

September 3, 2001

International Commentary

Business Europe

U.S. Puts European Firms In the Crosshairs

By Richard Miniter, a Wall Street Journal Europe editorial writer. Wall Street Journal Europe, Business Europe section, September 3, 2001, page 7.

European executives sometimes say that government officials learn nothing from past mistakes. That's not quite true. Often they learn the wrong lessons.

While the legacy of Vietnam has made American military planners timid about sending troops overseas, the legacy of 1980s-era sanctions against South Africa has made some U.S. lawmakers aggressive about sanctioning businesses. If European and American enterprises suffer in the bargain, well, they are casualties of the "moral equivalent of war."

Take the "Sudan Peace Act," a stiff sanctions bill passed by the U.S. House of Representatives in June. The U.S. Senate passed a similar measure without sanctions in July and the two bodies are expected to go into conference soon. The proposed sanctions are breathtakingly broad. If a European outfit's parent company is part of joint venture that helped lay a pipeline in Sudan, it can't sell its shares or bonds in the U.S. (American companies are already barred from trading with or investing in Sudan, by a presidential order.)

If this bill becomes law, it could force a parade of European firms that directly or indirectly do business in Sudan, or other "rogue states" such as Burma and Cuba which may be added, to march out of America's stock exchanges.

TotalFinaElf, a Franco-Belgian oil giant whose 20,000-kilometer concession is the largest in Sudan, may be pulled off the Big Board. Or British Petroleum, which has a stake in a Chinese company whose "operationally separate" parent group invests in Sudan. Royal Dutch Shell, which is negotiating an oil pact with Khartoum, according to Saudi Arabia's al-Hayat newspaper, may also have to leave the New York Stock Exchange. Sweden's Lundin Oil, which is drilling in Sudan, may have to exit from the Nasdaq. U.S. bond markets will also see an exodus. Even Rolls-Royce, which told the Guardian newspaper

that it "provided" 34 diesel engines to help pump Sudan's oil, may have trouble financing debt in the U.S.

Denying European and other companies access to the world's largest and most efficient capital markets will certainly make life harder for businesses that drill in Sudanese deserts or snake pipelines through Burmese rainforests. But it won't chase them out of Sudan. London and Frankfurt dealers will be happy to float shares and sell bonds. "The clear outcome of such a law would effectively be to move financing from New York to London," U.S. Federal Reserve Chairman Alan Greenspan told a Senate committee in July.

Indeed, Europe may benefit soon from the legislative threat to slam shut American stock markets. OAO Lukoil, Russia largest oil producer, should be a good candidate for American exchanges. Lukoil reported net income of \$3.31 billion in 2000 and issues financial reports using American accounting standards. But New York poses too many risks. "Lukoil officials said they would seek a London listing, instead of one in the United States, because they wanted to sidestep any political dispute over sanctions," notes the Moscow Times.

For years, human-rights activists have been looking for "another South Africa" -- a benighted land that could be forced to reform by foreigners yanking out investment. Sudan is the most popular candidate.

But Sudan is not South Africa and policy makers have overestimated the role of sanctions there. South Africa had a free press, opposition parties and a modern economy. Sudan is a dusty dictatorship run by Omar Hassan Al-Bashir, who seized power in a 1989 coup. Opposition parties and trade unions are banned. Free press? Go ask if the local mullah if he minds. War and government-sponsored starvation has killed more than two million since 1980 and slavery is thriving. This nation, which has provided hotel rooms to terrorists, is immune to international shame.

And, unlike in South Africa, Western economic leverage over Sudan is slight. The country's oil is mostly sold to China, Malaysia and other one-party states. The U.S. and U.N. imposed a range of sanctions more than five years ago. The European Parliament called for sanctions in 1996. No one is losing sleep in Khartoum.

Finally, an in-depth 10-year survey on South African sanctions casts new doubt on their effectiveness. Usha C. V. Haley, an associate professor of business at the University of Tennessee, Knoxville, studied what led 322 multinationals to leave South Africa in the 1980s. Her book "Multinational Corporations in Political Environments: Ethics, Values and Strategies" will be published next month. The U.S. imposed sanctions on investment in South Africa in October 1986, but corporate departures didn't quicken. A total of 39 multinationals left in 1985, 50 left in 1986 and 50 left in 1987. Many of those exiting firms were losing money in South Africa, due to its then-unsound currency -- not to boycotts by Harvard students. General Motors, for instance, left only after five years of straight losses.

What about all of those universities and state governments that sold their holdings or those shareholder resolutions? Ms. Haley developed a statistical model of more than 100 variables. The result? "The greater the number of shareholder resolutions against operations in South Africa, the more likely the subsidiary was to stay," she told me.

Nor did divestment amount to much. "Almost all of this decline [in U.S. direct investment in South Africa] was the result of a sharp decline in the value of the South African rand," notes the U.S. General Accounting Office in a 1988 report. After correcting for exchange-rate fluctuations, the GAO estimated that a U.S. investment fell only 10% -- by roughly \$450 million. By contrast, Ms. Haley notes, "three days trading in IBM, a major player in South Africa at the time, totaled around \$570 million." This was a pinprick, not a policy.

After the 1986 sanctions, most U.S. multinationals in South Africa sold to foreign companies or local managers. Some set up offshore trusts to maintain their holdings and many more maintained business relationships. "Sanctions had little substantial value, they were mostly symbolic," Ms. Haley said.

Indeed, sanctions artillery may be more dangerous to the cannon loader than to the intended targets. With such Sudan sanctions, Mr. Greenspan warned, "we are undermining potential long-term growth of the American economy." Wall Street will lose the lucrative fees, sometimes called "golden crumbs," and Europe will get the gold instead. In the long term, European companies may only be inconvenienced by the loud noise of the U.S. shooting itself in the foot.

This has happened before. During the U.S. Civil War, the rebels banned cotton sales -- hoping to push the British to their side. Instead, British textile magnates, starved for cotton, began planting it on vast plantations in Egypt. American cotton growers never regained their global hegemony over the soft cloth. With an eye toward history, European stockbrokers should beg Washington: "Sanction our companies, please!"

-- *From The Wall Street Journal Europe*

URL for this Article:

<http://interactive.wsj.com/archive/retrieve.cgi?id=SB999551710275114387.djm>
