their salary increase demands.

In Cape Town, about two hundred workers yesterday marched to the Shell building where they handed over their demands to the National Petroleum Employers Association

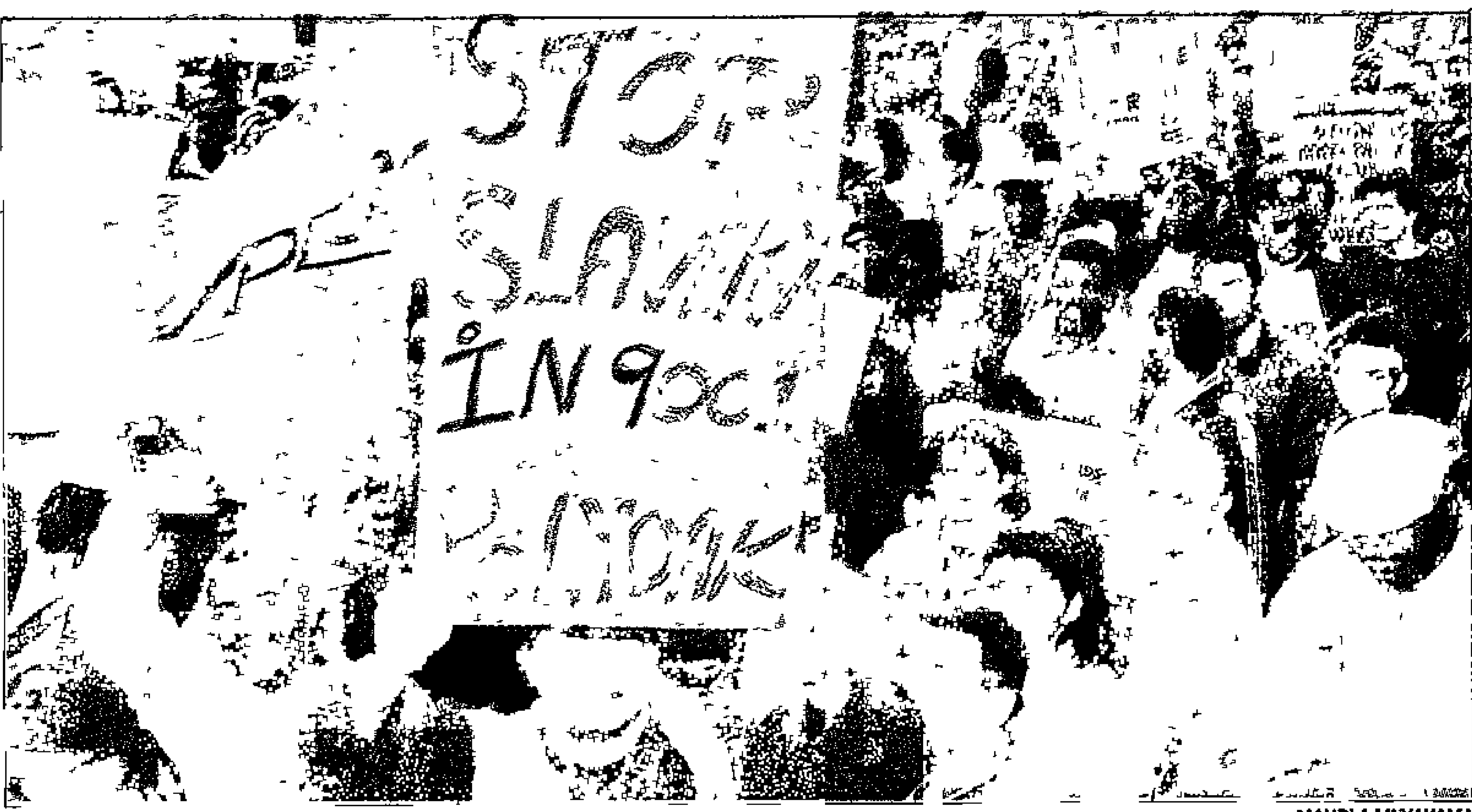
In Johannesburg about 4 000 members of the Chemical Workers and Industrial Union marched to Total House in Braamfontein

CWIU, the largest union in the industry, yesterday gave the employers until Friday to move their offer of between 6% and 8% to 10,5% or face a full blown strike on Monday

The workers are also demanding to work a 40-hour week and six months maternity leave with 4 months pay

Chemical employers' negotiator Fanie Ernst said last night that he held little hope of meeting all workers demands before Monday's deadline

Industries which would be affected by the strike included manufacturers of industrial chemicals, consumer goods like detergents, soaps and cosmetics, and industrial rubber, pharmaceuticals and glassware manufacturers



MANDLA MNYAKAMA

Wanted list: chemical workers march through Cape Town yesterday in support of demands for a 10,5% pay increase

R150m saving of no benefit to motorists yet

(183) (55)

Linda Ensor

CAPE TOWN — The subsidisation of Mossgas by motorists, which amounts to about R150m a year, is to come to an end, following an agreement between government and the oil industry

However, motorists will not benefit immediately from a lower petrol price as a result of the abolition of the synfuel levy — 0,4c a litre on petrol and 0,5c on diesel — as the R150m saving by the Equalisation Fund will be used to provide tariff protection for Sasol

The Equalisation Fund has experienced a negative cash outflow over the past few months because of the low crude-oil price

Details of the package deal concluded last week and likely to take retroactive effect from July 1, were revealed by minerals and energy affairs director Theunis Burger at a meeting of the parliamentary portfolio committee on mineral and energy affairs

In terms of the agreement, reached after years of dispute, the oil industry will pay R150m more for Mossgas products Instead of the lower export-related price that they paid in the past, oil companies have agreed to pay the higher in bond landed cost, or import parity price, for all Mossgas's indigenous production This would make it unnecessary for the Equalisation Fund to "top up" the price paid to Mossgas

The industry agreed, after lengthy and difficult negotiations, to pay this price for a rising proportion, capped at 25%, of the volumes produced from imported feedstock which would be phased in between 2000 and 2004

Meanwhile, a bullish Mossgas CEO David Day informed the committee that the fuel-from-gas producer could justify a further R2,4bn investment in the EM field on the basis of firmly proven reserves for five years, 6,5 years from now However, there could be an additional 14 years

BD 30/7/98

Mossgas CEO requests R2,4bn more for exploration of new oil field

Linda Ensor

CAPE TOWN — Mossgas CEO David Day made an impassioned plea in Parliament yesterday for an additional R2,4bn investment to enable the fuel-from-gas producer to explore a new oil field in the Bredasdorp Basin.

The application for approval for the investment is being considered by government and the parliamentary committee on minerals and energy.

Day said the EM field in the Bredasdorp Basin not only had confirmed reserves that would last for five years, but there was a possibility of additional reserves of 14 years. There could also be more gas as Soekor and international companies estimated that there were 30 years worth of recoverable reserves in the basin, he said.

Surrounding fields could be tapped at a reasonable cost once the EM field was developed. Every additional year of production meant R500m profit for Mossgas, even at the present low oil prices, Day said.

Assuming the best possible oil prices, the project could provide Mossgas with a total revenue of R10bn, a net profit of R5,6bn, save foreign exchange of R7,1bn for crude oil and R13bn for imported refined products.

A production and exploration plan for the EM field should be finalised by September. Once given the go-ahead, the exploration would last from October to December with the first phase of drilling from February to August 1999 and the second from July to December 2000, when it should be known whether it had a 20-year lifespan.

Day said the money for the project would be raised through foreign government-guaranteed loans to ensure little disruption to the flow of earnings to the state which would be lessened only by debt-servicing costs. The capital could be paid back once the project began generating profit.

He said Mossgas was exploring exciting possibilities by producing chemicals and exporting alcohols in purer form. However, to undertake this it would first have to be freed from a condition in its licensing agreement with Sasol which limited it to fuel production. Sasol would require compensation. Talks on the issue had begun.

Another possible project was to sell gas, carried by pipeline to the Cape, to the industrial market.

Day said afterwards that Mossgas expected a R600m profit this year despite the low price of oil. While the price would affect the synthetic fuel producer's profits, this would be offset by the depreciation of its rand costs.

R150m saving: Page 3

BD 30/7/98

(183)

Chemical workers warn 24-hour action could lead to longer strike

BD 30/7/98 (183)

Pearl Sebolao and
Reneé Grawitzky

THOUSANDS of Chemical Workers' Industrial Union (CWIU) members went on a 24-hour strike with minimal effect on consumers, employers said yesterday.

Despite employers having put in place contingency plans — including stockpiling of fuel supplies to minimise the negative effects of the strike — one SA Airways flight to Miami was delayed by a few hours because it could not refuel in Cape Town as no jet fuel was available.

The strike was intended to put pressure on employers in the chemical industry to revise their wage offers, currently ranging between 6% and 8%, and took place as the strike by the SA Chemical Workers' Union (Sacwu) entered its ninth day. The CWIU threatened yesterday that a full-blown strike would start on Monday if the disputes in sectors such as petroleum, pharmaceuticals and industrial chemicals were not resolved by the weekend.

Both unions want a 10,5% increase, a R2 000 a month minimum wage and other improvements to working conditions.

Employer spokesman Fanie Ernst said the strike did not enjoy 100% support but large numbers of CWIU members had supported it and this could result in companies suffering financial and production losses.

The CWIU's national treasurer, Ronald Mofokeng, told thousands of members during a march in central Johannesburg yesterday that employers "were declaring war on the union" by refusing to meet its demands.

The union was prepared to take up the challenge, Mofokeng said. He threatened to mobilise other Congress of SA Trade Union affiliates to boycott supplying goods to the chemical industry.

Despite moves towards centralised bargaining in recent years, this year's wage talks and the subsequent strikes have been marked by a lack of co-ordination between the unions.

Both unions — Sacwu and CWIU — have denied rising tensions between their respective leaders, but employers have received a growing number of reports of intimidation between the two unions' members and also between strikers and nonstrikers.

A long strike may affect key industries dealing with petroleum, explosives and pharmaceuticals.

At least 3 000 Chemical Workers' Industrial Union members yesterday marched to the head office of petroleum company Total in Braamfontein, Johannesburg, in support of their wage demands. Thousands of workers in other parts of the country also took part in similar marches organised by the union. Picture TREVOR SAMSON

GARY BERNARD

In full cry ... thousands of protesting members of the Chemical Workers and Industrial Union gathered at the Library Gardens yesterday to demand an increase of 10,5%.

Unlikely that chemical workers' demands will be met in time

(183) Star 30/7/98

Chemical employers' negotiator Fanie Ernst yesterday said he held little hope of meeting all the demands of the Chemical Workers and Industrial Union by Monday's deadline.

The union has said that if its demands were not met, at least 40 000 workers would strike.

In Johannesburg an estimated 3 000 CWIU members marched from the Library Gardens in the city centre to Total House in Braamfontein to present a memorandum to Ernst.

Protests were staged in Cape Town, Durban and Pretoria, where about 10 000 workers marched through the city centres to hand memorandums to representatives for employers.

The memorandum calls for a 10,5% across-the-board increase, a 40-hour working week, six months' maternity leave with four months' full pay, and pensions based on salaries and shift allowances combined.

Industries which would be affected by the strike include manufacturers of industrial chemicals, detergents, soaps and cosmetics, industrial rubber, plastic converters, pharmaceuticals and glassware.

The Mynwerkers Unie, SA Workers' Union and the National Engineers' Trade Union were considering joining the strike. – Sapa

A drain on equalisation fund plugged after Mossgas and the oil industry reach agreement on subsidies

Bitter fuel pricing impasse ends

(187)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Mossgas, the state-owned oil from gas producer, and the oil industry had ended their sometimes bitter pricing impasse, the portfolio committee on minerals and energy heard yesterday.

But, at best, this is likely to mean only that motorists will not have to pay as much extra for petrol as feared to provide Sasol, the oil from coal producer, the subsidies due to it because of the low price of oil

Theuns Burger, the director of transport energy, told the committee that after lengthy and sometimes difficult negotiations, Mossgas and the oil industry had reached agreement in principle that the industry would pay Mossgas the higher price in bond-landed cost for its synthetic fuel instead of the current, lower export-related price

The agreement would be retrospective to July 1 and would include a certain proportion of the petrol that Mossgas planned to make from imported light crude to compensate for its drier gas reserves.

The South African Petroleum Association said later that it had agreed to this compromise "in the interests of an overall settlement, and in recognition of Mossgas's need to optimise the use of its plant"

Colin McClelland, the association's director, said the finalisation of the agreement would mean that Mossgas would no longer have to be paid about R150 million a year in subsidies from the equalisation fund

A precedent would be set for the end of payments from the equalisation fund

"This would set a precedent for the cessation of all payments from the equalisation fund to all parties, including the Sasol subsidy," he said

The committee heard on Friday that the equalisation fund might have to be raised by up to 8c a litre to pay the Sasol subsidy because of the weaker oil price.

Asked yesterday what effect the dropping of the Mossgas subsidy would have, Burger said it would "improve the cash flow of the equalisation fund and would probably avoid a higher increase if it is so decided"

The committee, which had been called in by the public accounts committee to help resolve the impasse, welcomed the move, but Duma Nkosi, committee chairman, wanted written confirmation of the agreement within 14 days

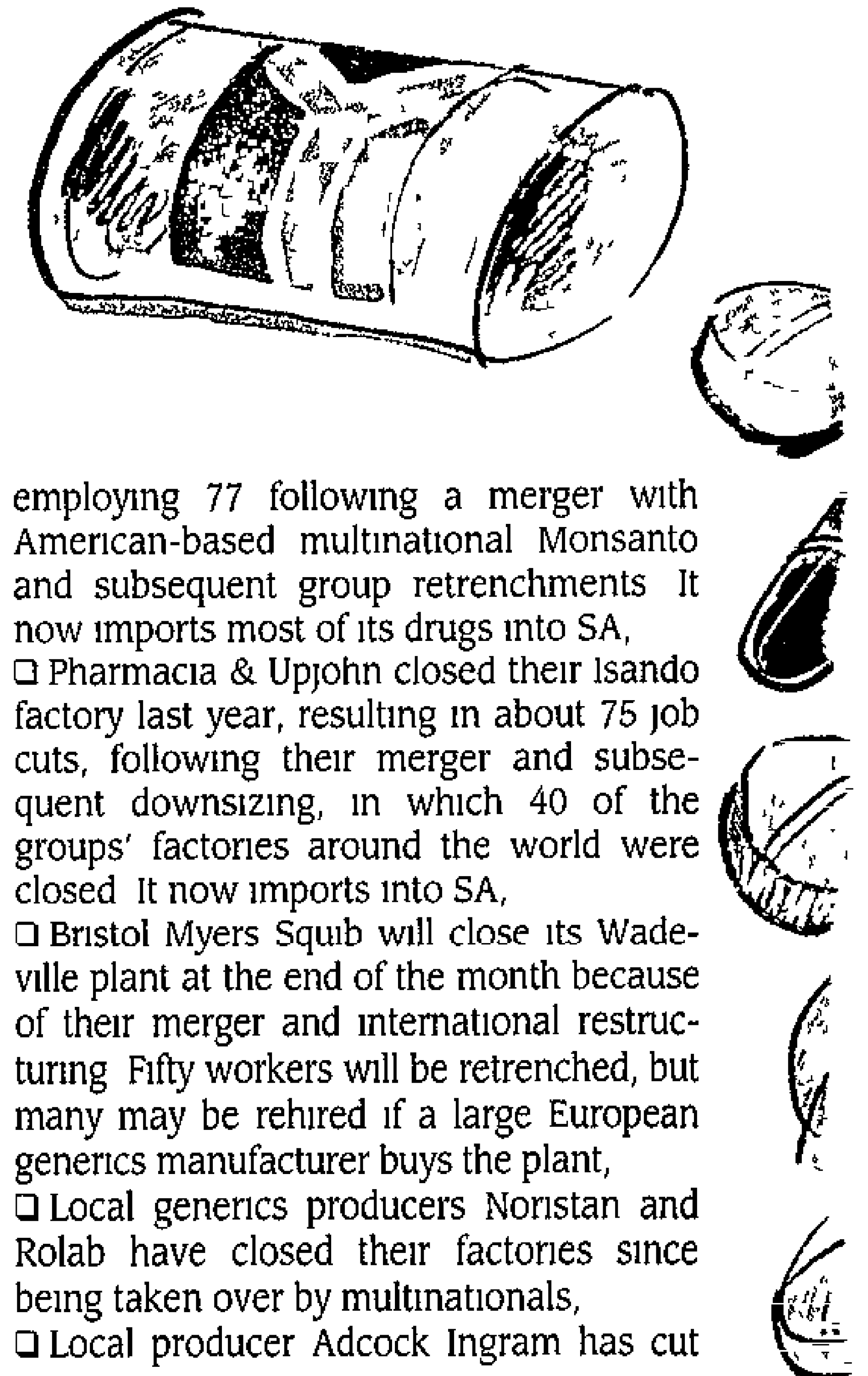
Dave Day, the Mossgas chief executive, told the committee that Mossgas was "practically worthless as it stands at the moment" and the only way to get value out of it was to invest up to R2 billion to extend its life

CT (BR) 30/7/98

PHARMACEUTICAL INDUSTRY

A BITTER PILL TO SWALLOW FOR SA MANUFACTURERS

Sales in the private sector are shrinking and factories are closing



SA is losing the battle to retain manufacturing investment in the pharmaceutical industry

More than 10 plants have closed over the past three years, causing about 3 000 job losses Most of the closures are as a result of global rationalisation by multinationals

None are a direct result of Health Minister Nkosazana Zuma's controversial Medicine & Related Substances Amendment Bill, which is on hold pending a Constitutional challenge by the industry But the Bill has worsened the investment climate by fuelling uncertainty and resentment among multinationals

Total sales of pharmaceuticals in the private sector shrank by volume over the year to April 1998 (see graph) The primary reason for this appears to be the emphasis on cost reduction by medical aids, which are implementing managed care

Hardest hit was the prescription market for original drugs, which are largely produced by multinationals In May 1998 volumes were down 3% compared to May 1997, largely because of the shift to generic drugs (cheap copies of original drugs whose patents have expired) The generic market grew by 13% over the same period

>> The primary reason for this appears to be the emphasis on cost reduction by medical aids <<

Over the past three years the following plants have closed Nearly all belonged to multinationals

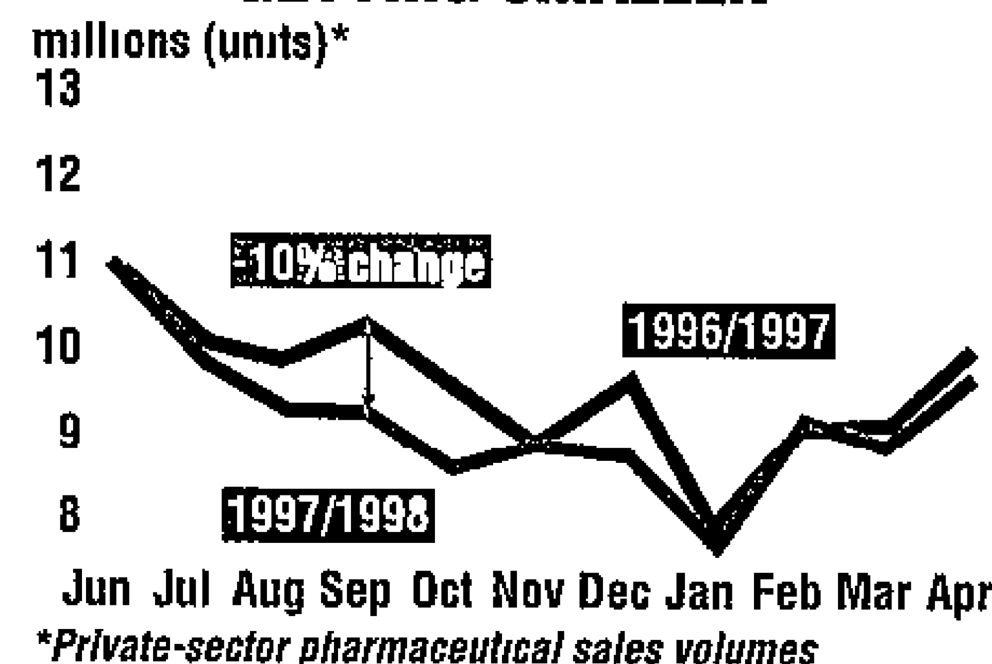
- Searle closed its Johannesburg factory employing 77 following a merger with American-based multinational Monsanto and subsequent group retrenchments It now imports most of its drugs into SA,
- Pharmacia & Upjohn closed their Isando factory last year, resulting in about 75 job cuts, following their merger and subsequent downsizing, in which 40 of the groups' factories around the world were closed It now imports into SA,
- Bristol Myers Squib will close its Wadeville plant at the end of the month because of their merger and international restructuring Fifty workers will be retrenched, but many may be rehired if a large European generics manufacturer buys the plant,
- Local generics producers Noristan and Rolab have closed their factories since being taken over by multinationals,
- Local producer Adcock Ingram has cut its plants from nine to five since merging with Prempharm in 1996, causing about 1 000 retrenchments,
- UK-based multinational Boots closed its Isando factory last year following a buyout by German-based multinational Knoll Pharmaceuticals Boots now imports to SA from the UK,
- Wellcome's factory in Spartan closed in June 1995 when the group restructured worldwide, causing 150 local retrenchments Since merging with Glaxo, production has been transferred to Glaxo's Midrand factory and retrenched workers have been rehired, and
- US-based multinationals Wyeth and Eli Lilly have also closed factories in Isando

There is a clear trend for multinationals to concentrate production in a few strategic countries where factories work round the clock to supply the rest of the world

Since the 1989 merger of Bristol Myers Pharmaceuticals with Squib Pharmaceuticals, the groups' 66 factories have been cut to about 20 In the future, the SA market will be supplied by its factories in Italy and Australia Keith Bell, who manages the group's Wadeville plant, says the plant is being closed because its volumes are so low that the unit costs are up to five times higher than the company's Asian operation

Why isn't SA being chosen as a preferred manufacturing site to supply the rest of the world?

Merrill Lynch pharmaceutical analyst Graeme Wald says "SA plants are often too small to supply the international market of the merged organisation Many were built during the sanctions era and are outdated, so when it's a choice between investing a fortune upgrading the plant or shifting production to a modern factory elsewhere, SA loses out"



*Private-sector pharmaceutical sales volumes

Eli Lilly closed its Isando factory in March 1998 GM Noel Dolman says "Pricing pressures on medicine around the world made it necessary for us to drive down our manufacturing costs Smaller, older, less sophisticated facilities are not able to produce the high volumes required to ensure lower production costs

"In addition, it is not feasible for our new high-potency products, which require a specialised hi-tech plant, to be manufactured in facilities such as ours Unfortunately, the older products that we have been manufacturing here are coming to the end of their life cycles and the reducing volumes cannot justify new or ongoing investment in plant and machinery"

Glaxo Wellcome corporate affairs director Vicky Eridge adds that since SA imposes virtually no import duties on finished pharmaceuticals, there is little incentive for a multinational to manufacture locally

Eridge expects more plants to close if the Medicine & Related Substances Amendment Bill results in the widespread parallel importation of multinationals' drugs, since this would allow third parties to import these drugs outside the multinationals' official distribution chains That would dent the output of local plants and drive up unit costs **Claire Bisseker**

W Cape workers join chemicals strike

BUSINESS REPORTER

ARG 3/8/98 (183) (2002)

Hundreds of Western Cape chemical workers joined their industry's nationwide strike today in support of pay demands.

The workers are demanding a 10,5% across-the-board wage increase, a minimum wage of R2 000, six months' maternity leave, a 13th cheque, the recognition of traditional healers and also the inclusion of a prolonged illness under sick-leave entitlement

The National Petroleum Employers' Association (NPEA) has offered the workers a package that ranges between 7% and 8%

Chemical and Industrial Workers Union (CIWU) official Fazel Ernest told the Cape Argus that about 4 000 chemical industry workers had joined the strike in the Western Cape, representing about 70%

The strike also involves workers in the glass, pharmaceutical and industrial rubber sectors

It follows protracted negotiations between the NPEA, CIWU and the National Union of Mineworkers

Giant fuel strike hits top gear

CT 3/8/98

(183)

JUST THREE DAYS after a rail strike produced widespread chaos in the city, about 47 000 workers in the chemical industry have embarked on an indefinite nationwide strike, **JUDY DAMON** reports

AT midnight last night, workers in the chemical industry downed tools and braced themselves for a long wait until their demands are met.

All seven sectors of the chemical industry — glass, petroleum, rubber, plastic, industrial chemicals, consumer goods and pharmaceuticals sectors — are to stage marches and protests in the next week

The decision to strike came as talks between the unions and employees reached a deadlock

The unions are the South African Chemical Industrial Workers' Union, Mine Workers' Union and the South African Workers' Union

Although fuel supplies to airlines and motorists will not be affected for several days, it is feared that the strike could have a severe impact if it lasts longer

South African Airways has assured passengers that the strike will not interfere with scheduled flights, although problems arose last week

"The airlines have made contingency plans for fuel and we don't foresee major problems during the strike," said SAA spokesperson Leon Els

"We have also stocked up at other airports in the country, so if problems arise planes can get fuel there"

About 1 000 workers are planning to demonstrate at Cape Town International Airport at 11am today and at the Caltex refinery in Milnerton later

"Management refused to give us what we wanted — that is why we are going on this full-blown strike," said Colin Rani, branch manager of the South African Chemical Industrial Workers' Union

The workers are demanding a 10,5% increase, a minimum salary of R2 000, a 40-hour working week, but without less pay, and paid sick leave

"It is not as if they cannot afford to pay us," Rani said

"It is a question of principle We don't want the economy to be affected by this strike The only way to avoid this is if they give in to our demands"

Industry chiefs disagree

Chris Clucas, chief negotiator for National Petroleum Employers' Association, said the demands "could not be met"

"What they are asking for is double the inflation rate We have already made an offer of between 6,4 and eight percent."

If the strike drags on, the workers, industries and the economy will suffer

47 000 strike amid fuel supply fears

(183) Star 3/8/98

Own Correspondent and Sapa

The Chemical Workers' Industrial Union (CWIU) went on strike at midnight last night, joining the South African Chemical Workers' Union (Sacwu), which went on strike a week ago.

The strike by the two unions brings to 47 000 the number of workers in the chemical industry who are on strike.

Industries affected include manufacturers of consumer goods such as detergents, soaps and cosmetics, industrial rubber producers, plastic converters, pharmaceutical plants and glassware manufacturers

CWIU spokesperson Colin Rani said the strikes would affect the availability of supplies of motor and aviation fuel if they lasted for some time, although there was unlikely to be any immediate disruption of supplies

"We don't want the economy to be affected by this strike, and the only way to avoid it is if they give in to our demands," he added

Leon Els South African Airways spokesperson said the airlines have made contingency plans

Chief negotiator for the National Petroleum Employers' Association, Chris Clucas, said the workers' demands could not be met

"What they are asking for is double the inflation rate We have already made an offer of between 6,4 and 8%," he said

Clucas spelt out the worst-case scenario if the strike continued longer than expected

"The employees, the economy and the industry will suffer Our doors are always open and it is up to them to make the next move," Clucas said

Negotiator Fanie Ernst, acting for employers in the chemical industry, said alternative plans were being made to counter the effects of the strike while employers continued their efforts to reach a settlement However, employers would not go as high as 10%, and the CWIU was not prepared to accept an increase of less than 10%, he said

In a memorandum handed to Ernst last week, the CWIU asked, among other demands, for a 10,5% across-the-board increase, a 40-hour working week, and six months' maternity leave, four on full pay

Sacwu met employers' representatives on Friday to explore ways to reach a solution, said spokesperson Sipho Ngozi

The employers' representatives would go back to their principals and respond by today or tomorrow, he said

Ernst said he had gained the impression that Sacwu wanted to reach a settlement

LEON MULLER

We shall not be moved: strikers outside the Caltex refinery in Milnerton yesterday The protest led to a traffic jam in Koeberg Road A picket at Cape Town Airport's fuel depot delayed the departure of a flight to Miami

3 hurt as cops fire rubber bullets at chemical strikers

ARG 4/8/98 (183)

LINDSAY BARNES
STAFF REPORTER

Police opened fire with rubber bullets on striking chemical workers blockading the entrance to the Caltex refinery in Milnerton today injuring three people

About 7 30am about 100 workers blocked Plattekloof Drive between the Kynoch plant and Caltex, preventing cars and workers from getting through, said Milnerton police station commander Enolium Joseph

Police said they stepped in when the protesters stopped a vehicle and assaulted the driver A 35-year-old man was arrested

Superintendent Joseph said the situation had been calmed

Nelson Mthombeni of the Chemical Workers Industrial Union said striking workers from the pharmaceutical, petroleum glass, industrial rubber and plastic conversion industries would continue demonstrations and pickets today

They want a better pay package and are demanding a 10,5% increase Employers have offered between 6% and 8%

Motorists, in an attempt to beat tomorrow's petrol price increase and fill up before pumps run dry, placed a huge burden on petrol jockeys today Service stations in the Peninsula recorded a huge increase in the number of drivers filling up

Drop in consumer demand hits AECI

(183) BD 4/8/98

Amanda Vermeulen

EXPLOSIVES and chemicals group AECI fell victim to a drop in consumer demand to report a sharp slump in total net profit in the half-year to June, to R106m from R161m last year.

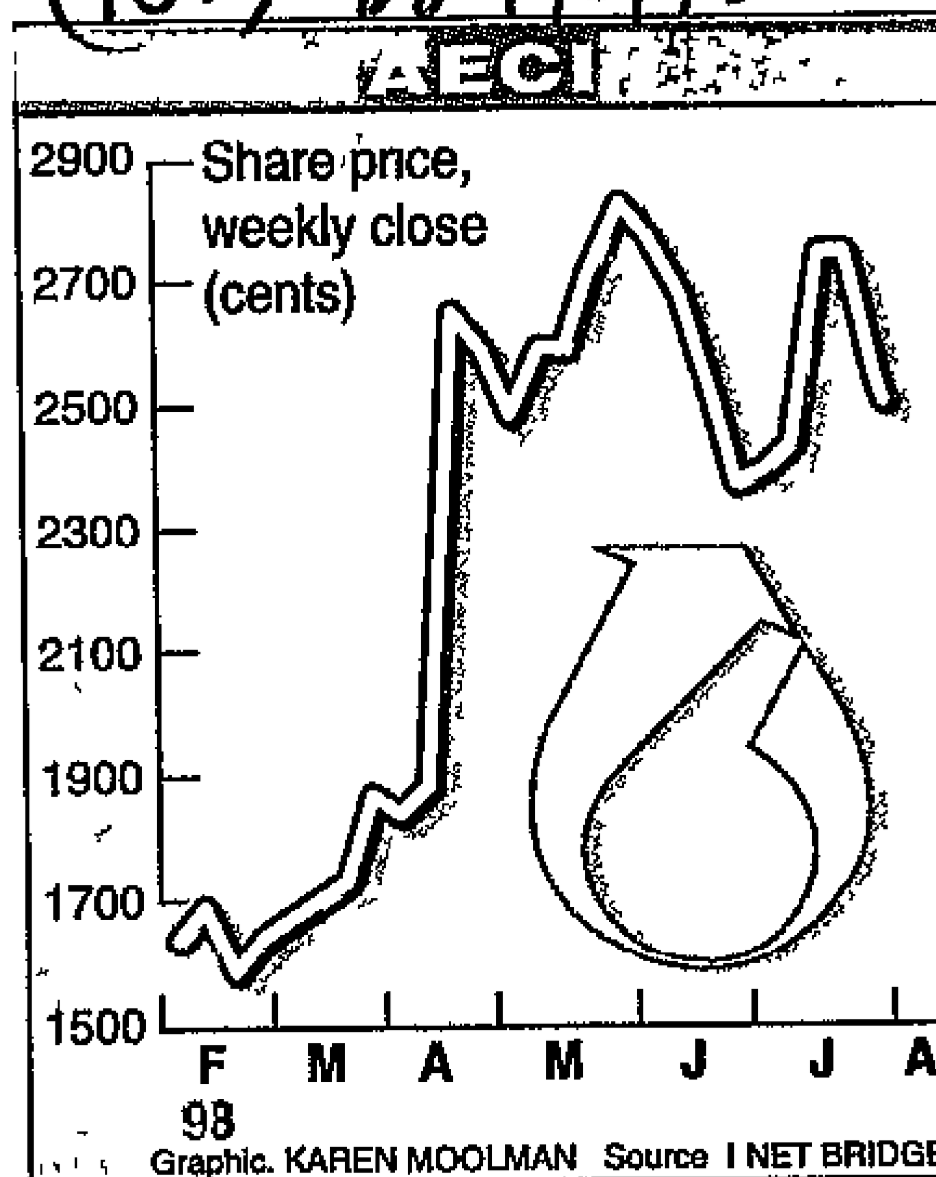
Headline earnings told a similar story, declining more than 20% to 80c a share, but the interim dividend was maintained at 27,5c.

The group's share price fell 40c or 1,57% on the Johannesburg Stock Exchange yesterday to close at R25,10

Turnover was 5% stronger at more than R4bn (R3,9bn) but trading profit was down 7% to R304m A large rise in financing costs to R121m (R68m) — due to AECI's borrowings to buy ICI's 51% of the explosives business — took a further bite out of the pretax figure

An abnormal item of R17m was related to costs arising from the discontinuation of one aspect of the Dulux paint business, and fees owing to merchant bank ING Barings for devising an alternative restructuring plan to the planned takeover of AECI by Sasol

Gearing was substantially higher at 54% (29%) Net asset value a share fell to 1 792c from 1 933c.



The board said further weakening in domestic demand for most of the group's products constrained growth in local sales, but export sales were sus-

Continued on Page 2

AECI

(183)

Continued from Page 1

BD 4/8/98

tained despite declining demand from the Far East.

However, the overall bad news was offset by SANS Fibres and AECI Explosives, which both turned in good performances

The fibres division's contribution to group profit was R71m (R62m) and explosives came in three times higher at R90m — partially reflecting the higher contribution following the buying out of ICI's stake.

The board said talks with potential international joint venture partners regarding equity participation in the explosives division were discontinued after Sasol made its bid to buy AECI.

The ammonia and urea plant at Modderfontein achieved record levels of production after a shutdown last year, but the board said low international nitrogen prices and reduced regional demand for fertilisers resulted in Kynoch suffering a trading loss of R23m from a R33m profit.

Employers disappointed by violence

(183)(152)

Reneé Grawitzky and Bonile Ngqiyaza

EMPLOYERS expressed disappointment about the "level of intimidation and violent incidents" in the chemical industry strike which intensified yesterday with the participation of more than 20 000 Chemical Workers' Industrial Union (CWIU) members

The SA Chemical Workers' Union (Sacwu) immediately denied that any of its members were involved in acts of intimidation and violence, saying its members had behaved well since more than 9 000 workers went on strike three weeks ago

Petroleum companies in the Eastern Cape, Western Cape and KwaZulu-Natal reported that access roads to refineries were blockaded while Sasol said nonstriking workers were sjambokked as they left Embalenhle township outside Secunda

National Petroleum Employers' Association chairman Chris Clucas said if the blockades were not removed employers would consider applying for interdicts against the strikers

He said while the strike was well coordinated with large numbers of workers staying away, contingency plans had ensured that production was not affected dramatically These included the use of stockpiled material and the restructuring of plant operations

Employers and the union met yesterday to discuss strike and picketing rules as this could not be accomplished ahead of the start of the strike by CWIU members Employers' spokesman Fanie Ernst said a draft agreement had been negotiated and had been referred back to the respective parties for ratification

The Commission for Conciliation, Mediation and Arbitration (CCMA) — in terms of the Labour Relations Act — can be called in to facilitate the conclusion of picketing agreements if both parties agree If an agreement cannot be reached the commission can impose rules on the parties

The strike stems from a demand by the unions for a 10,5% increase while employers have offered between 6% and 8,5% across the board

Dustin Chick reports that petrol stations in Johannesburg, Midrand and Cape Town said they were confident petrol supplies would remain constant despite the strike They did not expect a rush of motorists filling up for fear that supplies would run dry. Tomorrow's fuel price rise of 11c/*l* was not expected to compound this

BD 4/8/98

COMPAN

CHEMICALS *But analysts say investors are focused on Sasol's takeover bid*

CT(BR) 4/8/98 (183)

AECI hit by weakening markets

Jonathan Rosenthal
Industrial Editor

Johannesburg — Continued weakness in the international ammonium and domestic fertiliser markets slammed first-half earnings at AECI, the Anglo American-controlled chemicals commodity producer, it emerged yesterday

But analysts said the market was unlikely to notice They said investors' attention was focused on Sasol's takeover bid for AECI, which is subject to approval from competition regulators

AECI's headline earnings fell from 104c a share in the first half of last year to 80c a share Total net profit fell 34 percent to R106 million

Neil Axelson, the group's financial director, said the performance of the group's fibres and explosives divisions was encouraging

The group's fibres business was affected by slow demand by the domestic clothing industry but benefited from its greater exposure to the industrial fibres and yarns market

AECI Explosives increased its contribution to trading profit to R90 million, compared with R28 million for the comparable period last year

"You have to correct for the fact that last year only 49 percent of that business was held, while this year we held 100 percent But even after adjusting, that business did a lot better," Axelson said

AECI rationalised its explosives manufacture down to one plant at Modderfontein and benefited from growth in its African markets

Weakness on international polymer markets reduced the contribution of Polifin, a joint venture plastics producer with Sasol, while lower average ammonia prices and weak domestic fertiliser markets pushed the company's agricultural products businesses into the red

They reported trading losses of R23 million for the period

AECI

FOR THE 6 MONTHS ENDED 30 JUNE 1998

	latest	previous	% change
Turnover (R)	4 075m	3 875m	+5
Trading profit (R)	304m	326m	-7
Taxation (R)	54m	87m	-38
Attributable income(R)	13m	14m	-7
Headline eps	80c	[illegible]	-23
Dividend per share	27,5	27,5	unch

SA NEWS DIGEST

Chemical industry strike not settled in spite of revision of mandates

[illegible]

MOTORISTS WARNED

Petrol stations run on empty

ET 4/8/98 (183)

NOT ONLY WILL THE PETROL PRICE INCREASE at midnight tonight but motorists may be lucky to fill their vehicle tanks at all if a pay dispute between employers and workers in the chemical industry is not resolved. **TROYE LUND** reports.

IF your car is low on petrol there is a chance you may have to catch a bus till workers in the chemical industry stop an indefinite nationwide strike. While employers spent yesterday applying for urgent interdicts to remove picketing workers from blocking access to refineries and making contingency plans to distribute petrol, some filling stations said they did not have enough "juice" to last until the end of today

Petrol station managers were waiting on tenterhooks last night for petrol tankers to arrive. The situation may be exacerbated as motorists fill up to beat the 11 cent price increase that comes into effect at midnight tonight.

Members of the Chemical Workers' Industrial Union are on strike in a bid to force employers to agree to their demand for a 10,5% salary increase

Oil companies said contingency plans to deliver petrol had been made, but warned consumers that they would be affected if the strike action was prolonged or if negotiations with other unions in the industry failed.

One city petrol station manager who, like others, advised motorists to fill up, said: "We will run out of petrol very soon. We are living on mercy. Petrol usually takes two hours to arrive after ordering it. It has now been 24 hours."

However, a Waterfront petrol station last night said it had plenty of fuel and was not expecting difficulties.

By last night some airlines flying between Cape Town, Durban and Johannesburg had started diverting to George and Port Elizabeth for refuelling.

South African Airways spokesperson Mike Pheiffer confirmed that a picket at the aviation fuel depot at Cape Town International Airport had delayed the departure of flight SAA 203 to Miami by over 23 minutes yesterday, and that problems relating to the strike at Johannesburg International had delayed a plane to Zimbabwe.

"Our depots have enough fuel for a long period, but we have a serious manpower problem filling the aircraft," Pheiffer said.

Cape Town International's information centre advised passengers to double-check arrival and departure times should the strike continue throughout the week.

A spokesperson for employers in the petrol industry, Chris Clucas, said: "So far the strike has not impacted on consumers. Manufacturing and distribution is running as normal We anticipated the strike and made contingency plans. So far it is only the workers who are being negatively affected because of the no work, no pay clause."

Clucas said employers in the industry had moved from their original offer of 6,4% to 8% "We simply cannot meet the 10,5% demand. The other three unions in the industry have agreed to negotiate with us and have dropped below the 10% mark."

The Mine Workers Union (MWU), South African Workers' Union (SAWU) and SA Chemical Workers' Union (SACWU) are still negotiating. While the MWU and SAWU have not been on strike, SACWU has returned to negotiations after members endured three weeks of strike action without pay. The CWIU has not returned to negotiations.

Though the minimum wage in the chemical and petroleum industry is R2 000 a month, the average starting wage is R4 000. Pension, medical aid, housing and education benefits are included in workers' packages.

Cosatu, the umbrella organisation for the striking unions, has supported the 10,5% demand.

Spokesperson Nowethu Impathi said: "This increase is justifiable under the present socio-economic situation where apartheid's wage gap has to be narrowed. It is also justifiable considering the risk and skill required to work with petrol and chemicals. Critics who believe the demand is greedy need to look at the reality of the circumstances these workers find themselves in, especially at what things cost. What can one do with R2 000 a month?"

Mediators called in to solve petroleum dispute

(187)

CCMA to begin facilitating discussions today

Star 14/8/98

By Hopewell Radebe

The National Petroleum Employers' Association and the Chemical Workers' Industrial Union have agreed to allow the Commission for Conciliation, Mediation and Arbitration to intervene in the impasse which has led to a two-week strike in the industry

Employers' negotiator Fanie Ernst said last night that the mediation process was scheduled to begin today.

However, another union, the National Petroleum Workers' Association, has been reluctant to allow the CCMA to intervene in the dispute.

Thousands of workers returned to work on Wednesday after agreements were reached in four sectors in the industry between the SA Chemical Workers' Union (Sacwu) and employers

But that still leaves thousands of other workers on strike.

About 47 000 workers went on strike after unions and employers deadlocked over wage increases and working conditions, among other things

Only one union reluctant to allow intervention

Unions are demanding a 10% rise in wages while employers have made offers ranging between 8 and 8,5%

Meanwhile, the CCMA is also scheduled to oversee a meeting between the National Union of Metal Workers of SA (Numsa) and the Automobile Manufacturers Employers Association (Amea).

Numsa went on strike last weekend after a deadlock with the employers

The two parties committed themselves to consult their constituencies and to study a settlement proposal tabled by the CCMA and to return today with responses

Amea spokesperson Brian Smith said the automobile industry has lost at least R650-million

The workers were losing at least R4,2-million per day

But Numsa spokesperson Dumisa Ntuli said about 21 000 workers would probably continue with the first stage of the strike

Petrol pumps start to run low

(183) Star 4/8/98

Motorists filling up before the midnight price rise add to rush as strike goes on, but suppliers promise to meet demand

By Hopewell Radebe and Rodney Victor

Petrol began running low at petrol stations in Gauteng yesterday as unions and employers dug in their heels, refusing to meet in order to end a strike by chemical industry workers

The strike is affecting fuel deliveries to stations Numerous petrol stations said their reserves would not last longer than 24 hours because of the expected rush on the pumps today ahead of the 11c-a-litre increase coming into effect at midnight

Suppliers have promised to meet demands, but fears that pumps will run dry this week if the strike continues could also contribute to a customer stampede

Manager Don Hornsby of Courtesy Service Station in Denver said his supplier, Shell, had promised there would be "contingency plans" but had not shared details of such plans with garages so that customers' fears could be allayed.

Louis Human of Bruma Caltex Service Station said his problem was compounded by the impending petrol price increase at midnight

"Although I am filled to capacity, I would not be able to handle motorists who are usually serviced by other distributors who have already run dry," he said.

A Wynberg retailer, who did not want to be named, said he ran out of petrol at 6pm yesterday His supplier, Engen, was not able to promise that it would make deliveries in the immediate future, he said, and he was not sure he would still be operating today

A spokesperson for a BP garage in Westdene did not foresee major problems, although he was running short of diesel and unleaded petrol

The National Petroleum Employers' Association has assured its 4 500 distributors nationwide that "they will not be failed"

Chris Clucas, chief negotiator for the association, said suppliers would supply retailers, but he was unwilling to divulge further details The expected rush tonight was not unique because motorists were known to fill up before petrol price adjustments, he said

He said the Chemical Workers' Industrial Union was the only union not wanting to back down on its demand of a 10,5% pay increase. Three other unions were considering employers' offers of between 9 and 10%

South African Airways spokesperson Mike Pheiffer confirmed that a picket at the aviation fuel depot at Cape Town International Airport delayed the departure of Flight SAA 203 to Miami by more than 20 minutes yesterday

"Our depots have enough fuel for a long period but we have a serious manpower problem filling the aircraft," Pheiffer added

The Star understands that suppliers have had difficulty replacing the specialised labour which services major depots, including airports

South African Chemical Workers' Union spokesperson Masindi Maviva said there was no solution in sight The union believed there would be pressure on employers when motorists began to be affected.

CAROLINE SUZMAN

Strike starts to bite ... motorists have been urged to drive economically as fears rise that some fuel pumps could run dry today.

47 000 workers embark on strike

(183)

By Mzwakhe Hlangani
Labour Reporter

MORE than 47 000 members of the Chemical Workers Industrial Union (CWIU) downed tools yesterday in nearly 300 plants nationwide, adversely affecting petroleum refineries and depot distribution services

National employers coordinator Mr Fanie Ernst expressed disappointment at reports of alleged intimidation and blockades of petroleum refineries and distribution depots, reportedly by union members in Durban, Secunda, East London and the Western Cape

He condemned the strikers' reported actions, saying they were against the spirit of strike rules in terms of the framework guidelines agreement The agreement deals with the code of conduct regarding peaceful demonstrations, non-interference with production activities and delivery

Other industries affected by the strike include pharmaceutical, rubber and plastic conversions and consumer goods such as detergents, cosmetics and glasswork manufacturers

The strikers joined hundreds of South African Chemical Workers Union members who embarked on industrial action two weeks ago

CWIU deputy general secretary Mr Nelson Mthombeni refuted the allegations of intimidation and the blockading of petroleum refineries From reports compiled by plant shop stewards striking workers at various plants had engaged in peaceful pickets, he said, emphasising that there had been no reports of violence of any nature

The union is demanding a 10,5 percent across-the-board increase, a 40-hour working week and six months maternity leave with four months' full pay

Management and union representatives met in Johannesburg yesterday Mthombeni said the union had submitted a list of counter-proposals to those made by management on Friday

"There are a few amendments The employers are consulting on them and will come back to us by this afternoon (Monday)," he said

Sowetan 4/8/98

City petrol flows again

Court halts fuel blockade

(183) (~~159~~)

CHANTAL ERFORT AND THABO MABASO
STAFF REPORTERS

ROY WIGLEY

Dry run: an attendant at a petrol station in the Gardens which had run out of supplies turns away a motorist

The stranglehold on Cape Town's fuel supplies by striking chemical workers has been broken after a blockade at the Caltex refinery at Milnerton was lifted last night.

Caltex spokesman Pierre Mynhardt said the company secured an urgent High Court interdict yesterday preventing striking members of the Chemical Workers' Industrial Union from blockading the refinery's gates and restricting workers' access to the premises

Mr Mynhardt said by 9pm fully laden tankers were rolling out of the depot delivering fuel

"The deliveries continued throughout the night and hopefully by later today we will have overcome the backlog"

Hours before the petrol price went up 11c a litre at midnight, most tanks at filling stations in Cape Town were running dry – the effect of two days of strike action and non-delivery of fuel

Last night, at petrol stations across the Peninsula, motorists queued to fill their tanks before the increase came into effect – and before supplies ran out.

Staff at a petrol station in Orange Street in Gardens had to turn away many motorists when supplies ran dry early in the evening

Leon Fourie, of a petrol station in Kuils River, predicted they would run out of petrol before midnight, but by 3pm higher-octane fuels and diesel were sold out

The price increase will force consumers to dig a lot deeper into already depleted pockets, economists have warned

Tony Twine of Econometrix said the increase would add 4,5% to consumers' overall annual expenditure

"Other costs will tend to increase as a result of the petrol price hike," he said.

To page 3

ARG 5/8/98

Petrol price rise set to hit fares

ARG 5/8/98

From page 1 (~~159~~) (183)

About 80% of all goods transported go by road

The increase was caused by the rand's 20% tumble against the US dollar in the past two months

"The sole reason for the petrol price increase is that the rand was a lot weaker in July than it was in June," Mr Twine said

It is expected that the increase will lead soon to fare rises in the taxi, bus and rail industries Golden Arrow Bus Services spokeswoman Jean Welsh said the company was considering raising fares A Metrorail spokesman said prices were likely to go up next month but this was linked to inflation.

Delays anger members of Maduna inquiry

(183) CT (BR) 5/8/98

Lynda Loxton
PARLIAMENTARY CORRESPONDENT

Cape Town — Frustration at continued delays in the inquiry by an ad hoc committee into comments made more than a year ago by Penuell Maduna, the minerals and energy minister, boiled over in parliament yesterday

After struggling for over five months to get Maduna to explain his allegations last year that Henri Kluever, the auditor-general, had covered up an alleged loss of R170 million from the Strategic Fuel Fund (SFF), the committee yesterday came up against yet another delaying tactic.

Kessie Naidu, Maduna's legal counsel, said Maduna wanted members of the Democratic Party, the National Party and the Freedom Front to be recused from the inquiry because some of their members had been quoted in newspapers calling for Maduna's resignation.

This argument came after SFF officials said the R170 million had never disappeared.

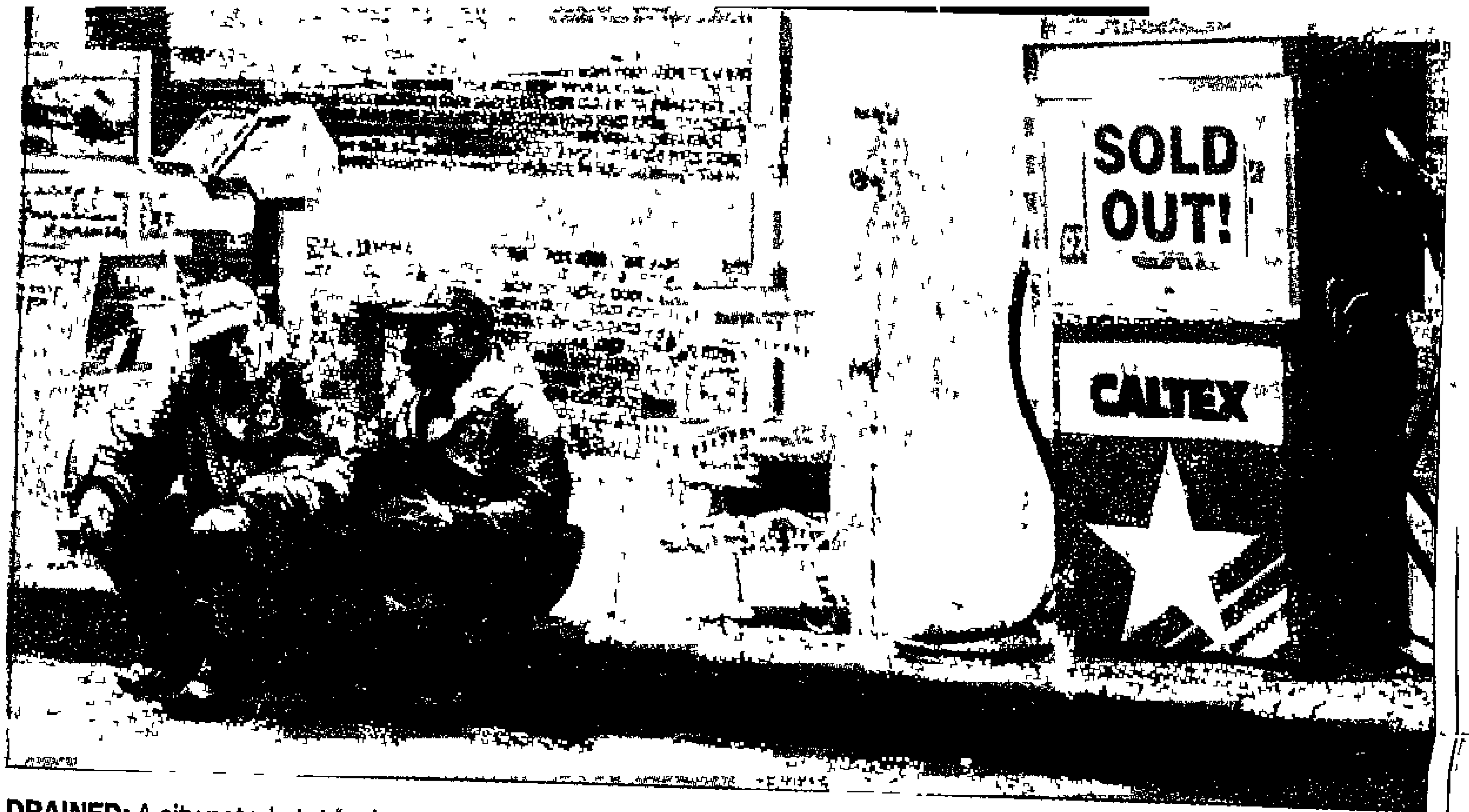
Committee members finally agreed they needed more time to consider Naidu's legal argument.

Naidu then tried to submit a fresh argument and an affidavit from Maduna by Monday, but committee members objected to being snowed under by more untested evidence.

Naidu said the committee could not prevent Maduna from submitting whatever he wanted.

Maduna and Naidu could not agree on a date to see the committee again, incensing members.

☐ Business Watch, Page 2



DRAINED: A city petrol station last night, where petrol had run out The scene could be repeated at many garages if the strike continues

PICTURE: KARIN RETIEF

(183)

Strikers, petrol bosses clash

ET 5/8/98

ALL-OUT war has been declared between 47 000 striking chemical workers and their bosses yesterday in clashes outside refineries in Cape Town and Durban

Contrary to statements by the National Petroleum Employers' Association (NPEA) that fuel distribution had not been affected, petrol station managers across the country had either run out of petrol by last night or were anticipating their stockpiles to run out in the course of today

Werner Nietz, manager of the Wineland One Stop on the N1 out of Cape Town, who had sold about 10 000 litres more than his daily usual, yesterday said "Things have been crazy here today Other petrol stations have run out and people are coming here I have petrol to last me until tomorrow morning I have heard rumours that we will get more delivered If we do not, I am in big trouble."

Worried taxi drivers were angry about chemical industry strikers saying that if they did not get any petrol they would take it by force

Drivers operating from Cape Town to Guguletu, Nyanga and Langa said that if there was no petrol available to them they would lose up to R500 for a day's work

"We all need money to survive, everyone is struggling to make ends meet," said taxi owner Benson Makhilpi

"Don't misunderstand," said driver Simon Nonzaba, "we support the strikers, they are dead right to want a wage increase." He added that the price of petrol increases a few times every year but the taxi industry still supports petrol stations. What the taxi industry demands, he said, is that if there is a price increase in petrol, everyone else should get wage increases

Another driver, Columbus Mzikulu, said that "an injury to one is an injury to all" and even though taxis will work at a loss, they will stand with strikers.

Meanwhile, at Cape Town International Airport, assistant general manager Amien Nieftagodien said the fuel situation at the airport was back to normal yesterday following a day of fuel shortages on Monday which forced two flights to divert to George for refuelling.

Nieftagodien said the airport had a "tanking-up" capacity of two days and that this supply had been replenished during the course of the day The airport has sufficient fuel to last till tomorrow

"In the short-term we have a tanking-up capacity for two days In the long-term we don't know what the situation will be It all depends on the production of fuel and the bulk storage of Caltex "

He said that a fuel supplier was providing the specialised manpower needed to refuel passenger aircraft while striking workers picketed outside the airport terminal The strike is expected to continue today

Spokesperson for the NPEA, Chris Clucas, said fuel distribution had not been affected by the strike and contingency plans were in place to ensure fuel was delivered to filling stations

He believed fears that the fuel supply would dry up were due more to the high petrol price increase, as motorists rushed to fill their tanks ahead of the midnight deadline

"Irrespective of whether there is a strike or not, our distribution networks are capable of keeping filling stations supplied," he said

Total spokesperson Peter Latta said the company was doing its best to maintain effective contingency plans in the short-term

Total's ability could be hampered if strikers continued to interfere with company fuel trucks, he said

While Caltex Oil in Gauteng was delivering fuel to filling stations, no Caltex petrol was being delivered in the Western Cape because workers were blockading access to it.
— Staff Writer

❑ Turn to Page 3

ET 5/8/98

Contingency plans in place

❑ From Page 1

Caltex spokesperson Pierre Mynhard said the company had made contingency plans Its refinery was fully operational and workers not on strike would be doubling-up to meet demands

But Fazel Earnest, spokesperson for the striking Chemical Workers' Industrial Union (CWIU) in the Western Cape, said "Even though the refineries have got other non-union members to drive delivery tankers, no trucks are leaving the refinery We believe if we exert enough pressure, our bosses will start feeling the pinch and give into our demand of a 10,5% increase "

But, employers are adamant that they cannot consider a demand so high They believe that striking workers will settle for an increase closer to 8% when they start to miss the wages that the days away are costing them

Tensions were exacerbated yesterday when police injured four strikers with rubber bullets aimed at dispersing picketing workers at the Kynoch fertiliser plant near the Caltex refinery in Milnerton

One worker was arrested and charged with pointing a firearm

The CWIU is the only chemical workers union not at the negotiating table Although the South African Chemical Workers' Union (SAWU) has been on strike for the past three weeks, they have joined the Mine Workers' Union and the South African Workers' Union (SAWU) in negotiations

The unions are demanding a 10,5% wage increase, a 40-hour work week, paid sick leave and a minimum of R2 000 a month "

Capetonians unfortunate enough to fall ill or victim to crime need not fear Their chances of speedy police or emergency service will be as good — or bad — as usual during the nationwide fuel strike

'Fuel strike war' as police, workers clash

(183)( ) Star 6/8/98

Petrol stations begin to run out of supplies as motorists flock to fill up, while protesters man blockades outside depots to prevent trucks making deliveries

STAFF REPORTERS, OWN CORRESPONDENTS AND SAPA

Virtual war was declared between 47 000 striking chemical workers and their bosses yesterday in blockades outside refineries in Johannesburg, Cape Town and Durban.

The blockades, coupled with the rush before today's fuel price hike, added to a growing crisis as filling stations throughout the country began to run out of petrol.

In Alberton, petrol delivery trucks could not leave the Alrode Shell depot yesterday because a group of striking drivers were toyi-toying in front of the company's gates.

Only at about 5 30pm did the first two trucks leave the premises under police escort.

Striking members of the Chemical Workers' Industrial Union jeered as the trucks passed them.

CWIU shop steward at the depot, James Mmekwa, said they had been protesting at the gates since 6am and were prepared to continue with the strike until their bosses acceded to their 10,5% salary increase demand.

But in Cape Town, CWIU spokesperson in Western Cape, Fazel Earnest, said tensions were exacerbated yesterday when police injured four strikers with rubber bullets aimed at picketing workers at the Kynoch fertiliser plant near the Caltex refinery in Milnerton

One worker was arrested and charged with pointing a firearm.

"One of our members might need plastic surgery, he was so badly attacked. It is all-out war. We will not give in," added Earnest.

The CWIU is the only chemical workers' union not at the negotiating table.

In Durban, striking workers were teargassed by police after they blockaded trucks at the Shell refinery.

Contrary to statements by the National Petroleum Employers' Association that fuel distribution had not been affected, many petrol station managers across the country had either run out of petrol by last night or were expecting their stockpiles to run out in the course of today.

Police use teargas on strikers at depots

A snap survey by The Star on the availability of petrol at about 50 Gauteng petrol stations showed that about 20% had run out by last night, with no indication from suppliers that there would be deliveries. About 30% predicted they would be "dry" by this morning, and the rest were hoping for supplies to last until Friday

The position last night as regards essential services and business was:

- **Police services:** Senior Superintendent Andrew Lesch, communication officer for SAPS support services, said they had stockpiled enough fuel for at least a week to keep their 32 000 vehicles on the road 24 hours a day. The police are also negotiating for more supplies. The SAPS uses between 11 and 14 million litres a month
- **Emergency services:** Charles Terreblanche, deputy director of Gauteng emergency management services, said they had enough fuel for two weeks. They also had contingency plans if the strike lasted longer than that.
- **South African Airways:** A spokesperson would not detail plans but gave the assurance that services would not be disrupted.
- **Public transport:** Toni van Niekerk, manager of customer services for the Greater Johannesburg Metropolitan Council, said all 528 buses on all 108 routes would run as normal. "We have enough fuel to keep our buses running for five days. We are liaising with our suppliers."
- **Business:** Many industries and companies with large fleets are stockpiling to make sure they do not run out of fuel.

Despite these precautions, some companies fear they may not weather the storm.

- **Transport companies:** Peter Farmerey, managing director of Biddulphs, said: "I suppose

► To Page 3

Forecourts full as motorists rush to fill up

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► To Page 3

Forecourts full as motorists rush to fill up

STAFF REPORTERS AND SAPA

Motorists all over Greater Johannesburg, Pretoria and the Reef besieged filling stations yesterday on the eve of today's 11c fuel price hike

This, coupled with panic sparked by the chemical workers' strike, caused long queues at many garages and expectations that many would run dry today.

The Star surveyed about 30 garages and found a similar story – the demand was much higher than usual during the day and most feared that they would not get any more supplies until the strike ended.

During the day, some motorists said they were trying to avoid a last-minute rush, while others said the increased crime rate, especially hijackings at filling stations, had forced them to "top up" during their lunch breaks.

At Kensington Shell, which claims it is the biggest pumper in the country outside the Shell Ultra City chain, father and son Mohammed and Faizal Hajat had to pull up their sleeves and join their 56 attendants in the forecourt as motorists drove in to beat the deadline

Faizal said they were expecting all their service stations – Southgate Shell, Castle Garage and the flagship Kensington Shell – to run dry by the end of the night.

At their Kensington outlet they had the capacity to store 140 000 litres and the last delivery was on Monday.

Christian Gijana of Ellis Park Auto Select said they had one of their busiest days in years yesterday when they sold more than 40 000 litres between 6am and 6pm.

In one two-hour period they sold 10 000 litres – three times their normal amount.

Mercury Engen Service Station manager, M du Toit of Ferrarmere in Benoni, said she ran out of patrol at about 6pm yesterday and she was not certain whether there would be any delivery today.

John Nicolas of Andrews Shell Service Station in Webber Road, Germiston, said they would be lucky if their petrol lasted until today, considering the customer stampede due to the impending price increase.

Contingency measures have been taken to ensure that basic services, including police, ambulances, buses and planes, are not left dry.

Industrial action affects crucial deliveries

STAFF REPORTER

The strike by the 47 000 chemical workers is affecting major industries and is crippling the crucial deliveries of medicines and petrol.

The affected industries are:

■ The petroleum industry.

■ The chemicals industry, such as AECI, which produces explosives and fertilisers.

■ Glass producers such as Consol.

■ Consumer goods manufactured by companies such as Revlon and Unilever – wholesalers and producers in the pharmaceutical industry.

■ Industrial rubber producers such as Dunlop Industrial.

Already, the petroleum industry has confirmed that its contingency plans aimed at maintaining the level of supplies to its 45 000 outlets are not up to scratch.

Fanie Ernst, spokesperson for the employers' association, said intimidation and attacks on staff had rendered the association's contingency plans unworkable, and that certain retailers could not be reached.

"The normal schedules of our distribution network have been changed to prioritise certain filling stations because it would be impossible to supply in an efficient and regular manner.

"There are some stations that will be negatively affected and will even be completely dry," Ernst said.

Although he did not have details of the effects of the strike on the health sector, he believed that hospitals and emergency clinics could be badly affected.

He said the hospitals' main suppliers – chemical and pharmaceutical wholesalers – were also experiencing production and delivery problems.

CAROLINE SUZMAN

Pumped up ... shop steward James Mmekwa leads a group of striking drivers in a song while soldiers and a police officer look on.

Chemical workers consider wage offer

The South African Chemical Workers' Union has agreed to take the 8,5% salary increment offered by the National Petroleum Employers' Association to its members.

Sacwu spokesperson Masindi Mavivа yesterday said the union had demanded at least 10% across the board.

The chemical industry is currently negotiating with five unions that have common demands of: a minimum wage of R2 000, a maximum of 40 hours a week, and a 13th cheque.

The unions have engaged the employers on an individual basis, with the Chemical Workers' Industrial Union demanding the maximum of 10,5% – including maternity leave of six months, four of which should be paid.

The Congress of SA Trade Unions has also backed the five unions. Spokesperson Nomawethu Mpati said the R2 000 minimum wage "was in line with the ever increasing costs of accommodation, transport and food". – Staff Reporter

'Fuel strike war' as police, workers clash over demands

(183)

► From Page 1

we will run out of fuel eventually. We do have fuel at all our depots.

"Fuel does not last very long; not more than a week to 10 days. Some of our long-distance trucks need to refuel along their routes.

"It could happen that they get stuck out on the road somewhere."

■ Retail stores Martin Rosen, marketing director for Pick 'n Pay, said. "We are on full red alert. We have taken contingency plans to keep our fleets running but . by next Thursday we will be in serious trouble."

Pick 'n Pay supermarkets and hypermarkets were stockpiling as much produce as possible.

The negotiator for the National Petroleum Employers' Association, Fanie Ernst, said yesterday that picketing was not forbidden but it was regrettable that "workers still resorted to criminal actions to force employers into submission".

Ernst said it was a criminal offence to block the gateways of depots and warehouses to deny employers the right to find alternative means of supplying customers.

He was adamant that suppliers would survive the strike.

Meetings were held yesterday between the South African Chemical Workers' Union, the plastic converter industry and petroleum employers.

Fuel stocks run low as strike hots up

(183)

Sowetan 5/8/98

By Mzwakhe Hlangani and Sapa

CHAOS erupted in petrol distribution services nationwide as fuel supplies were reportedly running out on the second day of the strike over wages by about 47 000 members of the Chemical Workers Industrial Union (CWIU).

Reports of violence and intimidation were on the increase yesterday

Meanwhile, garages countrywide reported that their tanks were running low

The shortage was made worse by motorists rushing to fill up ahead of the 11c a litre petrol price increase at midnight and in anticipation of fuel supplies running out because of the strike

Most garages approached said no petrol was delivered on Monday

"Our tanks will be dry today if petrol is not delivered soon," said Engen garage owner Mr Cobus Coetzee in Pretoria

Smaller petrol stations might be out of fuel before today because of their limited storage capacity, he said

Downed tools

CWIU members downed tools on Monday to force employers in the pharmaceutical, petroleum, glass, industrial rubber, plastic conversion, and fast-moving consumer goods sectors to meet their demands for a 10,5 percent wage increase or a minimum of R2 000 a month

One garage owner, Mr Seun Oelofse, said his last petrol delivery was on Friday

By noon yesterday motorists were waiting in long queues to fill up their tanks

Western Cape police yesterday fired rubber bullets to disperse striking workers outside the Caltex refinery in Milnerton. Four strikers were injured in the incident.

Police spokeswoman Sergeant Vivienne Phillips said about 60 workers obstructed traffic and threatened members of the public order policing unit.

Shell and BP SA Petroleum Refineries (Sapref) denied that one of its managers tried to run over a group of strikers in Durban yesterday morning.

Blockades erected

At the Island View complex in Durban, which houses Caltex, Engen, BP and Shell's central tankers, blockades were erected to prevent tankers leaving and non-strikers from entering.

Sapref spokeswoman Ms Lora Rossler said stone-throwing and intimidation were reported.

CWIU spokesman Mr Nelson Mthombeni said there was an altercation between workers and management at the Consol factory in Bellville, Cape Town, when non-strikers were refused entry.

Employers national coordinator Mr Fanie Ernst said there had been some movement in negotiations with the plastic and rubber sectors

He said that at Monday's talks management offered an 8,5 percent increase to workers earning less than R1 500 a month and eight percent to those earning more than R1 500 – *Sapa.*

Strike cuts lifesaving medicines

Deaths in city feared

LINDSAY BARNES AND THABO MABASO
Staff Reporters

Pharmacies are running short of lifesaving supplies such as asthma medication as the nationwide chemical workers' strike takes its toll of the pharmaceutical sector.

State hospitals have warned that they, too, may have problems next week if the strike continues

Strikers yesterday blockaded at least three Cape Town manufacturing and distribution companies, cutting off vital drug supplies to hospitals, doctors and pharmacies

Pharmacists expressed anger at the strike, warning that loss of life would result if the blockades were not ended in the next few days

But union officials said yesterday strike action would continue for the time being

The Chemical Workers' Industrial Union, the Mine Workers' Union and the South African Workers' Union are engaged in bitter wage negotiations with employer organisations in the petroleum, glass, pharmaceutical and industrial rubber sectors

On Monday 40 000 CWIU members embarked on an indefinite strike for a 10,5% wage increase, a 40-hour working week and paid sick leave.

The Cape Medical Depot in Green Point had been warned by pharmaceutical manufacturers to expect difficulties with delivery in the next few days, said director of provincial health support services Anne Brand

The depot stores drugs for all state hospitals in the Western and Northern Cape It was already short of some medicines because of national or international shortages, she said

Tygerberg Hospital would run into supply problems within a week if the strike continued, chief pharmacist Elaine Schlanders said A supplier had warned her that epilepsy medicine had already run out.

"We usually lend medication to private hospitals in emergencies, but if there are going to be shortages we won't lend to anyone Our patients will come first," she said.

"It's a very sad day when things come to this If you cannot get drugs, there

To page 3

Action 'threatens exports'

MOTORING EDITOR

Motor industry manufacturers say car and component exports worth millions of rands will be threatened by a national strike called by the National Union of Metal Workers for tomorrow.

Industry spokesmen said today that the strike would damage the economy – and could cost jobs.

A union spokesman said Numsa was disappointed with the way the Automobile Manufacturers Employers' Organisation had conducted itself, and gave notice that more than 21 000 workers would strike

Two manufacturers, Samcor and Volkswagen, have been increasing staff to meet high-value export orders from Europe

Volkswagen SA is to supply the British market as the company's German capacity is strained The companies have been able to prove their ability to produce to high standards, but are concerned about the potential effect of the strike

Volkswagen spokesman Matt Gingrich said "We believe that in the interests of the economy and the industry, the strike should be called off.

"It may have a very negative impact on the various manufacturers' export contracts and create a negative image, which will further erode overseas investor confidence in the country, especially in the light of the recent currency crisis." He said Volkswagen believed the offer to workers was fair and that Numsa was damaging the industry

Pharmacists fear drugs will run out in days

From page 1

will almost certainly be loss of life across the country," she said.

Pharmacy owners are deeply worried about supplies running out in days if the strike continues

Strandfontein Pharmacy owner Pro Arumugamm said since Monday he had battled to get emergency medication for children and asthmatics as well as a painkiller for cancer patients

"A distributor told us on Monday he would not be able to fulfil our orders But if our customers are desperate we will drive around to other pharmacies to get their drugs."

Pharmacies in Wynberg and Rondebosch reported sporadic supplies over the past few days and having to "beg, borrow or steal" from pharmacies carrying large stocks

Groote Schuur's pharmacy store head Kriton Stephano said the hospital would have problems if it did not get stock next week.

A blockade had cost pharmaceutical wholesaler Amalgamated Chemists in Montague Gardens R1,1-million on Tuesday alone, a spokesman said. Workers had blockaded the company for two days, preventing distribution during working hours

A spokesman for Fine Chemicals in Epping Industria said staff had blockaded the premises partially for three days and were expected to continue

A vehicle blockade of the pharmaceutical manufacturer Warner-Lambert in Retreat prevented distribution yesterday, a spokesman said.

The CWIU has vowed to maintain the blockade of Warner-Lambert "for as long as possible"

Union spokesman Fazel Ernest told the Cape Argus the blockade was part of tactics aimed at forcing the industry to meet its demands

National union officials are negotiating a picketing agreement which excludes blockade action.

Business Day

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Officials hopeful that petrol supplies will stabilise as blockades end

Reneé Grawitzky (183) BD 6/8/98

MINERALS and Energy Minister Penuell Maduna expressed concern yesterday that the strike in the chemical industry would affect motorists as an increasing number of petrol stations indicated they were running out of supplies.

However, the minerals and energy department said the shortage could have been the result of yesterday's petrol price increase and consumer concern over the strike.

Theunis Burger, a director in the department, said the situation was not serious. National Petroleum Employers' Association chairman Chris Clucas said it would be stabilised in the "next day or two" as the blockades were lifted and deliveries resumed. Close to 20 interdicts had been granted by the Labour Court against striking workers blockading access roads and entrances to refineries countrywide.

The Commission for Conciliation, Mediation and Arbitration, which has been asked to assist in negotiating picketing rules, said most interdicts were granted to petroleum, glass and pharmaceutical companies.

The strike has been characterised by a high level of intimidation and violence since Chemical Workers' Industrial Union (CWIU) members laid down tools on Monday, joining their counterparts from the SA Chemical Workers' Union (Sacwu) who have been on strike for three weeks. Employers said levels of violence would hopefully decline as workers complied with interdicts and picketing rules.

Numerous incidents of intimidation, stone-throwing and the sjambokking of nonstriking workers were reported in Durban yesterday. Striking workers also picketed at Cape Town International Airport.

Clucas said fuel shortages in Cape Town on Tuesday were due largely to the inability of Caltex and Engen to deliver because of blockades, which had now been cleared.

BP and Shell had been able to deliver adequate supplies in the Western Cape. However, the two companies had been unable to make deliveries in Durban as a result of blockades. This would be corrected after interdicts were granted yesterday, he said.

Dustin Chick reports that a snap survey of petrol stations in Gauteng and the Western Cape showed that some stations had run out of petrol by last night while others feared they would run dry by today.

Meanwhile, negotiations were under way between employers and Sacwu in various sectors to reach agreement. Employers said the CWIU was not interested in talking, but the union said no approaches had been made. Industrial chemical employers tabled a final offer of 8,5% during negotiations with Sacwu yesterday.

CAPE TIMES
THURSDAY, AUGUST 6, 1998 ★

STRIKE TO CONTINUE

High Court interdicts release flow of petrol

CT 6/8/98

(183)

THE PETROLEUM Employers' Association says deliveries of petrol to service stations around the country will be completed today. **TROYE LUND** reports.

ELEVEN interdicts have made petrol freely available again, but no end is in sight to the strike that 47 000 workers in the petroleum and chemical industry started on Monday

High Courts around the country ordered striking members of the Chemical Workers' Industrial Union (CWIU) away from chemical manufacturing plant and refinery entrances

Full tankers have spent the past 24 hours delivering loads to empty and emptying petrol bowsers

Although several petrol stations in other provinces were still waiting for fuel yesterday afternoon, it was business as usual by yesterday morning in most of the Western Cape

In KwaZulu-Natal, police escorted tankers to service stations

Cape Town International Airport also stocked up on two million litres of fuel yesterday

But striking workers are as determined as ever to continue their strike until employers give in to their demands for a 10,5% increase, a 40-hour working week, four months paid maternity leave, a 13th cheque and a minimum salary of R2 000 a month

CWIU national spokesperson Wuelile Nolingo said "This is a very profitable industry that requires many workers to be subjected to dangerous chemicals

"Our membership is determined to continue with this strike even though it is no work, no pay We will not give in, but our doors are open if our bosses want to negotiate "

He pointed out that the strike did not only affect the petroleum industry, where workers are generally better paid Some 80% of the union's 47 000 members earned less than R2 000 a month These were workers from other sectors of the chemical industry, namely pharmaceutical, glass, industrial rubber and chemicals, fast-moving consumer goods and plastic industries

Nolingo is confident employers will soon "feel the pinch" and offer more than the eight percent that the petroleum industry is offering and the 6,4% other sectors are offering

"If the strike continues, these industries will be brought to their knees Petroleum employers will also not be able to continue functioning fully without our members," said Nolingo

The National Petroleum Employers' Association (NPEA) said it was sticking to its guns on the eight percent offer Anything higher was unaffordable

As some filling stations had run dry in the first 24 hours of the strike, before the interdicts were obtained, the NPEA said deliveries would be completed by today and that the situation would "ease" and "return to normal"

Although employers and unions said their doors were open for negotiations, no attempt had been made by either party to resume negotiations

Garages run dry as fuel strike bites

(183) Sowetan 6/8/98

By Mzwakhe Hlangani and Sapa

DWINDLING fuel supplies across the country are now approaching crisis point as the strike in the chemical industry entered its third day yesterday

Most petrol stations approached yesterday said no petrol had been delivered since Monday

"We have to turn away our clients We can do nothing but wait," one owner said

Engen garage owner Ms Carin Coetzee said the station's unleaded petrol and diesel supplies had dried up on Tuesday

"Our premium petrol will be gone in an hour I only hope that supplies arrive sometime this week," she said

Several garages had run out of petrol in Pretoria by noon yesterday, garage owners said

Willem de Jongh, owner of a garage in the Pretoria city centre, said he was informed by his depot that he was 30th on the waiting list He said he ran out of premium petrol yesterday morning, but still had some unleaded petrol and diesel left

More than 47 000 members of the Chemical Workers Industrial Union (CWIU) vowed yesterday to continue their strike until their pay demands were met The union wants a 10,5 percent pay rise and a basic salary of R2 000 a month Employers are offering 8,5 percent

Union spokesman Nelson Mthombeni said a labour and management meeting had successfully resolved picketing rules yesterday

A BP depot spokesman said 40 of his 58 permanent staff members were on strike and all nine delivery trucks were idle as a result

Contract workers stayed at home yesterday after receiving threats from union members, the spokesman said

"We have managed to smuggle out four delivery trucks at night, but we were still not able to reach all our clients," he said The depot delivered about 800 000 litres to 65 clients in and around Pretoria daily

"I know of at least 32 stations that are going to run dry soon"

The Engen and Caltex depots said administrative staff in possession of truck drivers' licences had pitched in to help deliver petrol

National Petroleum Employers' Association chairman Chris Clucas claimed that violence and intimidation remained a feature of the striking workers' action

He confirmed that filling stations had run out of certain fuel grades, but could expect deliveries in 24 hours The position was worsened by motorists who rushed to fill before the increase in the petrol price yesterday

There had been no indication that the union has shown any willingness to resolve the dispute, despite repeated open door invitations to do so, Clucas said

Strikers facing a tough battle

BD 7/8/98 (183)

Reinie Booysen

STRIKING chemical workers face an uphill battle if they hope to cause serious disruption to SA petrol and diesel supplies

They will have to blockade no less than 28 distribution depots dotted around the country — many of which are supplied by direct pipeline link to refineries in Durban and on the Highveld

So far there have been some disruptions at some of the depots but the oil companies have a distribution network with substantial flexibility to source and move oil products by alternative routes if necessary

In the industrial heartland from the Highveld to Mpumalanga, most depots are linked to an extensive clean product pipeline network, extending all the way from the Durban refineries owned by BP, Shell and Engen up to the Sasol/Total Natref refinery south of Johannesburg, and to Sasol's synthetic oil facilities near Secunda

The Free State is also connected.

Apart from pipelines, the industry also makes use of railcars to move white oil products from Durban into the interior.

The Cape distribution system is largely reliant on oil product tankers, which fan out from the Milnerton refinery owned by Caltex, and Mossgas, near Mossel Bay, which supplies the area from around East London to the Mossel Bay region

The pipeline network is owned and operated by Petronet, while the depots belong to the oil companies

A Petronet official said yesterday its network was unaffected

Chemicals strike may hit mining sector

(183)

BD 7/8/98

Reneé Grawitzky

AS FEARS arose yesterday that the strike in the chemicals industry might threaten mines, the Chemical Workers' Industrial Union (CWIU) said it was prepared to enter negotiations.

The CWIU, which represents more than 20 000 workers who have been on strike since Monday, has so far not participated in negotiations that have been taking place between employers and the SA Chemical Workers' Union. Sacwu members have been on strike for three weeks.

AECI, the largest supplier of explosives to the mining industry, warned that production on gold and platinum mines could be halted if the strike continued beyond next week.

AECI Explosives MD Vernon Liddiard has written to four cabinet ministers and African National Congress secretary-general Kgalema Motlanthe advising them of the consequences of the company's inability to provide explosives to the mining industry.

Liddiard said by the end of next week supplies of certain crucial products would be exhausted. The failure of the company to supply these products could slow down, if not stop production on some mines

Anglogold said it was aware of the situation and had put in place contingency plans. However, it could not speculate how long such plans could keep production going.

While the situation regarding petrol supplies in most of the country appeared to be stabilising yesterday, violence and intimidation continued mainly in the Durban area. The SA Police Service confirmed a number of shootings in Durban where drivers delivering petrol were shot at.

National Petroleum Employers' Association chairman Chris Clucas said intimidation in the area was so high that companies had been unable to use contract labour to deliver petrol while police had to fetch their own. Workers continued to defy interdicts. As a result Durban had the highest percentage of filling stations running dry.

He said the situation in the rest of the country, in terms of deliveries, would stabilise by today.

Bulelwa Boqwana reports that the Eastern Cape had hardly been affected while there were some problems in the Western Cape. Workers at the Caltex refinery in Cape Town were locked out.

Employers were notified of impending sympathy and secondary strikes in a number of related sectors.

The CWIU said its move to join the negotiations was not a sign of weakness but was considered in the country's interests and "everyone else who is being affected by the strike".

It denied employer allegations that it had refused to negotiate thus far in order to prolong the strike.

Meetings between Sacwu and employers have taken place this week. Sacwu confirmed that the CWIU had chosen not to attend these meetings.

Sacwu said employers in the fast-moving consumer goods sector had tabled an offer of 9% which was being taken back to workers. Both unions initially demanded a 10,5% increase.

☐ Meanwhile, the strike by more than 20 000 National Union of Metalworkers of SA workers in the vehicle manufacturing sector starts today.

Strike: 'Public not at risk'

CT 7/8/98 (183)

TROYE LUND

CHEMICAL industry bosses have dismissed warnings by unions that "society is being placed at risk" because unqualified replacements are being called in to manufacture medicines and drive petrol tankers

Amid pickets and speculation about a meeting scheduled for today between striking workers and employers, Chemical Workers' Industrial Union (CWIU) members who downed tools on Monday warned that the implications of their strike were not only being felt in the petrol industry

It carried serious implications for the whole industry and consumers, including the pharmaceutical, glass, plastic and fast moving consumer goods sectors, the union said

CWIU's Fazel Earnest said: "We are very concerned that petroleum employers are using drivers who do not have public driver's permits or certificates to carry hazardous chemicals The quality of medicines also stands to be compromised"

But employers in the petroleum sector said that they would never put a person at the wheel of a tanker unless the person was qualified to be there

Pharmaceutical manufacturing companies like Intramed in the Eastern Cape said quality would not be compromised Like the petroleum and plastics and glass sectors, the pharmaceutical industry said contingency plans were working well enough for plants to continue as normal, without the striking workers, for an "extended period"

Reacting to press reports that lifesaving medicines were not getting through to hospitals, clinics and pharmacies in the Western Cape, wholesalers and distributors, Amalgamated Chemists Associated (ACA) and Heynes Mathews — the two largest in the province — said deliveries had not been hampered

"The strike rules are in place and distribution has been continuing," said ACA's Peter Willig

Caltex spokesperson Pierre Mynhard said "One must remember that not all members of the unions are supporting the strike"

The other two unions represented in the chemical industry, the Mine Workers' Union (MWU) and the South African Workers' Association (SAWA), are not on strike. These two unions and SACWU are currently negotiating on wage increase demands

Employers and the CWIU, which stopped negotiating when a deadlock was declared, were still not talking formally by yesterday, four days into the CWIU strike

The unions said that their strike would continue "full steam ahead" until their bosses listened to the demands, including a 10,5% increase.

● The driver of a Total petroleum tanker was shot near the Tongaat toll plaza north of Durban in Kwazulu-Natal yesterday

Police agreed with Total's opinion that the shooting was linked to the nationwide strike The 22-year-old driver continued driving, but when he reached the plaza, he realised that he had been wounded in the leg. The tanker was hit by five bullets

Taxi chaos looms as petrol supplies dry up

(183)

Cosatu calls for solidarity with 47 000 strikers

Star 6/8/98

By Hopewell Radebe, Simon Zwane and Anso Thom

Fears that taxi services could come to a standstill in Gauteng surfaced yesterday.

And the Congress of South African Trade Unions has called on members to embark on solidarity action in support of the 47 000 striking chemical and petroleum workers.

Cosatu's call came as high courts throughout the country ordered the striking workers to stop their crippling blockades at refineries, depots and chemical manufacturing plants.

Police in KwaZulu Natal had to be called in to escort 14 tankers from the Engen plant in Isipingo to service stations.

Cosatu's Nowetu Mpati said its members should "refuse to handle any goods to and from the petroleum, glass, plastics, rubber, pharmaceuticals and industrial chemicals industries as well as fast-moving consumer goods".

This came as long-distance taxi drivers in Gauteng expressed concern that they would be "terribly affected" if the strike were not resolved by the weekend as this was normally their busiest time.

"We are able to feed our families because of the migrant labourers who travel to visit their families then," said Johannes Hlophe.

"I hate to imagine what will become of these people if taxis come to standstill because of lack of petrol," he added.

Another taxi driver, Sipho Hlongwane, who travels between Soweto and Johannesburg, said he had found the Giant Garage in Nancefield empty and had to drive to Mondeor to fill up.

Filling station owners also felt frustrated by the inability of petroleum companies to maintain supplies.

The Star found Harvey Sithole, owner of Africoil's Zhut City Garage in Orlando West, fuming, and claiming that his suppliers had not informed him about the possibility of an irregular supply.

"Just because we are township businessmen, they did not worry about us – we are affected now because trucks will not deliver in our areas. People have not changed," he said.

Hanif Bhabha, owner of the Shell Garage in Melville, had to drive to the depot to demand his delivery. He said he had tried to contact his supplier but did not get any assurances that petrol would be delivered yesterday.

An Orlando Service Station manager, who wanted to remain anonymous, said he placed more orders yesterday but his supplier, Total, asked him to be patient.

"I ordered petrol on Tuesday, when I realised my stock was dwindling and would not survive Wednesday, but up until now I have not received anything," he said.

Pharmacies contacted by The Star said although delivery had been delayed, later in the day they managed to get all the medication they had ordered.

Hopes high for fuel strike to end today

Sowetan 7/8/98

180 (183)

By Mzwakhe Hlangani

THE wage deadlock in the chemical industry which led to a crippling strike by more than 47 000 workers nationwide may be resolved today

National Petroleum Employers' Association (NPEA) spokesman Lutz Kranz expressed hope yesterday that progress towards the resolution of the crisis would be made at a planned meeting of all stakeholders today

Mineral and Energy Affairs Minister Penuell Maduna has also issued a statement encouraging both parties to come to a speedy resolution as the petrol crisis was adversely affecting the country and its economy

Several petrol stations across the country reported that they had run dry yesterday, despite petrol companies' claims that deliveries had gone ahead as normal

Most garages said they had not received petrol deliveries this week and were under pressure because other garages in surrounding areas were out of fuel

The Orlando West Shell garage ran out of fuel on Wednesday morning. The owner said they had been promised delivery since Wednesday

The strike by members of the Chemical Workers' Industrial Union in demand of a 10,5 percent pay increase, a 40-hour working week and paid sick leave, entered its fourth day yesterday

The NPEA said the association had moved its position on the pay increase from six percent to eight percent

"Thus far the unions have not moved away from their original demand of 10,5 percent – a demand not borne out by the fundamentals," Krantz said

With reference to the filling stations affected by the strike, the NPEA said the Durban area was the worst hit with the highest percentage of filling stations running dry

"This is because of high levels of intimidation and violence that have occurred around the biggest depot in that area

"A driver was shot in the leg after his vehicle was hit by gunfire," Krantz said

Yesterday both strikers and police officers ignored the High Court interdicts to prevent workers from blocking access to fuel depots and from intimidating non-striking workers

Deliveries to the rest of the country would hopefully be back to normal today, Krantz said

A Johannesburg filling station manager said yesterday that only 15 000 litres of petrol were delivered to her station on Wednesday night, while she normally received more than 41 000 litres a day

When she asked her fuel wholesaler about further supplies, she was told she could put in an order for more, but she was not guaranteed to get any more before next week

Fuel strike turns into 'guerrilla war'

ST 9/8/98 (183)

CAROL PATON

VIOLENCE in the week-long fuel strike by 21 000 workers has taken a sinister turn in Durban, where three petrol tankers have been shot at by gunmen, an employer spokesman said on Friday

The chairman of the National Petroleum Employers' Association, Chris Clucas, said the strike had become a "guerrilla war" and that, in addition to the shootings, there had been numerous incidents of stone-throwing as well as intimidation of contract drivers and their families

"Almost every driver is reluctant to drive any tanker anywhere There have been three shootings, drivers' homes have been threatened and most vehicles are now being escorted by police There are also claims that our tankers are being trailed by people in cars," said Clucas

Douglas Zulu, a manager at the Island View storage terminal in Durban, said a driver on his way to Empangeni was shot when two people ran in front of his tanker and fired at him as he approached a toll plaza near Tongaat He was hit in the leg

Clucas said that in another incident a driver who had attempted to get out of his vehicle was shot in the ankle The tyres of the vehicle were then shot out by the gunmen.

In a third incident a vehicle was damaged by gunfire but the driver escaped unharmed

The drivers are all employed by transport contractors

The national spokesman for the Chemical and Industrial Workers' Union, Nelson Mthombeni, said the union was aware two drivers had been shot

"But we don't know who was shot or who shot whom," he said

The violence has had a severe impact on the fuel supply in Durban, where it was estimated that about 40 percent of pumps were dry at the start of the weekend

In the rest of the country the fuel supply has returned to normal after employers obtained interdicts to remove picket lines blockading fuel depots

Clucas said that supplies in Durban were expected to have improved by next week, but were not likely to reach normal levels soon

Union members in Durban said the high level of violence in the area was due to provocation by employers who had hired private security firms notorious for their provocative behaviour

Union sources alleged that soldiers and police were being used to drive tankers, but this was denied by fuel companies

The employers organisation and the union are due to meet on Tuesday afternoon to discuss the wage dispute

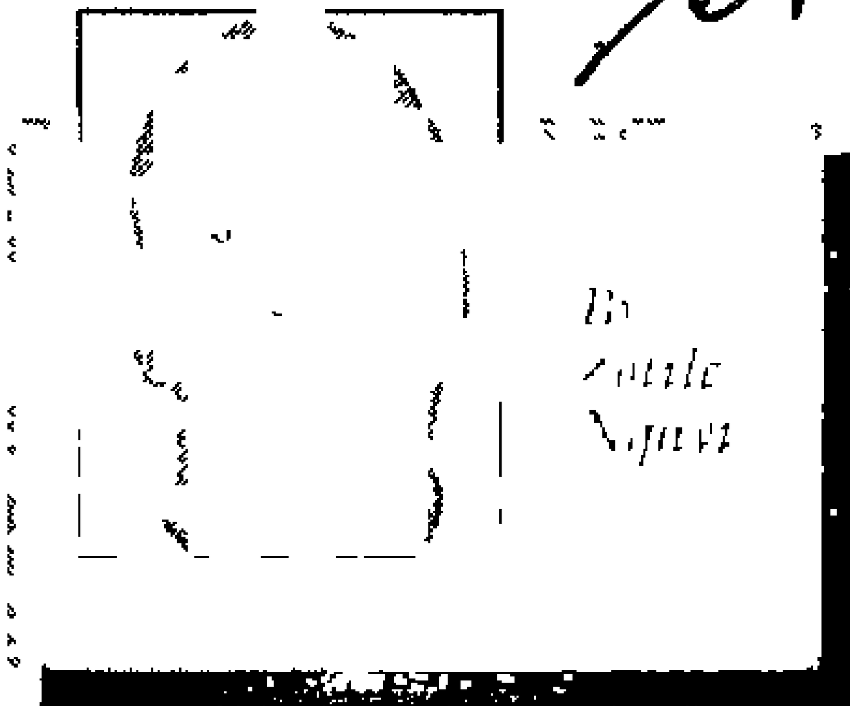
The wage offer still stands at eight percent and the union demand at 10,5 percent

Chemical workers in another six sectors are also locked in wage disagreements and their strikes are unlikely to end before Wednesday

RIDING SHOTGUN: Most fuel tankers are being escorted by the police after three separate shooting incidents Picture: MICHAEL WALKER

Fears for economy as chemical strike continues

CP 9/8/98 (183)



By Zodwa Ngwenya

DESPITE fears that the chemicals strike may spread to other sectors of the economy and erupt into open violence, a meeting between workers and employers on Friday failed to resolve the dispute

The week-old nationwide strike by the 20 000 members of the Chemical Workers' Industrial Union (CWIU) is set to continue this week

Analysts have said that if the strike continues into this week, this would have dire consequences for the economy By Friday most petrol stations across the country were reportedly running low on fuel, and a few in the Durban area were already dry

A meeting between employers and the union on Friday failed to resolve the impasse

Employers are steadfast on their final wage offer increase of between six and eight percent The union is still demanding a 12,5 percent increase in wages

Striking workers are picketing major oil companies' depots and sporadic incidents of violence have been reported by the National Petroleum Employers' Association. Employers have reported intimidation against drivers and non-striking employees

Some employers said striking workers had stopped black drivers from working, but had allowed white drivers to deliver fuel to petrol stations unhindered

"I only employ black drivers in my company and this effectively means that I cannot deliver at all Does this mean that I must now employ white drivers to ensure that petrol is delivered?" asked Goli Mngomezulu of Kalusha Transport

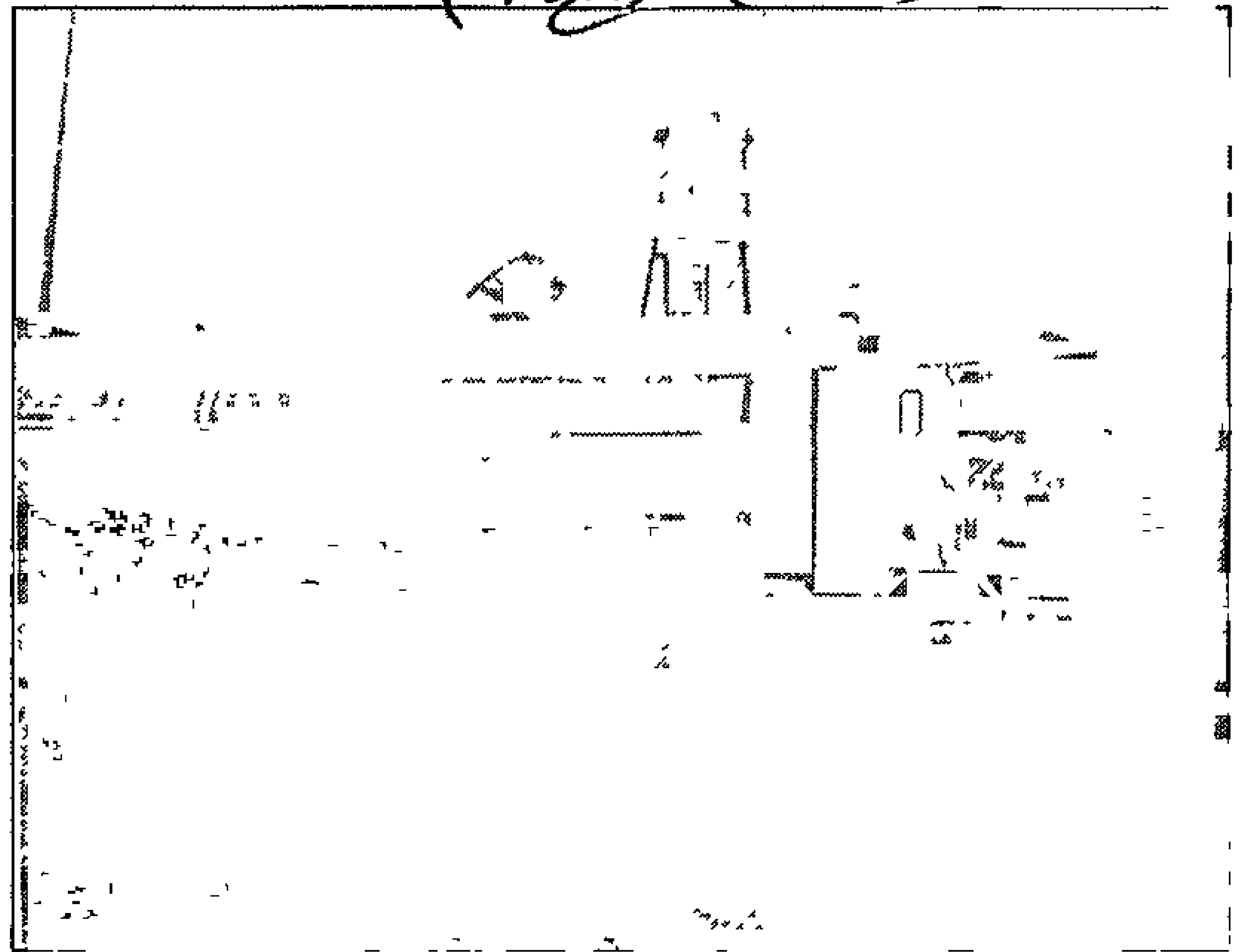
On Friday, striking workers prevented tankers transporting fuel from leaving the Caltex/Zenex plant in Alrode on the East Rand.

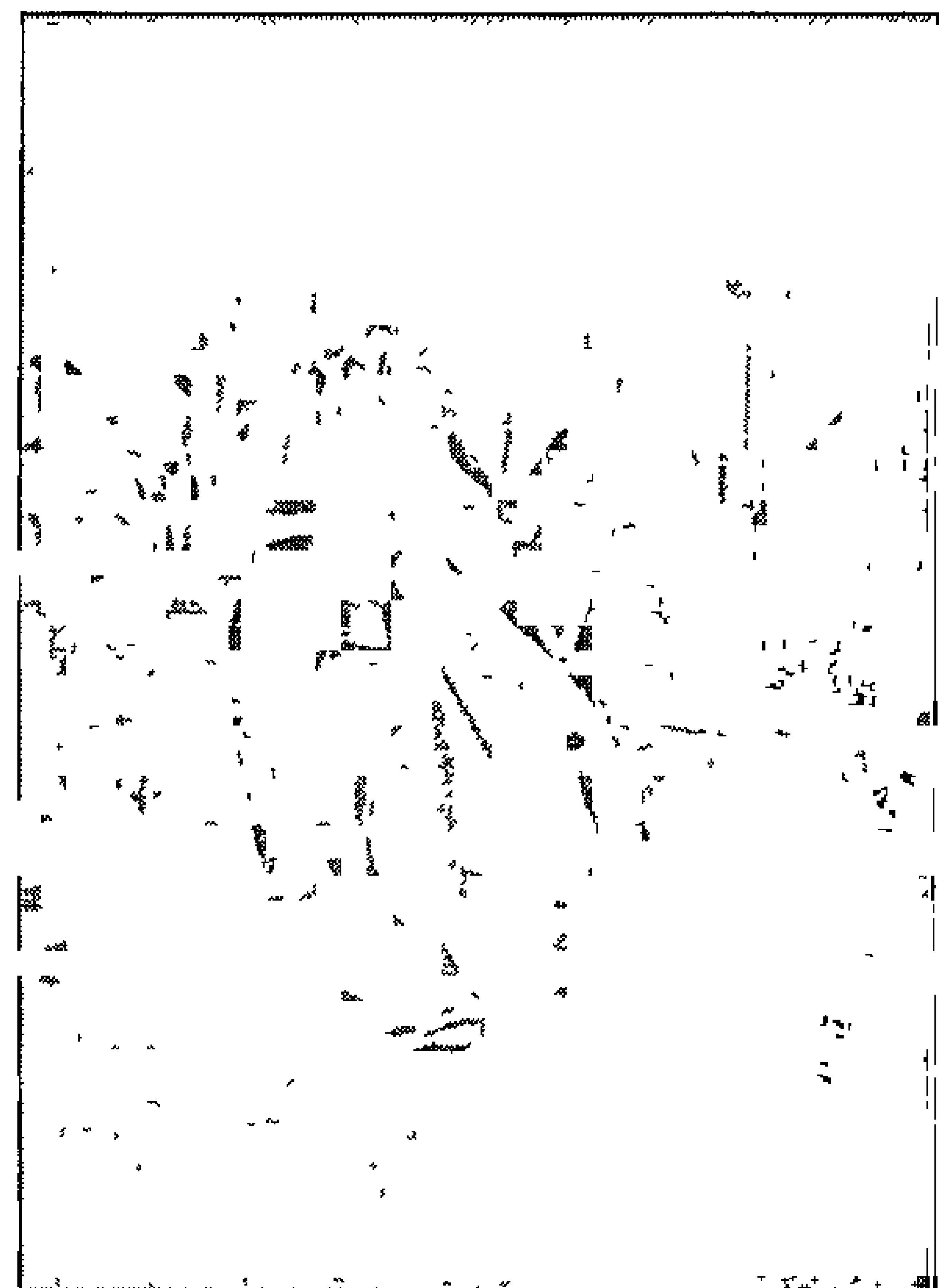
The South Africa Police Services' Public Order unit was called to the scene to escort trucks out of the plant The police had hardly left their vehicle when a truck driver forced his way out of the plant

The striking workers stoned the tanker but the driver negotiated his way through and in the process collided with the police vehicle No one was injured

Deliveries at the nearby Sasol distribution depot, however, continued

Workers said this was because there were insufficient workers to man all the depots





DISRUPTION OF SERVICES . . . *How much fuel will this Zenex tanker be carrying – if any – in the midst of the strike by chemical workers which has resulted in petrol stations running low in fuel supplies (above)? On the right, chemical workers toyi-toyi*

■ *Pics TLADI KHUELE*

Petrol deliveries stabilising as pay talks

DD 11/8/98

Taryn Lamberti

PETROL companies and unions representing more than 20 000 striking workers, who have been disrupting the delivery of petrol to service stations countrywide, will meet in Johannesburg today in a bid to end the wage dispute.

Lutz Kranz of the National Petroleum Employers' Association said he did not expect a resolution ahead of a Chemical Workers' Industrial Union national executive committee meeting tomorrow, and a final resolution was expected only on Friday

"The employers' association negotiators will meet in good faith if the unions are willing to resolve the situation," he said

Kranz said the situation countrywide was stabilising and commercial customers who were open yesterday had received supplies. Other customers would receive deliveries today and tomorrow.

The situation in KwaZulu-Natal, which was the hardest hit by strikes with high levels of violence and intimidation, was "under control" with petrol firms employing different contingency strategies

Kranz said there were very few stations that were dry and those that were would receive petrol within 48 hours if further strike action at fuel depots was held off Main holiday routes had been a priority over the long weekend.

Tshidiso Qakisa reports that in the wake of the ongoing strike a number of petrol stations in Durban, Pretoria and Johannesburg could suffer financial losses.

Several garage owners who spoke to Business Day said they had been forced to stockpile thousands of litres of petrol to avert any possible shortage

Most of them said they were caught napping on the first few days of the strike, which resulted in them running out of petrol.

One highly affected service station was in Malvern, Durban, where the owner said he had been without petrol for three conservative days.

Other petrol stations had ordered more petrol than usual in anticipation of a strike Orders ranged from 40 000 to 50 000 litres, which owners said could be finished within three to five days.

Most petrol stations in Johannesburg were unaffected by the strike and none of those contacted reported running out of petrol

Dustin Chick reports that no production was expected at SA's seven motor manufacturing plants today, as the strike by about 20 000 industry workers moves into its second day

Brian Smith, Automobile Manufacturers Employers' Organisation (Ameo) chairman, said yesterday the Commission for Conciliation, Mediation and Arbitration had called for a meeting between Ameo and the National Union of Metalworkers of SA in an attempt to resolve the strike.

resume (183)

NEWS

ACTION AND WORDS *Employers and CWIU workers have no date for further negotiations*

Employers reject union's 10% offer

(183) CT(BR) 12/8/98

FRANK NXUMALO AND ROY COKAYNE

Johannesburg — The striking Chemical Workers' Industrial Union (CWIU) last night scaled down its wage increase demand of 10,5 percent to 10 percent, but this was rejected by employers as "still too far away" "We welcome the movement, but a double-digit figure is still far away," said Fanie Ernst, the employers' association chief co-ordinator

Ernst said employers had not moved from their wage offers of 8 percent for the petroleum sector and 8,5 percent for other sectors

He said that no date had been set for further negotiations

The CWIU and the employers rejected suggestions by Shepherd Mdladlana, the new labour minister, that the two parties approach the Commission for Conciliation, Mediation and Arbitration (CCMA) for a determination in terms of section 73 of the new Labour Relations Act "From the employers' point of view, we will not go for a determination," Ernst said

Nelson Mthombeni, the CWIU spokesman, said the union was "concerned" by what the minister had said "We are not sure why the minister has jumped to that conclusion He should let the CCMA be involved without invoking section 73 — there is no justifiable reason to say petroleum is an essential sector "

Meanwhile, the strike by more than 21 000 workers allied to the National Union of Metalworkers of South Africa (Numsa) over a 2 percent improvement factor in the second and third year of a three-year wage agreement, would continue today as the employers had not tabled an offer as had been hoped by late last night

The meeting was adjourned until Friday

Petroleum industry strike talks make some progress

(183)

RODNEY VICTOR and SAPA

JOHANNESBURG: Progress has been made towards a settlement in the nationwide strike by petroleum industry workers that has disrupted petrol distribution and caused shortages in some areas, according to National Petroleum Employers' Association spokesperson Lutz Kranz

The industry tabled an offer of 8,5% in talks yesterday, but the unions had not yet ratified this, he said. The unions have been demanding a 10,5% increase

Two of the three unions involved — the SA Chemical Workers' Industrial Union and the SA Workers' Union — have settled their strikes in other sectors, Kranz said He hoped they would also settle soon in the petroleum sector

The unions announced yesterday that they have accepted increases of 8,5% in the industrial chemicals sector and 9% in the fast-moving consumer goods sector.

Nelson Mtombeni, spokesperson for the Chemical Workers' Industrial Union, which has not yet settled, said his union was also hoping to find a solution soon

Meanwhile, talks were continuing last night to find a solution to the four-day old strike by more than 20 000 workers in the motor industry, South Africa's largest manufacturing sector

The strike is costing the industry about R135 million a day, said Automobile Manufacturers Employers Organisation chairperson Brian Smith

It threatened to jeopardise export contracts held by most of the country's car makers and which were vital to their survival, he said

It would also further strengthen overseas perceptions that South Africa had an inflexible and unstable labour market.

The National Union of Metalworkers of SA was demanding a 2% above-inflation increase, while employers were offering inflation-pegged increases

Meanwhile, despite another breakdown in talks between train drivers and Metrorail, the SA Footplate Association has ruled out another rail strike like the 24-hour industrial action last Friday which caused major chaos at stations and road congestion throughout the country

BD 12/8/98

Workers at BP on strike too

(183) ([illegible])

By Rodney Victor and Sapa

Star 12/8/98

Workers at oil company BP who are attached to the Oil, Chemical, General and Allied Workers' Union joined a week-long strike by chemical workers yesterday, dashing hopes for an early end to industrial action that has disrupted petrol distribution and caused shortages in some areas

A statement said the union felt there should be unity This was in the face of what it termed attacks by employers in the form of low wage offers and "high-handed action" by the state, which included deploying police and army units

It said the union rejected threats to turn the petroleum sector into an essential service

The statement came shortly after National Petroleum Employers Association spokesperson Lutz Kranz said progress had been made towards a settlement in the nationwide strike

Meanwhile, eleventh-hour talks were continuing last night to find a solution to the four-day-old strike by more than 20 000 workers in the motor industry. The talks will continue on Friday

Chemical workers settle

Sowetan 12/8/98

By Mzwakhe Hlangani
Labour Reporter

EFFORTS to end a crippling strike by 47 000 members of the Chemical Workers Industrial Union (CWIU) heightened yesterday as another union reached a settlement in the multi-sectoral industrial action

CWIU spokesman Mr Nelson Mthombeni said the union was engaged in various strategic committee meetings to resolve the dispute

The National Petroleum Employers Association (NPEA) negotiators and CWIU rescheduled their meeting before meeting with other unions yesterday to prepare for protracted talks to end the strike, NPEA spokesman Mr Lutz Krantz said

The SA Chemical Workers Union (Sacwu) has settled at 9 percent across-the-board or a minimum of R2 000 a month with employers in the consumer and industrial chemical sectors, Sacwu spokesman Mr Masindi Mavhivha said yesterday

Meanwhile, negotiations between the Automobile Manufacturers Employers' Organisation (Ameo) and the National Union of Metalworkers of SA (Numsa) resumed in Johannesburg yesterday in a bid to end a nation-wide strike by 21 000 workers which started on Friday over a wage dispute

Numsa spokesman Mr Dumisa Ntuli said the deadlock hinged on a two percent "top-up factor" that the union wanted included in a new three-year wage package Both parties had agreed to an eight percent increase for the first year, he said

Numsa wants the inflation rate plus two percent for the following two years

Ameo is offering only the inflation rate or the Consumer Price Index rate

Chemical employers and union agree on bid to end wage strike

BD 13/8/98 (183)

Reneé Grawitzky

CHEMICAL employers and the Chemical Workers' Industrial Union (CWIU) agreed yesterday to a request by the Commission for Conciliation, Mediation and Arbitration to facilitate a resolution to the continuing wage strike.

The intervention by the commission follows the return to work of almost 9 000 SA Chemical Workers' Union members after a strike of three-and-a-half weeks

At the same time, the National Union of Metalworkers of SA (Numsa) and the Automobile Manufacturers Employers' Organisation (Ameo) are consulting their respective constituencies on a settlement offer proposed by the commission on Tuesday. The parties agreed at the meeting — initiated by the commission — that they would meet again tomorrow.

The settlement offer, crafted by senior commissioner Gavin Hartford, is aimed at addressing some of the union's concerns, which led to the strike The dispute centres on Numsa's demand that during year two and three of the three-year wage agreement, increases should be inflation plus 2%. The improvement factor of 2% is intended to protect workers in the event inflation falls to low levels.

Ameo chairman Brian Smith said employers hoped the strike could be over by Monday

Reuter reports Smith said the strike could cost the industry R650m in lost turnover. "Friday will be the fifth day of the strike and each day we are losing about R130m in turnover," he said.

Numsa attacked those claiming the strike would scare investors, saying such arguments were misplaced because investors based their decisions on a range of issues Numsa negotiator Tony Kgobe said there were strikes recently in the US's General Motors and South Korea's Hyundai "This bears testimony to the fact that even in developed countries workers embark on strike action."

Smith said if the strike became protracted it would become problematic for companies with export contracts and would negatively affect workers The Volkswagen deal, for example, would create more than 1 000 jobs over the next four months

Employer spokesman Fanie Ernst said employers had agreed to the commission's intervention despite its previous unsuccessful attempts to resolve the dispute

Meanwhile, Sapa reports that Metrorail and the SA Footplate Staff Association (Safsa) have reached a wage agreement

A national strike on July 31 by 1 700 Safsa-affiliated train drivers, ticket collectors and station staff left thousands of commuters stranded or late for work

Safsa general secretary Chris de Vos said the package gave employees a 7,5% pensionable increase backdated to March 16, and a 3,5% rise from November 16 this year A further 5% would be granted from March 16 next year

Reneé Grawitzky

THE Congress of SA Trade Union's (Cosatu) head office resolved yesterday to postpone an antiprivatisation strike called by the federation's Mpumalanga region for next Wednesday

The region called the strike in protest against a the Nelspruit town council's decision to priva-

Fresh breakthrough in petrol strike

CT 14/8/98 (183)

ARGUS CORRESPONDENT

The National Petroleum Employers Association and the Chemical Workers Industrial Union are set to go to mediation today on the two-week-old industry pay strike

Employers' negotiator Fanie Ernst confirmed last night the two sides have agreed to allow the Commission for Conciliation, Mediation and Arbitration to intervene in the impasse

However, another union, the National Petroleum Workers Association has been reluctant to allow the CCMA to intervene

Thousands of workers returned to work on Wednesday after agreements were reached in four sectors in the industry between the SA Chemical Workers Union (Sacwu) and employers But that still left thousands on strike

Meanwhile, the CCMA is also scheduled to oversee a meeting between the National Union of Metal Workers of SA and the Automobile Manufacturers Employers Association.

Chemical, car industries and unions resume talks at CCMA

(183)(198)

Renee Grawitzky

BD 14/8/98

EMPLOYERS and trade unions involved in strike action in the chemical and vehicle manufacturing industries are to attend crucial meetings hosted by the Commission for Conciliation, Mediation and Arbitration (CCMA) today

Chemical employers and the Chemical Workers' Industrial Union (CWIU) agreed to meet today at the CCMA's request

Sapa reports S'tembele Tshwete from the CCMA said yesterday that negotiators from both parties would meet under the guidance of Kaizer Tibedi, whom Tshwete described as one of the CCMA's "most seasoned commissioners". About 47 00 CWIU employees have been on strike since last Monday

However, the meeting will coincide with a picket by thousands of Sasol employees from Secunda outside the company's head office in Rosebank.

Today's meeting comes after a settlement of 8,5% to 9%, depending on the sector, was reached between employers and the SA Chemical Workers Union recently.

The CWIU is demanding between 10% and 10,5%, while employers' offers range between 7% and 8,5%.

The National Union of Metalworkers of SA and the Automobile Manufacturers Employers' Organisation resume talks today at the commission.

They are expected to report back on whether a settlement offer proposed by senior commissioner Gavin Hartford earlier this week is acceptable to their constituencies

Their dispute centres on increases for years two and three of a three-year wage deal.

Meanwhile, the Entertainment, Catering, Commercial and Allied Workers' Union of SA said 1 000 of its members had started a wage strike at CNA stores yesterday. The union wants a R250 across the board increase a month while the company is believed to be offering R190 a month

Getting high on dagga profits

(183) M&G 14–20/8/98

Ferial Haffajee

A South African multinational has patented the potent part of dagga and is selling it locally Elevat — a brand owned by Pharmacare — is being hailed as a wonder drug for its treatment of the symptoms of cancer, Aids, multiple sclerosis and other diseases

This exposes the contradictions in South Africa's policy on the weed the war against marijuana growers continues unabated while a multinational profits

How did this happen? In 1993, South African Druggists (which trades as Pharmacare) patented dronabinol, the patent name for Delta-9-thc, the active part of dagga The Drugs and Drug Trafficking Act was quickly amended to exclude dronabinol to enable the pharmaceutical industry to exploit cannabis

Ironically, the hemp industry is struggling to forge much smaller changes in legislation for the legal cultivation of hemp

Prohibition means that dronabinol benefits only Pharmacare, and its uses have been kept quiet. Because Elevat is a schedule-7 drug, it can only be prescribed by a doctor Until recently it was marketed as a drug for depressives, but is better known in cancer and Aids treatment

Elevat limits the side-effects of chemotherapy (like nausea) and it stimulates the appetites of those with Aids It is prescribed with circumspection because of its abuse potential

Elevat retails for either R45 or R135 a tablet depending on its strength — a price which makes it prohibitively expensive

Pharmacare claims to import the drug under licence from an unspecified "overseas country" But lawyer and drugs researcher Jenny Wild says the dronabinol is being extracted locally

The package insert of the drug states quite clearly that it "is naturally occurring and has been extracted from *Cannabis sativa*" This means that the drug manufacturers could either be growing their own legal crops or obtaining it from the police

Pharmacare says that Elevat is the South African brand name for the American drug Marinol, which is manufactured by Banner Gelatin Products in the United States The company could not provide trade figures for Elevat and says it sells only "a limited quantity"

Commentators say it is ironic that South Africa — almost as rich in high-quality dagga as it is in gold — imports the drug Local production could make Elevat cheaper and more widely available Its foreign earnings potential is huge reports suggest that the illegal trade in dagga is twice that of the legal liquor industry

In her research, Wild found that illicit South African sales of dagga are said to be worth some $18-billion a year, according to the US Drug Enforcement Agency The legal pharmaceutical trade across the globe is tallied at $80-billion annually

She argues that dagga must immediately be legalised so that farmers can benefit from the existing and potential pharmaceutical demand, and that it strips away the illicit criminal value — South Africa is the world's leading dagga producer, ahead of countries like Mexico, the US and Colombia

US laws on cannabis have been amended to allow medical research and development Marinol is provided at reduced cost to Aids patients and is commonly prescribed

Dr Helen Rees of the Medicines Control Council (MCC) says "The scheduling of drugs is meant to control but not to stop people accessing the drug " She says the abuse potential means that dronabinol will always be treated with care, but that if approached with a credible proposal for medical research and development, the MCC would "seriously consider" it

The international lobby for the legalisation of cannabis is growing Its pundits — like the human rights commission's Helen Suzman — say that poor governments (like South Africa's) are spending valuable resources on an impotent fight against drugs while they could be earning revenue from cannabis

But the Pharmaceutical Manufacturers Association disagrees "Our position will be to oppose the legalisation of dagga. We will be very concerned about the blatant legalisation of habit-forming drugs Sure, we make money from it [drugs like Elevat] But it is only organised crime that makes big money out of its sale."

■ Ann Eveleth reports that South Africa has a wide range of options to consider in the debate about the future legal status of dagga This is according to Ethan Nadelmann, director of The Lindesmith Centre in New York

The centre organised a public letter to United Nations Secretary General Kofi Annan in June which advocated a re-think of global drug policy. The letter gained the support of more than 500 signatories, including Suzman.

"Between total prohibition and total legalisation there is a whole spectrum of options, similar to those which different countries have pursued at different times in relation to tobacco and alcohol," said Nadelmann.

"At one stage the US had a total prohibition on alcohol, Sweden had a rationing system and other countries had state monopolies on distribution or production Now with tobacco controls, governments are experimenting with different ways to control access."

Pressure is building in many countries for governments to re-assess their restrictive policies toward dagga The most liberal policy currently is that in the Netherlands, where consumption and retail are legal, as is minimal-restricted production for personal use Wholesale production is, however, illegal

In Spain and Sweden debate is currently raging about whether groups of personal users can pool their production allowance into a co-operative A Spanish lower court permitted this, but was overruled by a higher court.

In 1996, Californians voted in a referendum to legalise dagga for medical purposes, but the federal government has so far blocked the supply or purchase "If I were advising the South African government, I would say *de facto* decriminalise dagga. Regulate it and attempt to tax it But don't suppress it

"The history of suppression of dagga is often associated with pushing producers into other black markets that are more destructive to society," said Nadelmann

The Lindesmith Centre and United Kingdom-based organisation Release are organising an international conference on the regulation of dagga on September 5 in London

Additional reporting by Tangeni Amuphadi

Sasol to dilute its petrol

CT (BR) 17/8/98 (183)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Declining export markets for ethanol produced by Sasol means that from December, South African inland motorists filling their tanks would be putting up to 12 percent alcohol into their cars, Sasol said last week

Last year, Sasol delayed plans to reintroduce alcohol to domestic petrol supplies when it found alternate export markets for about R600 million worth of fuel alcohol produced as a byproduct from its coal-to-liquid fuel process

Sasol first introduced alcohol fuels to the domestic market in 1980, but by 1994 it was marketing its entire production offshore, primarily in Brazil

A downturn in Brazilian imports two years ago raised the prospect of diverting alcohol back to domestic petrol

The plans to reintroduce fuel alcohol to the domestic market have raised concern over the compatibility of the fuel with new vehicles.

Sasol said its research division would ensure that the composition of the alcohol and additives to the blend would be compatible with vehicles in domestic and overseas markets It did not expect any incompatibility

Sasol previously said that it had anticipated blending about 250 000m^3 of alcohol into petrol

"This could result in potential savings in foreign exchange of R260 million a year It will also alleviate the imminent petrol shortage in the country," the company said

Sasol also said the addition of alcohol would increase the octane number and reduce harmful exhaust emissions But research conducted in the US has indicated that ethanol additives are not harmless.

Maduna application for opposition parties' recusal is unanimously rejected

BD 18/8/98 (183)

Linda Ensor

CAPE TOWN — Minerals and Energy Minister Penuell Maduna has failed in his attempt to reconstitute the parliamentary committee which will decide whether he followed parliamentary procedures when he made damaging allegations against auditor-general Henri Kluever

A closed meeting of the ad hoc committee established to decide whether Maduna's statements about Kluever were unparliamentary decided unanimously yesterday to reject the minister's application for the representatives of the Democratic Party, the National Party and Freedom Front to recuse themselves

Maduna will be informed of the decision at today's meeting of the committee which is likely to proceed to consider the merits of the case Sources believed Maduna would apply to the High Court for a review should the committee find, as was probable, that he contravened Rule 99

His counsel, Kessie Naidu argued at the last meeting that press statements made by members of the three parties at the time of the public protector's hearing into the truth of Maduna's accusations against Kluever showed the parties were "institutionally" biased against him and should therefore recuse themselves

However, sources said these arguments were rejected in the legal opinion obtained by the committee from senior counsel

Counsel's view was that the Maduna case differed from that of Pan African Congress MP Patricia de Lille who succeeded in having her suspension from Parliament overturned by the Cape High Court

The matter before the "Maduna committee", however, was of an entirely different nature which did not allow for the possibility of bias, counsel said The committee simply had to determine whether Maduna had followed the rules of Parliament which stipulated that criticisms of institutions established by Parliament, such as the office of the auditor-general, could only be made by way of a substantive motion

The committee did not have to decide on the truth or otherwise of the minister's allegation that Kluever had failed to reveal that R170m was missing from the Strategic Fuel Fund as this was the task of the Public Protector, Selby Baqwa.

Regarding the argument that statements made by party spokesman bound all members to that position, the legal opinion stated that party discipline required that members bind themselves to caucus decisions This did not mean that members of a party could not take decisions as individuals on issues on which the caucus had not taken a prior position as was the case in the Maduna matter

Chemical workers meet employers

(183)

THE Chemical Workers' Industrial Union (CWIU) and the National Petroleum Employers' Association are to meet again today in an effort to end the strike by about 47 000 chemical union members which started on August 3

The CWIU and employers considered options over the weekend proposed by the Commission for Conciliation, Mediation and Arbitration (CCMA) on Friday.

The commission was asked to intervene when the parties deadlocked in wage negotiations

The CWIU wants a 10% hike, but employers have offered 8,5%

The SA Chemical Workers' Union and the SA Workers' Union have agreed to take the petrol industry's 8,5% offer to their members

Petroleum spokesman Lutz Krantz said yesterday the proposals made by the mediators were confidential.

Krantz said strikers were observing interdicts obtained to restrain them from interfering with deliveries except in KwaZulu-Natal, where an attempt was made to set a truck alight

"We are getting fuel to customers. There are few backlogs " — Sapa.

BD 18/8/98

Thor 'shows contempt'

(183) CT 18/8/98

KERRY CULLINAN

THOR CHEMICALS' failure to report to Parliament yesterday on how it was storing spent mercury was "unacceptable" and "showed contempt for the highest office of the land".

So said Gwen Mahlangu, chair of Parliament's portfolio committee on environmental affairs and tourism, after Thor indicated in a letter that it felt no "good purpose" would be served if it attended yesterday's meeting.

The committee had asked Thor for a briefing on what progress the company had made in disposing of mercury waste that it had been storing at its Cato Ridge plant. But Thor's managing director, Barry Longden, said in his letter that the government should be blamed for the delay in dealing with the spent mercury.

According to Longden, despite a presidential commission of inquiry that presented its recommendations in 1997, "no practical steps have been taken to resolve the issue of mercury residues remaining on our site, despite this company's commitment to following the recommendations of the commission"

Mahlangu said she had hoped yesterday's meeting would have resolved how to deal with the waste once and for all, but the company's failure to show up meant that the matter would now "drag on".

MPs also instructed the Department of Health to conduct tests on workers to determine whether they had been contaminated.

US chemistry professor Paul Connett, who briefed the committee on waste disposal, said blood and urine samples were "not enough" as tests had to be run to determine the mercury level in workers' brains.

Twenty workers have already been granted compensation by a British court for disabilities caused by mercury exposure, while a further 21 are seeking compensation. About 23 workers are in daily contact with the waste, estimated at about 3 000 tons — Parliamentary Bureau

Ill-matched bout with A-G leaves Maduna on ropes

Energy minister in deep trouble as 'missing millions' claim shot down

(183) AUG 19/8/98

As a former amateur boxer, Penuell Maduna must know the risks of an ill-matched bout, but the mineral and energy minister's blustering political pugilism appears finally to have earned him rather more than an embarrassing black eye.

An ad hoc parliamentary committee's finding yesterday that Mr Maduna broke the rules of Parliament by making "inappropriate statements" about Auditor General Henri Kluever – accusing him, wrongly, of failing to reveal that R170-million was "missing" from the Strategic Fuel Fund – casts doubt on his fitness to serve in the Cabinet.

Will he get away with merely having to retract his remarks in the House and tough it out thereafter?

Or are there any punches left in a man whose belligerence, essentially, is his most sapping flaw?

The really pressing question is whether or not the African National Congress can possibly afford to defend, and retain, a minister reck-

POLITICAL ANALYSIS

MICHAEL MORRIS

less enough to harm South Africa's constitutional fabric in what appears to have been merely a fit of pique.

Of course, there's no discounting the resilience of politicians or the willingness of parties as powerful as the ANC to brazen out critics' fury in the knowledge of being unassailable.

Even so, the record of Penuell Maduna's ill-advised clash with Henri Kluever is unflattering at best, revealing an astonishing disregard of political and constitutional risks.

And the costs. The legal expenses associated with the possibly unnecessary inquiry spawned by his outburst are expected to exceed R10-million, much of it borne by taxpayers.

The trouble began on Wednesday, June 18, last year. Mr Maduna stood to field a question in Parliament on behalf of Deputy President Thabo Mbeki about alleged secret oil deals and missing millions from the Central Energy Fund.

Mr Maduna claimed R170-million was unaccounted for and that the auditor-general might, by "some nimble footwork", have had a part in a cover-up.

The minister blustered on: "Is Parliament expected to have full confidence in an office which may be tempted to think that it has a discretion to selectively disclose matters, and yet not present such matters to Parliament as though they are complete, accurate and flawless?

"Why did the auditor-general's office deem it fit, at that time, not to disclose this so-called loss to Parliament?"

This attack had two consequences. The first was a parliamentary request to Public Protector Selby Baqwa to investigate the substance of the claims.

Damningly for Mr Maduna, it has since emerged that the R170-million which "disappeared" from the Strategic Oil Fund was never missing, and, worse, that all parties involved, including Mr Maduna, knew this all along, from as early as June last year when the claims were made.

It has also transpired that Mr Maduna was told three times, from three different sources, that his claims were wrong, and did nothing about it.

The second consequence, immediately after his original outburst, was a realisation by Speaker Frene Ginwala that the attack on the auditor-general's office was a significant constitutional breach.

The "mistake", as it has been described, was twofold.

First, according to parliamentary rule 99, no member "shall reflect upon the competence or honour of a judge of a superior court, or of the holder of an office .. whose removal is dependent on a decision of the House".

Falsely accused: Henri Kluever

It is one of the oldest rules, yet applies to – in addition to the Auditor-General post – such post-1994 institutions as the Public Protector, the Truth and Reconciliation Commission and the Human Rights Commission.

Chiefly, the reason for the rule is that representatives of these bodies have no right of response to allegations against them in Parliament, and, anyway, should not become the subject of unseemly, party-political point scoring that could undermine their status and function.

Secondly, and for similar reasons, the constitution says that "organs of state, through legislative and other measures, must assist and protect these (state) institutions to ensure their independence, impartiality, dignity and effectiveness".

In the light of these things, Mr Maduna was told of the error, but did not retract or apologise and the multi-party ad hoc committee whose finding was announced yesterday was formed.

What was the constitutional fuss about?

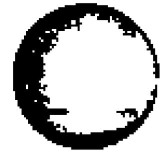
Wilmot James, executive director of the Institute for Democracy in South Africa, warned at the outset – a year ago – that Mr Maduna "has embarked on what appears to be a high-risk strategy" that risked "bringing down not just Henri Kluever, but the credibility of the entire institution".

Echoing the concerns of many, Dr James noted: "It would be regrettable to say the least if the body (auditor-general's office) whose purpose is to legitimate the very functioning of government is called into disrepute.

"Anybody who therefore questions the quality of the Auditor-General's work better know what they are talking about."

Selby Baqwa's inquiry is still under way and the outcome is being awaited with great interest within and outside Parliament.

What is clear from yesterday's finding is that for all the punchy style of his politicking, Penuell Maduna was definitely not boxing clever on that Wednesday last June.



Strike confusion as CCMA jumps the gun

(183) (LBA) BD 19/8/98

Reneé Grawitzky

THE Commission for Conciliation, Mediation and Arbitration (CCMA) jumped the gun yesterday in announcing that striking chemical workers would return to work tomorrow after claiming that agreements had been reached in five of the seven affected sectors

The Chemical Workers' Industrial Union (CWIU) denied that the strike was over and said agreements had been reached only in the industrial rubber and plastics converters sectors

CWIU assistant general secretary Nelson Nthombeni said negotiations were still in progress in the other sectors and the union was hopeful that settlements would be achieved "We cannot say workers are going back to work when there is no finality Why would workers go back to work if agreements have not been finalised?"

An industry observer said the CCMA's statement could place some delicate proposals intended to end the dispute in jeopardy and could put pressure on the parties The statement could also result in workers returning to work when the strike had not been officially called off

The statement was made yesterday by CCMA senior commissioner Kaizer Thibedi at a news briefing Thibedi claimed that agreement had been reached in five sectors, excluding petroleum and glass

He said parties would report back to their constituencies and that the commission was happy that its intervention had stabilised the industry and resulted in workers returning to work tomorrow

Employer spokesman Fanie Ernst said caution was needed in how the phrase "in principle agreement" was interpreted

He said parties had found possible solutions in some sectors which could result in settlements Ernst said the potential for deals was there, but parties had to take proposals back to their constituencies for consideration

Parties in the five sectors where agreements have yet to be reached were still in talks last night

Maduna suffers another setback

BD 19/8/98

(183)

Linda Ensor

CAPE TOWN — Minerals and Energy Minister Penuell Maduna suffered a further political setback yesterday when a multiparty parliamentary committee recommended that he withdraw damaging remarks he made about Auditor-General Henri Kluever.

In another of a series of embarrassments for Maduna, the committee unanimously found that he had contravened the rules of Parliament in June last year by making "inappropriate" statements about Kluever. He accused Kluever of failing to disclose a R170m "loss" from the Strategic Fuel Fund (SFF) in an audit.

After the committee hearing Maduna refused to accept that he had made a mistake in attacking Kluever's integrity and said he would discuss the matter with the African National Congress and his lawyers before agreeing to withdraw the statements

"I have nothing to withdraw. The documents speak for themselves. The country needs to know the context (in which the statements were made) and the documents at my disposal."

But Kluever, who previously explained the "loss" in terms of accounting procedures, said he had not found anything compromising in the documents which Maduna has handed over to Public Protector Selby Baqwa. He expressed dismay that the whole process of clearing his name was taking so long and was costing such a lot of money He hoped the committee's finding would hasten the proceedings.

Maduna, having barely emerged from a controversy surrounding the board of directors of the Central Energy Fund, was dealt another blow earlier this year when his legal adviser conceded that the R170m which Maduna had alleged was "missing" from the fund in fact was never missing. The adviser was testifying at a public protector's inquiry ordered by Parliament into the truth of the statements made about Kluever.

A parliamentary committee has recommended that Penuell Maduna withdraw damaging remarks made about Auditor-General Henry Kluever. Picture TYRONE ARTHUR

The ad hoc committee recommended that the National Assembly ask Speaker Frene Ginwala to order Maduna to withdraw statements suggesting that Kluever had concealed crucial facts about the SFF from Parliament If Maduna refused Ginwala could "sentence" him, perhaps ordering him to leave the assembly for a day, chairman Lindiwe Ngwane said

Maduna was found to have contravened Rule 99 which requires that criticisms in Parliament of institutions such as the auditor-general's office and the courts be made only by way of substantive motions This was to protect the dignity of these institutions

The committee, which did not consider the truth or otherwise of Maduna's statements, rejected the argument of his legal counsel, Kessie Naidu, that Rule 99 was not applicable to question time and interpellation debates. This view, members said, would legitimise all kinds of offensive statements during these proceedings.

Ngwane said if Maduna persisted in maintaining the truth of his statements, he could repeat them in Parliament by way of a substantive motion The committee would compile a report to be tabled in Parliament.

The controversy over the Central Energy Fund involved the appointment by the fund of International Advisory Services, headed up by Liberian Emmanuel Shaw, as personal adviser to former fund chairman Don Mkhwanazi on a R3m-a-year contract

Levy will ensure 'protection' of industry

Sasol calls for import duty on oil

CT (MR) 19/8/98 (183)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Sasol, the synthetic fuel producer, has asked the government to impose import duties on crude oil and liquid fuels in a move that will once again pit it against the rest of the domestic oil industry

In its June submission on the government's draft white paper on energy policy Sasol said a tariff could replace current restrictions on the import of refined fuel products as well as the synthetic fuel subsidy, which kicks in when the oil price falls below $17 a barrel and currently swells Sasol's income by about R100 million a month

Current regulations only allow existing oil refiners to import refined product, and then only if there is a national shortage

Earlier this year the department of minerals and energy blocked an attempt by the Airline Association of Southern Africa to import its own jet fuel

Richard Hughes, a Sasol spokesman, said yesterday that import tariffs would "ensure that the synthetic fuel industry in South Africa is protected in the same manner as the majority of other manufacturing industries in South Africa"

He said import control was one of the two pillars on which the regulation of the liquid fuels industry was based

"To ensure a phased deregulation of the industry, the government would have to maintain import control until the industry is fully deregulated at the end of the transition period," he said

Sasol said in its submission that the state's agreement with the World Trade Organisation (WTO) compelled it to phase out all quantitative import control measures by December this year Sasol suggested an alternative would be to impose import duties on crude oil and liquid fuels

"The attractiveness of such a system is that it could ensure that the objective of import control is attained yet (would) be fully in line with WTO principles Such a system could be used to bring protection for synfuels in line with WTO accepted practice and also be a source of revenue for government," it said

But the South African Petroleum Industry Association (Sapia), a lobby group representing oil refiners, said that import duties on crude oil or refined product would distort the market and prejudice oil refiners

Collin McClelland, Sapia's director, said tariff protection for Sasol should only kick in if there was a real danger of Sasol going broke because of low oil prices — an objective that would not be achieved by a blanket duty on imported crude.

"If there is going to be a system of protection, the current one is better because it is collected at the end-user level instead of inflating all costs along the chain," he said

McClelland said the government would have to come up with an interim measure of import control during the transition period.

□ Liquid fuels, Page 8

Guilty Maduna defends his behaviour

(183) CT (MR) 19/8/98

LYNDA LOXTON

Cape Town — An unrepentant Penuell Maduna, the minerals and energy minister, yesterday continued to insist that parliament should understand the context in which he made derogatory remarks last year about Henri Kluever, the auditor-general

This was after a special ad hoc committee had found him guilty of breaking a rule under which senior officials such as Kluever could not be disparaged in parliament It will now recommend to Frene Ginwala, the speaker of the national assembly, that Maduna be instructed to withdraw his remarks If he does not, he could be suspended from the house for a period set by Ginwala, usually a day

Maduna alleged on June 18 last year that Kluever had covered up the loss of R170 million in the Strategic Fuel Fund This claim is now being examined by Selby Baqwa, the public protector, in a separate investigation

Kessie Naidu, Maduna's lawyer, tried to persuade the committee to examine documents on which Maduna had based his allegations before finalising its decision

But the committee, which has steadfastly refused to get involved in verifying the truth of what Maduna said, again refused

CWIU strike is looking to end

By Mzwakhe Hlangani
Labour Reporter

THERE has been a breakthrough in the long-standing dispute between the Chemical Workers Industrial Union and the chemical industry following the intervention of Commission for Conciliation, Mediation and Arbitration to stabilise the industry

CCMA senior commissioner Kaizer Tibedi announced yesterday that in-principle agreements had been reached in the multi-sector negotiations to resolve the two-week-old strike by 47 000 CWIU members

Parties were required to consult their constituencies for ratification of the positions taken in the negotiation process before terms of the "in-principle agreements" were spelt out, he said

The petroleum and glass sectors were still locked in talks last night to reach a final settlement The industrial rubber sector agreed on final offers of nine percent and 10 percent for the lowest paid employees while plastic conversions settled on 9,5 percent Other sectors could not disclose their positions before reporting to their principals

Chemical Industrial Employers' Association chief negotiator Fanie Erens said both parties had found solutions to major points of dispute "Only minor issues need to be finalised"

He agreed with the CCMA's Tibedi that the strike might end tomorrow

CWIU spokesman Nelson Mthombeni also expressed the hope that final agreements would be reached soon, saying much progress had been made

The parties considered options over the weekend proposed by the CCMA last Friday The CCMA was asked to intervene to help stabilise the industry after deadlock had been reached The CWIU had demanded a 10 percent increase and the National Petroleum Employers Association had offered 8,5 percent

Meanwhile, *Sapa* reports that two unions representing workers of the Airports Company of SA were planning industrial action to protest against what they have termed the secret payroll of the company's management and its failure to resolve wage negotiations

The Transport and General Workers' Union and the National Education, Health and Allied Workers' Union had declared a dispute with the Airports Company management, Nehawu spokesman Allistair Charles said in Johannesburg yesterday

Sowetan 19/8/98

Minister rapped over 'damaging' remarks

(133)

Sowetan 19/8/98

By Joe Mdhlela

T[illegible] [illegible] dispute [illegible] Mineral and Energy [illegible] minister Mr Penuell Maduna [illegible] auditor-general Mr [illegible] Kluever entered a new [illegible] yesterday with the minister [illegible] found guilty by a parliamentary committee of using damaging [illegible] remarks about Kluever.

At the centre of the controversy was a claim that Maduna accused Kluever of having misled Parliament about the alleged theft of R170 million from the Strategic Fuel Fund (SFF).

Maduna also accused Kluever of not being transparent and "sloppy" during auditing procedures in relation to the books of the SFF and the Central Energy Fund (CEF) in 1994.

Part of the controversy included the loss of R5,2 million in a crude oil [illegible] hedging contract that was in contravention of SFF regulations.

Yesterday an *ad hoc* parliamentary committee found that Maduna had unjustifiably made "inappropriate statements" that were offensive to Kluever.

The committee also established that Maduna had contravened the rules of Parliament, in particular [illegible] 99, which stipulates that criticism of institutions created by Parliament, such as the office of the auditor-general, could only be made by way of a substantive motion.

The committee did not investigate the truth or otherwise of Maduna's allegations, as this is being handled by the public protector.

The committee rejected argument by Maduna's counsel, Mr Kessie Naidu, that the rule regulated the conduct of MPs only during debate and not during question time.

Earlier Maduna had sought to have the Parliamentary committee reconstituted, but the request was rejected.

During the hearing Maduna wanted representatives of the Democratic Party (DP), the National Party (NP) and Freedom Front to recuse themselves.

Maduna's lawyers argued that the presence of members of DP, NP and [illegible] FF had shown that during the [illegible] proceedings the hearing [illegible] the [illegible] was institutionally biased against Maduna.

After lengthy deliberations [illegible] committee unanimously re[illegible] recommended to Speaker [illegible] Ginwala that Maduna be ordered [illegible] withdraw the remarks in the House.

After the committee's decision was announced, Naidu said Maduna had accepted the decision. The committee had the support of the African National Congress (ANC) [illegible] up in August 1997.

Maduna had also charged that Kluever was not a qualified accountant, to which the auditor-general [illegible] saying that the [illegible] his office had been set out in the [illegible] other [illegible] independent [illegible] knowledge [illegible] information [illegible] that [illegible] public [illegible] Bojwa [illegible] investigation [illegible] SFF report.

The [illegible] committee's [illegible] will be [illegible] allegations [illegible]

During the hearing [illegible] Maduna's [illegible] the allegation [illegible] evidence [illegible] the R170 million [illegible] Maduna was nothing [illegible]

ARG 20/8/98 (183)

3 shot in strike violence

Johannesburg – Three petrol tanker drivers have been shot and wounded in KwaZulu Natal amid a continuing petro-chemical workers' strike, an industry official said today.

Lutz Kranz of the National Petroleum Employers' Asscociation (NPEA) said the shootings late yesterday had come just before the resumption of another round of talks to end the three-week-old wage impasse.

He said that while two other chemical workers' unions had reached a wage settlement last week, the 40 000-strong Chemical Workers' Industrial Union (CWIU) was still out on strike and employers believed its members were responsible for the violence.

"We believe that this is union-inspired thuggery of the worst kind, especially because these violent incidents have happened while we are talking," Mr Kranz said

He said the drivers were in a satisfactory condition in hospital. Mr Kranz said fuel delivery around the country – severely disrupted when the strike began on August 3 – was "stable but not normal" – Reuters

Apology by Maduna said to be enough

BD 20/8/98

PRESIDENT Nelson Mandela's office believed an apology from Minerals and Energy Minister Penuell Maduna to Parliament for breaking the house's rules was sufficient, presidential aide, Parks Mankahlana, said yesterday.

An ad-hoc parliamentary committee on Tuesday found Maduna guilty of making "inappropriate statements" about auditor-general Henri Kluever, thereby contravening the rules of Parliament

Mankahlana said that now that Maduna had undertaken to apologise, the president's office considered it appropriate to give the minister an opportunity to resolve the matter in a manner that acknowledged the dignity and integrity of Parliament

"The president, therefore, does not deem it necessary to consider any additional remedy to the situation as the matter is essentially for Parliament to deal with from the beginning to the end," he said

Mankahlana said Mandela applauded the thoroughness with which the house dealt with the matter.

The committee was established to investigate whether Maduna had contravened Parliament's rule 99 when he alleged during question time in the house on June 18 last year that Kluever had failed to reveal that R170m was missing from the Strategic Fuel Fund — Sapa

Comment: Page 17

State funds gas reserves for 5 more years

Mossgas gets new R2,2bn fuel lifeline

ET (MR) 20/8/98 (183)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Mossgas, the R12 billion state-owned fuel-from-gas producer, had been given government approval to borrow R2,2 billion to extend the life of its gas reserves by another five years, Keith Kunene, the chairman of Mossgas, said yesterday

In 1996 Mossgas received approval to spend R910 million on new compressors and pipeline extensions to stretch out the life of Mossgas to 2001

Also in 1996 the government conducted a costly "market testing" exercise to sell off the plant, which is believed to have cost taxpayers more than R12 billion since its construction in the late 1980s

CONTROVERSY
Energy's Penuell Maduna

Earlier this year Thulane Gcabashe, a top adviser to Penuell Maduna, the minerals and energy minister, said Maduna had suppressed alternative private sector proposals for Mossgas that could have saved taxpayers R985 million

After an acrimonious parting with Maduna, in which the minister demanded Gcabashe's resignation, Gcabashe went public with allegations that the Mossgas proposal "was very misleading, in that it was likely to lead the Cabinet to believe that it only needed an initial R180 million

"If the Cabinet approved the R180 million, it would actually be committing to what appears to be a flawed project requiring a total of R1,9 billion," Gcabashe said at the time

Kunene justified the expenditure yesterday, saying the development of the new offshore gas fields would save South Africa more than R1,5 billion a year in imported fuels

He said independent experts had verified the commercial and technical viability of the project, which is expected to earn a net cash surplus, in nominal terms, of R4,36 billion

Mossgas said it had approximately 8 percent of South Africa's petrol and diesel refining capacity

It said because it used indigenous raw materials, it saved more than R1 billion a year in foreign exchange through import replacements and exports

Over the past two financial years, the company earned a net operating surplus of R1 001 million, excluding tariff protection

Mossgas has previously said that it employed 8 000 people directly and indirectly

In lobbying for the funds, Mossgas told the parliamentary minerals and energy committee in February that the loan would extend Mossgas's life by up to 30 years, rather than the five years it now claims will be achieved through the expenditure.

Mossgas given R2bn govt lifeline

CT 20/8/98

JOHANNESBURG Mossgas, the R12-billion parastatal fuel-from-gas producer, has been given government approval to borrow R2,2bn to extend the life of its gas reserves by another five years, Mossgas chairperson Keith Kunene said yesterday.

In 1996, approval was given for Mossgas to spend R910 million on new compressors and additional pipeline to extend the life of Mossgas to 2001

The plant is believed to have cost taxpayers more than R12bn since it was constructed in the late 1980s.

Kunene justified the expenditure yesterday, saying that the development of the new off-shore gas fields would save South Africa more than R1,5bn a year in imported fuels.

● See Business Report

Violence hampers strike's resolution

Reneé Grawitzky BD 21/8/98 (183)

PETROLEUM employers warned last night that the resurgence of violence and intimidation associated with the chemical workers' strike was hampering a resolution of the three-week-old dispute

The warning was made during the resumption of negotiations with the Chemical Workers' Industrial Union (CWIU) yesterday when employers threatened to walk out of the meeting.

This week workers trashed the offices of a number of companies, including Caltex and Consol, causing losses estimated at more than R2m.

Yesterday a pharmaceutical company in Alrode, east of Johannesburg, was firebombed while a number of truck drivers were shot at, some sustaining serious injuries in the attacks

The National Petroleum Employers' Association said deliveries of petrol out of Island View depots in Durban were stopped over the past 24-hours due to shootings and high levels of intimidation

Employers said: "In a potential catastrophe, a nitrogen tanker on the way back to a company's premises had its windscreen smashed by a rock, causing the tanker to turn over onto another truck " Three people were injured in the incident and damage exceeded R1m

Petroleum employers said the union had agreed to address the question of violence after it became evident that this was slowing down the negotiations

A formal conditional offer of 8,5% was made to the CWIU.

A bilateral agreement was also reached between the union and Sasol, ensuring a return to work of Sasol employees tonight

The agreement provides for an 8,5% increase now and a further 0,5% from January

In addition, the union would support Sasol's application for variation from the Basic Conditions of Employment Act

CWIU assistant general secretary Nelson Nthombeni said Sasol was still committed to centralised bargaining and would remain part of the national employer body, despite the agreement

Pearl Sebolao reports that more than 300 striking workers at Eskom subsidiary, Rotek Industries, yesterday gathered at the company's Rosherville plant in Cleveland in a bid to force management to agree to their wage demands.

The workers, represented by the National Union of Mineworkers and the National Union of Metalworkers of SA, are demanding a 9,5% wage increase on a sliding scale and have rejected management's offer of a 7,3% across the board wage increase

Meanwhile, the Airports Company of SA will today meet the National Education, Health and Allied Workers' Union and the Transport & General Workers' Union in a bid to avert the threatened strike by the two unions.

Petroleum pay talks sputter on against backdrop of violence

(183)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — The talks brokered by the Commission for Conciliation, Mediation and Arbitration between the National Petroleum Employers' Association (NPEA) and the Chemical Workers' Industrial Union (CWIU) continued late yesterday, despite reports of widespread and serious violence

The 50 000-member CWIU downed tools three weeks ago over demands for wage increases and improved working conditions

The union is demanding a 10 percent wage increase against the employers' offer of 8,5 percent

Lutz Kranz, the NPEA spokesman, said although the association was in a situation characterised by extreme violence, it would "not be forced into a corner by the use of a violence" It asked the union to come out publicly against such acts

Krantz said CWIU members caused damaged estimated at R1,2 million at the Consul factory in Germiston, fired shots at fuel tank drivers in Umgababa in Natal, issued firebomb threats in Krugerdorp and committed a number of other serious acts of violence in various parts of the country

"The point is that we are negotiating under the rules of thuggery, we feel constrained and cannot negotiate adequately," he said

"We condemn the use of violence as a negotiating tool."

CT (BR) 21/8/98

SOWETAN Friday August 21 1998

Sowetan 21/8/98

Claims of violence as employers and strikers hold talks

By Mzwakhe Hlangani (183)
Labour Reporter

MOUNTING tension and rising incidents of violence at petroleum refineries in KwaZulu-Natal and on the East Rand were discussed at protracted talks between the Chemical Workers' Industrial Union (CWIU) and the National Petroleum Employers Association continued, industry sources said yesterday

There had been incidents of shootings, blockades and bomb threats directed at staff members and company installations during the strike by workers, according to NPEA spokesman Lutz Krantz

Three fuel tanker truck drivers were hospitalised after shots were fired at them while transporting fuel in Umgababa, near Malvern, on Wednesday night One fuel tanker was bullet-riddled after an attack by gunmen

In another incident, the stoning of a liquid petroleum gas tanker in Alrode, near Alberton, by mobs resulted in a near disaster, Krantz said

A bomb blast severely damaged a disused worksite in Chamdor, Krugersdorp

Notices have been placed on delivery trucks warning of bombs on the vehicles, he claimed, also charging that incidents of violence in picket lines had increasingly targeted truck drivers

CWIU spokesman Mr Nelson Mthombeni regretted the violence, damage to property and casualties that had characterised the strike

"We accept that in certain areas things went wrong We have situations where our members were also viciously attacked in KwaZulu-Natal"

Mthombeni emphatically condemned violence "from whatever quarter" and restated the unions' commitment to a peaceful settlement of the dispute

Agreements to resolve the three-week old strike between CWIU and industrial chemical employers had been reached in principle in the multi-sector negotiations, with the remaining petroleum and glass sectors thrashing out minor issues that had not yet been resolved

- At least 3 000 workers from Rotek industries, a subsidiary of Eskom, embarked on a strike yesterday after the Steel, Engineering Industries Federation of South Africa's bargaining council failed to resolve a wage dispute

Spokesman for the National Union of Metalworkers (Numsa) Mr Ben Molapo said the union demanded a 9,5 percent increase on a sliding scale but the company's final offer stood at 7,3 percent

The union insisted that lowest paid workers get 9,5 percent and the highest paid workers get 7,3 percent.

Protest action by Cosatu coming up

By Mzwakhe Hlangani
Labour Reporter

THE Congress of the SA Trade Unions will intensify protest campaigns to highlight unemployment, retrenchments, factory closures and its rejection of privatisation of public enterprises by staging a series of peaceful demonstrations nationwide in September

Cosatu deputy general-secretary Zwelinzima Vavi said the planned protest actions, including lunchtime pickets to begin on September 12, will culminate in marches throughout the country on September 23

Vavi said another campaign targeting the SA Reserve Bank and commercial banks to highlight high interest rates and the exploitation of consumers by the banks will be held in October

"Our intention is to build a broad coalition of these formations on a scale similar to the coalition against VAT in the early 1990s

"Cosatu regions and local offices are engaging the unemployed structures to seek participation in the campaign for job creation in preparation for the presidential job summit," he said

The federation's concerns were to create new employment both in the short-term and long-term, improve the quality of existing jobs, promote job security and stem job losses

Taking into account the changing pattern of employment creation and massive job losses, the labour proposal is for large-scale national "intervention of the Marshall-plan-type" which other societies have embarked upon to deal with social crises on a similar scale

"This is the vision which underpins the strategy contained in the reconstruction and development plan," Vavi added

On demutualisation and decisions taken by two major financial mutual companies, Sanlam and Old Mutual, Vavi reaffirmed Cosatu's opposition, saying the programme of mass action was geared at stopping this process

- Major chainstore Stuttafords yesterday locked out its employees following an ultimatum to force them to accede to management's final wage offer and its proposals for new conditions of employment

South African Commercial, Catering and Allied Workers Union (Saccawu) spokesman Pitso Tshukudu described the company's action as a pre-emptive strategy to counter today's planned march by workers to the head office to protest against management intransigence in the wage dispute

Saccawu is demanding a R280 a month increase, while the company is offering R140 a month

Chemical giant Sud-Chemie SA has mirrored the success of its German parent company and is now worth R400-million a year. GREG GORDON reports. JEREMY GLYN took the pictures.

One-stop shop for chemical needs

(183) ST (MT) 23/8/98

SUD-CHEMIE South Africa is a chemical industry success story Although it has a history in SA stretching back three decades, in the past 10 years the R400-million a year company has mushroomed, its number of employees growing from 50 to 350 in what has largely been organic growth

Sud-Chemie SA is a wholly owned subsidiary of Sud-Chemie AG, its DM1 6-billion parent company listed on the Frankfurt Stock Exchange

The company's three principal areas of activity are spread between its three business divisions: water treatment and environmental technologies; absorbents and additives, and catalysts

Sud-Chemie is one of the world's three largest producers of catalysts with sites as far afield as the US, Japan, Italy, India, Indonesia and SA

Sud-Chemie SA concentrates on manufacturing catalysts used in the production of petrol and diesel, bleaching clays used in the making of edible oils and the treatment of industrial process, potable and waste-water.

Ronnie Bowen, executive director of Sud-Chemie SA, says: "Our development in South Africa has been closely linked to some of the country's biggest enterprises — names like Sasol and Mossgas feature prominently in our history"

Sud-Chemie's initial activities here, however, were more modest, beginning 50 years ago when a local oil refinery using one of its products agreed to become the company's first SA trading partner. This partnership led to the formation of Unitex Chemicals which concentrated mainly on distributing Sud-Chemie's products in the region Further penetration into southern Africa came in 1972, when Unitex began to distribute the company's products in neighbouring countries as well.

Today, Unitex Chemicals is a subsidiary of Sud-Chemie SA and is involved in marketing and providing technical services for catalysts and mass transfer media

"The Sasol connection came about in 1981, when subsidiary African Catalysts (Afcat) oversaw the joint construction with Sasol and the Industrial Development Corporation of a plant in Sasolburg for the production of catalysts," Bowen says "The company has maintained close ties with Sasol ever since and has worked continually to improve the life span and yield of the plant Afcat currently has a thriving export business with products being distributed to Europe, the Americas and Asia"

> *'The future is exciting and challenging and will be geared towards exports'*

There was another successful joint venture when Sud-Chemie teamed up with US-based Drew Chemical in 1983. This partnership resulted in BHT Water Treatment in 1986, one of SA's largest water treatment companies Today, BHT's customers are spread throughout southern Africa and include large petrochemical companies, sugar manufacturers, breweries, steel mills and mines among others

Sud-Chemie began producing Tonsil bleaching earth locally in 1987 after forming a joint venture with Cullinan Holdings Sud-Chemie purchased the full business in 1992 and African Clay Chemicals (ACC) was formed ACC has become a favoured supplier of bleaching earths to the South African and African markets.

But perhaps Sud-Chemie's largest project has been building plants for the manufacture of zeolite catalysts for the synfuel programme at the Mossgas refinery in Mossel Bay Zeolite is used in refineries and petrochemical plants to improve the performance of petrol, diesel and lubricants, or to produce products used in the making of plastics and fibres The Industrial Development Corporation originally approached Sud-Chemie AG in the 1980s to develop new technology for the site

The company rose to the challenge, forming a joint venture company, Syncat, with the Central Energy Fund (CEF Pty Ltd) The Syncat plant was commissioned in 1990 and operations began at a second plant, SC Zeolites, in 1997 This latest R120-million plant manufactures products solely for export

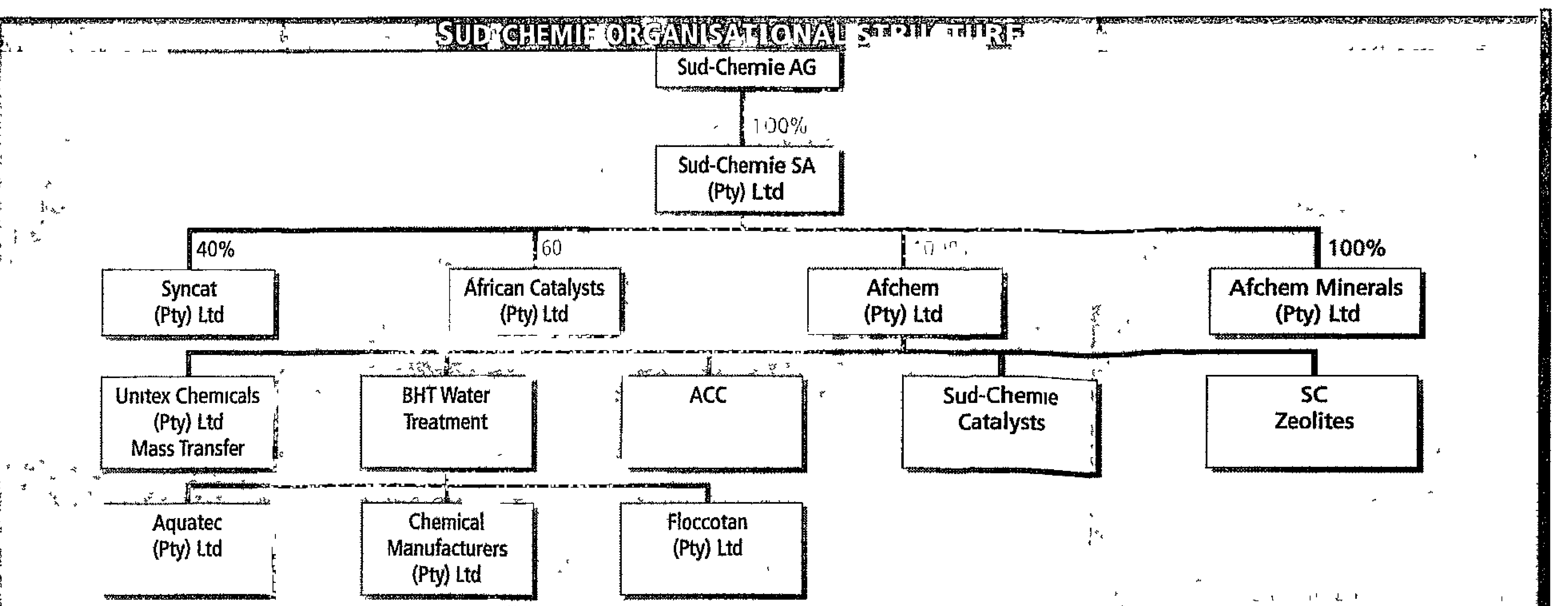
The company's latest acquisitions are Pretoria-based Aquatek and Floccotan, a Maritzburg-based company These companies complement the successful BHT Group and have produced what is effectively a one-stop shop for water treatment encompassing the concept of total water management

BHT, Floccotan and Aquatek, combined with the 1996 acquisition of Portals Water Treatment, can offer process, chemical, engineering, equipment and management services from raw water treatment through industrial and potable water applications to effluent treatment and disposal

"The future is exciting and challenging and will be very much export-geared," says Bowen

The Sud-Chemie SA group and its German parent, Sud-Chemie AG, are also firmly committed to developing and uplifting the previously disadvantaged in SA by promoting changes in the workplace and by instituting education and training programmes

WORKING FOR GROWTH . . . an employee repairing a water tank and executive director Ronnie Bowen are both part of the Sud-Chemie team



Sobering views on alcohol in petrol fail to curb Sasol

Despite serious misgivings from the motor industry, Sasol will introduce an alcohol blend into its 93 octane, writes DON ROBERTSON

(183) ST (BT) 23/8/98

SASOL intends introducing an alcohol blend into 93 octane petrol from December in spite of the "serious concerns" expressed by the motor industry and oil companies

The petrol, to be sold in Gauteng, parts of the Free State, Northern Province and Mpumalanga, will have a maximum of 12% added to its leaded 93 petrol, but Sasol has agreed to increase the ethanol content — a less corrosive extender — to 85% from the planned 55% This, it believes, will obviate the fuel system problems that were encountered when a similar petrol blend was used in the late 1980s

About 50% of all petrol sold by international groups such as Shell and Total in these areas is Sasol-based in terms of current agreements

The composition of the alcohol and additives in the alcohol/petrol blend will make it compatible with "all fuel system components of vehicles that are suitable for both local and overseas markets", says Sasol

Others in the industry are not convinced The technical director of a large manufacturer says Sasol has acted in bad faith

Motor manufacturers, the AA, the Motor Industries' Federation and oil companies petitioned the SA Bureau of Standards technical committee in May to change current legislation which allows alcohol to be used in petrol

Sasol appealed against this and now says the blend "complies with the SABS specification for 93 octane petrol"

The National Association of Automobile Manufacturers of SA (Naamsa) says it will have to wait for the results of a series of tests before it can "meaningfully" address the implications

"We have reservations and concerns for existing car owners and for future buyers Testing will confirm Sasol's claims that the petrol will be fully compatible with all fuel systems," says executive director Nico Vermeulen

He insists, however, the fuel should be "fit for purpose" and suitable for all existing vehicles

Naamsa warns, however, that should there be any warranty claims against motor manufacturers because of component failure as a result of the alcohol/petrol blend, these costs will be passed on to Sasol

"We (the motor industry) will put in place a warranty mechanism with an early warning system to detect any problems "

Discussions between Naamsa and Sasol regarding the cost of any warranty claims are currently taking place

Industry experts say that even if test results are positive, there could still be some problems

Alcohol has an affinity for water and will absorb any water in petrol tanks in cars or in storage tanks at petrol stations It will also release rust in tanks and this could be transferred to fuel systems

Colin McClellan, executive director of the SA Petroleum Industry Association, says his members will accept delivery of this product only if it is proved that it will cause no problems

One component producer, GUD filters, says that while its own petrol filters are compatible with alcohol, some nylon bodied filters are not

Sasol says the use of ethanol in petrol will reduce harmful exhaust emissions and cut back on crude oil imports, resulting in a saving in foreign exchange of about R260-million a year

Mossgas aims to do Oliver Twist act for the last time

BD 24/8/98

(183)

Mossgas does not expect to ask for public money again. CE David Day told senior assistant editor **Michael Acott** about his sub-sea highway

DAVID Day hopes he has done his Oliver Twist act for the last time Never again, he believes, will he have to ask Parliament for more money for Mossgas

This will come as a relief to taxpayers, the Mossgas CE has just persuaded Parliament to commit another R2,2bn to the scheme, which produces petrol and diesel from offshore gas Only two years ago, R900m of public money was approved, also on the basis that without it Mossgas would have to close by 2001

Many critics, including some in the local oil industry, argue for just that. They see Mossgas as a R12bn white elephant being fed ever-increasing amounts of taxpayers' money They want Mossgas sold for whatever it will fetch

Day argues, persuasively and at length, that this time things are different, that the R2,2bn is not just another payment but the decisive one that will change the nature of Mossgas

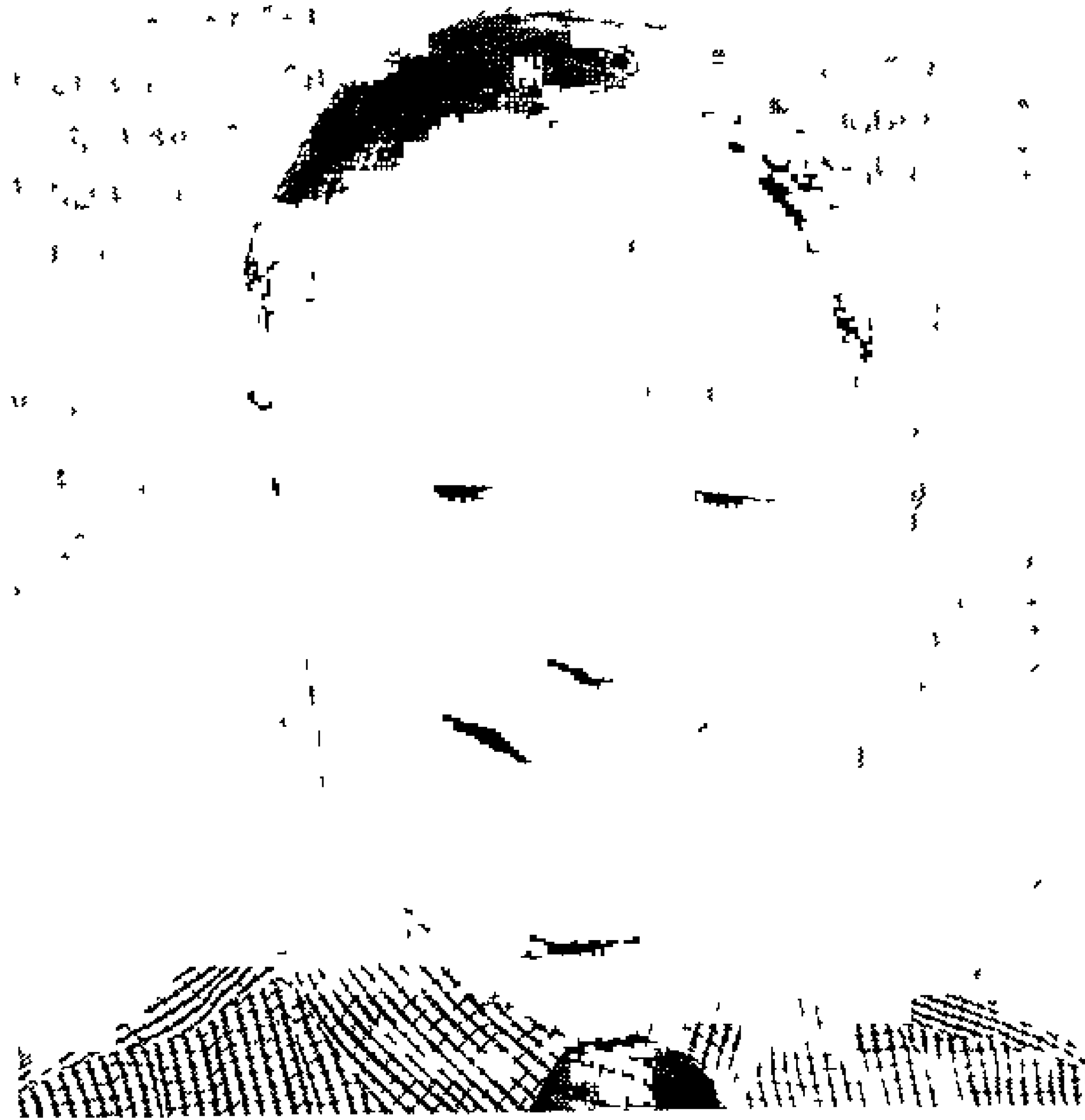
"We will become a business where before we were just a refinery," he said "Once Mossgas becomes a business, it has value to potential partners, it has value to potential shareholders on the stock exchange and it has value as the starting point for a national oil company"

All this will come about because the money will be used to exploit a new gas field, the EM field in the Bredasdorp basin off the Cape coast That will extend the life of Mossgas by a certain six years, by a probable 14 years and by a possible 20 years or more

Long-term supply in turn will open up the prospect of exploiting niche markets for existing products — Mossgas fuels, based on Sasol technology, are sulphur-free and "low in other undesirables" — and diversification into large commercial ventures in the chemicals and plastics industries

The result, Day said, was a state business ready for commercialisation and the full or partial privatisation government had in mind It is also why he believes he has held out the Mossgas begging bowl for the last time

The R2,2bn will largely be used to build what Day calls a 50km sub-sea highway from the Mossgas platform to the EM field This will allow for the relatively inexpensive exploitation of gas around the highway With a probable 14 years of economically recoverable gas, the next large capital outlay will be aimed at securing gas supplies after 2012



DAY

"By that time you have been commercialised long ago We must expect something in the next six months or a year on this score

"Once you have commercialised and formalised your business, you develop normal business practices and your sources of funding become the normal ones — the stock exchange, loan capital and gearing," Day said

Mossgas is run under what Day calls the "archaic and antediluvian" Central Energy Fund Act, in terms of which Mossgas cannot spend its own income For the past two years Mossgas has had a net operating income of about R500m a year, but its bank balance is effectively cleared daily into the treasury It is this cash flow from which the R2,2bn will come

This will be its last request, unless government decides to keep things as they are and not privatise or commercialise Mossgas

"Then, sure, in six years' time we will be back, cap in hand, asking for permission to spend our own income"

There are a number of caveats Supply is now assured, but there is still no agreement with the oil companies on the price they will pay for Mossgas fuels

Diversification into chemicals requires the permission — and probably the participation — of Sasol, because it is their technology

Some of these ventures would be world scale with international partners, Day said, and downstream operations were the ones that created jobs

He understands taxpayers' hesitancy about Mossgas, but advises them to forget that Mossgas was an expensive operation by the apartheid government to counter oil boycotts

It was now an asset with skills, technology and one of the most modern plants in the world

"If you look at it from a business point of view and take all the emotion out of it, it is a damned nice business"

He sees emerging black-controlled oil companies as potential partners in Mossgas

The oil industry is less keen on the fact that more public money will be going to a project which it believes has not been particularly well managed It wants Mossgas as well as the state exploration operation Soekor to be privatised, possibly as a black empowerment exercise, not merged into a state-controlled oil company

One executive said that while Day's job was to safeguard Mossgas and jobs there, he would be honest about the prospects "If he did not have a plan that would make Mossgas a worthwhile investment, he would say so"

Day, 58, does not expect to stay in the job much beyond 60 "I see my role to take Mossgas from where it was, with all its baggage, to the point where it has value in the eyes of potential investors It would give me no greater pleasure than to hand over a commercial operation, profitable and with a bright future, to representatives of new shareholders"

NEW

Pretoria soap workers slip up on strike

(183) (...)

ROY COKAYNE

Pretoria — Chemical Workers' Industrial Union (CWIU) members at Specialty Formulas, the Pretoria-based glycerine soap maker, had been found guilty of embarking on unprotected strike action, Brendan Sayers, the chairman of a disciplinary hearing, said last week

Sayers, a National Employers' Forum official, said 39 employees at Specialty Formulas, acquired recently by Beige Holdings, the listed pharmaceutical and cosmetics company, had embarked on a work stoppage on August 11 after giving seven days' written notice of intention to go on a sympathy strike

Specialty Formulas questioned the grounds for a sympathy strike, maintaining they were unaware of who the primary employer was and the nature of the dispute between the primary employer and the union.

Sayers said the union presented no evidence of the relationship between the primary employer and secondary strike, and the strikers were therefore guilty of having embarked on unprotected strike action

CT (PR) 24/8/98

Most employers accept terms of wage deal ranging from 8% to 10%

Mediation wins the day

CT (BR) 25/8/98 (183)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — The Chemical Workers' Industrial Union yesterday called on all its members to return to work after the terms of a wage deal ranging from 8 percent to 10 percent and proposed by the Commission for Conciliation, Mediation and Arbitration had been accepted by employers in five of the seven sectors

The remaining two sectors are the petroleum and industrial chemical sectors

More than 47 000 union workers were on a national strike during the past three weeks to press for better conditions of employment and a wage increase of 10,5 percent, which was later moderated to 10 percent across the board.

The strike was characterised by reports of widespread violence and destruction of property, especially during the second week, and led to the National Petroleum Employers' Association accusing the union of forcing the parties "to negotiate under rules of thuggery"

The parties settled at 10,5 percent last year, which led many analysts to cite that as an obstacle to a settlement as the previous year's figure was traditionally taken as a benchmark.

At one point, both employers and the union rejected suggestions by the labour department that the chemical industry be regarded as an essential services sector after the strike began to hit consumers

The earlier settlement by the smaller South African Chemical Workers' Union at a maximum range of 8 percent means a single company will find itself paying different wages to workers of the same grade depending on which union represents them

Deadline for final settlement may be drawn out to cater for outstanding sectors

Fanie Ernst, the employers' chief co-ordinator, said although some companies in the outstanding sectors had rejected the commission's proposals, "mop up operations" were continuing towards a final settlement.

Ernst said he was hopeful that "this whole thing would be settled this week"

The deadline for a final settlement might be extended to tomorrow to accommodate outstanding sectors

But Nelson Mthombeni, a union spokesman, said that "an agreement in principle" had already been reached with the petroleum and industrial chemical sectors and that the union expected to report back for work today

Malaysian company in R4,1m Engen takeover bid

Samantha Sharpe (183) BD 27/8/98

CAPE TOWN — Malaysian state oil and gas company Petronas has taken the market by surprise with a planned R4,1bn takeover attempt of oil group Engen, in which it acquired a 30% stake two years ago

While Engen and Petronas described the offer as "friendly", market sources indicated it was more likely the Malaysian offer was unsolicited.

Neither Engen nor Petronas were willing to discuss the bid — Petronas's offer is at a price of no more than R23 a share — until Engen's board met today when a decision on whether to recommend the deal to shareholders would be made.

However, analysts said the offer price of R23 a share was a "steal" and well below that at which Petronas took its initial stake in the oil group Petronas paid R34,50 when it acquired its 30% shareholding in June 1996 — at the time a 35% premium to the ruling share price.

While it could be argued that the R23 a share offer reflected a 16% premium to yesterday's closing price of R19,90 — the Engen share price bucked market trends to finish 38% higher after news of the deal — this probably did not reflect the fundamental value of Engen, which included a 57,5% share in oil and gas exploration and production company Energy Africa, they said.

One analyst said his investment house would encourage its clients to reject the offer out of hand.

"We think that even in the current environment of lower oil prices Engen is certainly worth a price well into the R30s," the analyst said.

At the same time, however, it was clear that Engen provided an ideal acquisition opportunity as one of the cheapest, most reasonable and well-run refining operations, with the Petronas offer possibly a "pre-emptive and defensive" attempt at warding off an alternate buyer, he said.

Market sources said that, in any event, Petronas would have to convince at least 90% of the remaining 70% of Engen shareholders that the deal was a winner, which meant any party now holding more than a 7% stake in Engen could block the transaction.

Larger non-nominee shareholders in Engen at the end of June consisted of Sanlam (7,7%), Rembrandt (4,3%), Allan Gray Investment Corporation (14%) and SA Mutual (11,8%).

Petronas GM Dalbir Singh said the group would put out a statement later in the week following the board meeting setting out the rationale behind the takeover attempt and its future plans for Engen should this fail

However, the group said at the time of acquiring its initial stake in Engen that this had been prompted by a desire to expand its upstream and downstream activities internationally and to grow its business into Africa and the Indian Ocean Rim.

Petronas in 'cheeky' offer for Engen

CT (BR) 27/8/98 (183)

MARC HASENFUSS
CAPE EDITOR

Cape Town — Engen, the integrated oil company, yesterday received a R2,8 billion buyout offer from Malaysian-based Petronas

On news of the proposed buyout Engen's shares spurted R5,40 to finish at R19,90, with almost 1,3 million shares changing hands The stock has been pitched at R23 a share

The board of directors of Engen confirmed an approach from Petronas Petronas holds approximately 30 percent of the issued shares in Engen

An Engen spokesman said if a firm intention to make an offer was put to the board, it would consider any such offer at its board meeting today

Energy Africa, controlled by Engen, said it was reviewing the situation with NM Rothschild, its financial adviser

An Engen spokesman said no further comment would be made on the proposed buyout offer until after today's board meeting

Market watchers expressed different opinions on the Petronas offer

One industry analyst, who asked not to be named, said the offer by Petronas was "cheeky" as it markedly undervalued Engen.

The analyst said the deal was ultimately a non-event which was unlikely to find favour with major Engen shareholders such as Sanlam, Rembrandt and Old Mutual

Johan Rupert, the chairman of Rembrandt, indicated last night that the company had made no decision over its stake in Engen

David Sylvester, the managing director of TA Securities, said it was an offer that minorities would find hard to resist, given the prevailing turmoil on the local market

Sylvester said "From this point of view Petronas' timing could not have been better"

Another oil industry analyst conceded that the offer was on the cheap side, but said historically Engen's underperformance probably meant the share price was on a march downward

This is despite expectations of strong profits for the financial year to August 31

Sources expressed concern over the effect of the proposed buyout on Energy Africa, which was largely perceived as an "African-owned" oil and gas exploration company

MOSSGAS

Race is on to save a costly white elephant

(183) CT(BR) 27/8/98

LYNDA LOXTON

After a lot of hard lobbying, Mossgas, the state-owned oil from gas producer, won a reprieve from imminent closure last week when the government approved its plans to borrow R2,2 billion to extend its life.

Whether this was the best course of action will remain contentious, not least because Mossgas's apartheid era past arouses strong feelings in many parliamentarians Most would be quite happy for it to be shut down but Dave Day its chief executive, has often told them love it or hate it, Mossgas exists The question now is what are you going to do with it?

Day is the first to admit that the development of Mossgas was "very helter-skelter and very rush rush", and when it started production in 1993 it soon became clear it was a misguided project.

According to the International Energy Agency, part of the blame for this lay in the fact that during the design stage it had been decided to use Sasol technology. This meant that the processing rate was increased to 45 000 barrels a day compared with the originally planned 25 000bpd

That was great in theory at a time of oil sanctions when South Africa needed to make as much synthetic fuel as it could. But the problem was that the gas reserves it was tapping into off Mossel Bay did not have enough pressure to support the higher plant rate.

The government was then virtually forced to approve the investment of another R443 million to extend the life of the plant by putting in compressors and additional underwater equipment But that only extended the life of the plant to 2001, "in which case the last person to leave switches out the lights", Day recently told the portfolio committee on minerals and energy

"If there is no gas, Mossgas shuts down or gets used for some other purpose, or is sold as scrap. So Mossgas is a white elephant, it is practically worthless as it stands at the moment."

To get value out of this state investment, which has gobbled up R10 billion to date, Day and his team have been looking at the alternatives

"We have proven gas reserves for six years," Day said "It is out there in the EM field, the question is spending money to take it out. But we also have prospects which could add on another 14 years, and there could be additional gas after that."

The EM field is 49km west of the FA field, which is situated off Mossel Bay on the east coast. If the EM field could be tapped, that gas could be used to continue making synthetic fuel, saving the country some R1 billion a year in foreign exchange for imported oil

It could be used to make chemicals, which would earn the corporation more, but Mossgas would have to reach an agreement with Sasol and pay it compensation for competing with it in this market.

Another option would be to supply gas to the industrial market, mainly via a pipeline to the Western Cape.

"That could be a lucrative business, not as an alternative to Mossgas but in addition to Mossgas," said Day.

Day and his team, meantime, have developed their own scenario of the future — which they have spent the past year lobbying for

Their plans include a 55km undersea 18-inch pipeline to the EM field from the platform at the FA field But there are risks involved This pipeline will be the second longest in the world, after a 60km pipeline off the north coast of Australia The pipeline will be controlled by satellite from the FA platform

"It is sophisticated technology and state of the art," said Day "Five years ago this would not have been possible, but technology has advanced tremendously fast, with developments in the North Sea and off the coast of Australia So we are now in the position where we can develop this EM field without having to put in a new platform, which would make it even more expensive."

The new gas reserves will also be tapped by drilling up to 2km horizontally under the sea bed to get at a seam of gas-bearing sandstone. This is also new technology — until two years ago the longest horizontal drilling was 500m.

Drilling at such depths has its own dangers, including the fact that the consistency of both gas and materials used changes considerably under such pressure This could increase the costs of the project The project is now expected to cost R2,2 billion over six and a half years and could earn an additional R10 billion, with a positive cash flow of R5,6 billion

"But the exciting part is what else is out there," said Day

In conjunction with a Norwegian company, Mossgas has been dong some more exploration and development in the area It has found several promising new gas fields, which could all be linked by the planned pipeline to the existing platform

"We think that for a very marginal additional cost we could then increase six years of gas in EM, which will confirm that we can get up to 20 years of gas out of this area," said Day

"It might not be 20, it might be 16, but everybody is very confident there is a lot of gas.

"We should know what this area really looks like in the first quarter of 2000"

The findings will answer the question whether the government's R2,2 billion gamble has paid off For Day and his team that would be a gas.

Workers to return

MOST of the striking petrol workers are due to return to work today after an agreement was reached between the Chemical Workers' Industrial Union and the National Petroleum Employers' Association, the NPEA said yesterday Sowetan 27/8/98

The agreement did not include Caltex, as the company and the CWIU were still in dispute

According to the agreement reached between the union and other employers, CWIU members would receive an 8,5 percent increase on basic salaries retrospective from July 1 this year Added to that they would get a further 0,5 percent increase on their basic salary as on June 30 this year

The minimum monthly wage would be R2 000

The strike by 47 000 CWIU members in the chemical industry started on August 3 Members in all the other sectors of the industry, except for the industrial chemicals sector, returned to work earlier this week after reaching agreements with their employers – *Sapa*

Sasol subsidies under spotlight as claims on fund rise

CT (MR) 31/8/98 (183)

Lynda Loxton
Parliamentary Correspondent

Cape Town — Pressure is growing on the government to review its subsidies to Sasol, the synfuel company, as the weaker rand and low oil prices push up claims on the equalisation fund operated by the Central Energy Fund, sources claim

The government made a commitment in 1995 to subsidise Sasol every time oil's dollar price dropped below $17 a barrel With the price well below that level for most of this year, plus the weak rand, the subsidies due to Sasol have increased massively

The equalisation fund is said to be running perilously close to empty It has been estimated that it should be topped up by at least 8c a litre to continue paying Sasol

It is understood the Cabinet has so far refused to sanction the rise in fuel levies, mainly because of the petrol price rises forced by the weaker rand Thus, the minerals and energy department faces the prospect of either arranging an overdraft for the energy fund or stop paying Sasol.

But analysts believe so much has changed in the assumptions about the exchange rate and inflation used by Arthur Andersen, the accounting firm, to work out the subsidies that the issue needs a review They believe Sasol might not be due a subsidy at all.

Analysts have criticised Sasol for continuing to insist it be paid what it calls "tariff protection", saying if the payments stopped it might have to shut down its synthetic fuel plants

They say tariff protection is based on the dollar price of oil while the input costs of Sasol's low-grade coal and refinery operation are rand-based In addition, the rand price received for synfuel production is relatively high considering improved refinery margins and the weak rand

"Perhaps the time has come for Sasol to publicly disclose the real costs of synfuel production, taking account of depreciated plant, operating costs and transfer prices for coal and chemical intermediates," said Mbendi Information Services recently

But Sasol believed the government would deal with the issue "in a responsible way", it said on Friday

"When the equalisation fund levy was reduced and transferred to fuel tax following the reduction in the protection floor price, the synthetic fuel industry was given assurances by the government that, should the need arise in future to increase the levy because of low crude oil prices and thus increased tariff protection, it would be done We have no reason to believe that the government will renege on their 1995 agreement "

NE

Vehicle makers take up issue of alcohol-blended petrol

Sasol 'will be responsible'

ROY COKAYNE

Pretoria — Vehicle manufacturers would hold Sasol responsible for any consequential warranty claims resulting from blending alcohol with some of its 93 octane petrol, a National Association of Automobile Manufacturers of South Africa (Naamsa) spokesman said yesterday.

"The manufacturers are quite firm on this.

"In line with worldwide practices, the fuel produced and supplied by all companies must be suitable for the vehicle park, and Sasol must guarantee the quality of its fuel," the spokesman said.

Alfonso Niemand, the communications manager for Sasol, said the company was confident that the petrol/alcohol blend would not cause any inconvenience to motorists.

"In the unlikely event of cases of incompatibility between the blend and vehicle fuel systems, Sasol will ensure that the motorist is not out of pocket," Niemand said.

He added that the question of consequential warranty claims resulting from the introduction of the petrol/alcohol blend from December 1 this year had not yet been discussed with the vehicle manufacturers.

However, the Naamsa spokesman said Sasol was claiming that it was the joint responsibility of the vehicle manufacturers and Sasol to ensure their vehicles could operate on alcohol-blended fuel.

The spokesman said vehicle manufacturers were testing the blended fuel on their vehicles to confirm its compatibility with the components and fuel systems of their vehicles.

He said Naamsa was comfortable that there should not be any problems with the petrol blend but had a standardised warranty system in place that would highlight any problems at an early stage

"One must acknowledge the addition of alcohol to petrol is not without precedent and has some positive features, such as enhancing the octane of fuel, and has certain benefits in terms of emission," the spokesman said

"However, Sasol has failed to mention that the maximum level of alcohol in petrol in Europe is 5 percent by volume while the SABS standard is 12 percent by volume, which is quite different," he said

Niemand stressed that motorists would not incur any extra costs when they filled up with Sasol-produced petrol that contained alcohol.

Fawu threatens legal action on the tobacco bill

FROM SAPA

Johannesburg — The Food and Allied Workers' Union (Fawu) yesterday threatened legal action if Nkosazana Zuma, the health minister, did not withdraw the Tobacco Products Control Amendment Bill as tabled in parliament on Monday.

Sabata Ngcai, Fawu's media officer, said Zuma last Friday granted a three-week extension to the submissions deadline for the bill. But this extension was violated when the bill was tabled in parliament on Monday

Ngcai said this concerned and angered the union

"Fawu feels the action taken by the minister is not compatible with the principles of democracy enshrined in our constitution"

The bill intends to ban smoking in public places as well as all forms of tobacco advertising

Mkhwanazi's R2,4m a year

(183) M+G 4-10/9/98

Mail & Guardian reporter

The *Mail & Guardian* has had a glimpse of the financial rewards enjoyed by Don Mkhwanazi, the former chair of the Central Energy Fund whose decision to hire Emanuel Shaw II, his friend and businesss associate, triggered the state oil scandal

Documents obtained by the *M&G* show that in 1996 Mkhwanazi was earning R2,4-million a year and he held assets worth more than R7-million This was before he was appointed to head the state oil fund by Minister of Minerals and Energy Penuell Maduna

Mkhwanazi owned four properties, including a R1,3-million house in Hillcrest and three timeshares His shareholdings included R3,5-million in a company called Dynamo Investments and R640 000 in Freightliner

He earned R1,2-million a year in salaries from the Southern African Bank — which was still in the process of being formed — Marketing & Management Renaissance and the National Empowerment Trust Investment Fund A retainer as a consultant with the Phaphama Corporation earned him R600 000, and dividends from investments a further R330 000 He held 11 directorships, including the chair of the National Empowerment Trust

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New medicine regulator proposed

(183)

Draft legislation paving the way for the establishment of an independent medicine regulatory authority, to replace the Medicines Control Council, was tabled in Parliament yesterday

According to a memorandum attached to the South African Medicines and Medical Devices Regulatory Authority Bill, the regulation and registration system for medicines and medical devices – established by the 1965 Medicines and Related Substances Control Act – was unable to meet the challenges currently facing a medicines regulatory system.

The proposed new body – the South African Independent Medicines and Medical Devices Regulatory Authority – will attend to the monitoring, evaluation, regulation, investigation, inspection, registration and control of medicines, complementary medicines, veterinary medicines, medical devices, clinical trials and related matters.

The authority will have the sole responsibility for the technical evaluation, regulation and registration of medicines and medical devices. In terms of the bill, the authority has to appoint standing technical committees consisting of experts and people with skills and experience in the area of medicines and medical devices.

A board appointed by the minister of health will be responsible for managing the authority

The bill addresses the confusion regarding the regulation of veterinary medicines, by removing stock remedies from regulations in terms of the Farm Feeds, Fertilisers, Agricultural Remedies and Stock Remedies Act. Veterinary medicines would now be regulated by the authority, it says

The bill also gives long overdue attention to the proper recognition and regulation of complementary medicines As the disciplines of orthodox and complementary medicines were in many ways different, the bill provides for determining different guidelines for evaluating orthodox medicines, complementary medicines, and veterinary medicines or devices – Sapa

BDay 4/9/98

To sell or not to sell is the question at Engen

ET (MR) 4/9/98 (183)

MICHAEL WANG

Johannesburg — Shareholders of Engen, the integrated petrol company, face a tough call over whether to accept an unsolicited takeover bid of R23 a share from Petronas, the state-owned Malaysian energy conglomerate, or to wait and see whether a sweeter offer, or rival bid, materialises.

Analysts say the offer represents a hefty discount to Engen's asset value. Engen is already 30 percent-owned by Petronas.

"I'd put fair value closer to R34, so this offer sticks in the throat a bit," said Keld Randleff-Rasmussen at Investec Group.

Campbell Parry, an analyst at HSBC Simpson Mckie, values the oil and gas exploration and production company at R30 a share.

But whatever Engen's true worth — and projections vary according to onlookers' assessments of the company's speculative west African exploration interests — Petronas' low-ball bid has not been dismissed.

That is because it represents a 59 percent premium to Engen's closing share price of R14,50 the day before Petronas made its surprise offer, and stands 25 percent above the stock's average trading price over the past six months.

Shareholders have received little direction from Engen's board, which late on Friday said while the offer "does not reflect the full value of the company given the existing market conditions, the independent directors have encouraged Petronas to put the offer to shareholders and recommend that shareholders give (it) serious consideration".

"It boils down to whether you are prepared to ride out the storm and hope to see the share price recover, or take the offer and run," said Parry.

Engen shares opened the year at R24,75 but hit a low of R14,20 on July 24, a fall of 43 percent.

The first sign Petronas was winning the battle for Engen shareholders came at the weekend, when Gensec Asset Management (GAM) "irrevocably" agreed to tender its 8,1 percent stake at the Petronas price of R23.

If Petronas succeeds in buying the remaining 70 percent of Engen at that price, it will get it for about the same amount, $436 million, it forked over for its initial 30 percent interest in 1996.

"Everybody knows it's an undervalued bid, but it might go through if you consider where the oil price is and the state of financial markets," said Parry.

GAM's 14,5 million shares lifted Petronas' stake in Engen to 38 percent, still well short of the 90 percent required under national securities regulations to force remaining minority stockholders to relinquish their shares.

Those who have not yet tipped their hands include investment group Allan Gray Investment (14 percent) and insurer Old Mutual (12 percent). Analysts believe they will wait a little longer to see whether a rival bid emerges or Petronas sweetens its offer. Engen closed 60c off at R19. — Dow Jones

Mossgas gets a reprieve after signing R2,2-bn oil development deal

(183) DRG 5/9/98

JERMAINE CRAIG

The state-owned Mossgas plant, long regarded by many as a R14-billion white elephant, has signed a R2,2-billion deal with a foreign company that could extend its lifespan by at least another 30 years

The deal between Mossgas and the joint British-United States Dresser Kellogg Energy Services company, signed at the Mossel Bay plant yesterday, means the jobs of 8 000 people, employed directly and indirectly by the project, will be preserved.

Harry Hill, Mossgas's public affairs manager, said the company, which supplies 8% of the South Africa's transportation fuel needs, only had enough gas reserves to last until 2001

But he said the new deal ensured that the future of Mossgas looked very positive

The new project, one of the biggest offshore construction contracts signed in South Africa, will use advanced underwater drilling techniques to develop gas fields from the Mossgas plant to near the Bredasdorp Basin.

The two-phase project involves drilling up to five underwater gas wells near Bredasdorp. These will be connected by underwater pipeline to Mossgas's existing plant

The first phase is scheduled for completion in April 2000 and the second a year later.

The project will also provide the infrastructure for the discovery and development of other gas reserves found near the Mossgas plant.

"The significance of the development is that it will immediately give us gas for another six years," Mr Hill said

"It will also include exploration of expertise, which could extend the life of gas fields to Mossgas for up to 30 years," he added

Mossgas says the project could save South Africa about R7,5-billion in imported fuels over its lifetime

Mr Hill said now that the short-term future of Mossgas was secure, the company was considering expanding its scope to include other projects such as converting gas into other chemical products, like materials for the plastic industry

The new projects could lead to large-scale job creation, he said

He denied reports that Mossgas had been on the verge of financial collapse, saying that in the past two years the company had made an operating surplus of more than R1-billion

"The story that Mossgas is propped up by the State with subsidies is a myth.

"The future of Mossgas looks very positive and we are fully confident that Mossgas could make a significant contribution to the economy, particularly that of the Western Cape," Mr Hill said.

R2,2 billion deal for Mossgas and British firm

(183) Sowetan 7/9/98

By Isaac Moledi

SOUTH Africa is set to save more than R7,5 billion in imported fuels following a R2,2 billion agreement signed between local oil-from-gas producer Mossgas and the British-based Dresser-Kellogg Energy Service on Friday

The contract, signed on behalf of the two companies by Mossgas chief executive David Day and president and chief executive of Dresser Enterprises Incorporated John Kennedy, will develop the EM gas field and its satellites about 110 km southwest of Mossel Bay

Mossgas said in a statement that the EM project will over its lifetime save South Africa more than R7,5 billion in imported fuels

To execute the project, the companies formed what is known as the Bredasdorp Alliance, the largest contract ever in South Africa utilising alliance principles Alliances are used frequently overseas for this type of project and provide for the contractor to share in both the risk and rewards of the contract

The two-phase project involves the drilling of up to five subsea wells into the EM field, with two wells to be drilled in the initial phase A single dual lateral well will be drilled into the EBF field immediately after the first two EM wells

The first phase is scheduled for completion in April 2000 and the second phase a year later

The gas and associated condensate from the wells will be moved ashore in the pipelines used at present for the same purpose for gas and condensate from the FA field

The EM-FA pipeline design allows for the tie-in of more gas field into the system in future as the project also covers exploration and appraisal of other prospects in the area Exploration drilling in the nearby FH field will start in November 1998

The FA fields will be depleted in 2001 and the new project will ensure continuity of gas supply and profitable operation of Mossgas until at least 2006

Gas prospects in the Bredasdorp Basin could provide Mossgas with sufficient gas until 2030

Mossgas says this will allow the company to diversify into petrochemical production, with concomitant opportunities for job creation through new downstream industries supplied by Mossgas

Dresser Kellogg Energy Services, a successful multi-national oil and gas service business with established offices in Houston and London, provides project management and support services worldwide

NO PIPEDREAM *John Kennedy (left), the president of Dresser Enterprises, and Dave Day, the CEO of Mossgas, believe Mossgas is a viable commercial entity* PHOTO JOHN WOODROOF

Mossgas heading for R750m profit

(183) ET(BR) 7/9/98

Jonathan Rosenthal
INDUSTRIAL EDITOR

Mossel Bay — Mossgas, the state-owned synthetic fuel-from-gas producer, is expected to report an operating profit of around R750 million for the financial year to March, Dave Day, the chief executive, said last week

Day said the increase in earnings was largely attributed to the fall in the value of the rand, as sale prices are dollar-denominated while costs are rand-based

Over the past two years Mossgas, which is often derisively referred to as a white elephant, generated a net operating income of R1,1 billion

Day said he felt Mossgas would be ready for privatisation within 18 months, at which stage the extent of its gas reserves would be known

At present Mossgas has sufficient developed gas reserves to last until 2001

On Friday the group signed a $300 million contract with Dresser-Kellogg Energy Services, a US oil and gas services group, for the development of new gas fields

John Kennedy, the president and chief executive of Dresser Enterprises, said he was confident the project would extend Mossgas's life by eight years while laying down the infrastructure that would allow it to exploit potential gas fields in the area

"We began to think laterally and said why just extend the reserves for five years and set a goal of 30 years and we have good technical reasons to believe we can do this," he said

The new wells being drilled in the EM fields will be equipped with modular underwater equipment and a floating unmanned buoy that can later be moved to recover gas from new fields as they are discovered

"I would contend that we are not dealing with a white elephant (but) a viable commercial entity," Kennedy said

Day said Mossgas was establishing a small exploration team that would soon begin work on extending the proven gas reserves

"In the first quarter of 2000 we will have a very good grip on the expected life of Mossgas's supply," he said

Druggists oppose doctors' lists

ADELE SHEVEL

Johannesburg — Representatives from major multinational pharmaceutical companies met on Friday to fight doctors' demands for payments to ensure their products stayed on prescription lists

Pharmaceutical manufacturers claim that doctors, through independent practitioner associations (IPAs), are forcing them into a corner as the lists which doctors prescribe from, known as the formulary, include products covered by medical aid schemes

In order for these products to remain on the formulary, manufacturers have to pay an initial listing fee and rebates based on incremental usage to a formulary management company, which handles the formulary on behalf of the IPA

Certain medical aid schemes charge additional payments if items not included on the list are prescribed by doctors

Several sources from multinational drug companies, who do not want to be named, have called for a halt to this practice One insider has described the practice as verging on "extortion"

The IPAs claim they are working within the managed healthcare system to pass on the benefit to the patient, but manufacturers contend the customers receive no financial benefit from the practice

The meeting on Friday was spurred by the implementation of a new scheme by African Health Synergy, a joint venture between Sanlam and the South African Medical Care Coalition (SAMCC)

The SAMCC is backed by medical aids Sanlam, Southern Healthcare, Telemed and Old Mutual Healthcare

Pharmaceutical companies have until September 15 to decide whether or not to join the scheme

Danie Struwig, the formulary convener at the SAMCC, said African Health Synergy's formulary was in existence and had no payments for any company to be listed "Our system should not be confused with other mechanisms prevailing in the market"

Struwig said manufacturers would pay 0,5 percent of the company's volume sales Manufacturers have been asked to consider paying 0,5 percent of the wholesale price of the product every two months as the listing fee In return, manufacturers would receive information to be used as a platform to start treatment protocol

(183) CT(AR) 7/9/98

'SA is pricing itself out of tourism market'

Oil industry, airlines clash on fuel prices

CT(BR) 9/9/98 (183)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The oil industry and international airlines crossed swords in parliament yesterday at a special hearing on allegations of profiteering in the sale of jet fuel at Johannesburg International Airport.

John Morrison, the chief executive of the Airlines Association of Southern Africa, told the transport and minerals and energy committees that jet fuel prices were "excessive and above world averages".

He said the airline industry was paying between R200 million and R300 million more for jet fuel in Johannesburg than at 100 other airports around the world.

He blamed this extra cost on an archaic pricing system for jet fuel and high transport costs, and warned that this system was pricing South Africa out of the international tourism market.

He was backed by senior officials from British Airways and South African Airways as well as Jerry Batik, the Geneva-based fuel trade adviser of the International Air Transport Association.

But their views were disputed by representatives of the South African Petroleum Industry Association (Sapia), Sasol, Petronet and the department of minerals and energy. They said prices at Johannesburg were competitive and could not be strictly compared with other prices around the world.

Colin McClelland, Sapia's director, said it might not be as easy or cheap to import refined jet fuel as some might think. Issues such as quality control, safety, freight costs and losses had to be taken into account.

Charl Moller, the chief executive of Petronet, denied allegations that Petronet was making "massive profits" by still charging higher rail tariffs for jet fuel moved by pipeline from Secunda.

"We have come a long way from the time when we were branded as the snake in the grass," Moller said.

Hein Baak, the deputy director-general in charge of liquid fuels, said the government remained opposed to jet fuel imports unless demand exceeded local supplies.

Duma Nkosi, the chairman of the minerals and energy committee, said all the parties involved had a long way to go before seeing eye to eye. He said he would urge the department to speed up its planned deregulation of the liquid fuels industry, which could resolve many of these problems

☐ Business Watch, Page 2

Govt in bid for Sasria's excess billions

BD 9/9/98

Linda Ensor

CAPE TOWN — Government and the short-term insurance industry are at loggerheads over plans to convert the R10bn SA Special Risks Insurance Association (Sasria) into a state-owned company that could appropriate the insurer's excess reserves to reduce government debt.

As sole shareholder, the state would be able to restructure Sasria, which is now a section 21 nonprofit company under the control of short-term insurers, without the latter's approval.

In terms of the Conversion of Sasria Bill, presented to Parliament's finance committee yesterday, the state would no longer function as underwriter of last resort with unlimited liabilities.

Sasria and the SA Insurance Association (SAIA) objected to the proposals, which they said amounted to the nationalisation of a private company without compensation.

Sasria said the proposals were unconstitutional while SAIA warned they would have "serious economic repercussions and result in a significant increase in insurance premiums".

SAIA CE Barry Scott said: "The bill in no way caters for how the rights of the existing members are to be dealt with on conversion or in the future. This is a glaring shortcoming."

SAIA was concerned that the diminution of Sasria's reserves would result in a premium increase, at least in the order of 500%.

Both organisations objected to the lack of consultation over the bill and appealed to government to delay the legislative process so that talks about Sasria's future could take place. Sasria suggested that a consortium of short-term insurers take over the section 21 company, with government remaining the lender of last resort.

Sasria was established in 1979 to cover political riot risks when no short-term insurers were willing to do so. It now also covers labour disturbances and lockouts and provides special risk cover to all policyholders of its members, the 48 short-term insurers who act as its agents. It is exempt from tax and has reserves of about R10bn built up through premium contributions. About R3,3bn of this is held in government and semi-government bonds.

Finance deputy director-general Coen Kruger said the state's slice of the reserves could be taken by cancelling part of this debt to Sasria. This would also wipe out the state's servicing obligations for the debt.

An independent actuary would determine the extent of Sasria's reserves which exceeded its current business requirements, he said. While claims against Sasria in the 1996/97 financial year increased dramatically from R17,8bn to R41,6bn, it still had a substantial underwriting surplus.

In terms of the bill, government's obligation to carry Sasria's entire reinsurance risk would be terminated, but existing agreements would be honoured. The open-ended risk would be replaced with one limited to Sasria's capital reserves.

Kruger said the bill had an inbuilt flexibility in that it allowed government to share the risk with the private

Continued on Page 2

Petronas succeeds in bid for majority stake in Engen

(183)

Samantha Sharpe BD 9/9/98

CAPE TOWN — Malaysian state oil and gas company Petronas has secured a controlling stake in Engen after a decision by a second significant minority shareholder to accept Petronas's bid.

Petronas announced its intention to increase its initial 30% stake in Engen to 100% late last month, a move supported by Gensec Asset Management which pledged its 8% stake in Engen at the offer price of R23 a share.

Market sources said yesterday that Allan Gray Investment Corporation, which owned an estimated 10% stake in Engen, had also agreed to the Petronas offer. This, together with Petronas's substantial buying in the market, had secured Petronas a controlling stake. Engen's share price closed at R21,50 yesterday, up from R20,25 on Monday, with 3,3-million shares traded.

Spokesmen for Allan Gray Investment Corporation could not be reached for comment.

Petronas president Tan Sri Hassan Marican said that as a result of the decision by two of Engen's three significant institutional shareholders to accept the offer and market purchases, Petronas either owned or had agreed to acquire an effective 50,25% in Engen.

This had allowed Petronas to waive its initial acceptance condition — initially Petronas made the offer conditional on gaining 90% support from shareholders, or a lesser amount as decided by Petronas — after which it had planned to delist the Engen group.

Marican said: "We are delighted that two of the three largest institutional shareholders of Engen have given their clear support to our offer, enabling us to remove the acceptance condition.

"We hope that other shareholders will now accept our offer which was made at a 57,8% premium to the share price on August 25."

"It should also help to facilitate black economic empowerment and assist oil and gas exploration and production company Energy Africa's development in the upstream sector," he said.

Peeling the whole banana to feed the oil beast

ET (MR) 10/9/98

(183)

JONATHAN ROSENTHAL

Last week Dave Day took me to the place where he works a succession of pipes racing across the dunes, a tableau of giant white melons perched on the edge of the ocean

With this, Dave Day makes oil

When nature makes oil, it starts off with lots of sunlight The light feeds algae, millions of generations of barely visible plants that grow and die and sink to the bottom of the ocean

In much the same way as we put fine cognac away until aged oak barrels coax out its warmth, nature blankets the dead algae with rock and stone, putting them away until the algae are ready to release nature's energy in a fiery burst of flame

When Day, the chief executive of Mossgas, makes oil, he starts out with air, natural gas, water, energy and money R11 billion just to get started

The energy he both makes and buys The water comes from a nearby dam The money comes from you and me

But the gas — ah, the gas Day's synthetic oil plant is a hungry beast, demanding a diet of 210 000m³ of gas every hour

Day's task for the past three years has been to find and develop the reserves to keep his plant content Three years ago he prostrated himself before the Cabinet to get approval to spend R910 million on compressors to keep the gas flowing

This year he again faced derision when he asked for another R2,2 billion to pour into the gaping mouth of his white elephant

Day bundled me into a helicopter, all dressed up in a red wetsuit and black lifejacket, to show me where he gets food for the beast

Out in the middle of the ocean, perched high above the underwater slope of a giant mountain range that pops up between the Atlantic and Indian oceans, is a squat box with long legs that 150 of Day's staff call home.

More than 2 000m beneath the offshore production platform are developed gas reserves to last until 2001

But the platform is situated slap bang in the middle of a banana-shaped cluster of rock formations that should contain more gas and condensate (a light crude oil that looks like beer but tastes like petrol — because it pretty much is petrol)

Day knows that 50km away, almost on one edge of the banana, are a cluster of gas fields containing roughly 609m cubic feet of gas, enough to keep the plant running for about six years

Laying an underwater pipeline, drilling for gas and building underwater production units will cost around $300 million

As the existing fields run dry, production will tail off, rather than end abruptly Starting the new fields entails a gentle ramp-up in production

Day reckons that by combining the tail-off and the ramp-up, he will extend the life of both reserves and get enough gas to feed the hungry beast to 2009

If he is right and current financial figures are any guide, Mossgas should generate about R750 million in operating profit a year That's more than R7,5 billion before the new reserves run dry

Subtract the new capital spending of around R2 billion, and we are talking about close to R5,5 billion, or R550 million a year in today's money into the fiscus

That kind of money won't even cover the finance costs on the R11 billion to build Mossgas But since the money is already spent and is as good as written off, it should make a nice contribution to the cash-strapped national budget

But Day doesn't get excited by nibbles, he wants the whole banana

To feed the beast until 2030, Day will have to turn his proven reserves of 609 billion cubic feet of gas into 3 trillion cubic feet of proven reserves He has friends who think it can be done

John Kennedy, the president and chief executive of Dresser Enterprises, an $8 billion-a-year oil and gas services company that has just won the $300 million project to develop Mossgas's new gas fields, says there are "good technical reasons" to believe the extra gas will be found

Kennedy says "step changes" in technology such as 3D seismic modelling, lateral drilling methods and telemetrically operated unmanned buoys have changed the face of the industry

"New technologies that have become available over the past five years have radically changed the attractiveness and exploitability of hydrocarbon reserves found in geological formations such as those found off the coast of South Africa," he says

Kennedy's project will not only tap reserves at the tip of the banana, but lay a pipeline along half the length of the banana as well as firm up the existence of suspected reserves

This underwater gas highway will allow Day to link future wells back to the platform and from there to the beast.

Day is also spending money on modular underwater facilities that can be picked up and dropped over new wells as he develops other gas fields

But that's not all

As Day's old friends at Sasol know, mixed in the synthetic oil are streams of high-value chemicals It's a bit like getting your fine cognac mixed with cola

In spite of low oil and fuel prices, Sasol is making money by separating the cognac from the cola — a task Day would relish

Last year Mossgas said its fuel stream contained around 300 000 tons of plastic feedstocks, including 250 000 tons of propylene and butylene a year

Plans to split these out have been on the table for some time, but were unable to proceed unless Day could prove he had long-term gas reserves

In about 18 months he should be able to do so

As for the longer term, if it gets the whole banana, this white elephant may gain some colour

Adcock Ingram in talks to sidestep probe

BD 10/9/98 (183)

Amanda Vermeulen

ADCOCK Ingram is in talks to sell SA Druggists' (SAD's) intravenous business to satisfy possible objections the Competition Board may have to Adcock's proposed acquisition of SAD

An Adcock spokesman confirmed yesterday that the group, which could have a significant share of the critical care market after the deal with SAD, has initiated talks to sell Intramed, the business which produces intravenous drips, ahead of the expected Competition Board probe

The proposed dismantling of SAD — announced this week — could see Adcock buy SAD's Pharmacare business from Fedsure, after Fedsure buys 100% of SAD. Some members of the SAD board warned, however, that there was a possibility that the Competition Board, which must still investigate the transaction, might not sanction the deal

Analysts said this week that although the combined Adcock-SAD entity would probably have between 37% and 40% of the local pharmaceutical market on a volume basis, on a value basis the merger was likely to have only a 25% combined market share

An analyst said that Adcock's deal to bring black empowerment group Sekunjalo into the enlarged entity would go a long way towards satisfying any qualms the Competition Board might have about the deal

The warning that some members of the SAD board sounded about the proposed deal prompted analysts to say yesterday that SAD management was opposed to the merger on "emotional" grounds. A number cited speculation about a failed management buy-out, which they said had soured SAD management's perceptions of Adcock.

SAD financial director Tom Hein said yesterday there had been no talk of a management buy-out of SAD, but there were discussions earlier this year to bring a black empowerment partner into the group Sources said one of the parties believed to have been involved was Real Africa

As part of the deal, which would also have included 30% shareholder Fedsure, management would have participated in the restructured entity. The discussions were not fruitful, he said.

Analysts across the board agreed that the Fedsure/Adcock deal to dismantle SAD would be good for Druggist's shareholders, based on their valuations of the company Many said Fedsure was definitely receiving the better bargain, picking up the health care operations "a little on the cheap side"

An analyst said Adcock would pay a fair price, particularly as the deal would include one new drug, with good earnings potential, currently waiting for US approval.

objections

Bizarre U-turn in probe of oil-chief

m+G 11-17/9/98 (183)

Mungo Soggot

The state oil company's efforts to discipline its former chief, Kobus van Zyl, took a bizarre twist this week when the company decided to abandon his disciplinary inquiry and replace it with an internal probe

The disciplinary inquiry's head was from outside the Strategic Fuel Fund (SFF) and Van Zyl was allowed legal representation at the company's expense But he will now be tried by a state oil official and denied any representation

The about-turn comes 19 months after Van Zyl was suspended for alleged impropriety on the instructions of Minister of Minerals and Energy Penuell Maduna, whose assault on the state oil company also triggered his fight with Auditor General Henri Kluever

The minister's credibility — already in question because of his handling of the SFF — suffered a major blow when he was ordered to apologise officially to Kluever in Parliament last Friday

Maduna had to apologise for accusing the finance watchdog of being party to the theft of R170-million of oil — an allegation the minister gleaned from the same forensic probe used to justify Van Zyl's suspension in March 1997

The hearing into Van Zyl started last Tuesday and ran for two days before being postponed indefinitely after the SFF decided to recruit new lawyers

The SFF said it had decided at a board meeting last Friday to change strategies and appoint an internal probe The only explanation the SFF gave for its decision was that Van Zyl, whose legal bill is being footed by the company, had been deliberately stringing out his disciplinary hearing

"In short, it [the company] came to the conclusion that Mr Van Zyl was abusing the process and the benefits being accorded to him," said the chair of the SFF, Seth Phalatse

Although Maduna justified his decision to suspend Van Zyl with the interim findings of his forensic audit, there have been suspicions from the start that the SFF general manager could have been the victim of a witch-hunt

Those suspicions were bolstered last month when it emerged that the SFF's lawyers had decided to ignore most of the charges drawn up by Maduna's auditors

The original charge sheet against Van Zyl contained 162 charges, many of which were fraud Last month the state oil company's lawyers pruned most of these, leaving five charges, none of which were fraud

The charges that remain include insubordination, disobeying Maduna's orders and breaking internal SFF rules Most of the charges relate to the payment of a commission to an oil trader

The SFF's charge that Van Zyl has deliberately been delaying the hearing is ironic considering the numerous delays in its forensic audit of the company's books — an audit which has so far cost the taxpayer at least R2,5-million

After Van Zyl's suspension in March 1997, Maduna's department said the probe — on which Van Zyl's fate hinged — should be finished in about six weeks

On May 22 1997, the former chair of the Central Energy Fund, Don Mkhwanazi, told the *Mail & Guardian* "I hope to get the report by mid-June I was hoping the matter would end by the end of May At times when people are digging, something leads to something "

'We never asked for a postponement of the present inquiry. We are astonished by this development'

The final report by Maduna's accountants was subject to numerous delays, and Van Zyl was first notified of a disciplinary hearing in January 1998

The hearing then appeared to be delayed indefinitely pending the outcome of a probe into the state oil operation by the Office of the Public Protector, which Parliament appointed to investigate after Maduna made his R170-million allegation

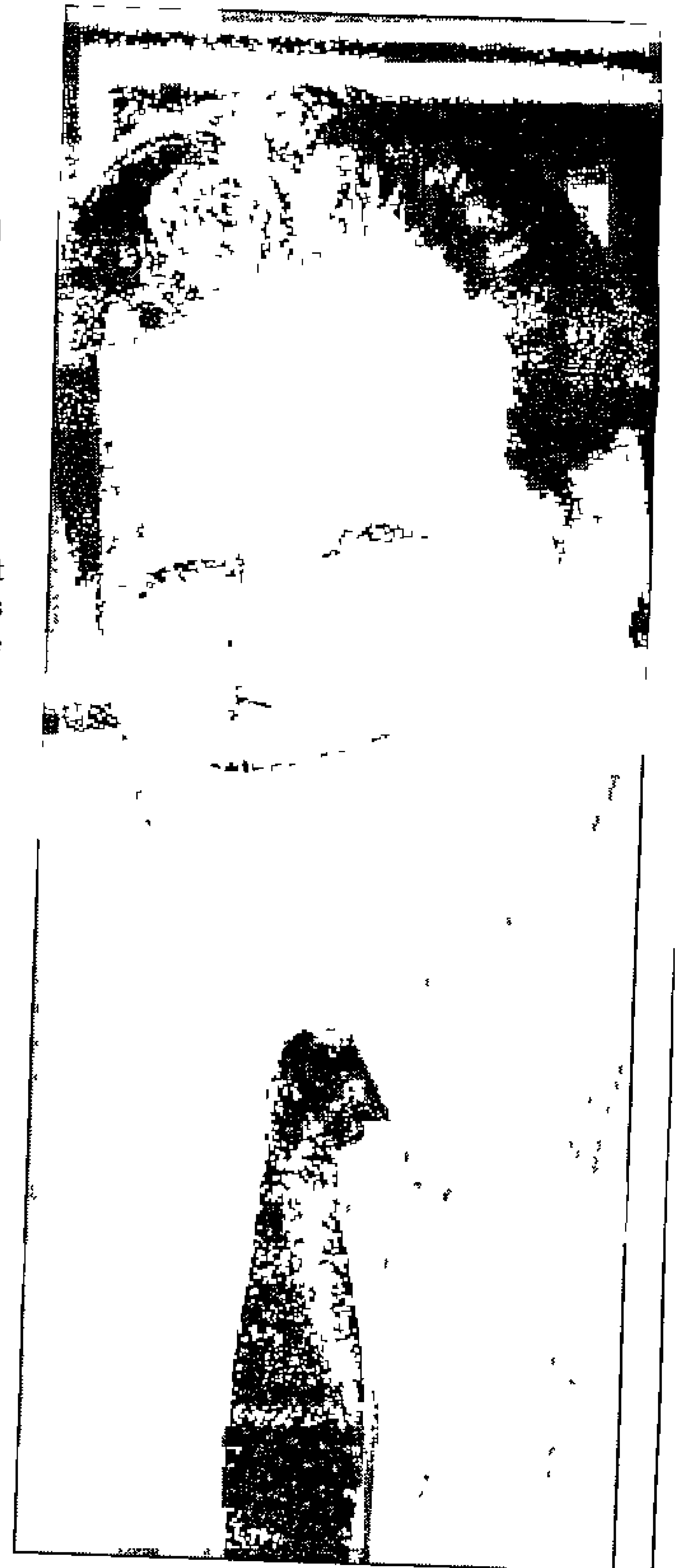
Shortly after the public protector hearing got under way, Maduna's own lawyers admitted that it was impossible to justify the R170-million allegation

Van Zyl's attorney, Johan van Rensburg, said he had yet to be informed of the SFF's decision, which, he said, prejudiced his client He denied trying to string out the inquiry, saying that he had "never asked for a postponement of the present inquiry We are astonished by this development We will consider our position as soon as the SFF informs us of their decision "

Maduna's credibility was once again called into in question this week when Emanuel Shaw II — the Liberian politician who was a confidant of both Maduna and Mkhwanazi — lost his R7-million libel suit against the *M&G*

Shaw's exploits before and after he got a highly paid job at the Central Energy Fund were published extensively, characterising him as one of Africa's most notorious rogues

An inquiry by the public protector heard evidence that Shaw was closely involved in the attack on Van Zyl, and acted as a go-between for officials in the SFF and the minister The inquiry resumes next month



No solution: Kobus van Zyl was suspended on the instructions of Penuell Maduna for alleged impropriety

Sasol brings back petrol

Aluminium carburettors could corrode, say motor industry critics of cocktail new fuel deal

ARG 12/91

STAFF REPORTER

From December, motorists will have reason to wince when they fill up because Sasol has unilaterally decided to reintroduce alcohol into our petrol – and petrol stations can do very little about it

This unique petrol blend was first used in the 1980s when Sasol was a key element in the National Party government's attempts to keep the country going in the face of the "total onslaught", and the international fuel boycott the Nats believed was part of it

To flesh out the strategic position in the economy constructed for Sasol, preferential deals were set up for the massive producer of oil from coal Sasol was the beneficiary of a number of contracts with oil companies in South Africa, who were obliged to buy fuel from it.

Sasol introduced the alcohol-petrol blend in 1980 in what is known as the "Sasol supply area" The areas specified in the contract covered Gauteng, Northern Province, North West Province, Free State, Mpumalanga, some parts of the Northern Cape and some parts of KwaZulu Natal

Motorists experienced a number of problems with the fuel Fuel systems broke down and fuel tanks corroded and rusted

But now Sasol, which apparently needs to find a way to get rid of huge quantities of ethanol, claims that it has perfected the mix and that exhaust emissions from the blend will be better than those of leaded petrol

It intends to add 12% alcohol to its petrol, whereas, according to fuel industry sources, the maximum elsewhere in the world is about 5%

Steven Matchett, of Shell (SA), said "Sasol has promised to add corrosion inhibitors and add plastic resins to prevent serious damage to fuel systems

"The high content of ethanol is also expected to improve the purity of the petrol However, tests are under way to make sure that motorists are not disadvantaged by this new development"

Sasol says it will repair damaged cars if the problems are caused directly by the petrol blend

But many people in the oil industry and garage owners are wary of Sasol's assurances "During sanctions, the government made the motor industry build cars to suit petrol with alcohol But in today's conditions, it's amazing that Sasol is at it again

"There are thousands of imported cars on our roads How does Sasol expect the engines of these cars to be adapted, as they come fully assembled?" commented an industry member

A garage owner in Soweto said "all of Gauteng and various parts of the country will be serving motorists this concoction"

"Alcohol attracts water, from the atmosphere Alcohol corrodes aluminium in the carburettor and forms aluminium oxide," he said

WHO'S FUELLING WHO? part of a plant at Sasol, which is set to reintroduce ethanol into petrol

98 (183)

Buyout not in interests of people — union

Sasol's proposed takeover of AECI is being opposed vigorously by a chemical industry union. **Manene Samela** explains why

(183) BD 14/9/98

AFTER the recent takeover of Sentrachem by the American giant, Dow Chemicals, a number of viable Sentrachem plants and enterprises were downscaled or closed, apparently because they posed a threat to Dow's global strategy

The job losses at Sentrachem caused unions to question buyouts, where corporate profit and influence was placed ahead of the national interest and the lives of ordinary South Africans

Employers throughout the world view trade unions — at best, as a necessary evil — at worst, as a cancer to be bemoaned or isolated. The fact is if ordinary workers, managers, employers and government do not work together as one team to build our economy, we will all fail in the task.

The SA Chemical Workers Union (Sacwu) is opposed to the proposed buy-out of AECI by Sasol for three reasons

□ Control of the foundations of our economy will be concentrated in Sasol's hands, an unhealthy situation,

□ Sasol has not developed a culture of sharing or of building the SA economy to its maximum potential. Sasol's own interests, buttressed by tariff protection and taxpayers' subsidies, have taken precedence over the interests of its employees and the SA economy; and

□ The buyout will not contribute meaningfully to the empowerment of blacks within the SA economy Sasol may well sell off certain of its noncore businesses, but the degree of structured participation of SA blacks (including employees) in the equity and decision-making of its central business will remain nil

For decades, we have lived in an environment which has seen growth potential in SA constrained by political policies While the political situation has been addressed, the economic constraints within the chemical industry are getting worse

If Sasol is allowed to continue its pursuit of control of the upstream activities and the production of raw materials, industry will certainly have to pay more for them than they should. This will prevent or stunt the development of downstream sectors, at the potential cost of hundreds of thousands of jobs

Faced with severe economic difficulties many years ago, the Taiwanese government together with industry, financial and labour leaders developed a strategy for growth. The principles behind this strategy were that competitive forces would be given free rein in each layer of the industrial value chain. No single manufacturer was disadvantaged by the raw material costs, and each could build a sustainable business provided that the manufacturer's operation was competitive in its own right.

This has led to significant growth over the past 30 years Even though Taiwan has no natural resources of its own, the chemical industry employs 650 000 people, and exports as much as the whole of SA industry

Yet this is only the tip of the iceberg A strong, local chemical industry puts the downstream activities such as plastics processing and textiles in a competitive position. These industries in Taiwan are also strong exporters, employing many times the number of people who work in the chemical industry

In contrast, SA industry has been built on controlling, and protecting upstream activities The producers of polymers have been supported with high import protection, thereby penalising the plastics processing industry and inhibiting its potential for growth. The polymer producers themselves pay high prices for their raw materials, based on import parity

In this way, the upstream portion of the SA industry has taken a short-term view of maximising profit — by extracting as much of the value as quickly as possible This means that each subsequent stage of the value-added chain is penalised by the control and protection afforded to its raw material supplier

In SA, the trend seems to be one of entrenching the control of key raw materials in the hands of one company Sasol's proposal to buy AECI would make it the sole manufacturer of many key raw materials

Sasol would control the local ammonia market, a key element in the manufacture of fertilisers and explosives, in turn essential materials for farming and mining Acquisition of AECI would give Sasol 100% of Polifin, the only producer of ethylene and propylene, which it uses to manufacture polymers such as PVC, polyethylene and polypropylene, the key materials on which the plastics processing industry is based

The argument to support such concentration of economic power is that the scale of operations in the chemical industry is such that there is only room for one manufacturer in the SA market. In some cases this may be true However, we need to develop export markets, not just allow the chemical industry to sit in the comfort of supplying the local market at inflated prices

Sasol argues that it is appropriate that they acquire AECI's fertiliser business, as this will provide the economies of scale necessary to create a competitive industry They claim that a competitive scale plant is of the order of one million tons a year They also state that the local market demand is of the order of two million tons a year Given these figures it would seem there is a strong case for two competitive scale producers in the country

If Sasol were to acquire AECI's business, then 95% of the local demand for ammonia would be in Sasol's hands.

In the past, such dominance has led to downstream industry paying higher prices, even if it is import parity as the only alternative. (Import parity builds in the high cost of transporting often volatile chemicals to our shores) Higher fertiliser prices lead to higher costs to the farmer, and a less competitive agricultural industry This reduces the ability of that industry to export, and increases the cost of basic foodstuffs to the population at large

The proposal that Sasol acquire AECI is worrying in its own right, in that it will allow Sasol total control of the major building blocks of the chemical industry, in themselves key components of any industrial activity There is concern that this is part of a longer-term strategy to control the economic resources of the country

Sasol has a major competitive problem in terms of making fuel from coal. The situation would be improved significantly by using natural gas as a raw material. Such natural gas would be available from the proposed Pande gas field and pipeline This natural gas would also improve the economics of ammonia manufacture, it would certainly make AECI's ammonia operation at Modderfontein a very competitive operation.

Rather than face up to possible competition, Sasol seems to be making strenuous efforts to control all chemical and fuel applications for this natural gas In this way it can continue its control of all key raw materials, including the gas itself.

For many decades economic activity has been controlled, and stifled, by control and domination of the raw material positions within the country This has led to the creation of wealth for a few, but, by inhibiting the growth of downstream activities, has prevented economic development and reduced employment.

How long do we have to keep making the same mistake?

Jobs which are dependent on outdated and uncompetitive technology may indeed have to be lost, but the prospect of many more jobs being created within other sectors of the chemical industry needs to become a reality

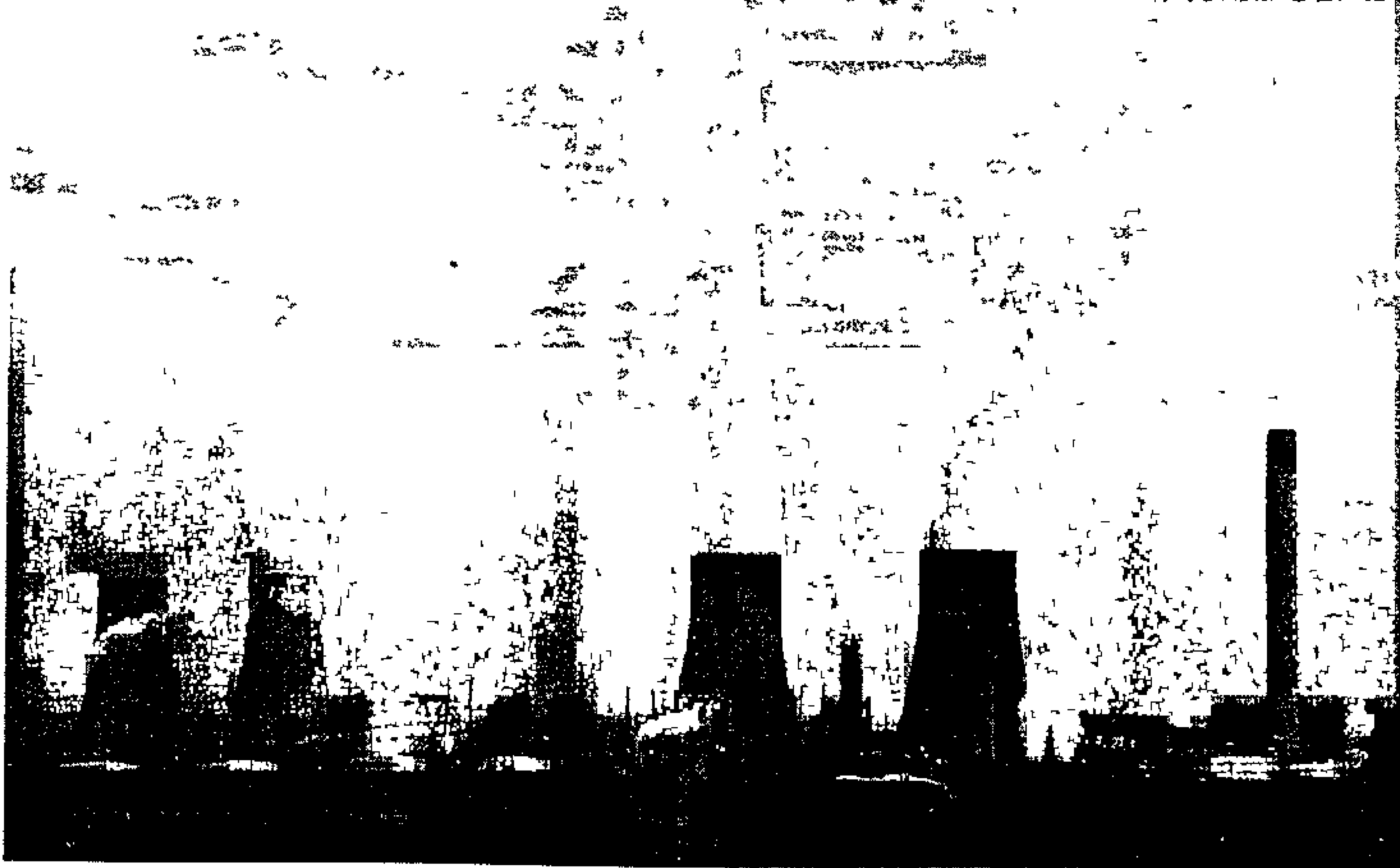
Allowing Sasol to extend its control to all the key chemical raw materials will continue to stifle the growth potential of the country, and thereby restrict the growth of employment.

It is true that we need to create competitiveness in our industries if we are to achieve real growth. However, it is just as important that competitive forces be allowed to play their part to ensure that the benefits are passed on to encourage downstream activity

If we continue to allow competitive forces to be suppressed through the control of essential raw materials, then we will not achieve our growth potential and generate employment.

Rather, we will continue to allow those in control of the raw materials to hold the economy to ransom, selfishly extracting any wealth for the few, and depriving the country as a whole of any opportunity for growth and stability

To become globally competitive requires the commitment of all stakeholders The lack of participation and empowerment of employees and blacks in this potential new chemical corporation will further limit its ability to compete internationally, resulting in yet another cycle of high domestic prices and unrealised potential



Job loss fears have sparked strong opposition to Sasol's plans to buy AECI

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Sasol's falling earnings still beat expectations

(183) CT(PM) 17/9/98

Jonathan Rosenthal
Industrial Editor

Johannesburg — Sasol reported slightly better than expected full-year earnings yesterday, thanks to a weaker rand, about R500 million in synthetic fuel subsidies and a R100 million transfer to its income statement, despite low oil and chemical prices

The synthetic fuel from coal producer reported an 18,7 percent fall in earnings to 343c a share for the year to June 25

But the earnings seem to have confused the market Before the results were released, the share hit R30,20 After they were released, it fell sharply to R27,25, but still closed 135c up

Analysts seemed more divided Last night three said the results were in line with expectations, but an IBES poll of nine analysts indicated the consensus was earnings of 314c a share

Further confusing the issue was a R100 million transfer from Sasol's tax equalisation reserve to its income statement Some analysts excluded this from their forecasts as a once-off event, while others included it

Pieter Cox, Sasol's managing director, said the results were achieved in an environment where all variable factors, bar the exchange rate, were stacked against the company

Cox said the group had kept cost rises below the rate of inflation while producing greater volumes, stimulating a 5 percent rise in turnover to R16,6 billion

But operating profit fell R779 million as three of the four divisions reported lower earnings

The largest swing was a R612 million fall in operating profit generated by Sasol Synthetic Fuels Cox attributed this to a fall in the oil price of $1 a barrel to $17, at which point subsidies kick in

This cost Sasol about R270 million, although the total subsidy for the year was about R500 million

But lower oil prices meant lower chemical feedstock prices, which chopped R140 million from operating profit.

Sasol Oil's earnings were hit by lower international refining margins and the falling oil prices It lost R31 million on stocks after buying oil at higher prices

☐ Business Watch, Page 2

~asol profit slips for first time in decade

(183)

Amanda Vermeulen

SYNFUEL group Sasol reported a 19% decline in attributable profit to R2,1bn in the year to June — its first decline in a decade — and warned that while next year was expected to be better, the proposed acquisition of AECI would have a short-term negative effect

Earnings a share declined a similar percentage to 343c (422c) while the dividend was maintained at 147c Turnover rose 5,4% to R16,7bn due to higher volumes and increased production from new plants

The group, which warned shareholders in June that its profit would come under pressure, bore the brunt of a steep decline in the crude oil price, while refining margins and weaker petrochemical commodity prices also took a bite out of earnings

The Competition Board will meet today to deliberate on Sasol's proposed R4,6bn acquisition of AECI, and Sasol said it expected to see a copy of the report next week Sasol said the turnover of the combined companies was likely to increase 50%

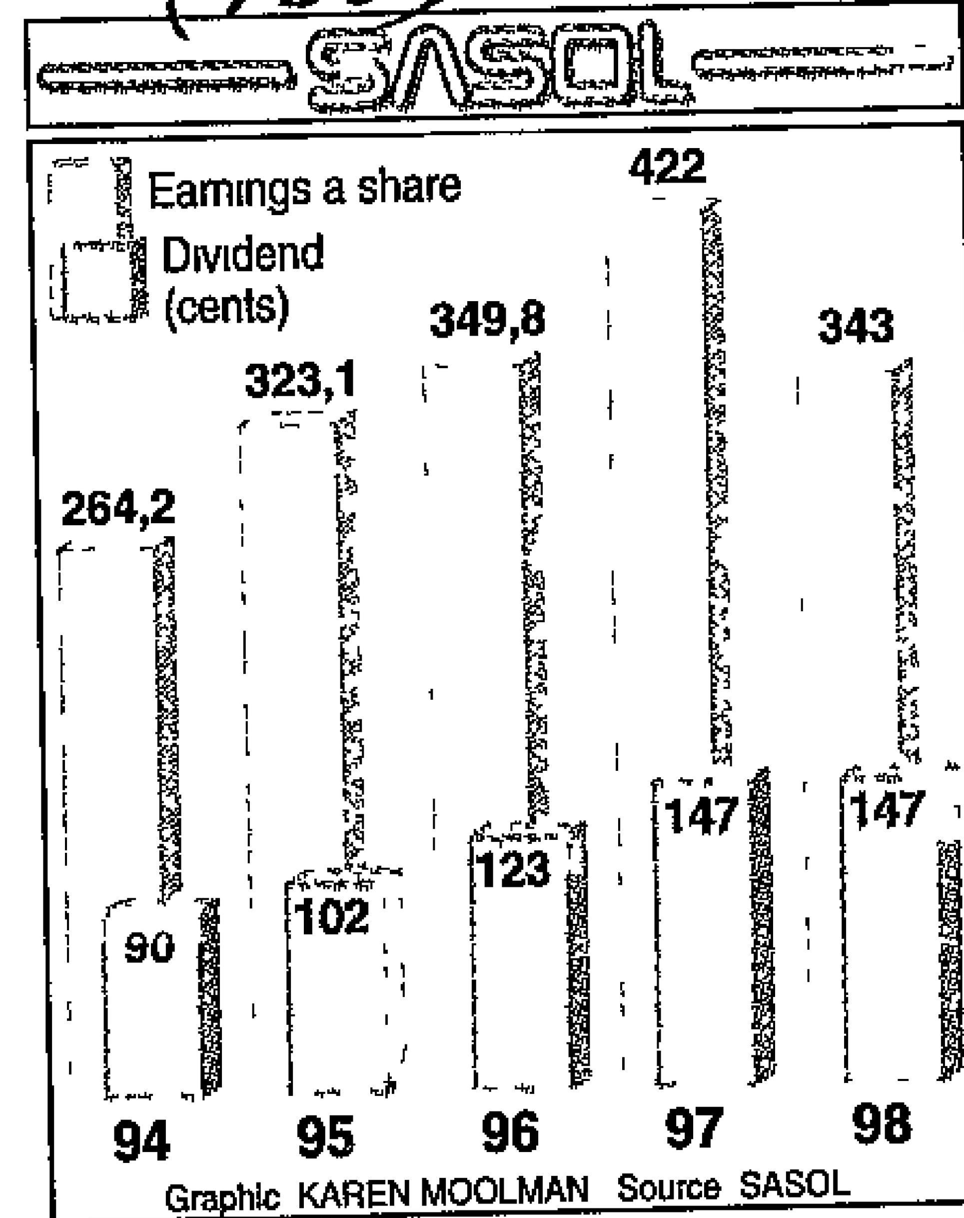
However, due to heavy borrowings to fund the R30 a share offer to AECI shareholders, interest costs were expected to rise dramatically, with gearing forecast to reach 40% This was expected to have a short-term negative effect on earnings.

However, Sasol MD Pieter Cox said gearing would come down fairly quickly due to Sasol's strong cash flow and financial discipline, as well as potential disposals of noncore Sasol and AECI businesses

Through the deal Sasol aims to increase the contribution of chemicals to

BD 17/9/98

Continued on Page 2



Graphic KAREN MOOLMAN Source SASOL

Sasol

(183) BD 17/9/98

Continued from Page 1

group profit to about 50% from 35% would offset the effect of a weak crude oil prices and the declining tariff protection which is being phased down to $16 a barrel next July from $17

On an operational level, Cox said the turnaround in the mining division was due to the renewal programme, while the 32% decline in the operating profit of the synthetic fuels division was due mainly to the reduction of tariff protection and the crude oil price

Although the chemical division's operating profit was lower, this should be seen, Cox said, against the backdrop of a sharp fall in chemical prices

Sasol Oil reported a 22,6% drop in operating profit due mainly to lower crude oil prices.

Cox said if there was no improvement in the exchange rate, 1999's results would be positively affected by this year's decline in the rand. Chemical prices were expected to remain weak due to the Asian crisis, but better refining margins were expected to improve Sasol Oil's performance

MONEY THAT MAY NEVER BE SEEN

Proposed privatisation envisages debt write-off

There is a real danger that taxpayers might be deprived of the opportunity to recover a substantial proportion of the nearly R12bn sunk into Mossgas by P W Botha's government

Whether they do or not depends on which of two things happens

The first possibility is that Mossgas is privatised within two years as part of a proposed black-owned energy consortium However, this would require the State to write off R9,4bn of the synfuel plant's capital costs

The alternative is that the State retains its ownership in the hope of recovering at least some of the plant's R11,4bn capital costs from the expected proceeds of a new gas search costing US$300m

The issue of Mossgas's future has resurfaced since the recent signing of a R2,2bn alliance agreement between Mossgas and UK-based Dresser-Kellogg Energy Services, a division of US$7bn NYSE-listed Dresser Enterprises The contract involves developing the EM gasfield and its satellites over three to four years

With the existing FA field's gas reserves expiring in 2001 and EM expected to yield sufficient gas to see the plant through only until 2006, Mossgas CE David Day hopes that the search will yield more than just a six-year extension of life for the synfuel-from-gas plant, based in Mossel Bay

"By the first quarter of 2000 we should know whether Dresser has struck enough gas to guarantee profitable operations over the following 20 years This would allow Mossgas to diversify into far more lucrative downstream production of petrochemical derivatives "

Studies have shown that the company has substantial potential for the production of ethylene, propylene and butylene

But, while the EM project alone should save SA about R7,5bn in forex on imported fuels, Day says the time is also ripe to start considering privatisation

"Soekor has already proven gas in six wells in the EM field Hopefully, Dresser will prove more than the estimated 506bn cubic feet of gas reserves in this field Should reserves of about 3 trillion cubic feet be proven within the next four years, this would make Mossgas an economically feasible proposition for eventual privatisation," says Day

A privatised and profitable Mossgas has been mooted to form part of a proposed new black-owned energy consortium, with State-owned Soekor and the Central Energy Fund (CEF)'s Strategic Fuel Fund as other potential candidates for the venture

But, says Day, another stumbling block remains Mossgas's R11,4bn capital cost debt is still being carried in the CEF books and this issue needs to be resolved "Based on its profitable, historic operating earnings record alone, Mossgas could be given a R2bn capital value," he suggests Mossgas generated net operating income of R1,1bn over the past two years alone, and the low rand should push this year's net operating profit to a further R750m

"And, by writing off about R9,4bn of the CEF book debt, the privatised group would be left with an equivalent R2bn accumulated tax loss on the books The company could then write off this book asset against future taxable earnings over a three-year period "

But Day's positive sentiments on privatising Mossgas are not shared by SG Frankel Pollak analyst Mark Ingham

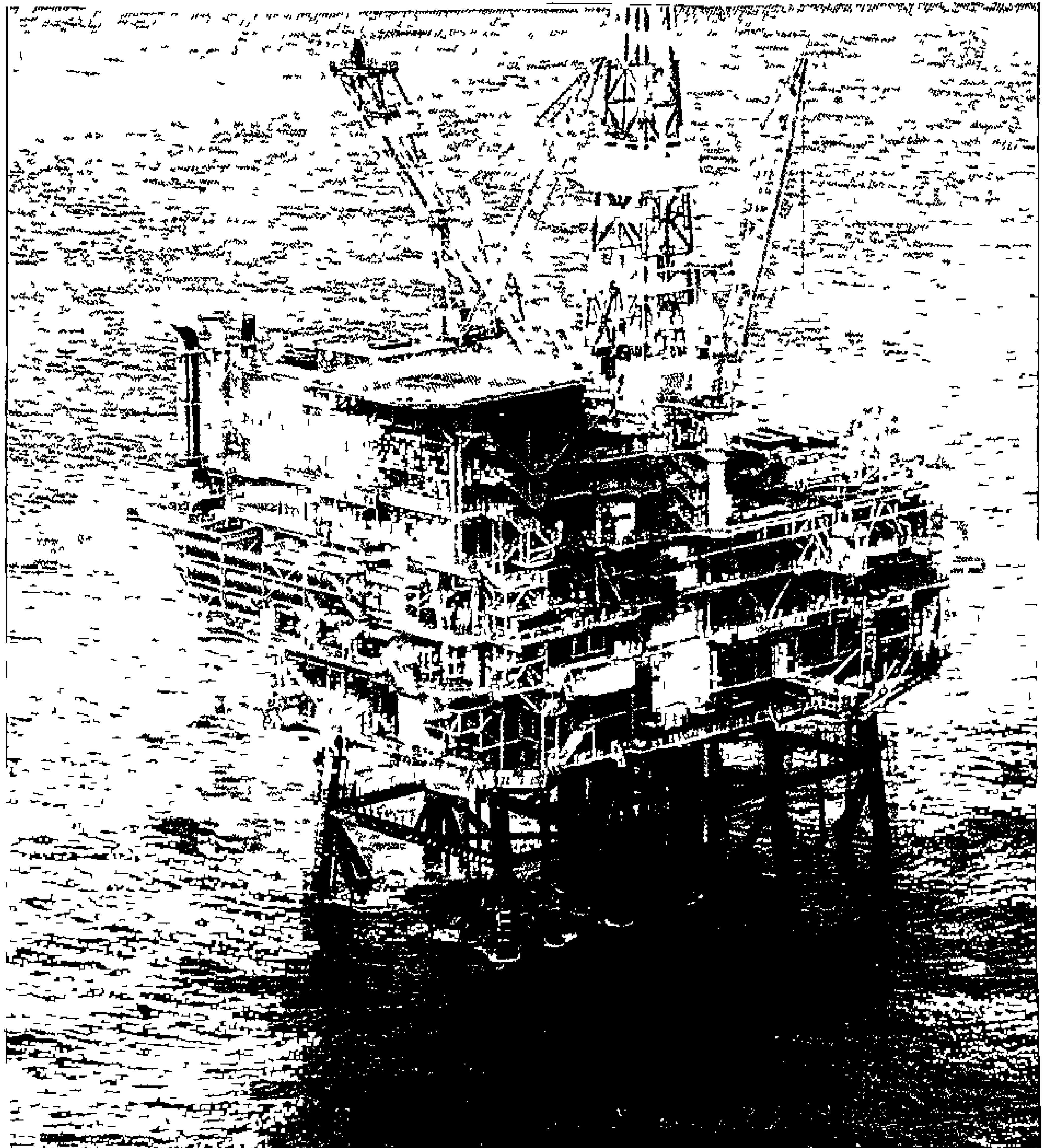
"Why should taxpayers underwrite this exercise to the tune of R9,4bn? The better option, in my opinion, would be for the State to retain its ownership of Mossgas The R11,4bn debt should then be transformed into equity, with dividends paid to the State from net operating income — rather than charging ever-accumulating interest on the debt," says Ingham

Privatisation could entail the injection of new capital into a "technically sound" venture with a specific capital value and good prospects for future net operating profits But "why should taxpayers be expected to forfeit R9,4bn? After all, conventional accounting would require the cost of historic debt to be shown in the company's books — in which case it is probably not making any profits "

Rather than writing off historic debts that are owed to taxpayers, the State, as 100% equity owner for the equivalent amount, would then have a vested interest in recovering as much of its invested capital as a "commercially viable" project would allow, says Ingham

Everything, of course, will depend on Dresser finding sufficient, additional gas reserves Day says the Dresser contract allows Mossgas "a tremendous opportunity to establish the true potential of the Bredasdorp basin and to identify the long-term feedstock supply position for Mossgas Once the $300m capex is expended, operating costs will be less than R3m/year " Drilling will start in November and Day hopes for "positive results within the next 18 months"

Arnold van Huyssteen



Mossgas CE says the time is ripe to consider privatisation

AWETHU BREWERIES

(18?)

FOUL IN THE SORGHUM SCRUM

FM 18/9/98

Profits hit by price wars

In the beer market, big players play dirty That, says Awethu Breweries management, is why it has not met the income forecasts it made when it listed

Instead of its pre-listing income predictions of R4,2m on its interim result ending June 30, Awethu achieved R3,6m It blames National Sorghum Breweries (NSB) for waging a price war

Awethu MD Daryl Sahli describes NSB's activities in the market as "disruptive and destructive"

"They dumped large quantities of beer in the market at low prices and we had to have other strategies But they had to cut their margins They are damaging themselves badly and their financial statement shows that," says Sahli

Awethu claims it has a 25% share of the market in Gauteng and about 4% of the national market, worth about R1bn/year NSB's market share is about 70%

Sahli says Awethu grew its franchise operation to 695 outlets in the face of the price war and because it is a sustainable strategy for long-term growth

NSB says competing for market share doesn't constitute a price war "We don't consider discounting prices when selling in the same area where competition is engaged in a price war We just match the prices," says NSB vice-president of beer operations Surinder Khurana

He dismisses as "blatant lies" the suggestion that NSB has dumped large quantities of beer at a low price

NSB has been losing revenue for the past five to six years, and sales volumes were declining until the beginning of this year

MD Swindera Gandhi says competitors like Awethu and SAB's Traditional Beer Investment are not catching the drops his group has spilt

"Our competitors' role is not of any consequence to us at present, as we have held on to our market share as the industry's sales dropped," says Gandhi

NSB says its sales volumes are growing by 6% because of better-organised market coverage But it expects to make R15m losses during the year to December The company lost R85m and R65m in 1996 and 1997 respectively

There is a 46c retail price difference between Awethu and NSB products, a big difference for many sorghum beer drinkers Awethu beer costs its consumers R1,20/*l*, while the NSB sells its 1*l* carton at about R1,66 Sahli says Awethu is able to cut retail costs by selling the beer in returnable jugs instead of cartons

"Awethu has been desperate to gain market share and resorted to undercutting its price The price is unrealistic and Awethu cannot sustain it in the long run," says another NSB official

A source at SAB's Traditional Beer Investment (TBI) unit acknowledges the likelihood of a price war in Gauteng

He says TBI has no presence in the province, but has noticed the battle between Awethu and NSB TBI claims 25% share of the national market **Themba Hlengani**

NEW SHARE ISSUES

COMPANY AND TERMS·	Issue price cents	Opening date	Closing date	Share cert posted	Refunds posted	Listing date	Sector
DIGICOR HOLDINGS — Listing of 250m ord shares of 0 1c each indefinitely postponed							
EMERALD TOPBRAND SPORTS — Listing of 70,5m ord shares of 1c each						23 9 98	Dev Capital
GREENWICH GROUP — Listing of 196,5m ord shares of 0 1c each Details to be advised							
ISLAND VIEW STORAGE — Listing of 33 4m ord shares of 1c each as result of a distribution by Island View Holdings						5 10 98	Chemicals
MORESPORT HOLDINGS — Listing of 187,14m ord shares of 1c each as result of a distribution by Moregro						5 10 98	Stores
NETACTIVE — Listing of 202m ord shares of 0,1c each indefinitely postponed							
PLASGROUP — Listing of 169 494m ord shares of 1c each postponed							
VESTA TECHNOLOGY HOLDINGS — Listing of 80m ord shares of 0 1c each						6 10 98	Electronics
ZENERGY SA — Listing of 25m ord shares of 1c each						15 9 98	Venture Cap

ISSUES

		NIL PAID LETTERS					FULLY PAID LETTERS OF ALLOTMENT						PRICES OF LETTERS (cents)		
COMPANY AND TERMS.	Last day to register	Listing begins	Issued	Listing closes	Last day for splits	Date offer closes	Listing begins	Issued	Listing closes	Last day for splits	Shares listed	Shares issued	Take up price	Price Sep 7	Price Sep 14
METJE & ZIEGLER — Proposed rights offer 52 5 ord shares for every 100 held (No price yet given)	18 9 98														

RESULTS AND DIVIDENDS

		Pre-tax profit Rm 1997	Pre-tax profit Rm 1998	% change	Earned cents per share 1997	Earned cents per share 1998	Paid cents per share 1997	Paid cents per share 1998	Sector	Dividends Amount cents	Dividends Register by	Dividends Payable about
Abacus Tech	P	7,1	13,4	+89	●♥10	●♥13	4	#	Media	—	—	—
Anglovaal Ind	P	▼843,9	▼574,2	32	●♥146	●♥107	30	30	Ind Hold	‡30 00	25 9 98	23 10 98
Armato Corp	P	▼15,6	▼39,9	+156	●♥27	●♥37	9	#	Food	—	—	—
Autoquip	P	▼6,6	8,2	+25	♥42	♥47	4	15	Motor	‡15 00	25 9 98	16 10 98
Billiton	P	★▼$335,0	★▼$481,0	+44	20c	23c	—	♦60,68	Min Houses	♦143 40	14 9 98	23 10 98
CapeStar	P	3,5	0 95	-73	♥42	♥48	#	#	Investment Trusts	—	—	—
Chester	I	§	5,6	—	§	♥3	§	#	Investment Trusts	—	—	—
Decor Investment	P	4,3	4,1	3	●14	●12	9	2,5	Stores	—	—	—
Glodina	I	1,1	(3,2)	—	●♥3	●♥(7)	#	#	Clothing	—	—	—
Howden	I	§	19,5	—	§	●19	4	5	Engineering	*5 00	9 10 98	30 10 98
Molope Group	P	♠40,4	100 8	+149	♠♥15	♥44	—	—	Food	—	—	—
Uniserv	I	10,4	12,4	+19	■♥21	■♥34	—	—	Ind Hold	—	—	—
Wesco Invest	I	102,4	107,6	+5	♥482	♥530	—	—	Motor	—	—	—

P = Preliminary ● = Weighted earnings per share ♥ = Headline earnings per share I = Interim ‡ = Annual # = Dividend passed ▼ = After exceptional items † = Final ♦ = Provisional amount § = Not comparable ♠ = Pro forma ★ = Net attributable profit c = US cents $ = US dollar ■ = Fully diluted * = Interim dividend

Sunday Times Business Times
September 20 1998

Tough call for Sasol as AECI ruling looms

(103)

The petrochemicals giant is in a tight corner as falling revenues coincide with merger dilemmas, writes SHERILEE BRIDGE

ST(BT) 20/9/98

SASOL may be forced to peg "for sale" signs outside some of its own businesses if the government gives its proposed R4 6-billion acquisition of AECI the nod

The Competition Board has reached a decision on the transaction and is forwarding its recommendation to the Ministry of Trade and Industry, but sources remain mum as to which way the board's thinking eventually swung

Board chairman Pierre Brooks says the final decision should be made public before the end of September

Although Brooks refused to discuss the board's decision, he confirmed that Sasol's selling off its non-core interests, as well as those of AECI, was a possibility covered in the recommendation

However, Sasol's decision to sell off some of its own non-core businesses is driven more by a desire to become a truly global company than by the likely demands of the Competition Board, says Sasol MD Pieter Cox

The group says it will review the combined Sasol-AECI portfolio of businesses before earmarking any for disposal

The list will be made up of non-core companies which are not internationally competitive in the long-term, Cox says

Analysts agree the board is likely to give conditional approval but that Sasol would walk away from the deal if the conditions dictated the sale of significant portions of its explosive business, as its international expansion plans are based on achieving critical mass in the explosives industry

However, other conditions could include guaranteeing certain feedstocks to smaller explosives companies in view of the fact that the combined Sasol-AECI group would have more than three-quarters of the SA explosives market.

Sasol will take the initial financial knock if the deal goes ahead, say analysts

The merger will cost the group about R1.4-billion in interest costs alone. This on top of the cash price of R4.6-billion and about R1.5-billion added debt.

In addition, Sasol did not have a good year it reported a profit fall for the first time in a decade.

Attributable profit slipped 19% to R2.1-billion in the year to June.

Similarly, earnings a share declined 18.7% to 343c from 422c.

Operating profit fell by R779-million as three of its four divisions reported lower earnings.

Sasol said pressure came from a steep decline in the crude oil price and refining margins, and weaker commodity prices

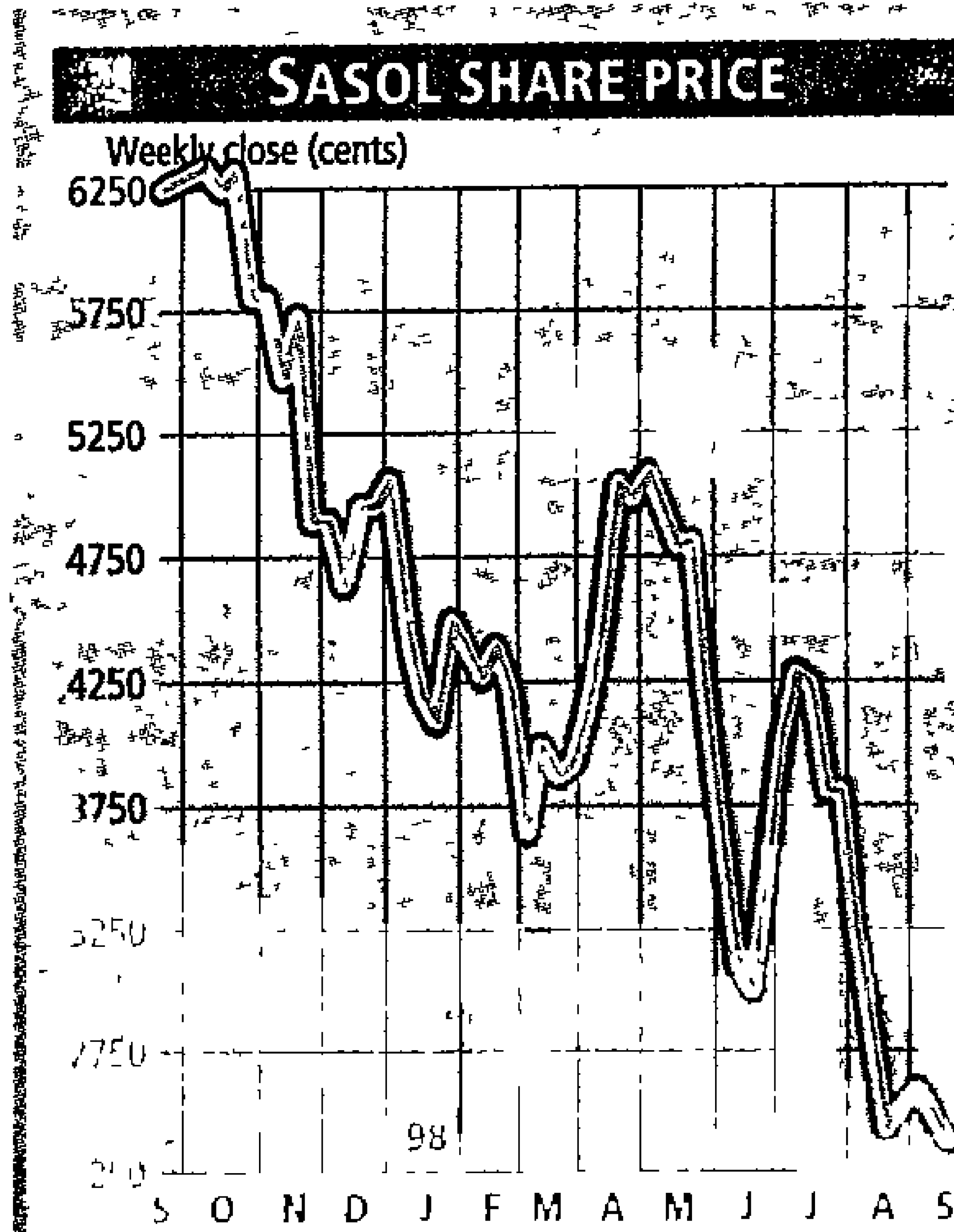
While the group says next year will be better, the proposed AECI acquisition is still expected to have a short-term negative effect, thanks to heavy borrowings to fund the R30 a share offer to AECI shareholders.

However, once the dust on the deal settles, Sasol expects the AECI acquisition to double turnover

Analysts feel that while AECI shares are currently trading at a premium to those of Sasol, AECI will take a significant blow if the transaction is given the thumbs down

AECI shares have not followed the market decline because of the proposed deal but its share price could take a big knock if everything falls through, say analysts.

In the interim the market continues to speculate as to which of the AECI companies will be first to be sold Top of the list is Chemserv, followed by SA Nylon Spinners and Dulux.



Union against bid to buy out pharmaceutical group

By Mzwakhe Hlangani
Labour Reporter

(187)

FINANCIAL services group Fedsure's bid to buy out the entire shareholding of the South African Druggist pharmaceutical group has led to acrimony between the Chemical Workers Industrial Union (CWIU) and the company

The proposed acquisition of SA Druggist (SAD) by Fedsure will result in the retrenchment of 2 000 CWIU members at SAD, the unions' general secretary Muzi Buthelezi said at the weekend

Fedsure is expected to dispose of SAD's chemical business after the deal has been finalised, it was reported, and sell SAD's pharmaceutical business to multinational Adcock Ingram

The union is also considering terminating its business relationship with Fedsure, which is the underwriter of the Chemical Industries National Provident Fund

Buthelezi described the bid as a "hostile takeover" posing a number of potentially devastating consequences, including the retrenchment of 2 000 workers

"Adcock Ingram has already stated in a news brief last week that it will embark on cost-cutting and the elimination of duplication," he said

An Adcock Ingram spokesman reported last week that the business transaction was still being discussed

Buthelezi said the union would embark on a programme of action to protect its members from job loss threats

(187)

SASOL

GLUG! GLUG! DOWN IT GOES

But Sasol says it's a freak year

FM 25/9/98

Sasol did this month what it hasn't done in the past 10 years it announced a decline in year-end profits A fairly noticeable decline, at that EPS came out 19% lower at 343c and the 1997 dividend was maintained at 147c

Pieter Cox

Sasol's MD Pieter Cox is quick to pin the blame on external factors and insists Sasol performed admirably under the circumstances "The major variables which influence Sasol's profits are the rand-dollar exchange rate, crude oil prices, petrochemical commodity prices and refining margins With the exception of the exchange rate, these all had a negative impact on the 1998 profits compared with 1997"

That's probably fair comment The group did manage to restrict the earnings decline in the heavily exposed chemicals division to just 5% by raising its volumes And it pulled a substantial increase out of the bag in coal by keeping its costs increases below inflation

It was less successful in synfuels and oils The US$3,61/bbl drop in derived crude oil price was partially compensated for by a R500m tariff protection from government, but the reduction shaved R270m off earnings in synfuels Operating profit in the oils division fell 22,1%, mainly because of the lower international refining margins and inventory valuation differences from the lower crude oil prices

Despite the weaker cash flow from operations and capex of R3bn during the year, the group ended the year with a net decrease in cash of just R97m and net cash resources of R196m Which is an indication of the colossal strength of this organisation

Cox sees financial 1998 as an exception in the group's progress He says Sasol should return to the types of profit growth (15% real growth) it has produced in the past He says this will come, with or without AECI, from three areas growth in existing businesses, global mergers and acquisitions, and specifically from the gas-to-liquid project in Qatar

The group expects chemical prices to remain depressed and in some instances to fall during financial 1999 But it should be assisted in a recovery by further cost reductions, notably in synfuels, and some positive external factors such as a lower rand, improved refining margins and the tariff protection floor price remaining at 1998's level ($17/bbl)

The tariff floor will drop to $16/barrel in July 1999, where it will remain until June 2000 No further reduction has been agreed upon

The big unknown for Sasol is whether its proposed takeover of AECI will be given

the green light Competition Board chairman Pierre Brooks told the *FM* on Monday (September 21) that he hopes to let AECI and Sasol know the board's decision later this week, once it has been cleared by the Minister of Trade & Industry

News has yet to leak out about the board's decision AECI's share price remained rock-solid in the two days following the board's meeting on September 17 at R24,50 — substantially below the R30 that Sasol plans to offer minorities

Cox says the acquisition will increase Sasol's turnover by about 50% immediately, but that the higher debt levels after the purchase will have a net negative impact on Sasol's earnings in the short term Maddeningly, Cox refuses to release company estimates of the potential cost savings to the *FM*, saying only "At least R6bn of AECI's R9bn turnover is comparable to Sasol's, so the cost saving should be material"

Sasol FD Russell Kennedy estimates the AECI deal should push Sasol's gearing up to about 40% But this should come down to 30% by year-end with strong cash flows, a levelling out in capex and a disposal process Cox says they will have a close look at which assets are noncore in both AECI and Sasol once they get their hands on the chemical company

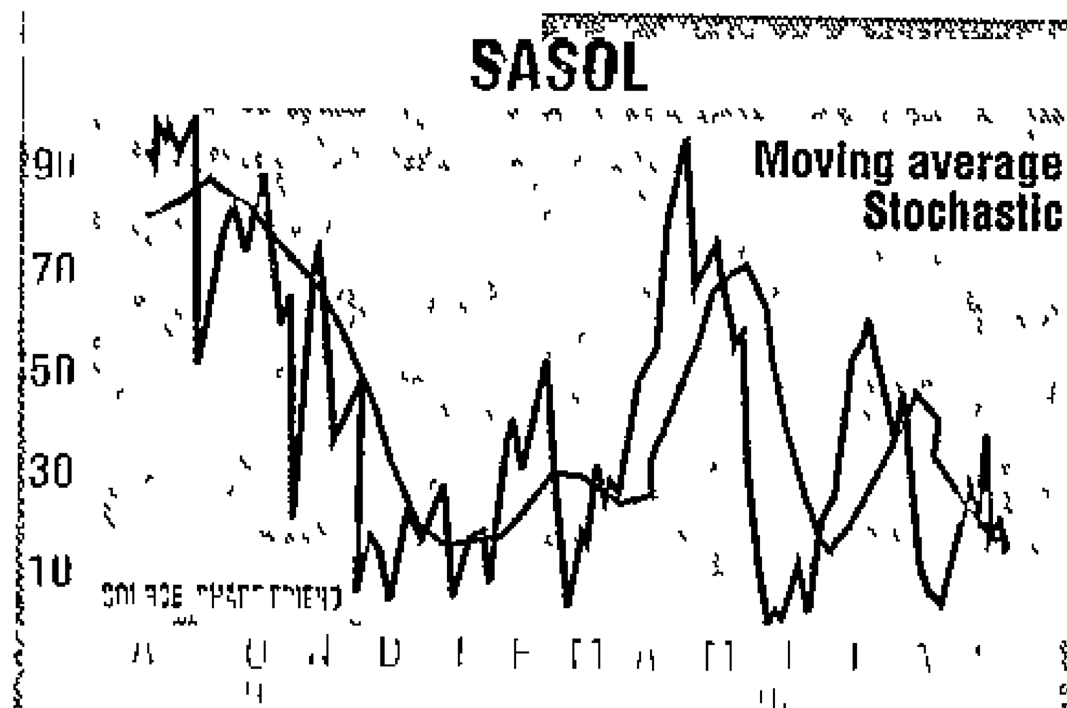
"Within a period of three months post-acquisition, we will have a fair idea of what could be disposed of, what is a hold and what is a keep," says Cox "Whether the timing is right for disposing of the assets is another question"

The group says the AECI acquisition will not speed up its plans for another listing either in the US or Europe, but Sasol needs to find new sources of capital with its balance sheet now engorged and more opportunities likely to present themselves

The *FM* has already argued that Chemical Services (61%-owned by AECI) is a likely contender for disposal (see *Companies & Markets* July 24) if the AECI deal goes through, and it might well be worth taking a speculative stake in this out-of-favour company in anticipation of a possible offer to minorities later this year

AECI is now the mother of all speculative plays The popular guess is that it will be a "yes, but " decision from the Competition Board

Sasol's share price has taken a hard knock since the release of its results and the stock does offer value, but investors would do well to look at this one as a longer-term investment **Stuart Rutherford**



Having again broken downwards through the moving average, the short-term price direction for Sasol is down

YEAR TO JUNE 25	1997	1998
Turnover (Rbn)	15,8	16 7
Operating profit (Rbn)	3,9	3,1
Pre-tax profit (Rbn)	4,2	3 3
Headline EPS (c)	393	[illegible]

OUT OF FUEL

Competition Bill too late for Sasol

CT (DR) 1/10/98 (183)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The proposed merger between Sasol and AECI probably would have been approved if the new Competition Bill had already been passed, Simelane Menzi, a government law adviser, said yesterday

Briefing the National Council of Provinces' select committee on economic and foreign affairs, Menzi said the deal probably would have met one or more of the four public interest grounds necessary for a merger

These grounds are whether the deal would benefit a particular industrial sector or region, affect employment, allow the entry of small businesses and make industries more competitive internationally

Alistair Ruiters, the chief director of business regulations, confirmed that the department of trade and industry had been in favour of the merger, which was called off because the Competition Board gave it only qualified approval

Ruiters said he was not sure whether the board examined the merger in terms of its effects on the national or international market

"Had one looked at it in terms of our public interest criteria, which include international competitiveness, we believe this merger might actually have been approved"

The committee was also briefed on the National Empowerment Fund Bill and the Estate Agents Amendment Bill, both of which were passed by the national assembly last week

Themba Mhlongo, the director in charge of policy analysis and strategy, said the South African Revenue Service had turned down a request to exempt the National Empowerment Fund from taxes, duties and levies

Sango Ntsaluga, the project director of the fund, said that it would not be a catalyst for the restructuring of state assets, but would buy shares in public enterprises and private companies for historically disadvantaged South Africans

Regarding the concern that white investors might use black people as proxies to buy shares, Mhlongo said checking identity documents of shareholders might be necessary

The vote on the bills is on Monday

□ Business Watch, Page 2

Oxygen plant opens

(183)

Sowetan 5/10/98

By Mzwakhe Hlangani
Labour Reporter

A MULTI-million rand oxygen plant expected to create about 5 000 jobs at Sasol Chemical Industries (SCI) was officially opened in Sasolburg at the weekend

The joint venture between Sasol and Air Products has cost R340 million and was commissioned last April to replace the original plant which had been in operation since 1954

SCI public relations manager Mr Johnny Stonlake said that as a result of the merger between the two companies, job opportunities for more than 5 000 would be created in the following year at the chemical plant operations

SCI operations division managing director Mr Elmore Marshal said the plant utilised the most modern technology available, and had the potential to reduce the cost of synthetic gas by up to 10 percent

To achieve long-term goals, the successful conclusion of the major project would ensure a global customer base for the petro-chemical company in the supply of industrial gases

The venture has the advantage of applying advanced global practices in operation and maintenance, sharing spares on a global basis as well as the maximum exploitation of an industrial market for the products, Marshal said

Fuel fund cheated on tax — NIA

BD 6/10/98 (183)

Wyndham Hartley

CAPE TOWN — National Intelligence Agency (NIA) operatives have claimed in a secret report that the Strategic Fuel Fund (SFF) illegally failed to pay regional services council levies and income tax in the late 1980s and early 1990s amounting to R1,4bn, and have called for a full government inquiry.

The report was drawn up by the controversial special NIA unit, Thabo Enterprises, which was set up to track down millions of rands which clandestinely left the country in the dying days of apartheid. It is understood it is a "source" report and unconfirmed.

It contains legal opinion rejecting claims that the SFF, established as the secret oil procurement agency under apartheid, was exempt from the levies, and that state-owned companies were not liable to pay income tax.

The report says the SFF owes millions to the Highveld, Cape Metropolitan, Saldhana and Durban regional councils — areas where there are oil storage facilities. Outstanding taxes were estimated at R900m.

Christo Henning of the SA revenue service said the service was "aware of the dispute relating to the payment of regional services council levies. The matter was under investigation.

"It is agreed that if an organisation is owned by the state it is not automatically exempt from the payment of income tax. The act does, however, permit the commissioner to grant exemption in certain circumstances."

The NIA report says Highveld alone is owed about R45m in accumulated turnover levies plus interest and value-added tax. It says it appears the SFF had been "fraudulently" avoiding paying income tax. It asserts that the SFF is a section 21 company required to pay tax before declaring a dividend.

A Pretoria advocate says in the report that exemptions are for state bodies "where their transactions are wholly internal; the SFF was trading for a profit with private entities such as Sapref and Natref (oil refineries) and therefore not exempted".

Legal opinion in the report declares that the SFF, although a section 21 company, "clearly did not comply with the requirements of the Companies Act. If one assumes that the SFF indeed paid to the government, as its sole shareholder, between R200m and R300m a year in the form of a dividend, this will be a contravention of the act."

Responding to the argument that the SFF was wholly state-owned and that the money therefore accrued to the state, the report said the fund was competing as a commercial venture, was registered under SA company law; and had a virtual monopoly.

"Profits have been made but they were designated as surpluses and deemed not taxable. Although state-owned, the onus is still on such commercialised companies to be paying income tax that must go to state coffers prior to a declaration of dividend or so-called surpluses," the report says.

The NIA and the SFF could not be reached for comment yesterday.

Members of Thabo Enterprises recently leaked information to Democratic Party leader Tony Leon which suggested that Thabo Enterprises was riddled with corruption.

Sibiya quits post, citing frustration at 'dirty tactics'

BD 6/10/98 (183)

Linda Ensor

CAPE TOWN — Gordon Sibiya, an outspoken campaigner against what he believed were wrongful practices in parastatals, has resigned as minerals and energy deputy director-general to pursue interests in the private sector.

Sibiya said yesterday he had "had enough" of the resistance to change he experienced in the energy sector.

In his letter of resignation handed in last week, Sibiya said that in the restructuring of state assets, those who wanted to keep their jobs would resist change and the whole process would be long and painful. Dirty tactics would be employed to prevent government from achieving its goals.

"I have been fighting wars that should be fought by bigger people," Sibiya, who was also director of energy, said yesterday. "I am sick of the personal mudslinging and want my life back. I am intellectually and spiritually weary and do not want to have to face up to any more disputes alone."

Sibiya, who joined the department last March, criticised the Central Energy Fund's appointment of Liberian Emmanuel Shaw as personal adviser to former CEF chairman Don Mkhwanazi on a R3m-a-year salary.

His latest skirmish was with the Council for Nuclear Safety over proposals to shift the regulation of radiation in the mining industry from the council to the department and to lower the standards applied to what he believed were international norms.

His detractors have accused him of trying to further the interests of the mining industry because he was a nonexecutive director of Randfontein Estates, a claim he has hotly denied.

Sibiya oversaw the drafting of the energy white paper and brought the Nuclear Energy Bill, the Nuclear Regulatory Bill and the Gas Bill to completion. He now wants to re-establish his private firm of electrical engineering consultants. Sibiya has a doctorate in nuclear reactor physics from a German university as well as a master's degree in electrical engineering from Nottingham University in the UK.

Sibiya quits post, citing frustration at 'dirty tactics'

20/6/10/98 (183)

Linda Ensor

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Maduna wants fuel fund tax claim report

A FULL report on a claim that the Strategic Fuel Fund owed R1,4 billion in levies and back taxes has been requested from the National Intelligence Agency, Mineral and Energy Affairs Minister Mr Penuell Maduna said yesterday

Maduna was commenting on an article published in a daily newspaper on a secret report produced by National Intelligence Agency (NIA) operatives

The report claims that the Strategic Fuel Fund (SFF) failed to pay R1,4 billion in regional services council levies and income tax during the late 1980s and early 1990s

"I am experiencing many problems with the SFF, and I really did not know about any of this until I read it in the newspaper this morning," Maduna told Sapa

He said he needed two or three days to gather the relevant facts before making a statement about whether or not action was to be taken on the report

"I told them I wanted the report on my desk as soon as possible, and when I've read it I will release a statement"

According to *Business Day* the report was drawn up by a special NIA unit known as Thabo Enterprises, set up to track down money which had left the country during the dying days of apartheid

The report apparently contains legal opinion rejecting the SSF's claims that it was exempt from levies and, as a state-owned company, not liable to pay income tax

Business Day quoted the report as saying the SFF owed millions of rands to the Highveld, Cape Metropolitan, Saldanha and Durban regional councils, while outstanding taxes were estimated at R900 million

Mineral and Energy Affairs Minister Penuell Maduna.

NIA spokesman Mr Hellmuth Schlenther told Sapa that the agency did not discuss the contents of individual reports

"These matters are confidential," he said

He would not elaborate on why the NIA would investigate tax issues, which are dealt with by the South African Revenue Service

SFF officials would meet soon to formulate a response to the newspaper report, a fund spokesman told Sapa yesterday – *Sapa*

AECI completes restructuring plan

CT (BR) 9/10/98 (183)

Jonathan Rosenthal
Industrial Editor

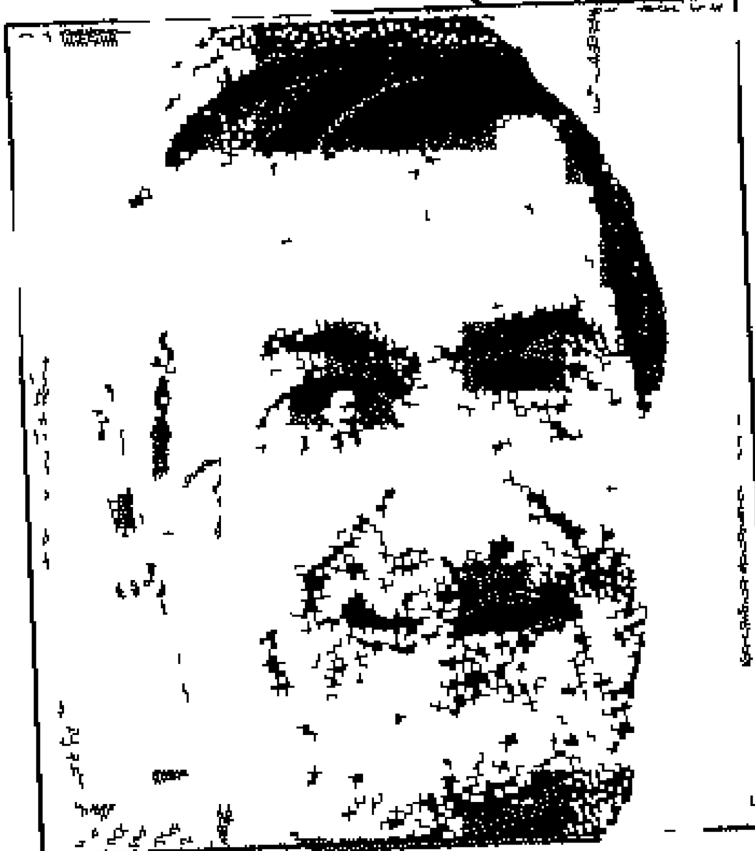
Johannesburg — AECI, the troubled commodity chemicals group, appointed a new managing director yesterday and put the finishing touches on a restructuring plan that will be presented to its board next Thursday

AECI was the subject of a failed takeover bid by Sasol that was effectively scotched by the Competition Board

The group said yesterday that Mike Smith, the managing director, had asked for early retirement and would be replaced by Lex van Vught

Analysts, who declined to be named, said the change would be positive as Van Vught had a record of delivering strong earnings growth at Chemical Services, an AECI subsidiary

Van Vught said yesterday that AECI management had finished its restructuring proposal, which would be put before a full board meeting on October 15 He declined to provide details of the proposal but said it looked viable



OUTWARD BOUND *Mike Smith, AECI's retiring MD*

Analysts, who have long speculated on what such a proposal could look like, said yesterday it would most likely include a refocusing of AECI into a far smaller business

One said Anglo American Industrial Corporation, which holds 52,6 percent of AECI, was faced with three options

The first is to sell its stake to Union Alliance, a consortium of unions and black empowerment groups that has already said it planned to submit a buy-out proposal before the board meeting

Or it could sell off all the operating companies in an unbundling process that would effectively destroy AECI as a corporate entity

Finally, it could restructure the business and dispose of non-core assets "Restructuring seems to be the likely route," the analyst said

Most analysts expect AECI to start with the sale of its 40 percent share of Polifin, the joint venture plastics producer, and its paints business But they are divided over the future of the fertilisers and explosives businesses

AECI shares rose slightly on news of the appointment, but closed 5 percent down at R9,50

OIL *Global competition will shake up industry*

Sector can expect changes

CT(HR) 9/10/98 (183)

LYNDA LOXTON

Cape Town — South Africa was fast becoming part of the international oil and chemicals market and major shakeouts and restructuring were likely in the months ahead, Brian Paxton, the managing director of Mbendi Information Services, said yesterday

Mbendi is an Internet news service

In his latest oil and chemicals newsletter, Paxton said companies such as Sentrachem, Hoechst and Engen were being delisted and becoming part of international groups

"International parents/partners can provide technology and international synergies but require that local operations are focused and ruthlessly efficient," he said

"Unless the Sasol/AECI merger can be resuscitated, it is going to be difficult for Sasol to become a world player and for AECI to survive as a regional player"

Paxton said it was not clear whether proposed black empowerment deals met the criteria of providing the black investor "with a decent return on investment, particularly if funded by borrowings at high interest rates"

Paxton said Sasol had conducted a series of roadshows for UK investors, but it would "be interesting to see how international investors view a listed company receiving the levels of tariff protection given to Sasol"

He said South Africa had not yet been significantly affected by the international corporate alliances involving Mobil, BP, Arco, Amoco, Shell, Chevron, Caltex, ICI, RTZ and others, but this could be expected in the months ahead

"In short, interesting days are ahead and only the best are going to survive and profit, most probably as part of international groups"

Sasol's earnings to grow by 55% due to tariff protection

BD 16/10/98 (183)

Tim Cohen

LONDON — Sasol's earnings for the next financial year will grow 55% mainly because of increased government-sponsored tariff protection which could cost motorists about R1,2bn

ING-Barings analyst Gerhard Engelbrecht has estimated that the tariff protection will constitute 23% of Sasol's total earnings for the year

The estimates follow government's controversial decision to increase the Fuel Equalisation Levy from 0,4c/*l* to 8,0c/*l* with effect from Wednesday last week

This effectively cancelled what would have been an 11c/*l* petrol price decrease

Engelbrecht said that at an exchange rate of R6,36 to the rand and an oil price of $12 per barrel, it was estimated that Sasol would receive tariff protection of R1,2bn for the upcoming financial year

This represented an increase of 140% over the R500m tariff protection Sasol received this year

The increase is caused by the fact that Sasol tariff protection is set in dollars per barrel and therefore any depreciation in the rand boosts the level of protection provided

Sasol's profit after tax would increase by about R76m for every 10c depreciation of the rand against the dollar from the level of R6,36 to the dollar. At current rand levels the tariff protection would be about R400m less than the R1,2bn estimate.

Sasol recently announced a sharp fall in earnings, its first for several years, which was blamed on poor trading conditions

(183)
CT (BR) 16/10/98

Trepidation surrounds Energy Africa

Marc Hasenfuss & Lynda Loxton

The future of Energy Africa, the oil and gas exploration and production company controlled by Engen, was the hottest topic outside the official programme of the Global Pacific and Partners Africa Upstream Conference this week

Petronas, the Malaysian national oil company that has gained control of Engen, has intimated that Energy Africa would retain its independence — but nobody is gullible enough to swallow this promise

With Petronas (or any other oil multinational, for that matter) in control of Energy Africa, there is no way this promising exploration contender can hope to hold onto its "independent" and "African" tags

Energy Africa will become synonymous with Petronas's exploration activities In essence, there will be two Petronas entities charging around Africa looking for business Any competitive advantage Energy Africa had through its claims to being "independent" and "African" will disappear

The Malaysian firm displays many of the strengths and weaknesses of national oil companies highlighted in an African Institute of Petroleum paper released at the conference

Although it is a diversified and cash-rich oil and gas operator, it is overstaffed Its pretentious twin office towers in Kuala Lumpur are viewed as a sign of its lack of any coherent growth strategy

It is common lore in the oil industry that any company that spends its money on high-rise buildings (these towers are the tallest in the world) instead of on exploration and development has somewhat lost its way

Petronas's top brass report directly to Mahathir Mohamed, the Malaysian prime minister who faces increasing pressure for more democracy His possible departure from office could affect Petronas

Privatisation could be on the cards, affecting Petronas's operations in other parts of the world, including Africa

Petronas is a fully integrated oil company with upstream and downstream oil and gas interests

In Malaysia, it owns and manages the nation's 3,9 billion barrels of crude oil, which produces at 630 000 barrels a day, and 79,8 trillion cubic feet of natural gas reserves, producing at 3,4 billion standard cubic feet a day It operates a chain of about 400 service stations

Outside Malaysia, Petronas is involved in upstream and downstream ventures in Vietnam, Pakistan, the Philippines, China and the Middle East, and it has interests in Australia and Argentina

Petronas's previous involvement in Africa has taken the form of trading activities on the east coast and to the Indian Ocean Islands, where it took advantage of the gap left by the Kuwait Petroleum Company during the Gulf War

It has African upstream ventures in Algeria, in Sudan with Arakis, and on the Libyan-Tunisian border with Joint Oil Company and Nimr Petroleum

Petronas's investment in Engen is the largest foreign investment in South Africa this decade It is close to the South African government and is seen as a role model for creating a local national oil company from state assets such as those in the Central Energy Fund

It could be argued that Energy Africa's work rate might rise with a big brother like Petronas to provide financial muscle But minority shareholders might still be concerned if Petronas starts tampering with Energy Africa's successful formula to date

Things will probably come to a head next week, when Energy Africa's results are announced

At that time a few significant minorities — particularly those original offshore investors who chipped quite a lot of dollars ahead of the listing in 1996, buying into Energy Africa on the strength of the "independent" and "African" sales pitch — might have a few polite concerns to voice

John Bentley and others on the Energy Africa executive will not be drawn on the content of next week's results presentation, citing the "closed period" in the run-up to the release of the year to August 31 results as the main reason for silence

Clearly the chances of Engen unbundling Energy Africa have slipped away with Old Mutual's acceptance of Petronas' offer of R23 an Engen share earlier this week Now only Templeton Asset Management, with a 10 percent stake in Engen, presents some resistance to Petronas's advances

Possibly Petronas will reaffirm Energy Africa's "independent" and "African" status by diluting its stake to allow black empowerment partners on board

It could extend participation to parties in other African states, most likely Gabon, Congo and Angola, where Energy Africa has some potentially lucrative working arrangements

But Petronas will have to do more than talk Diluting its shareholding to well under the 50 percent mark would give huge comfort to minority shareholders

Petronas also needs to telegraph this message to the oil and gas sector as soon as possible — otherwise uncertainty about Energy Africa's operational status could staunch future deal flows

Energy Africa has stuck close to its R10 annual low, well off its R25 high reached in January and a discount to the latest net asset value, well below the international ranking of its peers

Clearly there is more than a bit of trepidation in the market

AECI (187) FM 16/10/98

AECI DUSTS OFF ITS NEW DEAL

And picks Van Vught to lead

Thursday October 15 will go down as yet another eventful day in the hectic calendar of out-of-luck chemical company AECI On this day, AECI management, led by MD Lex van Vught, will go before the alpha males from majority shareholder Amic — Leslie Boyd, Julian Ogilvie Thompson, Tony Trahar — to try to get them to buy into a broad restructuring plan

Van Vught says the restructuring plan they will present has not been materially modified since it was first outlined to the investing public in June, when Sasol made its offer to Amic and the AECI board was viewing alternatives to realise shareholder value That's because AECI executives were expecting the Sasol/AECI deal to get the green light from the Competition Board He says ex-MD Mike Smith backs the new plan and voluntarily stepped down, as he felt it was more appropriate for a new leader to carry it out

"The only thing that may take the market by surprise is our determination to execute it (the restructuring plan) quite rapidly," says Van Vught

As outlined in an AECI/ING Barings report released in June the restructuring plan will involve "the exit from AECI's commodity chemicals businesses, with the net proceeds distributed to shareholders, and a refocusing of AECI's portfolio on speciality chemicals, explosives, speciality fibres and industrial materials"

Van Vught won't discuss specifics of the plan But the *FM*'s guess is the plan proposes the disposal of both Dulux and Polifin Dulux is dependent on the stagnant SA market and should be easily disposed of to an overseas coatings group (see *FM Focus* August 28) Polifin is more of a strategic investment for AECI and should be readily snapped up by Sasol — which already holds a 42% stake in the company There are also likely to be big changes to the group's fertiliser operations and a speedy decision on whether to close or vastly update the group's Modderfontein ammonia and urea plants

The Department of Trade & Industry was brutally frank in its submission to the Competition Board when it said AECI's failure to address its basic need for raw materials (affordable ammonia) would result in its inevitable demise And this area needs to be addressed

Finally, expect extensive rationalisation throughout the group to cut costs

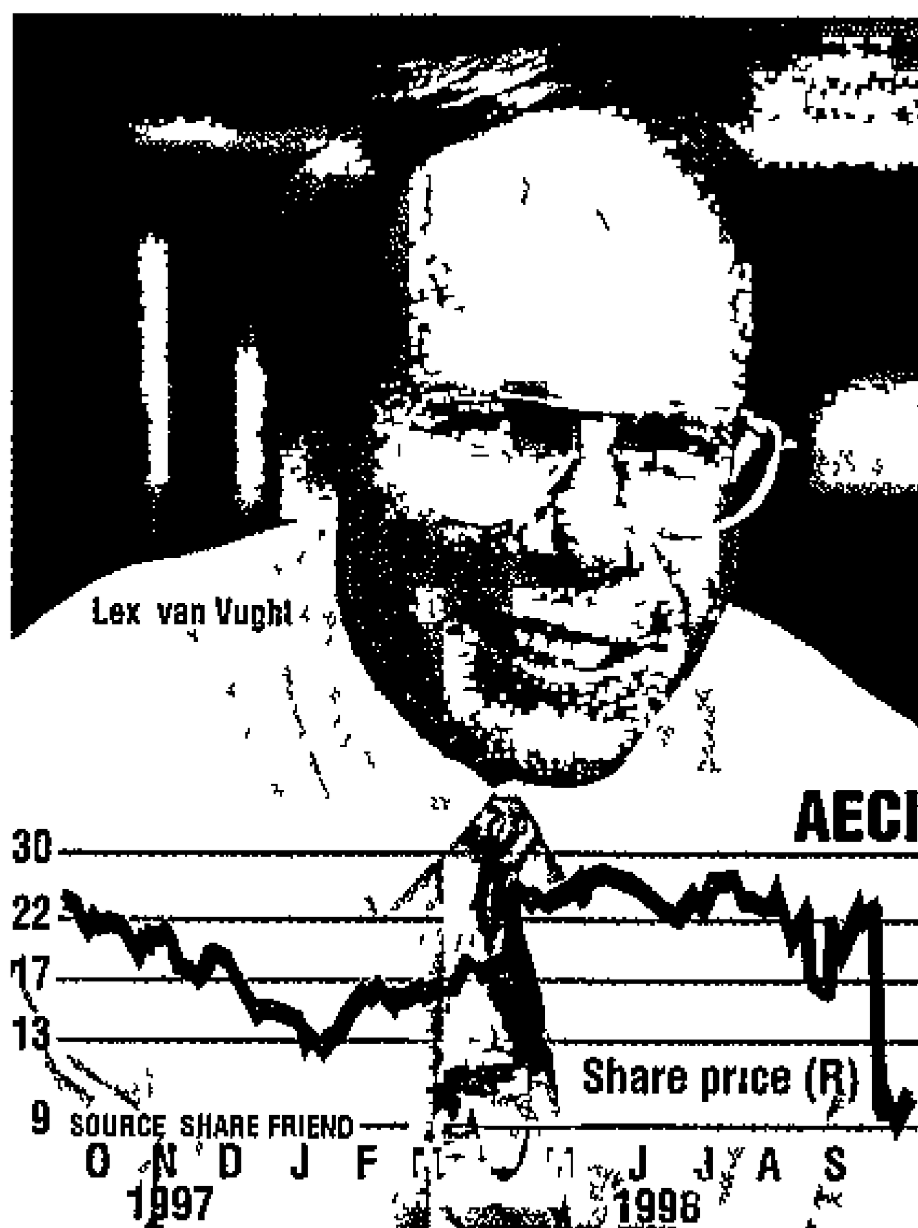
The big unknown is whether this plan will be accepted, rejected or modified in any way by Amic The AECI managers do have a hard sell ahead and will have to concentrate on short-term delivery Amic is a reluctant shareholder in AECI and the value of cash is a lot higher now Amic executives are also likely to be under the whip after some high-profile failures in the group — take a bow, McCarthy and Daewoo Van Vught says he is quite comfortable with Amic being half-way out the door, since it will now bring a sense of urgency to the company — which has been one of the main criticisms of AECI in the past

He is aware of the disillusionment in the company by the investing public and says AECI might not have adjusted itself quickly enough to a changing world He promises to try to make AECI a more nimble and forward-thinking operation and increase the number of strategic tie-ups it has

He says his management style is about empowering people and providing proper incentives to achieve Chemical Services MD Schalk Engelbrecht, who has worked extensively with Van Vught, confirms his open-door approach and among other strengths he lists "outstanding" communications skills and good vision

But in his 20 successful years at AECI, Van Vught has been primarily in the business of building companies up, not tearing them apart His position at the top will call for new skills

Despite this and the rampant uncertainty, there is new hope for positive change at AECI and some speedy unlocking of value Many investors may wish to wait for details of the board's decision in the next weeks, but opportunists could do well buying into AECI now at historically low levels Stuart Rutherford



Lex van Vught

Bid to derail Zuma juggernaut

Court actions against key reform measures proposed by the health minister will undermine her reform programme, critics warn

(183) Star 19/10/98

By Charlene Smith and Matthew Burbidge

Three crucial bills aimed at transforming the healthcare system have been stopped in their tracks as Health Minister Nkosazana Zuma's policies face an unprecedented wave of legal challenges and protest this week.

The Medicines and Related Substances Control Amendment Bill has already been interdicted by pharmaceutical manufacturers, the Tobacco Products Control Amendment Bill has been interdicted by the tobacco industry, and the Medical Schemes Bill is now threatened with a similar fate.

To add to Zuma's woes, about 350 foreign-qualified doctors – many of them South African citizens – met in Johannesburg at the weekend to protest at the withdrawal of work permits and their working conditions. The foreign doctors are threatening major court action.

But Health Department spokesperson Khangelani Hlongwane said Zuma valued the foreign doctors and had no plans to "bundle them onto the next aircraft".

He said there was a perception in the department that there were deliberate attempts to frustrate the passage of legislation. "There are those with sinister motives who seem to be frustrating the passage of legislation that is aimed at transforming healthcare delivery."

Hlongwane said Zuma was not obliged to attend any of the public hearings on the tobacco amendment bill this week.

The Freedom of Commercial Speech Trust umbrella body, which represents the tobacco industry, handed a letter to the portfolio committee on health last week announcing that it was withdrawing from the parliamentary process surrounding the bill and would be instituting legal action against the Government.

Trust chairperson Neil Jacobsohn said the Health Department's behaviour in introducing the bill was a manipulation of the accepted principles of consultation and of the legislative process: "We have been denied our constitutional right to consultation, to the extent that the department has resorted to misrepresentation of the facts in official documentation."

According to observers, if tomorrow's application succeeds, it is likely that the bill could be tied up legally for at least two more years, delaying the introduction of Social Health Insurance, aimed at revolutionising the medical aid industry.

Also tomorrow, Business South Africa will challenge in the Cape Town High Court the passing of the Medical Schemes Bill, aimed at regulating medical aid schemes. BSA has applied for an interdict against Zuma and the chairperson of Parliament's portfolio committee on health, Dr Abe Nkomo, saying the bill impacts on employment conditions and costs.

Sasol defends alcohol in fuel

'It should even improve engine performance and fuel efficiency in Gauteng'

BY CATHY POWERS

Gauteng motorists could be getting higher performance fuel and increased fuel efficiency for the same price per tank when alcohol is reintroduced into petrol in December but the decision is not without controversy

Sasol Oil, South Africa's biggest synthetic fuel producer, is reintroducing alcohol into all brands of petrol from December 1 at most of Gauteng's commercial and retail outlets No alcohol will be introduced into unleaded petrol

Sasol supplies all the fuel inland so all the leaded fuel sold inland will contain alcohol.

Responding to repeated criticism of the decision, Sasol explained that its research showed that petrol with 12% alcohol will improve engine performance and increase fuel efficiency in some engines Sasol Oil's technical manager Johan Botha said however, it was unlikely that motorists would notice a significant difference.

The reintroduction of alcohol into petrol is a contentious issue which raised the concern

Improved blend and corrosion inhibitor may silence critics

of car manufacturers in the past. There had been isolated problems of corrosion and degradation of fuel systems said Nico Vermeulen, spokesperson for the National Association of Automobile Manufacturers of SA (Naamsa)

But Sasol has improved the alcohol blend, which is a co-product from its oil from-coal process, added a corrosion inhibitor and has done extensive tests into the effect of alcohol blended petrol on car engines since then, Vermeulen said

Botha said there would be no need for vehicles to be adjusted

Sasol, in an agreement with car manufacturers, has undertaken - "in the unlikely event of damage" - to compensate all motorists for replacing parts adversely affected by the re-introduction of alcohol.

"They've done their research We believe the motorist has little to fear," said Vermeulen.

A big plus is that harmful exhaust emissions such as carbon monoxide, sulphur oxides and hydrocarbons should also be reduced.

The snag is that, as alcohol tends to loosen dirt and rust filter blockages may occur more quickly.

Once the system is clean, there should be no further problems, Botha added The fuel will comply with SABS specifications for petrol.

Blending alcohol with petrol is a worldwide trend accepted in Europe and mandatory in some states in America, said Botha.

In South Africa, petrol was blended with alcohol from the late 80s until 1994 when alcohol was withdrawn and instead exported to Brazil for valuable foreign exchange

Changes in Brazil's needs have resulted in a surplus of alcohol locally, which either had to be stored destroyed or used

Using it is obviously the most economic and profitable option, with millions at stake for Sasol if alcohol is not reintroduced into petrol

GRAPHIC JASON ASKEW

ALCOHOL WILL BE REINTRODUCED INTO ALL BRANDS OF LEADED 93 OCTANE PETROL AT MOST RETAIL AND COMMERCIAL SITES IN GAUTENG FROM DECEMBER 1

- **Alcohol will be initially added to a maximum of 12% by volume, conforming to SABS specification**
- **The performance of certain vehicles should improve slightly**
- **The inclusion of alcohol in petrol should reduce harmful exhaust emissions**
- **Filter blockages may occur more rapidly**
- **No adjustments to your car are necessary**

FOR FURTHER INFORMATION DIAL SASOL'S TOLL-FREE NUMBER 0800-11 4441

AECI to slash costs and restructure itself into five operating units

BD 22/10/98

Amanda Vermeulen (183)

CHEMICALS and explosives group AECI has unveiled a radical restructuring strategy which will involve slashing group costs by R100m, selling noncore businesses and shaping the group into five focused operating units.

Incoming MD Lex van Vught said yesterday the plan had the backing of parent Anglo-American Industrial Corporation, which intended selling its AECI stake once shareholder value had been restored.

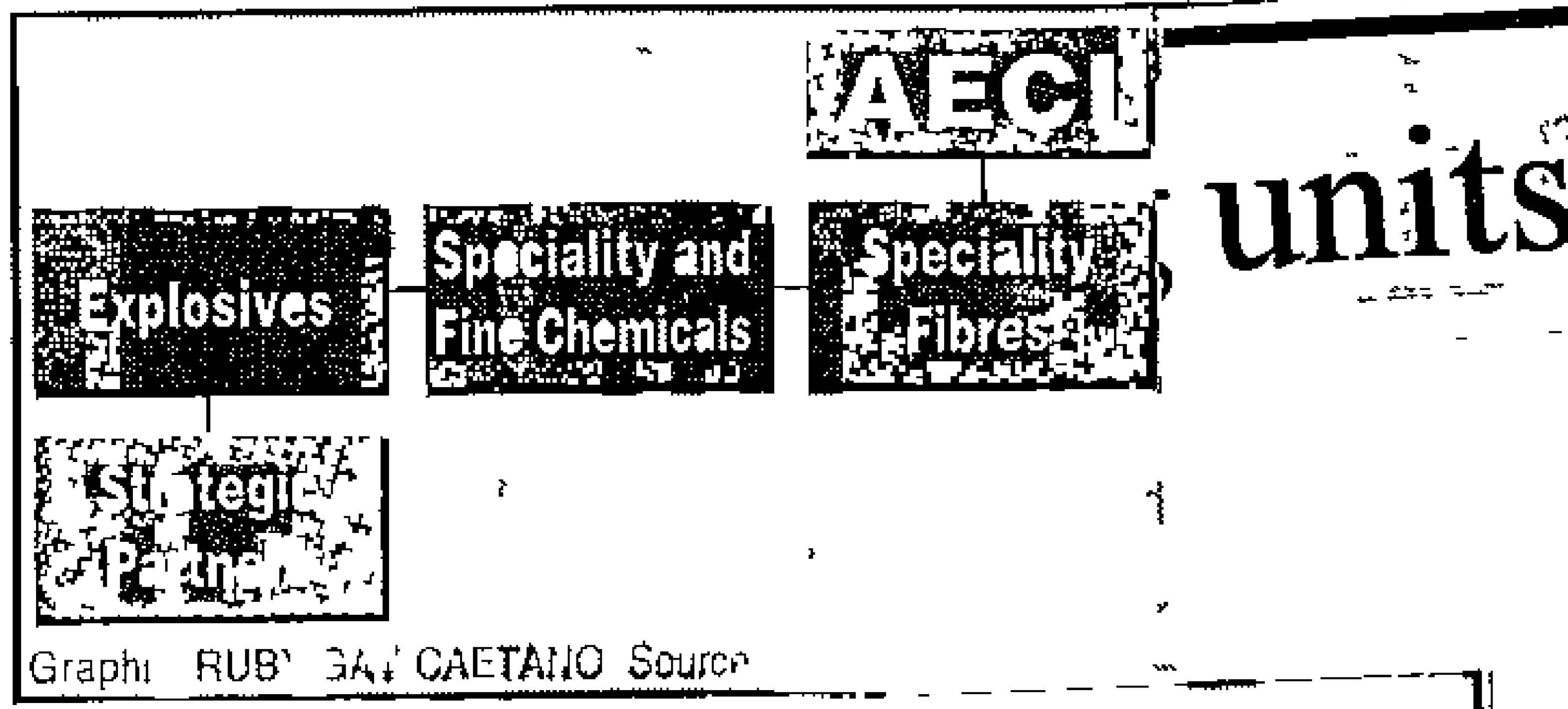
"The new strategy will ensure that the transformed group will have greater focus, and that contamination of cash generative business by underperformers is eliminated."

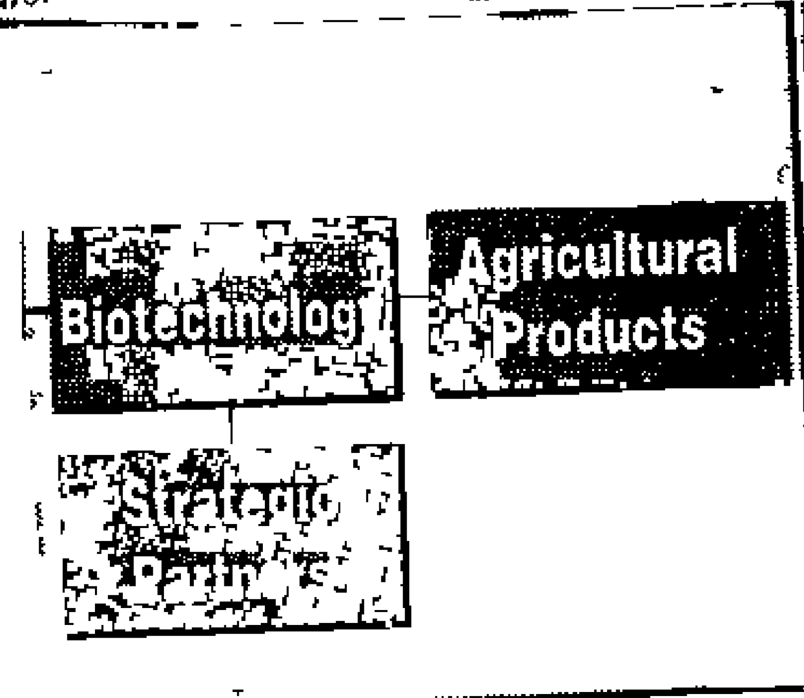
AECI also cautioned shareholders that the events of the past months had had a detrimental effect and year-end earnings would be significantly lower than in the 1997 year

Among the key decisions taken by the AECI board last week was a decision to leave the ammonia and urea business, negotiate the sale of the research and development division to the Council for Scientific and Industrial Research and consider offers for the decorative paints business, Polifin, Fedmis Phalaborwa and Tioxide

Van Vught said discussions with explosives groups Orica of Australia and Norway's Dyno — which were suspended during a Competition Board

Continued on Page 2





AECI (183)

BD 22/10/98

Continued from Page 1

probe into a bid by Sasol for AECI — would be resurrected.

He said there were a number of interested buyers for Polifin, whose other major shareholder, Sasol, had a pre-emptive right over AECI's 40% shareholding. Sources said another potential suitor might be the US's Dow Chemical Company

The decorative side of Dulux could be sold, but Van Vught said there could be value in retaining the technical coatings business and seeking out a joint venture partner.

The agricultural business, Kynoch, which has been especially hard hit by plant inefficiencies and a steep decline in ammonia prices, would be unbundled into a separate operating business as soon as possible

SANS Fibres — would be retained despite a recent management buyout proposal by its executive

Van Vught said the first step in the restructuring into focused units would take about three to six months, with the group making an estimated R100m provision in the 1998 financial year for the associated costs

The five units would be explosives; speciality and fine chemicals; speciality fibres, biotechnology, and agricultural products

Van Vught said the group's R1,7bn debt burden would be relieved by the disposals, as well as the implementation of a working capital reduction programme. Staff costs would also be reduced through the retrenchment of "several hundred" people from a total workforce of 16 000

CHEMICALS *Last-ditch rescue bid announced after failed takeover*

AECI in R2,5bn asset sell-off to stay afloat

(183) CT(BR) 22/10/98

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — AECI, the troubled commodity chemicals group, said yesterday it would pare its business down into five core clusters through the R2,5 billion sale and closure of substantial portions of its business

The move comes as a last-ditch rescue attempt in the wake of a failed takeover bid by Sasol, the petrol company

Lex van Vught, the new managing director, said yesterday that the group would exit its high-capital, large-scale continuous process commodity operations, unbundle Kynoch, its fertiliser and animal feeds subsidiary, and rationalise the group by cutting overheads by R100 million a year

The restructuring, which will cost close to R100 million in closure and retrenchment costs, will result in substantial job losses

Job cuts are likely to be concentrated at the group's LAN ammonia and urea manufacturing plants at Modderfontein, which incurred hefty losses when ammonia and other nitrogen product prices plummeted last year

"A decision has been taken to exit the manufacture of ammonia and urea at Modderfontein However, current operations are cash generative and preparations for a maintenance turnaround on the ammonia/urea complex in the year 2000 will continue for the time being," said Van Vught

He said the group was likely to sell its stake in Polifin, which was valued by analysts about R1,8 billion, as well as Dulux, its paint company, Tioxide and Fedmis

The company also will transfer its research and development department to the Council for Scientific and Industrial Research

Although Van Vught declined to put a value on the disposals, Jennifer Ramsden, an analyst at Rice Rinaldi Turner, estimated that the disposals, as well as the sale of minority stakes in several of the businesses, could be worth about R2,5 billion to AECI

Much of the proceeds would be used to reduce debt, which was about R1,7 billion because of seasonal peak working capital requirements in Kynoch, and would go into a reinvestment drive in the company's five core clusters

These will be explosives, speciality chemicals, fibres, biotechnology and agricultural products

Van Vught said AECI would seek strategic partnerships in each of these areas and would resume talks with Orica, the Australian chemicals group, over a partnership in explosives within the next week

He said Amic, AECI's controlling shareholder had supported the restructuring

Amic has already stated that it plans to sell its stake in AECI, but some analysts feared that it would block lengthy restructuring of the group in favour of breaking up AECI and selling it off piecemeal

Neil Axelson, the financial director, said he believed that approaches to Amic by interested buyers had not progressed very far

Ramsden said the envisaged cost-savings seemed reasonable and that the turnaround plan seemed workable

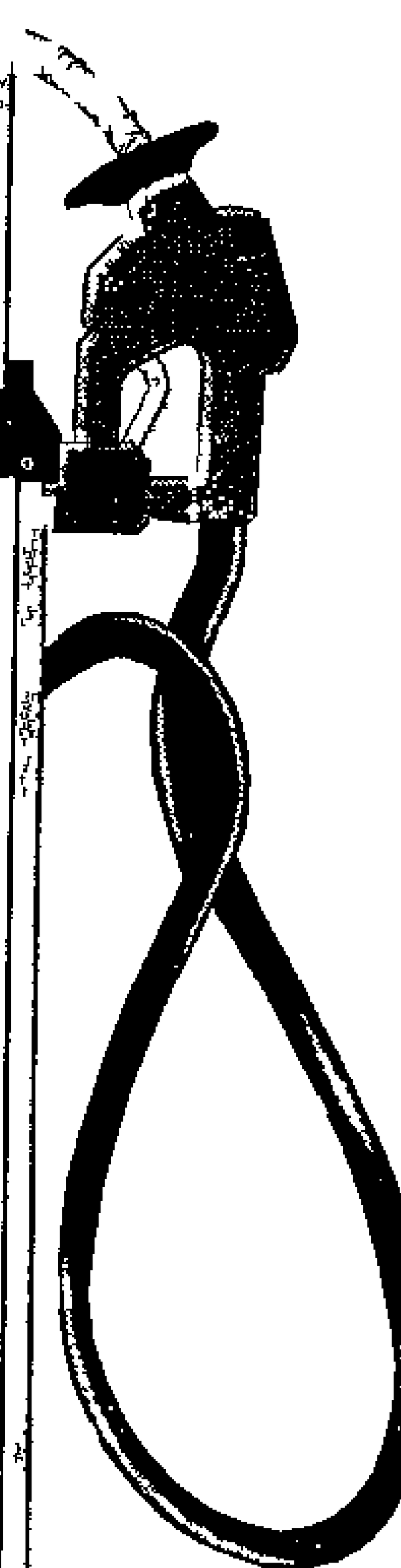
"They are making all the right noises They have got to exit urea, ammonia and LAN," Ramsden said

AECI shares lost 130c to close at R11,10 last night

LIFEBUOY *Lex van Vught, the newly appointed managing director of AECI, who says the restructuring is aimed at cutting overhead costs by R100 million a year* PHOTO JOHN WOODROOF

MAJOR PRODUCT MARKET SHARES

COMPANY	1996 PETROL	1996 DIESEL	1997 PETROL	1997 DIESEL
Afric Oil	0 69%	0 06%	0 70%	0 18%
BP	[illegible]	[illegible]	[illegible]	[illegible]
Caltex	17 68%	17 59%	17 67%	18 23%
Engen	[illegible]	[illegible]	[illegible]	[illegible]
Exel	-	-	0 26%	0 69%
Sasol	[illegible]	[illegible]	[illegible]	[illegible]
Shell	18 49%	19 63	18.94%	19 87%
ιι	[illegible]	[illegible]	[illegible]	[illegible]
Total	12.82%	15 41%	13 09%	14 76%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



Graphic FIONA KRISCH Source SAPIA

Oil groups' share of the spoils

PETROLEUM INDUSTRY

By MARCIA KLEIN

THE SA Petroleum Industry Association has, for the first time, provided statistics on the market share of SA's major oil companies

Its 1997 annual report, released this week, shows that Engen has the biggest share, with 24 2% of the petrol market and 24 6% of diesel.

Shell has almost 19% of the petrol market, Caltex 18%, BP 16%, Total 13%, Sasol 7% and Zenex 3% The 1997 market shares of black-controlled companies Afric Oil, Exel, Tepco and Zenex totalled 3 63% for petrol and 5 7% for diesel By June this year, their share had increased to 4 19% for petrol and 7 98% for diesel

Sapia also provided detailed information on the sources of its crude oil, most of which comes from Iran, Kuwait and Saudi Arabia The figures show, for the first time, the extent of SA's own production of crude oil from the Oribi field, where Sapia obtained a small amount of crude

According to the Sapia report, Sapia members — BP, Caltex, Engen, Shell, total and Zenex — sold 33 8-billion litres of liquid fuel in 1997 compared with 29 4-billion in the previous year Their sales were R40 7-billion in 1997, up from R37 5-billion in the previous year and their operating profit of R2 2-billion was down from R2.4-billion in 1996. Net income was R1 3-billion (R1 4-billion), and after-tax return on marketing and refining assets was 7%, down from 7 9% in 1996

The oil industry contributes R16-billion a year in tax revenue, and government collects 45 5c on every R1 which motorists spend on petrol

Sapia welcomed the White Paper on Energy policy's "overall thrust towards a less controlled, more competitive industry", but had reservations about the timing, lack of detail and implementation of proposals

Director Colin McClelland said the industry wanted further interim relief on marketing margins following the 2c a litre granted in November last year, and an agreement on a system to determine marketing volumes

Chairman Fred Phaswana said the past year was a period of preparation for transformation in the liquid fuels industry, "but it was the fourth year of planning and consultation; the fourth year of operating in a semi-hiatus between an unacceptable old regime and an uncharted new one"

He said Sapia hoped this was "the last such inhibiting year," and called for a freely competitive system with equal opportunities and clear rules

Union will check AECI management packages

(183) CT 26/10/98

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — The Chemical Workers Industrial Union on Friday expressed its concern over impending retrenchments at AECI, the commodity chemicals producer, and said it would investigate the early retirement packages taken by senior management ahead of the company's restructuring

Tanya van Meelis, a union spokesman, said however that the union had been given an assurance by Lex van Vught, the recently appointed managing director, that AECI would share information with the union and that there would be no decline in the working conditions of workers affected by mergers of the group's operations

"He agreed that due process will be adhered to and that all information required by us to engage on the issues will be forthcoming," she said.

AECI, which earlier this year was the subject of an aborted take-over bid by Sasol, last week unveiled an extensive restructuring plan that would cut its size by half in a bid to restore the group's profitability.

"We are very concerned about the job losses that are going to take place and are concerned that we do not know the extent thereof yet," she said.

AECI said last week it would not be involved in manufacturing ammonia or urea in the medium term and would close its LAN fertiliser plant in the short term. The closures and disposals are expected to affect several hundred workers.

Van Vught last week described the restructuring as the best of three possible options for the workforce. He suggested that, had the Sasol takeover proceeded or the company been forced into a piecemeal sell-off of its companies, job losses could have been far more extensive.

The union said it had not agreed to the job losses in a meeting with Van Vught last week although it accepted that some could be inevitable. But it said it would investigate the packages paid to senior managers who had taken early retirement.

In the past few weeks, two directors, including Mike Smith, the former managing director, took early retirement.

"Workers ... had no control over the management decisions that led to this and it is workers who end up bearing the brunt of the burden," Van Meelis said.

Confusion over new Zuma bill

BD 27/10/98

Wyndham Hartley

CAPE TOWN — SA Health Minister Nkosazana Zuma's latest legislative offering, which seeks to create a medicines regulatory authority, could accidentally repeal the highly controversial Medicines and Related Substances Control Amendment Act 90 of 1997, which her department is preparing to defend in a High Court action.

The parliamentary health committee will decide on the bill today. During public hearings before the committee yesterday, submissions from the pharmaceutical industry said there was confusion because the bill under discussion, the SA Medicines and Medical Devices Regulatory Authority Bill, repealed the original Medicines and Related Substances Control Act 101 of 1965.

Because Act 90 was an amendment of the principal Act 101, they were assuming that Zuma and the health department had repealed the controversial parallel importation and provisions of Act 90.

The National Association of Pharmaceutical Manufacturers asked the committee and the chairman to clarify "the most confusing situation".

This was echoed by the Pharmaceutical Society of SA, the Pharmaceutical Manufacturers' Association (PMA), the National Association of Pharmaceutical Wholesalers; and the SA Association of Hospital and Institutional Pharmacists.

Health director-general Ayanda Ntsaluba said he and departmental legal advisers were convinced the amendments could stand alone while the principal act was repealed.

(187)

He said he was defending the court challenge to the Medicines and Related Substances Control Amendment Act. He said that the state's legal advisers would draft technical amendments that would clarify the situation.

Zuma's regulatory authority, which will replace the present medicines control council, also came under fire in numerous submissions for the sweeping discretionary powers granted to the minister.

It was noted that while the bill says the new authority will be independent, Zuma is granted complete power to appoint the authority. The Bill also gives the minister the power to set policy for the new authority in what are scientific matters of registration and safety of medicines.

NP's oily scheme pumped up Ivorian

(183)

In the week the TRC released its final report, Penuell Maduna was trying to hide the name of an African politician who enjoyed the National Party's largesse, writes **Mungo Soggot**

M+G 30/10-5/11/98

The bizarre saga of how the apartheid government bankrolled the election of a West African president by inflating the South African taxpayers' crude oil bill took a further extraordinary twist when the Minister of Minerals and Energy, Penuell Maduna, this week sought to protect the politician's identity

Oil industry sources confirm the man whom Maduna tried to protect is Henri Konan Bedie, the president of Côte d'Ivorie, who was in South Africa last month on a state visit

It emerged at Public Protector Selby Baqwa's hearing in Pretoria this week that investigators probing the state oil company uncovered documents outlining an extraordinary scheme hatched by the former government to raise $3-million for an African politician

The scheme — which was documented in a letter from the state oil company to the then minister of energy — boiled down to adding an extra $0,35 to the cost of each barrel of oil imported in terms of an 150 000 barrels a day oil contract The commission was paid to a middleman oil trader who passed the bulk of it on to Bedie

At the time of going to press, Baqwa was due to hear argument from Maduna's lawyers as to why he should issue a permanent interdict against the disclosure of the politician's identity According to SABC radio news, which reported the essence of the deal, Baqwa issued a temporary gagging order on Wednesday prohibiting the disclosure or publication of the politician's identity after hearing an application from Maduna's counsel

It is understood that the letter from the state oil company to the Cabinet minister, Danie Steyn, indicated the scheme had been arranged on the minister's instructions and would further the government's political "*oogmerke*" (aims)

Maduna's application to hide the politician's name was opposed by the Auditor General Henri Kluever and by the suspended head of the state oil trading company, Kobus van Zyl, both of whom said the relevant documents must be made public

Lawyers at the hearing said Naidu indicated that Maduna had asked to him to seek the gagging order "as a member of the Cabinet" and had also signalled he would be receiving instructions from the Department of Foreign Affairs

Côte d'Ivorie was the first African country to establish diplomatic relations with South Africa during the 1980s It would naturally be embarrassing for it to emerge that President Bedie was elected with the help of the National Party

He became president after the death in 1993 of Felix Houphouet-Boigny, a long-time advocate of détente with apartheid South Africa

During his visit to South Africa last month, Bedie was honoured by being invited to address Parliament

It is ironic that Maduna sought to interdict the release of these extraordinary documents for they provide vindication of his efforts to delve into the state oil company's mysterious past The documents detailing the scheme are the first documentary proof that the former NP government used the state oil company for covert funding operations

When Parliament appointed Baqwa to investigate there was much speculation in the oil industry that Maduna had adopted his aggressive strategy in an effort to score political points against the NP

Maduna has incurred considerable criticism from opposition parties and the press for his stance on the state oil company

Maduna's fight with Kluever and the state oil company started in March last year when he suspended Van Zyl "on probable cause" after appointing accountants to examine the state oil company's accounts

The charge sheet against Van Zyl was slashed from 80 to five charges, none of which are fraud An internal disciplinary inquiry is expected to announce its findings shortly

Baqwa entered the fray in June when Maduna lashed out at the auditor general in Parliament last year, his most serious allegation being that the finance watchdog was party to the theft of R170-million of oil

Maduna's counsel has admitted that it is impossible to substantiate this allegation — a concession which has fuelled criticism of Maduna

The bill for Baqwa's inquiry — which is primarily aimed at exploring the auditor general's handling of the state oil company's books — is expected to exceed R10-million

The inquiry, which has still to hear evidence from Maduna and Kluever, is expected to end in December

MANUFACTURING - CHEMICALS

1998 - 1999

Oil ministers call for co-operation

CT(AR) 2/11/98

(183)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Humbled by low world oil prices, international oil ministers sent out a clear signal last week that they wanted to end the "them and us" relationship with non-Opec (oil and petroleum exporting countries) producers and consumers and get them on board to stabilise the oil market

This desire emerged in speech after speech at the Sixth International Energy Conference

Ali Al-Naimi, the petroleum and mineral resources minister of Saudi Arabia, said it was now clear that "Opec alone cannot stabilise the market without the co-operation of other producers and awareness by consumers

"While the role of Opec is still central to market stability, there is room for other means to supplement its efforts"

He called for a co-ordinated, ad hoc effort by key oil producers both within and outside Opec to "anchor the market and lessen the impact of its absolute swings"

These swings made investment decisions difficult in this high-risk, high-investment business and threatened the future security of oil supply, he said

CEF dismisses suspended Van Zyl

BD 5/11/98 (183)

Samantha Sharpe

CAPE TOWN — The Central Energy Fund (CEF) has dismissed suspended GM Kobus van Zyl following the outcome of an internal disciplinary inquiry into activities related to CEF subsidiary, the Strategic Fuel Fund (SFF), the CEF said yesterday

Van Zyl, who had twenty four hours to appeal against the inquiry finding with either CEF chairman Keith Kunene or SFF chairman Seth Phalatse, has taken up neither option

According to CEF public affairs manager Phil Mdlalose a letter was handed to Van Zyl on Monday indicating that the inquiry — originally intended to be an independent hearing — had determined Van Zyl guilty of four out of five charges When he was suspended in March last year, Van Zyl was facing more than 180 charges — which were later reduced to 80 and then to five when the inquiry became an internal CEF matter

Mdlalose said the charges included insubordination and the undermining of the authority of Minerals and Energy Minister Penuell Maduna in 1996, when Van Zyl defied instructions to stop SFF commission payments to Interstate Petroleum

The SFF was involved in building up SA's oil reserves between 1979 and 1993 — a time when the country faced a United Nations oil embargo

Interstate facilitated arrangements between the SFF in its dealings with Egyptian oil company EGPC and US-based Amoco, which dealt in Egyptian crude oil.

Although the SFF board had decided at the end of 1996 to end its relationship with EGPC, Van Zyl authorised payment to the company early in the year, effectively acting against Maduna's instructions

Mdlalose said that although the decision had been taken to remove Van Zyl of his GM status, it would be premature to comment on a potential replacement for him Van Zyl was originally responsible for both the CEF and the SFF, but these were now under the control of two separate acting GM's

Both the boards of the CEF and SFF would have to meet to decide a way forward following the dismissal, with any details about the position of Van Zyl to made at that time, Mdlalose said Van Zyl could not be reached for comment

(183)(...)

CENTRAL ENERGY FUND

CURTAIN COMES DOWN ON ONE CEF DRAMA

Inquiry finds against GM Kobus van Zyl

FM 6/11/98

The Central Energy Fund fired its suspended general manager, Kobus van Zyl, this week after an internal disciplinary inquiry found him guilty on four of five charges, including dereliction of duty and undermining the authority of Mineral & Energy Affairs Minister Penuell Maduna

The CEF is a holding company of all State petroleum assets

The finding marks an end to yet another episode in the dramas surrounding the CEF It should end 20 months of uncertainty by opening the way for the permanent appointment of a GM

The disciplinary inquiry was chaired by Eastern Cape attorney Themba Sangoni, who is also a director of Soekor, the oil and gas exploration subsidiary of the CEF

The decision to fire Van Zyl was made on Monday after the inquiry had heard evidence for six days A letter informing him of the decision was hand-delivered to him on Tuesday

Van Zyl was suspended on full pay in March 1997 However, the matter could not be resolved for almost 20 months because the CEF was caught up in a number of controversies, including that of its appointment of former Liberian Finance Minister Emmanuel Shaw as an adviser to its then chairman, Don Mkhwanazi

Meanwhile, charges against Van Zyl were reduced from the original 185 to 80 in January this year and again to five in June The latter reduction came about after the CEF board decided to change the nature of the inquiry from an independent one into an internal disciplinary matter

The Van Zyl chapter opened in March last year when Maduna suspended him after an independent audit unearthed irregularities in the CEF's purchases of crude oil from Egypt

The five charges against Van Zyl arose from the activities of the Strategic Fuel Fund, a CEF subsidiary involved in procuring and stockpiling oil between 1979 and 1993 During this period, the United Nations enforced an oil embargo against SA

Van Zyl was charged with defying an instruction by Maduna on November 29 1996 that the SFF stop commission payments to Interstate Petroleum Co

Interstate, a company owned by Egyptian businessman Fawkry Abdelnour, acted as a go-between for the SFF in its dealings with Egyptian oil company EGPC and US company Amoco, which dealt in Egyptian crude oil

The board of the SFF resolved on December 3 1996 to end the SFF relationship with Interstate But Van Zyl authorised a payment of US$61 167,08 to Interstate on January 24 1997

Van Zyl was also found guilty of dereliction of duty in that in June 1996 he "advised, allowed, ordered and authorised" the inclusion of crude oil that had been bought on the spot market as part of the oil contract with Amoco, thus resulting in the SFF having to pay an additional $82 807 above the spot price

On count three, Van Zyl was found guilty of knowingly misleading the SFF and Maduna regarding the role of Interstate In this case, Van Zyl told Maduna that Interstate activities had saved the SFF $1,21m on a particular shipment of crude oil, known as the Easter cargo

However, the inquiry found that this particular saving had arisen because Amoco had granted the SFF "deferred pricing", which meant that a mechanical breakdown in the ship that was to transport the Easter cargo resulted in the SFF paying a lower price for the oil This was so because, in between the mechanical breakdown and the acceptance of the oil by the SFF, the monthly official selling price of Egyptian crude oil had been reduced

Van Zyl was also found guilty of proposing the falsification of company documents in that in a letter dated October 24 1994, he advised that entries in the SFF financial accounts relating to monies received in respect of the "Salem" transaction be changed to disguise the source of the income

The income arose out of insurance payments in respect of the 1979 sinking of the *Salem* oil tanker, off the coast of Senegal It was carrying a shipment of 180 000 t of crude oil from Kuwait to Durban The insurance proceeds were reportedly split equally between Shell and the SFF

The fifth charge related to Van Zyl's authorisation of the transfer of R1,45bn from the SFF to government in February last year The transfer resulted in the contravention of SFF procedures which require that sufficient cash be kept by the SFF to match its "hedged positions for return cargo" and to generate interest to pay the costs of forward cover

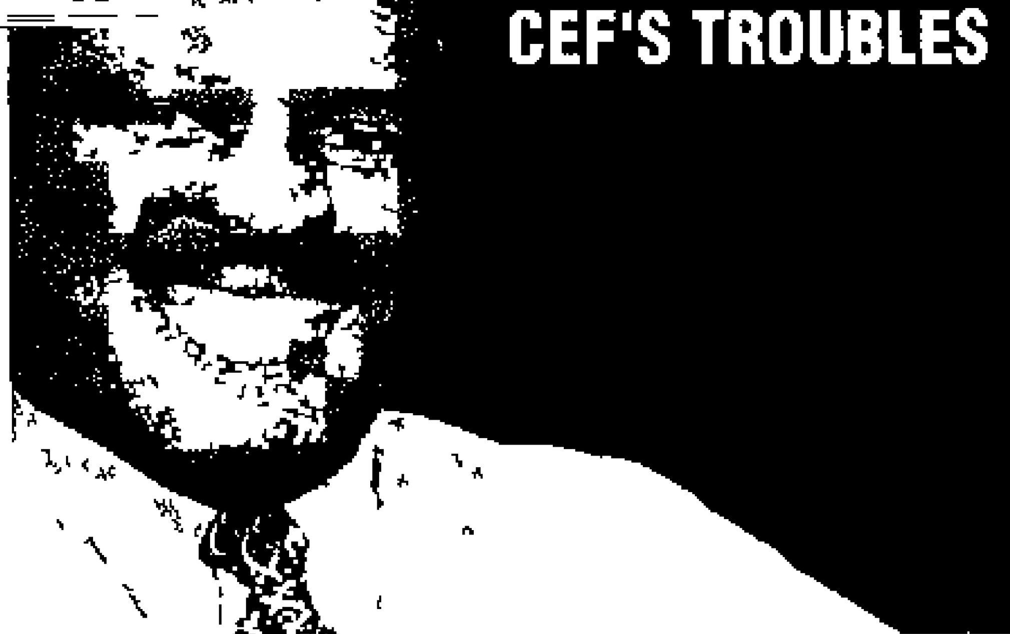
Though Van Zyl was found to have contravened this SFF procedure by authorising the transfer, the inquiry found that his action had not resulted in any damage to the interests of the SFF or its shareholder, the government

Van Zyl was not available for comment But the *FM* understands he has a right to appeal either to chairman of the SFF board Seth Phalatse, or the chairman of the CEF, Keith Kunene Thereafter, he can take the matter further to the Commission for Conciliation, Mediation & Arbitration (CCMA)

If Van Zyl chooses to appeal, SA's fuel policy could be bogged down for even longer

Jabulani Sikhakhane

TRACKING THE CEF'S TROUBLES



February 1997 - Minister Penuell Maduna appoints new Central Energy Fund board, including new chairman Don Mkhwanazi
March 1997 - CEF GM Kobus Van Zyl suspended after independent audit finds irregularities on CEF's purchases of Egyptian oil
October 1997 - Van Zyl granted a salary increase
October 1997 - *Mail & Guardian* begins series of articles on Mkhwanazi's "appointment" of Emmanuel Shaw as adviser to the CEF for R3m/year
December 1997 - CEF board absolves Mkhwanazi of allegation that he improperly appointed Shaw
December 1997 - Mineral & Energy Affairs deputy director-general Gordon Sibiya resigns from CEF board over Shaw matter but his resignation is rejected by Cabinet
March 1998 - Mkhwanazi claims conspiracy to discredit him over Shaw
March 1998 - Maduna sacks his adviser Thulani Gcabashe
April 1998 - Mkhwanazi resigns
April 1998 - Public Protector begins probe of alleged cover-up of missing CEF funds by Auditor-General Henri Kluever

Drug firms stand firm in row with SA govt

BD 13/11/98 (187)

CAPE TOWN — International drug firms said yesterday they would not back down in their row with the SA government over medicine prices

"Should we forsake research and development to lower the price of today's medicines? Or should we radically increase today's prices to fund urgent needs in research No, we should not No to both," said Lodewijk de Vink, president of Warner-Lambert

Government has been at loggerheads with the international drug industry for more than a year after it threatened to bypass patent laws and import cheap medicines to make health care available to all De Vink, who will take over today as president of the International Federation of Pharmaceutical Manufacturers Associations, said cutting prices would starve research funds and put at risk the discovery of health cures

The answer, he told the federation's 19th general assembly, lay in finding a delicate middle path

"Society has a right to expect us to balance today against tomorrow," he said, calling on government to adhere to patent laws and form a partnership with the industry

Health Minister Nkosazana Zuma said on Wednesday she would not try to undermine patent regulations, but she also had no intention of leaving the poor to die for want of affordable medicines

De Vink argued that while the industry had a duty to supply affordable drugs and to innovate, government had to create a stable environment to encourage this

A compromise might lie in the US Orphan Drug Act that grants seven years of exclusivity for medicines developed to treat diseases infecting less than 200 000 people —Reuter

Petrol discounting could close 35% of retail sites

CT(MR) 18/11/98

Oil industry on brink

(187)

LYNDA LOXTON

Cape Town — Up to 35 percent of the nearly 5 000 petrol stations in the country are expected to close as deregulation is introduced over the next few years, high-level oil industry sources said yesterday

Engen had already set the ball rolling by introducing a "loyalty scheme" which was widely regarded as the beginning of the discounting of petrol, forbidden until now

Other forms of discounting were expected to creep into the market soon, increasing pressure on margins, the industry sources said

The details of deregulation are still being negotiated but industry sources reported that many smaller service station owners already saw "the writing on the wall and are selling out"

They predicted high turnover and low costs would become more and more important, especially if supermarket chains started retailing petrol as well. The extent to which there were job losses would depend on whether self-service was introduced

As competition hots up, some of the large oil companies operating in South Africa may well pull out or join forces with other companies

Analysts said the government's aim of 25 percent of the market being controlled through empowerment groups could only be successfully realised if existing groups joined forces

"If they are each going to have only 5 percent of the market, they will be dead in the water," said one analyst "You need at least 19 to 20 percent of market share to survive"

A 25 percent share of the market would require an investment of at least R3,5 billion

Drug companies try to balance moral obligation and profits

Pfizer is donating $60m of its drugs to eliminate trachoma in five countries — the latest group to turn its attention to the developing world. The Financial Times's **David Pilling** reports

PD 18/11/98 (183)

WHEN people think of pharmaceutical companies, one of the most profitable beasts in the corporate jungle, the word "philanthropy" rarely springs to mind.

Considering their line of business — making medicines to prevent and cure diseases — drug groups get a surprisingly bad press.

A common complaint is that companies, answering to their shareholders rather than their conscience, develop drugs only for which there is a lucrative market. That rarely means developing countries. Campaigners accuse them of killing off promising, but unprofitable, treatments in the lab.

One way companies have found of countering such scepticism is by sponsoring programmes such as the anti-trachoma initiative launched by Pfizer recently. Pfizer, the US company best known for its anti-impotence drug Viagra, is donating $60m of Zithromax, an oral antibiotic, to help eliminate the world's leading cause of preventable blindness.

Virtually eradicated in the west, trachoma, a bacterial infection of the upper eyelid, affects 150-million people in areas of the developing world with bad hygiene and poor access to clean water.

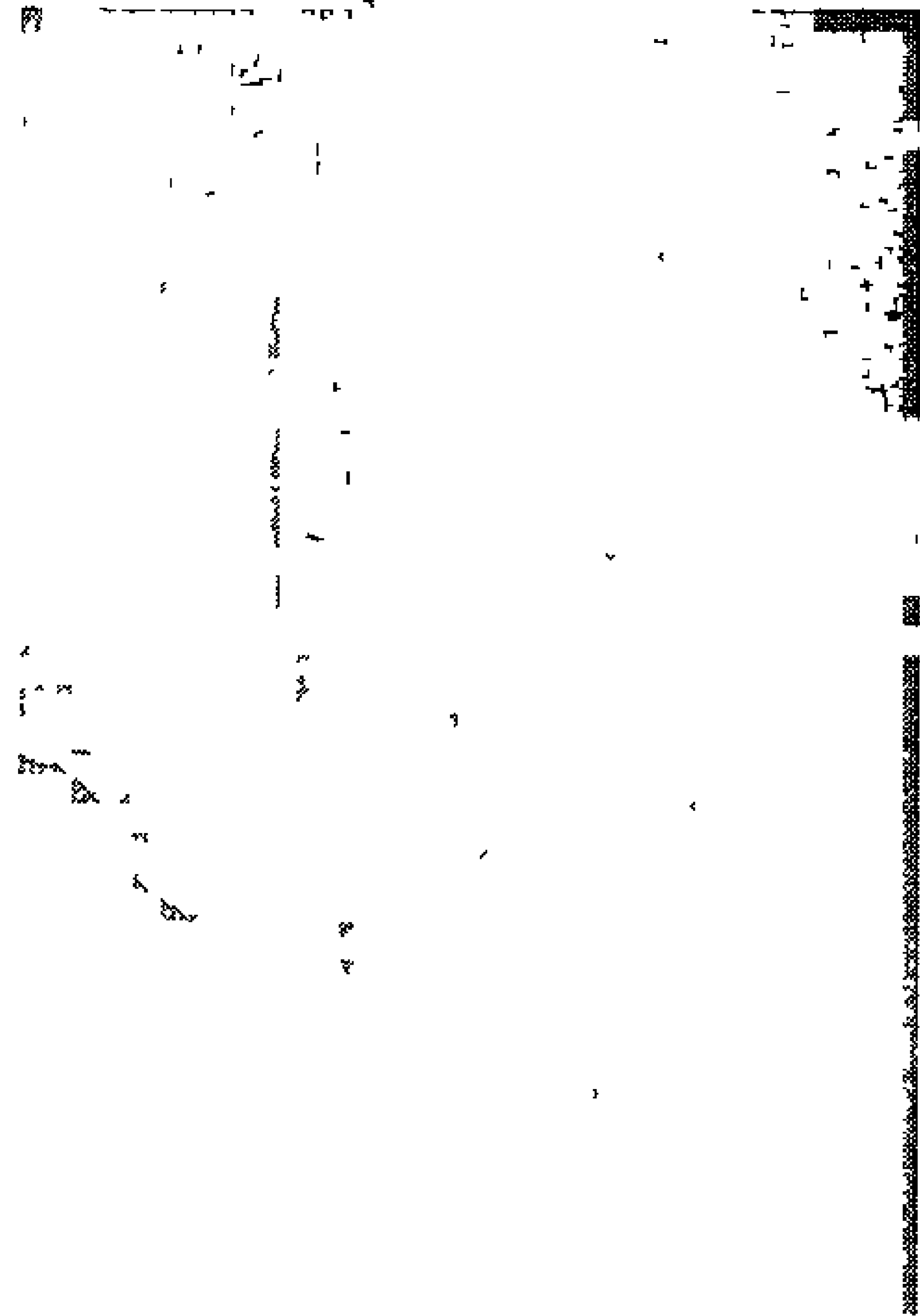
Like many drug companies' forays into the third world, Pfizer's initiative arose as much by luck as by design. Several years ago, researchers at the London School of Hygiene and Tropical Medicine became interested in Zithromax after reading about its use against the genital form of chlamydia (a common condition in the west) to which trachoma is related. Trials in Morocco subsequently proved the effectiveness of a single dose of Zithromax in preventing the spread of trachoma.

The eradication programme, due to be launched early next year in Morocco, Mali, Ghana, Tanzania and Vietnam, has been developed with the Clark Foundation, a US charity. The aim is to avoid some of the pitfalls of similar projects, whose impact has often failed to outlast the initial blitz.

They plan to adopt a broad strategy involving simple surgery, antibiotics and education — particularly about the effectiveness of hygiene in preventing trachoma. Health experts say that without adequate infrastructure and a well designed programme, drug donations can do more harm than good.

Joseph Cook, of the Clark Foundation, praised Pfizer, saying the project could never have got off the ground without its help. He denied it was a token effort, pointing to the size of the donation and its commitment to extend the programme if early results were encouraging.

Philippa Saunders, manager of the Essential Drugs Project, which lobbies for third world access to drugs, said Pfizer's initiative was part of a growing trend. Investors' desire for ethical investments and strong leadership from World Health Organisation (WHO) director-general Gro Harlem Bründtland were encouraging firms to make drugs available.



Pharmaceutical companies can counter scepticism with social programmes

Saunders said while drug companies could be questioned over pricing, those which were trying to do good should be recognised. She singled out Merck's 11-year programme to eradicate onchocerciasis, or river blindness, through donations of ivermectin, a drug developed to kill parasites in pets and farm animals. Like Zithromax, ivermectin was not developed specifically for use in the developing world, but was found to be effective against river blindness after a researcher made a link between its effect in horses and in humans.

Last week, Merck extended its programme to include lymphatic filariasis, commonly known as elephantiasis. SmithKline Beecham (SB), the UK drugs company, this year also launched an effort in conjunction with the WHO to eliminate elephantiasis with donations of albendazole. SB said its programme was "one of the largest global disease elimination programmes ever undertaken".

Merck, which has treated more than 20-million people against river blindness, said of its drug-donation policy: "Clearly, as a public corporation we have to take several factors into consideration. We can't donate every product even when there is a need. But where there are opportunities to have an impact in countries where health budgets are (inadequate), we've made an effort to meet that need."

The CE of one European pharmaceuticals company admitted privately that the industry faced a dilemma. No company could afford to spend the $500m and 10 years needed to develop a drug without being confident of a hefty return, he said. Few drugs, therefore, were pursued with the developing world in mind.

On the other hand, if a company stumbled upon a treatment for a third world scourge, it was morally obliged to make it available.

Drug companies face investigation

BD 5/1/99 (183)

Amanda Vermeulen

THE Competition Board will launch a formal probe into pharmaceutical manufacturing companies which formed International Healthcare Distributors (IHD) and Synergistic Alliance Investments (SAI), following complaints that these exclusive distribution channels constitute restrictive practices

The Competition Board contacted all the parties involved late last year and informed them that official notification of an investigation into the matter would be published in the Government Gazette early in the new year

The complaints revolve around the drug manufacturers bypassing the wholesale network by distributing their products through IHD and SAI directly to retail outlets almost exclusively.

IHD MD Bobby Hammond declined to comment yesterday and SAI spokesman John Bartlett could not be reached

IHD was established five years ago and is owned by several multinational pharmaceutical manufacturers. It distributes the products of several major drug companies including Roche, Eli Lilly, Bristol Myers Squibb, Bayer and Novartis.

SAI, which was established recently, has five key shareholders — Glaxo Wellcome, Smith Kline Beecham, SA Druggists' (SAD's) Pharmacare, Pfizer and Warner Lambert.

It has bought a significant foothold in the local market with the acquisition of SAD Distributors late last year It is believed that the company will have a similar market share to that enjoyed by IHD when it is fully operational

IHD is believed to have about 32% of the market When the company was formed in November 1993, the Competition Board granted it exemption from prohibition on collusion of conditions of supply, with one proviso being that it did not exceed a 10% market share. A later amendment to the shareholders' agreement rendered the exemption superfluous and it was therefore withdrawn

Since then, IHD and its multinational pharmaceutical participants have drawn numerous complaints from various retail and professional associations, including the Interim Pharmacy Council A formal complaint from United Pharmaceutical Distributors (UPD) was presented to the Competition Board last year

Legal action was also taken against IHD last year when pharmaceutical wholesalers took a complaint of alleged collusion to the Supreme Court However, the wholesalers dropped their case against IHD in August.

UPD claims that IHD's shareholders refuse to supply their products to other distributors or supply "on severely discriminatory terms. In this manner it eliminated all competition for distribution of the products of (the participating drug companies)," it said in its submission

UPD has also told the Competition Board that IHD was able to increase prices and offer substandard service without pharmacists being offered any alternative option to obtain their products

"SAI and IHD will control the distribution of 70,1% of all pharmaceutical products (to the private sector)," UPD said in its submission.

"(They) will create 52 monopoly situations out of 83 in the distribution of the products in relevant (therapeutic) product markets " The 83 product categories represent 73% of the total value of all pharmaceutical products

The Competition Board is also investigating the competitive implications of Adcock Ingram's plan to acquire SAD's Pharmacare division An announcement is expected by the end of the month

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SA DRUGGISTS/ADCOCK INGRAM

AND YET MORE MUD PIES

But the market is indifferent

The shotgun wedding of SA Druggists' pharmaceutical arm Pharmacare and Adcock Ingram has been an unusually rich source of squabbles and tittle-tattle Then, just when it seemed that mud-wrestling between the two rivals would be the best entertainment shareholders could hope for, Argyll Scientific, a private company based in Houston, entered the fray

Argyll's late December appearance gives some comfort to shareholders if Adcock's bid is not approved by the Competition Board But the company is an enigma These are some of the snippets that it has divulged MD Mark Wilson has campaigned in the US against drugs containing alcohol He has developed Zeffr, Argyll's "globally patented alcohol-free drug delivery system", which will be the platform for several new products The company wants to delist SA Drug (if it buys the whole group) and pair its exports and manufacturing with Zeffr's patents, 10 other globally issued patents and access to Houston research resources

But without any figures or much more information on the table, the market is sceptical So is SA Drug "It seems Argyll's main advantage is a technology which is yet to be validated," says MD Peter Beningfield However, Argyll director Tony McKeever says Zeffr has been commercially produced and made over US$1m sales a few years ago At present, though, Argyll doesn't make any money of its own Wilson says Argyll intends to start marketing at least 10 new Zeffr products in the US within the first 18 months of its ownership of SA Drug

Argyll may have weakened its position by not revealing its financial backers or more than glimpses of a strategy for SA Drug or itself Wilson says Argyll will beat Fedsure's offer, but it is waiting for the Competition Board ruling "It's because any offer would be moot if the board rules in favour of Adcock," says McKeever

But the natives are uneasy Fedsure Health chairman Dave Avnit says "Argyll's appearance is positive — they're another alternative for us But I'm a little confused by their tactics" Adcock financial director Daryl Kronson dismisses Argyll "They're smoke and mirrors"

Beningfield says other parties have expressed interest in pieces of SA Drug, each sealed under confidentiality agreements, but so far only Fedsure and Argyll want the whole group

Wilson expects the Competition Board to reject the deal, particularly because Argyll says it intends to grow jobs through expansion, unlike Adcock But the Competition Board's Wouter Meyer says "In the past, other potential buyers have been taken into account However, without prejudging the merits of Argyll's offer, I believe it is more likely that the Board will examine Adcock's case on its merits alone"

The SA Drug board has said there is a "reasonable possibility" Adcock's acquisition may be foiled "We know Pharmacare's size and market share," says Beningfield Analysts are divided Fedsure is still backing Adcock as the front runner

"We don't think there are sufficient grounds in the objections to derail the bid and we'll consider reasonable restructuring if the board imposes conditions," says Adcock's Kronson "The merger will shake out the overcapacity characterising the whole pharmaceutical industry"

SA Drug shareholders must decide what they think the board's verdict will be Riskhardy investors could be rewarded

Avnit says Fedsure may reassess its R34,10/share offer closer to the board ruling at the end of January — potentially when Argyll could bid "Right now the market is too volatile If we've underestimated the group's worth, we're happy to re-examine our offer" The SA Drug subcommittee has rejected Fedsure's bid as too low considering the earnings potential from Pharmacare's offshore operations (which Beningfield expects to produce the majority of Pharmacare's earnings within five years) and its burgeoning recovery — earnings were up 22% in latest finals and Beningfield says they'll grow at about 20% in future "Also, most money is going to Pharmacare and other assets are going cheap," he says

However, if the Competition Board's conditions are too strenuous, Adcock could walk away There's no guarantee that Argyll or Fedsure will follow through with another offer, leaving SA Drug vulnerable to a new predator

Tammy Lloyd

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Oil sector seeks clearer guidelines

BD 15/1/99 (183)

Petroleum industry association will discuss controlled marketing margin issue with govt — chairman

Samantha Sharpe

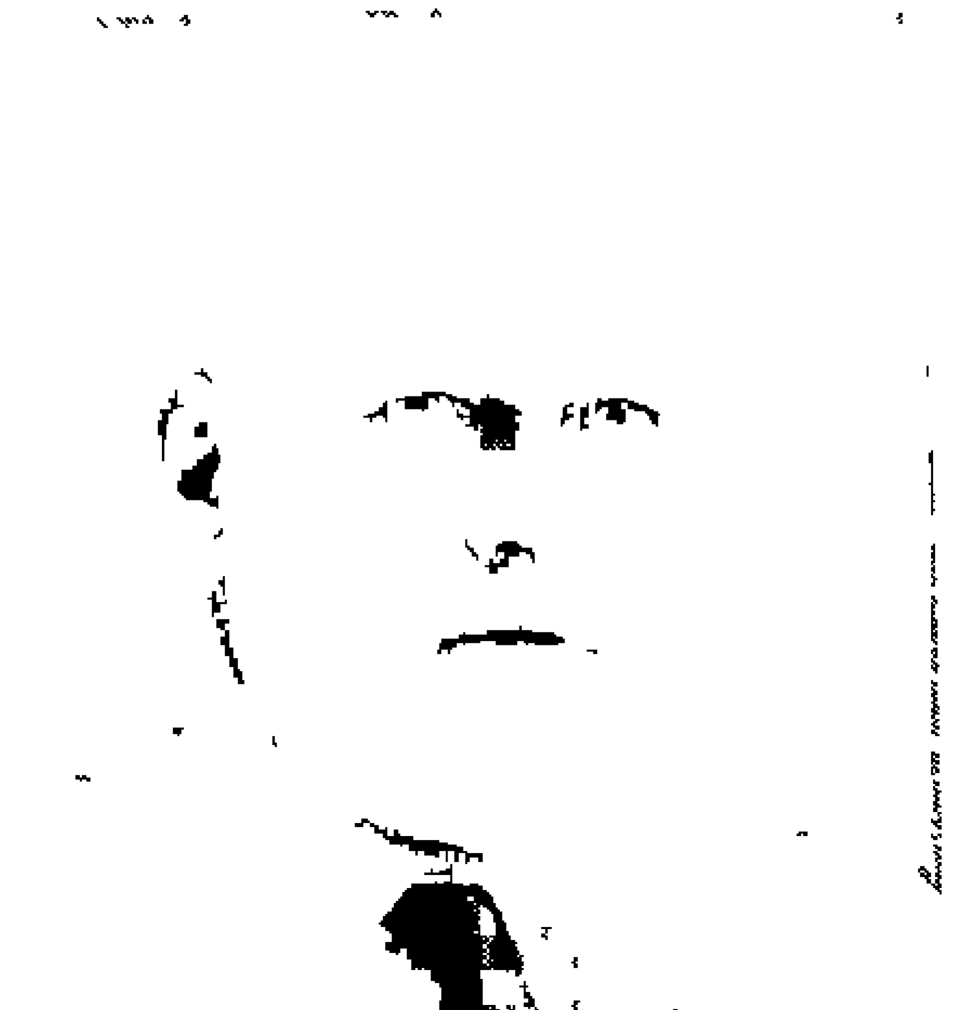
CAPE TOWN — The SA Petroleum Industry Association (Sapia) has welcomed a recent 1c/l increase in its marketing margin, but says it will continue to lobby for clearer rules about the setting of such margins while the industry's profits remain regulated.

Government controls the oil industry's profitability through a formula-driven marketing margin, although it is committed to phasing this out in line with industry deregulation. Sapia said in its 1998 annual report that the estimated backlog on the controlled marketing margin last year was about 4,5c/l, or about R900m before tax.

Newly appointed Sapia chairman and Engen MD Rob Angel, who succeeds BP Southern Africa chairman and CEO Fred Phaswana as the fifth oil company chief to chair the industry's association, said yesterday that while Sapia welcomed government's swift action in granting interim relief to the industry, Sapia would discuss the margin issue with government in the next few months. At the same time, it remained committed to a competitive industry free from government regulation.

"The crude oil industry includes one of SA's oldest and largest groups of foreign investors and is well placed to help our country become a winning nation. Free and fair competition with minimum legislative constraint will help us achieve this so that we can concentrate on supplying the country's growing demand for high-quality liquid fuels and petrochemical feedstocks at fair and competitive prices through pacesetter refineries and marketing networks."

Angel said Sapia would continue to take part constructively with key players in government, labour and business in the open debate on the future of the industry, with particular goals for this year including participation in making the government's newly approved energy policy a reality.



Rob Angel, Sapia chairman

This included bringing to the people the energy they needed to take charge of their lives, and furthering training and skills development in the industry while ensuring high standards of environmental conservation.

On the issue of black empowerment in the industry, Angel said Sapia's members would continue to contribute in this regard in terms of the industry and the economy in general. The shared goal of sustainable empowerment in the industry was a key objective for next year.

Meanwhile, SA oil and gas exploration and production group Energy Africa and partner Petro-Inett said yesterday they had each farmed out a 20% interest of their 50% equity in Block 7 Angola to Phillips Petroleum Angola.

Energy Africa MD John Bentley said this reduction reflected the group's portfolio management philosophy of spreading risk while freeing funds to be applied elsewhere. "We remain confident in the potential of this permit and the farm-out to a company of Philips' standing in the exploration industry is a strong endorsement of that confidence."

SENTRACHEM (187)

THE QUIET WISDOM OF JOB FM 15/1/99

John Job has quietly stepped down as MD of the now-delisted chemicals giant Sentrachem He is replaced by Vin Sinnott of Sentrachem's new owners, Dow But Job's unannounced departure at the end of last year may be controversial

Dow is considering bids for Sentrachem's National Chemical Products (NCP) division Several former Sentrachem managers are involved in a consortium headed by the SA Chemical Workers' Union (Sacwu), which has tabled a bid of R500m

One of these former managers claims Job has an interest in a rival consortium led by Standard Corporate & Merchant Bank (SCMB), which has submitted a slightly higher bid

"Job's playing ducks and drakes," he alleges "We have a piece of paper showing that he was party to this bid while he was a director of Sentrachem The former manager fears Job, as a member of the Sentrachem board, may have had access to information submitted in a competitive bid"

Sacwu general secretary Manene Samelo says Job told him on Tuesday he was involved in the SCMB consortium

SCMB director Arnold Gain declined to comment, and Job had not commented by the time the *FM* went to press

Before becoming MD of Sentrachem in 1991, Job worked at NCP for nine years, ending up as the division's MD He has been chairman of the trustees of the Sentrachem Group Pension Fund, which has awarded generous pension packages to departing directors One with 20 years' service is believed to have received R8,6m Job (53), with about 25 years' service, is understood to have got R20m

Samela says he is preparing hard questions for Job on how the trustees and their actuaries reached the transfer values for union members' payouts when they moved to a provident fund several years ago

There is speculation that Dow wants to close the group pension fund, offering remaining members a 10% increase on benefits if they agree to transfer to a private fund Could Dow be casting covetous eyes on the surplus, estimated at around R300m?

Jack Lundin

John Job *gone but still interested?*

Sasol Gas plans a R145m supply deal

CT(PR) 19/1/99 (183)

Ravin Maharaj

Durban — Sasol Gas, a division of Sasol Oil, was in the process of negotiating gas supply agreements worth about R145 million with 11 companies in KwaZulu Natal, Eric Woods, the KwaZulu Natal sales manager of Sasol Gas, said yesterday.

Sasol Oil, a division of Sasol, the petrochemicals-from-coal producer, is responsible for the group's crude oil refining activities and for marketing liquid and gaseous fuels.

Sasol Gas is in the final planning stages of a R100 million pipeline network expansion in Durban South which is scheduled for completion by the end of next year.

Woods said yesterday the company had this week concluded a R3 million pipeline gas supply agreement with Air Products South Africa, a leader in the industrial gas market, for the supply of heating fuel gas to its Newcastle plant in the KwaZulu Natal midlands.

Sasol Gas supplies pipeline gas to Iscor and Chrome International in Newcastle, an industrial node.

Woods said Sasol Gas had already secured gas supply agreements worth R600 million in the province. The three main industrial nodes serviced by Sasol Gas are Richards Bay/Empangeni, Newcastle, and the area between Durban and Mandini.

The company had also contracted to four companies in the Durban South region, South Africa's second largest petrochemicals basin. The value of the contracts was about R60 million, Woods said.

With regard to Newcastle, Woods said the latest agreement was the company's third supply agreement for pipeline gas in Newcastle.

He said overall pipeline gas sales in KwaZulu Natal had grown by about 70 percent in the past year.

Looking ahead, Woods said Sasol Gas hoped to grow the supply of pipeline gas to industry by about 66 percent from its present base by 2008.

He said there were many positive benefits from using pipeline gas, including clean-burning characteristics which enhanced product quality and cost effectiveness.

Competition Board rules on Adcock today

(183)

ADELE SHEVEL

Johannesburg — The Competition Board today decides whether to accept or reject the proposed acquisition of South African Druggists' pharmaceutical interests by rival firm Adcock Ingram.

This is part of a larger deal in which Fedsure, the financial services company, has proposed to acquire the entire issued share capital it does not already own of SA Druggists, for R34,10 a share in a R2,6 billion transaction

Fedsure is after the healthcare concerns and plans then to sell SA Druggists' pharmaceutical interests to Adcock.

The Fedsure deal hinges on whether the Competition Board approves the transaction.

The board's decision will be presented to Alec Erwin, the trade and industry minister, and made public early next month

A report by Merrill Lynch said it expected the deal to be approved on condition the large-volume parenteral business in Intramed be excluded from the transaction "Otherwise Adcock could have close to 90 percent of the market"

The report said the growth potential of Adcock Ingram would be greater if it merged with the pharmaceutical interests of SA Druggists

Graeme Wald, an analyst at Merrill Lynch, said Adcock was likely to benefit from greater growth prospects if the deal went through But Merrill Lynch nonetheless downgraded its recommendation of the company because the share had already increased from R18 to R21 at the time it was released.

"The company would carry a higher risk rating if the deal went through. Adcock would have to bed down the merger with SA Druggists, and one could expect staff cutbacks," Wald said.

Adcock would pay R1,25 billion in cash and the balance in issued shares to R2,01 billion.

"In this manner Adcock would dispose of its cash, although our forecasts indicate that the company would not have to assume a significant amount of debt to fund the transaction.

"Our analysis shows that if the deal is approved, the effect on earnings per share growth in 1999 will be slightly positive, and will accelerate significantly in 2000 and 2001"

SA Druggists has said Fedsure's offer was not fair and reasonable and proposed that shareholders reject it.

Last month Argyll Scientific, a US pharmaceutical group, said it would bid for SA Druggists if the board rejected Fedsure's bid

Adcock closed at R19,00 on the JSE yesterday.

CT (BR) 21/1/99

SA & CHEAP OIL

WHY SASOL MUSTN'T BE ALLOWED TO SLIP

The oil price affects SA in many ways, not least on the balance of payments At current prices and the exchange rate, crude oil imports are costing an annualised US$1,8bn (about R11bn) This is based on imports of around 440 000 BPD Local synthetic fuel output — the conversion by Sasol and Mossgas of coal and gas directly into petrol and diesel — is equivalent to a further 200 000 BPD Even at distressed oil prices, crude oil costs SA nearly 10% of total imports

Given the importance of the balance of payments as a constraint on growth, economists regard a low oil price as a "Good Thing" Businessmen and motorists are equally keen on a low fuel price at the pump

Contrary to general expectations, the rand petrol price has remained steady in real, though not nominal, terms This stability has been evident since the sharp spike in oil and product prices caused by Opec in the Seventies (see chart) If it hadn't been for the atrocious performance of the rand, retail prices may have fallen in real terms

What, then, does the future hold? The future trajectory of retail fuel prices rests on three legs the dollar oil price, the rand exchange rate and tax

Total taxes now stand at 113,1c/l Considering that 93 octane costs 230c/l in Gauteng, tax is thus already 49% So the days are gone when government could easily boost revenue by raising petrol taxes An increase is still possible, though, in the 14,5c/l levy to support the Road Accident Fund following the abandonment of Transport Minister Mac Maharaj's hotly disputed plan to cap accident benefits So the pump price hinges mainly on a balance between oil price and exchange rate

But what if oil prices remain low, threatening the financial viability of Sasol and Mossgas? How should government react? There is a remarkable consensus between government, the oil companies (under Sapia) and the synfuel producers, Sasol and Mossgas

Trade & Industry DG Zavareh Rustomjee has said government will not happily allow free imports of oil if they were to harm Sasol's profitability and threaten its closure

Sapia director Colin McClelland says Sasol today is "relatively viable" at the present exchange rate, even with low oil prices But that could change if prices stayed low for an extended period Sapia's members don't want Sasol to close, so would support a move by government to extend assistance

This should be in the form of loans — interest-free or interest-bearing on a deferred basis, repayable at much higher oil prices, say above $20/barrel McClelland also points to a weakness in the present formula for assistance to Sasol, which kicks in at $17/barrel, dropping to $16/barrel in July 1999 There is a cap to the assistance, which cannot be more than 30% of the landed price So at low oil prices, Sasol would get less rather than more

Sasol spokesman Alfonso Niemand says the assistance system will have to be reviewed in July 2000 Sasol favours duties on imported crude oil and refined products as a future alternative Is this because the assistance would fall within international agreements restricting subsidies and so disembarrass Sasol of disputes with the US over the current system, which could jeopardise Sasol's chemical exports?

McClelland says Mossgas is more marginal than Sasol, which boosts income by producing chemicals But Mossgas's plant represents sunk capital, which counts in favour of continued assistance

While the debate over synfuel assistance rages on, it must be noted that synthetic fuels replace crude oil imports worth more than R4bn/year at current prices Also, SA's current refinery capacity could not process such large additional crude imports

It seems as if we may have to pay the price to keep the fuel synthesis plants going **Robin Friedland**

MAIL & GUARDIAN
January 22 to 28 1999

State oil directors to be grilled on Shaw contract

(183) M+G 22-28/1/99

Mungo Soggot

The Serious Economic Offences branch of the national prosecuting authority is to interview directors of the Central Energy Fund (CEF) about the award of a R3-million contract to a company run by Liberian politician Emanuel Shaw II

The head of the Investigating Directorate (Serious Economic Offences), Jan Swanepoel, confirmed his office would be questioning CEF directors on the background of the award of the contract, which was awarded by former CEF chair Don Mkhwanazi

Mkhwanazi, who quit after it emerged he had financial ties with the Liberian, could face criminal charges for awarding the contract to Shaw's company — International Advisory Services — without disclosing to his fellow CEF directors the full extent of his business ties with Shaw

The *Mail & Guardian* reported last year on the two-way flow of money between Shaw and Mkhwanazi's accounts The two also had joint signing powers on a company account, fed with money from Shaw's private account, which paid the bond on Mkhwanazi's R2,4-million Johannesburg house

Shaw has returned to Liberia where he is financial adviser to President Charles Taylor

Swanepoel confirmed his investigators had perused several of Shaw and Mkhwanazi's accounts, but declined to comment further His office was working with the Office of the Public Protector, Swanepoel said

The cash-strapped public protector has been overwhelmed with investigations and allegations linked to the state oil company It spent much of last year probing allegations of impropriety made by Minister of Minerals and Energy Penuell Maduna against the Office of the Auditor General and the state's oil trading company

The inquiry was recently postponed until July 4, which means Maduna will not have to testify before the elections

Meanwhile, the acting general manager of the state oil company, Brian Casey, has confirmed his resignation from the company His is the latest in a string of departures of top personnel from the CEF

Casey testified to Public Protector Selby Baqwa's probe last year about Maduna and Shaw's joint efforts to oust the former head of the state oil trading company, Kobus van Zyl Maduna made his allegations about the auditor general in Parliament in June 1997 while answering questions about Van Zyl's controversial suspension in March 1997 Van Zyl was finally dismissed late last year

FOSKOR

FM 29/1/99 (183)

PROFIT SURGE FERTILISES GROUND FOR PRIVATISATION

Fertiliser plants press ahead with R1,4bn expansion plans

Phosphate producer Foskor boosted net income by 60% to R135m in 1997/1998, following its June 1997 acquisition of the remaining 50% equity of Richards Bay-based Indian Ocean Fertilizer (IOF)

"This underlines the strategic importance of a downstream conversion plant," says Foskor in its parent Industrial Development Corp (IDC)'s 1998 annual report

Foskor turnover more than doubled to R1,3bn, boosting the Phalaborwa-based group's overall growth This should rise further as benefits accrue from a R410m capex project to boost phosphate rock production by 750 000 t/year and R1bn expansion plans at IOF

If the profit curve is maintained, a sell-off of Foskor — wholly owned subsidiary of the IDC — to the private sector now seems possible

"Privatising Foskor remains a target for the foreseeable future," says Foskor CE Danie Vorster "Should good results be achieved in the 1998/1999 financial year, Foskor would be in a better position to determine a realistic market price, based on proven figures relating to profits and assets"

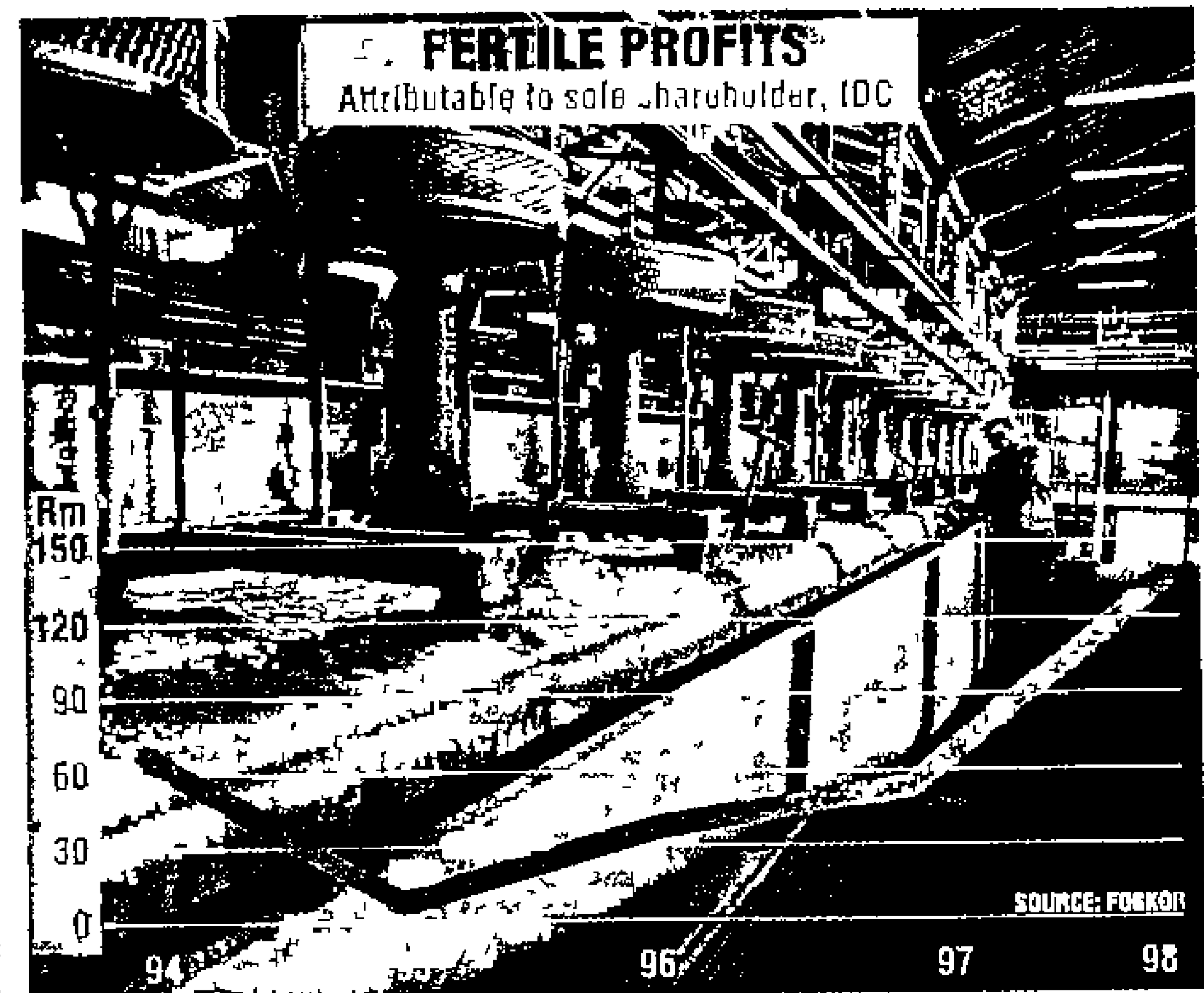
Unless the market is hit by a dramatic slide in the next six months, Foskor group profits in the year ending June 1999 can be expected to show a "satisfactory increase" over the previous period "While volume sales of phosphate rock are only showing slight growth, IOF's phosphoric acid sales can be expected to increase by about 10% And, pushed by a combination of higher prices and a weaker rand, turnover growth should be considerably higher," says Vorster

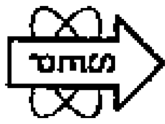
A quarter of Foskor's phosphate rock production is used by IOF to make phosphoric acid But, once planned expansions at both Foskor and IOF take effect, up to about 45% of Foskor's concentrate rock output — projected to be 4 Mt/year — will be diverted to IOF for further beneficiation Current production is about 3 Mt/year

"This should boost both turnover and profits, subject to market conditions Prospects for IOF look promising, depending on world prices for phosphoric acid," says Vorster

In 1997/1998, Foskor contributed about 45% to group turnover and about 50% to group profits, prior to tax and interest But this could be reduced in future, as IOF begins to play a role as a generator of group sales and profits

About 65% of group sales are exports, especially to India Vorster says the Asian economic collapse has had little effect on exports, but "there are signs of downward pressure on world prices" He expects a "more difficult and competitive" international market as uncertainty persists and rival producers, especially China and Russia, raise their phosphate rock and phosphoric acid production He says the Phalaborwa ore reserves "should be sufficient for the next 50-100 years" Arnold van Huyssteen





18 BUSINESS DAY, Friday, February 12 1999

COMPANIES & MARI

Chemical sector braces for worst

(183)

With results out soon, analysts are not painting a rosy picture of the troubled chemical industry

Amanda Vermeulen

THE spate of results expected from the chemical sector in the coming weeks will paint a dismal picture of the problems which have been plaguing the industry in the past year

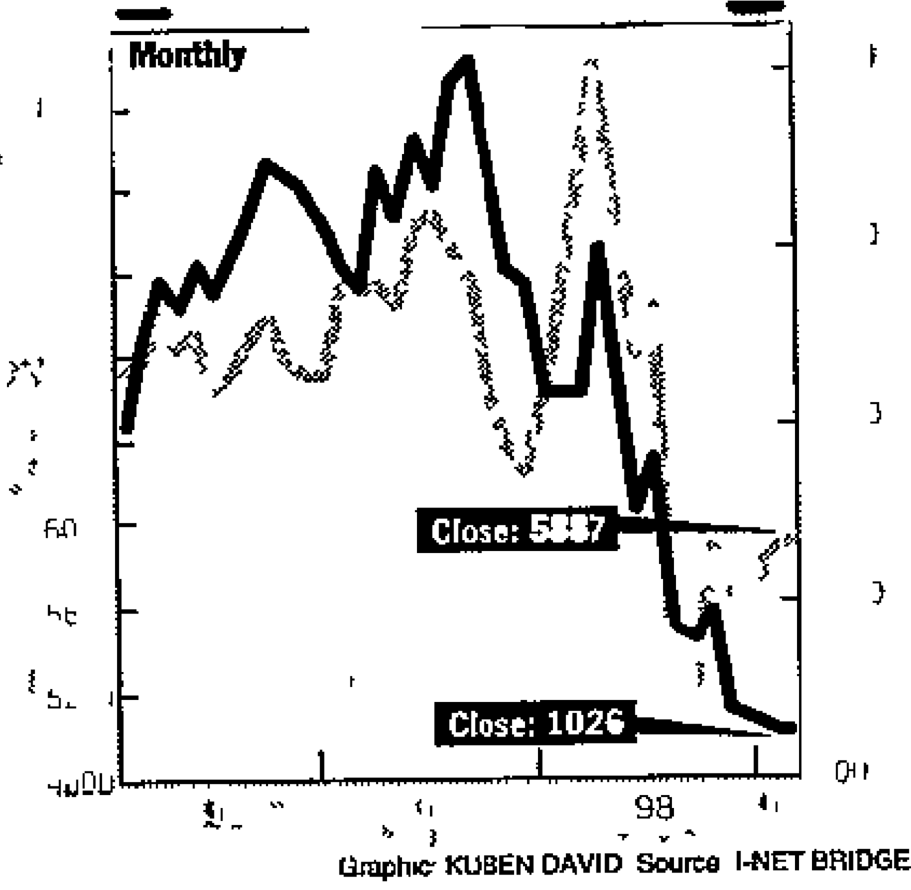
A host of profit warnings last year from the likes of Sasol, AECI and Polifin were not idle threats The analysts covering the sector predict anything from marginal growth to flat earnings, or in some cases a significant slide in profits

The worst hit is likely to be Polifin, with HSBC's Campbell Parry predicting earnings coming in at about 50% down, with one of its key shareholders, AECI, looking at a 34% drop in earnings

The culprit behind Polifin's expected performance is the collapse in world polymer prices, which declined about 35% in the second half of calendar 1998, as against the same period in 1997

This is a function of the problems experienced by a drop in world demand, and the Asian tigers which resorted to price slashing to export themselves out of the debt crunch they fell into when world markets began crumbling in October 1997

All share index vs chemical index



Graphic KUBEN DAVID Source I-NET BRIDGE

While it is easy to look only at the bottom line in Polifin's showing, it should also be noted that analysts expect good news regarding the firm's streamlining, productivity levels, and its efforts to tackle cash fixed costs

Parry says Polifin's performance will also reflect little volume growth

The second half of Polifin's year will be interesting to watch World polymer prices were expected to tick up, or at least show signs of doing so by now, but the situation is looking worse than predicted February is also a particularly bad time of year for this sector, as Chinese new year normally results in a slump in demand

Yet Parry says the second half could be better as the company benefits further from a weaker exchange rate and a marginal improvement in dollar prices

Looking at some issues which have been affecting the sector as a whole, Parry lists the slump in crude oil prices to 12-year lows on the back of lower demand and excessive inventories, new production coming on stream, and the myriad problems at the Organisation of Petroleum Exporting Countries (Opec) which still has not managed to bring its wayward members into line

"In the next 12 months we expect more of the same We don't expect a dramatic drawdown of crude inventories, Opec's meeting in March is not expected to provide much support, and four new Asian ethylene crackers will come onstream by the end of the year "

AECI, in the throes of restructuring, is labouring under high debt Yet there could be positive news if the restructuring is positive, with disposals and equity partnerships bringing some value to the company

Sasol, vulnerable to falling crude and petrochemical prices, could see flat earnings both at the half and full year on a fully diluted basis, Parry says

Some of Sasol's headaches, he says, include low refining margins, per barrel tariff protection lower than the $17 floor price, and declining chemical prices, particularly ammonia

Omnia, says Parry, is also not likely to produce year-end earnings growth of more than 5%, on the back of a down cycle in nitrogen prices and volume constraints A slightly improved contribution from the explosives business is expected, he says, while the chemicals business is likely to be slightly down

BD 12/2/99

Competition Board blocks Adcock deal

(183)

BD 4/2/99

Recommendation also thwarts Fedsure's plan to buy SA Druggists and sell Pharmacare division

Amanda Vermeulen

THE Competition Board has taken another controversial decision by recommending to Trade and Industry Minister Alec Erwin that the proposed acquisition of SA Druggists' Pharmacare division by Adcock Ingram be prohibited

The move drew a stunned reaction from Adcock Ingram and its black empowerment partner, Sekunjalo Investments. The parties have until February 26 to appeal to Erwin to overturn the ruling

The rejection of the R2bn transaction also means Fedsure — which planned to buy 100% of SAD and sell Pharmacare to Adcock — will abandon its intention to make an offer to SAD minorities

The board's rationale for rejecting the deal was that the merger "would significantly restrict competition in key therapeutic drug categories" In the government and private sectors of the pharmaceutical market, the deal would have given Adcock an unacceptable share in terms of competition parameters

The report also said the merger would lead to job losses. "It has not been satisfactorily established that the merger will lead to the massive efficiency gains (claimed) We do not believe that the short-term losses in employment will be compensated for by the long-term gains accruing from an enhancement in competitiveness The merger (therefore) appears contrary to public interest "

On the issue of promoting black empowerment by approving a deal, the board said this issue was not considered sufficiently powerful to outweigh the anticompetitive effects of the merger.

Sekunjalo CEO Iqbal Surve said the board's recommendation dealt a major blow to black empowerment "and we do not know when such an opportunity will present itself again"

Adcock CE Phil Nortier said the decision had not "dampened" the company's spirits "If anything, it has made us more determined to expand our business in several untapped local markets and meet our objective of increasing earnings from offshore sources " It is not yet clear whether Adcock will appeal to Erwin.

SAD is likely to open discussions with a number of parties that expressed interest in the group after Fedsure made its intentions known in September last year One of the parties, Texas-based drug development company Argyll Scientific, said in December it would make a bid for SAD should the Competition Board go against the Adcock proposal

No details are likely to emerge about the future of SAD until the deadline to petition Erwin has passed or Fedsure withdraws its offer However, questions are being asked about the future of Fedsure's 34% interest in the group, and how it will now fulfil its health-care ambitions

Merrill Lynch analyst Graeme Wald did not believe that the arguments used by the Competition Board were sufficient grounds to block the deal. He said the issue of job losses was not a competition issue, and failed to see why consumers should fund inefficient operations purely to retain jobs

He said Adcock was "between a rock and a hard place" as it was sitting on almost R1bn, which would force it to invest offshore despite the prevailing difficulties of the rand. "Fedsure will have to find a way to get its hands on SAD's health management business The vetoing of this deal is a setback to its plans, as the transaction would have catapulted Fedsure Health into the number one position in the health management industry "

The board also made reference to the intense lobbying that surrounded this transaction, saying consideration might be given to prohibiting this kind of activity in future investigations

The board last year also blocked Sasol's plans to buy AECI.

DOCTORS & DRUG SAMPLES

(187) FM 5/2/99

MDs SEND A MESSAGE: NOTHING IN LIFE IS FREE

Impending legislation would stop doctors getting free samples

Two platteland doctors' organisations have angered the medical fraternity by demanding payment from drug companies to see their sales representatives

"Nothing in life is free" — *Niks in die lewe is verniet nie* — exclaims the Bosveld Independent Practitioners' Association (IPA) of Brits, in a letter to pharmaceutical manufacturers IPA chairman Dr Hendrik Theron asks for an annual "sponsorship" from pharmaceutical companies Contributions over R5 000 would secure the company an advertisement in the IPA's monthly newsletter "to give further prominence to your product"

The SA Medical Association retorts "We don't support a charge for reps to see doctors " And the Interim National Medical & Dental Council of SA, which represents doctors, says it is "unacceptable" for doctors to charge for reps' visits

SA doctors regularly receive free samples from pharmaceutical firms Many use them for clinical trials, emergencies and poor patients But some treat samples as a source of extra income One pharmaceutical company head, speaking on condition of anonymity, claims some doctors earn up to R10 000/month by selling samples

The issue has surfaced on the eve of legislation by Health Minister Nkosazana Zuma that would prohibit drug companies from giving samples to doctors The Medical and Related Substances Control Amendment Act has been signed by the President, but is on hold pending a court challenge by the Pharmaceutical Manufacturers' Association (PMA) on the issues of parallel imports and intellectual property rights

Theron says he cannot comment on the issue without consulting his committee, though he denied the sponsorship idea was prompted by the impending legislation In his original letter to the pharmaceutical firms, Theron wrote that the reason for suggesting sponsorship is because doctors waste valuable time seeing drug company reps

He said the IPA didn't want to impose a charge for reps' visits as he was "not convinced of the ethics of such a move "

A second doctors' grouping, the Pietersburg-based Northern Province Practitioners Forum (NPPF), has also written to pharmaceutical firms proposing a levy of R65 every time its doctors saw drug reps

"Because doctors will no longer receive any samples from reps of medical firms, a fee which is payable to the NPPF must be recovered from the specific company whose reps visit the members of the NPPF," wrote the forum's manager Jan Siertsema

The PMA's head of scientific and regulatory affairs Maureen Kirkman angrily replied that she regarded the payment request as "a form of extortion, as well as amounting to unethical behaviour on the part of your organisation and members "

The NPPF has since retracted its fee plan, saying its letter had been misinterpreted and should be ignored The forum, which represents 59 Northern Province doctors, is now asking pharmaceutical companies to "get involved in our activities" "We are now looking for assistance from the pharmaceutical companies and need sponsors for a function or annual meeting or whatever," says Siertsema "We want companies to phone us and ask what we need — a computer, a fax machine, maybe R1 000 contributions from these people are nothing "

Johannesburg GP Stephen Toovey, meanwhile, finds nothing wrong with charging for reps' visits, which he describes as "an irritant"

"Essentially, doctors earn their living by selling time," he says "My time is valuable and I wouldn't have a problem charging for that I think that's a transparent process If you want, you can see three or four reps a day I used to restrict it to one but now I've just stopped seeing them "

Jack Lundin

SASOL (183) FM 12/2/99

WHY IT'S OUT OF FAVOUR

The rand may offer some hope

Shareholders in the fuel and chemical group Sasol may be pinning their hopes on strong half-yearly results, due to be released on February 24, to turn the share price's fortunes around

But this will depend heavily on the extent to which the expected gains from the weak rand-dollar exchange rate can offset the impact of low commodity prices

The share made strong gains after 1994 and these were wiped out only in 1998 — when the group reported an 18,6% decline in attributable earnings

In September 1997 the price peaked at R66,50 and since then shareholders have had to watch helplessly as it shed more than 68%

It is trading around R20,70, not far from its pre-1994 levels

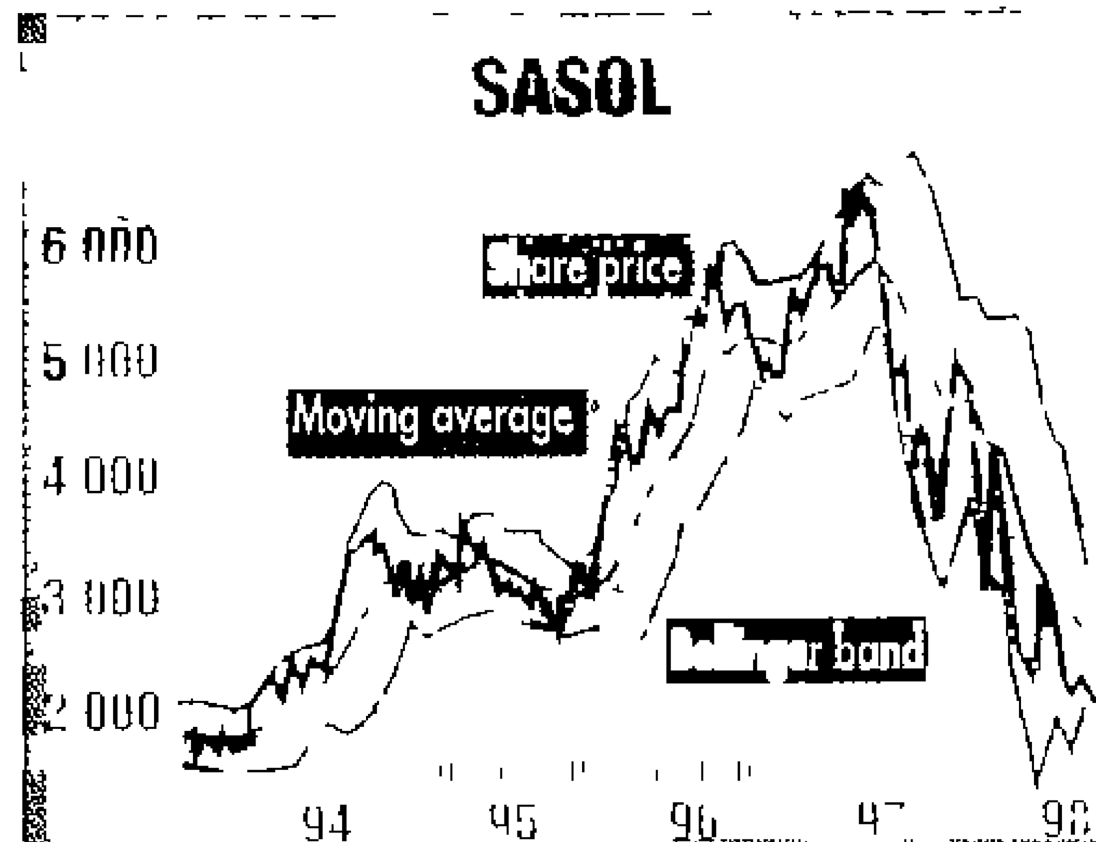
The share price slipped on the lower crude oil and petrochemical commodity prices and refining margins These factors damaged the group's performance for the year to June 1998

Management hopes the rand-dollar exchange rate will drive profitability higher in financial 1999

In the words of MD Pieter Cox "Should there be no material strengthening of the rand, the results for 1999 will be positively impacted by the recent dramatic fall in the value of the rand against the US dollar"

The group's plans to increase production volumes are expected to help, too

Percy Mthimkhulu



The weekly closing price chart of Sasol, encased in a Bollinger band based on a 25 week moving average shows it again touching the lower edge. This indicates that there is a good chance that some recovery will be seen in the near future.

Polifin in R1bn Malaysian venture

BD 17/2/99 (183)

Amanda Vermeulen

CHEMICALS and plastics company Polifin has formed a joint venture company in Malaysia with Petronas and Dutch company DSM to build one of the world's largest low-density polyethylene plants

The venture is worth more than R1bn Polifin and Petronas will each have a 40% interest in the plant, and DSM 20%

Polifin MD Trevor Munday says the project will shift the company into a higher gear in terms of its stated aim of expanding internationally in the area of polymers "We looked at the economic attraction of various regions and selected Asia Pacific as our first choice Due to the postponement of the Project 2003 cracker, offshore expansion was given higher priority" Project 2003, a chemical plant to be built in SA, was postponed last year due to adverse economic conditions.

Polifin's participation has been given clearance by the Reserve Bank. Munday said the company, which was still finalising the funding details, could comfortably afford its contribution to the project Some of the options under discussion include the use of export credits

He said products from the plant would be marketed in Asia and Africa. The products were used mainly in agricultural and industrial film applications, injection moulding and foam

The technology employed, combined with the scale of the plant and the feedstock advantage, would make it among the lowest-cost producers in the world.

Munday said Polifin had been invited to join the project by Petronas and DSM in recognition of the company's expertise in operating high-pressure plant and in marketing polymers in developing economies. Analysts said the project would give Polifin additional scale advantages in global polyolefins and give it access to what was likely to be a growth market

Petronas, Malaysia's national oil company, has annual sales of about $12bn, with 100 subsidiaries in Malaysia and around the world It recently became a significant role-player in SA through the acquisition of Engen DSM attracts annual revenue of $7bn, and has a number of subsidiaries in Europe and the US

The Dutch company will contribute technology to the project, while Petronas will supply the ethylene feed on favourable terms from a gas plant owned by one of its subsidiaries

The new plant, sited east of the Malaysian capital, Kuala Lumpur, will produce 255 000 tons of low-density polyethylene annually when it comes on stream in the third quarter of 2001 — in time for the partners to enjoy an expected improvement in the chemical industry cycle. It will be the largest plant of its kind in the Asia-Pacific region, and one of the biggest in the world

Analysts speculated that the Polifin-Petronas tie-up could be the first of many, as a number of synergies existed between the two companies, Engen and Sasol, Polifin's largest shareholder

While the new project was unlikely to have any major impact on Polifin's earnings in the short term, the benefits of dollar-based earnings from the plant should boost the bottom line significantly in the longer term, they said

Polifin MD Trevor Munday ... Asia-Pacific region was his first choice for expansion

Fuel levy increase in line with expectations

BD 18/2/99 (183)

Amanda Vermeulen

THE increase in the fuel levy of 4c/l on leaded and unleaded petrol was in line with industry expectations, says SA Petroleum Industry Association spokesman Colin McClelland

The increase is effective from April 1

No increase was announced on the levy on diesel which should benefit commercial road-users The announced increases, which now brings the levy to 90,6c/l on petrol, is expected to yield R472m

The levy hike was smaller than last year's 10c/l increase

As a result of the hike, the oil industry will now supply about R20bn of the approximately R180bn revenue collected by the state

McClelland said the budget increases seemed to reflect the thinking in government's white paper on energy policy which included plans to investigate the relative taxation on petrol and diesel

Delta Motor Corporation treasurer Ian Thomas said yesterday "The budget is in line with expectations and contains no surprises for the automotive industry

"The increase in the price of petrol is expected to have only a slight effect "

McClelland said it was strange that government — which had indicated that its focus was on priorities, such as growth and development — was still employing a fuel levy to subsidise the synfuel industry, which prefers to refer to state support as tariff protection

The mechanism used by government to bolster the synfuel industry, notably Sasol, is the equalisation fund, which late last year received an 8c/l shot in the arm from an increase in the fuel levy

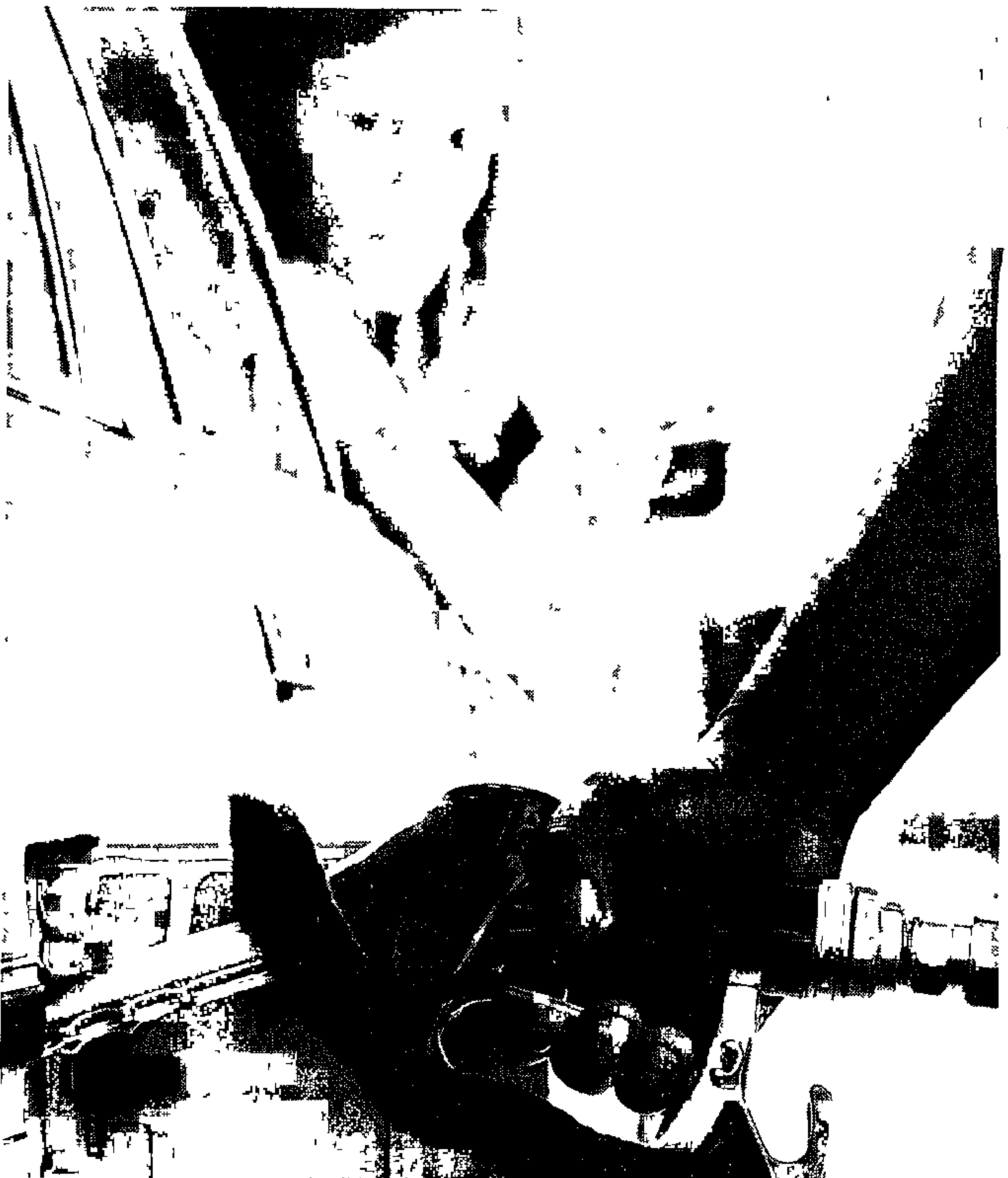
McClelland said although no increase in the levy for the equalisation fund was announced in the budget, the fact that the fund was running on empty had raised concerns that there could be another increase in the pipeline

"I am surprised that the equalisation fund has not been reviewed in line with government's priorities "

By June 2000 government must finalise a review of its support of the synfuel industry "We hope that it will then come into line with the current government's priorities of growth and development rather than the old concerns of overcoming oil sanctions "

The ratio of taxation on SA retail fuel prices is low in comparison with other parts of the world, being 45% compared with countries in Europe where it is as high as 80% However, McClelland said that in those regions, consumers have other transport options, whereas in SA choices were more limited

Looking at other aspects of the budget, he said the industry would welcome the reduction in corporate tax to 30% from 35%, as it could have a marked effect on investment decisions, such as where to build refineries, either locally or in more tax-friendly territories



A motorist filling up before the four-cents-a-litre increase in the fuel levy, announced by Finance Minister Trevor Manuel in his budget speech yesterday, is introduced in April

CT (BR) 26/2/99

Super union to establish own investment arm

(183)

FRANK NXUMALO

Johannesburg — The Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union (Ceppwawu), the new Cosatu super union launched on Wednesday from the merger of the Chemical Workers' Industrial Union (CWIU) and the Paper, Printing, Wood and Allied Workers' Union (Ppwawu), said yesterday it would establish an investment company to raise funds

Ppwawu already had a trust fund of R1,7 million which would become an asset of the union

The subscription fee policy would be reviewable occasionally by the super-union's national executive committee with a minimum member contribution of R10 or 1 percent, whichever is the greater a month, with R40 the ceiling

All financial assets — including the two unions' distress and solidarity fund, used to assist workers and their families during industrial actions — would be transferred to the new union

Staff would be absorbed by the two unions and national office bearers would deploy members objectively

Ceppwawu warned that those who refused to be deployed would be asked to leave "without retrenchment pay", a measure provided for by the new Labour Relations Act The new union also warned that there would be no "comradeship when it comes to corruption and misconduct"

In another development, the Federation of Unions of South Africa approved the application for affiliation by the South African Workers' Union

Portnet pays R80 million on upgrades

RAVIN MAHARAJ

Durban — Portnet had launched state-of-the-art R80 million Vessel Traffic Services (VTS) at the ports of Cape Town and Saldanha, the state ports authority said this week

The Western Cape was becoming increasingly important as a strategic trade hub in the global arena

The systems were supplied by Marine Data Systems, a subsidiary of Transnet, the state utility, and Daimler-Chrysler Aerospace

VTS refers to sophisticated technologies that transmit information to vessels in areas of high-density traffic

This is particularly necessary in narrow channels and port approaches, to enable vessels to navigate safely through potentially dangerous situations

Mdu Nene, Portnet's general manager, marine and technical matters at Saldanha, said the new system was expected to result in better planning of vessels' arrival and departure and to substantially improve productivity levels

VTS would also promote safe navigation and clean seas, Nene said

The Cape Town and Saldanha ports were chosen to pioneer the introduction of VTS in South Africa because of frequent bad weather conditions and poor visibility which have resulted in accidents

World class ports were installing similar systems to cope with increased vessel traffic movements as a result of globalisation and increased levels of world trade

Sasol arbitration has been set for August

Unhappiness with Sasol's tariff protection lies at the heart of the problems which are plaguing the SA oil industry

80 4/3/99 (183)

Amanda Vermeulen

ARBITRATION hearings over alleged breaches of the supply agreements between Sasol and the six largest oil groups are due to begin on August 1, despite Sasol's recent announcement that it will terminate the agreements in 2004

The supply agreements date back several decades and contract the six largest oil companies — Shell, Caltex, Engen, BP, Zenex and Total — to buy a defined volume of Sasol's synthetic fuel and crude-derived production

Sasol has enjoyed generous tariff protection from the state for its synfuels, which is funded by a levy on consumers' fuel purchases

Sasol said in December it would end the agreement after five years as a result of plans to increase its refined crude oil production Under the agreement, Sasol's marketing functions are restricted, primarily with regard to retail sales

For some years, Sasol and the oil companies have been in dispute about alleged breaches of this agreement — on both sides — with the oil companies claiming that Sasol Oil violated the marketing restrictions in the supply agreements

Sasol has apparently claimed that the oil companies are also in breach over payments for Sasol products

A different, but related set of arbitration hearings, involving Engen, Caltex and Sasol, is also taking place over Sasol's complaint concerning its 1 750 blue pumps at petrol stations around the country — the so-called Blue Pump Agreement

An analyst says the arbitration is a symptom of the stresses in the oil industry, but the main cause is unhappiness with Sasol's tariff protection

He says the oil companies believe Sasol has an unfair competitive advantage in regard to the marketing of its oil, which is cross-subsidised by lower costs incurred on the synfuel side of the business thanks to tariff protection

However, he says the oil companies have also been "cheating" on the Blue Pump Agreement by influencing their dealers not to allow Sasol blue pumps on their forecourts

"The solution would be a separation of Sasol's synfuel business from its oil business so that Sasol Oil cannot take advantage of the synfuels' lower cost base, borne out of the tariff protection "

The analyst says many of Sasol's problems could have been resolved if it had been successful in its bid to buy Engen three years ago, as it would have acquired a retail network

There is a possibility that Sasol will still strike a deal with Engen's parent company, Malaysian petrochemical group Petronas, to secure access to Engen's 25% share of the retail fuel market

Market sources say Sasol's decision to end the supply agreements in 2004 may have provided an incentive to resolve the disputes quickly and amicably, but the oil companies believe the issue is critical

Kluever to probe Mossgas's dedicated insurance company

Linda Ensor

CAPE TOWN — Auditor-General Henri Kluever will conduct a special investigation into the dedicated insurance company set up to insure Mossgas

In a report on Mossgas's holding company Mosshold for the year to end-March 1997, Kluever noted that the company, Gannet Insurance Company Limited — incorporated on the Isle of Man in 1991 — had Mossgas as its sole client

"Therefore any funds paid to the company are regarded as available to cover Mossgas's insurance risks either by way of taking cover in the market or providing cover itself "

However, the most recent annual financial statements available to Kluever state that total shareholders' funds amounted to £6m Details of the financial position of the company, which has three directors — two of them resident on the Isle of Man — were not disclosed in the financial statements of Mosshold, or its subsidiary, Mossgas

The report also noted that a former employee of Mossgas who was voluntarily retrenched in 1996 was now working on contract 12 days a month at a rate of R2 500 a day providing marketing services

BD 4/3/99 (183)

Fund deficit could push up petrol price

(183) BD 5/3/99

Amanda Vermeulen

THE Equalisation Fund is R100m in deficit, which could lead to another fuel price increase in about six months if current conditions continue

The fund, which was created to compensate Sasol and Mossgas in the event of a weak oil price, is funded by a fuel levy

Rod Crompton, the chief director of liquid fuels at the minerals and energy department, said yesterday that at the end of last month the fund owed Sasol and Mossgas about R100m in terms of the tariff protection they enjoyed If conditions prevailed, including a weak oil price, the fund could drop to a deficit of R200m or more in about six months' time, triggering a petrol price increase in line with a cabinet decision

There has been a suspicion that the petrol price would have to be increased to accommodate greater pressure on the equalisation fund, which finances the tariff protection given to listed synfuel group Sasol and state-owned Mossgas

However, Crompton said analysts expected the price of crude to improve in coming months Later this month, the Organisation of Petroleum Exporting Countries nations meet to consider cutting production a further 1-million barrels a day to stimulate prices

Sasol's synthetic fuel business has enjoyed tariff protection for some years, calculated on the percentage return on its assets, with the rand-dollar exchange rate for 1998/99 forecast at R4,80/$1 and assuming a 12% inflation rate

The fund channels money to Sasol when the oil price drops below $17 a barrel, with Sasol getting the difference between the floor price — $17 a barrel — and the actual price, but with a cap of 30% on the actual price

At about $12 a barrel or less for crude oil, Sasol's portion begins to decline

Brent crude costs about $10,50 a barrel, while Dubai crude costs about $9,00 a barrel

However, the real calculation of the tariff, derived from an Arthur Anderson study, is based on the in-bond landed costs, or basic costs, of petrol and diesel before refining and marketing margins Sasol's tariff protection, which is priced in dollars, entitles it to a 30% cap on the basic cost a litre, currently at about 19c a litre for petrol, whereas the fund levy is 8c a litre for petrol and diesel

The levy increased to 8c a litre for petrol and diesel in October, from less than 1c a litre for each product But weakening exchange rates and continued low oil prices have drained the fund's coffers, raising the spectre of another petrol price increase to top up the fund

Government is investigating oil industry complaints that any fall in the rand-dollar exchange rate automatically gives Sasol a windfall as the tariff protection is priced in dollars

Sasol, Petronas co-operate to form new oil company

(189) CT (BR) 15/3/99

EDWARD WEST

Cape Town — Sasol and Malaysia's Petronas have signed a memorandum of understanding to explore co-operation between them, including the formation of a new local oil company with a substantial black empowerment shareholding.

Alfonso Niemand, a Sasol spokesman, said the possibility of merging some of Sasol's operations with that of Petronas' local subsidiary Engen, had been on the cards for some time, but the formal signing of the memorandum means negotiations will now begin in earnest, in South Africa and in Malaysia.

Niemand said the parties were confident of concluding the negotiations within the five-year notice period Sasol had given for the expiry of its Blue Pump and supply agreements with the other oil companies in South Africa. The expiry date for these agreements was December 2003.

The negotiations were likely to involve consolidation and co-operation in oil refining, and over the medium term, the marketing of petroleum products.

Engen operates an oil refinery in Durban, while Sasol holds a 67 percent majority shareholding in the Natref refinery in Sasolburg. Total, the French group, holds the remaining shares.

A statement released by Sasol and Petronas yesterday said the two groups would "fully exploit the existing and potential synergy between Engen, a wholly owned subsidiary of Petronas, and certain Sasol subsidiaries.

"The potential benefit of the consolidation of the activities of these two fuel companies is substantial and will result in the creation of the strong and viable South African oil company." It had not been decided wether the new company would be listed.

Niemand said the intention was that either a large black-owned group or a group of black empowerment businesses take a "large shareholding" in the proposed new oil company.

It represented one of the first opportunities ever for black owned groups to gain a substantial piece of the oil refining market.

Sasol's share price closed at R30,40 after gaining R1,30 on Friday, and R2,20 over the five days of trading last week.

The battle over alternative drugs

M+G 5-11/3/99 (183)

The vacuum left by the transition from the old Medicines Control Council to the new regulator is bad news for consumers of complementary medicine. **Aaron Nicodemus** *reports*

In warehouses, on loading docks and on natural food store shelves, a pitched battle is being fought over dietary supplements, vitamins and herbal remedies

The battle over "complementary medicine" revolves around the South African Medicines and Medical Devices Regulatory Authority established in December last year to regulate on these products

The regulations to be enforced by the new authority have yet to be made public This lack of information — decried as a shroud of secrecy by its detractors labelled simple inefficiency by those in favour — has exacerbated tensions on all sides

And in the years it has taken the authority to replace the outgoing Medicines Control Council, companies attempting to enter South Africa s lucrative complementary medicine market are finding the path blocked

The regulatory process requires that any new products must be registered with the Medicines Control Council, a process that in practice takes up to three years

In the meantime, the 'big three" South African companies in the market — Pharma Natura, Bioforce International and Natura Homeopathic Company — operate under a loophole in an old law, Act 101 of 1965, which allows them to continue selling their products without undergoing the lengthy regulatory procedure

In 1980, the 'big three' and several other South African companies applied for product registration during a six month grace period, paid a small fee and have since been allowed to sell their products Few of the products have actually gone through a full-blown registration process, but no matter the products are considered legal until the new regulatory authority is enacted

Rene Doms, managing director of Pharma Natura, says the purpose of the new authority is to protect the general public against the pharmaceutical industry, and that the barriers of entry into the field are necessarily stringent

'It's going to place a burden on the manufacturer perhaps more heavily on the smaller ones,' Doms said

"The sort of johnny-come-lately just coming on to the scene will only be allowed to enter the market through government control In the end the balance will fall to the consumer '

He points out that if Pharma Natura created a new product, it would be forced to undergo the same regulatory procedure

But companies on the outside complain that the current situation creates an uneven playing field that excludes competition — one that uses government regulators to prevent new players from entering the market

A good example is Solgar of South Africa, a United States based company that sells dietary supplements, vitamins and herbal remedies Solgar has 530 different product lines While it's free to sell them all around the world, the company can only sell about 140 of its products in South Africa

"It s a ludicrous state of affairs," says Denise Maidment, managing director of Solgar "We lost about R1 million in products last year [that were confiscated and destroyed by government regulators] and we're losing about R2 million in [potential] sales each month '

Solgar had been selling its products in South Africa freely until about two-and a half years ago, Maidment says when government regulators began to clamp down

She says the government's intrusion into the market is 'creating barriers of unfair trading" Worse, she says, South African companies who are receiving the protection of the loophole are reporting other companies infractions to the council who then swoop in to confiscate 'illegal" goods

'We lost about R1-million in products last year that were confiscated and destroyed by government regulators, and we're losing about R2-million in potential sales each month'

'It's not the consumers who are reporting infractions to the Medicines Control Council," Maidment complains, "it's the competition "

In an interview with *Health Independent*, a monthly newsletter, council chair Dr Helen Rees rebuts the charges made by Solgar 'Unsubstantiated claims are being made in respect of a number of imported products and our fear is that they may constitute a potential health hazard

"The council has tried to accommodate Solgar within the legal framework, but as mentioned, if any company persists in acting outside Act 101, the inspectorate is legally obligated to act against them "

Many of the companies frozen out of the market say the government crackdown on complementary medicines was forced by Pharma Natura. The company allegedly threatened to sue the Medicines Control Council if it did not begin enforcing the regulations against companies attempting to import complementary medicines into South Africa without proper approvals

Both Pharma Natura and the council deny this but for the past several years, companies selling such products without the 1980 exemption have felt the pinch

The regulatory mess caused by the gap between Act 101 and the new regulatory authority could have been cleared up by Minister of Health Nkosazana Zuma. She could approve a list of complementary medicines deemed to be 'safe", and a moratorium on enforcement would be implemented

Companies like Solgar have repeatedly provided sample lists to the Medicines Control Council, but each time they have been set aside

Rees responds "We are truly sympathetic We have been advised that we have to run with the old Act 101 while it remains in force and apply it equally to all

"The legal position is that we cannot call a moratorium on any one part of the Act, neither can there be a temporary moratorium '

In the interim, there are simply fewer choices for consumers "The bottom line is that consumers are going into the health shops and they can't get the medicines they want," says Richard Mathias owner of the Nutri Balance Centre in a Johannesburg shopping centre "Drug companies love it, but consumers are getting a bad deal "

OIL

STRING OF QUESTIONS

Sasol's cautionary — confirming it is talking to Petronas about a possible merger of their oil interests — raises more questions than it answers

Most immediately, the statement refers to the consolidation of their SA crude oil businesses and, in the medium term, the marketing of petroleum products Omitted is any mention of Sasol's synthetic fuel operations — the core of its activities

On current estimates, the SA oil industry has capacity of around 665 000 BPD of crude oil equivalent (This clumsy phrase is used because Sasol's synthetic process does not make crude oil but converts coal to petrol, diesel and other final products)

The three coastal refineries have a combined output of 385 000 BPD (Sapref, the joint Shell/BP operation, contributes 180 000 barrels, Engen 105 000 and Caltex 100 000) Natref, at Sasolburg, nearly two-thirds owned by Sasol and the balance by Total, can produce 85 000 BPD, with plans to expand to 120 000 barrels Of the two synthetic operations, Sasol produces 150 000 BPD of oil equivalent and Mossgas 45 000

Sasol is restricted in retail sales by the "lifting agreement" which governs the sale of its synthetic output Only 9,23% of this total may be sold retail (at the "Blue Pumps" on other operators' forecourts) The rest has to be sold to the oil companies as wholesalers of refined fuels

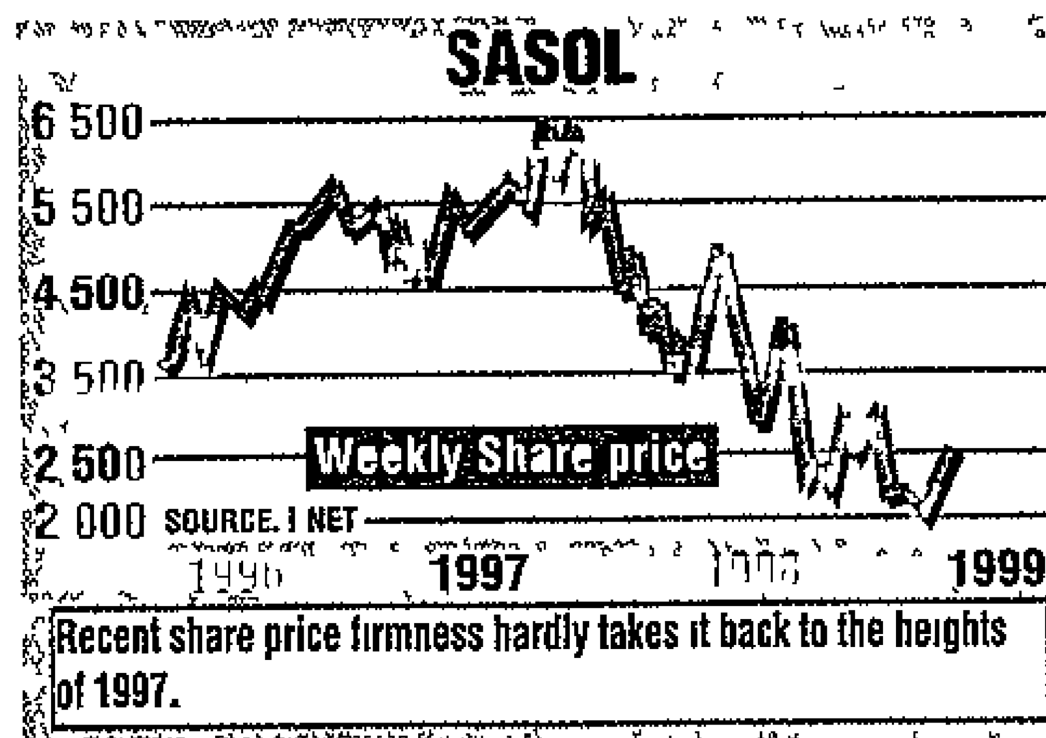
During December 1998, Sasol told the oil companies it would terminate the agreement after expiry of the contractual period of notice, at the end of 2003 This showed it meant to expand its retailing activities — almost a declaration of war on the oil refiners

The market for refined products in Gauteng is now at around 50% of the total — while Sasol's synthetic and Natref output have a transport advantage there and in Mpumalanga — so the lifting agreement appears to have made commercial sense to all parties To scrap it is to overturn an uneasy but durable equilibrium between oil refiners and Sasol

A deal with Engen (now a wholly owned SA subsidiary of Petronas) would be a serious, if not quite mortal, challenge to the remaining oil companies Engen is the largest single retailer, holding nearly 25% of the market

The current negotiations concern

only Sasol's interest in Natref's output, which will be no more than 80 000 BPD even after the planned expansion What would happen to Total, which doesn't seem to have been invited to the party? Presumably it would carry on as at present, drawing its modest share of Natref's output But Total could become a bigger player in the long term, through access to burgeoning Angolan crude oil output



Recent share price firmness hardly takes it back to the heights of 1997.

Sasol, superficially, would be putting at risk its entire synthetic output through cancelling the lifting agreement This suggests a confidence that the oil companies other than Engen would prefer to renegotiate the agreement rather than undertake to supply the inland market by moving refined products from the coast This, notwithstanding the fact that the Sasol/Engen group might then be challenging its retail position inland

Complicating matters even further is the joker in the pack — the Competition Board — which sank Sasol's proposed takeover of AECI It shouldn't be taken for granted that it would approve any move to reduce competition in petrol and diesel

Sasol hinted recently that it might want to join Sapia, the oil refiners' association, but the continuation of tariff protection (which some prefer to call a subsidy) on local synthetic fuel is an obstacle

Any shift in the power balance through a link between Sasol and Engen could result in internal strains within Sapia — which could be forced to adapt its agenda substantially This could be so even if Sasol itself doesn't join

Even if it does join, the unresolved and major disagreement over its tariff protection would remain What is often forgotten is that government is a major shareholder in Sasol (9%)

Last, but certainly not least, Petronas has made a commitment to achieve significant black empowerment within the oil industry This would achieve the blessing of government and put the remaining oil companies on the defensive

Watch this space

Robin Friedland

Sasol, Petronas in talks to establish SA oil company

Madeleine van Niekerk

SASOL and Malaysia's state-owned petrochemical company, Petronas, have started negotiations on consolidating or co-ordinating their crude oil refinery businesses, a move that will result in the formation of a new SA oil company.

A joint statement said yesterday the two oil companies had signed a memorandum of understanding to explore various options of co-operation between them, in particular, to fully exploit the existing and potential synergies between Engen, a wholly owned subsidiary of Petronas, and certain Sasol subsidiaries.

"This is the beginning of negotiations. The aim is to consolidate or co-ordinate crude oil refinery businesses of the two companies and in the medium-term the marketing of petroleum products," said Sasol spokesman Alfonso Niemand. "The potential benefit of consolidating the crude-oil activities of the companies will result in the establishment of a strong new SA oil company."

Niemand said that the new SA oil company would be a totally new, independent entity. Sasol and Engen would both hold substantial interests in the company.

"The possibility of listing such a company and the percentage shareholdings will also be discussed," he said.

The companies said the memorandum of understanding allowed them to further define opportunities for future co-operation and realisation of synergy, and also to enter into negotiations to formalise commercial arrangements as they were identified.

The deal also envisages bringing black investors on board.

According to the statement, the memorandum of understanding makes specific provision for the parties to facilitate the participation of a meaningful consolidated black shareholding in the enlarged entity.

In this connection, Petronas has recently signed an agreement with Worldwide Africa Investment Holdings for Worldwide Africa to be a partner in Engen.

Sasol Oil has facilitated the establishment of an oil company controlled by black shareholders and trading as Exel.

According to the statement, the commercial arrangement is subject to the approval of the respective shareholders, stakeholders and regulatory authorities concerned.

The companies said that they intended to engage the relevant stakeholders to obtain their support to ensure that the negotiations could be concluded within the shortest time possible.

Union urges haste to set up bargaining forum

Reneé Grawitzky
and Deborah Fine

THE newly formed Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union has called on paper and pulp employers to speed up the formation of a centralised bargaining forum or face industrial action

At the same time the wage dispute in the security industry remains unresolved, despite reports last month that an informal agreement had been reached

The parties said details of the agreement would be released once ratified It seems that divisions in some unions have prevented the signing of a final agreement.

The draft accord tried to achieve a trade-off between the premium paid for Sunday work and actual wage increases after weekly working hours were reduced from 60 to 55

The dispute originally focused mainly on an aspect of the Basic Conditions of Employment Act relating to a reduction in working hours and whether this should be accompanied by a corresponding cut in wages

The general secretary of the union, Muzi Buthelezi, said yesterday employers were delaying the finalisation of negotiations to allow for the registration of a bargaining council in the broader paper and pulp sector.

The establishment of the council was being "retarded by employers forming and registering their associations" as required in terms of the Labour Relations Act

He said employers were not taking the matter seriously "We will have to put pressure on them," Buthelezi said

In line with developments in the chemical industry, paper and pulp employers would face a demand this year to enter into interim sector talks pending the creation of a council.

The sectors covered by such a council would include pulp and paper, paper merchants, tissue paper, saw milling and recycling The union wanted recycling to be part of pulp and paper, but employers opposed this

Buthelezi acknowledged that talks would get under way as job losses continued The union hoped to hold a sectoral job summit by the end of the year.

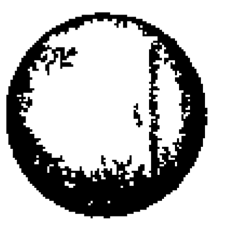
Union demands for talks this year across all sectors included a 20% increase and a minimum wage of R2 000 a month, a reduction of working hours to 40 with no loss of pay or averaging, and a range of other demands linked to the Basic Conditions of Employment Act

Production at Toyota's Prospecton plant resumed yesterday as thousands of members of the National Union of Metalworkers of SA returned to work following a dispute over the payment of incentive bonuses

Meanwhile, about 1 000 SA Municipal Workers' Union members employed by the Welkom municipality in the Free State failed to arrive at work yesterday in protest against what they claim was a "unilateral downgrading" of their conditions of service

The workers have accused the council of withdrawing study leave, travel allowances and leave cashment provisions and refusing to pay overtime under the Basic Conditions of Employment Act Welkom administrative director Papiki Ngesi denied the union's allegations The council was expected to meet with workers today to discuss the issue.

(183) BD 16/3/99



Sowetan
BUSINESS

Real power is economic

New plant to create extra jobs

(183)

By Shadrack Mashalaba

AT LEAST 80 direct jobs will be created in KwaZulu-Natal following an announcement by the Industrial Development Corporation yesterday that it will inject R1,5 billion to expand the production capacity at Indian Ocean Fertilizer in Richards Bay

IDC chief executive officer Khaya Ngqula said in Johannesburg that the IDC would underwrite R1,5 billion funding for the R1,1 billion project

The plant, wholly-owned by IDC subsidiary Foskor, will also create 750 indirect jobs

The cash injection will increase the production capacity of the plant by 77 percent, said Ngqula

Final approval of the project was effected on Tuesday after an environment impact assessment survey Construction is due to start in May and will be completed by May 2001 Full production capacity is expected by June 2002

Ngqula said more than 70 percent of IOF's turnover was related to exports

The company manufactures phosphoric acid, granular phosphate fertilisers and sulphuric acid

Boost the economy

Foskor was established in 1951 and produces phosphate concentrate, baddeleyite, magnetite and zirconia

Ngqula said the project, the biggest of its magnitude funded by the IDC this year, would offer an opportunity to boost the economy

He said the IDC would help the funding of the project this year Thereafter other funding packages would come from various local and international sources

Information memorandum for funding will be issued this week with offers expected in April and selection of local banks to be completed by June

Total capital expenditure will be 66 percent or R725 million of local content with 34 percent or R375 million coming from the United States and Europe

Ngqula said while creating new jobs, existing jobs would be protected The expansion would contribute 0,3 percent to KwaZulu-Natal's GDP and approximately R100 million per annum in tax revenue

Sowetan

Forum calls for watchdog body in SA's oil industry

Amanda Vermeulen

THE AFRICAN Minerals and Energy Forum (Amef) has called for the creation of an independent watchdog body to ensure the acquisition by black oil companies of a 25% interest in the oil industry, claiming that existing industry bodies may be biased.

Forum secretary general Maurice Radebe said in a policy paper released last week that meaningful participation by black oil companies needed to be monitored and evaluated by an independent body.

"The issue is (about) who is qualified to determine the criteria, indicators, measurements and monitoring mechanisms to certify the achievement of this crucial milestone."

He said this could not be done by the forum, the SA Petroleum Industry Association (Sapia) or the synthetic fuel producers, such as Sasol, as "each of the parties may be biased".

"We therefore suggest that government set up an independent watch body which will also recommend new short-term legislation to correct any distortions which may arise."

The forum expressed concern about the impact of Sasol's intention to terminate its supply agreements with the oil industry in 2004, saying that the urgency to renegotiate the terms of the agreements "may lead to the sidelining of black oil companies."

Radebe said the forum would evaluate moves by Sasol and Petronas to merge their SA oil businesses to establish whether they would facilitate genuine black economic empowerment.

The forum also encouraged government to develop institutional and regulatory capacity to monitor progress towards the deregulation of the oil industry. "Amef is concerned that if government does not have the capacity to monitor and manage the phased deregulation process, then Sapia members may trigger a haphazard and ungovernable deregulation process which will destroy black oil companies."

(183)

The forum also recommended the formation of a body jointly with government to manage the transformation process of all state assets, including pipelines and storage facilities.

"We also support the promotion of an environment conducive to foreign investment in the fuel industry."

B.D 23/3/99

Sowetan 25/3/99

New image promised at drugs council

(183)

By Bhungani ka Mzolo
Health Reporter

THE controversial Medicines Control Council (MCC) – in charge of safeguarding the South African public against unregistered drugs – is to change its name and hopefully shed its past

The MCC, with its then head Professor Peter Folb was recently embroiled in a duel with Health Minister Dr Nkosazana Zuma over the registration of Virodene – the drug which researchers at the University of Pretoria claim cures Aids

When Folb was replaced and a review team composed of internationally acclaimed experts was assigned to restructure the MCC, the perception was created that this was because of the Virodene debacle

But according to new MCC chairwoman Dr Helen Rees this is not the case

"Everyone, including the MCC, Health Department and the Medical Research Council (MRC), agreed that the council had to be transformed as it was clear that it was no longer coping with its work load," Rees said in an interview with *Sowetan*

She said when she took over the running of the council, there was a backlog of over 2000 applications for new drugs to be registered

Secondly, the council was still governed by the 1965 Medicines Act, and this was no longer appropriate in the new dispensation There was no system in place for the processing of clinical trials

Traditionally the role of the MCC, Rees said, had been the regulation of mainly orthodox and veterinary medicines, and it only came to be involved with drugs for clinical trials by default

Rees said the transformation of the council now under a new law would include regulating complementary medicine including traditional medicine, clinical trials and the monitoring of adverse reactions to new drugs

The new Act – to be controlled by the South African Medicines and Medical Devices Regulatory Authority – should come into effect before the June 2 elections

Rees said the council, together with the MRC and National Association of People with Aids, was already working on new regulations to guide researchers in HIV-Aids to prevent the premature announcement of results

Pointing to the recent announcement by the Medical University of Southern Africa (Medunsa) that it had discovered a possible treatment for people with Aids called Inactivin, Rees said the premature announcement of positive results affecting HIV-Aids tended to raise hopes, which sometimes could not be met

However, she reaffirmed that the Medunsa researchers had followed all the requirements necessary to carry out phases one and two of the drug trial

Rees said before clinical trials could be carried out on people researchers had first to submit results of laboratory tests indicating why they thought that the drug was ready to be tested on human beings

"Only after these pre-clinical trials, done on animals, can tests be done on people"

According to Rees these are done initially on a very small number of people for a very short period of time

"During the first and second phases (of the trial) the focus is on the safety of the drug, its quality, acceptability, dosage and its efficacy, meaning will it work for the purpose that it is meant for" she said

Rees emphasised that during this stage one did not look at whether the drug could treat a disease or not, as this was done in the third phase of testing with a much larger group of people and over a period lasting from nine to twelve months

"That is why the announcement by Medunsa was premature, as they still have to carry out this part of the trial So the fact is that University of Pretoria researchers had not done even the pre-clinical testing with Virodene and had just started trials on human beings, while at Medunsa Inactivin went through pre-testing, phases one and two"

Dr Helen Rees

She said the MCC had to give permission for any new drug to be tested, but this had to be based on sound scientific information

While the MCC gave the go-ahead for scientific trials to be carried out, ethics committees, located at the various medical schools in the country, had to give permission as to the ethical nature of the research

"Any scientific research that is not of a high enough standard and which is unethical is rejected by the MCC and the ethics committee," she said

Since the restructuring at the council they had been able to clear a number of applications for clinical trials, so that there was no waiting list for these now

"Secondly, a number of academics have shown an interest in working with the MCC, with many coming for training

Rees said the council was concentrating on developing a tradition of responsible and ethical prescribing by practitioners as well as aiming for a much greater public awareness about medicines

Institute attacks state backing for 'apartheid' Sasol

BD 26/3/99 (183)

Amanda Vermeulen

THERE is no economic basis for keeping up Sasol's tariff protection mechanism, nor does the synfuel producer's investment in the petrochemical industry justify government support, says Riaz Jawoodeen of the Institute for Policy and Social Research

In a paper on the synthetic fuel industry presented at a conference last week, the institute said it was not government's job to protect private, profitable companies from normal business risks or to subsidise their investments

Sasol's synfuel division gets tariff protection based on crude oil prices This protection, also referred to as a "subsidy" by opponents, is funded by the equalisation levy, funded by the tax consumers pay on petrol and diesel

Sasol's financial results during the past four years indicated that tariff protection reductions in certain years did not affect profitability, which showed that massive state subsidies only encouraged inefficiencies, while reductions forced efficiencies Government will review the tariff protection mechanism next year, but the institute contends that there is evidence that it could be continued Sasol had already voiced its request for continued protection

The institute is concerned at continued support for Sasol, which it said was an apartheid creation "As a private company, Sasol's new investments should not occur at the expense of taxpayers and motorists. Government will have to weigh up its priorities in relation to supporting any new Sasol investments (through tariff protection) while no support is granted to black oil companies "

Black oil companies are bidding for a 25% slice of the petrochemical pie, and have asked government to establish an independent body to facilitate transformation of state assets, including pipelines The tariff protection mechanism was the result of an Arthur Andersen study, and severely criticised for four years The institute said that serious flaws in the study were not brought to the attention of the new government

Among them was how Sasol benefited from rand weakness against the dollar The minerals and energy department "did not raise this fact when it sought cabinet approval to increase the equalisation levy to pay the Sasol subsidy"

The institute said that in the 1997/8 year, when the rand fell 100c against the dollar, Sasol got a forex windfall of R1,7bn on top of tariff protection of R507m Minerals and energy was reviewing this issue, and a conclusion was expected soon "The review has to be transparent and not conducted in the same fashion as the Andersen study "

Effect of tariff protection on Sasol's financial results

	1995 Millions	1996 Millions	1997 Millions	1998 Millions
Turnover	R11,955	R13,545	R15 810	R16,666
Operating profit	R2,805	R3,213	R3,900	R3,121
Income after tax	R1,896	R2,268	R2 639	R2,061
Tariff protection	R1,079	R597	R76	R507

KUBEN DAVID Source INSTITUTE FOR POLICY AND SOCIAL RESEARCH

DRUG REGISTRATION (183)

DAMAGING DELAYS

MCC blames inherited backlog

FM 26/3/99

The pharmaceutical industry claims it is losing millions because of delays of up to two years in SA's drug registration process Drug companies also claim SA has been excluded from participating in lucrative international drug trials because the Medicines Control Council (MCC) has been unable to give its approval in time

They say they wait at least two years for drugs already registered in the US and EU to be approved by the MCC, and that once a drug is approved, it takes months to obtain the actual certificate

The medical director of an American multinational company who waited in the MCC's offices until she was handed her certificate was accused of staging a sit-in

"In the past, applicants dealt with an organisation which was well respected internationally," says SA Pharmaceutical Affairs Regulatory Association vice-chairman Kevin McKenna "By comparison, the new MCC limps along The delays are looked on by industry as not merely frustrating but damaging"

The new MCC, which was appointed by Health Minister Nkosazana Zuma in April last year after the overnight dissolution of the old body, is undergoing fundamental change Meetings have been held between the industry and the health authorities, but improvements are slow in coming Meanwhile, patients are being denied important new medication

"Delays at the MCC are a major problem for us," says the regulatory manager of an American multinational who spoke on condition of anonymity for fear that the registration of the company's products would otherwise be jeopardised

"Yesterday I called about an application to amend the shelf life of a registered product which we submitted to them in December last year They said I must phone back in August It's just not on I refuse to accept that We run a business and need to get new products on to the market and to ensure that people have access to the best drugs available"

In December 1997 the company submitted an important cancer drug, which has already been approved in the EU, to the MCC for registration, but it doesn't expect clearance before the end of the year In the past, registration took anything from nine to 18 months

Glaxo Wellcome medical director Dr Peter Moore says a big headache is the MCC's failure to approve clinical drug trials in good time, resulting in the loss of up to R100 000 per trial for each research centre He says the MCC lost information from Glaxo on a drug application, but he was told only six months later "We lost six months of our patient's lives," he says "It's an untenable situation"

THE AGONY OF APPROVING DRUGS...

- Pharmaceutical industry says it's losing millions because of delays of up to two years in the drug registration process
- SA has been excluded from lucrative international drug trials because the Medicines Control Council (MCC) has been unable to give its approval in time.
- Relations between the Registrar of Medicine, Precious Matsoso, and the industry are at an all-time low

... AND THE ECSTASY

- The MCC is being overhauled in a bid to make it more efficient
- In October 1998, the main registration backlog was 2 264 compounds. In January 1999 it was 1 574
- The MCC aims to eliminate the backlog by the end of the year

"We are very concerned," says Pharmaceutical Manufacturers' Association executive director Mirryena Deeb "It's costing the industry substantially We're looking at ways to help the MCC expedite their work"

MCC chairman Dr Helen Rees accepts that the industry has been frustrated for a long time, and with reason, but says the new council inherited a huge backlog which it aims to eliminate by the end of the year In October last year, the main backlog was 2 264 compounds

By January it had fallen to 1 574 "The old MCC was over-stretched We had to unpack a serious muddle before we could find where the bottlenecks were," Rees says

A year ago, an independent review panel found that applications for registration weren't stored in chronological order and there were no screening or tracking systems in place External reviewers were given as long as they liked to adjudicate an application, and if a reviewer queried an application it went to the back of the queue There was only one individual dealing with applications for clinical trials

Rees says five independent consultants are setting up new screening and tracking systems to speed up registration

A committee has been established to process applications for clinical trials This backlog has now been cleared and a far more rigorous process will be adopted in adjudicating these applications All nine vacant posts have been filled and the council hopes to raise its fees (which are nominal) and employ more staff

The council has clarified the guidelines for fast-tracking certain drugs, such as therapeutic breakthroughs or those needed to treat life-threatening diseases, Rees says

The MCC also hopes to enter international agreements with respected regulatory bodies so as to get access to confidential information on registered drugs and thereby hasten their registration in SA

Claire Bisseker

Sunday Times Business Times
March 28, 1999

Plascon bids for export colours

(183)

JOINT VENTURE

By DON ROBERTSON

PLASCON Paints hopes to increase exports by at least 20% in the next 12 months following an agreement signed with specialist coating group Marmoran

A new company, MP Coatings, has been formed to act on the international market as agents for Plascon's decorative paints and Marmoran's coatings

Plascon's exports add about R25-million a year to earnings, but MD Peter Surgey says sales will grow by about 20% and then at a faster rate once the product becomes better known

Surgey says he has been impressed with Marmoran's international marketing successes, which have seen it increase exports by 30% a year since 1990. In 1996, Marmoran won the State President's award for exports.

Marmoran exports to 22 African countries, the Indian Ocean islands, the Far East, the Pacific Rim and the Middle East, and has plans to enter the US, Europe and the UK In the first two years, the export effort will be targeted at Africa

Plascon has about 25% of the decorative paint market in Australia through its links with Taubmans, and a small portion of the market in the UK through International Paints "The size of the market in Africa is between 50 and 60-million litres a year If we can get about 10-million litres of this it will be worth about R100-million annually," says Surgey

ST (BT) 28/3/99

Deal marks end of impasse over Safripol

US company takes over plastics firm

CT (BR) 29/3/99 (183)

ADELE SHEVEL

Johannesburg — Sentrachem, the previously listed chemicals company, was to acquire the 50 percent of plastics manufacturer Safripol it did not already own, Dow Chemicals, Sentrachem's US parent, said late last week

The deal will mark an end to the impasse around Safripol's ownership

Dow said Sentrachem had reached an agreement with Hoechst South Africa to buy Hoechst's shares in Safripol and Plastomark, a chemicals joint venture

There was debate last year as to which company would gain complete ownership of Safripol, whose turnover is estimated at R1 billion a year At the time, the bid by Hoechst to buy Sentrachem's share sparked a dispute with Dow

The matter eventually went to arbitration

Analysts speculated at the time that Hoechst had the right to acquire Sentrachem's stake They said this right had been triggered when Dow bought Sentrachem for $480 million in December 1997

Hoechst subsequently said it was selling its share in Safripol for R400 million before debt and that it was exiting the chemicals industry As the year unfolded, it became clear that Hoechst's long-term objective was to move into specialty and life sciences

Buying the Safripol stake, said Vin Sinnott, Sentrachem's chief executive, "is congruent with our stated intention of growing Dow's presence in southern Africa in industry segments where we have particular strengths"

He said Dow would use its global polymer technology and marketing capabilities to complement Safripol's skills and expertise in order to competitively serve the fast growing Southern African polyethylene and polypropylene markets

Safripol, a polypropylene manufacturing plant based in Sasolburg, produces 160 000 tons of high density polyethylene and 90 000 tons of polypropylene a year

Dow is one of the world's largest polyethylene producers

Sasol involved in row over toxic waste

(183)

Environmental group claims leaking pits pose danger to Vaal River system

Star 31/3/99

By Melanie-Ann Feris
Environment Reporter

Sasol has become embroiled in a controversy with environmentalists, who claim hazardous waste from Sasol's facility near Sasolburg could be seeping into the Vaal River system and endangering Gauteng's water supply

Sasol denies that its waste pits pose any danger, but Save the Vaal Environment (SAVE), an environmental group formed to protect the Vaal River and its environs, yesterday insisted the waste site was leaking.

Rand Water yesterday sent an official to the site to assess the danger to the Vaal River and its tributary, the Leeuspruit So far, no independent verification of SAVE's claims has been found.

SAVE spokesperson Brent Gericke said the toxic waste leaking from the pits could end up in the Leeuspruit, from there into the Vaal River and eventually into the Vaal Dam, Gauteng's major water supply.

The waste dams, left unmaintained since Sasol entered into litigation with its waste treatment company in June last year, are also in danger of collapsing, Gericke said

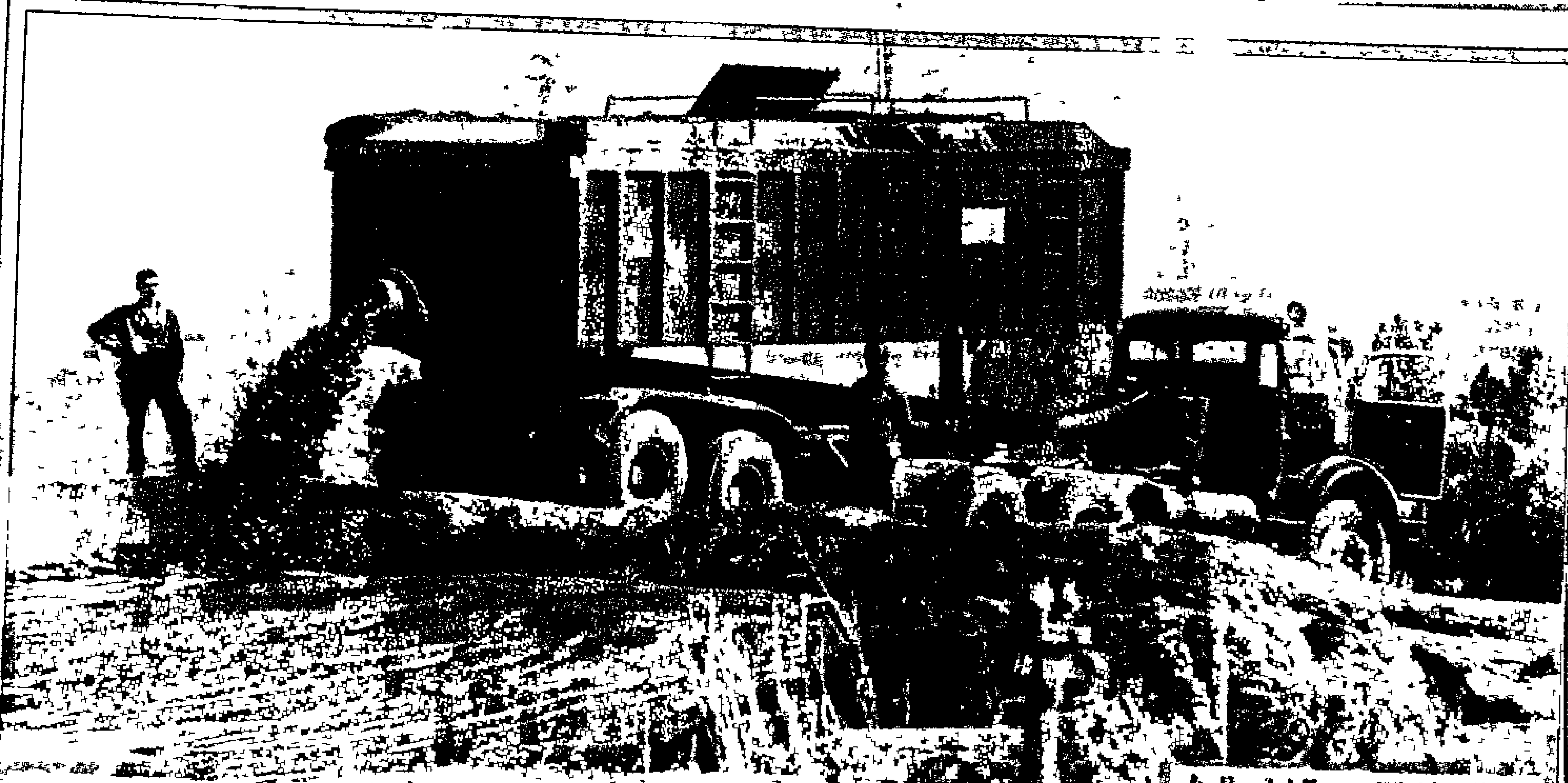
He added that,over the past 40 years, tons of waste had been dumped into the pits Gericke claims there has been a series of spills into the Leeuspruit in the past few years

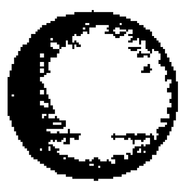
He said Sasol promised several years ago there would be no more dumping into the pits.

When *The Star* was on site yesterday, thousands of litres of chemicals were dumped into one of the pits.

The tar pits, spanning several kilometres in breadth, were filled with black waste, in which blackened steel barrels and thousands of fluorescent tubes containing mercury could be seen floating.

Johan van der Merwe, deputy director of water quality for the Department of Water Affairs in Bloemfontein, said. "At this stage there is no proof that there is seepage reaching the Vaal River I am a bit surprised that there are rumours about seepage."





PICTURES: STEVE LAWRENCE

1. In the act: a truck load of waste is dumped into one of the pits at the Sasol dumping site

2. Toxic pit: thousands of litres of cresylic acid in one of the waste pits

4. Dumped: black waste from discarded barrel leaks out.

COMPANY NEWS

AECI turmoil paved way for radical change, says chairman

ET (MR) 7/4/99 (183)

ADELE SHEVEL

Johannesburg — The past year was a watershed for AECI, the commodity chemicals group, chairman Tony Trahar said in its latest annual report

"The decline in shareholder value over a number of years, accompanied by turmoil in Asian economies and increasingly depressed commodity chemical prices, together with major restructuring and consolidation among chemical companies globally, all heightened the need for radical change in the affairs of the company," said Trahar

"For a group characterised by consistency and stability over its 75-year history as one of South Africa's leading industrial companies, this catharsis proved to be exceedingly traumatic"

The company said its strategies came under scrutiny at the time of Sasol's offer for AECI, which was withdrawn after an unfavourable ruling from the Competition Board It was concluded that the company was too broadly based, with operations ranging from bulk commodity chemicals to fine chemicals with a high added value It was "overly dependent on products where it held no competitive advantage in terms of scale or feedstock costs"

Trahar said that although the staff complement had been pruned over the years, "the rationalisation of costs had not been sufficiently aggressive"

The strategic review of the group led to the announcement of a broadly based transformation programme, which was endorsed by the board of directors on October 21 No deadline was imposed for its completion by the board

An element of the programme is the company's gradual withdrawal from upstream raw material production AECI will also focus on five strategic business clusters, which will be explosives, speciality and fine chemicals, speciality fibres, biotechnology and selected agricultural products It will search for international partners in some business clusters

Overhead structures will be rationalised and AECI will establish new ways of implementing incentives and of focusing its business

Trahar said the six-month period from Sasol's offer date to the completion of the Competition Board investigation had a detrimental effect on many parts of the group, especially on the fertiliser business, which was already suffering from reduced regional demand

Intended disposals announced in October include AECI's stakes in Polifin, Tioxide and Fedmis as well as the Dulux coatings operation These transactions were subject to appropriate timing, said Trahar

The company's prospects depended on the rate of success of the transformation programme and the timing and extent of a recovery in the commodity chemicals pricing cycle

The shares gained 10c to R9,20 on the JSE yesterday

SA DRUGGISTS

Operation successful, patient dead

CT (BR) 15/4/99 (183)

Adele Shevel

Johannesburg – A chapter in the history of South Africa's oldest pharmaceutical company, South African Druggists, has come to an end as its assets find new homes within other corporate structures.

The group's roots stretch back about 140 years. It has survived two listings and is one of few companies to emerge from judicial management It has been exposed to various corporate cultures and been through furious acquisitive processes

It has moved from pills and potions to the sophisticated practice of managed care, the buzzword for health in the 1990s and beyond It has been a wholesaler, a marketer, a manufacturer and a distributor of pharmaceuticals

Lou Morris, a previous director who still works for the company after 46 years, says the company has had a turbulent history. He may be understating things

The company's history reads like an epic novel spanning the entire 20th century What began as myriad colours and powders became a diversified company whose assets are being divided up by the insurance and healthcare people (Fedsure) and various pharmaceutical concerns (Aspen and Macmed)

This unravelling, which is sure to be final, started with Fedsure, which holds 34 percent of the company It said in September it wanted to buy all the healthcare interests and sell the pharmaceutical concerns to Adcock Ingram.

But this was thwarted when

the Competition Board refused to let Adcock take over the Pharmacare division

Fedsure went back to the drawing board, joined by a number of corporate vultures (more are expected to emerge further down the pecking line) Some Druggists executives openly rue the day last April when Fedsure bought Sankorp's 30,2 percent stake (that move was itself a part of the never-ending Sanlam unbundling)

Since then, tempers have frayed and tolerance waned in a process that has been described as tawdry and even Byzantine. Some say the process was complicated by the personalities Druggists and Fedsure executives became increasingly wary of each others' motivations, and there was caterwauling about obstructionism and leakage of confidential documents

Druggists has lost a significant amount of its value over the past few years From a high of R43,20 in February 1997, the share slumped to R18,95 on March 18 last year The latest results showed a turnaround, but it came too late

There are, to put it mildly, different opinions about the takeover. "It's a bloody sad day," says Brian O'Donnell, the chief executive from 1961 to 1987 "If this disaster hadn't hit us we would have reached R47 or R50 a share in about four years' time." He lambastes analysts for their short-term views, saying one has to take a five to 10-year view on the pharmaceutical industry

But several analysts say Druggists management had been ineffectual, this, they say, is but the passing of the guard and the final sweep-out of the last executives of Malbak (where Sanlam held its control) still in decision making positions

What of the assets? The purchase of Healthcare Management Holdings (HMH) by Fedsure – after an ardent pursuit – fits in with Fedsure Health's aim to expand its activities beyond administration into managed care and gives it strategic investments in providers. It will consolidate Fedsure Health's position as the country's second largest funder Right from the start, Fedsure made it clear that it was interested in the synergies on the health management side.

But a number of insiders wonder why Fedsure was so intent on HMH, given the company's high costs and its involvement in managed care, which has not been implemented particularly successfully locally.

But Dave Avnit, Fedsure Health's chief executive, says HMH is not really a managed care company because managed care contributes only 15 percent of earnings

"We are not approaching this on the basis of it as a managed care company but a healthcare organisation," he says

The elusive objective of managed care is to achieve quality healthcare services at lower costs through managing facilities, resources, services and funding mechanisms to use the money in the system more efficiently, while keeping some profit for the managed care company.

Managed care burnt Sanlam and Southern when they lunged in in the early 1990s. They are still paying the costs of their mistake Avnit, though, is adamant his company's operations are totally different from those of Sanlam and Southern.

On the medical aid front, Fedsure has had other problems. Fedsure Health began its acquisitive route last year when it bought Norwich Healthcare and D&E Administrators, a medical aid administrator But the road has been bumpy Three medical aid schemes out of 21 under D&E's administration have already left because they were not happy with higher charges implemented by Fedsure Health.

Fedsure Health is no doubt putting together components for a separate listing some time in the future The company is now the biggest contributor to Fedsure's profit stream.

Time will tell whether it can make the new acquisitions work in a much-changed corporate structure If its parent's history is any guide, though, riches are there for the taking.

Frustration may precipitate strikes

Chemical union wage talks 'bumpy'

CT (MR) 21/4/99

(183)

FRANK NXUMALO
LABOUR EDITOR

Johannesburg — A repeat of last year's devastating strike in the petroleum and chemical sectors is looming again after the Chemical Energy Paper Printing Wood and Allied Workers' Union (Ceppwawu) yesterday expressed frustration with wage talks

The union had yet to declare a deadlock with the National Petroleum Employers' Association (NPEA), but Bengeza Mthombeni, the union's deputy general secretary, said the remaining rounds of negotiations were a "bumpy ride"

Ceppwawu, the result of the amalgamation of the Chemical Workers' Industrial Union and Paper, Printing Wood and Allied Workers' Union, was launched earlier this year

Employers, especially in the petroleum sector, had sounded 'provocative'

Mthombeni said employers, especially in the petroleum sector, "sounded provocative" and had given an impression of negotiating in bad faith

Chris Lucas, the chairman of NPEA, said Ceppwawu had entered negotiations with "misplaced confidence, expecting increases in basic wages to exceed the consumer price index (CPI)

"The CPI is running at 6,4 percent, and global industry predictions are that it will run at 6,6 percent for 1999," said Lucas

"Ceppwawu is under the mistaken impression that the CPI will be running at 8,6 percent this year, and based their initial claims of a 15 percent basic wage packet increase on this

"From the above economic indicators it is clear to the NPEA that Ceppwawu demands are not in line with basic fundamentals in the economy and should be viewed as unrealistic and outside the framework of good negotiating practice in the petroleum sector"

Data released yesterday put March's inflation rate at 7,9 percent year on year

Mthombeni said the union was "clearly outraged" at employer offers and attitudes Employers in the petroleum sector were offering a 4 percent increase against union demands of 15 percent across all sectors

He said employers were not prepared to negotiate wage increases in the industrial rubber sector, saying that Nedlac had yet to demarcate whether this sector fell within the chemical industry or not

If Nedlac ruled for the exclusion of the rubber sector, this would put it outside the central bargaining arrangement, with the result that workers would receive only R1 200 a month compared with the R2 000 a month demanded by the union

In the industrial chemical sector, employers were offering 6 percent for subsectors against union demands of 15 percent and only 5,75 percent for surface coaters

NPEA said it was committed to negotiations and felt Ceppwawu had to moderate its wage demands to realistic levels

Unions brace for major confrontation

(183)

Sowetan 26/4/99

By Mzwakhe Hlangani
Labour Reporter

A MAJOR confrontation is looming in petroleum sector wage bargaining as the new Chemical Energy Paper Printing Wood and Allied Workers Union (Ceppawu) presses for wage increases dismissed by employers as "inordinately excessive and unrealistic"

National Petroleum Employers' Association chairman Mr Chris Lucas further described the union' demands as "misplaced and not in line with basic economic fundamentals and outside the framework of good negotiations practice"

Ceppawu deputy general secretary Mr Bhengeza Mthombeni charged that employers' four percent offer was provocative and indicated their lack of commitment to good faith bargaining The union has demanded 15 percent across the board and a minimum wage of R2 600 a month

The union is set to declare a dispute on Wednesday when the second round of negotiations start this week and begin mobilising its 92 000 members for a major conflict.

All sectors were in a position to afford the increases demanded since employers had accumulated profit gains while the union settled for even lower than inflation-related increases in the previous years, Mthombeni said.

Negotiations in the industrial chemical, rubber sector and consumer goods sector also started on April 13, 15 and 19 The union has demanded 20 percent increases and a minimum R2 000 wages a month in the consumer goods sector while the revised demand has been reduced to 15 percent in the chemical and rubber sectors

In the glass sector bargaining is scheduled to start on May 5. Meanwhile, interim arrangements were being finalised in respect of the pulp and paper bargaining council, Mthombeni said.

The employers in the industrial chemical industry have made an opening six percent wage increase for sub sectors, with a further reductions of 5,7 percent for surface coating job categories They maintained the four percent offer in all other sectors

Meanwhile, in the industrial rubber sector negotiations were also hamstrung by the employers' threat to withdraw from the centralised bargaining arrangement

Bhengeza said employers argued that the National Economic Development and Labour Council still had to decide whether the sector fell under the chemical industry

Employers further complained that companies outside the central bargaining arrangement paid only R1 200 wages compared to R2 000 demanded by the unions within the bargaining forum

Nedlac leaves decision to Mdladlana

Chemical sector conflict unresolved

(183) CT (MR) 26/4/99

FRANK NXUMALO
LABOUR EDITOR

Johannesburg – The last word on the chemical industry sectoral demarcation conflict between the Chemical Energy Printing Paper Wood and Allied Workers' Union (Ceppwawu) and the industry employers' associations now rests with the minister of labour, after the National Economic Development and Labour Council (Nedlac) failed to resolve the issue last week

The issue is crucial to industrial relations stability in the industry, especially in its pharmaceutical sector, and to a peaceful conclusion of the already troubled current wage negotiations

Nedlac had failed to make a demarcation within the statutory 90 days and had to refer the matter to the minister for a final demarcation in terms of the new Labour Relations Act

Central to the saga is the objection of the Wholesale Patents and Pharmaceutical Employers' Association (WPPEA) to belonging to centralised bargaining arrangements

Tracey Glover, the chairman of WPPEA, said it had always advised Ceppwawu of its objections since negotiations started five years ago, saying it felt that as distributors they were not part of the chemical manufacturing industry

WPPEA wanted to be regarded as part of the retail and distribution industry as it believed it had more in common with companies like Pick 'n Pay and furniture wholesalers than with manufacturers of chemical products

Glover said although it was obvious WPPEA wanted the minister, Membhathisi Mdladlana, to rule in its favour, it did not want to prejudice his final decision

Ceppwawu feared exempting WPPEA from a centralised bargaining arrangement would expose workers to poor working conditions

However, Glover said the association had already been paying an average minimum wage of R2 000 a month since last year, a figure that tallied with Ceppwawu demands

Bengeza Mthombeni, the general secretary of Ceppwawu, accused WPPEA of unreasonableness, a negative attitude and trying to sabotage a project that had taken five years of work and tough negotiations to complete

"It is unacceptable that pharmaceuticals would agree to be part of the process, but when their own narrow objectives are not attended to, they embark on sabotaging We shouldn't encourage such a situation", Mthombeni said

I won't violate deals – Zuma

But US is keeping a watchful eye over medicine imports

ARG 4/5/99 (183)

DI CAELERS
HEALTH WRITER

Health Minister Nkosazana Zuma, under fire over the United States' decision to keep South Africa on its "watch list" of countries that may violate trade interests, has emphasised she has no intention of violating any international agreements.

At issue is Clause15(c) of the Medicines and Related Substances Act, passed in 1997 but not yet promulgated and now being challenged in the High Court

It would permit the parallel importation of drugs, allowing Dr Zuma to authorise the importation of some branded products sourced overseas, without authorisation from the South African patent or trademark holder

Last Friday, the US trade department issued its annual "Special Section 301 listings" which identifies countries it says deny adequate and effective protection of intellectual property rights

South Africa was put on the list last year after the act was passed A number of substantial trade sanctions against South Africa followed the listing, according to a letter from the Pharmaceutical Manufacturers' Association of South Africa

This year, the US trade department has increased the pressure on South Africa by imposing an "out of cycle" review, which effectively means further action will be considered in six months rather than after the usual year

Alan Holmer, president of the Pharmaceutical Research and Manufacturers' Association of America, is quoted in US press reports as saying South Africa "fully deserves to be designated because it has weakened the terms of intellectual property protection for pharmaceuticals"

No climbdown: Zuma

Mr Holmer said South Africa's intellectual property regime was deficient in many respects "It allows for the parallel importation of pharmaceuticals – that is, for third parties to import drugs that are still under patent in South Africa

And it allows the Government to require a company to license its patented products to others in violation of the country's international commitments," he is quoted as saying

In the past few weeks, US Vice-President Al Gore has come in for a tongue-lashing from US consumer activists, who support South Africa's bid for cheaper drugs They have accused him of "bullying" South Africa on the issue

Yesterday, Dr Zuma's spokesman, Khangelani Hlongwane, said the department would not back down on Clause 15(c), which was there to ensure South Africans had access to reasonably priced medicine

"We have expressed ourselves adequately on the matter to our counterparts in the US Our stance is clear

"We have no intention of violating any international agreements The point is that the price of medicine is presently unaffordable for the Government," he said

The New National Party said the implications of the medicine legislation was potentially crippling for South Africa

"The sanctions that result from this legislation create a severe setback not only for health, but also for the country's economy," said New NP health spokesman Kobus Gous

US 'watch list' pressures SA over Zuma's parallel drug imports plan

(183) Star 5/5/99

Cape Town – Health Minister Nkosazana Zuma, under fire over the US decision to keep SA on its "watch list" of countries that may violate US trade interests, emphasises she has no intention of violating any international agreements.

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Clause to 'ensure cheaper medicine'

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In recent weeks US consumer activists, who support SA's bid for cheaper drugs, have accused the US of bullying SA.

Khangelani Hlongwane, Zuma's spokesperson, said this week that the department would not back down on Clause 15(c) which was there to ensure South Africans had access to reasonably-priced medicine.

"We have expressed ourselves adequately on the matter to our counterparts in the US. Our stance is clear and I don't know how often we have to say it before the world believes us.

"We have no intention of violating any international agreements. The point is that the price of medicine is presently unaffordable for the Government."

NNP health spokesperson Kobus Gous said the implications of the medicines legislation was potentially crippling. US tariff concessions had already been denied to other SA industries.

The possibility of comprehensive sanctions was becoming a reality, Gous said. – Own Correspondent

Lockout at Mondipak continues

ET (MR) 7/5/99 (183)

FRANK NXUMALO

LABOUR EDITOR

Johannesburg – The three-week lock-out of hundreds of workers allied to the Chemical Energy Paper Printing Wood and Allied Workers Union (Ceppwawu) and the Media Workers' Association of South Africa (Mwasa) at the Mondipak Alrode plant continued yesterday with demonstrations outside the factory

Mondipak was adamant it would not accede to union demands

At issue is the introduction of a three-shift system that requires employees to work until 6am

The unions wanted the company to provide their members working from 6pm with transport, in line with the new Basic Conditions of Employment Act

Investigations by the Commission for Conciliation, Mediation and Arbitration (CCMA) had shown that transport was broadly available at these hours This interpretation has made the task of breaking the deadlock difficult

At issue is the introduction of a three-shift system that means staff work until 6am

It would seem the CCMA read the provision to mean that while transport had to be available, it did not necessarily mean that the company had to provide it Available transport could mean available public transport

Mondipak has held to that interpretation and said it offered several permutations of shift hours to address "perceptions" by employees that transport difficulties would occur

Vernon Morton, Mondipak's human resources manager, said "Throughout the discussions and negotiations, the unions and their members have demanded a transport subsidy in addition to the several improvements in pay and conditions of service offered by the company"

He said Mondipak had not acceded to the demand for transport subsidies Research showed that transport was available at all proposed shift changes The onus was not on the company to provide transport

Morton said the company had offered a 3,2 percent reduction in working time and introduced a 15 percent shift allowance for the three shifts, an arrangement that had exceeded the requirements of the act This had resulted in a 3,6 percent increase in basic salaries

Mondipak has employed scab labour and applied the principle of no work no pay, but workers have vowed to continue the strike until their demands were met

"We won't go back to work without transport," said Johnson Mkhize, a Mwasa shop steward

Fuel industry squeezing consumers

Drivers are suffering under the blows of recent hefty increases in the petrol price. Steffan Gritzman says inflated profits come at the expense of the economy

BD 10/5/99 (183)

IN THE runup to SA's second democratic election, political parties are debating grand issues such as capital punishment, minority rights and the implementation of affirmative action It is unfortunate that they tend to overlook some of the less glamorous but no less important issues

One such issue is the anomaly that in an otherwise free-market system, SA's fuel industry is stifled by a maze of regulations and cartel arrangements

For example, each and every service station has monopoly power over fuel sales in its area Under the so-called fuel rationalisation plan, an agreement between government, oil companies and service station owners, it is illegal to open up a service station without being given that right by government

There is also no need for oil companies or service stations to compete on the basis of price the price of fuel is determined by government and profit margins are rigorously enforced Even commonly accepted business practices such as the wooing of customers with incentives are strictly forbidden under the pricing regime This system insulates oil companies and service stations from competition and ensures stable and healthy profits for wholesalers and retailers

However, the benefits accrued by suppliers are unwittingly paid for by the consumer A conservative estimate suggests that wholesale petrol prices are at least 20c/l — about 32% — higher than they would be in a fully competitive market like Singapore This means that consumers as a group are paying out at least R2,2bn to oil companies every year in order to increase their profits

In addition, fixing prices above market levels causes what economists call deadweight efficiency losses The implication is that the economy as a whole loses hundreds of millions — if not billions — of rands every year because of the fixed-pricing system in the fuel industry

SA, a full-fledged actor on the international stage, no longer has to worry about threats of an oil embargo Why then should oil companies be treated any differently from other wholesalers, such as dairies or cold-drink manufacturers?

All sorts of unnecessary levies are introduced as fuel makes its way from wholesalers to retailers

Transnet owns the oil pipelines In order to enforce Transnet's monopoly, legislation was introduced prohibiting oil companies from transporting fuel further than 300km The resulting costs are passed onto the consumer

Service stations also benefit from the system Retail profit margins are adjusted so that the average service station owner will receive an "entrepreneurial compensation" of R62 061 — over and above an average owners' salary of R78 000

Where does a figure of R62 061 a year in entrepreneurial compensation come from? This is the minimum annual salary of a deputy director in a government department What does running a service station have in common with this job? Perhaps it is an estimate of the remuneration a competent manager working with low levels of risk should receive

All in all, a service station does appear to be an extremely attractive investment

But this is only half of the story Different forms of taxation account for about 50% of the petrol price Petrol is what economists call an inelastic good — large increases in price cause only minor decreases in consumers' demand

This makes petrol a perfect target for high levels of taxation because consumers are in effect a captive market

According to a recently released white paper, government "believes that competitive market forces should determine prices" in the fuel industry However, no definite time frames have been set to achieve these aims Furthermore, concessions have been made to almost all special interest groups — except consumers

If consumers fail to demand fuel industry reforms where they feel them necessary, it is unlikely that government will have the political clout or the political will to make any significant changes in the near future After all, there are many powerful lobbying groups such as Sasol, Mossgas, oil companies, retailers and organised labour intent on maintaining the status quo In addition black empowerment groups would understandably like to become part of the fuel industry elite

Although all of the above lobbying groups have real and valid arguments, consumers have been conspicuously absent from any debate on policy In order for democracy to flourish in SA, it is imperative that we as citizens contribute to a national debate on all important issues — even the unglamorous ones

☐ *Gritzman is a postgraduate student at the University of the Witwatersrand who is researching the liquid fuels industry*

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☐ *Gritzman is a postgraduate student at the University of the Witwatersrand who is researching the liquid fuels industry*

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Shell fuel decision 'regrettable'

CT (BR) 10/5/99

ROY COKAYNE

Pretoria – The decision by Shell South Africa, the oil company, to discontinue the supply of 95 octane unleaded fuel in inland regions because of pressure by the minerals and energy department was "regrettable," Nico Vermeulen, the director of the National Association of Automobile Manufacturers of South Africa (Naamsa), said on Friday

Shell was requested by the minerals and energy department on Thursday to withdraw the fuel from the market because it was contrary to a deal agreed by the department and major oil companies some years ago

Rod Crompton, a spokesman for the department, said the department was also concerned that the introduction of 95 unleaded could upset the balance of payments

Speaking on behalf of the vehicle manufacturing industry in South Africa, Vermeulen said Naamsa had continuously requested the oil companies to consider a permanent move to higher unleaded octane fuels to facilitate improved vehicle performance, economy and driveability

"The premature end to the supply of 95 octane unleaded fuel in inland regions regrettably will not advance the legitimate interests of South African motorists, vehicle manufacturers and built-up vehicle importers and distributors

"The South African vehicle manufacturing industry called on the government to expedite the deregulation of the South African oil industry to allow greater reliance on market forces to determine the supply of fuel in South Africa and give motorists the option of purchasing automotive fuel consistent with international norms," he said

Vermeulen added that the globalisation of the automotive industry required that South Africa should follow international fuel standards and octane ratings

"Rapid technological advancements in vehicle design and engine technology had resulted in the advent of high technology, high performance and highly fuel efficient vehicles whose operations were optimised around 95 octane unleaded petrol"

Vermeulen said consistent fuel quality worldwide was necessary for the automotive industry to be able to market high quality automotive products matching worldwide customer performance needs

For example, he said all premium fuel marketed in the European states would legally be required, effective from January 1 next year, to comply with a directive stipulating 95 octane as the minimum allowable octane rating for premium unleaded petrol

Call to nationalise SA's oil refineries

Reneé Grawitzky

A CONGRESS of SA Trade Union-aligned think-tank has proposed the nationalisation of oil refineries in an attempt to ensure the state does not lose a strategic and economically viable industry to foreign capital

This emerged from a report compiled by of the National Labour and Economic Development Institute (Naledi) researchers, Vishwas Satgar and Lerato Balang, on the role and effect of multinational oil companies on the SA labour market

Satgar and Balang argued that labour market reforms since 1994 had not prevented a fragmentation of the SA labour market

A case study of the petroleum companies disclosed that employers were by-passing formal legislation with mechanisms such as outsourcing, encouraging self-employment and the use of casual workers

Hence the industry was characterised by a core of workers who were relatively well paid with employment conditions either above or in line with the new Basic Conditions of Employment Act At the same time, they said, petroleum multinationals had attempted to develop "a two-tier labour market" A second tier of atypical workers was created as noncore business functions were contracted out

Satgar and Balang said multinational oil companies had accepted labour standards for core employees, but were "also bent on undermining it to consciously engineer a cheaper second tier labour market" This was occurring in a subsector where profit margins were extremely high, the report said

Satgar said policy debate should be focusing on regulating outsourcing The National Union of Mineworkers had adopted a similar approach and was demanding that the mining industry use only contractors accredited by a tripartite statutory body

Satgar said the underlying policy approach to the liquid fuel industry was to diminish the role of the state

Ironically, he said, the former government identified the sector as a strategic industry and spent billions to prop it up Apart from security and strategic considerations, there were strong economic arguments to ensure state involvement in the industry

Chemicals follow public service into wage dispute

Reneé Grawitzky (183) (250)

WAGE negotiations in the chemical industry — which became embroiled in protracted and violent strikes last year — have ended, with the unions declaring a dispute after only two rounds of meetings

At the same time, the wage dispute in the public service has not been resolved and has been referred for conciliation later this week

The twelve public service unions, mostly aligned to the Congress of SA Trade Unions and the Federation of Unions of SA, declared a dispute against government on April 29 after it failed to revise its offer of R3bn for wage increases of 5,7% this year

The unions are demanding, as their bottom line, an inflation-linked increase of between 6,5% and 6,9%

Besides wages, the major stumbling block is the demand by the SA Democratic Teachers' Union for the reintroduction of pay progression for teachers to move up the salary scale This could cost an additional R350m

In response government has proposed the abolition of rank and leg promotions — mechanisms to enable employees to move up the salary and job grades

Government's proposal would require all the unions to agree to the scrapping of rank and leg promotions National and provincial government would save R1bn, but the funds would be used to provide a combination of "pay progression within salary ranges and more meaningful career paths in sectors that require them, notably nursing, teaching and policing"

There has been no discussion on the proposal as the majority of unions believe this year's talks should not become bogged down over the issue

Meanwhile, the wage dispute in the chemical industry is set to continue as the affected unions are demanding between 11% and 13%, while employers have offered between 5,1% and 6%

BD 17/5/99

Gore told to ease up on anti-SA drugs war

Cheap medicines 'vital'

DI CAELERS (183)
HEALTH WRITER
ARG 18/5/99

Pressure is mounting on US Vice-President Al Gore with an international petition opposing trade pressures on South Africa over its bid to get cheaper medicines.

Organisations including Médecins Sans Frontières, Health Action International and Global Trade Watch have added their voices to those of American consumer activists James Love and Ralph Nader, who have urged Mr Gore to stop "bullying" South Africa

At the end of April, the US Trade Department announced it would keep South Africa on its "watch list" of countries that may violate trade interests It also imposed an "out-of-cycle" review, which effectively means further action will be considered in six months rather than the usual year

At issue is Clause 15 (c) of the Medicines and Related Substances Act, passed in 1997 but not yet promulgated and now being challenged in the High Court here

It would permit the parallel importation of drugs, allowing Health Minister Nkosazana Zuma to authorise importation of some branded products sourced overseas, without authorisation from the holders of the South African patents or trademarks

The petition says that during the past three years public health groups have repeatedly urged Mr Gore, who is co-chairman of the US/South Africa Binational Commission, to stop pressuring South Africa and other developing countries over access to medicines It says public health groups are now trying to raise enough awareness to force Mr Gore to change the US policy

The petition says it is "shocking that the US government is adopting such an aggressive trade policy on behalf of US pharmaceutical companies when all of sub-Saharan Africa is confronted with a public health crisis of historical dimensions"

"The US Surgeon-General, David Satcher, recently wrote in the Journal of the American Medical Association that 'HIV/AIDS can be likened to the plague that decimated the population of Europe in the 14th century'

"Dr Satcher says that 'in many southern African countries, HIV/AIDS has become an unprecedented emergency, with 20% to 26% of people between the ages of 15 and 49 infected'," it says

People are urged to sign the petition because "this is a here-and-now emergency"

The petition said Mr Gore was "aggressively seeking the repeal of legislation in South Africa that would permit that country to do what nations in Europe do – use parallel imports to buy drugs at the best world price"

"South Africa wants to use market forces to cut drug costs You are pushing to protect pharmaceutical companies from competition, thereby forcing the South African people to pay premiums to buy drugs," it says

AECI's Modderfontein complex to close down

Star 22/5/99 (783)

By ANDREW DAVIDSON

Chemicals and explosives group AECI yesterday said it was closing its ammonia-urea complex at its Modderfontein, Johannesburg, plant

The closure will result in the loss of about 650 jobs This follows the signing of a long-term agreement between AECI and Sasol, whereby Sasol will supply AECI's total ammonia requirements AECI said details of manning levels required until closure at Modderfontein were being finalised

"Incentives will be offered to those employees who will be retrenched at closure but whose input is required until that time," AECI said

Modderfontein currently employs about 4 000 people AECI's ammonia production facility at Milnerton in the Western Cape is to be mothballed with immediate effect as a result of the deal A total of 12 employees there would be redeployed, said AECI spokesperson Michael Blizzard

The agreement with Sasol is exclusively for the supply of ammonia, a key raw material in the manufacture of explosives and fertilisers But both Sasol and AECI will continue to manufacture and retail their respective explosive and fertiliser products independently, since the arrangement excludes the downstream businesses

AECI group managing director Lex van Vught said the agreement brought to a conclusion the restructuring of its nitrogen business – a key component of the transformation strategy announced by AECI in October

AECI's ammonia requirements of around 160 000 tons a year will be supplied by Sasol at what AECI called "a competitive price based on landed international prices"

Secure market

The agreement provides Sasol with a secure market for ammonia that would otherwise have to be exported into an international market likely to remain depressed for the next three to five years

AECI said its ammonia-urea complex, commissioned in 1974, used outdated technology and had been sustaining escalating plant maintenance costs – up to R100-million every three years All urea required by South African users will be imported About 300 000 tons a year will be needed

With the Modderfontein closure, air emissions would be reduced noticeably – Sapa

Bungle makes hard drugs legal

- Zuma's blundering law advisers open the door to unrestricted trade
- Police left powerless to prevent abuse of dangerous narcotics

ST 23/5/99 (183)

BACKTRACKING: Nkosazana Zuma

CARMEL RICKARD and LAURICE TAITZ

A MASSIVE administrative blunder by Health Minister Nkosazana Zuma's legal advisers has effectively opened the door to unrestricted trading in dangerous drugs on South Africa's streets

Acting on Zuma's request, President Nelson Mandela declared three weeks ago that the old law regulating drugs and medicines was scrapped and that a new law had come into operation

What neither he nor Zuma realised was that the law was not ready for implementation and that none of the regulations and schedules which categorise drugs and provide for who can buy, sell, prescribe and administer them was yet in place

The bungle has left police unable to prevent the abuse of potentially dangerous drugs, including

- The highly addictive drug morphine,
- The powerful sedative Rohypnol, also known as the "date-rape drug",
- The heroin substitute Methadone,
- Some versions of the designer drug Ecstasy, and
- Pethidine, a potent pain reliever given only in severe cases

In an attempt to close the loophole as quickly as possible, Mandela made a desperate plea to the Pretoria High Court on Friday to reinstate the old law

However, Acting Judge Hans Fabricius said he doubted whether he had the authority to do this and reserved the matter for a week to consider it further

Health spokesman Vincent Hlongwane said that the department chose to go to court to have its own law taken off the books because it was seen as the quickest way of fixing the mistake

Because of the bungle on April 30 there have been virtually no restrictions on the buying and selling of lethal drugs for the past three weeks Similarly, parts of the drug trafficking laws have been made impotent because they are based on schedules which no longer exist

Not even the police were aware that a new law had been put in place, and for the past three weeks they have been arresting suspects in terms of a law which no longer exists This raises the possibility that many of these cases will no longer be valid.

Urgent meetings have now been planned for tomorrow between the narcotics bureau and its legal advisers to consider the implications of the new law and its defects

The bureaucratic bungle has the potential to become a serious health and crime threat to South Africa

Over the past fortnight, representatives of the government, health authorities and pharmaceutical manufacturers have held secret meetings trying to find a way out of the administrative nightmare without alerting the public to the danger

Although drug trafficking laws are still in place, they are intended to work in tandem with the old Medicines Control Act, and legal experts said that on its own the drug legislation would be emasculated While it would still provide control for most street drugs, it could not offer protection against the abuse of medically approved drugs such as the sedatives and sleeping tablets in high demand by many drug addicts

Police said they were also concerned that many state-of-the-art recreational drugs, particularly derivatives of Ecstasy, were made of substances on the old Medicines Control Act schedules The designers of these drugs deliberately used these substances since convictions under the Medicines Control Act carry a far more lenient sentence than those under the Drugs and Drug Trafficking Act

Police said that the repeal of the schedules would make prosecution in connection with such drugs even more difficult

When Mandela, Zuma and other government officials as well as the pharmaceutical companies went to court on Friday, they hoped the judge would agree to set aside the proclamation on the grounds that although it was issued in good faith, it was based on incorrect advice

If the proclamation was set aside this would suspend the coming into operation of the new law and permit the old law to take effect again until its replacement was ready

Zuma slated in drug law row

(183)

Health Ministry denies bungle means open season for pushers

ARG 24/5/99

CLIVE SAWYER
POLITICAL CORRESPONDENT

As an election issue, it was just what the doctor ordered

Opposition parties on a quest for an issue of the day on which to lash the Government have fallen with relish on reports that Health Minister Nkosazana Zuma had boobed by prematurely scrapping legislation on the sale of scheduled medicines

Reportedly, the abolition of the old Medicines Control Act without the promulgation of new regulations has left a dangerous vacuum in the law which could allow dangerous and uncategorised drugs to be brought into the country with impunity

The alleged bungle emerged in an urgent court action in the Pretoria High Court by, among others, President Mandela, Dr Zuma, the Medicines Control Council and Minister of Agriculture Derek Hanekom

Representatives for the applicants said that, at the moment, there were no proper regulations in place on the scheduling of medicines

This could mean it would not be unlawful for anyone to obtain any medicine, in any way and in any quantity, over the counter

In court papers, the Department of Health said the regulation abolishing the old act had been published earlier than planned because of an administrative error

Reacting to reports on the controversy, Dr Zuma said it was misleading to claim the vacuum in the law would mean open season for illegal drug dealing

The reason the Government had launched its court action was to correct the implementation date of the new law, which was to have been promulgated in stages, but which had instead been promulgated all at once.

A Ministry of Health representative rejected claims of a legal vacuum, saying it was impossible for a law to be promulgated and effected before the new regulations had been finalised

The old law would continue in effect until the new law was in operation, which would take place once the regulations had been finalised

Health spokesman Kobus Gous said the New National Party was consulting lawyers about taking Dr Zuma to the Public Protector and the Human Rights Commission "for her irresponsible conduct as health minister"

"Her negligence and stubbornness will accelerate and have already contributed to the spreading of the dreaded HIV-AIDS disease in South Africa.

"Her medicine control blunder could have contributed to the serious increase in drug addiction, which has already ruined the lives of many South Africans," said Dr Gous

Inkatha Freedom Party chief whip Koos van der Merwe said that when the new legislation was processed by Parliament, the party had tried repeatedly to warn of its risks "The IFP even walked out in protest from the parliamentary committee"

His Inkatha colleague, Ruth Rabinowitz, told the National Assembly during debate on the new legislation "There is no bill to vote on, just a dog's breakfast which will end up in court, delaying the introduction of this important regulatory body, and make a mockery of our parliamentary process

"(The bill) should be withdrawn, cleansed, sealed, revived and, like the medicines it is supposed to regulate, made fit for public consumption"

Democratic Party health spokesman Mike Ellis said a succession of controversies meant Dr Zuma should not be reappointed health minister

She had turned down a R620-million AIDS research proposal from a leading US pharmaceutical company

Added to this was her action which had led to medicine control now being "under serious threat and virtually non-existent"

Freedom Front health spokesman Ben van der Walt said the ANC would be gambling with lives if Dr Zuma remained health minister

Report on drug-law amendments refuted

(183)

Star 24/5/99

By Anso Thom
Health Reporter

Prescriptions are still needed in order to obtain any scheduled medication, contrary to weekend media reports that a massive administrative bungle by Health Minister Dr Nkosazana Zuma's legal advisers has left the door open to unrestricted trading in dangerous drugs.

Zuma's spokesperson Khangelani Hlongwane said the old Medicines Control Act was still the law until the regulations for the new Medicines and Medical Devices Regulatory Authority Act had been promulgated

The *Sunday Times* claimed that the old Medicines Control Act was scrapped three weeks ago to make way for new laws despite the fact that no regulations were in place to categorise drugs and provide for who can sell, buy and prescribe scheduled drugs

The newspaper said this would allow dangerous and scheduled drugs to be imported into the country.

Hlongwane said this was a gross exaggeration. "It is ludicrous for the journalist to make such accusations It is technically impossible for a law to be promulgated and come into effect before the regulations have been finalised," he said.

He said the old law applied until the new law came into effect (once the regulations had been finalised).

A joint statement by the Department of Health and the Pharmaceutical Manufacturers' Association last week said promulgation of the act without the requisite regulations, medicine schedules and regulatory structure had created uncertainty and even possible loopholes for illicit drug-dealing.

"The newspaper article is a gross exaggeration. If a person is caught with Mandrax today he will be arrested and charged. A person also still needs a prescription to get hold of any scheduled drug."

The report said the "bungle" had left police powerless to prevent the abuse of drugs such as morphine, Rohypnol (a powerful sedative), Methadone (heroin substitute), versions of Ecstasy and Pethidine (a pain reliever).

Hlongwane, however, reiterated that a person would still need a prescription to obtain these drugs.

He also pointed out that drug-trafficking laws were still in place to restrict any trading in illegal drugs or drugs obtained illegally.

Judgment on the request by the Department of Health and the Pharmaceutical Manufacturers' Association for the new act to be set aside has been reserved until Friday

Sapa reports that the SA Police Service's narcotics bureau and legal advisers would also meet today to consider the impact of new health legislation

Zuma's Health Department in tizz over drug control Act

ST 30/5/99 (183)

CARMEL RICKARD
and LAURICE TAITZ

THE Department of Health has been thrown into a state of confusion over whether or not legal holes in the SA Medicines and Medical Devices Regulatory Authority Act pose a serious threat to public health because schedules controlling the distribution of dangerous drugs were not yet in place

The Pretoria High Court threw out an attempt by the department and President Nelson Mandela to have the Act withdrawn from the statute books on the grounds that it would create the opportunity for "medicines to be traded freely, whatever their strength, content and effect"

In an affidavit to the court, the acting Director-General of Health, Dr Harm Pretorius — who signed an affidavit on behalf of the President and the Minister of Health, Nkosazana Zuma — said "There is the danger that drug peddlers, pushers and users would exploit the opportunity and interpret the situation as one which allows them to freely trade, deliver, sell and use medicines and other substances "

He added "The effectiveness of the Drugs and Drug Trafficking Act will be seriously reduced because of the absence of schedules in the medicine regulatory regime "

But this week, after the Sunday Times published his warning, Pretorius did an about turn, telling journalists that "there is no danger that the public will be flooded by illegal drugs or dangerous drugs"

Ministerial spokesman Khangelani Hlongwane was also quoted as saying the Sunday Times report was ludicrous

He said "It is technically impossible for a law to be promulgated and come into effect before the regulations have been finalised"

This "technical impossibility", however, is exactly what his department told the court had happened after Health Department officials gave the President the wrong advice

And, also contradicting the affidavit, Zuma told television viewers "It's got nothing to do with drug dealers "

On Friday, Acting Judge Hans Fabricius effectively told the department to sort out its own mess and ruled that the court did not have the power to undo a properly authorised proclamation by the President bringing a new law into operation

The new law was promulgated on April 30, before regulations and schedules controlling potentially dangerous drugs had been put in place, sparking urgent action by the government and pharmaceutical manufacturers to have the law withdrawn and allow the old law to operate again

With the court action having been unsuccessful, the department has a number of options open to it

The first would be to appeal against the decision of Judge Fabricius

Another would be for Parliament to convene an emergency session, repeal the new law and reinstate the old Act

The minister could also use emergency powers granted in Section 48 of the new Act allowing her, in consultation with the authority's board or executive committee, to make regulations if they are deemed to be in the public interest

In the meantime the department's advisers would complete the other regulations and schedules and allow a 90-day period for comment before asking Parliament to ratify them

● To read what the Department of Health had to say in court, see the web site http \\www suntimes.co za\1999\05\30\documents

Automobile Association says new petrol charge is excessive

Tempers flare over oil price

CT(MR) 31/5/99 (187)

LYNDA LOXTON

Cape Town – Consumers and economists, fearing adverse effects on inflation and industrial competitiveness, have attacked the recently announced steep rises in fuel prices

Penuell Maduna, the minerals and energy minister, announced last week that petrol prices would rise 12c a litre tomorrow Diesel would rise 5c and illuminating paraffin 7c

This will be the second steep rise in fuel prices in recent months, against analysts' predictions that prices would start falling by next month as oil producers start trying to cash in on higher oil prices and increased output

This move would negate Opec's recent efforts to limit output to raise oil prices, which have been in the doldrums for

BAD NEWS *Penuell Maduna, the minerals and energy minister*

some time Petrol prices rose 18c a litre last month

The Automobile Association has expressed its disappointment with the latest increase in the retail price of fuel

It said that while it acknowledged that the current price of crude oil would necessitate an increase in the fuel retail price, it felt that an increase of 12c was excessively high

In October 1998, when the crude oil price dropped to approximately $12 a barrel, the government decided to hive off an expected 11c a litre cut in the petrol price to support the Equalisation Fund

The fund which pays subsidies to the synthetic fuel industry

This includes coal from Sasol, the listed oil company, and Mossgas, the state-owned oil from-gas company

Economists said last week that the rise in the petrol price was expected to boost inflation in the short term, but this was expected to reverse over the next few months as escalating oil prices subsided

Petronet a likely vehicle for national gas grid

BD 1/6/99 (183)

Robyn Chalmers

GOVERNMENT has identified Transnet fuel pipeline subsidiary Petronet as the likely vehicle for the development of a national gas grid, possibly in the form of a public-private sector partnership

The draft white paper on energy policy aims at the expansion of SA's small gas industry to the point where it would provide a significant component of national energy However, this growth is expected to be based on regional gas trade and the minerals and energy department is looking at how regional gas policies can be harmonised

Transnet MD Saki Macozoma said recently there were a number of ideas on the future of the gas industry The creation of a public utility for gas, which would support a vision for a national gas grid, is one possibility Macozoma said this would provide an appropriate, competitively priced foundation for a portion of SA's energy needs

Petronet is the natural vehicle through which to build this grid However, Macozoma said this was clouding the issue of the utility's privatisation "My preference would be to see a public-private sector partnership in the provision of this gas grid, rather than the establishment of a public utility," he said in a Business Map review

Industry officials say there are political sensitivities around the restructuring of Petronet, which plays a key role transporting various fuels in SA.

In the year to end-March last year Petronet posted a net profit after finance costs of R321m, from R273m previously, on total turnover of R636m (R551m) It said the main contributor to the performance was sustained growth across all product sectors

The draft white paper notes that while SA has relatively small known gas resources of 33-billion cubic metres, significant expansion of the industry is possible due to natural gas discoveries in Mozambique and Namibia.

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Competition Board guns for drug sales 'duopoly'

CT(MR) 1/6/99 (183)

Lynda Loxton
Parliamentary Correspondent

Cape Town – Pharmaceutical companies should be given six weeks to end their monopolistic sales tactics, Dave Lewis, the chairman of the Competition Board, announced yesterday

Lewis said the board had found that there were two exclusive distribution networks among pharmaceutical manufacturers

These were International Healthcare Distributors (IHD), owned by 11 major pharmaceutical manufacturers, which accounted for about 33 percent of drug sales, and Synergistic Alliance Investments (SAI), owned by five manufacturers, which accounted for about 25 percent of sales

While IHD had been in operation for some time, SAI had delayed its start-up because of the Competition Board's investigation

Lewis said both companies accounted for a dominant share of sales for a large number of drug brands.

Each company also effectively prevented the sale of its products by the other's clients or distributors

"The board has found that these arrangements severely compromise intra-brand competition – that is, competition between sellers of the same brand," Lewis said.

This problem was exacerbated by the fact that pharmacists had to carry the full range of drugs to accommodate all doctors' preferences

It was difficult for retailers to shop around for the best prices

Lewis said the board recognised that competition authorities sometimes had to accept less intra-brand competition

In this case, however, the two companies shared a duopoly in which they produced the same kinds of products and could therefore play off prices against each other

At the same time, extensive patenting had considerably weakened inter-brand competition already

The board was also concerned that IHD and SAI had raised significant entry barriers to newcomers to the industry

Interested parties have been given two weeks to comment on these recommendations to Alec Erwin, the minister of trade and industry

COMPETITION BOARD

CT(BR) 3/6/99 (183)

Medicines distributors face acid test

ADELE SHEVEL

The recommendation put forward this week by the Competition Board to the minister of trade and industry that the two direct distributors in the pharmaceutical industry should stop certain restrictive practices has significant repercussions for distributors and the industry

It also has fundamental repercussions for independent wholesalers, as there has been a dramatic shake-out in the pharmaceutical industry over the past few years, resulting in well over 3 000 job losses, with more expected

The direct distribution companies are owned by various pharmaceutical manufacturers who distribute their products to the private sector through these companies in competition with independent wholesalers

Before these joint ventures were developed, manufacturers distributed through pharmaceutical wholesalers, which competed with one another for sales to mainly retail pharmacists

The two distributors, International Healthcare Distributors (IHD) and Synergistic Alliance Investments (SAI), have spent several hundred million rand on warehouse outlets alone

They now have to decide whether to voluntarily implement the board's suggested course of action

If they do not do this within six weeks, the board has recommended that the minister prohibit "these discriminatory practices"

David Lewis, the chairman of the Competition Board, refers to the investigation as "unusually large"

He adds that the anticompetitive practices identified are so complex and pervasive it is preferable that the parties themselves participate in removing them

The decision also involves pharmaceutical wholesalers, pharmacists, manufacturers which are operating in the country and those that might enter at a later date

The industry remains the highest profit-margin business worldwide, so the stakes are loaded

IHD is owned by 11 major pharmaceutical manufacturers who collectively account for about 33 percent of the sale of prescription medicines to the private market.

SAI is owned by five manufacturers who hold about 25 percent of the private market

Although IHD has been operating since 1993, SAI has not yet started, pending the outcome of the investigation

Manufacturers affiliated to IHD and SAI do not supply their products to independent wholesalers on the same terms as to the direct distributors

Independent wholesalers obtain products on terms and conditions as available to IHD's or SAI's retail customers, placing the independents at a price disadvantage

Pharmacists and wholesalers have been vehemently opposed to these two distribution vehicles. Pharmacists complained that costs went up and prices followed, while wholesalers have been operating on tight profit margins

Explaining its recommendation, the board says the elimination of the wholesaler could compromise competition and raise entry barriers in the pharmaceutical product market

It notes that it is not concerned with the protection of wholesalers but that the elimination of these middlemen could increase the input costs and lower the service available to retail pharmacists

This could threaten to undermine regulatory changes in support of generic substitution and parallel importation

Lewis says the board found that direct distributor arrangements "severely compromise intra-brand competition" – competition between competing sellers of the same brand

Doctors' prescriptions ultimately determine the consumer's choice of drug If consumers cannot get their prescriptions filled at one pharmacist they will go to another one

This means the pharmacist cannot refuse to stock a certain brand

The two direct distribution vehicles were developed because other distribution chains were under pressure and were closing down fast

The companies have been operating under tight margins

John Bartlett, SAI's spokesman, said last year if the channel could not sustain itself, "it is up to the manufacturers to make sure they will have a channel through which to distribute"

The board considered certain public interest benefits allegedly associated with these distribution arrangements, primarily the promotion of safety and prevention of theft of pharmaceutical products

But the board rejected the view that these issues were addressed through these distribution arrangements

As for allegations of collusion, the board's investigative powers were limited to investigating restrictive practices

Only the attorneys general and the police are permitted to investigate contraventions of current prohibitions The board is to advise the new Competition Commission on this

Interested parties have two weeks to provide the minister with comments regarding the board's findings and recommendations

Other mechanisms of using voluntary arrangements to remove restrictive practices have been used to resolve competitive difficulties in the past

The most recent was Safcol Others were the Cape Times and Cape Argus, and Macsteel and Iscor

The fundamental question is now what route do the direct distributors take to find an alternative arrangement?

SASOL (183) FM 4/5/99

EVERY LINK OF THE CHAIN HAS TO BE RATTLED AND YANKED

There can be no short cuts in this complex industry

If any system or plant failed at any of the seven Sasol operating companies, the results could be catastrophic

The company, which employs 24 900 people and created wealth of R7,5bn last year, produces more than 40% of SA's liquid fuels, such as petrol, diesel and liquefied petroleum gas It also produces more than 120 chemical products as well as fertilisers, mining explosives and explosives accessories

The production of these products is complex and dangerous and depends heavily on IT

So, when Sasol began to address the Y2K problem early in 1997, it was most concerned about avoiding economic and environmental disasters and danger to human safety, says information and logistics GM Alex Zwiegelaar

The operational functioning of the company relies upon 600 commercial systems, 200 LANs, 8 000 workstations and more than 100 000 pieces of equipment containing embedded chip technology

"Though the scale of the problem was enormous, we had excellent project management skills within the company," Zwiegelaar says

The Y2K campaign kicked off with an internal awareness drive led by senior management The group was involved in establishing a petrochemical forum where members of the industry could meet to exchange knowledge The logic was that as they shared infrastructure — ports, shipping, power, water, telecoms — they need not duplicate effort Established two years ago this forum was one of the earliest of its kind internationally

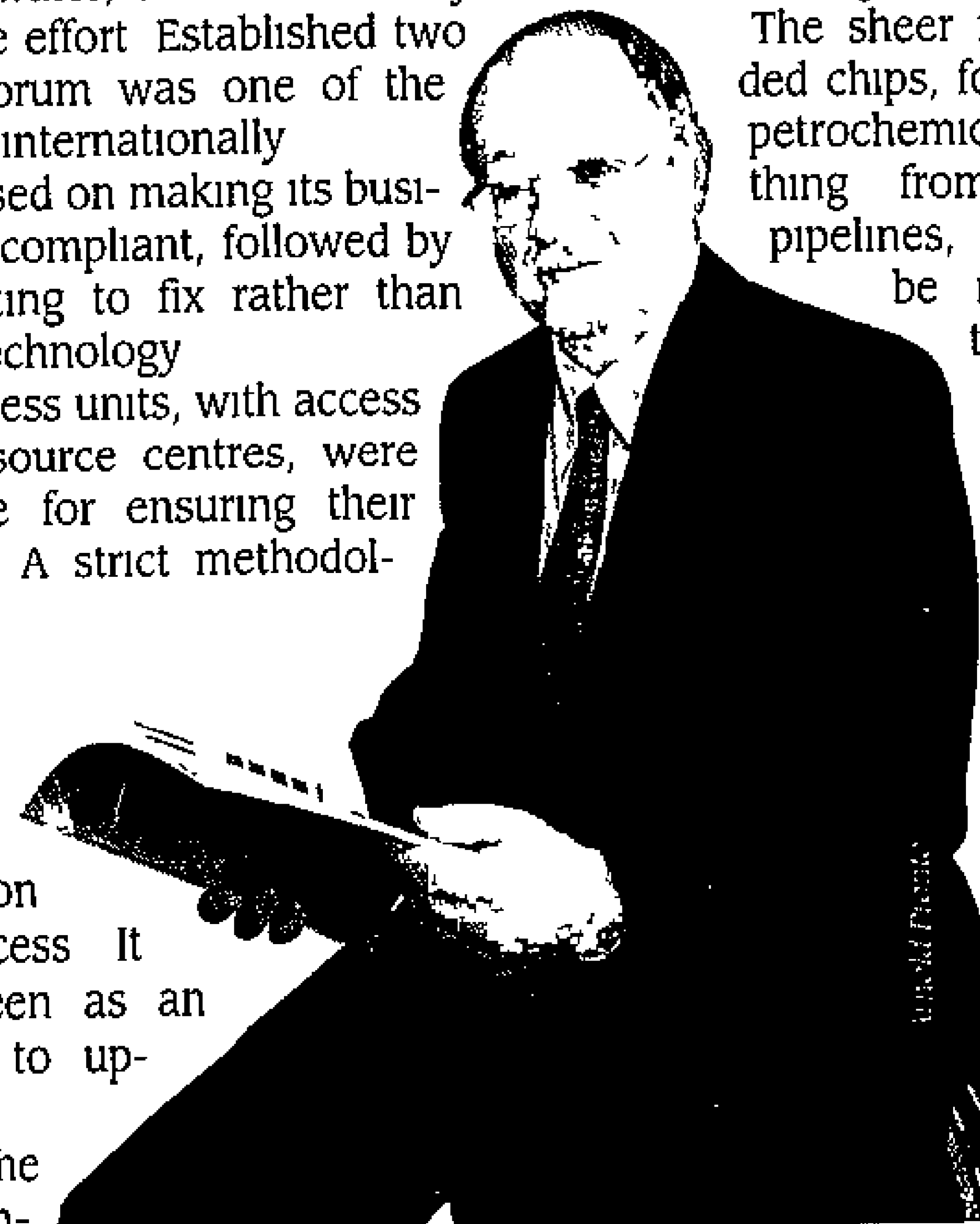
Sasol then focused on making its business applications compliant, followed by its hardware, opting to fix rather than replace affected technology

Individual business units, with access to centralised resource centres, were made responsible for ensuring their own compliance A strict methodology was devised to identify what was to be fixed or discarded "It was essential to keep the emotion out of this process It could not be seen as an opportunity just to upgrade systems "

Dealing with the 100 000-plus embedded chips was a headache As Sasol has a policy of buying only from reputable manufacturers, these companies were asked to identify problem areas in their technology This information was then shared with the petrochemical forum

It helped that much of the instrumentation had been renewed in recent years as part of Sasol's effort to increase efficiency and decrease cost

While Zwiegelaar is reasonably confident that these tiny, hidden microprocessors will not present the group with any "unfixable" problems, he does admit that one can never be completely certain "The best you can do is decrease your risk to a manageable level "



Alex Zwiegelaar emotion had to be kept out

The sheer numbers of embedded chips, found throughout the petrochemical industry in everything from fuel pumps to pipelines, suggested it would be impossible to find, test and if necessary replace them before the end of the year Experts feared this could lead to mass failures

But research conducted by the American Petroleum Institute suggests that embedded chips do not pose a significant problem "We are just not finding the embedded chip failures that we thought we would," says Ron Quiggins, Shell Services' Y2K programme director and chairman of the API Y2K Task Force

Sasol refinery plant existing safety procedures should handle isolated problems

For companies like Sasol, existing safety procedures should handle isolated problems More dangerous is the kind of problem that accumulates as it flows through a plant's processes A plant can quickly be shut down, but it takes weeks and millions of rand to fire it up again

And because most of Sasol's processes are interrelated, a problem with the production of one product could have an immediate effect on another "We have buffers in our tanks and stores for normal operational fluctuations, but we do not have the capacity to store unusual quantities of a product while we wait for a necessary ingredient to be produced or a faulty shipping line to come on track again "

Sasol produces over 7 Mt/year of fuel and chemical products With most of its plants firing at 100% capacity, a smoothly operating supply chain is vital

Like most industries, Sasol is working closely with suppliers of water, electricity and telecommunications Its route to market is equally strategic, however, and discussions continue with the likes of Spoornet and Portnet Initially it was believed the Petronet pipeline was cause for concern, but potential problems have apparently been ironed out, says Zwiegelaar

With 200 people working on the problem for the past two years, countless discussions with vendors, suppliers and forums, and June 1999 set as the deadline for Sasol's overall compliance, Zwiegelaar says this petrochemical giant has done what it can to avoid New Year surprises

Sasha Planting

Desperate attempt to bring back old drug-control law

ST 6/6/99

CARMEL RICKARD (187)

CHIEF Justice Ismail Mahomed is to be petitioned for urgent leave to appeal against a Pretoria High Court ruling that the repeal of a crucial medicine control law cannot be undone

With the scrapping of the law at the end of April and the introduction of a replacement which was incomplete, previous controls of potentially dangerous medicines no longer exist and officials say they will not be able to prosecute offenders caught with the drugs

This week pharmaceutical manufacturers asked Acting Judge Hans Fabricius for leave to appeal against his decision that he could not intervene He had ruled that the court could do nothing to get the government out of the mess created when the new law was put into operation

On Friday Judge Fabricius refused leave to appeal, saying there was "no reasonable likelihood" that another court would decide the question any differently

A legal representative for pharmaceutical manufacturers said on Friday evening that it had been decided to petition the Chief Justice as soon as possible He said his clients hoped the Appeal Court would understand the significance of the issue and agree to hear the appeal as a matter of urgency.

The repeal of the old law took the police and the prosecution services by surprise They were not notified of the new law and for weeks afterwards police made arrests under the old law, although it had been scrapped

The Deputy Director of Public Prosecutions (Transvaal), John Welch, confirmed on Friday that prosecutors would have to drop these charges

Green light for Sasol's R161 million gas expansion project in Durban

ET (BR) 7/6/99 (183)

Ravin Maharaj

Durban – Sasol Gas, the Sasol Oil division that markets pipeline gas, would proceed with its long-awaited R161 million expansion programme into the Durban South industrial basin, Wikus Kritzinger, the divisional manager of Sasol Gas, said last week

The project will provide much-needed anchor investment in KwaZulu Natal's industrial heartland, where large scale industrial expansion and port-related activities are planned

Sasol Oil, a division of Sasol, the petrochemicals from-coal producer, is responsible for marketing liquid and gaseous fuels as well as for the group's crude oil refining activities

Kritzinger said Sasol had decided to proceed with the project in anticipation of an appropriate tax allowance for the depreciation of gas pipelines in line with international practices

"Sasol Gas has committed itself to supply pipeline gas to industry in Durban South The immediate commencement of this project to bring a clean alternative energy to this region is therefore our main priority," Kritzinger said

The extension project would include the construction of gas distribution lines from Bayhead, at the Durban port, to Umbogintwini, on the KwaZulu Natal south coast

The industrial gas,would be piped to Durban from Sasol's Secunda plant in Gauteng

The construction of a pipeline to 50 industrial sites in the Durban South basin would start next month, he said

Gas supply to the first customer was expected to be commissioned by June 2000 and the project was expected to be completed by December 2000

Kritzinger said Sasol Gas would continue to play a role in the environmental wellbeing of the basin, helping to reduce tension between local communities and industry

CLEAN FUEL *Pipelines at Sasol's Secunda plant in Gauteng will supply gas to industries in the Durban South basin Increased use of gas is expected to reduce pollution in KwaZulu Natal's industrial heartland*

For decades local communities have been subjected to pollution from huge industrial plants

Kritzinger said that to date Sasol Gas had concluded seven gas supply agreements in Durban South, and was in the process of negotiating others, worth about R350 million in total

Alfonso Niemand, Sasol's communications manager, said there was strong demand for industrial gas in Durban South This was because gas was clean burning and it enhanced product quality and cost effectiveness The product was also environmentally friendly

Niemand said Sasol aimed to expand its 1 500km gas pipeline network in South Africa

He added that exploration in Tamane, Mozambique, showed that abundant gas resources were available and could provide an alternative to gas from Gauteng

US is asked to subsidise plant involving Sasol

Pennsylvania company hopes to get federal tax breaks for the venture, writes Simon Barber

WASHINGTON — The US is being asked to provide subsidies to enable Sasol and local partners to build a $312m synthetic fuels plant in Pennsylvania

The scheme is the brainchild of John Rich, president of Waste Management Processors, which, with other family-owned companies, operates high-cost, low-profit anthracite mines and generates electricity in Gilberton, 120km northwest of Philadelphia

Rich, whose power plant also produces steam to heat a nearby prison and hot air to heat a family-owned fish farm, dreams of using his mine tailings and fly ash to produce low-sulphur diesel oil, in partnership with Sasol and US oil group Texaco

Last month, the Pennsylvania state legislature all but unanimously agreed to give the project a $47m tax subsidy Rich has had a bill introduced in Congress to obtain even larger tax benefits and has applied to the federal energy department for a $10m grant for a feasibility study

Texaco has provisionally agreed to provide the technology to gasify the feedstock, and Sasol has agreed to turn the gas into 5 000 barrels of petroleum a day using the process it refined when SA was threatened by oil sanctions

If the two technologies can be wedded, and the financing arranged, Bechtel, the San Francisco-based engineering firm, would build the facility

Rich, in an interview, was unwilling to disclose the per-barrel cost of the oil he hoped to produce He would only say it would be purchased by Texaco, and possibly Sasol, under long-term, fixed-price contracts Texaco was interested in using the product to create less polluting blends of diesel

The cost would, however, be lower than that of oil from the Persian Gulf if one considered the huge, hidden subsidy in the form of US government outlays to maintain peace and stability in the Middle East, Rich asserted

In the long term, he saw synfuels reducing America's current 10-million barrels-a-day thirst for imported oil and thus global demand That would allow importers to dictate lower prices to producers Left open was the question of how such synfuels would be able to compete, without subsidy, once they had forced reductions in the price of conventional oil

Subsidies — or as they are now more politely known, "public-private partnerships" — were key to the venture getting off the ground, Rich admitted

The Pennsylvania legislature has agreed that local suppliers may pay up to 15% of their state tax obligations to Rich's venture, in kind or cash, rather than to the state itself, with the state's potential revenue loss capped at $18m a year and $47m in all

Rich said the state's tax loss would be offset by gains from increased employment The new plant would offer 150 full-time positions, while building it would provide "1 000 union construction jobs" The plant would not only consume environmentally undesirable mine waste, but would produce "inert" vitreous residues that could be used to fill old strip mines

Legislation introduced by Rich's congressman, Tim Holden, would require the federal tax authorities to give the project the same treatment nationally as Pennsylvania has at the state level It would also exempt Rich's synfuels from federal excise duties

Holden concedes the bill has little chance of passage He has found no co-sponsors and says "this is a time when Congress is trying to close loopholes in corporate welfare programmes"

Last year, US senator Arlen Specter, who represents Pennsylvania, sought the opinion of then energy secretary Federico Pena on Holden's bill, with a view to introducing a companion bill in the Senate

Pena's reply is unknown, but Specter has been silent on the issue ever since

Rich has created a website on which he promises that anyone who writes to Congress supporting the Holden bill will get an inside track on stock if and when the company is listed, and will be considered as a preferred vendor

Last November, the energy department issued a request for proposals, offering to fund feasibility studies on synfuel projects for up to $10m Rich put in his proposal and is now among the finalists All depends now, he said, on his proposal being accepted

HEALTH CARE FM 18/6/99 (183)

RUNAWAY MEDICINE PRICES FORCE SCHEMES TO ACT

Incentives to over-service patients must be eliminated

The prices of some of the most heavily used medicines in SA have increased by up to 20% over the past year, forcing medical schemes to use survival tactics

Schemes can no longer afford these annual hikes and are looking at ways to collaborate with pharmaceutical companies, doctors, pharmacists and managed care companies to change the way medicine prices are determined in SA

It will be an uphill battle because every sector of the health-care industry is at fault, even the schemes, managed-care companies and administrators, for failing to tackle medicine prices effectively

In SA, out-of-hospital drugs constitute 24%-29% of schemes' annual claims expenditure, compared to about 12%-15% internationally, making them the single biggest contributor to claims' costs

>>There is nothing inherently wrong with the rebate system provided the discount is passed on to the patient, but most of the time it isn't, resulting in margins of up to 360%<<

According to official pharmaceutical industry figures, the average increase in medicine prices was 15% last year — not bad given that the rand fell by about 18%

But Pharmaceutical Benefit Management (PBM) CEO Laubi Walters says this is only half the picture The official figure does not reflect the cost-push effects of expensive new drugs that came on to the market during that time, nor does it take account of utilisation patterns When these factors are included, total payouts are much higher

For instance, medicine expenditure by SA's largest medical aid administrator, Medscheme, increased by 22% in 1995-1996, 17% in 1996-1997 and 20% in 1997-1998 But the pure price increases quoted by the pharmaceutical industry were 14%, 13% and 15%

"As a general rule, drugs with higher market shares go up much faster than those with low market shares, especially in the case of patent-protected drugs where there is little competition," says Walters, who claims that the prices of some of the most heavily used medicines, like respiratory drugs, have increased by about 20% over the past year (see graph)

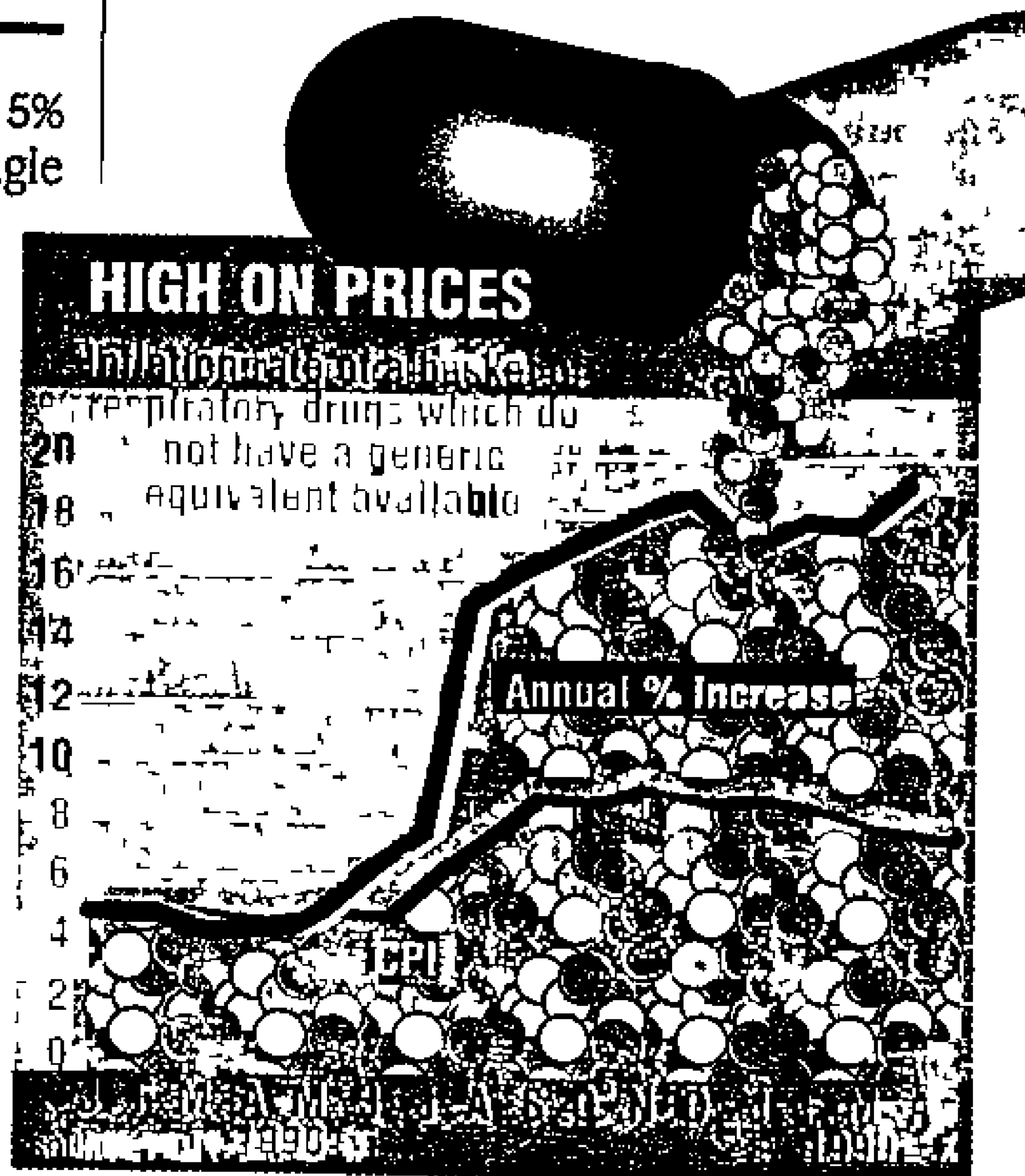
The reasons for runaway medicine prices are many and complex

First, there is the percentage price mark-up system, which affords wholesalers and pharmacists gross margins of 21% and 50% respectively

But for those with bulk buying power, like groups of dispensing doctors, pharmacies, hospitals and medical aid administrators, it is possible to beat the manufacturer down below the published ex-factory price

The greater the buyer's proven sale volumes, the bigger the discount There is nothing inherently wrong with this rebate system provided the discount is passed on to the patient, but most of the time it isn't, resulting in margins of up to 360% for some players in this market

QualSA HealthCare CEO Sally Velzeboer also blames the poor dispensing habits of doctors, saying that unless doctors are held accountable and share risk for every pathology test, X-ray and drug dispensed, they will never prescribe cost-effectively



"There has been a huge shift away from older, simpler drugs that may be slightly less effective but do the job in most cases, towards fancy new drugs that are much more expensive and are often used inappropriately as a first-line treatment," she says, citing the example of an expensive new drug, Klacid, which is sometimes wrongly prescribed to treat viral upper respiratory problems

Some doctor groups have created prescribed drug lists (formularies) to cut their drug costs and can be quite brutal, forcing manufacturers to offer them large rebates or face exclusion from the formulary

The problem, says Walters, is that the biggest rebates are offered on the big-ticket items, resulting in formularies that are skewed towards the most expensive and most frequently utilised drugs, thus fuelling the upward cost spiral

PBM executive director Ashley Smart says the increasing use of below-the-line rebates has caused an upward shift in the base price on which all players then add their mark-ups

PBM has embarked on a pilot project in a Gauteng town where it is attempting to subvert the current system to save a small, in-house scheme from going under The town's 35 doctors have abandoned their inflationary formulary for one that is scientifically sound and cost-effective In exchange, PBM offers guaranteed and prompt payment for drugs on its formulary

"The message to the doctors is that they can make money in a morally defensible way while reducing the cost to the patient The two aren't mutually exclusive," says Smart, who plans to expand the project through a series of nationwide meetings with select providers While he concedes that success on a national scale will be much more difficult, he says PBM is being approached by doctors and pharmacists who know the current system is not sustainable and are looking for solutions

"This is the start of a battle," says Walters "It will take years Everyone must be partners in it and fight the problem, not each other"

The Medicines & Related Substances Control Act (which is in limbo pending a court challenge) seeks to reduce drug prices by, among other things, curtailing dispensing by doctors and making generic substitution mandatory It also legislates an end to the rebate system The problem is how it will be enforced in practice

The Representative Association of Medical Schemes has long tried to introduce a fixed professional fee for pharmacists to replace retail price mark-ups, but this initiative has failed to get off the ground

In the end, SA must eliminate any perverse incentives; including the profit motive, that induce those who prescribe or dispense drugs to over-service patients A radical solution perhaps, but one the health-care sector has backed itself into

Claire Bisseker

Medicines bungle may be rectified

Taryn Lamberti

A CRUCIAL gap in the legislation governing the buying and selling of medicines, left when former president Nelson Mandela promulgated prematurely an act before proper regulations were in place, might be resolved before the end of the month

Nico Vermaak, the attorney representing the Pharmaceutical Manufacturers' Association of SA and the Crop Protection and Animal Health Association, said he hoped the Pretoria High Court would be able to hear argument to have the new SA Medicines and Medical Devices Regulatory Authority Act scrapped until regulations were properly formulated in the next few weeks The applicants were granted leave yesterday to appeal against the Pretoria High Court's decision The applicants in the Supreme Court of Appeal in Bloemfontein included Mandela and then health minister Nkosazana Dlamini-Zuma, who told the court that an administrative blunder had led to the law being introduced prematurely before regulations and schedules of drugs were completed The old act was repealed by the promulgation of the new law, while the schedules and regulations depended on the old act

High Court Judge HJ Fabricius refused the applicants leave to appeal against his decision last month, saying there was no reasonable likelihood that another court would decide the question any differently, said Pharmaceutical Manufacturers' Association of SA CEO Mirryéna Deeb He ruled that the situation was a matter to be resolved by the executive and legislature, not the courts, because Mandela and Zuma had promulgated the act in good faith

Deeb said the ruling yesterday was significant because there had been no effective regulatory control of medicines since April 30 She said people could buy and sell dangerous drugs without being prosecuted

She said the government had been relying on the good faith of doctors and pharmacists who sold medicines during this period The association was grateful for the high court's ruling because Parliament would probably not be able to make a decision on the act before mid-August The appeal will be heard by the full bench of the Pretoria High Court

(183) BD 6/7/99

SA NEWS DIGEST

CT(BR) 8/7/99

Sars drafts law for 'markers' in paraffin to clamp down on substitute diesel fuels

The us[illegible]ute fuels in diesel engines and the evasion of duties payable on substitute products would be a thing of the past [illegible]ed an identifying chemical "marker" into paraffin towards the end of the year, Trevor van Heerden, commissioner for the South African Revenue Service (Sars), said yesterday. The marker would also be introduced in certain solvents with characteristics similar to paraffin. (183)

"Offenders would face very substantial penalties," Van Heerden said. Sars would submit [illegible] legislation, which included a total prohibition on the use of mixtures containing the marker as substitute fuels in engines, during the current parliamentary session [illegible] limited and regulated use of (marked) mixtures in other domestic and industrial applications." The administration of the proposed law would be handled by the customs and excise division of Sars, he said. – *Zintle Filtane, Johannesburg*

Maduna tells hearing of 'secret' fuel talks

Oil deal suspicions kept under wraps

ARG 9/7/99 (183)

MICHAEL MORRIS
SPECIAL WRITER

Penuell Maduna established "secretive channels of communication" with selected senior fuel industry officials shortly after becoming Minerals and Energy Minister in 1996, it has been claimed in an inquiry

The claim emerged during Mr Maduna's third day on the witness stand in Public Protector Selby Baqwa's inquiry into alleged irregularities in Strategic Fuel Fund finances and whether or not Auditor General Henri Kluever's reports on them were "correct and proper"

Mr Maduna, now Justice Minister was being questioned by Pearce Rood counsel for Roy Pithey – former chairman of the Central Energy Fund which oversees the Strategic Fuel Fund.

Mr Maduna said he had communicated with the officials privately to glean information about suspicious seeming payments in an oil deal.

Mr Rood gave notice that he would make submissions on the propriety of the secretive channels of communication between Mr Maduna and certain senior Strategic Fuel Fund officials, including Brian Casey and former general manager Kobus van Zyl.

Payments of a 7,5 cents a-barrel premium to an Egyptian oil trader had been brought to Mr Maduna's attention by Essop Pahad, then Deputy Minister in the Office of Deputy President Thabo Mbeki.

"I was expected to find out what the justification for these payments was " he said.

An acquaintance put him in touch with senior Strategic Fuel Fund official Brian Casey, with whom he had several private meetings in a bid to find out more about the premium payments

When asked why he had not approached Mr Pithey, who had a statutory obligation to answer such questions, Mr Maduna said "I can not give a reason."

When pressed on this by Mr Baqwa, who wondered if it was "not incumbent" on him to approach Mr Pithey, Mr Maduna said. "Well, the fact is, I did not, and I cannot provide a reason '

He said he had been in the Cabinet for only three-and a half months and may not have been aware" of the statutory relationship between himself and the Cental Energy Fund chairman.

However, while he could not give a reason why he did not discuss the premium payments with Mr Pithey, he was getting information from other officials such as Mr Van Zyl and Mr Casey

He added "Perhaps it was because I thought he (Mr Pithey) was implicated in these payments (of a 7,5c a barrel premium) that I decided not to go straight to him "

When Mr Baqwa asked him why he thought this, Mr Maduna said "Well, the suggestion had been made that he (Mr Pithey) had been told about the payments and had done nothing about them "

The two and-a half-day cross-examination of Mr Maduna by counsel for Auditor General Mr Kluever, Eberhard Bertelsmann SC, ended yesterday, but the Justice Minister will return to the witness stand when the hearing resumes on Monday for further cross-examination by counsel for other parties involved.

Under fire Penuell Maduna established 'secretive channels of communication'

Baqwa asked to broaden fund probe

MICHAEL MORRIS

Public Protector Selby Baqwa has been asked to broaden his probe into alleged irregularities in the Strategic Fuel Fund to include a finding on the "probity and propriety" of Cabinet minister Penuell Maduna's comments and actions

This submission was made during the hearing this week by Auditor General Henri Kluever's legal counsel, Eberhard Bertelsmann, SC

Mr Bertelsmann submitted that Mr Kluever was a "victim of the abuse of power" in the controversy stemming from statements in parliament on South Africa's fuel fund accounts by then Minerals and Energy Minister Penuell Maduna.

He made the submission during exhaustive questioning of Mr Maduna, now Justice Minister in President Thabo Mbeki's cabinet.

The brief of the inquiry is to investigate "alleged irregularities" in the "affairs and financial statements" of the fuel fund, and whether reports on them by the Auditor-General were "correct and proper"

But Mr Bertelsmann argued that attention should also be given specifically to Mr Maduna's conduct.

He told Mr Baqwa "We urge you to make a finding as to the probity and propriety, not just the correctness, of (Mr Maduna's) actions and comments (from the time of his controversial statements in Parliament in June, 1997), and as to whether, in the circumstances, the minister is or is not deserving of censure "

It was not a question of whether the "attacks" on Mr Kluever and his office "constituted defamation, but whether, given the constitution and the Auditor General's position, the accusation of dishonesty, improper conduct, sleight of hand and improper reporting is not one that must be investigated"

Mr Bertelsmann added. "If it is not part of the mandate already, the accusation that officers of the Auditor General's office were guilty of calculated dishonesty – an accusation made on Monday – is something that is at least as important and significant as the event in which a premier of a province said it was acceptable to lie "

Mr Baqwa said that while "we should not seek to redefine what parliament said we should do", the inquiry would reach its finding by examining the full sequence of events He was well aware that he had the powers to expand the terms of reference of his inquiry, but noted that "it's not just used willy-nilly"

Mr Maduna's legal counsel Kessie Naidu, SC, objected, saying Mr Bertelsmann was "obfuscating" by seeking to broaden the inquiry.

This risked obscuring the "real issue", which was to establish whether the Auditor-General's office had "misled" parliament in its reports on the fuel fund.

Why I was forced to use oil 'spy', by Maduna

Top official secretly enlisted because minister mistrusted senior figures over 'sanctions-busting'

ARG 13/7/99 (183)

MICHAEL MORRIS
SPECIAL WRITER

Penuell Maduna has justified what have been described "secretive and clandestine" arrangements while he was minerals and energy minister as "the only means available" to get certain information on South Africa's oil deals

The recently appointed justice minister was responding to questions on his fourth and final day on the witness stand in Public Protector Selby Baqwa's inquiry into the finances of the Strategic Fuel Fund, and whether the Auditor-General's reports on it were "correct and proper".

He rejected a submission by Pearce Rood, counsel for former Central Energy Fund chairman Roy Pithey, that the "secretive and clandestine" arrangements were inimical to the "transparency" of the new order, or that they inevitably created "fertile soil for suspicion and distrust".

Mr Maduna ascribed his enduring mistrust of senior fuel industry figures – some of whom he called "a bunch of white males" – to his perception that they had been at the heart of sanctions-busting intended to "sustain the system of apartheid".

He acknowledged that he was inexperienced in fuel industry matters and had been "thrown in at the deep end". But his understanding, on taking office in 1996, was that the fuel fund, which operates under the mantle of the Central Energy Fund, "was created specifically to handle the sourcing of crude oil or related products for the apartheid state".

It was also his perception that the directors of the fund and its senior staff "were (all) inherited from our terrible past".

Against this background, he had sought secretly to gain information on South Africa's international oil deals through a top fuel industry official, Brian Casey, then deputy managing director of the crude oil division of the fuel fund.

This stemmed from suspicions first raised by Essop Pahad, then deputy minister in the office of the then deputy president, Thabo Mbeki, about premium payments of 7,5 US cents a barrel to an oil trader, Fachry Abdelnour, who had been involved in setting up an import deal with Egypt.

Mr Maduna said he had doubted the "value" of these payments, but claimed he had not had any clear answers on them from officials. This had prompted his secret association with Mr Casey.

Mr Maduna's response to many questions throughout the day on details of meetings and discussions of three years ago was almost a refrain: "I cannot recall it, but I do not dispute it."

But he was vigorous in defending his secret arrangement with Mr Casey. Questioned closely by Mr Rood on the propriety of this arrangement, Mr Maduna said: "He helped me to stop the rot. It was done to protect the business interests of the company, and of the shareholder, the state."

He was "comfortable" with the duplicity that was necessary to preserve Mr Casey's secret relationship with him, because this was intended to "smoke out the truth".

Mr Maduna acknowledged that even though he reappointed Mr Pithey as chairman of the central Energy Fund in January 1997, he did not trust him. He had appointed him because of Mr Pithey's knowledge and experience.

Asked by Mr Baqwa if he did not consider this a "dangerous step" in the light of Mr Maduna's lack of trust in the man, he replied: "No, as long as I knew what I was dealing with. Even dangerous snakes can be handled once one knows what you are dealing with, once you tame it."

Mr Maduna said he "did not trust any one (of the senior fuel industry officials). As far as I knew they had all been involved in sanctions-busting, which was at the core of serving apartheid's efforts to overcome boycotts." He had approached these officials "with caution and trepidation".

(The inquiry heard, in fact, that Mr Pithey had been appointed after the sanctions era.)

He defended his order that premium payments be suspended if they were not yielding "value", adding: "We have not suffered any damage or loss as a result of my action."

He did not think it was necessary to discuss his instruction with anybody. "I discussed it with myself."

Pharmaceutical industry seeks productivity tonic

A scientific revolution is putting pressure on drug companies to deliver their products faster, cheaper and in greater numbers than ever before, writes **David Pilling** of the Financial Times

BD 13/7/99 (183)

THE pharmaceutical industry sometimes resembles a big playpen stuffed with exciting new toys Its scientists are like precocious children, eager to experiment with robotics, informatics and molecular genetics even before they fully understand how these new technologies might work together

Judging by the market valuations of pharmaceutical companies, investors are also dazzled by the promise of these scientific breakthroughs to deliver new drugs — faster, more cheaply and in greater numbers than before. With some companies trading at up to 40 times prospective earnings, expectations are that the winners in the industry will deliver double digit growth for the next decade.

How much of this is hype?

It is easy to get carried away by all the talk of revolution in the industry, and it is certainly true that the central activity of drug companies — applying science to the discovery of new medicines — is undergoing the most radical upheaval in the industry s 100-year history

Jonathan Knowles, president of global research at Roche of Switzerland speaks for the industry when he says "There have been three major technological revolutions in the last quarter of this century informatics automation and molecular genetics When you bring these three things together you get a major paradigm shift in our ability to understand the underlying basis of disease "

The opportunities both medical and commercial, are tremendous but such moments of technological inflection also carry great risk: companies may misunderstand the nature of transformation gamble on the wrong innovation or react too slowly to changing circumstances

Other risks are specific to the nature of intellectual property rights within the pharmaceutical industry Because patents on marketed drugs last an average 10 years — after which sales usually nosedive under generic onslaught — future earnings depend on a constant stream of new products For Tom McKillop, CE of AstraZeneca, this means that "every pharmaceutical company has to reinvent itself on a 10-year cycle"

Now the whole industry appears to be reinventing itself and the parameters of success are changing Instead of bringing to market one new drug every two years — the industry average to date — pharmaceutical companies are under pressure from investors to increase their productivity more than tenfold and deliver about six new drugs a year according to Andersen Consulting Everything, therefore, hinges on the ability of drug companies to master new technologies at their disposal

"This is the most fundamental issue facing the pharmaceutical industry today," McKillop says "The economics of research and development, the costs risks and rewards of investing in the pharmaceutical industry are changing That s why the long-term winners will be the people who get this right "

To appreciate the choices facing pharmaceutical companies one first needs to understand how drugs are discovered

Traditionally finding new drugs has been a laborious process in which serendipity played a big part Scientists have identified biological "targets" on which drugs might act such as the docking site where a virus binds to a cell, or an enzyme that sends pain signals to the brain Novel compounds (potential drugs) are then synthesised to screen against those targets with the most promising candidates tested first in animals and then in humans Scientists often stumble upon an unexpected effect such as when Viagra originally developed as a heart medicine was seen to have an effect on impotence

That discovery process which traditionally takes 10 to 12 years is changing and accelerating thanks to the three technological leaps identified by Knowles

First rapid advances in genomics, which aims to establish the link between genes and disease, are amplifying the number of identified biological targets The industry is shifting from one founded on chemical expertise to one based on biology In the 100 years to 1995 the drugs industry collectively worked on about 500 targets Now, with scientists on the cusp of decoding the entire set of human genes, some individual companies can look at that many each year

Second, techniques for synthesising chemicals have been transformed It used to take a single chemist a year to produce 50 to 100 new compounds Now thanks to the use of robots and computers scientists can quickly create samples of hundreds of thousands of new compounds

The final factor is the advance in information technology, which has allowed companies to screen their vast libraries of chemicals against a plethora of targets

"With this revolution in technology and in IT we re able to integrate all this information and come up with dramatically higher productivity " says Mark Levin CE of Millennium a US biotechnology firm

Nor is the revolution simply a numbers game There has been a leap in understanding the root causes, rather than the symptoms of disease "In the past when you really couldn t understand the mechanism of disease a lot of (drug discovery) was based on gut feel " says Richard Sykes, chairman of Glaxo Wellcome.

"Today you can really start to crack some of the diseases that are not well treated There s tremendous potential "

Sykes says Glaxo will this year test more novel compounds in humans than ever before, but it will be years before he knows how many of these go on to become successful drugs Not even the wildest optimist believes the industry is anywhere near the tenfold increase in productivity that its market valuation and investor expectations appear to imply .

The question is how, amid the multitude of strategies and technologies, and types of drugs, to achieve this leap in productivity Two broad trends are emerging

The first is outsourcing. Pharmaceutical companies, which have traditionally done everything inhouse, are shifting to a model where at least a quarter of their research and development is contracted out In research this means forging relationships with dozens of biotechnology companies In this way the big drug companies can keep up to date access a wide variety of technologies and spread risk.

Several drug companies, for example, have relationships with combinatorial chemistry companies able to make thousands of compounds to precise specifications Other biotechnologists provide databases of genetic sequences, or animal "models" on which drugs can be tested. Another set of biotechnology companies offer specific projects They might have a novel approach to cancer or a portfolio of plant-based medicines Of the five drugs being launched by Glaxo this year four were licensed from biotechnology companies

Thus one option for pharmaceutical companies is to become an "orchestrator of niche players" according to the Boston Consulting Group

Outsourcing has its limits, though Peter Goldsbrough, vice-president at BCG, says if you outsource too much, you risk losing scientific expertise. Spending on research and development (R&D) can reach as much as 18% of annual sales Pfizer is setting an industry precedent with a research budget of $2 7bn

Companies without deep pockets are in danger of falling by the wayside. That is a reason pharmaceutical companies feel under pressure to merge

The quest for alliances becomes more pressing if one believes that today's surge in biological knowledge may prove to be a one-off event, Although patents on genes and other bits of biological material have yet to be thoroughly tested in the courts, companies that establish a broad intellectual property position now are likely to gain competitive advantage.

As serendipity in drug discovery gives way (it is hoped) to greater predictability, there will be a closer relation between the cash sunk into research and the number of drugs produced

Jim Niedel head of R&D at Glaxo, is a great believer in the benefits of scale. Glaxo has made no secret of its ambition to double its size — and hence its R&D budget — through a merger Even strong advocates of size like Niedel are aware of its pitfalls. If searching for a new drug is like looking for a needle in a haystack, he says, increasing one's size always runs the risk of "creating bigger haystacks"

"Historically larger companies have underperformed in their productivity," says McKillop, who is grappling with the organisational challenges posed by the merger of Astra and Zeneca.

"How do you double your size without killing creativity?" he asks

That is the challenge faced by the industry as a whole Each company must decide how to benefit from vast amounts of new information without being swamped, and which of the new technologies are central and which are passing fads. All must choose whether to access that technology through alliances or through building bigger R&D departments

It is a turning point for the industry, with many new paths to choose from, not all of them profitable "The room for productivity improvement in the pharmaceutical industry is dramatic," says Levin. That means companies that take a wrong turn now will be left far behind

ANC did not trust oil firms, Maduna says

(183) BD 13/7/99

Linda Ensor

CAPE TOWN — The parastatals involved in securing oil for the apartheid regime were regarded with deep suspicion and distrust by the first democratically elected government because of their involvement in sanctions-busting activities, a public protector's inquiry heard yesterday

Former minerals and energy minister Penuell Maduna told a probe led by Public Protector Selby Baqwa that he had to rely on "whistleblower" Brian Casey for information on the Strategic Fuel Fund (SFF) Casey was the fund's deputy GM of crude oil trading

Maduna, who is now justice minister, said he approached the fund's board members "not only with caution, but with trepidation I was dealing with people I had inherited from the past"

Baqwa is probing alleged irregularities in the affairs and financial statements of the fund and the accuracy of reports on the organisation submitted to Parliament by auditor-general Henri Kluever

Maduna defended his use of a whistleblower to uncover the truth about payments to oil trader Fackry Abelnour He said he regarded the payments as a waste and believed that SA should have entered into direct contracts with Egypt and petroleum company Amoco without relying on a middleman

For every barrel of crude oil lifted, 6c was paid to Abelnour's company Interstate Petroleum, while 1,5c went to the Egyptian state's petroleum company Maduna ordered that the payments be stopped in November 1996

Pearce Rood, counsel for former SFF chairman Roy Pithey, said that by relying on a whistleblower, Maduna had compromised the effective management of the fund

Rood accused Maduna of having secretly used Casey to devise a scheme to "ensnare and entrap" former GM Kobus van Zyl This had undermined corporate governance and created an unhealthy atmosphere of suspicion and distrust within the SFF

Maduna defended his conduct as being in the interests of the state, the SFF's sole shareholder He said he wanted to "smoke out the truth"

Maduna accused Pithey of having falsified the books of the Central Energy Fund "in flagrant violation of his duties as chairman and accounting officer"

Sasol begins commissioning a R38m plant to produce xenon and krypton gases

(183) CT (BR) 14/7/99

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – Sasol, the petro-chemicals-from-coal producer, yesterday said it had started commissioning a R38 million gas plant that will give it over half the global market for xenon gas and a third for krypton gas

The gases, which exist in tiny quantities in air, are used in a variety of industrial applications such as lamps, lasers, propulsion systems for satellites and medical applications

"They are extracted by compressing and freezing air until the various gases are progressively liquified"

Alfonso Niemand, Sasol's communications manager, said Sasol was already the world's largest producer of pure oxygen. He said extracting these gases was simply an added process to its existing air separation plants

The new plant will double Sasol's production of krypton to 9,5 million litres a year and xenon to 2,5 million litres a year

"The world's current consumption of krypton and xenon is about 30 million and 4,5 million litres per year respectively," he said

Niemand would not put a value on Sasol's gas sales, saying "Suffice to say it's a lucrative business"

He said market growth was sufficient to absorb this step up in production and that Sasol could readily expand production further

"There is still room for significant expansion The only limiting factor is capital expenditure"

Last August, Afrox, the industrial gases, welding and health-care group, opened a R270 million air separation plant near Witbank

The plant supplies oxygen, argon and nitrogen to Highveld Steel, Columbus, Ferrometals, Rand Carbide and Polifin.

The plant is able to produce 11 000 tons of oxygen and 175 tons of nitrogen a day

Fuel fund probe costs near the R30m level

(183) BD 15/7/99

Evidence tops 15 000 pages, with more witnesses on their way

Linda Ensor

CAPE TOWN — The costs of the year-long inquiry by public protector Selby Baqwa into alleged irregularities in the Strategic Fuel Fund is nearing the R30m mark with a few months' more work still to be done

Witnesses who still have to give evidence include former fund GM Kobus van Zyl, former deputy auditor-general Bertie Loots and Pricewaterhouse Coopers auditor Jurie van der Nest This will be followed by legal argument Then Baqwa and his two assessors will retire to consider the evidence which exceeds 15 000 pages The record of the proceedings alone totals more than 4 000 pages

The taxpayer has to foot the bill for the legal teams of former minerals and energy minister Penuell Maduna, auditor-general Henri Kluever, former fund finance GM Sarel Cilliers and former fund chairman Roy Pithey

Also to be paid for are their accommodation in Cape Town, vehicle hire and flights home for weekends and a room hired for the hearing Salaries of assessors and support staff add to the costs

A key issue that Baqwa is probing is the value of commission payments made to Geneva-based businessman Fakhry Abdelnour's company, Interstate Petroleum, of 6c for every barrel of crude lifted by the fund In addition, 1,5c was paid to the Egyptian Government Petroleum Company

Maduna was unhappy about these payments, which he felt had no value in a government-to-government contract

Baqwa expressed concern yesterday about the fact that initially, in 1992 no contract was drafted or signed to cover these commissions Former fund chairman Danie Vorster said this was an "oversight" even though he conceded the payments were a precondition for making the oil sales possible

Maduna instructed Van Zyl in November 1995 to terminate the payments forthwith At a fund board meeting in December he called for Van Zyl's suspension in the light of allegations by auditors Nkonke Sizwe Ntsaluba that he was obstructing their management audit, was seen falsifying documents and was involved in a cover-up

When board members warned about possible media interest in the suspension, Maduna said all enquiries should be directed to him because he was "good at ducking the press"

The board and Van Zyl were concerned about the effect that a failure to honour obligations — which Van Zyl said was "unheard of" in the oil industry — would have on the fund's international standing

In January 1996 Van Zyl attempted to override Maduna's injunction by making the last outstanding payment of $61 000 to Interstate According to Pithey, this was because a "grunt" by Maduna to a question seemed to indicate his agreement

In a letter to Pithey in January 1997, Van Zyl noted that Maduna's office had stopped payment even before it had reached the state treasury "This is either high-level James Bond stuff or somebody in the know has an axe to grind I can unfortunately not work effectively under these circumstances "

Eastern Cape firms set up plastics cluster

(49B) (183)

Moses Mlangeni

PORT Elizabeth could become a major plastics manufacturing and supply centre following moves by several Eastern Cape companies to combine resources to form a plastics cluster.

About 15 companies have shown interest in becoming part of the cluster, including Specialised Plastics Engineering, Trek Vacuum Forming, Evaron, Rhino Plastics and Day Plastic Company.

Bob White, the cluster's acting chairman and a director at Specialised Plastics Engineering, says there is a lack of awareness of the range of plastics available in the Port Elizabeth-Uitenhage metropolitan area.

"This makes it difficult to break into the export market. Now with our united voice and expertise we should be able to make in-roads into viable export markets."

BD 16/7/99

Two of the plastics cluster members, Trek Vacuum Forming and Hella, are already exporting their products to Africa and Europe, a development which could help open the doors into international markets for other cluster members.

White says a big export order could be shared among members, with benefits including a quicker completion of an order and world-class competitiveness.

The Eastern Cape is the fourth-biggest supplier of plastics after Gauteng, Cape Town and Durban, but supplies 97% of the plastic components used in the SA automotive industry.

The Port Elizabeth-Uitenhage metropolitan area represents about 15% of the tonnage of plastics used and 22% of the total value of plastics produced in the country.

Deep throats oiled bitter fuel fund row

(183)

ST 18/7/99

The public dispute between the former Minister of Mineral and Energy Affairs, Penuell Maduna, and the Auditor-General, Henri Kluever, has turned into a protracted saga as their legal teams do battle before the Public Protector. CAROL PATON reports

IN THE RING. Penuell Maduna launched an unprecedented attack on Henri Kluever

PUBLIC Protector Selby Baqwa's courtroom is a makeshift affair in cheap premises near the Cape Town foreshore, the "court" is crammed into a long narrow room crowded with tables, chairs and hundreds of Lever Arch files containing the 15 000 pages of documents already submitted and the continually expanding record of the proceedings

Baqwa's panel — himself and two assessors — presides over the room from a large desk placed on a low platform, a humble replica of a judge's bench

But it's not just the venue that is unusual

The inquiry — into the Strategic Fuel Fund Association and whether the Auditor-General's reports to Parliament about the fund were correct and proper — arose from an unprecedented attack by a government minister on the Auditor-General

Two years ago in Parliament, Penuell Maduna, the then Minister of Mineral and Energy Affairs accused Henri Kluever, the Auditor-General, of conspiring in the cover-up of the theft of R170-million from the fund

Stranger still was that, almost as soon as the public hearings began more than a year ago, Maduna's counsel withdrew the accusations, agreeing that there had been no physical loss of R170-million, but that this was just a reflection of a new accounting procedure

What had occurred, Kluever explained to Parliament after Maduna's accusations, was that the fund had replaced low-quality oil stockpiled in coal mines in Ogies during sanctions with a higher grade product stored at Saldanha.

The poorer quality oil fetched lower prices than were paid for the replenishing stocks

Thus, the R170-million "loss" was the result of bookkeeping entries labelled "transfer of strategic stock"

In his evidence this week Maduna admitted he had made a mistake when he alleged that there had been a physical loss from the fund

"That was my understanding in my simple mind as a non-professional, that if you talk about transferring things that meant physical transfers," said Maduna.

But, he said, even though he knew within days of making the claim that it was wrong, he "could not be bothered" to correct it and as a result the allegation remained in the public domain

But Maduna was obviously deeply suspicious of the way the fund was operated, apart from the dispute over the R170-million.

In fact, he was so suspicious of the officials of the fund after becoming minister in July 1996, that he cultivated a secret relationship with a top-ranking employee, Brian Casey, the deputy general manager for crude oil

Maduna told the inquiry that Casey was his "whistle-blower" whose contribution was necessary "to stop the rot"

One of the issues the two discussed was the fund's contract to buy Egyptian crude oil

The contract had been arranged with the help of a middleman, Egyptian trader Fakhry Abdelnour, who was paid a margin of six cents a barrel for a portion of the barrels of crude oil lifted

While during sanctions it had been commonplace to pay hefty margins to middlemen, Maduna and other ministers questioned the value of holding a government-to-government contract through a middleman who contributed "no recognisable value"

Under cross-examination this week, Danie Vorster, the former chairman of the fund, said the contract with Abdelnour was not formally recorded.

Claiming that the managers of the fund had not co-operated adequately when he questioned them about Abdelnour's margins, Maduna stopped the payments and called for an audit.

His suspicions that all was not well were further compounded by the actions of a second "deep throat" — possibly from within the Auditor-General's office — who dropped documents at the gate of his house which raised questions about the audit

Asked where the documents came from Maduna replied "I don't know They might have been given to the guard, they might have been dropped by some little dove, I don't know"

Among the leaked documents was a letter from the Auditor-General to the fund asking questions about the audit, and in particular about the Egyptian contract.

The letter was dated the same day that Kluever had written a letter to Maduna which he had interpreted to mean that Kluever was satisfied with the audit.

Also at issue between Maduna and Kluever was the manner in which Kluever's report was presented to Parliament.

While Kluever has said the report was abbreviated in terms of secrecy provisions which still applied at the time, Maduna questioned the need to invoke such guidelines.

The inquiry, which has cost R30-million so far, now focuses on two main issues the change in accounting procedures and the purchase of Egyptian crude oil through Abdelnour.

But if Maduna is to prove that the inquiry has been about more than salvaging his political reputation after the "clumsy" allegations he levelled at Kluever, his counsel will need to show that these were serious irregularities

The evidence is expected to continue for another two weeks, after which Baqwa and his assessors will adjourn, returning in mid-September to hear argument.

Witnesses set down to appear next week include Kobus van Zyl, the former general manager of the fund, Bertie Loots, the former deputy Auditor-General, and Urie van der Nest of the auditing firm Price Waterhouse, which conducted the audit on behalf of Kluever's office.

Erwin won't implement board's ruling

(222) (183)

ADELE SHEVEL

Johannesburg – Alec Erwin, the trade and industry minister, would not implement the recommendation of the Competition Board to stop restrictive practices by direct pharmaceuticals distributors he said yesterday

Direct distributors were taken to the board on the basis that wholesalers said they traded restrictively and priced on a discriminatory basis to the wholesalers in effect making them uncompetitive

Pharmacists also lodged complaints that prices increased and cut margins since direct distributors began operating

Erwin said in a statement his decision was made to avoid a possible high court review "The minister's decision not to act on the report removes the basis for a review"

International Healthcare Distributors (IHD) the joint venture consisting of 11 multinational companies, said it would take the board to court on review of the board's recommendations.

SAVING TIME Alec Erwin wants to avoid court delays

The review would have lasted longer than the lifespan of the Competition Board, which would be taken over by the Competition Commission from September 1

The board conducted a formal investigation into whether the operating principles followed by IHD constituted restrictive practices The task of the board was to determine whether the act of discrimination, an act that underpins the exclusive distribution arrangements constitutes a restrictive practice.

A statement said. "Although the minister is advised that a procedural review is unlikely to succeed, the effective upshot of this decision will be lengthy and costly legal proceedings that will effectively delay further consideration of the important substantive matters at issue"

The minister said the board acted fairly towards all parties concerned

Trevor Phillips, the executive director of the National Association of Pharmaceutical Wholesalers said it was likely the wholesalers would take the matter further. It's good news that it will not be tied up in the high court."

Erwin said the complainants and interested parties would be free to pursue the matter in terms of the new Competition Act. The new legislation would be a more effective instrument to investigate and remedy the alleged vertical restrictive practices examined by the board as well as the appearance of collusion"

HARD DRUGS 'LEGALISED'

Govt drug boob backfires

(183) (87)

A CAPE TOWN Magistrate's Court case, in which two men are accused of possession of Ecstasy, could provide the answer to a legal conundrum resulting from the premature promulgation of an act controlling the manufacture and distribution of drugs. **GUSTAV THIEL** reports

ON April 30, President Nelson Mandela gave the go-ahead to the promulgation of the SA Medicines and Medical Devices Regulatory Act, on the advice of then minister of health Nkosazana Zuma.

The promulgation is now considered to have been a massive administrative blunder which legalised a number of hard drugs, including Ecstasy, morphine, Rohypnol and methadone.

The promulgation took place before any of the regulations and schedules — which categorise drugs and stipulate who can buy, sell, prescribe and administer these drugs — were fixed

After the administrative bungle became known, the department of health lodged an application in the Pretoria High Court to reinstate the old law, which existed before April 30 The application was rejected by Judge Hans Fabricius

The Pharmaceutical Manufacturers' Association then appealed against the decision and the appeal was heard on Friday in the Pretoria High Court Judgment was reserved and no indication was given as to when it will be delivered. Legal experts now say a case in the Cape Town Magistrate's Court could provide the answer for the first time, as to whether the existence of the new act made drug traffickers safe against prosecution.

On October 31 last year, Warren Smit and Youssef Ben Halima from Morocco were arrested in Joeville Street in Vredehoek with 50 tablets of Ecstasy in their possession They were charged with the possession and could face a maximum sentence of 10 years in prison or a fine of R40 000

The state, represented by prosecutor Conrad Heydenreich, argued yesterday that, because the men were arrested before the promulgation of the new act, they should be tried within the bounds of that act.

Ben Halima's legal representative, Keith Gess, said they will try to show that the new act is binding on arrests made before its promulgation and that his client is therefore safe from prosecution

"It is safe to say that there are a lot of outstanding cases involving the alleged possession of ecstasy where the arrests took place after April 30 so it is not accurate at this stage to say that this case will function as a test case"

The case has been postponed until August 4 by magistrate L Scheepers and Gess said the judgment on that day could depend on whether the Pretoria High Court has delivered its judgment on the status of the SA Medicines and Medical Devices Regulatory Act.

The acting director-general of health, Harm Pretorius, says the act is still in place, which could mean that Smit and Ben Halima could be acquitted if the Pretoria High Court reserves its judgment until after August 4, and if the state is unsuccessful in its argument that the arrests were made before the new act came into being — and that the old act should then be considered valid for the case.

If the state is successful, says Gess, it will still leave many cases pending, where arrests were made after April 30, "and these cases will then probably function as test cases"

30/7/98

Lack of documentary proof for fund payments 'strange'

Strategic Fuel Fund minutes say nothing about agreement to reward middle man

Linda Ensor

CAPE TOWN — Public Protector Selby Baqwa remarked yesterday on the "strange" lack of any documentary proof within the Strategic Fuel Fund (SFF) of the existence of an agreement to pay an oil trader commission on Egyptian oil sold to SA in violation of sanctions

Baqwa and two assessors are conducting a probe into alleged irregularities in the management of the fuel fund and the presentation of its accounts by auditor-general, Henri Kluever

They heard evidence of former GM Kobus van Zyl who said no formal contract had been signed with middleman Fakhry Abdelnour There was no reference to payments to him in minutes of meetings of the fund's crude oil trading committee or of the board

Baqwa found these omissions strange in the light of the importance of the sub-contract with Abdelnour

Van Zyl insisted, however, that the commission payments to Abdelnour — 5c a barrel for himself and 1c for logistical services — were no secret within the fund and blamed the lack of references to "bad minuting" of meetings where the matter was discussed openly If he had known about the "James Bond" methods being used within the fund, such as the use of whistle-blowers to provide former Mineral and Energy Minister Penuell Maduna with inside information, he would have complied fully with Maduna's request for a written explanation of the payments

Van Zyl justified the payments to Abdelnour saying they had secured oil supplies for SA and made it possible for the fuel fund to make big profits from oil trading It sold its strategic oil stocks at prices higher than it cost to buy in new stocks

"The 6c was part of the cost of acquiring return cargo and was passed on to the customer and included in the overall price If we did not do this we would not have made profits to the extent we did The biggest risk in the backwardation market is to have replacement oil "

The normal margin achieved in Strategic Fuel Fund oil sales to SA-based oil companies was 11c of the official price and this was known when negotiations took place with Abdelnour

Van Zyl said the fund's 1996 financial results proved that he was correct in his analysis as the parastatal, having secured more Egyptian oil to sell, made a profit of more than R200m By end-March 1997 all the strategic stockpiles had been sold in accordance with the new government's policy

Van Zyl — he was dismissed from his position after a suspension of about a year — highlighted the difficulties he had with Maduna who, he said, "refused" to talk to him and appeared to ignore his letters. He was introduced to Maduna by Abdelnour during the latter's visit to Cape Town in 1996

Questioned by Maduna's legal counsel Kessie Naidu about Abdelnour who, Naidu suggested, was a friend to the apartheid regime and helped to prop it up, Van Zyl said "I was proud that I was able to break sanctions on oil and keep the economy intact because without that there would have been a disaster "

Van Zyl agreed that Abdelnour was a front for the Egyptian government and enabled it to break the oil embargo

Van Zyl said that during the sanctions period margins paid by SA for its oil purchases were substantial, on average $0,30 a barrel and Abdelnour was compensated properly for the role he played

At a hearing into the affairs of the Strategic Fuel Fund yesterday, Public Protector Selby Baqwa, left, found the lack of any documentary proof within the fund 'strange', and former fuel fund GM Kobus van Zyl highlighted the difficulties he had with former minerals and energy minister Penuell Maduna, right, who he said 'refused' to talk to him and appeared to ignore his letters.

BD 20/7/99 (183)

HARD DRUGS 'LEGALISED'

Govt drug boob backfires

(183) (87)

A CAPE TOWN Magistrate's Court case, in which two men are accused of possession of Ecstasy, could provide the answer to a legal conundrum resulting from the premature promulgation of an act controlling the manufacture and distribution of drugs. **GUSTAV THIEL** reports.

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02/7/99

Whistle blown on BP oil purchases

BD 21/7/99 (183)

Linda Ensor

CAPE TOWN — BP Southern Africa obtained oil directly from an Egyptian oil company, Amoco, during the '90s at a price lower than the Strategic Fuel Fund was paying to the Egyptian Government Petroleum Company

This emerged during the inquiry by public protector Selby Baqwa into the alleged irregularities in the financial management of the fund and the alleged cover-up of a "loss" of R170m by the auditor-general, Henri Kluever.

Former Mineral and Energy Minister Penuell Maduna was informed by his whistleblower in the fund, deputy GM of oil trading Brian Casey, about BP's oil purchases, but Casey's boss, dismissed former GM Kobus van Zyl, said he did not know about it

Under cross-examination he also said he did not believe it either because, as far as he knew, Amoco was not prepared to sell oil to the SA government at a price below the government selling price

A letter from BP Southern Africa director Deyar Natha to auditing firm Nonke Sizwe Ntsaluba, which conducted a management audit into the fund at Maduna's request, said the oil company had purchased Egyptian crude from 1992 to 1995.

In 1992 and 1993 this was acquired from the fund and in 1994 spot cargoes were obtained from BP Oil International and Amoco.

In 1995 2-million barrels of oil were purchased on a term contract from Amoco without paying any margins.

Van Zyl confirmed under cross-examination that two SA oil companies — BP and Engen — reacted strongly against the fund's continued oil trading activities

He described the great secrecy surrounding the fund's affairs. Directors received documents a week before board meetings and had to keep them in a locked safe provided by the fund.

Allegations

Van Zyl denied allegations that he was a "terror and a monster" to employees of the fund, saying this was not the way to run a successful organisation.

Baqwa quizzed Van Zyl as to whether his harsh manner might not have suppressed questioning by his subordinates, but Van Zyl said employees were free to air their views to directors.

PriceWaterhouseCoopers auditor Jurie van der Nest will be questioned today and oral evidence is expected to conclude next week.

Baqwa informed legal counsel that their written submissions would have to be in by August 23 and that they could present verbal argument on August 30

Delays in registration a bitter pill for drug makers

(183) CT (BR) 22/7/99

Adele Shevel

Johannesburg – The Medicine Control Council's backlog in registering new pharmaceutical products is beginning to cost drug manufacturers millions of rands – and potentially "hundreds of millions" It would also cause the cost of these drugs to rise, senior industry sources said yesterday

New pharmaceuticals have to be registered with the council, which ensures drugs are registered and deemed safe, regardless of whether they have been cleared by regulatory bodies in other countries This procedure is followed worldwide

Sources said the council was battling to cope with insufficient resources and a huge backlog

The registration process examines the process of manufacture and the formulation of the drug, as well as issues of quality, safety and efficacy

In the UK the entire process takes nine months, compared with a lead time of two years in South Africa Registration takes up to twice as long as it did several years ago

Executives of pharmaceutical manufacturers said the industry was suffering because it had not been able to take new drugs to the market New drugs provide a significant proportion of earnings

Industry executives said the cost of pharmaceutical products had been pushed up as a result

The average cost to release a new drug is about $500 million Patent protection lasts approximately 20 years, but the drug can only be sold after about 12 years of research, development and clinical trials

A pharmaceutical company is then left with about eight years of patent protection to recoup development costs and generate profits, before other companies are allowed to manufacture the drug

Vicki Ehrich, the director of communications at Glaxo Wellcome, a pharmaceutical company, said every year's delay on a patent typically cost a company about R20 million to R40 million

The Pharmaceutical Manufacturing Association, the body representing the research-based pharmaceutical industry, is working with the Medicine Control Council to alleviate the situation but proposals have not yet been formalised

Fuel fund auditor cross-examined

(183.) BD 22/7/99

CAPE TOWN — The auditor responsible for vetting the books of the Strategic Fuel Fund for the past 11 years was quizzed yesterday on the auditing procedures he used

Jurie van der Nest of PriceWaterhouseCoopers told Public Protector Selby Baqwa's inquiry into alleged irregularities in the auditing of the fund, being held in Cape Town, that he began checking the fund books in 1987 or 1988 as agent for the auditor-general

He said that in 1992/93, the first financial year in which the fund published a set of financial statements, he had prepared two sets — one set of "management" accounts, for internal use, and the second set of accounts, with some information deleted, for submission to parliament and publication Both sets complied with generally accepted government auditing standards

Quizzed on one of the focal points of the inquiry, a contract to buy crude oil from the Egyptian government, he said he had verified the contract and checked the price and delivery of the oil, but had not checked a 6c a barrel "margin" paid to middleman Fakhry Abdelnour

This fee had been minimal compared with the total amount of the contract

Under cross-examination by Kessie Naidu, the counsel for the former mineral and energy minister Penuell Maduna, Van der Nest said the only difference between working for the auditor-general and doing normal commercial auditing was that the auditor-general required more information

Van der Nest said he had followed a "systems" approach, using sampling, in auditing the fund books, rather than the impractical route of trying to check every transaction and receipt

The fund is the state-owned oil trading company, used in the apartheid years to circumvent sanctions —Sapa

Cars to get tanked with Sasol's alcohol fuel

[illegible] tanks of cars will contain the more [illegible] with the introduction of a controversial new blend [illegible] chemicals company Sasol [illegible] Industry [illegible] containing a minimum of 12 percent [illegible]. The scheme has [illegible] petrol in the [illegible] Sasol [illegible] with the new blend [illegible] testing both on operating fleets and [illegible]

[illegible]burg

TRADE CT (BR) 22/7/99 (187)

Airlines object to new charge

BD 22/7/99

Aviation safety contribution to replace fuel levy

(269) (332) (183)

Stephané Bothma

PRETORIA — Foreign airlines operating scheduled services to SA will have to pay almost R17m to the SA Civil Aviation Authority (CAA) over the next 18 months as a contribution to a general aviation safety charge

The general safety charge was implemented after some foreign airlines refused to pay a fuel levy to fund the CAA

Although the new charge has been agreed upon by the International Air Transport Authority (Iata), several foreign carriers strongly objected yesterday to funding SA's CAA, saying they fund their own aviation authorities

"We are not saying the charge is not valid, but unless the CAA gives full details of exactly what it is for, we will not pay," said a Virgin Atlantic spokesman He said UK-based airlines subsidised the British civil aviation authority, SA Airways was not required to contribute to the UK authority

The charge will replace a 1,5c a litre levy on aviation fuel that was implemented in January this year to fund the CAA for activities which were not directly attributable to any specific user or product but which benefited the industry as a whole

These services include the promotion of aviation safety, the management of the national airspace committee and route planning over Africa

The fuel levy had to be scrapped after several foreign airlines refused to pay, saying the government-to-government bilateral air services agreement that covers their operations to SA specifically excluded a fuel levy

Foreign carriers flying to SA on a non-scheduled basis and domestic carriers will continue to pay the fuel levy, the CAA said

According to Board of Airline Representatives chairman Juan van Rensburg most of the foreign airlines were "not too happy to pay" contributions to the CAA

"Some paid the fuel levy under great protest while others refused to pay," Van Rensburg said

The board, however, agreed that the new charge was preferable to a fuel levy

"At least now there will be a structured mechanism of paying," Van Rensburg said, referring to a decision that the safety charge would be applied in addition to existing air traffic and navigation service charges using the Eurocontrol air traffic formula

The agreement between the CAA and Iata to implement the general charge comes into effect from September 1

"It was agreed that a total amount of US$1,3m will be charged for the CAA's April 1 to March 31 2000 financial year but be collected over the seven-month period from September 1," CAA CEO Trevor Abrahams said

"A total of US$1,5m will be charged for the following financial year and will be collected monthly over the 12-month period," he said.

Abrahams said the foreign operators that had been paying the fuel levy would be credited for any payments already made against payment due under the safety charge.

Fuel fund audit not up to scratch

Linda Ensor BD 23/7/99 (183)

CAPE TOWN — There was ample reason for an outside observer to conclude that the quality of the audits done by auditing firm PriceWaterhouseCoopers on the Strategic Fuel Fund were not up to standard legal counsel for former Minerals and Energy Minister Penuell Maduna said yesterday

Advocate Kessie Naidu suggested this to the fund's auditor and PriceWaterhouseCoopers partner Jurie van der Nest at the inquiry into the alleged financial irregularities at the fund being conducted by public protector Selby Baqwa

He referred to correspondence between the firm and the auditor-general's office Letters showed the auditor-general was not happy about the way queries were handled by PriceWaterhouseCoopers Letters also pointed to inadequacies in the audits of the Central Energy Fund companies

At a meeting with the auditing firm in 1996 the auditor-general complained the firm's work was not up to standard and said audits of parastatals would be shared among a number of firms on a rotational basis

Van der Nest denied the complaints applied to him personally and said letters were sent to all agents working for the auditor-general The problem had been with financial statements and not audits, he said

Regarding the presentation of an abridged version of the 1992-93 financial statements of the fund to Parliament, Naidu asked why no mention was made of the change in accounting practice and why no notes were attached to the income statement as required by accounting practice

The effect of the change in accounting practice was to reduce stock values by about R1bn which led to Maduna's allegation in Parliament that R170m had been 'lost"

Van der Nest stood by his opinion that the financial statements fairly reflected the financial position of the company He said it was not necessary to include notes as the previous year's financial statements had not been published so there was no way to make meaningful comparisons

He said he had been led to understand that the secrecy provisions of the Petroleum Act prevented the inclusion of classified information His task was to check the abridged version and not to decide whether it was reasonable in terms of the act

He had informed the auditor-general the statements did not comply with generally accepted practice in that they lacked notes

US keeps tough line on drugs law

Simon Barber BD 23/7/99 (183)

WASHINGTON — The US House of Representatives has overwhelmingly blocked a move designed to stop the Clinton administration "bullying" Pretoria for appearing to threaten the patent rights of US drug companies in the name of lower medicine costs

By a 307 to 117 margin, the House rejected a proposal late on Wednesday by congressman Bernard Sanders, an independent, to bar the state department from "interfering with any intellectual property law" adopted by an African country "to make pharmaceuticals more affordable" as long as the law complied with the World Trade Organisation's (WTO) rules

The reference was to section 15c of the SA Medicines and Related Substances Amendments Act and a successor law

Last week, congressional leaders, on a bipartisan basis, refused to allow a vote on a similar motion offered by congressman Jesse Jackson Jr as an amendment to the Africa Growth and Opportunity Act

Sanders and Jackson contend that section 15c, which permits the minister of health to ignore existing SA, WTO-consistent patent law, does not violate the WTO agreement on trade-related intellectual property (Trips)

They argue that the administration, acting on behalf of drug companies, is trying to stop SA buying drugs from third parties not authorised by the patent-owners or compelling companies to grant licences to local manufacturers who would charge lower prices

Although these measures are technically possible under Trips, the House sided by a large majority with congressman Ben Gilman, chairman of the House international relations committee, who argued that Sanders was attacking patent rights, thus raising "new impediments to future AIDS research"

In the original legislation implementing US commitments to the WTO, Congress made it clear that it wished Trips negotiators had won stronger patent protection than they did and gave the office of the US trade representative the authority to pressure countries to beef up their intellectual property laws even if the laws complied with the agreement

The trade representative's tools include blacklisting countries and denying them trade benefits Both have been applied to SA

Assistant US Trade Representative for intellectual property issues, Joe Papovich, told a congressional hearing on AIDS in Africa yesterday, that the problem with section 15c was that it did not specifically bind the health minister to Trips rules for compulsory licensing "and no regulations have been issued that would ensure that the Trips requirements are met"

However, he made it clear that, because the AIDS crisis was "a special case", the administration was prepared to soften its line, which, he implicitly acknowledged, was to frown on compulsory licensing and parallel imports

"While we do not believe that compromising intellectual property rights is the solution to the greater problem, contrary to our general approach, we raise no objection to compulsory licensing or parallel importing on the part of SA, as long as it is done in a way that complies with Trips "

US Vice-President Al Gore recently suggested this position to SA President Thabo Mbeki as the basis for resolving the long-running dispute over the law

The US would drop its demand that the offending clause be repealed or amended in return for a written pledge by government to adhere to Trips

Last witness speaks at fuel fund inquiry (183)

BD 27/7/99

CAPE TOWN — Public protector Selby Baqwa's inquiry into alleged irregularities in the Strategic Fuel Fund (SFF) adjourned yesterday after hearing a final witness, former deputy auditor-general Bertie Loots.

Baqwa said he and two assessors would deliver written findings after August. Eleven witnesses, including former Mineral and Energy Minister Penuell Maduna and Strategic Fuel Fund manager Kobus van Zyl, had been called since the hearings began in March last year.

Loots, now in private practice, yesterday denied trying to intimidate Maduna.

Under questioning by Maduna's advocate, Kessie Naidu, he acknowledged writing a letter to Maduna in February 1997 after the minister ordered a special audit of the fund. He believed the auditor-general's office would also be under scrutiny.

In the letter, he said his office was responsible for the SFF's annual audit, and referred to a memo Maduna wrote setting out the terms of reference for the special audit — not conducted by his office.

"As reference is made to this office in your memo and the reason for this is not clear, and the fact that the Office would most likely have to inform the public accounts committee of Parliament of this, I would welcome the opportunity to, at an early date, discuss with you any matter which you deem necessary with regard to the audit," Loots said in his letter.

Loots denied Naidu's suggestion that the reference to the committee was an attempt to intimidate the minister, who told the inquiry two weeks ago he saw it as a veiled threat. Loots said he had merely been trying to clarify the terms of reference of the management audit.

"If the meeting had taken place and the minister had said the audit office was not in the firing line at all, it would have obviated the need for me to talk to the public accounts committee," he said.

Loots also acknowledged writing a letter to a colleague in the office two days earlier, in which he had said the audit ordered by Maduna was unacceptable and a "motion of no confidence" in the auditor-general. There was eventually a meeting at short notice on April 3, which Maduna had insisted on taping. — Sapa

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Toyota bends on petrol blend

CT (PR) 30/7/99 (183)

ROY COKAYNE

Pretoria – Toyota South Africa, the motor manufacturer, did an about-turn yesterday on its previous public stance on the new petrol/alcohol blend

Toyota SA recommended last week that owners of its current models, and most models sold over the past 10 years, use only unleaded petrol because no alcohol had been added to it

But yesterday the motor manufacturer issued another statement "to put the matter in the correct perspective"

It said Toyota and Sasol had carried out comprehensive tests over the past 18 months and Toyota did not expect the current premium grade petrol/alcohol blend to have any detrimental effects on any of its models

"Toyota, however, advises that operators of its vehicles have the option of using unleaded petrol should they wish to do so," the company said

"Toyota SA confirms that Sasol guarantees the quality of the petrol/alcohol blend fully conforms to the requirements of the South African vehicle population as well as the South African Bureau of Standards (SABS) specifications for a premium grade petrol on the highveld"

Toyota SA's initial statement was prompted by an announcement last week that a petrol blend containing a maximum of 12 percent alcohol by volume would be distributed through the leaded 93-octane petrol dispensing network in Gauteng and parts of Mpumalanga from Monday this week

Last week Neil Smith, Toyota's service and customer care operations director, said that in the past it was an established fact that petrol/alcohol blends supplied to outlets in the Sasol distribution area had resulted in a large number of problems

Despite a vigorous campaign to develop countermeasures, some problems were still evident until the blended fuel was withdrawn from the market

Smith said motorists should be aware that there could be fuel system problems associated with this blended fuel Toyota SA was urging motorists to be sensitive to any deterioration in vehicle performance that could be associated with the introduction of alcohol into leaded petrol, he said

Industry sources said the ethanol proportion had been increased to 85 percent, which in itself would help eliminate the risk of corrosion from the petrol blend

The sources added that the blend would have a maximum of 12 percent alcohol by volume at the time of introduction, but this would be reduced to 10 percent six months after introduction There was a possibility it could be reduced further to 8 percent at a later stage

"Manufacturers said at the outset that South Africa's petrol must conform to international norms," said one source

"The SABS allows a maximum of 12 percent alcohol by volume in petrol, but the international norm is 8 percent

"Vehicles have been designed in terms of the international norm and South Africa must stick to these norms"

Policy shift on imported petroleum in the pipeline

Linda Ensor

BD 4/8/99 (187)

CAPE TOWN — High level discussions are taking place between government, multinational oil companies and emerging black-owned ones regarding a change in policy on the importing of refined petroleum products

A meeting to discuss the issue is scheduled for Friday and it is considered likely that the restriction on import licences being granted only to oil refiners will be lifted to allow nonrefining oil companies — mainly black at this stage — to import petrol

At the moment licences are issued to refiners if they can establish that other refiners in SA cannot supply them with refined products

The expected policy change would represent a significant concession by the refiners, said industry sources, and would give support to government's white paper on the restructuring of the liquid fuels industry One of the white paper's aims is to increase the stake of black-owned companies in the sector

Moses Moloele, chairman of the African Mineral and Energy Forum, which represents the black-owned companies and which will be present at the meeting, said such a policy shift would be welcomed

Having import licences would give these companies greater flexibility in purchasing their surplus requirements over and above their obligations to uplift a certain quantity from Sasol

Black oil companies wanted to be accorded the same status as other oil companies and have the ability to operate commercially, he said It was possible they could source the refined product abroad more cheaply than they could locally

However, key questions such as the effect on the balance of payments and on refiners' capacity will have to be considered before the green light is given to the policy shift, mineral and energy director Rod Crompton said yesterday

From a balance-of-payments point of view, it is preferable to add value through refining inside the country rather than importing an already refined product or losing refining margin by both importing and exporting

Sources say the main benefit of a policy shift for existing black-owned companies such as Zenex, Exel, Africoil and Tepco would not be to get access to petrol supplies as they already have supply arrangements with refiners such as Engen, Sasol and Shell

Gaining access to an independent supply would strengthen their hand when bargaining over the price they pay refiners For instance, Tepco participates in the refining margin on the basis of a "deeming" arrangement as if it is importing crude and having it processed through the refinery

Refiners benefit from improved margins as a result of higher throughput and smaller companies benefit by getting the product at a cheaper price

SA Petroleum Industry Association director Colin McClelland says there is a significant oversupply of diesel, which has to be exported Although there was an equilibrium between supply of and demand for petrol, there was a growing tendency to import petrol as the market grows, he said

Clarity requested over law on cheap medicine

(183) BD 5/8/99

US ambassador says his government is not a puppet of pharmaceutical firms

Stephane Bothma

PRETORIA — The US government has requested clarification on that part of SA's health legislation dealing with acquiring cheap medicines, but has strongly denied any threats of trade sanctions or claims that it is interfering in the country's health policy.

"The US government is not a puppet of pharmaceutical companies," US ambassador to SA James Joseph said yesterday.

At a media briefing to clarify his government's policy on AIDS treatment and prevention, intellectual property rights, affordability of drugs and bilateral pharmaceutical issues, Joseph said he believed the US government's queries about the intention of SA's new health legislation would be resolved soon.

Reacting to claims by SA action groups that US regulations protecting patent rights of pharmaceutical companies were denying South Africans cheap drugs, especially for the prevention and treatment of HIV/AIDS, Joseph said it was important not to create false adversaries.

"We, along with other SA trading partners, have asked for clarification regarding the intent and application of section 15(c) of the Medicines and Related Substances Amendment Act of 1997," he said.

The controversial section provides for SA to import drugs from third parties not authorised by the patent-holding companies or to compel companies to grant licences to local manufacturers who will charge lower prices.

"Will it (section 15 (c)) be interpreted and implemented in line with the international trade agreements SA has signed?" Joseph asked.

"This assurance will not prevent SA from establishing parallel markets if it believes it can acquire drugs more cheaply abroad than at home. It will also allow the SA government to undertake compulsory licensing, the power to grant local companies the right to manufacture a patented drug regardless of whether the patent holder wants it or not."

Joseph said the only assurance asked for by the US government was that SA play by the international rules of the World Trade Organisation. The US was not part of the current lawsuit by about 40 pharmaceutical companies in which section 15 (c) is being challenged.

SA is one of 36 countries on a US "watch list" which identifies foreign countries that deny adequate and effective protection of intellectual property rights.

However, recommendations that SA be designated as a "priority foreign country" — which would have resulted in sanctions — were not accepted by the US.

Capitol Hill might accept assurance on patent protection

SA may settle US drugs row

ET (BR) 11/8/99 (183)

Adele Shevel

Johannesburg – Pharmaceutical manufacturers and the government were exploring a negotiated settlement regarding pharmaceutical legislation that has earned South Africa criticism and certain trade restrictions from the US, sources said yesterday

These negotiations are intended to supplant a controversial court case taken by the Pharmaceutical Manufacturers' Association (PMA) against the government on constitutional grounds

The sensitive issue at the centre of the case is section 15c of the Medicines and Related Substances Control Amendment Act, which has come under the spotlight of Capitol Hill in the US and has significant trade implications for this country

The US had voiced its fear that the South African government would abuse its power and bypass patent protection and implement parallel importation

The US last year stopped preferential treatment for steel and foreign aid to this country for several months as a result of certain of these proposals.

Mirryena Deeb, the executive director of the PMA, said yesterday that the association, which represents about 80 percent of the local industry, was in discussions with the government over patent abrogation in s15c, the crux of the legal matter at hand

The objective of the South African government is to allow easier access to pharmaceutical drugs at lower prices But manufacturers say it infringes intellectual property rights

However, hardliners who fought against the pharmaceutical manufacturers are no longer in the Cabinet

A source said it was likely this government had given assurances that it would not breach intellectual copyright The US remains intent on strengthening patent protection

Sources said that in the trade and industry department there was "progress towards assurances that this government will not breach intellectual property rights" This could mean the rest of the legislation around s15c could be promulgated if industry and the government reach an acceptable negotiated solution

The US government has voiced concern that s15c violates the World Trade Organisation agreement on trade-related intellectual property (Trips) The industry, which turns over R17 billion a year in this country alone, requires about 12 years of research and development (R&D) before a drug can be placed on the market Companies generally have about a 20-year patent protection period, which includes the 12-year R&D period

Deeb said patent protection stimulated competition Though copies were not able to be made of a patented drug, new and sometimes better versions were constantly coming on to the market "We cannot live with patent abrogation," said Deeb

An executive said there had been a shift in attitude within the government It had been alleged by pharmaceutical interests that Nkosazana Zuma, the previous health minister, was motivated by a group in the World Health Organisation which advocated that there by no patent protection for pharmaceuticals worldwide

Drugs patent wrangle nears end

(183) BD 12/8/99

The litigants have notified court that 'general principles of a resolution' have been agreed

Simon Barber

WASHINGTON — The long-running court challenge lodged by SA, US and other multinational drug companies against legislation designed to reduce medical costs but seen as threatening the firms' patents is close to settlement, a US company representative told a closed-door White House meeting yesterday.

The Pretoria High Court, where the matter has been pending since early last year, has been notified by the litigants — the Pharmaceutical Manufacturing Association and 41 co-applicants — that "general principles of a resolution" have been agreed.

Tom Bombelles of Pharamaceutical Manufacturers and Research of America, the industry lobby, who attended yesterday's meeting, said "we are hopeful from talks with the new health minister (Dr Manto Tshabalala-Msimang) that a mutually agreeable solution can be reached"

The dispute centres on clause 15c of the 1997 SA Medicines and Related Substances Act and the power it apparently gives the health minister to ignore pharmaceutical patents as a means to obtain drugs at lower prices than offered by the patent holders

The office of the US Trade Representative (USTR) has placed SA on its "watchlist" of countries it believes are not properly protecting intellectual property rights and withheld new trade benefits for certain SA products

Vice-President Al Gore has been pressing for a compromise on a government-to-government basis while the court action runs its course

He says the US government would have no objection if the SA government sought to purchase drugs outside patent-holder marketing channels, or licensed third parties to make copies of still-patented drugs, so long as this was done in a Trips-consistent (trade-related intellectual property-consistent) manner.

The industry fears the administration is dropping its policy of pressing trading partners to observe a higher standard of patent protection — "Trips-plus" than the Trips parties originally agreed to.

Under the bilateral deal SA would provide a statement committing itself to honour Trips

USTR is not satisfied with SA's drafts. Sources said the vice-president's office was seeking to overcome that problem by proposing the two governments sign a "framework agreement" under which SA would make essentially the same pledge

Gore would use this agreement to press USTR to drop SA from the "watchlist". Resolution of the court case would clearly assist Gore's effort to defuse the issue as a bilateral flashpoint

Although the terms for the court settlement are unknown, the outcome is expected to be closer co-operation between industry and government in confronting the AIDS crisis

"We want to be, and are, part of the solution," Bombelles said, but it had to be acknowledged that "intellectual property should not be allowed to be characterised as an impediment to health-care solutions"

SA launches inquiry on carbon black dumping

(279A) (183) CT (AR) 13/8/99

JOHN FRASER

Johannesburg – The government has launched an investigation into claims that carbon black, a chemical used in the manufacture of tyres and rubber, is being dumped on the Southern African Customs Union (SACU) market

The inquiry follows a complaint by Algorax, a Port Elizabeth-based chemicals firm and the only South African manufacturer of the product

An official notice from the Board on Tariffs and Trade reports the allegation that carbon black from Australia and Thailand is being dumped on the SACU market, "causing material injury and/or threat of material injury to, the SACU industry concerned"

Algorax has complained it cannot compete with the low prices charged by the importers, and the company has supplied sufficient evidence of this to trigger the investigation

The evidence suggests that domestic prices in Thailand and Australia for the chemical are higher than those charged in the SACU market

Algorax has complained of a decline in sales, profit margins, output, market share and capacity utilisation Those affected have been asked to submit comments to the director of dumping investigations in Pretoria by early September

If the authorities conclude there has, indeed, been dumping, a duty on the imports can be imposed

Algorax refused to comment yesterday

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A patent case of profit vs patient

(183) UT(MR)17/8/99

ADELE SHEVEL

Nowhere is the discrepancy between rich and poor nations so eloquently portrayed as in the pharmaceutical industry

Billions of dollars are spent producing mood altering anti depressants as well as drugs that counter impotence and obesity

There is the perception that diseases that inflict developing nations are often largely ignored, on the assumption that these markets don t have the funds to cover research and create profit for the pharmaceutical conglomerates.

Large drug companies are more like supermodels than charities, says Piers Whitehead of Mercer Consulting in an article in The Economist. They won't get out of bed for less than $350 million in annual sales for any given product.

But multinationals produce, for free, cures for river blindness, lymphatic disease and elephantia sis diseases that exist exclusively in developing countries

Aids, however, is one life-threat ening illness that has inflicted devel oped and developing nations alike. Pharmaceutical companies contin ue to invest billions of dollars to find more effective treatments and solutions to the global pandemic

The treatment of Aids has been far more effective in wealthier markets such as the US, where patients can afford the expensive treatment and have access to suit able infrastructure, including med ical supervision. Soaring statistics of Aids related deaths in Africa bear testimony to the desperate situation on this continent.

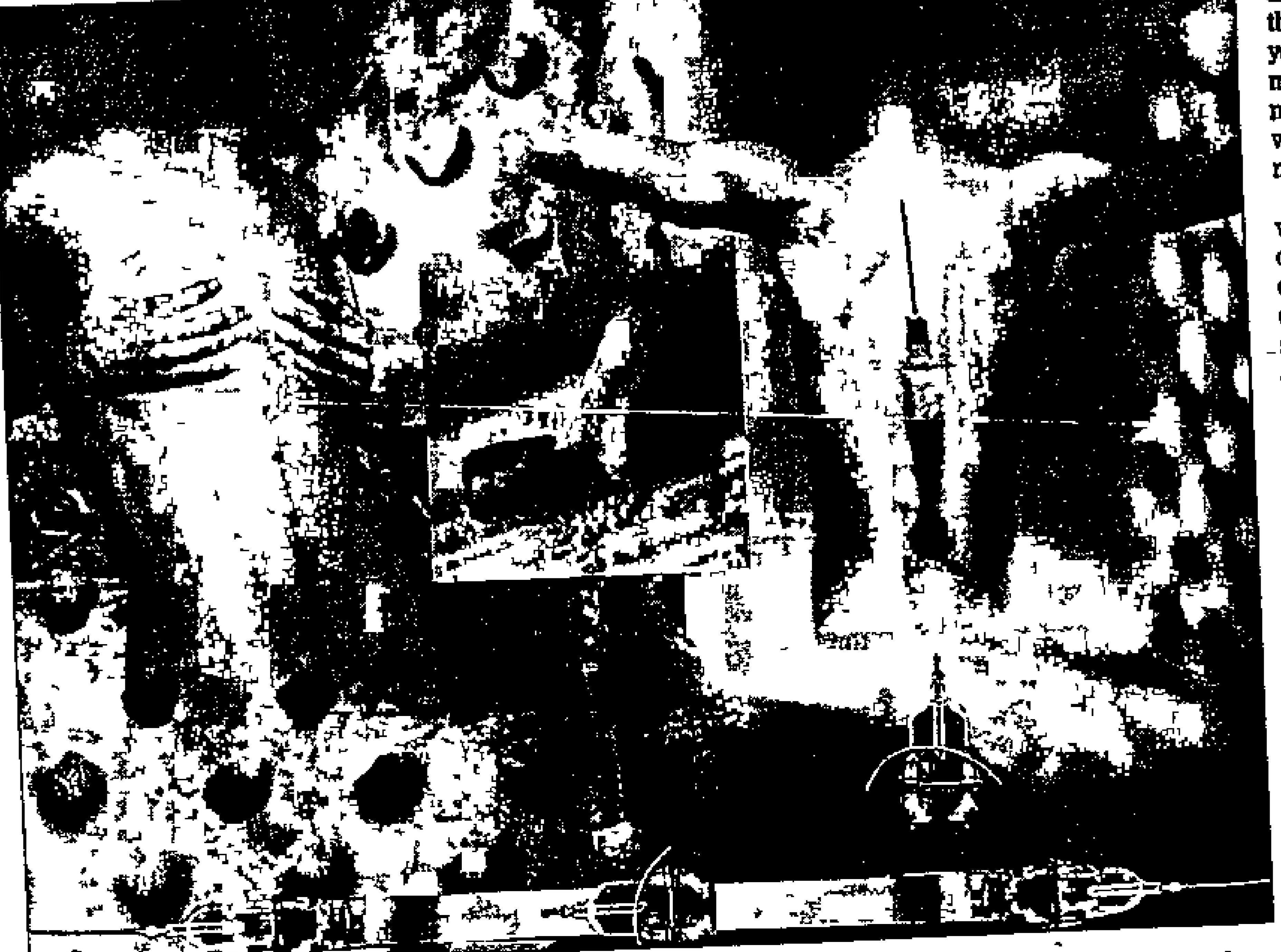
The pharmaceutical industry is being targeted by social activists particularly in the US over South Africa's attempts to provide easier access to cheaper drugs.

The argument revolves around a law put forward by Nkosazana Zuma, the previous health minister, to allow for compulsory licensing to make copies of drugs and parallel imports of patented goods This legislation creates the opportunity to effectively bypass the protection of patents and intellectual property rights, a cornerstone of trade and business worldwide.

It also overrides certain funda mental requirements of trade-compliant countries. Compliance with trade-related intellectual prop erty (Trips) is required for countries to attract overseas investors

Now however even US Vice President Al Gore finds himself just as his presidential campaign gets under way hounded by Aids activists who accuse him of callousness towards Aids sufferers in developing countries

Gore traditionally not as close to the pharmaceutical industry as his Republican counterparts (but per haps reliant on it for campaign con tributions) has pushed for Wash ington and Pretoria to reach a compromise on the issue Mean while, Congress has criticised South Africa for its health policy.



Zuma's law to bypass patent protection has been taken to court by 41 pharmaceutical companies and the Pharmaceutical Manufac turing Association of South Africa, who object to both fundamental principles of the law parallel im portation and compulsory licensing.

A key question in this conflict is what prevents such bypassing of patents from being applied to other sectors and other countries?

One answer is multinational investors In fact, this law may have contributed to the closure of 19 pharmaceutical manufacturing plants in this country since the law came to the fore.

Multinationals are reluctant to enter developing nations in which investments are not safeguarded Yet developing countries such as South Africa are in dire need of direct foreign investment to propel growth.

This issue has also flared up (after being on the back burner for two years) because US negotiators are trying to press for an agreement now before President Thabo Mbeki meets Gore in September for an "out of cycle" review of South Africa s trade status with the US

South Africa has been on a watchlist of countries whose protection of intellectual property is considered to be suspect.

Healthcare is about business herein lies the quandary.

Industry participants would argue that healthcare is like any other business and must operate along the same principles. Develop ing nations (and certainly Zuma) would argue that, on humanitarian grounds, access to life-saving health care products overrides any intellec tual rights issue.

Pharmaceutical companies spend about $500 million researching and developing a new drug. The product takes, on average, 12 years to reach the consumer and then another eight years to recoup investment costs and make a profit. Without the economic motive, it is unlikely the industry would spend as much time and money to develop products.

While a legal copy cannot be de veloped of a patented drug, other companies are not prevented from developing a similar or even more effective product. Prozac, for in stance, was not the first popular anti-depressant to reach the market but it has became the buzzword for a chronically depressed generation.

Some say South Africa is a pawn in a wider international patent pro tection conflict. In November a re view of certain Trips principles will take place in Seattle, but the review will only apply to biotechnology Sources say certain commercially motivated factions are trying to override Trips to reduce patent pro tection across the board.

Many felt Zuma treated the pri vate healthcare sector as the enemy This relationship appears to be thawing under new Health Minister Manto Tshabalala Msimang, who has been negotiating quietly with the industry since July These nego tiations may allow for the courts to be bypassed altogether

Industry commentators say the pharmaceutical manufacturers have been supplying cheaper prod ucts to developing nations for years, but they prefer to keep this practice low key. South African pharmaceuti cal companies, for instance, supply products to the state at cost and re coup their losses through higher prices in the private sector.

"The Wall Street investment banker would no doubt complain and feel aggrieved as to why he has to pay a higher cost," says one executive.

As the medical disparity grows between developed and developing countries, the public and private sectors need to collaborate to resolve the issue, particularly as countries with an increasingly unhealthy population see their economic growth stagnate.

Low oil prices blamed as results come in below expectations

Mossgas posts R715m surplus

(183) CT (APR) 23/4/99

EDWARD WEST

Cape Town – Mossgas, the state owned gas to liquid fuel producer, had made a lower than expected full-year operating surplus of R715 million, the company said at the weekend

The unaudited surplus was lower than anticipated at the start of the financial year, but up on the R1.1 billion made over the two previous financial years

In September last year Dave Day, the chief executive, said the company was hoping to make a R750 million operating surplus for the year to March 31

Mossgas ascribed the lower than expected surplus to unusually low oil prices It supplies about 8 percent of the local fuel market

The low petroleum product sales that characterised the local market have had little effect on Mossgas sales because of an agreement it reached with locally represented oil companies 18 months ago

The oil refiners agreed to buy all of Mossgas' production at the in bond landed cost, which is the government-determined price of imported refined fuel

The Petroleum Industry Association does not expect growth in fuel sales this year because of the higher international oil price

Mossgas can expect a bumper new financial year, given currency stability, because the in-bond landed cost will rise with higher international oil prices

Harry Hill, a Mossgas spokesman, said the company was pursuing possible partnerships and joint ventures in its aim to extract maximum value from its indigenous gas resources

Opportunities were being sought in product streams available in Mossgas' processes – environmental fuels and speciality chemicals But, "it is too early to provide details", Hill said

Diversification and expansion projects would be funded with Mossgas's cash flows, he said

Hill said that on the operation front the R2,2 billion financing for the development of the new EM gas field complex was in place and the government had agreed to guarantee the loans

He said the new gas fields would provide Mossgas with gas until 2006 The company began an exploration programme of known reserves in the area and were confident reserves would be found to last for many years

The two-phase R2,2 billion project for the new gas reserves involves drilling up to five underwater gas wells near the Bredasdorp Basin offshore of Mossel Basin, which will be connected by underwater pipeline to Mossgas' existing plant

A first production well in the project, EBF01P, was completed Drilling of well EM01P had been completed and well EM02P had been drilled to a depth of more than 2 000m

Hill said the latter two wells would be completed once drilling of EM02P was completed The project was on target for the first delivery of gas from these wells to the onshore plant in April 2000

The alliance agreement with Dresser-Kellogg for the development of the EM and some other smaller gas fields in the Bredasdorp Basin was on target

Chemicals contributed 5,3% to GDP

Coal was a major factor for industry

CT (BR) 24/8/99 (183)

The chemical industry in South Africa came into being in 1896, about 100 years after the first lead chamber and Leblanc plants were built in Britain. The discovery of diamonds near Kimberley in 1868 gold on the Witwatersrand in 1886 and coalfields around Witbank and Vryheid, led to a burgeoning mining industry and a rapidly growing demand for explosives.

During these 100 years, the development of the chemical industry has been dominated by three factors: the demand for explosives by the mining industry, the abundance of relatively cheap coal and the political and regulatory environment in which it operated between 1948 and 1994.

Based in a country with no proven oil reserves, little natural gas and abundant coal resources, it is not surprising that the gasification of coal became a major factor in the development of the industry, said Gus Gerrans, the director of information of the Chemical and Allied Industries Association.

"In addition, the political system forced the industry to look inward and to focus on import substitution. This led to small scale plants concentrating on local demand. This has meant locally produced commodity chemicals and processed goods have been generally less than competitive in export markets," he said.

For a developing country, South Africa has an unusually large chemical industry and it is of substantial economic significance. In 1996 the industry contributed 5,3 percent to the GDP and 22 percent of manufacturing sales.

Almost 12,5 million tons of primary and secondary products were manufactured during 1996. Apart from major players like AECI, Sasol and Sentrachem, and Polifin which is a joint venture between AECI and Sasol, there are a large number of smaller companies involved with the manufacture of a wide range of specialities and in formulating and converting.

The Chemical and Allied Industries Association, formed in 1994, grew out of the 50 year old Transvaal Chemical Manufacturers Association.

The association's responsibilities include fostering South Africa's science base assisting in education and training, seeking ways to promote growth in the chemical and related sectors, consulting with government and other role players and promoting the industry's commitment to a high standard of health, safety, and environmental performance.

Division operates South Africa's only cyanide facility which produces 57 000 tons a year

Despite a slump in polymer prices, Polifin soars

CT (BR) 24/8/99 (183)

Polifin, southern Africa's leading producer of monomers and polymers, chlor alkali chemicals, mining reagents and related products was formed in 1994 as a Sasol/AECI joint venture.

A year and half later the company was listed on the JSE and has since grown from strength to strength. It is characterised by its cash generating ability which is evident even after a turbulent year which saw international polymer prices slump to unprecedented lows.

With fixed costs nearly 30 percent lower than they were three years ago and with output per employee having increased by between 50 and 60 percent Polifin's commitment to the continuing process of productivity improvement and streamlining of operations has yielded results. Customer service levels and quality have improved consistently and new production records are continually achieved by a number of plants.

This drive to be internationally competitive in terms of productivity, service and quality has enabled the company to retain its leadership position in African markets and to successfully penetrate foreign markets traditionally controlled by the world's great producers.

Operations are sited at 10 different locations in South Africa with major sites located at Sasolburg, Secunda, Umbogintwini and Witbank. Polifin's chemicals division supplies the PVC division with 90 000 tons of chlorine from its yearly production of 150 000 tons, with most of the remaining tonnage utilised in the production of hydrochloric acid. External chlorine sales are mainly to municipalities for water purification, with the balance beneficiated into products such as trichloroethylene.

About a third of the 170 000 tons of caustic soda co-produced in the chlorine manufacturing process is sold to the pulp and paper sector, while the balance is utilised in soap, washing powders and industrial detergent manufacturing.

The division also operates South Africa's only cyanide facilities with a total of 57 000 tons of cyanide produced each year.

Polifin is a signatory to the Responsible Care initiative and has been a trendsetter in managing various safety, health and environmental issues. It has adopted an open and transparent approach and holds an Environmental Day every year to which farmers, school representatives, government officials, environmental lobbyists and members of surrounding communities are invited.

Polifin is constantly working towards achieving and surpassing environmental and safety standards set by global petrochemical leaders and, in view of this, Polifin stages training exercises twice a year with the objective of creating ultimate preparedness in the event of a hazardous chemical incident.

The company has recognised and is concerned about the potential depletion of technical skills in South Africa, particularly those skills linked to the chemical industry. In light of this, the Polifin Technology Centre in Modderfontein was opened earlier this year.

"The ultimate objective of the technology centre is the development of competencies to close identified technology gaps and to sustain our industry in the future," said Trevor Munday, the managing director of Polifin.

In facing the threat of imported polymer and converted goods, Polifin realises the importance of nurturing industry foresight and understanding technology trends that may affect our business.

The technology centre also bears testimony to Polifin's dedication to continuous improvement in product and service capability and will facilitate the ongoing development of key competencies in polymer technologies.

SOLID GROWTH *Trevor Munday, the managing director of Polifin, says training is crucial*

Maduna's lawyer lambasts auditor-general

Kluever's attempt to have minister declared unfit for public office challenged

(183) BD 31/8/99

Linda Ensor

CAPE TOWN — Attempts by Auditor-General Henri Kluever to have former Minerals and Energy Minister Penuell Maduna declared unfit for public office were "misguided", Maduna's legal counsel Kessie Naidu said yesterday.

Naidu was summing up his argument in the inquiry by Public Protector Selby Baqwa into allegations of financial mismanagement at the Strategic Fuel Fund.

He was also responding to written arguments presented by Eberhard Bertelsman on behalf of the auditor-general's office and PriceWaterhouse, which audited the fund. Bertelsman will present his argument today.

Naidu said it was a "great shame" that Kluever insisted there was nothing wrong with the fund's financial reporting, despite the irregularities involved in its oil trading.

He said the auditor-general had launched an "hysterical attack" on anyone prepared to stand up to him.

Naidu argued that Kluever misled Parliament in his 1992/93 report on the fund by failing to fully disclose all the relevant information regarding stock values, a R170m adjustment in accounting policies and the fact that commission payments were made to an Egyptian oil trader without any underlying contract.

The auditor-general's report on the organisation was neither correct nor proper and did not comply with generally accepted accounting practices.

According to Naidu the fund's directors adopted a laissez faire attitude towards its affairs and its managers arrogated powers to themselves. They failed to comply with the sound principles of corporate governance and there were material irregularities in the fund's accounts.

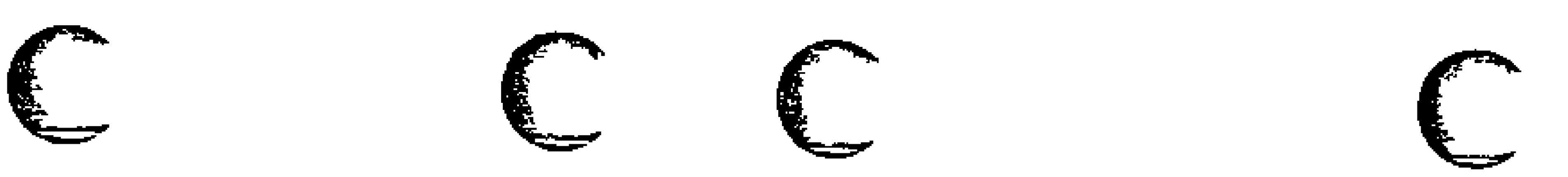
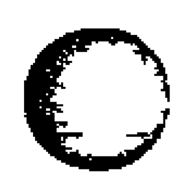
Naidu said Maduna, now Justice Minister, was concerned about the auditor-general's office from very early on and the questions he raised about the fuel fund were not answered.

Maduna had to resort to secretive means to get hold of the information and, "given the attitude of the auditor-general", could not disclose this to Kluever.

The assertions made on behalf of the auditor-general and PriceWaterhouse were "malicious", excessively unbalanced and intended to invoke sensationalism in the media.

According to Naidu, Kluever claimed that Maduna's history in the liberation struggle and his support for oil sanctions made him antagonistic towards the fund. It was "shameful and disgraceful" for Kluever to suggest that Maduna was racist for appointing blacks to the fund when this was done to further transformation, he said.

Naidu said the accusations of racism and bias against the minister were contradicted by his good relations with other white males in the organisation, such as his "whistleblower" Brian Casey.

'Time to ditch subsidies'

Wyndham Hartley

CAPE TOWN — Opposition parties, in the wake of last night's 13c/l increase in the fuel price, called on government to scrap subsidies to Sasol and Mossgas and to act urgently to stabilise the fuel price.

Democratic Party spokesman for minerals and energy affairs, Ian Davidson, said the hike was "ill-timed unnecessary and unwarranted" These increases could be avoided if government was prepared to go ahead with restructuring and deregulating the liquid fuels industry

"Notwithstanding the increase in the oil price, the two factors responsible for unnecessarily boosting the price of fuel to the consumer are the levy of 8c a litre for the equalisation fund and the 4c a litre customs and excise duty charged on all fuel

"The equalisation fund is effectively a subsidy for Sasol and Mossgas should the price of fuel fall below $16 a barrel The current price is $21,52 a barrel With government committed in terms of a cabinet resolution to reviewing this subsidy by June 2000, and with the oil price unlikely to fall below $16 a barrel by that time, the levy is no longer necessary and should be scrapped

In the interim consumers continue to pour their hard-earned rands into a fund which will probably never be needed "

New National Party spokesman Maans Nel said it was time for government to do something positive to counter the increases in the fuel price. He said another increase would have a negative effect on inflation and would hit the agricultural sector and the poor hard

Federal Alliance spokesman Sakkie Blanche said government should now try to stabilise the fuel price He too, warned it was low-income earners who would be hit hardest by this increase.

(183) BD 1/9/99

'Maduna should pay costs of Strategic Fuel Fund inquiry'

(183) CT (AR) 2/9/99

Ronnie Morris

Cape Town – Selby Baqwa, the public protector was advised yesterday to recommend that Penuell Maduna, the former minerals and energy minister, pay the costs of a year long inquiry if he was found to have lied to parliament and to the inquiry

Eberhard Bertelsmann the counsel for auditor general Henri Kluever advised this action at the winding down of an inquiry by Baqwa and two assessors into a claim made by Maduna in parliament in June 1997 that Kluever had covered up losses in the Strategic Fuel Fund.

Bertelsmann said when Maduna made the claim he knew it was untrue. There had been no physical loss and therefore no theft of stock worth R170 million.

Maduna's explanation – that he was only asking questions in parliament – was another untruth which he had repeated during his evidence before the inquiry Bertelsmann said.

Maduna eventually admitted under cross examination that some of the statements he had made to parliament might have conveyed a positive assertion that there had been a physical transfer of stock.

AWAITING RULING *Penuell Maduna* PHOTO: JOHN WOODROOF

"Once it has been established that his statements to parliament and this inquiry are untrue, the submission that he is unfit for public office follows as a matter of necessity" Bertelsmann said.

Maduna now the justice minister had subsequently refused to acknowledge he was wrong. Bertelsmann said a lie in parliament was in itself enough to disqualify Maduna from office.

For over a year Kluever had been subjected to allegations that he had covered up the theft of stock worth R170 million.

Bertelsmann said. "That is not true. He went home with the feeling that if the auditor general is not honest there is nothing left of public morality in South Africa. If the auditor general does work dishonestly, then any hope of a corruption-free South Africa is lost."

Bertelsmann said Baqwa's finding could not undo the damage caused to Kluever's reputation Should Baqwa find Maduna had lied to parliament and to the inquiry, a reference must be made to parliament together with certain recommendations.

As a further mark of the public protector's disapproval, Bertelsmann said, Baqwa should tell parliament that the R20 million cost of the inquiry was unwarranted – a serious burden on the public purse – and parliament should order the costs be recovered from the individuals involved.

He said the message that would go to public officials as a result of this inquiry was that if they trampled on the rights of others they ran the risk of incurring personal liability.

Baqwa then announced the formal hearing had come to an end. He said his finding would be presented in the form of a report in a few weeks' time.

Former minister 'wasted R20m'

BD 1/9/99 (55) (183)

Linda Ensor

CAPE TOWN — Former minerals and energy minister Penuell Maduna's refusal to retract lies he knowingly made to Parliament led to R20m being unnecessarily spent on an inquiry into the financial affairs of the Strategic Fuel Fund legal counsel argued yesterday

Summing up his case before Public Protector Selby Baqwa Eberhardt Bertelsmann — who appeared for Auditor-General Henri Kluever and accounting firm PriceWaterhouse — said Maduna lacked the moral fibre to correct his lies and was unfit for public office Bertelsmann said Maduna's statements had damaged the reputations of Kluever and PriceWaterhouse

Bertelsmann called on Baqwa to severely censure Maduna for his dishonesty and to recommend to President Thabo Mbeki that he be discharged from public office Maduna should also be made to pay for the costs of the inquiry in his personal capacity to send a strong message to public officials and politicians this sort of behaviour would not be tolerated.

All the evidence suggested Maduna must have known before his statement in Parliament in June 1997 that the R170m fuel fund "loss" was not a loss or theft, as he claimed, but a change in accounting policy

Even when former audit commission chairman Barbara Hogan informed Maduna shortly after he made the statement that the R170m was a book entry he failed to make a public retraction or inform Parliament. "He maliciously and steadfastly refused to acknowledge that he was wrong," Bertelsmann said

Nonke Size Ntsaluba auditor Barend Petersen was dishonest and his management audit into the fuel fund unprofessional This should be reported to the Public Accountants and Auditors' Board and he should be charged Bertelsmann said

Deal on patents surprises industry

BD 20/9/99 (183)

Pat Sidley

THE agreement between the US and SA governments on ending their differences on patent protection, appears to have come as a surprise to the SA pharmaceutical industry

Bill Collier — CEO of Glaxo Wellcome in SA — was among those who expressed surprised at reading about the apparent agreement reached while the industry remained committed to its belief that certain sections of the medicines law went against international patent protection regulations

This has been the substance of court action the multinational pharmaceutical industry has taken against the SA department of health to try to stop its radical overhaul of medicines legislation in this country

According to Collier the Pharmaceutical Manufacturers' Association which represents the companies in this country has said it had suspended the action to give the new minister of health a chance to present changes to Parliament early next year

Players in both government and the drug industry have been at great pains to separate the issues of any agreement between the governments and the still pending court action against companies

Although the companies which have taken action have objected to a range of issues, Collier said the most important one, felt by the pharmaceutical industry internationally is the one which deals with patent abrogation, the issue under the spotlight at government level

Collier said there was a firm commitment on both sides to comply with international agreements on protecting patents as well as intellectual property

However, the industry felt strongly that the law as it stood on the statutes book (and which is contested in court) did not display this commitment adequately

Sources close to the government said at the weekend it was likely that changes would be made to the law to clarify the government's commitment to upholding international conventions on patent protection

Little of real substance

However, little of substance appeared clear at the weekend

Political pressure both in the US and within the country from the AIDS lobby, which had not initiated the debate, had become important to it, Collier said

The debate around the pricing of drugs available to AIDS patients played a crucial role in the pressure felt in the US government as well as that exerted by companies in SA looking to supply the market with affordable drugs

This debate had affected the pharmaceutical companies view that if SA was able to get away with abrogating patents in its fight to stem its HIV/AIDS crisis, as the drug firms see it they would not be able to make the profit necessary for the development of drugs in the field

Meanwhile, a meeting will take place today between national and local government on health and financing around HIV/AIDS issues

The meeting has been called by the new Minister of Health, Dr Manto Tshabalala-Msimang

US, SA bury medicines law hatchet

BD 20/9/99 (74) (183)

Issue will be set aside from trade agenda, but SA's implementation of law will be scrutinised

Simon Barber

WASHINGTON — The US and SA governments have agreed to paper over their differences on SA legislation which the US believes would give the health minister broad authority to violate internationally agreed principles of patent protection in the name of procuring AIDS drugs and other medicines at reduced prices

The verbal understanding, announced on Friday, does not mean the issue is dead

In a carefully negotiated statement, US trade representative Charlene Barshefsky said the US "very much appreciates SA's assurance that, as it moves vigorously forward to bring improved health care to its citizens, it will do so in a manner consistent with international commitments and that fully protects intellectual property rights"

This assurance "will enable us to set aside this issue from our bilateral trade agenda" She avoided saying it had already done so implying that her office would be watching closely how SA implemented its medicines law

The one immediate concession Barshefsky did grant was an undertaking that duty-free treatment granted to several SA products last year — but then withheld chiefly to the detriment of US importers — would be restored as soon as Congress made it possible by reauthorising the lapsed US generalised system of preferences

Barshefsky did not promise to remove SA from the watchlist of countries deemed to be providing inadequate protection for intellectual property rights US concerns about patent and copyright protection in SA are not limited to medicines but include complaints that government has not taken sufficient steps to crack down on the use of pirated computer software

At the core of the dispute is section 15c of the 1997 SA Medicines and Related Substances Amendments Act Its status as law remains unclear but it appears to give the health minister unrestricted authority to ignore the patent law passed the same year to fulfil SA's obligations as a party to the World Trade Organisation (WTO) treaty on trade-related aspects of intellectual property commonly known as TRIPS

Section 15c would allow the minister to procure patented medicines from sources not authorised by the patent-holder and to license the manufacture of patented drugs by third parties without negotiating adequate compensation with, or granting the right of appeal to the patent owner

TRIPS's position on parallel imports and compulsory licensing is subject to interpretation. In addition, it has been US policy to unilaterally oppose these expedients and to demand that countries provide a higher standard of patent protection (TRIPS-plus) than called for in the treaty

While the trade representative s office, under pressure from Vice-President Al Gore, has expressed a willingness to demand less than TRIPS-plus in SA's case, citing the AIDS "pandemic" and "social needs" as a reason for lenience, the interpretation question remains unresolved.

In her statement, Barshefsky said both sides had "reaffirmed their commitment" to TRIPS Left unstated was whether they read the treaty the same way and were still committed to the same thing. Differences could still arise, requiring WTO arbitration.

Trade and Industry Minister Alec Erwin has made clear that if the US has gripes with SA on trade matters, it should present them to the WTO rather that threaten unilateral sanctions

It is the US s hope that a fight in the WTO on interpretation be avoided, since the outcome would be uncertain The trade representative s office would prefer that drug multinationals find a way of accommodating SA's needs

\ hailed the drug companies recent suspension of their litigation against section 15c

Ending differences: Page 3

Government to proceed with cheaper drugs law — Mbeki

(183) CT 22/9/99

DAVID BRAUN
INDEPENDENT FOREIGN SERVICE

NEW YORK The government will proceed with legislation to provide for cost effective supplies of drugs for the treatment of the Aids pandemic — and it is ready to negotiate with pharmaceutical companies to protect their interests by regulation, President Thabo Mbeki said yesterday.

"No-one's intellectual property rights will be violated," he said at a news conference at the United Nations. This, he said, had been South Africa's position all along.

Mbeki is in New York most of this week for the opening of the annual session of the United Nations General Assembly, and a private conference on investment in South Africa.

He has been dogged here by questions on the announcement last Friday that the South African and US governments had settled their differences regarding the interpretation of a proposed South African law to enable the country to procure Aids medications more cheaply from American manufacturers.

South Africa has always maintained that it was acting within its rights in terms of rules of the World Trade Organisation (WTO), but US drug companies have accused the government of violating their intellectual property rights.

On Friday the US government said it accepted South Africa's position that there was no intention to violate WTO rules and intellectual property rights. Some American observers say this is merely papering over the dispute and shelving the showdown between the two countries for the day that South Africa actively starts obtaining alternative supplies of the drugs.

Mbeki said the government would be happy to sit down with the pharmaceutical companies "to protect this thing that they fear might be the consequence of the legislation".

He said the fundamental question South Africa had been trying to address was affordable medicine. "If there is a patented drug available in the United States for 50 cents and it is one that sells in South Africa for $2, we will buy it in the United States ... with no compromise whatsoever to the trademark, because it will be more affordable."

Mbeki said he understood the pharmaceutical companies would not proceed with legal action to prevent South Africa from implementing the legislation. Once it had the legislation, the government would be able to assess the need to seek affordable medicine.

On other issues raised at the press conference, Mbeki said:

● The conflict in Angola was a matter for the United Nations. The South African government had not been asked to play any role other than to provide humanitarian assistance. The government planned to do this by making an appeal to the South African public.

● He was very satisfied with the Bi-national Commission between South Africa and the United States. He planned, however, to raise with both President Bill Clinton at his meeting yesterday, and with Vice-President Al Gore tomorrow, the issue of the leadership of the commission.

Mbeki said if need be he would continue his co-ordinating role in the relationship with both countries by interacting with both the US president and with the US vice-president. The issue was really straightforward and in any case did not really affect the workings of the commission.

He expressed full confidence in the peace agreement in the Democratic Republic of Congo. "The war will not begin again," he said. "Nobody wants war there. I am quite certain there will not be a collapse of the peace process."

Mbeki said that sending in a peace-keeping force would depend on the outcome of the initiative to disengage the belligerents and uphold a ceasefire.

He did not want to be drawn on a question of whether he would tell Clinton that the United States should pay up its arrears to the United Nations.

He cited the example of Sierra Leone, however, as a poor country that had recently emerged from a war and yet was able to scrape together what it owed the United Nations. "In the context of the discussions on the UN we will advise (the United States) to pay, the same way that we pay."

Asked if there was any consensus for his call to restructure the United Nations to make it more representative and democratic, Mbeki said the fact that it had taken so long for the UN to reconstruct itself pointed to a problem.

"It would be foolish to think that one statement will do it," he said, but there was interest in restructuring the whole system of international organisations. He would be pursuing and encouraging the "unblocking" of the process that would allow restructuring to take place. "We have to try."

● The Treatment Action Campaign, a group calling for cheaper drugs in South Africa, will picket outside pharmaceutical company Glaxo Wellcome's offices in Belmont Rd, Rondebosch, from noon today. The popular band Amapondo will accompany the picketers, who will present a memo to the company calling for reduced profit margins on life-saving drugs.

AECI talks to staff on possible lay-offs in Milnerton

(183)

Vera von Lieres

Cape Town – AECI, the chemicals and explosives company, was involved in talks with employee groups on possible rationalisation at its fertiliser plant in Milnerton, Michael Blizzard, the company's head of communications, said yesterday

This formed part of the group's restructuring efforts which in May had resulted in an announcement that it would exit the manufacture of ammonia at its plants in Modderfontein, Gauteng and Milnerton

"Currently ammonia for fertiliser manufacture at Milnerton is sourced from Sasol at Secunda," Blizzard said

The closure of the Milnerton nitric acid and limestone ammonium nitrate plants was being considered as a step in restructuring of the nitrogen business

All 180 employees on site would be affected if the rationalisation went ahead

AECI's fertiliser, blending storage and liquid facilities would continue in the Western Cape

CT (BR) 23/9/99

US remains hostile to SA drugs act

(183) BD 27/9/99

Erwin says agreement dealt only with broad sweep of policy objectives — not patent exhaustion or lower prices

Reports by
Simon Barber

WASHINGTON — The US government has not officially signed off on SA using parallel imports or compulsory licensing to obtain drugs at lower prices than those offered by patent holders, or shifted from its hostility to such practices

This emerged in an interview on Friday with Trade and Industry Minister Alec Erwin He shed fresh light on the agreement he reached with US trade representative Charlene Barshefsky a week earlier to defuse the long-running row over Section 15c of SA's as-yet-unimplemented Medicines Act.

"What we sought to reach agreement on was the policy objectives of the two governments We succeeded Our policy objective of affordable health care is recognised and our policy statement that we are not seeking to undermine the intellectual property right is accepted

"But under what conditions, and when we could do parallel importation (procurement from channels not authorised by a patent holder), was not part of the agreement "

SA sought no agreement, Erwin said, on patent right exhaustion, the point in the marketing chain at which a patent holder loses control over further sale of his products

This is a key issue because while the World Trade Organisation (WTO) agreement on intellectual property (Trips) prohibits parallel importing, it does not resolve the exhaustion question, leaving countries to use their own discretion, which may not be challenged

Erwin said if the US did not like SA's interpretation of patent exhaustion — to be determined in regulations that still have to be crafted — it would have to take the matter up at "Trips-level, WTO-level", in other words seek the reopening of the treaty itself Trips permits compulsory licensing — that is, countries may license local firms to manufacture goods using another company's patented formulae — for the public good, so long as the patent owner is compensated and the government's action is subject to judicial review.

The US government has nonetheless opposed compulsory licensing on principle and reserved the right to pressure countries not to use it Asked whether the administration had shifted from this stance, Erwin replied "Ours was a carefully formulated proposition I would not draw the inference that they necessarily accept compulsory licensing "

The agreement did not preclude companies from exercising their legal right to challenge government's actions, Erwin said "If they wish, they can still take this matter up They could still, through the legislation of the US or anywhere else, attempt to have this matter addressed through the WTO we never sought to prevent the exercise of legal rights "

As for whether SA would now be taken off the trade representative's "watch list", Erwin made clear the issue was moot He did not accept the validity of section 301 of US trade law which establishes the "watch list" mechanism, which requires the US trade representative to go after countries where US companies feel their intellectual property is under threat, even if the countries are complying fully with Trips

"We believe that the unilateral use of pressure is a fundamental attack on the rules-based (international trading) system The fact that the US is a very powerful economy makes the attack even more fundamental, because the purpose of the system is to get fair rules for all regardless of size. Therefore, we will not, and have not, negotiated any of our status under 301."

Issues that may keep SA on the list, including allegations that government is ignoring the use of pirate software, are being dealt with under the trade and investment framework agreement reached between the two countries earlier this year.

The firm 'is not leaving the country and is talking with investors and labour'

Glaxo to stop local manufacturing

(183) CT (AR 26/10/99)

ADELE SHEVEL

Johannesburg – Glaxo Wellcome South Africa, the local operation of the international pharmaceutical company, said yesterday it would phase out its pharmaceutical manufacturing operations in South Africa over the next four years

Bill Collier, the chief executive officer of Glaxo South Africa, said the company was not leaving the country and would continue to have a packing, administration and quality control business and a full sales and marketing operation in the region "This is not a withdrawal from South Africa "

The proposal would be implemented only after consultation with the group's stakeholders, including the labour unions "The review uncovered a need for enhanced global planning, supply and efficiency across our worldwide network," said Collier

These changes would "enable the company to consolidate its worldwide manufacturing capacity in a more globally integrated network"

Pharmaceutical companies internationally have been undergoing a stringent restructuring process to ensure the continuity of supply and efficiencies A number of multinational companies have already closed manufacturing plants in this country

Glaxo's review of 54 manufacturing sites in 31 countries took place over the past year

The company said the purpose was to ensure Glaxo Wellcome's long-term future as a pharmaceutical leader in an increasingly tough global marketplace

Colliers said the step was part of the company's global rationalisation policy

The group intended to create an integrated network of supply sites

The manufacturing element of Glaxo South Africa employs a third to a quarter of Glaxo's 600-strong workforce in this country It is not yet known how many jobs will be lost

Collier said the move had nothing to do with the uncertain legislative environment surrounding the healthcare and pharmaceutical industry that may affect intellectual property rights of pharmaceutical companies

There is a heated dispute between pharmaceutical companies and the government in this country over the government's intended use of legislation to override patent protection, a cornerstone of pharmaceutical manufacturers who claim the need to recoup their high costs of research and development

Glaxo's products would continue to be readily available in South Africa, said Colliers

"These proposals are being made with considerable sadness Glaxo Wellcome South Africa has had a significant investment in pharmaceutical manufacture in South Africa continuously since 1948 and has been a member of this country's business community for nearly 100 years "

CAPE ARGUS, FRIDAY, OCTOBER 8, 1999

Hard-pressed motorists pay to protect the fuel industry

(183) ARG 8/10/99

MAUREEN MARUD
Consumer Editor

Motorists are still paying a levy to protect the synthetic fuel industry from low oil prices, although oil prices are soaring.

Battered by another 8c a litre petrol price hike this week – the fifth since May – motorists must still pay 8c a litre to protect Sasol and Mossgas from low international oil prices, while high oil prices drive up the price at pumps worldwide

Hein Baak, deputy director of liquid fuels in the Department of Minerals and Energy Affairs, said the levy would be demanded from motorists until the Central Energy Fund has paid off a debt to the synthetic fuel industry, hopefully before the end of December

The total income generated by the levy at one point was insufficient to cover protection claims from Sasol and Mossgas, said Mr Baak in an interview from Pretoria

"The Central Energy Fund owes the syncrude industry a debt that has developed over time, when claims for protection were much more than the income received by the fund"

He could not say if a drop in the petrol price would follow the end of the debt

"It is up to the decision makers in the department to answer that question," said Mr Baak, who also declined to reveal the extent of the debt.

The tariff protection levy Sasol and Mossgas get from the fund has been 8c a litre since November, when international crude oil prices dropped to about $10 a barrel

The levy now translates into a total of about R1,5-billion a year, or R125-million a month

In 1995 the Cabinet agreed to assist the synthetic fuel industry as soon as the international crude oil floorprice fell below a certain level That agreement is in place till June next year

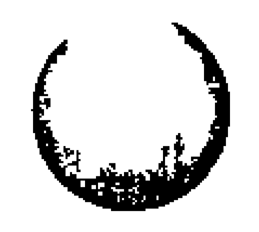
As soon as the international oil price rises above $16, the levy is supposed to fall away Oil prices have been rising steadily this year, and are now around $23 a barrel

Colin McClelland, director of the SA Petroleum Industry Association, said in an interview earlier this week "The 8c-a-litre levy is no longer required by the synthetic fuel industry, so it is surprising that the price of petrol does not come down by at least 8c"

Mr McClelland said the blow from the increase this week that pushed the petrol price up to R2,83 a litre, could have been softened if Sasol and Mossgas were expected to pay back what they received when international oil prices were low

"It is possible to grow a hedge against high petrol prices by expecting the synthetic fuel industry to pay back the assistance motorists gave Sasol and Mossgas to protect them from low oil prices," said Mr McClelland

"When the international oil price is high, the motorist should benefit from the increased cost of petrol being offset by at least that much paid back by Sasol and Mossgas"



Oil deregulation 'in empowerment jam'

(56)(183) CT (Apr) 20/10/99

JONATHAN ROSENTHAL

Johannesburg – It would take 50 years for black-owned oil companies to gain a 25 percent share of the South African market at the current rate of empowerment in the industry, Maurice Radebe, the secretary general of the African Minerals and Energy Forum, said yesterday

The government's new white paper on energy policy stipulates that deregulation of the industry can only begin once 25 percent of the industry is controlled by black-owned oil companies

Radebe, speaking at the annual Global Pacific downstream oil conference, said several high-profile black-empowerment ventures in the sector had failed because of a lack of commitment by established multinational oil companies to empowerment

This, coupled with a slow rate of organic growth, meant black oil companies had taken only 1,7 percent of the petrol market and 3,3 percent of the diesel market

"If the situation remains as it is, it would mean that in accordance with the designs of the white paper, deregulation would be delayed for 50 years"

Radebe said the proposed merger of Sasol, Petronas, Engen and Worldwide, a black-owned oil company, would further disenfranchise black interests in the industry Existing black-controlled companies would be reduced to minority shareholders

Radebe said capital constraints were key issues to be addressed The industry's market capitalisation of about R20 billion implied that black investors would have to raise R5 billion to take a 25 percent stake

Opening up the African oil boom

Industry says transparency is required along with privatisation and attention to human rights issues, writes **Claire Pickard-Cambridge**

OIL and gas industry players are fond of arguing that, given the right policies their sector could transform Africa into the promised land.

Now the discovery of serious gas potential in 16 or 17 countries on the continent and the sharp growth of lucrative deep-water projects is generating noticeable excitement in the industry

At the same time, oil and gas producers are entering an era in which transparency and social responsibility are climbing higher on corporate agendas, stimulating debate about the social inequalities that oil wealth often exacerbates in producing countries

One of the messages from the Africa Upstream strategic management programme in Cape Town last week was that investment decisions in the next century were less likely to be taken in isolation of human rights issues

Big foreign players — particularly from the US, Nordic and Organisation for Economic Co-operation and Development countries — are expected to become more intolerant of corruption. Transparency will become a requirement in all dealings and tenders

This requirement and more sustainable indigenisation — that is empowerment — policies are likely to be deciding factors for governments to tackle

In many cases insistence on good governance and corporate social responsibility will be squarely in companies' interests

For example, it is estimated that Nigeria lost $1bn in oil production this year due to disruption of operations through vandalism, hostage-taking, threats to lives and the seizure of oil flow stations by locals unhappy with the way they were being treated

Now a Niger Delta Commission Bill is proposing that part of oil revenue goes to the relevant Nigerian states and to a commission that will administer funds for social and economic upliftment.

While critics argue that the bill has flaws, it may serve as one of the early models for more equitable distribution of oil revenue. Oil companies are expected to contribute 0,5% of their annual budgets to the commission

It is no coincidence that excitement is rising about Africa s oil industry given that a change of government in the continent's biggest producer, Nigeria could signify a change for the better

An improved business climate there would benefit the entire west African economy and improve prospects for regional integration

Until now slow integration has been partly attributable to the absence of infrastructure to stimulate industrial activity

At least seven large gas projects are under construction in the country including the $400m West African Gas Pipeline project supplying gas from Nigeria to Ghana, Benin and Togo

Gas developments are also set to become a more important issue for the Southern African Development Community (SADC), particularly with large gas fields off Mozambique and Namibia a likely source for SA consumers

Gas is increasingly being seen as the fuel of the future it is clean, environmentally friendly and often cheaper than other energy sources Many countries are opting for policies to encourage better use of gas

Sasol's $1bn gas-to-liquids project with Chevron in Nigeria will make use of gas that is flared off in the oil extraction process, a significant move given that Nigeria's gas reserves appear to be more than twice its crude oil reserves

There have also been significant discoveries in deep waters off Angola recently where international companies have been jockeying for licences Competition has been so stiff that successful bidders have had to pay nonrecoverable signature bonuses of more than $300m to the government

There is now speculation that Angola, which produces about 730 000 barrels of oil a day could eventually rival Nigeria's 2-million barrels of oil.

Boom time has also arrived in West Africa where Gabon and Congo-Brazzaville already have well-established oil industries New exploration and production contracts have just been signed in smaller countries like Senegal and Equatorial Guinea.

Interest is also spreading to East Africa, where Tanzania, Madagascar, Somalia, Ethiopia and Eritrea show much promise.

The other important area is North Africa, where Libya and Algeria are dominant producers

Libya looks likely to benefit soon from changing US attitudes towards business ties with the country

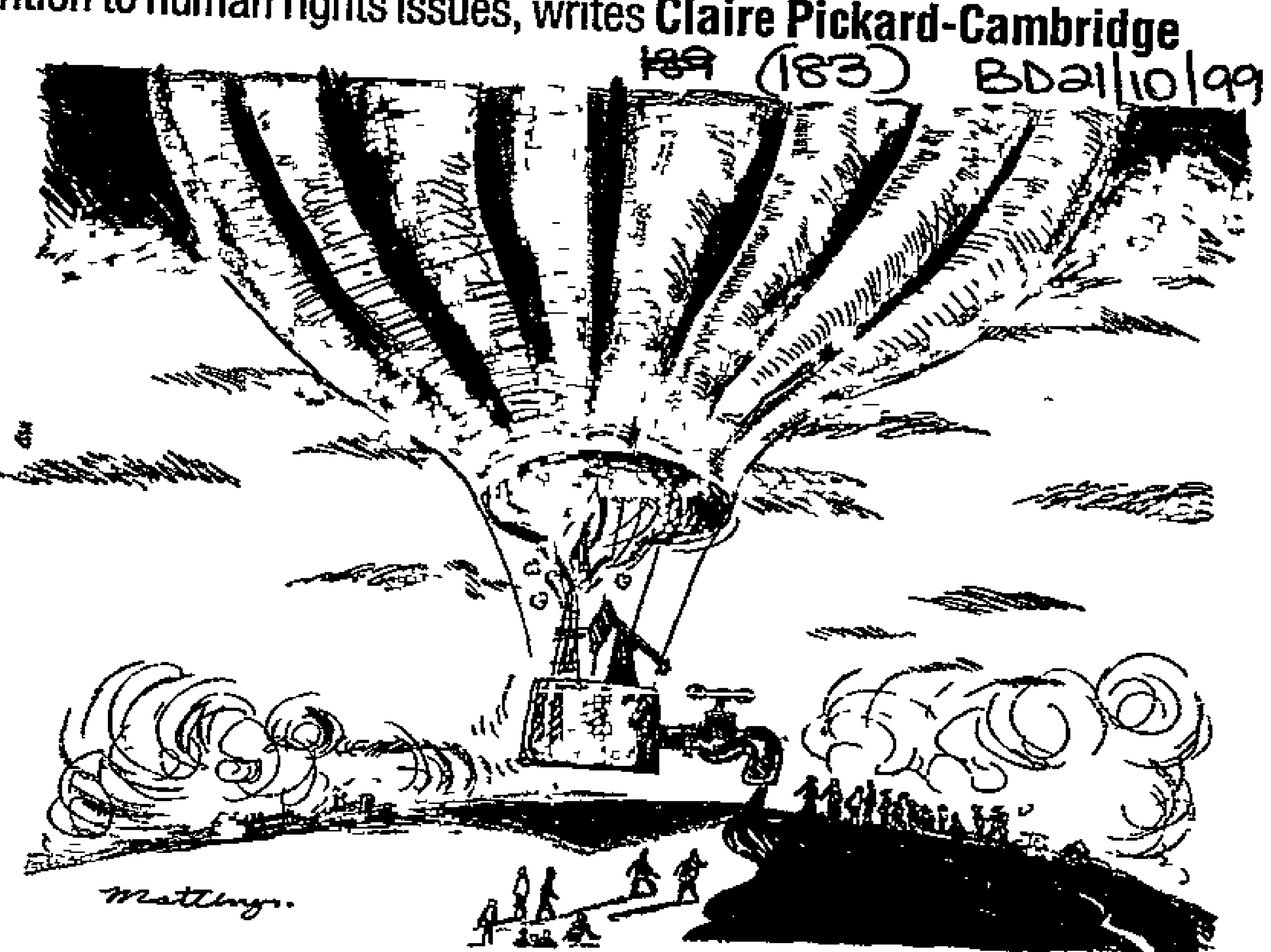
But analysts are quick to point out that the continent faces growing competition from others who have moved more rapidly on privatisation and liberalisation

Advisers Global Pacific & Partners presented research at last week s management programme indicating that barriers to increased upstream investment in Africa remain plentiful These include a lack of significant privatisation initiatives, the high degree of state control over key assets and prime acreage, the inadequate volume of marketable acreage, poor gas infrastructure and consumer markets in surrounding regions, and some political instability

Some independent players also cite factors that inhibit downstream business — refining, storage, distribution retailing and petrochemicals — as price controls, taxation overregulated markets bad infrastructure and poor access to big markets

For smaller companies drawbacks include the high cost of gaining access to data to evaluate ventures with some governments leaving the impression that they are trying to trade the data instead of the natural resources

The smaller players find entry costs too high, particularly when signature and production bonuses add to up-front costs



Corruption, as well as negotiation delays "often encourage oil companies with multiple options to look elsewhere" say industry advisers Oil and gas executives are under corporate pressure to deliver and so will at times drop deals that appear to be too slow to reach final closure

The growing costs of security for personnel has also become a serious issue, as has the need for more rapid privatisation

Not many national oil companies have been privatised There is concern about Pretoria s talk of creating a national oil company HSBC Bank s energy specialist Philip Rhind notes that such a move would be contrary to world trends and offers few advantages

As Rhind puts it "The very notion that a government would be asked to fund or underwrite new exploration is nonsense

"Governments should not be involved in exploration It is too risky and they have other priorities "

As most analysts argue, Africa remains just one of the emerging markets on a large canvas To promote the hoped-for renaissance, there needs to be real willingness among governments to open up further to investors and help accelerate projects

189 (183) BD21/10/99

African Explosives targets detonators

JONATHAN ROSENTHAL

ET (BR) 25/11/99 (183)

Johannesburg – African Explosives, the AECI subsidiary, yesterday said it planned to increase its sales of electronic detonators fivefold within two years to 15 million units a year

The group, which already produces about 20 percent of the world's conventional detonators, said the targeted sales would be worth roughly R180 million a year and would make the group the world's largest supplier of electronic detonators

Graham Edwards, the managing director, said the new strategy would position the company firmly in the highest-margin segment of the world's explosives market

The supply of bulk explosives had become a commodities and logistics business characterised by high volumes and low margins

"Explosives energy is generally very cheap, but explosions happen very quickly so the control of how that energy is used is where the future is," Edwards said

He said that within five years the explosives market would have diverged into two distinct segments, one supplying bulk-explosives and the other selling the systems and technology to initiate explosions

The group planned to develop and perfect its electronic detonators in South Africa's narrow reef gold mines and use the domestic market to achieve sufficient volumes to push prices down before mounting an aggressive assault on the world market

But it still faced intellectual property challenges before it could do so

Most of the electronic detonators it sells are the relatively low cost but unsophisticated models bought from the Altech group earlier this year Its more sophisticated model, developed locally, was patented through ICI and global marketing rights now rest with Orica, an Australian-based competitor to the local group

"Our next step is to build a detonator that is unencumbered by patent issues around the world," Edwards said

The second leg to the group's new strategy was to build on its regional base and become a leading explosives supplier in Africa

Although the domestic market was declining, the African continent was now the second most active continent in terms of mining exploration spending

"The key for us is to go where the mining companies go," he said

AECI's share price lost 15c yesterday to close at R13

Shell, government in talks

(183) PD 30/11/99

Anglo-Dutch group seeks clarity on the deregulation of SA's oil industry

Dave Marrs

SHELL SA has initiated top-level talks with the minerals and energy department in a bid to clarify aspects of the 25% black empowerment target introduced by government as the threshold before it will permit deregulation of the oil industry

Corporate affairs GM Koosum Kalyan said yesterday that Shell and partner BP, which co-own the Natref refinery in Durban, had held talks with a number of empowerment groups on the sale of a stake in the refinery

Kalyan would not say which groups were involved, but confirmed that the move was prompted by a desire to reach the stage where deregulation could take place

Deregulation entails opening the highly regulated industry to free competition, which could include the freeing up of fuel prices, legalising discounting and introducing self service on forecourts Government's white paper on energy policy sought to protect fledgling black-owned fuel companies from being driven out of business by preventing deregulation until they are big enough to survive on their own, which it deemed to be when they controlled a quarter of the industry

However, Kalyan said while Shell considered this to be a "reasonable demand" in principle, it was unclear whether the threshold applied to 25% of the industry's total assets by value or a 25% retail market share, or if it related to consolidated figures or the position of individual oil companies

She said by the Anglo-Dutch group's own calculations, about 22% of its business already involved black groups More than a third of its dealers were black, all of its paraffin outlets were black-controlled, as were many of its lubricant "routers", and an affirmative procurement policy was in place

Indications were that government was thinking along the lines of asset ownership, she said, although the 25% target appeared to have been intended "to stimulate discussion"

According to the latest SA Petroleum Industry Association (Sapia) figures, the market share of black-controlled fuel retailers — Afric Oil, Exel, Tepco and Zenex — was 4,2% for petrol and 7,8% for diesel last year, from 3,6% and 5,7% respectively in 1997 Since then Worldwide African Investment Holdings has bought 20% of Engen after selling its stake in Zenex to the group Analysts estimate that black groups now have a direct and indirect market share of 5-6%, but have given up some of their operational control

African Minerals and Energy Forum secretary-general Maurice Radebe has called for government intervention to speed up the transformation process, pointing out that deregulation will not occur for decades if the current rate of growth in black control continues

PARLIAMENT TO TACKLE COST OF AIDS DRUGS

Cheaper medicines on the cards

JUDITH SOAL
HEALTH WRITER

PARLIAMENT is to introduce measures to reduce the costs of medication during its next sitting, Health Portfolio Committee chairperson Abe Nkomo said yesterday. It will be the second time the government has tackled this issue — legislation introduced in 1996 remains tied up in a Constitutional Court challenge by international drug companies.

"We have a responsibility to ensure that everyone in the country has access to the necessary medication," said Nkomo. "We will do everything in our power to achieve this."

The best way to achieve the price cuts, he said, was to obtain generic versions of drugs that are still under patent in South Africa.

A pharmacist said the difference between the prices of generics and original drugs could be dramatic. For example, a refill for a Ventolin inhaler, used to treat asthma, sells for about R50. The generic version costs around R15.

The ulcer drug Zantac, which has come off patent, sells for about R400. The generic version costs under R100.

The pharmacist, who may not be named for professional reasons, said the threat of a generic entering the market was often enough to reduce the price of the original.

"Take the anti-inflammatory Voltarin. As soon as generics were available its price dropped by about half."

These generics are available because the original patent has expired. The two vehicles for obtaining generics before the patent expires are known as compulsory licensing and parallel importation.

Compulsory licensing allows the government, under certain conditions, to issue a licence to a local manufacturer who can produce the drug at a lower price.

Parallel importation involves buying the generic drug from countries where the patent has expired, even if it is still active in South Africa.

When the Medicines and Related Substances Amendment Act, which includes provisions for parallel importation and compulsory licensing, was introduced, it caused an uproar. Under pressure from the pharmaceutical lobby, the US government threatened trade sanctions. The South African Pharmaceutical Manufacturers' Association (PMA) appealed to the Constitutional Court, saying the government had violated their intellectual property rights.

But a few months ago US Vice-President Al Gore, under pressure from Aids activists, promised to get affordable drugs to developing countries. The PMA suspended its court case, but the legislation is in limbo.

"We will explore all the options," said Nkomo at a World Aids Day celebration in Parliament. "We might need to redraw some of the clauses in the SA National Drug Regulatory Authorities Bill to include this legislation. It might be that the PMA will withdraw the court case after the US has changed its stance. We will have to see."

The government is hoping to lower the prices of all medications, but, understandably, the focus has largely been on treatments for HIV and Aids.

On World Aids Day yesterday there were repeated calls for the government to provide drugs for pregnant women that halve the likelihood of their children contracting the virus that causes Aids. There were also calls for anti-Aids drugs to be given to women who have been raped and for treatments for Aids-related infections to be available at all clinics.

"When the next session of Parliament starts we will begin to address the cost of Aids drugs," said Speaker Frene Ginwala. "With a national effort we can make them affordable."

In the meantime local generic manufacturer Cipla Medpro has started the process to apply for licences to produce Aids drugs in South Africa.

"We're not the Salvation Army, we are here to make a profit," said Cipla's Jerome Smith, "but we know we can sell these drugs significantly cheaper than they are available right now."

He said his company was able to manufacture not just the antiretroviral treatments but also the everyday medications to treat Aid-related diseases at reduced rates.

Cipla believes it can offer AZT for R1,64 a tablet, compared to Glaxo Wellcome's discounted price of R2,45.

Glaxo Wellcome spokesperson Vicki Ehrich said yesterday her company would challenge Cipla's licence application. She said Glaxo had now offered to provide the drug to the government for R2 a tablet. This represents a further discount on the existing 70% discount.

● See Pages 4, 8

RED ALERT: National Assembly Speaker Frene Ginwala surveys the giant Aids ribbon wrapped around the entrance to Parliament yesterday. "We thought there could be no better way to reflect our concern about the epidemic," Ginwala said. PICTURE: ANDREW OCTOBER

(183)

CT 2/12/99

Control woes may herald drug danger

BD 15/12/99 (183)

Registration application backlogs are growing; inspectorate no longer functions adequately

Pat Sidley

CHAOS in SA's medicines regulatory system may lead to unsafe products reaching the public, industry sources have alleged

Pharmaceutical industry representatives, consultants to the industry and senior health department members have painted a picture of large and growing backlogs of registration applications, of an inspectorate no longer functioning adequately and of chronic staff and skills shortages

Some of this emerged from a judgment by the Commission for Conciliation, Mediation and Arbitration (CCMA) which reinstated two senior members of the regulatory system to their original posts

Much of it has been borne out, with further allegations, by industry representatives and senior government health officials Sources have also complained that new laws, which were to have reformed the registration process, are in the process of being contested in the Constitutional Court and the old law appears to be to enforce the ailing inspections system

The CCMA awarded Johan Schlebusch reinstatement of his post as director medicines registration He also held the position of registrar of the Medicines Control Council His deputy, Christel Bruckner, was also awarded the reinstatement of her post

One source in pharmaceutical manufacturing said there was a backlog of more than 3 000 applications for registration He also alleged that inspections of manufacturing facilities were stopped for a while and when they were continued could not be enforced if a manufacturer had an adverse report

He was concerned that in this environment, unscrupulous pharmaceutical companies could put drugs on the market which did not meet the council's requirements

Companies which relied on a quicker process were being squeezed, and aside from the prospect of investors leaving the country, it could lead to safety shortcuts, the source said

A Pharmaceutical Manufacturers' Association spokesman said an industry body had been set up It included local and multinational manufacturers Their largest concern was the backlog

A consultant in the industry said the system had "collapsed totally" Consultants are hired by pharmaceutical companies to see their drugs through the process — and hold-ups of the size the council now suffers jeopardise their business with that of manufacturers

She said industry players had become "quite aggressive" Inspections were often being carried by ill-trained staff, some of whom came under pressure to change their reports

A senior government health official said the process was "a mess" and chaotic, but attributed much of the problem to the fact that the council remained "largely untransformed"

This emerged in the CCMA judgment as representative of reasons given by the department for the problems

An inquiry with overseas experts had been initiated by former health minister Nkosazana Dlamini-Zuma It recommended scrapping the MCC and starting the whole process from scratch This was not done

Meanwhile, Schlebusch and Bruckner are waiting to take up their posts, but the ministry and health department are waiting for the Labour Court to make the arbitration award an order of court This could take several months

Attempts to obtain comment from the council were unsuccessful

Health insurance evaluation: Page 3