The Financial Post AUG AOUT -9 1989

Limits proposed on dealings by banks with South Africa

By Chris Sherwell

Financial Times of London

CANBERRA — Commonwealth foreign ministers yesterday proposed a package of financial sanctions under which banks lending to South Africa would face tighter restrictions on their business dealings.

The measures were unveiled in Canberra, where an eight-nation committee of foreign ministers is discussing apartheid ahead of the Commonwealth heads of government meeting in Kuala Lumpur in October.

If implemented, the measures would strengthen the financial sanctions already in place when South Africa is under pressure over the renegotiation of its main US$9-billion debt and the maturing of US$3 billion in other debts.

The measures include an official lobbying of banks negotiating next year's rescheduling, toughened guidelines restricting new South African lending and the establishment of an official body to monitor a ban on medium and long-term lending.

The proposed lobbying of international banks is to be done by a delegation of officials, and is being treated as "a matter of some urgency," according to External Affairs Minister Joe Clark, who is chairing the meeting.

The ministers are also urging all countries to take South Africa "off cover" with official government trade credit and insurance agencies, and all financial institutions to impose tougher terms for trade financing — including reducing the maximum credit term to 90 days.

The measures are in line with the recommendations of a study on financial sanctions by an Australian technocrat. His findings are published in a book launched yesterday by Australian Prime Minister Bob Hawke.

A second study also published yesterday calls for the phased introduction of full trade sanctions over a five-year period to force South Africa's government to negotiate with the Black majority.

The banks are being urged to apply the highest possible interest rates to South African debt, to provide for substantial capital repayments, and to reject options for escaping the moratorium on commercial loan repayments.

In spelling out guidelines for lending to South Africa, the ministers said these aimed to distinguish between loans which undermined sanctions and those which, by encouraging capital outflow, reinforced them.

The guidelines involve obtaining a declaration from the borrower about the source of control of the entity seeking the loan, and assurances that the loan is not to circumvent sanctions, nor for transfer to South Africa, nor to repatriate profits.