



Foreign and Commonwealth Office

London SW1A 2AH

26 July 1988

Dear Charles,

CDD
27/7

Prime Minister's Meeting with Chief Buthelezi:
27 July, 9.15 a.m.

/ Further to my letter of earlier today I enclose yet another memorandum prepared by Chief Buthelezi specifically for the meeting. This was received in the FCO only this afternoon, having been delivered to HM Consul in Durban on 25 July.

Chief Buthelezi touches upon a number of issues already covered in his memorandum and goes on to draw attention to the fact that the KwaZulu Finance and Investment Corporation is listed by the United States as a parastatal organisation within the terms of the US Comprehensive Anti-Apartheid Act 1986, as a consequence of which it is denied access to US markets. (Supporting papers suggest that the US have listed the Corporation in this way on the ground that it is "owned, controlled or subsidised" by the South African Government). Chief Buthelezi says that KwaZulu's appeal against the listing has been turned down, and that he has registered a protest with Dr Chester Crocker. He asked whether the Prime Minister could raise the matter with "President Reagan or a member of his cabinet". He also suggests somewhat obscurely that the Prime Minister possibly with President Reagan and Chancellor Kohl should initiate a study of the effects on South African blacks of measures already taken by the international community ("a high-level investigation into the consequences steps already decided on by the international community have in influencing directions of developments in the black struggle for liberation in South Africa").

We suggest that the Prime Minister may wish to say to Chief Buthelezi that the memorandum only arrived late on 26 July and that she will study it and ask Mr Renwick to follow it up with him.

Yours ever, *L Parker*

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

MEMORANDUM FOR PRESENTATION TO THE RT. HON. MRS. MARGARET THATCHER
BY MANGOSUTHU G. BUTHELEZI, CHIEF MINISTER OF KWAZULU
AND PRESIDENT OF INKATHA

Madam Prime Minister, I would like to express my growing concern that the free enterprise system in South Africa is being threatened from within and from without. My concern does not arise out of ideological commitments. They are pragmatic concerns - concerns which are both humanitarian and political.

Western governments really must understand that the forces which are now gathering to destroy apartheid contain elements in them which will be destructive of the free enterprise system. There are those who have committed themselves to destroying capitalism and to ensuring the emergence of a socialist economy but perhaps even more importantly, there are the unintended consequences of increasing international rejection of apartheid.

We have the broad considerations which flow from the way in which EEC money is being channelled into the Kagiso Trust which is run by carefully selected UDF leaders and supporters who are avowedly anti-capitalist. They use the millions EEC provide them to further the politics which sees the capitalist free enterprise system as synonymous with apartheid.

We also have the considerations which flow from decisions and postures of the United States and it is particularly on this point that I would express my concerns to you. Both you, Madam Prime Minister, and President Reagan have been bold in your rejection of punitive economic sanctions against South Africa. President Reagan, however, lost to both the House of Representatives and the Senate. I do not know what the outcome of the current presidential election campaign will be but you, Madam Prime Minister, could well be put under considerable pressure to act in concert with your allies and to begin supporting one or another form of sanctions against South Africa.

As a pragmatist I know that I have to do everything humanly possible to ensure that the rate at which jobs are created in South Africa is maximised in every possible way. More than half of all Black South Africans are 15 years old and younger. There is a huge population bulge bearing down on the market place. There are already appalling backlogs in black housing, black education and black social, health and welfare facilities.

There is already a totally unacceptable high level of employment. When today's teenagers become tomorrow's work seekers, they will be work seekers who live their poverty-stricken lives in vast squatter camps and shanty towns. I cannot make the point strongly enough that even the best hoped for political change will be meaningless to these millions of job seekers if the Government of the day after change has not got the means to govern to the satisfaction of the people.

It is imperative that everything be done now to strengthen the South African economy and to broaden the base from which it can expand. The rate at which we will have to create jobs to enable people to do something about their lot in life will tax our every ingenuity. The wealth that any government of the future will need to reverse the already huge existing backlogs which will become worse, must not be underestimated. The economic wealth needed will only be available to future governments if we do something about economic development now. I am quite sure that it is only the free enterprise system which can give us any realistic hope of creating the circumstances in which political change can be consolidated and can bring about the stability that an emerging democracy in South Africa will need.

I regard my own commitment to the economic development of South Africa as a political commitment of the highest order. I grapple with the problem of getting people to espouse self-help philosophies in order to buy that little extra time which will be so valuable in bringing ever higher percentages of Blacks into the central cash economy. I also grapple with the problem of bringing industry to depressed areas so that jobs can be created where they are most needed. I also tackle this two-level commitment to economic development within the context of rejecting and opposing apartheid which produced black/white inequalities in the first place.

My prime instrument in tackling economic questions is the KwaZulu Finance and Investment Corporation. It is wholly-owned by the KwaZulu Government and is charged with the responsibility of creating jobs for the people and fostering black business interests. It also does whatever it can do to make the informal economic sector as productive as possible. It is a major undertaking and amounts to a multi-million rand success story in establishing factories in KwaZulu areas where economic development is most needed.

Quite unbelievably it was listed as a parastatal organisation within the definition of the United States Comprehensive Anti-Apartheid Act of 1986. This means it is politically leperous and the desperately needed markets for the factories that the KFC has established in partnership with black and white entrepreneurs are now denied them.

We, of course, immediately appealed but were unsuccessful and the KwaZulu Finance and Investment Corporation remains listed. US markets for the factories established remain closed to it and no KFC venture can gain from US-backed educational, humanitarian or training and development scheme. I enclose copies of letters to the KFC that were copied to me.

Madam Prime Minister, I draw your attention to the KFC's position because I believe it just may be useful for you to be able to talk about specific instances when you are put under pressure by your American friends. Britain is a very valued ally of the United States and the positions you take, Madam Prime Minister, are important for the United States. I have registered my protest at the outcome of our appeal with Dr. Chester Crocker and it just may be possible for you to exert some kind of influence over President Reagan or a member of his cabinet in this matter.

I have the audacity to bring this matter to your attention because I believe we are here talking about matters of principle and threats to the free enterprise system. When EEC money and North American money goes to assisting those who most reject the free enterprise system and when a black leader like myself is treated as part of the problem and not part of the solution, serious thought must be given to what is actually happening. I am quite sure EEC money and North American money was not originally intended to have the final outcome of strengthening the position of those who will end up establishing a one-party socialist state if they succeed in doing what they are now doing.

Madam Prime Minister I believe the specific case of the KwaZulu Finance and Investment Corporation being penalised by US legislation raises issues which need to be examined at the highest levels. Is there, Madam Prime Minister, no possibility of say you, President Reagan, Chancellor Helmut Kohl ordering a high level in-depth investigation into the consequences steps already decided on by the international community have in influencing directions of developments in the black struggle for liberation in South Africa. I am quite sure that you are all convinced that a multi-party democracy with a free enterprise system is really the only thing worth struggling for. Everything else will necessarily fail. I believe that Western industrialised democracies should now look at the role that they play and the consequences of the steps they have taken.

JULY 1988

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Embassy of the United States of America

June 1, 1988

Mr. T.P. Dube
Chairman
KwaZulu Finance and Investment
Corporation Ltd.
P.O. Box 2801
Durban 4000

Dear Mr. Dube:

The Department of State has received your submission appealing the KwaZulu Finance and Investment Corporation's inclusion on the list of South African parastatal organizations identified for purposes of Section 303 of the Comprehensive Anti-Apartheid Act of 1986. In accordance with the guidelines specified in the U.S. Federal Register Notice of November 19, 1986 covering parastatals, the Department has completed its review of your submission.

As a result of that review, the KwaZulu Finance and Investment Corporation must continue to be named on the parastatal list. Your submission failed to provide sufficient evidence that you are neither owned, controlled, nor subsidized by the South African Government, as defined for the purposes of the Comprehensive Anti-Apartheid Act.

Inclusion on the list of parastatals is a decision based on objective economic data relating to ownership, control, and subsidization. Non-economic criteria have not been a factor in our determinations.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "F. Parker".

Frank S. Parker
Acting Economic Counselor

SITE V 1317
UMLAZI
TEL: (031) 907-1055
TELEX: 6-24406 SA
TEL ADD: KWAZUCOR
PANAFAX: (031) 9075350
P.O. BOX 2801
DURBAN 4000
REPUBLIC OF SOUTH AFRICA



**KwaZulu
Finance and Investment
Corporation Limited**

FROM THE OFFICE OF MR. T.P. DUBE, CHAIRMAN

14 June 1988

uMntwana M G Buthelezi
Ministry of the Chief Minister
Private Bag X01
Ulundi
3838

Ndabezitha,

**LISTING OF THE KFC BY THE UNITED STATES OF AMERICA DEPARTMENT OF
STATE, AS A "PARASTATAL ORGANIZATION"**

Further to my letter of 29 April 1988, I would like to inform you, as undertaken, regarding the outcome of our appeal for removal from the USA State Department's listing of South African parastatal organizations.

Please find attached, in the above regard, a response from the USA Embassy, dated 1 June 1988, indicating that the Department of State sees no grounds for removing the KFC from the above-mentioned listing.

In amplification of the USA Government's decision, I am enclosing also a copy of an earlier communication, addressed to me by Mr S H Rogers, Officer-in-Charge of the said Embassy, on 4 May 1988, which explains that the self-governing and independent national states are included in their definition of "South African Government".

I believe that we have now exhausted every avenue and that no purpose will be served in pursuing this matter further.

Yours most sincerely


T.P. DUBE
CHAIRMAN

Encl/



Embassy of the United States of America

May 4, 1987

Mr. T.P. Dube
Chairman
KwaZulu Finance and Investment
Corporation Ltd.
P.O. Box 2801
Durban 4000

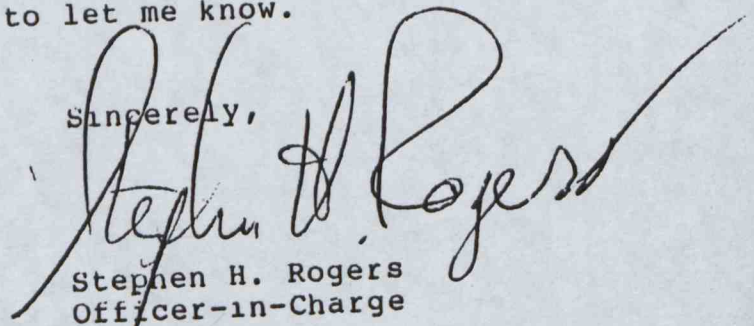
Dear Mr. Dube:

Thank you for your inquiry of April 26, 1988. We have forwarded your appeal to the Office of Southern African Affairs (AF/S).

I must caution you that the Comprehensive Anti-Apartheid Act of 1986 contains some fairly specific definitions of terms to which AF/S, in all likelihood, will be bound. Section 3 (6) of the Act defines "South Africa" to include "the 'homelands' to which South African blacks are assigned on the basis of ethnic origin." Based on this definition and other U.S. legal and regulatory precedents, AF/S has inferred that it was the intent of the U.S. Congress to include the self-governing and "independent" homeland governments (as well as other regional and local governments) in its definition of the "South African Government."

I will let you know as soon as I hear a response from AF/S on your appeal. In the meantime, if we can be of further assistance in any way please do not hesitate to let me know.

Sincerely,



Stephen H. Rogers
Officer-in-Charge