

https://dspace.org/

Anglo-American corporation on the move: an assessment of AAC's decision to shift its primary listing to London

Makwati, Tulo

2017

https://hdl.handle.net/10539/25767

Makwati, Tulo (2017) Anglo-American corporation on the move: an assessment of AAC's decision to shift it's primary listing to London, University of the Witwatersrand, Johannesburg, <http://hdl.handle.net/10539/25767>

Downloaded from a DSpace repository. https://dspace.org/



UNIVERSITY OF THE
WITWATERSRAND,
JOHANNESBURG

Anglo-American Corporation on the Move: An assessment of AAC's decision to shift its primary listing to London.

Name:	Tulo Makwati
Programme of study:	MCom in Development Theory and Policy
Supervisor:	Prof Vishnu Padayachee
Student Number:	910030
Year:	2017

PLAGIARISM DECLARATION

I, Tulo Makwati (Student number: (910030)) a student registered for Mcom in Development Theory and Policy in the year 2016. I hereby declare the following:

- I am aware that plagiarism (the use of someone else's work without their permission and/or without acknowledging the original source) is wrong.
- I confirm that the work submitted for assessment for the above course is my own unaided work except where I have explicitly indicated otherwise.
- I have followed the required conventions in referencing the thoughts and ideas of others.
- I understand that the University of the Witwatersrand may take disciplinary action against me if there is a belief that this is not my own unaided work or that I have failed to acknowledge the source of the ideas or words in my writing.



Signature: Date: 29 March 2017

ACKNOWLEDGEMENTS

I would like to thank my supervisor Prof. Vishnu Padayachee for his invaluable comments and guidance in writing up of this dissertation. His comments and insightful knowledge kept me on my toes. Also, I would like to thank my family, friends and relatives for the love and support all these years. Special mention goes to Tim Cohen, Michael Spicer, Gavin Keeton, Lumkile Mondi, and Alick Bruce- Brandt for the opportunity they afforded me in writing up this dissertation and for sharing their knowledge with me. Lastly, I would like to extend my gratitude to Sajida Durwan the former postgraduate administrator at the School of Economics and Business Sciences (SEBS), for her time and resilience in attending to my personal academic queries and concerns during the course of this programme.

Abstract

Anglo American Corporation also known as Anglo was founded by Ernest Oppenheimer in 1917 by consolidating smaller mining companies to better exploit diamonds and gold deposits in South Africa. From its early days, Anglo played a critical role in the development of the South African economy. At its height, it owned manufacturing companies, financial houses, mining companies, industrial companies and car assembly companies. In 1999, Anglo transferred its primary stock to the London Stock Exchange (LSE) four years after the end of apartheid. Following its move to London, Anglo sold its significant assets in South Africa at the same time purchasing more assets abroad. This paper focuses on Anglo's reasons to shift its primary stock from the Johannesburg Stock Exchange (JSE) to the London stock exchange.

Key words: Anglo American Corporation, African National Congress, National Party, London Stock Exchange, Johannesburg Stock Exchange, National Treasury, abroad, primary stock market

Table of Contents

PLAGIARISM DECLARATION 2
ACKNOWLEDGEMENTS 3
Abstract 4
Table of Contents 5
CHAPTER 1 6
1.1 BACKGROUND 6
1.2 Research Aims and Objectives 7
1.3 Research Questions 8
1.4 Research Hypothesis 8
1.5 Research Method 8
1.6 Significance of the Study 9
1.8 Structure of the paper 9
2.2 Market Segmentation 10
2.3 Financial Reasons 11
2.4 Marketing and public relations benefits 11
Chapter 3: Economic context and background 14
3.1 Introduction 14
3.2 Economic and Political history of South Africa 14
3.3 Corporate history of AAC 19
3.4 ANC's relationship with businesses since 1990 22
3.5 Anglo's engagement with the African National Congress and the politics of the transition period 23
3.6 The 1990s - Anglo move to London 25
Chapter 4 28
AAC's Decisions to Leave South Africa - Implications and costs to the company and country 28
Introduction 28
4.1 Market Capitalisation since 1999 in Dollars and Pounds 28
4.2 An analysis into AAC Plc's Share price fluctuations 30
4.3 Anglo's Net Debt Equity from 1998 to 2015 32
4. 4 Change in Anglo's Profit Margins from 1999 to 2015 33
4.5 Equity and Dividend Payment to Shareholders 35
4.6 Restructuring and unbundling-Anglo Post 1999 37
..... 38
4.7 Summary 38
Chapter 5 40
Findings and Recommendations, and Conclusion 40
5.1 Findings 40
5.2 Conclusion 42
REFERENCES 44

CHAPTER 1

1.1 BACKGROUND

Anglo American Corporation Plc was founded in 1999 from the merger between Anglo American Corporation of South Africa and Anglo's foreign subsidiary company Minorco.[1] It is currently headquartered in the United Kingdom and has secondary listings in South Africa, Switzerland, Botswana and in Namibia (Hart and Padayachee, 2013: 70). Anglo is currently the World biggest producer of platinum, producing 40 percent of the World's total platinum output. Other than platinum, it is also a major producer of metallurgical and thermal coal, copper, diamonds, iron ore, and nickel. It has operations in Africa, North America, South America, Europe, and Australasia.

In its earlier years, Anglo's activities revolved around mining. By 1950s, Anglo began to expand into non-mining activities such as manufacturing, finance (through its ownership of FNB Bank), sugar (Huletts), media, pulp and paper (through its holding in Mondi) and the property market. In the 1960s when most big corporates were disinvesting and leaving the country in protest of apartheid laws which had triggered the Sharpeville massacres, Anglo remained behind (Fine and Rustomjee: 1996:161) buying shares from the companies that were disinvesting from South Africa and in the process spreading its influence beyond mining. By 1986, Anglo owned 86 JSE listed companies. In early 1990s, Anglo "controlled 60% of the JSE's share value and contributed 40% of Africa's total gross domestic product (GDP).

In the 1999, Anglo become the second South African company in the post-apartheid period to successfully transfer its primary stock to the LSE after BHP Billiton (formerly Gencor). Although this decision was blessed by the South African government, it was severely criticised by ANC's tripartite alliance members-the South African Communist Party (SACP) and by the Congress of South African trade unions (COSATU). SACP and COSATU argued that the transfer of primary stocks to foreign

[1] Minorco was founded by Anglo American Corporation in Luxembourg in 1961 to manage their overseas assets. It was founded by money Anglo was paid by the Zambian government after nationalising their copper mines in that country

countries should have been prevented because they presented a vote of no confidence on the Mandela- led government and an attempt by white capitalists to prevent black people from benefiting from wealth held by these companies. The transfers took place at the time when Anglo and the South African government were finding each other.[2]Prior to this, Anglo and ANC's relationship had been characterised by mistrust with Anglo despising ANC's nationalisation policies; in-turn ANC loathed Anglo for benefiting from apartheid economic policies which exploited black African workers.

By the end of 2000, five South African companies namely Anglo, SAB Miller, Old Mutual, BHP Billiton and Dimension Data had transferred their primary stock to the London Stock Exchange (Walters and Prinsloo, 2002: 62). The reasons for doing so varied between different companies, others wanted to expand their businesses into international companies while others did not trust the future of South African capitalism on grounds of potential state intervention. The Government of South Africa in turn allowed the South African corporates to move abroad because they believed this move would result in an increase in capital inflows into the country. Furthermore, ANC allowed the listings to take place because the ANC was keen to establish its credentials as a credible government in an international context (Cohen, Interview, 15 January 2017).

1.2 Research Aims and Objectives

The aim of this paper is to prove that Anglo transferred its primary stock to London Stock Exchange out of its distrust of the future of South African capitalism-on grounds of potential state intervention. The key objectives of this study are as follows:

- Investigate the main reasons that led to Anglo American Corporation transferring its primary stock and headquarters to the London Stock Exchange
- Investigate how Anglo's activities have changed since 1999.

[2] Anglo and ANC's contact was in September 1985 when Anglo sent its top management to Zambia to meet with Thabo Mbeki, OR Tambo and Joe Slovo. The purpose of the meeting was to establish good relations with the ANC. After 1994, ANC continued to have regular meetings with Anglo and other businesses.

1.3 Research Questions

The research paper seeks to find answers to the following questions:

1. What were the factors that led to AAC abruptly shifting its primary stock market and headquarters to London in 1999, two years after Julian Ogilvie Thompson, who was then AAC Chairman, had committed the company's future in South Africa in a Chairman's letter to Shareholders dated (31 May 1996)?

2. How have AAC's market activities changed since the company listed its primary stock market in the London Stock Exchange? Are these market changes in line with the objectives and goals that AAC set out in its application to the National Treasury (NT)?

1.4 Research Hypothesis

Given the above stated problem, the hypothesis of the research is as follows:

I. Anglo American Corporation Plc moved its headquarters and primary listing from Johannesburg to London because of the perceived political risk of doing business in South Africa under the African National Congress (ANC) government.

II. Anglo American Corporation moved its primary stock market abroad in 1999 to access cheap capital in London the international markets to invest back into its operations in South Africa.

1.5 Research Method

The paper uses qualitative research instruments to investigate the reasons AAC listed its primary stock in London. The study uses key informant interviews and secondary data sources such as the AAC Plc website, financial newspaper articles (Financial Mail, Business Day, Wall Street Journal, Engineering News), and many more. Key informant interviews are a good instrument to gain an in-depth understanding of the reasons AAC gave to the National Treasury to seek a primary listing in London hence

I choose to use them. Secondary data sources will be helpful in the study to understand the key questions around AAC's market capitalisation trends, share price, and to trace the amount of capital that the company raised since moving to London in May 1999.

1.6 Significance of the Study

The study is significant in that it shows that globalisation and liberalisation policies can have negative effects in developing countries. Instead of increasing capital inflows, exchange rate liberalisation has resulted in capital outflows and loss of revenue through dividend outflows to foreign countries. Government, private companies and development agencies will find this study significant in crafting of policies, directives, and regulations in developing economies.

1.8 Structure of the paper

This paper is structured in the following way. Section one provides a brief background of Anglo American Corporation and its decision to list abroad in 1999. Section two provides literature review. Section three looks at the economic and political context under which Anglo American Corporation developed in South Africa and Anglo's relationship with the ANC. Section four looks at the implications and costs of Anglo's decision to list their primary stock abroad. Section five is an analysis of findings and a recommendation section.

Chapter 2

2.1. Literature Review

This section looks at the reasons why companies list their primary stock in foreign countries rather than in their countries of origin. According to empirical literature on foreign listings, firms list their primary stocks in foreign countries when doing so helps them to overcome market segmentation problems in their home countries and for financial reasons.

2.2 Market Segmentation

According to (2000:37), firms transfer their stock into international markets to overcome market segmentation problems (investment barriers) and to improve liquidity of their stocks. Firms that transfer their primary stock abroad avoid fragmentation of capital markets and investment barriers in their home countries which depresses local security prices resulting in less competitiveness for shares issued in domestic markets. On the contrary, transferring primary stock abroad helps local firms to access cheaper capital abroad since foreign stock markets are more liquid than domestic stock markets. (Dodd, 2013:77).

Firms also list abroad to improve the profitability and competitiveness of their organizations. Research shows that firms that list in countries with established stock markets improve their profitability because reputable stock markets have lower market imperfections in-form of transaction costs, information costs, cultural barriers, capital controls, legal restrictions, and differences in equity trading costs and investor protection levels in different economies (Alexander et al, 1987:151) which causes the price of stocks to vary.

Market segmentation can be at an individual level or at company level. At an individual level, market segmentation takes place when certain individuals are restricted from investing in certain shares as a result of segmentation in capital markets. At a company level, market segmentation is caused by the presence of the factors mentioned above, such as transactional costs, legal restrictions and tax barriers

in an economy (Stapleton and Subrahmanyam, 1977:307). Alexander et al (1988:136) states that capital markets can be completely integrated, completely segmented, or partially segmented. In a completely segmented capital market, investors in one country are unable to buy shares in foreign countries. In a partially segmented market, investors in one country face certain challenges in investing in other countries' securities. In completely integrated markets, investors from different countries have similar opportunities as local citizens to invest in local stocks (Alexander et al, 1988:137). Against this background, when capital markets are completely and partially segmented, firms will transfer their primary stock to foreign markets to improve their liquidity.

Bhana (2000:13) states that moving primary stock abroad improves ways in which firms raise their capital and the way which current shareholders sell their existing shares. Moving primary stock is therefore beneficial if the firm needs to raise capital and when financial constraints in their home countries are significant (Pagano et al 2001:2653). According to Foster and Karolyi (1999:982), companies that list their stock abroad are secure from the risk premium which is associated with the use of unstable local currencies by firms in emerging markets. They are also safe from the volatility of the financing costs that are associated with firms from emerging market economies, whose currencies regularly lose value against global trading currencies.

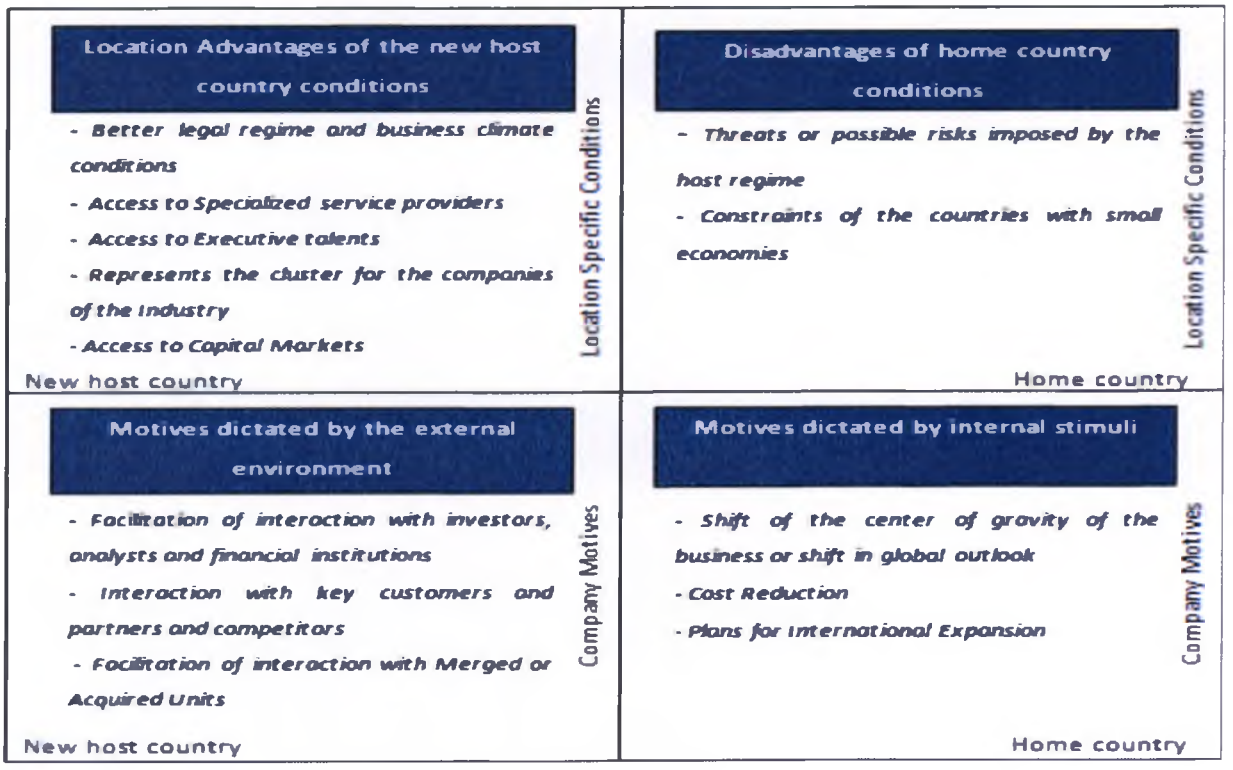
2.3 Financial Reasons

Another reason firms transfer their primary stock to foreign countries according to (Bhana, 2000:13) is raise capital and to improve ways in which their current shareholders can sell existing shares. Moving primary stock is beneficial if the firm needs to raise capital and when financial constraints in their home countries are significant (Pagano et al 2001:2653). According to Foster and Karolyi(1999:982), companies that list their stock abroad are secure from the risk premium which is associated with the use of unstable local currencies in emerging markets. Also, they are also safe from the volatility of the financing costs that are associated with firms

from emerging market economies, whose currencies regularly lose value against global trading currencies. 2.4 Marketing and public relations benefits

Apart from financial gains, another reason local firms list abroad is to increase their publicity and recognition in foreign markets. According to Pagano et al (2001:2653), firms that list abroad capitalise on their product market reputation making it easier for them to issue new shares in foreign markets because investors in those markets already trust them and know them with their products. Other reasons that led firms to transfer their primary stock from their home countries to foreign countries are summarised below in table 1.

Table 1: Summary of the reasons firms list abroad



The table shows the advantages that firms derive from listing in foreign countries vis-à-vis having to stay at home.

2.5 Political Reasons

Other than market segmentation and financial reasons, firms also transfer their primary stock into overseas markets for political reasons. Often this happens when

firms and the government of the day differ in their roles in the economy-the government other than being a regulator may want to influence the day to day economic activities while firms on the other hand want autonomous in their day to day activities. If the standoff between firms and government is not resolved, firms will take their business elsewhere. In some instances, firms transfer their stock markets in protest of economic and political policies in their home countries.

Chapter 3: Economic context and background

3.1 Introduction

This chapter analyses economic and political developments in South Africa under which Anglo American Corporation evolved in the 1920s up to the period when it transferred its primary stock and headquarters to London in 1999. The first section of this chapter looks at the economic and political history of South Africa; the second section of this chapter provides an analysis of Anglo's brief corporate history; the third section summarises Anglo's relations with the ANC prior to the London listing in 1999. The chapter concludes by analysing the reasons that led Anglo to list in London in 1999.

3.2 Economic and Political history of South Africa

South Africa's economic development started with the discovery of diamond and gold deposits in Kimberly, the Witwatersrand, and later in the Free-state Province (Hattingh, 2007:2). Anglo played a significant role in this development. Before the discovery of diamonds and gold deposits in the country, the South African economy, to a large extent, had been characterised by mostly agricultural activities and small uncoordinated mining activities across the country.

Anglo American Corporation, Gencor (now Billiton) and South African Breweries (SAB), to mention a few, were established at this time when mining activities were still uncordinated. They later went on to play a significant role towards the development of the South African economy in the 20th century alongside other mining houses such as Rand Mines which had been established earlier. According to Fine and Rustomjee (1996:127), the discovery of gold and diamonds in South Africa shifted the country's economic focus from an agro-based economy to a mineral energy complex economy with diamonds and gold as the main anchors of economic growth. In the early days, mining houses were either owned by white English South Africans or white Afrikaner South Africans. The two did not like each other; Afrikaner white South Africans despised white English South Africans because they were rich and

better educated than them. Their rivalry also extended into their businesses were Anglo American Corporation which was predominantly English competed with Sanlam, a company that was conceived a year later than them in 1918 and represented the interests of the Afrikaner people.

The English population's dominance over the Afrikaners in the early period of South Africa's industrialisation history was aided by the fact that the South African Party (later United Party), which governed South Africa from the late 1890s to 1945 had advanced their interests resulting in English-owned companies, such as Anglo growing rich and diversifying into different sectors of the South African economy (Hattingh, 2007: 4). The Afrikaners, however, had their time after the 1948 elections when the National Party defeated the United Party and set out on a path to blatantly advance the interests of the Afrikaner people and companies over those of the English or any other groups by making it a government policy to fund Afrikaner companies such as Volkas and Sanlam and at the same time prioritising employment of Afrikaner people to the public service.

According to Fine and Rustomjee (1996:148) following the National Party's victory in the 1948 elections, the number of "Afrikaner farmers, financial capitalists, small traders, and workers all received massive direct and indirect hand-outs from the government in the decade after 1948". The promotion of Afrikaner finance capital resulted in the increase of the number of Afrikaner white speakers who occupied influential positions in business after 1948.

For the English speaking whites, the National Party's surprise victory over the United Party in 1948 shocked them as the United Party government had been ideal for their business interests. The defeat prompted the English speaking whites to fund the establishment of a new political party, the Progressive Party, whose agenda was to unseat the National Party government. Harry Oppenheimer from Anglo, an English speaker, was one of the biggest funders of this party and, when their plans to unseat the National Party failed in the 1950s, English manufacturing companies subsequently warmed up to the National Party and voluntarily began to hand over some of the largest and most profitable assets to the National Party government who subdivided them to the burgeoning Afrikaner capitalists (Hattingh, 2007:5). At a state level, the

National Party government played a further critical role towards the formation of state-owned companies such as Sasol, Denel and Iscor, whose objectives were to create employment for the Afrikaner population (Marais, 2000: 17) and to dilute the English dominance over the Afrikaners in South Africa. In pursuit of this objective the National Party, under the leadership of Hendrik Verwoerd, spent more money on improving education, health facilities, and recreational facilities for the white Afrikaners (Marais, 2000: 20) while also allowing trade unions representing white Afrikaner workers to enter into collective bargaining agreements with their employers (Hattingh, 2007:5).

While the National Party segregated and favoured Afrikaners in its policies of capital accumulation, overall their policies were a success with South Africa in the in 1960s recording increase in economic growth of 6% achieved against the background of the success of the mining companies which had successfully diversified their operations from mining related activities into other economic sectors such as manufacturing and financial services (Hattingh, 2007:5-6). The success of the economy at this stage was also aided by the involvement of the South African state in the economy through establishment of state-owned companies such as Eskom, Iscor, Sasol, and Denel, which later played a key role in the industrialisation process in South Africa.

Economic success was also aided by the increase in demand for consumer goods by the white population which continued until the early 1970s and resulted in many multinational firms and subsidiaries setting up plants in South Africa, while some mining houses also set up their own industrial interests. According to Hattingh (2007: 7), this growth began to slow down in the mid-1970s when the global economy started to suffer from the effects of over accumulation of capital and over production of consumer goods caused an unprecedented fall in profits in the manufacturing industry world-wide.

In South Africa, the crises in the 1970s was caused by the over production of consumer goods such as textiles, chemicals, and motor vehicles for the small white population (Hattingh, 2007: 6-7). Since these goods were produced for a relatively small white population, these goods were unsold because supply exceeded demand and exports also declined. That profitability in the 1970s declined is evident in

economic growth figures which show that "between 1973 and 1984 economic growth in South Africa slowed to an average of 1.9 percent per annum" (Hattingh, 2007:7).

In response to the over accumulation and slow demand crises in South Africa, the National Party government increased foreign borrowings for investment in state-owned parastatals such as Eskom, Iscor, and Sasol, while conglomerates were forced to re-strategize their operations in order to restore profitability in their companies to pre-crisis levels. As part of re-strategizing, some of the country's biggest multinational companies embarked on expansion programmes abroad to compensate for low profits in South Africa and to protect their companies from possible rand devaluations (Legassick, 2006: 9). Those that remained in South Africa restructured and unbundled their operations and focused on more lucrative financial activities and speculation, while other companies mechanised and reduced the size of their workforce. According to Bond (2005:34-40), the expansion of South African firms into foreign markets in the 1970s later led to an increase in capital flight in the country with companies such as Gencor taking advantage of the relaxation of exchange controls to export US$4 billion to Europe after listing abroad. Another firm, South African Breweries, shipped US$5 billion to the North and South American markets for their expansion programs there (Currey, 1989) all at the time when the reserve bank partially attempted to liberalise exchange control regulations before 1985.

Having realised the failure of this policy and that big conglomerate were taking advantage of it, the central bank re-introduced capital control measures after 1985 to stem the flow of capital from the country, but big monopoly companies still came up with other ways to circumvent these new exchange control measures. One of the methods the conglomerates used to illegally circumvent exchange control measures was the transfer pricing method which involved issuing fraudulent invoices between their South African operations and their overseas operations (Hattingh, 2007: 7-8). The second method used by South African companies involved the use of financial and banking institutions owned by these companies to illegally transfer money abroad by means of by-passing exchange rate controls and establishing international investment companies in foreign countries such as the Netherlands, the United Kingdom, Australia, Luxembourg, and Switzerland (Hattingh, 2007:7-8) The use of

foreign investment companies benefited South African companies who wanted to invest abroad during apartheid in two ways. Firstly it enabled South African companies to break international sanctions and an opportunity to be able do business in countries which otherwise would not have been possible under sanctions. Secondly, it enabled local companies to keep their profits abroad rather than to repatriate them back to South Africa where profit levels were low.

However, avoiding sanctions through the establishment of foreign investment companies proved not to be enough to improve profitability levels and this realisation led to South African firms feeling left behind by their competitors globally who could do business anywhere in the World without any political hindrance. With this in mind, South African companies in the late 1980s and early 1990s, led by Anglo, began to engage with the African National Congress (ANC) in exile in order to negotiate a political settlement in the country that would ameliorate apartheid rule and also bring an end to the international isolation of South African companies. The talks began in 1990 and led to a new democratic South Africa led by Nelson Mandela in 1994. While the talks were generally aimed at finding a political solution to the country's challenges, conglomerates also become the biggest beneficiaries of these talks when businesses, that were part of the negotiations, convinced the new government to adopt neo-liberal economic policies that included liberalising of markets, granting independence to the central bank, abandoning the nationalisation policy, and adopting the Growth, Employment and Redistribution policy strategy (GEAR) in 1996. The GEAR policy made it easy for firms to move capital abroad.

Besides adopting the GEAR policy and the abandonment of nationalisation policy, the new government also helped businesses by abandoning the Financial Rand System in 1995, which had been first implemented in 1985 to prevent large capital outflow from the country. By abandoning it, businesses were allowed to legally move capital abroad upon receiving consent from the central bank. The biggest assistance that the ANC government rendered to big conglomerates as part of its post 1994 neo-liberal policies was allowing big companies to move their primary stock to foreign markets. In allowing the companies to list abroad, the government had reasoned that doing so would help to increase inward investments in the country, while companies on their part argued that being listed abroad would enable them to raise cheap capital there to

invest back in South Africa. With the above cited expectations, the South African government allowed local big conglomerates to list abroad in the late 1990s and early 2000s and one of those companies that were allowed to list abroad was Anglo American South Africa, now known as Anglo American Corporation.

3.3 Corporate history of AAC

Anglo American Corporation Plc (AAC) is a multinational company which was founded in South Africa in 1917 by Ernest Oppenheimer and is now headquartered in London, in the United Kingdom. Anglo was first founded as a gold mining company after the discovery of gold deposits in the Johannesburg's East Rand region and it spread its influence into the diamond industry when it took control of Cecil John Rhodes's De Beers in 1924, who were then the world's biggest producer of diamonds. From 1917 Anglo played a significant role towards the development and the industrialisation of the South African economy. However, since the company relocated to London, no other company locally has been able to fill the gap that Anglo left behind in South Africa. At its peak Anglo owned mining companies, manufacturing companies, industrial companies, financial institutions, automobile companies, media companies and had interests in the forestry sector through its stake in Mondi.

Anglo was founded at a time when English capitalists and Afrikaner capitalists in South Africa were fighting each other for political and economic domination over each other. Upon its founding, Anglo represented English capital interests while Gencor and Sanlam represented Afrikaner capital interests (Manson and Mbenga, 2003:27). In the early years, Anglo had on their board heavyweights, "such as William Thompson, the founder of the giant US mining company, Newmont, and Hamilton Sabin of Guranty Trust, who represented the interests of JP Morgan" (Padayachee 2008:12). In 1924, Anglo become the largest shareholder in the De Beers Diamond Company and formally established the cross holdings linking the two companies in 1929 (Chabane et al 2006:551).

In its earlier years, Anglo's activities revolved around mining, but this changed in the 1930s when the company began to expand into non-mining activities such as manufacturing, finance (through its ownership of FNB Bank), sugar (Huletts), media, pulp and paper (through its holding in Mondi) and the property market. Anglo's venture into non-mining activities was aided by the country's rapid economic growth and industrialisation in the 1930s and 1940s. In the 1950s, Anglo was also involved in the development of the local money market through Ernest Oppenheimer, who helped to set up the National Finance Corporation (Hart and Padayachee 2013: 69). In 1961 Anglo ventured outside Africa for the first time when the company bought a stake in a Canadian mining company, Hudson Bay Mining and Smelting Company. Before moving to Canada in the 1960s, "Anglo American had begun its expansion beyond South Africa in the 1920s when it commenced exploration activities in Zambia leading to the discovery of the Zambian copper belt" (Robinson, 2012: 770). When these mines were nationalised by the Zambian government in the 1960s, Anglo used the money they received from the Zambian authorities to fund the creation of an offshore company called Mineral and Resource Company (Minorco), which was founded in Luxembourg. Anglo's second international acquisition was in 1975 when Anglo purchased a 49% stake in a Brazilian gold mine company, Morro Vehlo Gold Mine.

Locally, the closed economic environment and the international isolation of South Africa in the 1960s and 1970s caused Anglo to diversify its activities, purchasing stakes from foreign companies that were disinvesting from South Africa in protest against the country's racial laws, (Keeton, Interview, 23 February, 2017). According to an on line article by the South African civil society information service by (Ashton, 2011) it was at this time that Anglo, under the leadership of Harry Oppenheimer, acquired interests in industrial interests in the 1960s including stakes in fertilizer, forestry, sugar production, car dealership, banking, and mining companies. Anglo's diversification into the above non-mining activities was caused by their failure to invest outside the country due to the presence of capital control measures in the country, preventing South African companies from moving capital outside the country's borders. Just like any other policy, this policy also had its own advantages and disadvantages. The obvious disadvantage being that it prevented Anglo from expanding globally in the 1960s and 1970s, while the advantage of this policy was

that it aided Anglo's development such that in 1974, according to (Amin, 1987:16), the assets owned by Anglo were estimated to have been close to US$7.4billion, which was at that time equivalent to a quarter of South Africa's Gross Domestic Product (GDP). In addition, it produced a quarter of South Africa's uranium and coal needs single-handedly. Anglo's development during this period was also aided by the lack of competition from international companies which were prevented from doing business in South Africa by the United Nations in protest against the country's apartheid policies.

Aided by this ban on international companies from doing business in South Africa, Anglo's influence in the country continued to grow such that by 1982, Anglo directly and indirectly controlled 70% of the total number of shares listed on the Johannesburg stock exchange (JSE) and was the single largest foreign investor in the United States of America (Fine and Rustomjee, 1996:10). According to an online article on Moneweb by (Cairns, 2011), in 1987, AAC owned companies controlled 60% of the total market capitalization of the JSE through its 80 listed companies while in 1990 they accounted for 44.2 % of the total market capitalization of JSE, (Hattingh, 2007:8).

Table 2 Summary of control of Johannesburg stock exchange market capitalisation

	1985	1990	1991–1995	1996–2000	2001–2003	2004
Anglo American Corp	53.6	44.2	38.9	22.7	23.3	18.7
Sanlam	12.2	13.2	12.7	11.2	6.1	2.7
Stanbic/Liberty Life	2.0	2.6	5.8	9.0	5.2	4.7
Rembrandt/Remgro	3.8	13.6	13.2	10.2	9.2	7.9
SA Mutual/Old Mutual	10.6	10.2	11.2	10.4	9.9	4.5
Anglovaal	2.1	2.5	3.1	1.2	0	0
Black-owned groups	–	–	–	7.4	4.2	6.3
Top 5 groups collectively	82.3	83.9	85.9	70.6	53.6	38.5

[a] Control is assessed by taking into account the various cross-holdings of shares that exist and may be associated with a relatively small direct shareholding in any given company.

Source: McGregors (various years).

The table above summarizes Anglo's market's change in capitalization from 1985 to 2004 and shows that the company's market capitalisation declined from 53.6% in 1985 to 18.7% in 2004.

3.4 ANC's relationship with businesses since 1990

Before the 1990s, the ANC's relationship with businesses was characterised by animosity and hatred. The ANC despised businesses because they had been major beneficiaries of the National Party's skewed apartheid economic policies. Businesses in turn did not trust the ANC government because of the ANC's stance on nationalisation. The ANC's hatred of businesses emanated from the fact that businesses had directly benefited from apartheid's economic policies and had never denounced apartheid when they had an opportunity to do so. In turn businesses did not trust the ANC government because at the time when the ANC was still an illegal organisation, the ANC had threatened to nationalise all big companies in the country in the event that there governed the country.

Whatever mistrust that existed between the ANC and businesses was quickly watered down in the 1990s when the ANC government liberalised financial markets and, in the process, allowed South African companies to list their primary stock abroad. By doing so, the ANC, and Mandela in particular, become so close to businesses that when Mandela's marriage to Winnie Mandela ended, he went to stay with Douw Steyn, a self-made well-respected insurance tycoon (Gumede, 2007:85). Having become close to businesses some observers points out that the ANC sold out in their negotiations with businesses at CODESA, as the outcome of negotiations maintained the existing status quo in which white people were still allowed to maintain their wealth, land, mines, manufacturing firms, and financial institutions for themselves, while black people continued to wallow in poverty and to be subjected to high levels of unemployment.

By changing its policy direction, the ANC surprised a lot of people, among them, the South African Communist Party and the Congress of South African Trade Union, who

viewed the adoption of these policies as a continuation of white monopoly power in the country and a betrayal of the values of the liberation struggle as enshrined in the Freedom Charter document. The Freedom Charter document policy stipulated that nationalisation was the economic policy of the ANC party and that, when the ANC took over the country, it was going to nationalise all big mines and banks. The ANC's move to implement pro-market policies and to abandon the nationalisation policy caught a lot of observers by surprise, given that, in his first speech after been released from prison, ANC leader Nelson Mandela had reassured the masses that "The nationalisation of the mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views in this regard is inconceivable" Marais (1990:146). His change of mind indicated that indeed Mandela, and the ANC, had been captured by business.

Having been captured by business, as some people say, the ANC government liberalised the markets and allowed free movement of capital and goods. It also allowed major companies to transfer their headquarters and primary stock overseas, while rejecting an economic policy proposition by Macroeconomic Research Group (MERG) that pushed for economic growth through redistribution (Gumede, 2007: 86-87). By allowing big companies to move their headquarters and primary stock abroad, the government indirectly allowed South African capital and wealth to be externalised. The relationship between the ANC and business was to be further cemented by the establishment of weekly forum meetings between businesses and government, who meet on a regular basis to discuss pertinent issues affecting businesses in the country (Bruce-Brand, Interview, 2017).

3.5 Anglo's engagement with the African National Congress and the politics of the transition period

Anglo's relationship with the ANC dates back to the days when the ANC was still an illegal organisation in the country. Their relationship can first be described as a love-hate relationship, because at first, in the 1960s and 1970s, the ANC viewed Anglo with suspicion. This was due to the fact that Anglo had been part of the capitalists that

benefited from the country's economic policies that exploited black workers in mines. Anglo's relationship with the ANC began to improve in the 1980s when a business delegation was dispatched to Zambia to meet with ANC leaders in exile. Their purpose in Zambia was to engage the ANC leaders in exile and also sell them an idea for a negotiated political settlement in the county. ANC agreed to this meeting.

The ANC delegation that attended this meeting in Lusaka in 1985 comprised of Oliver Tambo, Thabo Mbeki, Chris Hani, Mac Maharaj, Pallo Jordan, and James Stuart. The business delegation on the other hand was led by Gavin Relly from Anglo, Tony Bloom from the Premier Group, Harald Pakendorf, editor of Die Vaderland, Tertius Myburgh, editor of The Sunday Times, Hugh Murray, editor of Leadership SA, and some opposition leaders (SA history online, 2012). The first meeting was convened by the Zambian President, Kenneth Kaunda and it took place at his game lodge in Mfuwe. While the meeting in Zambia was successful, Relly, on his return from Zambia, was severely criticized by the National Party's PW Botha and by Anglo for attending the meeting, having been warned by Harry Oppenheimer not to travel to Lusaka.

Being in the forefront of initiating talks between the ANC and the NP, Anglo achieved two goals at once. Firstly, it developed a good relationship with the incoming new ANC government and, secondly, the negotiations gave them an opportunity to negotiate with the ANC for policies that favoured its interests. The negotiations, besides bringing together the ANC and the NP to the negotiation table, also brought other smaller parties, such as the Inkatha Freedom Party and other small organizations to the negotiation table. During the negotiations, the IFP at some point pulled out and threatened not to participate in the first democratic elections in 1994. IFP's withdrawal and threats of not participating in the elections led to a brief period of civil unrest in the country as it led to infighting between ANC and IFP supporters (Rajak, 2014:273). Several diplomats were called to diffuse the tension between the IFP and the ANC. One such diplomat, who was called and who failed to convince the IFP to change their decision of not wanting to participate in the elections, was Henry Kissinger, an American diplomat. According to Rajak (2014:272) the impasse was broken by the intervention of Anglo executives who worked behind the scenes to convince Mongesuthu Buthelezi and the Inkatha Freedom Party (IFP) to participate in

the elections in 1994 and to drop their demands of a separate KwaZulu Natal state (Rajak, 2014:272). Interestingly, before Anglo courted the ANC, Anglo had earlier endorsed Mongesuthi Buthelezi of the IFP as the future president of the post-apartheid republic (Rajak, 2014:273) and loathed the ANC and its socialist policies.

Besides convincing the IFP, according to (Rajak, 2014: 272-273) Anglo also helped to prevent the outbreak of civil war in South Africa after the assassination of Chris Hani. This was done through Bobby Godsell who worked with other business executives and church leaders to help broker a peace deal that prevented the country from plunging into another war in retaliation of Chris Hani's murder by left wing white extremists. ANC members were disgruntled following the assignation of Hani and wanted revenge for his death by taking up arms. Anglo also helped the ANC financially in the 1990s when they donated R150 million for the ANC's preparation for the 1994 elections (Africa Confidential Vol. 41 No 2 of (2000). When Nelson Mandela was released from prison, he also had many encounters with Harry Oppenheimer as his guest at his mansion in Brenthurst.

3.6 The 1990s - Anglo move to London

In 1994 when the ANC government assumed political power, the first thing it did was to adopt neo-liberal economic policies, such as GEAR, that allowed companies to move capital freely between countries upon consent from the Central Bank. Coming from a context of a closed economy where South African companies, prior to 1994 could not transfer capital freely to other countries due to exchange control regulations and international sanctions on South African companies, major conglomerates in the country, such as Anglo, then took advantage of this policy in the 1990s to move its primary stock to foreign markets. Gencor was the first South African company to transfer its primary stock to a foreign country in a post independent South Africa in the 1990s, and were followed by Anglo who transferred its primary stock and headquarters to London in May 1999.

Anglo's argument to the government was that listing in London was critical for their future survival in the country and that it would result in an increase in investments in the South Africa. Contrary to their argument, investment flows into the country have not increased but, instead, Anglo's investments abroad have increased. "Save of purchasing Kumba iron ore company, Anglo has not made any significant investments in the country" (Spicer, Interview, 7 March, 2017).

According to Spicer, Anglo's decision to transfer its primary stock to London in 1999 was a response to the effects of globalisation in the mining sector. Spicer notes that Anglo had no choice but to list in London because all their big rival mining companies were already located there, and that had Anglo not listed in London, other bigger companies in London, or elsewhere who had strong financial power, would have taken control of Anglo through hostile takeovers. Lack of bigger capital markets in South Africa is also cited as one of the reasons Anglo moved to London in the 1990s (Interview, Keeton, 2017). Other proponents of the London listing state that Anglo listed in London in 1999 because the South African market had become too small for them (Cohen, interview, 15 Jan 2017) and state that by listing in London, Anglo had assumed its rightful place among other corporate mining giants in the World.

Anglo's decision to transfer its primary stock to London was criticised by COSATU and SACP, who viewed the move as an expression of a vote of no confidence in the Mandela-led government and a punishment of the ANC government for believing in socialist policies prior to 1994. According to Kreamer (2016) writing on Engineering Newsletter, Anglo's move abroad had nothing to do with Anglo's desire to access cheap capital in London, but was rather motivated by Anglo's lack of trust in the ANC government and its policies.

According to Cohen (Interview, 15 January, 2017) Anglo moved its primary stock to London May 1999 in order to protect its assets from being possibly nationalised in future by the new ANC government. This move by Anglo was unexpected because Anglo had become much closer to the ANC in the late 1980s and in the 1990s, at the time when Anglo executives led the negotiation talks. This move meant that Anglo did not trust the ANC and its policies. Interestingly, when Anglo faced a similar

situation in the 1940s, following the rise into power of the National Party government, Anglo reacted by co-operating with the National Party government and even went out of its way to accommodate and cooperate with their rival Afrikaner-led businesses. But when the ANC ascended into power, Anglo reacted in a different way by disengaging themselves from the South African economy by transferring their headquarters and primary stock to London on the 17th of May 1999, even though the economic conditions under Mandela were better than in the 1940s when Anglo co-operated and worked with the National Party government. Mohammed (2010:14) states that businesses such as Anglo transferred their primary public listings away from South Africa for fear of being "punished for their support or at least their failure to oppose apartheid, and that they worried that measures to ensure black economic empowerment by the government would have a negative effect on their businesses".

Chapter 4: Implications and costs of listing in the London Stock Exchange

4.1 Introduction

This chapter analyses the structure and activities of Anglo American Corporation in the last seventeen years and seeks to highlight how they have changed since the company migrated to London in 1999. To do so, this chapter analyses Anglo in the last seventeen years in terms of changes in its market capitalisation, share value price, net debt, dividend payments, mergers, and acquisitions, inflows and outflows of capital since it moved to London in 1999

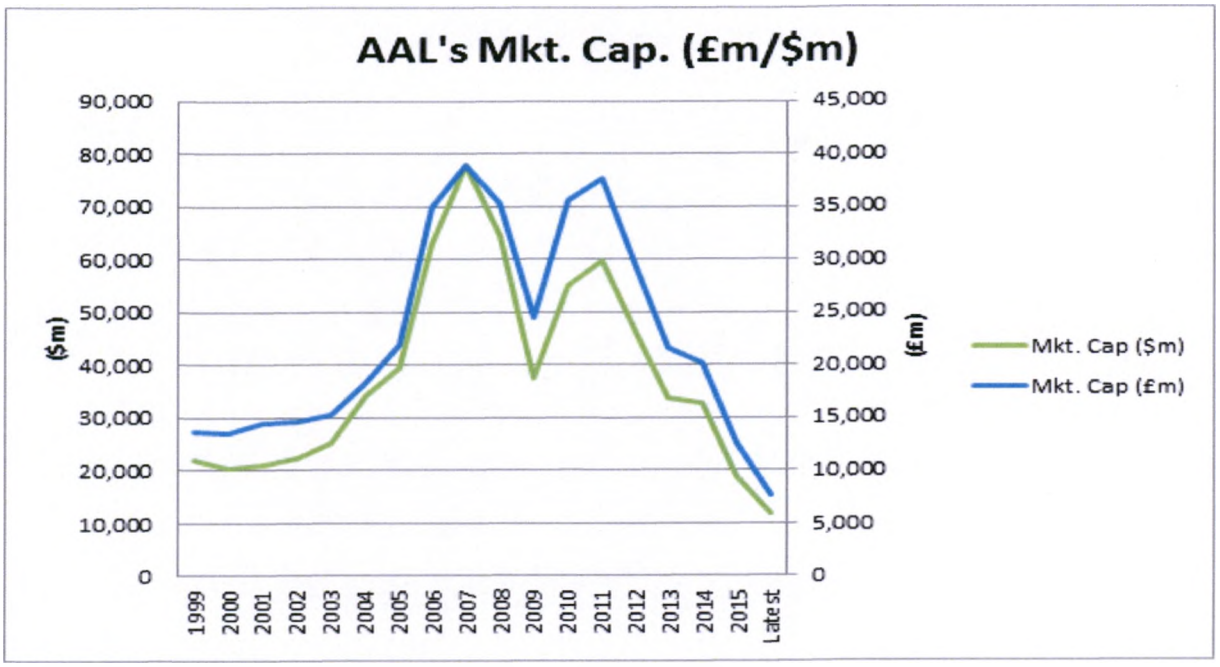
4.2 Market Capitalisation since 1999 in Dollars and Pounds

Anglo was ranked in the top 20 of the highly capitalised companies when it listed in the London Stock Exchange in 1999 and was included in the FTSE top 100 index that tracks the shares of highly capitalised companies that are listed at the London stock exchange (Cohen 2016). When Anglo listed in London in 1999, it was valued at $22 billion dollars and were more capitalised than their peers such as Rio Tinto, BHP Billiton, and Fresnillo.

In its first six years in London, Anglo's market capitalisation is said to have increased from $22 billion in 1999 to $78 billion in 2006 (Anglo Annual Reports, 2007). According to industry analysts, the increase in Anglo's market capitalisation between 1999 and 2006 was caused by the increase in global prices of commodities which Anglo mined and to the issuance of additional new shares by Anglo after listing abroad.

Another reason which led to an increase in Anglo's market capitalisation in the early 2000s was the unbundling of Anglo's noncore assets in the early 2000s which increased their revenue flows (Anglo Annual Report, 2000). In 2007, Anglo's market capitalisation fell from $78 billion in 2006 to below $40 billion in 2009 (figure 1 below) as a result of the decline in commodity prices which was caused by the financial global crises of 2007 and 2008. The globally financial crises slowed down the demand of commodities by the Chinese market and resulted in Anglo undergoing a mini recession between 2007 and 2009 (Groenewald, 2011:17).

Figure 1



Source: Yahoo! Finance

The graph above (figure 1) shows that from 1999-Anglo American Corporation's market capitalisation gradually increased from $22 billion dollars in 1999 to $78 billion dollars in 2006 and decreased between 2007 and 2009, before increasing again from 2009 to 2012 and declining thereafter.

In 2010 and 2011, Anglo's market capitalisation began to rise again following the end of the global financial crises and due to the increase in commodity demand in China. This time however the increase in market capitalisation was to be short-lived for Anglo, who during the period of commodity boom had made serious investment mistakes, such as borrowing $6 billion dollars to purchase Brazilian iron ore mine, Rio Minas. According to Spicer (Interview, 06 March 2017) if Anglo had stayed in South Africa, the Brazilian iron ore mine would not have purchased because Harry Oppenheimer the leader of Anglo was debt averse. Another reason that contributed to the decline in Anglo's market capitalisation was the unbundling of Anglo's non mining assets which led to a decrease in their revenue streams. Anglo's market capitalisation declined again from 2012 to 2016. By 2014, the value of Anglo's market capitalisation was $17 billion dollars and $5.6 billion in 2015 (SABC News, 2 February 2015).

Anglo's decline in market capitalisation in the post London period was epitomised by the company losing its place among the top 20 companies in Britain that are highly capitalised as Anglo finished the year 2016 ranked at number 31, 10 places lower than when it listed in London in 1999 (Cairns, 2011). While Anglo had been more capitalised than Rio Tinto or BHP Billiton when they listed in London in 1999, Anglo is now the least capitalised mining company in comparison to all of the major mining companies that are listed in the FTSE top 100 index at the London stock exchange (SABC News, 2 February 2016).

4.3 An analysis into AAC Plc's Share price fluctuations

One of the reasons that Anglo moved abroad was to try and reduce the 25 percent discount in which their shares were trading to the value of their total assets. According to Hattingh (2007:11), "before moving to London, Anglo American Corporation's shares were trading at 20 percent below their net asset value". Listing in London enabled Anglo to reverse this situation such that by 2001 Anglo-American shares were trading at 37 percent above their actual asset price. The Public investment corporation (PIC) is the biggest institutional shareholder at Anglo and 13.31 percent of Anglo's shares in 2016.

When Anglo first listed their primary stock market on the London Stock exchange in 1999, its shares were valued at £33.20 per share, 10 percent higher than the predicted market price (CNN Money, 1999). The increase in share price was caused by an increase in the number of international investors who purchased Anglo's shares after Anglo listed in London. According to (Anglo's Annual statement,2000) the number of Anglo's international shareholders who purchased Anglo's shares increased by 36 percent in 2000 among the British, American, and European public shareholder in Anglo's first year in the United Kingdom.

In 2001, Anglo's share price increased to £45.34 per share compared to £33.20 per share in 1999. The increase in share value was at first was caused by Anglo's decision to restructure and to unbundle some of their non-core mining activities, which delighted their international investors who had long complained of not being able to

understand the company as it was too diversified. Secondly the share price rally was also a result of the improved performance by Anglo following an increase in the global commodity prices (Cohen, Interview, 15 January, 2017).

Like other companies Anglo had failed to realise that the commodity price boom in the early 2000s was temporary. During the period Anglo had borrowed heavily to fund the acquisition of some of their assets abroad, most notably the Minas iron ore mine in Brazil. Anglo purchased the mine for $6 billion dollars, and spent another $12 billion to develop it (Keeton, Interview, 23 February, 2017). According to Cohen (Interview, 15 January, 2017) Anglo's Cynthia Carroll was warned against purchasing this mine after Anglo's engineers had assessed it and deemed the mine not to be suitable for purchase. Carroll nevertheless approved the purchase. Anglo had hoped that Rio Minas would be profitable, but the when the prices of copper, platinum, and nickel declined by 65 percent, 59 percent and 69 percent respectively, Anglo share price also declined to £29.09 per share in 2007 and £19.45 in 2009 and left them highly indebted (Anglo Annual Reports, 2006, 2007, 2008, and 2009).

Amid the collapse in share price, Anglo's board suspended payments of dividends to its shareholders in 2009 for the first time since 1930s. Anglo's share price temporarily rebounded in 2010 and 2011, buoyed by an increase in demand of from China again after the end of the global financial crises (Cape Times, 2013), but fell once more from 2012. Anglo's share price increased from £19.45 in 2009 to £26.71 in 2011, and £27.96. In 2013 and 2015, Anglo's share again decreased to £21.43 and £12.05 respectively and payments of dividends was suspended again in 2016.
Figure 2 below summaries the trend in AAC's share price from 2000 to 2016 and it shows that in 2015, Anglo's share price fell by more than 75 percent (Cape Times, 2016)

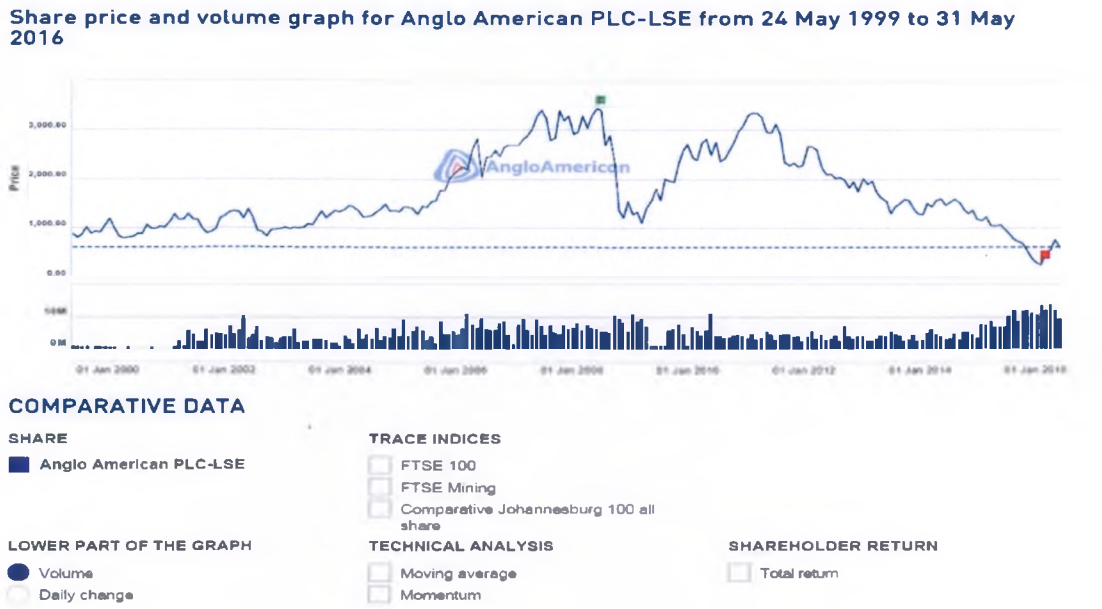


Figure 2 above shows that AAC's share price increased initially from 1999 to 2007 then fell in 2008 and 2009 before rising again between 2010 and 2012 and decreasing thereafter in 2013 and slightly recovering again in early 2016. Source; AAC website

4.4 Anglo's Net Debt Equity from 1998 to 2015

Anglo American Corporation provides a good case study of what happens to a company when there has been too much borrowing and poor capital allocation (Sunday News, 27 November 2016). According to Cohen (interview, 15 January, 2017) and Spicer (interview, 07 March, 2017) the debt that Anglo is currently grappling with emanated from the purchase of Minas Rio Iron Ore Company from MMX for $6 billion in 2007 and cost them $12 billion to develop.

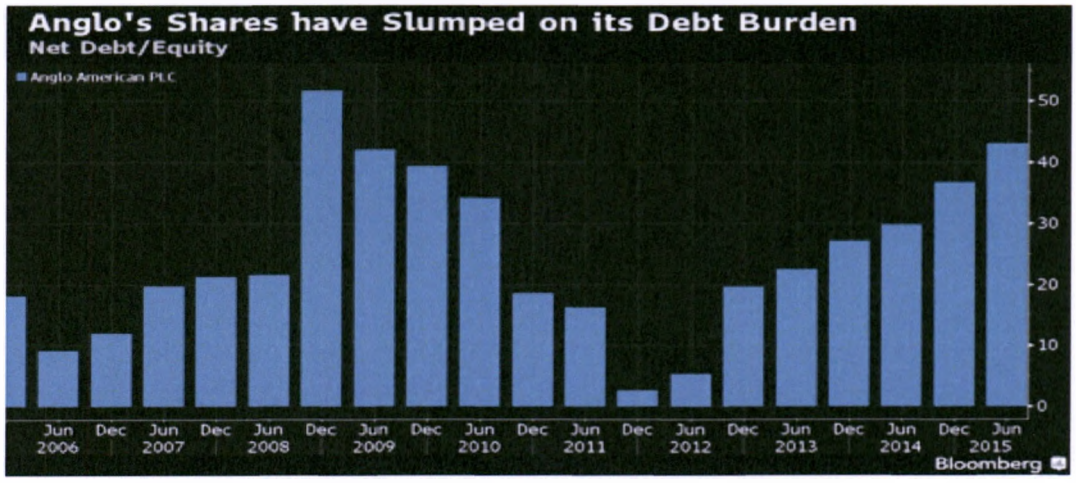
Besides the Rio Minas debt, Anglo also accumulated more debt in the last seventeen years in London. One such case was in 2001 when Anglo's net debt increased from $3.560 billion to $5.578 billion in 2002 after Anglo purchased Disputada Base Metals Company in Chile from Exxon Mobil Corporation. This transaction saw its net debt to total capital ratio increasing to 23.1 percent in comparison to 12.2 percent of the previous year. A closer analysis on Anglo's performance post 1999 shows that its debts began to rise at the time it listed in London, and that this was caused by its unrestricted purchases of assets abroad. This saw Anglo's debts increasing from $5.578 in 2002 to $ 11, 7 billion in 2016 (Financial Times, 2016). According to

Biesheuvel et al (2016), Anglo's debts in February 2016 stood at $ 13 billion, twice more than the company's stock market value which was valued at $6, 7 billion.

This poor state of Anglo's debt was demonstrated in its decision to suspend payment of dividends to its shareholders for the second time since 1930. In addition to suspending payment of dividends in 2016, Anglo also announced plans to retrench some of its employees and to sell some of its coal and iron ore assets in South Africa in order to conserve cash and reduce its debts. The plans to sell coal and iron ore assets have, however, been put on hold for now.

The graph below illustrates how Anglo's debts have increased since 2006.

Fig 3



Source: Bloomberg News

4. 5 Change in Anglo's Profit Margins from 1999 to 2015

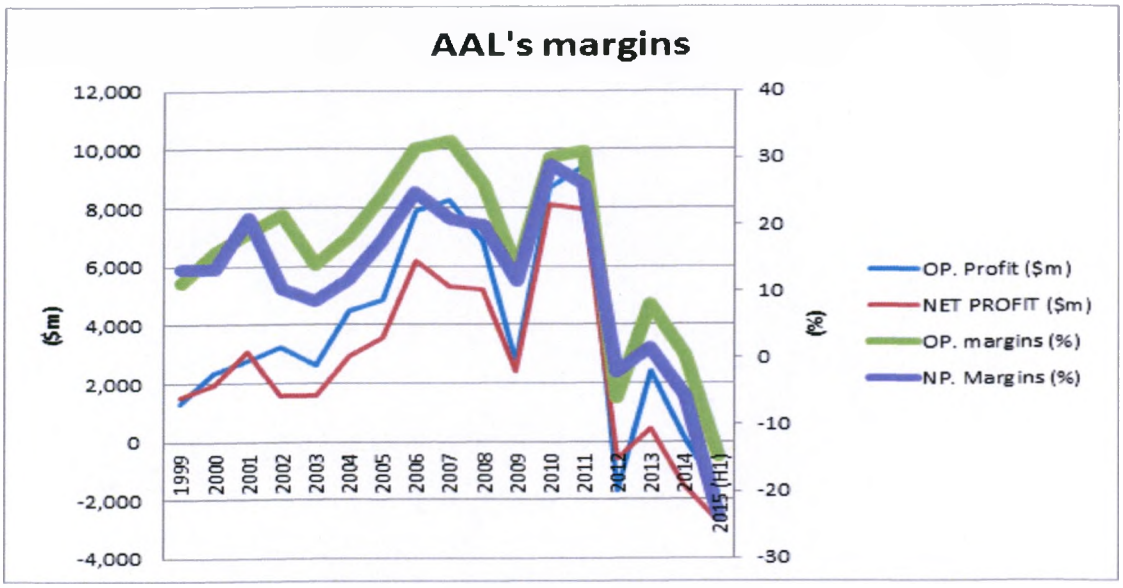
Just like the trend in market capitalisation and share price, Anglo's profits also increased in the first few years that preceded its move to London, then decreased in 2007 and 2008 and again in 2012 to 2016. Anglo's profits increased by 24% in its first year as a London listed company. According to Rajak (2014: 264), the increase in Anglo's profitability in its first year in London was caused by the company's bold decision to reduce the risk of its assets in South Africa, by transferring its primary

stock and headquarters to London in 1999. Anglo's profitability in its earlier years in London was, in part, caused by the advantages of now being valued in the more stable dollar currency. Anglo's commodities were now traded in dollars against the rand, the currency in which most of Anglo's operating costs were paid (Carmody, 2002: 268)

According to Cohen (Interview, 15 January, 2017) the increase in Anglo's profitability during its earlier years in London was caused by the increase in global prices of the commodities that Anglo mined. When the prices of these commodities began to fall between 2007 and 2008, Anglo's profits fell with them. The financial crises of 2008 did not help either as it left Anglo in more debt. Keeton (interview, 23 February, 2017) states that moving abroad did not improve Anglo's profitability but instead increased its debts.

According to Keeton, Anglo could not use the money it generated from disposing its noncore assets in South Africa to fund the purchase of overseas assets because of the presence of the reserve bank regulations in the country which prevented free movement of capital from South Africa. Therefore in order to fund the purchase of its overseas assets, Anglo was forced to borrow money from the financial markets, being unable to use its cash reserves in South Africa because of exchange control regulations. In 2010 Anglo's profits began to improve again as shown by the graph below, before falling again in 2011 to 2015. The initial improvement in profitability was caused by the end of the global financial crises of 2008 and 2009 while the decrease in profitability in 2011 emanated from the increase in the debt that the company had put itself in during the period of commodity boom.

Fig 4



According to an article which was published by Casey research on (09 December, 2015) in 2015 Anglo's sales declined by 19 percent in the first quarter of the year when compared to the previous period and also recorded loses of £3.02 billion during the first quarter of 2015 compared to £1.46 billion in the first quarter of 2014. Thus, being all powerful in South Africa counted for little after Anglo's move to London as evidenced the company's failure to maintain an improved profitability for the company since their move abroad.

4.6 Equity and Dividend Payment to Shareholders

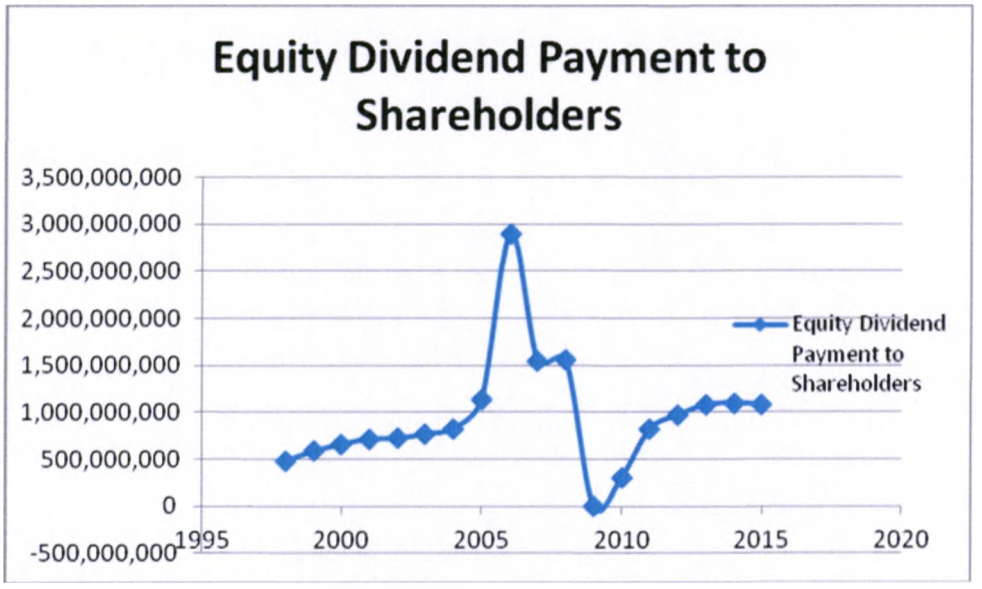
After Anglo's approval to shift its primary stock abroad by the government, net outflows through payments of dividends to new foreign shareholders increased from $585 000 000 million in 1999 to $657 000 000 million in 2000 and in 2006 and 2007 increased by $2 888 000 000 billion and $1 538 000 000 billion respectively (Anglo Financial Statements 1998-2015).

According to Padayachee (2008:18), overall "net dividend payments outflows from the country increased from under R1 billion in 1998 to about R 9 billion in 2000, to R 17 billion in 2001, and R24 billion in 2005" as a result of South African companies transferring its primary stock markets abroad . Padayachee attributes this increase in dividend outflows to an increase in the number of international investors who bought stocks from former South African companies that listed abroad. According to an

online article from the Mail and Guardian, R45 billion left South Africa in the third quarter of 2001 as a result of big South African companies that listed abroad, the Business Day of 17 March 2013 also reported that in 2007 alone South Africa paid out a massive R203 billion in dividends which caused the country to run a dividend payment account deficit of R120 billion in the first two quarters of 2008.

Zungu (March, 2013) states that the above increase in revenue outflows through net foreign dividends outflows would have been minimised had Anglo and other big companies not transferred their primary stock markets abroad.

Fig 7: Equity dividend payment to Shareholders from 1996 to 2015:



Source: Anglo American Corporation financial statements: 1998-2015

The graph above shows that Anglo's net dividend outflows increased from under R500 000 000 in 1998 to about R700 000 000 in 2000, R1 billion in 2005, and R3 billion in 2006. It further shows that net dividend flows declined in 2007 and 2008 and that in 2009, Anglo suspended paying its shareholders dividends for the first time since 1930s in order to conserve cash during global recession and to improve its balance sheet. In 2010, Anglo reinstated paying of dividends to its shareholders and suspended them again in 2015.

4.7 Restructuring and unbundling-Anglo Post 1999

One of the results of Anglo's decision to move its primary stock to the London stock exchange in 1999 was the selling of most of its non mining assets in South Africa. Before moving to London, Anglo had been a much diversified company that had interests in the country across different economic sectors of the country such as mining, agriculture, forestry, media, manufacturing, and even the automobile industry. Such diversity confused potential investors who found it difficult to classify what type of a company Anglo was. Anglo had to decide if it was a mining company or a conglomerate, and it finally choose the later. By doing so Anglo was forced to break up its conglomerate structure and become a focused mining company (Robinson, 2016:769).

Having chosen to be a mining company, Anglo began to restructure its operations by selling all of its industrial assets, its financial stake in First National Bank (FNB), selling its non-mining assets and at the same time buying more mining assets. As of May 2006, Anglo had disposed $10 billion of non-core assets, most of them in South Africa, and bought $15bn worth of new businesses (Jones et al, 2007: 227-228). The new companies Anglo bought included Tarmac Plc in the UK, Shell's coal interests in Australia and Venezuela, the Disputada copper mine in Chile, and the Russian forest company, Syktyvkar. In South Africa, the notable purchases, post 1999, were the purchases of Kumba Iron Ore and Anglo gold, which were both bought using local funds which Anglo had got from the sale of their industrial and financial assets. According to Cohen (interview, 15 January, 2017) Anglo has to date not made any significant asset purchase in South Africa that warranted their move there.

True to Cohen's observations, (Chabane et al, 2006:559) also notes that, "rather than London listing enabling Anglo to raise capital to fund investments in South Africa, as table 2 shows below, there has been much more striking pattern of outward acquisitions and investments.

Table 3: Anglo's notable acquisitions since 1999

Name of the Company	Country of Incorporation
Cervejon Centrale Coal	Colombia
Cerrejon Zona Norte mines	Colombia
La Disputada	Chile
Empresa Minera de Mantos Blancos	Chile
Cerro Vanguardia	Argentina
Acacia Resources,	Australia
Shell Coal	Australia
Anaconda Nickel	Australia
Ashanti Goldfields	Ghana
Skorpion zinc mine	Namibia
Tarmac	United Kingdom
Kumba Iron	South Africa
Syktyvkar forestry company	Russia
Rio Minas	Brazil
Anglo Gold	South Africa

The table above summarizes Anglo's notable acquisitions since 1999 and it shows that most of Anglo's acquisitions were abroad

4.8 Summary

This chapter proves that since Anglo listed abroad, it contracted when measured in terms of market size, market capitalisation, and that its debts have increased. This chapter showed that Anglo's problems post 1999 emanated from poor decision making by its management team. One such decision was the purchase of the Rio Minas iron company in Brazil for $6 billion dollars and which cost Anglo a further $12 billion dollar of borrowed capital to develop. Spicer (Interview, 07 March, 2017)

notes that if Anglo had not moved to London, they would not have been in debt because, to Harry Oppenheimer, debt was averse. Another downfall of Anglo, as we have highlighted in this chapter, was giving its shareholders too much power to decide about the future of the company. Such power resulted in the decision to unbundle its non-mining assets as per the shareholders' wish to see Anglo as a focused mining company, and not a conglomerate.

Chapter 5: Findings and Recommendations, and Conclusion

5.1 Findings

This paper was tasked with answering two questions. In answering the first question [What were the factors that led to Anglo to abruptly shift its primary stock market and headquarters to London in 1999], this paper found overwhelming evidence which suggests that Anglo American Corporation's decision to shift its primary stock from the JSE to the LSE was informed by its fear of political uncertainty in the country. One such fear was that the ANC might nationalise big companies in the near future, something that it had threatened to do while still an illegal organisation during the apartheid period. Anglo's decision to shift its primary stock, although approved by the government, was viciously opposed by the SACP and COSATU, who viewed Anglo's move as a vote of no confidence in the ANC government.

Secondly this paper provided evidence that Anglo American Corporation transferred its primary stock and headquarters to London under the guise of wanting to raise cheap capital there in order to invest back into its South African operations. Tony Trahar's ridicule of President Thabo Mbeki in 2006, when he publicly mentioned the declining of political risk in South Africa, also suggests that the real reason Anglo transferred its primary stock to London was to protect its assets from the perceived political insecurity in the country, and not to raise cheap capital. Anglo's explanation of transferring its stock abroad, in order to raise cheap capital in London, was therefore disingenuous, as its move was not aimed at developing a global company, but was rather a primary defensive strategy.

This paper also shows that, as a result of the company's move, Anglo began to prioritise its foreign shareholders' needs. One such need was to see Anglo concentrating on mining business only, and not being a conglomerate company with assets and interests across different sectors of the economy. Acting on this, Anglo then sold most of its non-mining assets after the company moved abroad. Anglo's desire to become a global company led it into making several management blunders. One such blunder was the purchase of the Rio Minas Iron mine in Brazil, which cost

Anglo $6 billion to purchase and a further $12 billion to develop, and left the company heavily indebted and having to suspend paying its shareholders dividends in 2010 and in 2016, respectively. Furthermore, since Anglo moved to London in 1999, it has not purchased any significant assets abroad that warrant its move there, but instead, its profits and market capitalisation have fallen, although that cannot be linked directly to Anglo's decision to transfer its primary stock to London, but rather, on the collapse of commodity prices.

With Anglo's departure, South Africa lost so much of the country's developmental capacity such that to date no single company in the country has been able to fill that void. Anglo's decline is a good lesson of how companies lose their way and why leadership and strategic choices matter so much, particularly in an industry in which producers are largely price-takers and the industry is ingrained in politics (Cohen, Business Day, 4 March: 2016). According to Creamer (2016:1), Anglo's listing in London in 1999 marked the beginning of a "steep downsizing process of unprecedented global proportions, which resulted in the company jettisoning two-thirds of its commodities and decimating its employee base". Foreign direct investments have also remained weak despite the move to London, and sadly there is no evidence that suggests that Anglo increased its investments in South Africa after it listed its primary stock market in London.

The second question this paper was tasked with was investigating how Anglo's activities have changed since 1999.

This paper found that, while Anglo was more capitalised and bigger than some of its peers listed on the LSE, Anglo by the end of 2015 was the weakest of the three diversified miners that are listed on the LSE and has fallen much faster than its peers. After listing in London, Anglo was forced to sell some of its industrial and financial assets in South Africa that investors had deemed not to be necessary. Anglo has now been overtaken in size by its former paper subsidiary company, Mondi. As Cohen states, Anglo's demise was due to the "tendency to bend backwards to satisfy the London market even if doing so was not in the best interests of the company". The listing by Anglo in London in 1999 heralded the beginning of the company's downsizing processes, whereby Anglo had to restructure its portfolio and dispose of most of its non-core mining assets to suit the demand of new investors in London.

Had Anglo maintained "its primary listing in Johannesburg, there would have been none of the unsettling calls for its disinvestment from this country that kept shattering confidence of investors. Anglo's decline is a consummate lesson in how companies lose their way and in why leadership and strategic choices matter so much, particularly in an industry in which producers are largely price takers and the industry is so ingrained in politics". (Cohen, 2016:01)

5.2 Conclusion

The evidence gathered in this paper reflects that there seem to varying reasons that led Anglo American Corporation to transfer its primary stock to London in 1999. Most scholars and analysts interviewed agree that, while they also believed that Anglo had outgrown the South African market and that London appealed to Anglo because of the presence of cheaper capital there, the underlying causes of Anglo's move to London was its lack of trust in the government's economic and political policies. One such policy, which comes up often, is that Anglo was concerned that the ANC government would nationalise mines and businesses in future as they had once threatened to do when the ANC was still an illegal organisation.

Secondly, what is evident is that, since Anglo moved abroad, its numbers of assets in South Africa have decreased. Interestingly since its move, Anglo has purchased only one significant asset in South Africa, the Kumba Iron Company, which Anglo purchased from the funds the company obtained from selling its non-mining assets in South Africa, and not from the proceeds derived from listing in London. More interesting is that, since it's listing in London, most of Anglo's purchases have been abroad and not in South Africa, as the South African government was led to believe.

Had the South African government adopted the Australian approach of duel listing primary stock market, Anglo would have still maintained its strong relationship with South Africa, and the South African government would have benefited from tax and royalty payments Anglo would have paid to it. But unlike the Australians, the South African government allowed companies to move their headquarters abroad. By doing so, South Africa lost the developmental capacity Anglo would have continued to play in the South African economy. Anglo's move to London also highlights the

challenges of globalisation in emerging markets. Evidence presented in this paper shows that the South African government, despite its good intentions, might have made an error in allowing Anglo to move abroad, with the produced results being contrary to expectations. On its part, Anglo might have downplayed the challenges of being listed in a foreign country, and the power that investors in modern day have.

REFERENCES

Interviews

Tim Cohen, former Business Day editor, 15 January 2017

Alick Bruce Brand, Former head of exchange control division of the South African Reserve bank, 23 January 2017

Lumkile Mondi, former chief economist at the industrial development corporation, 10 February 2017

Gavin Keeton. Former chief economist at Anglo American Corporation, 23 February 2017

Michael Spicer, former executive vice President of Anglo American Corporation Plc, 07 March 2017

Journals

Abdallah, A.A.N. and Ioannidis, C., (2010). Why do firms cross-list? International evidence from the US market. The Quarterly Review of Economics and Finance, 50(2), pp.202-213.

Alexander, G.J., Eun, C.S. and Janakiramanan, S., (1987). Asset pricing and dual listing on foreign capital markets: A note. The Journal of finance, 42(1), pp.151-158.

Amihud, Y. and Mendelson, H., (1986). Asset pricing and the bid-ask spread. Journal of financial Economics, 17(2), pp.223-249.

Ashman, S., Fine, B. and Newman, S., (2010). The Developmental State and Post Liberation South Africa. Testing democracy: Which way is South Africa going, pp.23-45.

Ashman, S., Fine, B. and Newman, S., (2011). The crisis in South Africa: Neoliberalism, financialization and uneven and combined development. *Socialist Register*, *47*(47).

Bancel, F., and Mittoo, C., (2001). European managerial perceptions of the net benefits of foreign stock listings. *European financial management*, *7*(2), pp.213-236.

Bhana, N., (2000). Overseas listing by companies listed on the Johannesburg Securities Exchange and its impact on shareholder wealth. *Investment Analyst Journal,* 51:37-47.

Birkinshaw, J., Braunerhjelm, P., Holm, U. and Terjesen, S., (2006). Why do some multinational corporations relocate their headquarters overseas? *Strategic Management Journal*, *27*(7), pp.681-700.

Bortolotti, B., Fantini, M. and Siniscalco, D., (2001). Privatisation: politics, institutions, and financial markets. *Emerging Markets Review*, *2*(2), pp.109-137.

Castle, J. and Kantor, B., (2000). Tracking stocks—an alternative to unbundling for the South African group. *Investment Analysts Journal*, *29*(51), pp.49-56.

Carmody, P., (2002). Between globalisation and (post) apartheid: the political economy of restructuring in South Africa. *Journal of Southern African Studies*, *28*(2), pp.255-275.

Cetorelli, N. and Peristiani, S., (2012). The role of banks in asset securitization. *Federal Reserve Bank of New York Economic Policy Review*, *18* (2), pp.47-64.

Chabane, N., Roberts, S., and Goldstein, A., (2006). The changing face and strategies of big business in South Africa: more than a decade of political democracy. *Industrial and Corporate Change*, *15*(3), pp.549-577.

Chouinard, E. and D'Souza, C., (2004). The rationale for cross-border listings. *Bank of Canada Review*, *2003*(winter), pp.23-30.

Dodd, O., (2013). Why do firms cross-list their shares on foreign exchanges? A review of cross-listing theories and empirical evidence. *Review of Behavioural Finance*, *5*(1), pp.77-99.

Fedorov, P. and Sarkissian, S., (2000). Cross-sectional variations in the degree of global integration: the case of Russian equities. *Journal of International Financial Markets, Institutions and Money*, *10*(2), pp.131-150.

Foerster, S.R. and Karolyi, G.A., (1999). The effects of market segmentation and investor recognition on asset prices: Evidence from foreign stocks listing in the United States. *The Journal of Finance*, *54*(3), pp.981-1013.

King, D., Coldwell, D., Joosub, T., and McClelland, D., 2015. Institutional forces and divestment performance of South African conglomerates: Case study evidence. *South African Journal of Economic and Management Sciences*, *18*(3), pp.338-353.

Rajak, D., (2014). Corporate memory: Historical revisionism, legitimation and the invention of tradition in a multinational mining company. *PoLAR: Political and Legal Anthropology Review*, *37*(2), pp.259-280.

Licht, A.N., (2003). Cross-listing and corporate governance: bonding or avoiding. *Chi. J. Int'l L.*, *4*, p.141.

Manson, A., and Mbenga, B., (2003). 'The Richest Tribe in Africa': Platinum-Mining and the Bafokeng in South Africa's North West Province, 1965-1999.*Journal of Southern African Studies*, *29*(1), pp.25-47.

Merton, R.C., (1987). A simple model of capital market equilibrium with incomplete information. *The journal of finance*, *42*(3), pp.483-510.

Padayachee, V., (2013). Capitalism of a special type? South African capitalism before and after 1994. Transformation: Critical Perspectives on Southern Africa, (81-82), pp.5-290.

Pagano, M., Röell, A.A. and Zechner, J., (2002). The geography of equity listing: why do companies list abroad? The Journal of Finance, 57(6), pp.2651-2694.

Robinson, I., (2016). The globalization of the South African mining industry. Journal of the Southern African Institute of Mining and Metallurgy, 116(8), pp.769-775.

Stapleton, R.C. and Subrahmanyam, M.G., (1977). Market imperfections, capital market equilibrium and corporation finance. *The Journal of Finance*, *32*(2), pp.307-319.

Varela, O. and Lee, S.H., 1993. International listings, the security market line and capital market integration: The case of US listings on the London stock exchange. Journal of Business Finance & Accounting, 20(6), pp.843-863.

Books

Aron, J. and Muelbauer, J., (2005). Monetary Policy, Macro-stability and Growth South Africa's recent experience and lessons. World Economics-Henley on Thames-, *6*(4), p.123.

Amin, S., (1987). SADCC: prospects for disengagement and development in Southern Africa. United Nations University Press.

Bond, P., (2003). Against global apartheid: South Africa meets the World Bank, IMF and international finance. Palgrave Macmillan.

Deshpande, A. and Nurse, K., (2012). The global economic crisis and the developing world: Implications and prospects for recovery and growth (No. 95). Routledge.

Eiteman, D.K., Stonehill, A.I. and Moffett, M.H., (1998). Multinational Business Finance, Addison Wesley Longman. Reading, MA.

Fine, B., and Rustomjee, Z., (1996). The political economy of South Africa: From minerals-energy complex to industrialisation. Boulder, CO: Westview Press.

Gumede, W.M., (2007). Thabo Mbeki and the Battle for the Soul of the ANC. Zebra.

Innes, D., (1984). Anglo: Anglo-American and the Rise of Modern South Africa, Braamfontein.

Jones, I., Pollitt, M.G. and Bek, D., (2006). Multinationals in their communities: A social capital approach to corporate citizenship projects. Centre for Business Research, University of Cambridge.

Lavelle, K.C., (2004). The politics of equity finance in emerging markets. Oxford University Press.

Marais, H., (2001). South Africa: Limits to change: The political economy of transition. Palgrave Macmillan.

Dissertations and Working Papers

De Landsheere, J., (2012). Cross-listing in the 21st century, "Benefits of ADR-listings: an ending story"? Masters. Dpt. International Business Law: Tilburg University.

Gemmil, M., and Skudder. A., (2000). South African Breweries: JSE to LSE: The road to international capital, Master. Graduate School of Business: University of Cape Town

Hattingh, S., (2007)., BHP Billiton and SAB: Outward capital movement and the international expansion of South African corporate giants. ILRIG

Legassick, M., 2006. South African political economy. Society and Nature, pp.1-54.

McKenzie, R., and Pons-Vignon, N., (2012). Volatile capital flows and a route to financial crisis in South Africa.

Mohamed, S., and Finnoff, K., (2005). Capital Flight from South Africa, 1980–2000. *Capital Flight and Capital Controls in Developing Countries*, pp.85-115.

Website Articles

Anetos, P., (2017). Anglo veteran still leaving no room for mediocrity. [Online] Available at http://www.timeslive.co.za/sundaytimes/businesstimes/2017/03/26/Anglo-veteran-still-leaving-no-room-for-mediocrity1. [Accessed 28 March 2017]

Business Day., (2017). Anglo exit from SA the 'right thing to do'.[Online] Available at https://www.businesslive.co.za/bt/business-and-economy/2017-03-26-anglo-exit-from-sa-the-right-thing-to-do/. [Accessed 24 September 2017]

Business Day., (2016). Anglo shares gain as output increases. [Online] Available at http://www.businesslive.co.za/bd/companies/mining/2016-10-26-anglo-shares-gain-as-output-increases/. [Accessed 27 February 2017]

Business Report., (2015). Job losses in mining sector: who benefits?. [Online] Available at http://www.iol.co.za/business-report/opinion/job-losses-in-mining-sector-who-benefits-1898339. [Accessed 24 February 2016]

Cairns, P., (2011). Anglo American: Requiem for an icon. [Online] Available at:http://www.moneyweb.co.za/archive/the-investment-case-anglo-american-plc-2/. [Accessed 13 July 2016]

Cape Times., (2016). Anglo lifts diamond as industry rebounds. [Online] Available at https://www.pressreader.com/south-africa/cape-times/20161026/282123521051858. [Accessed 24 March 2017]

Cohen, T., (2016). Anglo American: Requiem for an icon. Available at: http://www.financialmail.co.za/coverstory/2016/03/03/anglo-american-requiem-for-an-icon. [Accessed 21 July 2016]

Financial Times., (2016). Anglo American: Survival plans. [Online] Available at: https://www.ft.com/content/82ec09aa-d020aa-d020-11e5-831d-09f7778e7377. [Accessed 8 September 2016]

Financial Times., (2016). Anatomy of a mine wreck: How Anglo American's London listing crippled a 99-year old mining icon. [Online] Available at: https://www.pressreader.com/south-africa/financial-mail/20160304/282132110528335

Groenewald, H., (2011). Anglo American-94 years in the making. [Online] Available at http://www.coronation.com/za/personal/anglo-american-94-years-in-the-making. [Accessed 20 March 2017]

Interactive Investor., (2014). Good time to sell Anglo American?. [Online] Available at: http//www.iii.co.uk/articles/162123/good-time-sell-anglo-american. [Accessed 20 September 2016]

Mantashe, G., (2015)., Rising inequality may destroy us. [Online] Available https://www.iol.co.za/the-star/rising-inequality-may-destroy-us-1897110. [Accessed 24 September 2017]

Walters, S.S and J.W Prinsloo., (2002). The impact of offshore listings on the South-African economy

Rory Kutisker-Jacobson., (2011). Anglo American: Getting what you pay for?. [Online] Available at https://www.allangray.co.za/latest-insights/companies/anglo-american-getting-what-you-pay-for/. [Accessed 14 June 2016]

Rumney, R., (2016). Anglo: A giant no more. [Online] Available at: http//city-press.news24.com/voices/anglo-a-giant-no-more-20160309. [Accessed 21 September 2016]

SABC News., (2016). Anglo American risks eviction from FTSE 100 in March. [Online] Available at: http://www.sabc.co.za/news/a/141bed004b89588696a4f677bca42c4/Anglo-American-risks-eviction-from-FTSE-100-in-March-20160202. [Accessed 13 March 2017]

Spicer, M., (2016). Government and business-Where did it all go wrong?. [Online] Available at: https://www.businesslive.co.za/rdm/politics/2016-11-15-government-and-business---where-did-it-all-go-wrong/. [Accessed 13 January 2017]

This is money Markets., (2015). Revealed: The year's 10 biggest winning and losing stocks in the FTSE 100 index. [Online] Available at://www.thisismoney.co.uk/money/markets/article-3372078/Top-10-biggest-winners-losers-FTSE-100-2015-revealed.html. [Accessed 12 July 2016]

Yudelman, D., and Robinson, R., (2016). Anglo's catastrophe: Context and consequences. Available at: http://wiser.wits.ac.za/system/files/documents/YudelmanRobinson.Anglo_.pdf [Accesses 17 July 2016]