cc: JC

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the department for Enterprise

CONFIDENTIAL AND MARKET SENSITIVE

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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Dear Charles

SOUTH AFRICA

Thank you for your letter of 21 July about Consolidated Goldfields and Anglo-American.

The argument that a takeover of Consolidated Goldfields would reduce the contribution by business to weakening apartheid is not very convincing. There would not be general agreement for the view that Consolidated Goldfields is manifestly a better and a more enlightened employer than Anglo-American. Anglo-American has a long-standing good reputation in this respect and although we have no criticism to make of Consolidated Goldfields, it would be hard to sustain the underlying premise of your contact's argument, that Consolidated Goldfields is the better employer of the two. Moreover, the big mining houses negotiate a significant element of their conditions of employment through the Chamber of Mines, and this will tend to reduce the scope for one company being much ahead of the other.

Intervention might also be damaging to UK interests in South Africa. Despite disinvestment and the voluntary ban we apply on new investment as part of our international commitments, the UK is still the largest foreign investor in the Republic. It is not very likely that South Africa would hit at UK controlled investments in retaliation for a rebuff to Anglo-American (given her wish to see HMG remain an opponent of comprehensive sanctions) but the possibility should not be ruled out.

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Any other considerations like an unfavourable public reaction to South African investment in a UK group, 81% of whose funds are employed outside South Africa, could be handled in the usual way through the merger procedures without the need for pre-emptive intervention.

We therefore do not think there is a case for any intervention.

As to what reply you give, you could say to your contact that to make a case CG would need to show that their policies and conditions of employment do more to weaken apartheid than AA's, and that a takeover would lead to less favourable conditions in CG's South African operations. Even if they could show this (which seems unlikely), CG would still be a UK based group with 29% of its funds employed here and in principle this would leave us with some ability to influence AA if necessary. You could also draw on the point about avoiding damage to other UK investment in South Africa. Finally, though the Government's approach to mergers is based primarily on competition considerations, merger procedures do allow other factors to be taken into account. If CG do have a case it is better for it to be considered through these procedures rather than by hazardous intervention of the kind CG are hinting at.

I am copying this letter to Lyn Parker at the FCO.

Yours

Jeremy Godfrey

JEREMY GODREY
Private Secretary

S.AFRICA: Relations Pt16