

Government Lifelines Could Save Failing Factories - But At What Long-Term Cost? [Business Day](#) (Johannesburg)

ANALYSIS

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Carli Lourens
Johannesburg

THE British government recently extended a £6,5m loan to MG Rover as part of efforts to rescue the company and secure the jobs of its 5000 employees. This rescue may have been politically motivated, but it amplifies the question of whether the same will be done for South African companies facing collapse.

Commentators say government should provide financial assistance where there is a crisis that may have significant economic and social consequences, and where temporary aid can provide breathing space for a turnaround that will set a company on a sustainable path.

Government has bailed out struggling companies in the past. It subsidised gold mining company ERPM to the tune of R1m a month in 1997 to keep the Boksburg mine afloat.

And it took the unprecedented step in 2002 of issuing a guarantee to cover BoE's R46bn deposit book after a loss of confidence led to an exceptional level of withdrawals.

But there appears to be little hope for troubled companies in SA today. Government says it no longer offers this type of support.

The struggling clothing company Rex Trueform, one of Cape Town's largest employers, could become the battleground where government's private enterprise rescue policy will be put to the test.

Lionel October, deputy director-general in the trade and industry department, does not emphatically rule out direct financial aid, but says "government has moved away from subsidising private enterprise".

Doling out money to bale out a company in trouble will not solve the problem, October says. He says, rather, government's role is to facilitate assistance. This could take the form of bringing in an empowerment partner or an overseas investor, using government's empowerment funds or its offset policy.

October cites the rescue of the Magwa tea estate in Eastern Cape, where government brought in German company Ferrostaal, which has large offset obligations, to tide over the struggling company.

Trade unions have called on government to save Rex Trueform. Government is keen to do this, but has to find the appropriate mechanism, says October.

Peter Draper, trade research fellow at the South African Institute of International Affairs, says the more funds the treasury allocates to supporting private enterprises, the less room there is for reducing corporate tax.

If government bales out one company, it will set a precedent. Helping Rex Trueform could become a costly exercise, given the large number of clothing and textile, mining and agricultural companies that are in serious trouble.

Draper says if there is a real and urgent case for financial aid - if the economic survival of an entire town depends on one company, for example - then clearly government has to step in. The key is that it has to provide temporary support in such a way as to ensure a company's long-term survival.

Stephen Hanival, director of the think-tank Trade and Industrial Policy Strategies, agrees. If there is a temporary anomaly in the market, for example, then temporary aid may be warranted. He cites the example of the US government's rescue of the airline industry, which nosedived after the September 11 terrorist attacks in 2001.

However, should a company be blatantly uncompetitive, he says, it is not worth propping it up. "In the end it comes down to what is causing the problems," says Hanival.

Neva Makgetla, an economist with the Congress of South African Trade Unions, says government should bale out companies with direct financial aid where this would be sustainable. She says that the cost to the country of a company closing would be higher than the cost of providing temporary aid.

Hanival says government is not pursuing measures available to it aggressively enough to support faltering companies.

He says that government has significant leeway to implement support that may not even be perfectly compliant with World Trade Organisation (WTO) rules.

Contrary to what is widely believed, he says, the WTO will not penalise SA as soon as it takes rescue action. It takes several years to resolve these matters, and SA can argue in its defence that it is an underdeveloped country.

Hanival says government could be more aggressive in its free trade negotiations to obtain better access for its exports.

SA has a large number of support programmes in place, he says. But the clothing and textile industry requires a tailored package to recapitalise operations and to glean targeted support for exports.