

CREDIT NOTES

Six markets
to GO for

**Nigeria's
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THE BILL OF
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BITES BACK



CREDIT GUARANTEE

COVER FEATURE



PICTURENET AFRICA

The Asian tiger is emerging: A tiger yawns in the water at the Sriracha Tiger Zoo in Chonburi province, southeast of Bangkok. Thailand is one of six export markets recommended to South African exporters (see page 3).

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CREDITGUARANTEE

Don't risk it without us.

Healthy business climate buoys Credit Guarantee's results

Credit Guarantee has reversed a R48,7m net loss for the year to June 2003 into a R228,4m profit for the 18 months to December 2004.

An upbeat CEO Mike Truter ascribes the R277,1m turnaround to a healthy business climate which yielded a welcome and significant decline in the number of business failures.

"Total claims paid for the 18 months to December 2004 climbed only moderately to R404,6m compared with R398,9m for the year to June 2003," says Truter. He notes that the change in reporting period arose out of Mutual & Federal's acquisition of a majority interest in the credit insurer, and a consequent change to coincide with the Mutual & Federal financial year.

"Our loss in 2003 was largely the result of the adoption of the AC133 accounting principles, which required us to recognise unrealised investment gains or losses in our income statement rather than in our balance sheet. That year was a dismal one for the JSE, hence our loss," he explains.

He adds, however, that with local equities performing strongly over the latest review period, unrealized investment gains accounted for more than half the company's after-tax profit.

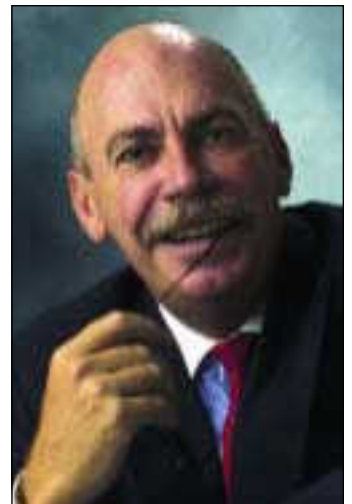
Truter says Credit Guarantee's con-

tinuously improving credit vetting and risk monitoring procedures also contributed significantly to the good result.

He adds that while the buoyant trading conditions are a welcome respite for South Africa's hitherto beleaguered business sector, they are no cause for businessmen to relax their vigilance when doing business on both the local and international markets.

"While low interest and inflation rates and a strong rand are fillips for local consumers, they are driving a dramatic upsurge in personal debt. We should not lose sight of this, nor of the vagaries of the global economic climate, influenced as it is by the massive US trade deficit and resulting uncertainties surrounding the US dollar."

"All things considered, an increase in business failures and higher domestic claims remain an ever present threat. This will contribute to challenging underwriting conditions in the year ahead," says Truter.



Mike Truter

Credit Guarantee receives FAIS licence

FAIS licence no 17691 issued by the Financial Services Board allows Credit Guarantee to act as an authorised financial services provider. An original copy of the licence can be seen on display at Credit Guarantee's main reception desk in our Dover Street, Randburg, offices, while certified copies are on display at all other branches.

Six markets

to GO for

A study assessing growth opportunities in 14 countries in Asia, Central and Eastern Europe (CEE) and Russia, has determined six countries with "GO" recommendations in terms of investment: China, India, Turkey, Thailand, Malaysia and Hungary.

The findings were published late last year in the third edition of PricewaterhouseCoopers' retail & consumer study called *From Beijing to Budapest: New Retail & Consumer Growth Patterns in Transitional Economies*.

"Our study finds that transitional economies across the globe offer varying degrees of challenge and opportunity for the retail and consumer investor, and while the modernisation of the retail and consumer sector is for the most part driven by multinationals, all areas are seeing the emergence of regional players," said Alec Jones, global industries leader at PricewaterhouseCoopers.

The study determined that the most immediate opportunities in the retail and consumer sector lie in China and that India offers more long-term potential for investment in the sector. Turkey, Thailand, Malaysia and Hungary are considered investment havens that offer general opportunities for development in the short or longer term.

Niche opportunities exist in South Korea, Poland, Romania, Czech Republic, Singapore and Slovenia despite the fact that they are already saturated as far as the size of the market is concerned. The study also shows that Russia and Indonesia should be viewed with caution and seen as long-term investment options.

Overall, there are three major trends that emerged after assessing the challenges and opportunities within the fourteen countries covered by the report:

- * Price sensitivity is having a significant impact on brand management and the development of private labels;
- * expansion from the increasingly saturated

major cities into small, regional cities; and

- * the development of shoppingtainment – shopping centers with malls and the creation of adjacent leisure activities.

"It is expected that as certain retail and consumer investors take a break after a first phase of investing in these economies that local players will begin capitalizing on their increasing knowledge of modern retailing and their understanding of local cultures to make their presence felt more strongly. This, together with the consolidation of local and foreign retailers' investments, will toughen the competitive environment considerably in the future," said Jones.

Additional findings on the opportunities and challenges facing these high growth markets follow:

Immediate opportunities in China

- * China is the biggest consumer market in the world and membership in the WTO (World Trade Organization) will improve business conditions for companies investing there.
- * National and regional brands are still extremely strong, and multinationals have to be aware of the extent to which they need to adapt their products and marketing to the Chinese consumer.
- * The Chinese government will play a key role in developing an environment conducive to long-term and sound economic development.

India offers longer-term opportunities

- * Consumer goods companies have already established themselves with success in India; there is huge potential for future development as the country modernizes.
- * Currently, foreign retail and wholesale investment is restricted to cash & carry outlets and, to a lesser extent, e-commerce. However, Wal-Mart, the world's largest retailer, will meet Indian Government officials amid signs that



For more information on the third edition of the Pricewaterhouse-Coopers Global Retail & Consumer study, "From Beijing to Budapest: New Retail & Consumer Growth Patterns in Transitional Economies" go to: www.pwc.com/growth

New Delhi might relax its resistance to foreign investment in retailing. India's industry minister has been pushing for reforms that could lead to global chains such as Wal-Mart and Carrefour investing in India's fragmented market. Foreign entry is expected to bring in greater investment in cold-storage infrastructure thereby improving India's underdeveloped supply chain for perishable foods and creating jobs.

- * India's outstanding capabilities in IT will ensure an extremely rapid and dynamic development in the modern retailing space.
- * The new government is designing policies to help improve the lifestyles of its 300 million people. Partnerships between foreign retail and consumer goods companies with local firms will undoubtedly contribute to the improvement of lifestyles and higher levels of employment and consumption, when this becomes possible in the future.

Investment havens

- * Turkey, with its young and growing population, is an obvious target for companies in the retail and consumer sector. A huge effort is being made to modernise the Turkish economy and accession to the EU would make a significant impact on the country's economic development.

- * While regulatory restraints are still an impediment in Thailand, there is plenty of potential for development in this country. The country's tourism sector is on its way to recovery and is reported to be in better shape than ever and is open for business. Visitor arrivals are growing steadily which is a blessing for the local economy and the people of Phuket. The island offers plenty of room for growth in tourism, residential property market and in its services industries. Physical reconstruction is essentially complete.

- * The Governor of the Tourism Authority of Thailand reassured the international community that the recent events in the far South were isolated incidents and away from the most popular tourist places. The restoration of most of the beautiful resorts and vibrant businesses in the Phuket area is virtually complete.

Robust growth in Malaysia

- * Increasing consumer demand and the existence of a burgeoning middle-class make Malaysia an extremely interesting destination for investment. Additionally, a young population, low unemployment and a growing modern retail sector all contribute to this country's extremely attractive investment climate.
- * Malaysia's economic prospects for 2005 continue to be favourable as the economy enters


the year from a position of strength, Bank Negara Malaysia deputy governor, Datuk Zamani Abdul Ghani, said. The Malaysian economy had registered a robust growth of 7.1% in 2004, the fastest growth since 2000. Growth was expected to be sustained at 5%-6% this year, as underlying conditions in the domestic economy remained strong, with healthy private consumption and investment activities. The banking system is gaining in strength. The sector is not only enhancing its competitiveness but also its customer services.

- * While Hungary has a fast maturing retail and consumer market, there are still opportunities left for investment in hypermarkets, convenience stores and specialised outlets, especially outside the capital. Hungarian software developers are seeking new opportunities, both by exploiting developing market sectors within the country and by pursuing relatively untapped potential beyond Hungary's borders. There is a big opportunity and a big need for software development in Hungary. Large international players like SAP and Microsoft are stepping up their activity in the country among medium-sized enterprises.

Niche opportunities

- * South Korea, Poland, Romania, Czech Republic, Singapore and Slovenia are already saturated as far as the size of the market is concerned. Although a certain number of general retail development opportunities in these countries still exist, retail and consumer companies would be better advised to focus on niche investments.
- * Singapore and Slovenia's prosperous populations make them targets for niche opportunities.
- * Romania, with its current limitations on property and land acquisitions and the limited availability of skilled staff and management, also make it a better destination for small, targeted retail opportunities.

Opportunities for the long term

- * Russia is a potentially huge mass consumer market for the investor and has one of the highest current world growth rates. However, the country is set for an extremely fragile economic, political and social framework.
- * For Indonesia, the decisions made by its government will have a profound influence on the country's development in the long term. The changing political and regulatory environment is an impediment to efficient and rapid development for foreign companies. 

WHERE were the AUDITORS?

WITH corporate scandal comes the inevitable question: Where were the auditors? In part, this question is the result of a misunderstanding of the role of the auditor; more importantly though, the question points to the public's sense that the auditor is the guardian of public trust.

So far, auditors have not been held liable in the courts for inaccuracies in financial statements they have audited. But there is increasing pressure globally for auditors to do more, and to take more responsibility for ferreting out corporate malfeasance.

One result of this is a raft of new auditing standards – which incidentally are likely to bump up the cost of an audit anywhere from 20% to 50% – addressing variously issues like fraud, auditing independence and the like. Another is a renewed challenge in the courts.

Harold Jacobs of Werksmans Attorneys, in a letter exploring issues of business law, raised the question of the legal liability of the auditor. Jacobs argues that the extent to which auditors' exposure to legal claims has grown has been exaggerated: "The reality is that legal frameworks in most of the major capitalist countries protect auditors from exposure to law suits brought by shareholders and other third parties."

Nevertheless, a recent decision in the Scottish Courts may set an uncomfortable precedent. In the case in question, the Royal Bank of Scotland relied on accounts audited by the auditors Bannerman Johnstone Maclay in making a deci-

sion on how much credit to extend to a certain company.

The presiding judge, Lord MacFayden, said that, in deciding whether or not the auditors had a duty of care to the bank, there were three issues: The advisor must know the identity of the party to whom the information will be communicated; the purpose for which that person is to be provided the information; and that the person to whom the information is given, is likely to rely upon it.

If these three factors exist then the advisor has a duty of care. So in the case above, the auditors knew that the bank would be relying on the audited accounts to judge whether or not to extend credit.

MacFayden held that the auditors owed a duty of care.

Jacobs further quotes the decision of England's House of Lords on the same subject. They found that a generally circulated statement (like a company's accounts) would be examined by many people who don't generally have a claim on auditors. A claim only exists when the auditor knew that the statement would go to a particular person or group (like banks) in connection with a specific transaction.

In other words, if the auditor knows that a bank will use a particular set of accounts to grant credit, the auditor has a duty to ensure that its work is accurate and valid.

That means that, in some cases, third parties (other than the audited company) can have claims against wayward auditors.

– Felicity Duncan, Moneyweb

NIGERIA'S ARGENTINEAN DEBT DEFAULT

In recent years, Nigeria has limited its cash debt-service payments to levels comparable to or somewhat lower than those of developing country oil exporters, sub-Saharan countries and African Heavily Indebted Poor Countries, while discriminating among its creditors and continually accruing new arrears. As a result, most international financing sources are closed to Nigeria and debt service payments have not significantly reduced the level of debt.

Nigeria's plight is said to be far worse than that of Argentina, which has presented its creditors with a take-it-or-leave-it offer to pay 30 cents for each dollar owed (see panel on page 8).

The origins of Nigeria's external debt problems date back to policies pursued during the 1970s oil boom that led to extreme vulnerability to downturns in the oil price. The exchange rate was fixed to contain external inflationary pressures.

Over time, the real effective exchange rate appreciated substantially as demand pressures raised prices of non-tradable goods. The appreciated exchange rate biased domestic investment in favour of projects that were capital intensive and relied heavily on imported inputs.

The origin of Nigeria's debt

1980s: Most of Nigeria's debt was contracted in the 1980s. The majority of Nigeria's external public debt was accumulated in the 1980-86 period, during the civilian Shagari and military Babangida administrations, when the debt stock increased five-fold from \$5bn to \$25bn. Over this period, the debt service-to-exports ratio increased from 6% to 72% and the ratio of external debt to goods exports increased from 17% to 320%.

From 1982 on, restrictions on access to foreign exchange led to the accumulation of arrears and the successive rescheduling and restructuring of trade credits and commercial bank debt. A policy of prioritising payments of medium- and long-term credits, including the centralised allocation of foreign exchange, led to the accumulation of arrears on short-term trade credits, particularly in 1982-83 and 1986.

1990s: In 1992 a debt reduction operation reduced London Club bank debt from \$5.8bn to \$2bn, including payments by Nigeria of \$2.2bn and thereby reducing Nigeria's total debt stock. From 1992, Nigeria's external

debt stock stabilised, as debt-service payments were broadly equivalent to total interest due. The authorities limited actual debt-service payments to a ratio of net oil revenues. As a result, arrears increased sharply in years when oil revenues declined, such as 1994-95.

The authorities also sought to remain current on debt service due to the largest commercial creditors (par bonds and promissory notes) and to multilateral creditors (principally the World Bank and the African Development Bank Group) and did not pay official bilateral creditors.

This prioritisation led to a gradual increase in the share of bilateral debt in total external debt to almost 80% by 2002, almost entirely on commercial terms; nonetheless debt indicators on balance have improved over the past decade as the average oil price – and, in parallel, government revenue and GDP – rose from its low level in the second half of the 1980s.

In view of its continued debt-servicing difficulties, Nigeria's access to new credits has remained extremely limited over the past decade. Access to bilateral credits was cut off and lending from commercial creditors has been minor, very sporadic, and at market interest rates.

From 1993 to 2001 the African Development Bank and the World Bank lent to Nigeria on concessional terms, with total disbursements of about US\$850 million. Following democratic elections in 1999, the Obasanjo administration sought to normalise relations with creditors.

2000s: Following approval of a stand-by arrangement in July 2000, Nigeria reached an agreement with the Paris Club in December 2000 on a fourth non-concessional rescheduling of almost the entire stock of outstanding Paris Club debt. Arrears of US\$21.3 billion – representing over 90% of the total debt to the Paris Club – and maturities falling due in the period August 2000-July 2001 of US\$0.3 billion were rescheduled. Bilateral agreements were completed with only three of the fifteen Paris Club creditors, in respect of about 13% of the debt rescheduled, but discussions are advanced with several other large creditors.

Through 2002 Nigeria was accumulating new arrears on external debt-service payments. These total approximately US\$2.3 billion, principally to the Paris Club on pre- and post-cutoff-date obligations and to non-Paris Club bilateral creditors. Debt service paid in relation to exports is lower in Nigeria than Sub-Saharan Africa (average) and for developing country fuel exporters, reflecting Nigeria's debt rescheduling in 2000-01 and arrears accumulation in 1999 and 2002.

Nigeria's external debt increased from \$32.9bn in December 2003 to \$34bn in 2004. It still owes \$25bn to the Paris Club, its single largest creditor, despite

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A huge fire rages at ChevronTexaco's main oil terminal in Escravos, Nigeria, after unarmed village women ended a 10-day siege that crippled the oil giant's Nigeria operations. Local residents complain that they have benefitted little from the oil wealth in their midst, and ethnic tensions along the country's southeastern coast have aggravated strife in the region. (AP Photo/Saurabh Das)

Trapped in an endless cycle of debt burden: Nigerian President Olusegun Obasanjo talks during a press conference following the opening session of the Nepad summit hosted by Egypt in April this year. (AP Photo)

Events
that
triggered
the
Argentina
crisis

1999

January: Brazil is stricken by financial crisis and devalues its currency.

Mid 1999: Recession hits Argentina, thanks in large part to the impact of the Brazilian crisis.

December: Fernando de la Rúa inaugurated as president after campaigning on promises to revive the economy and end corruption after 10 years under the Peronist President Carlos Menem. President de la Rúa inherited a \$114bn public debt.

2000

May: Argentina announces \$938m in spending cuts and two days later 20 000 protesters take to the streets against the cuts.

August: Economy Minister Jose Luis Machinea states that the 2000 budget would overshoot the \$5,2bn target by 10%.

December: Government announces a \$39,7bn aid package, largely secured by the IMF. Markets react with a strong rally and some optimism creeps in.

2001

March: Mr Machinea resigns and is replaced by Ricardo Lopez Murphy. Mr Murphy unveils a tough \$4,45bn two-year austerity programme with deep cuts in education, and then resigns after six government officials quit in protest over his policies. Domingo Cavallo, a former economy minister, is appointed and given special powers to restructure the economy.

June: Argentina swaps \$29,5bn of debt, deferring \$7,8bn in interest payments to 2002. It announces a new exchange rate system for exports that expands the currency peg to include the euro.

July: Three rating agencies slash Argentina's credit ratings and warn of further cuts and risk of default. Government's key austerity bills are passed, forcing an end to budget deficits, slashing state salaries and some pensions by up to 13%.

August: The International Monetary Fund (IMF) recommends an \$8bn increase in Argentina's \$14bn stand-by loan agreement.

October: Argentina faces heavy capital and interest payments on its debt in November.

November: Mr Cavallo announces new economic measures including a swap for most of the \$132bn public debt. Argentina planned to restructure \$95bn of debt to avoid default. Argentineans withdraw about \$1,3bn from their bank accounts.

December: Mr Cavallo announces restrictions on the amount of money the public is allowed to withdraw, aiming to halt the run on banks. IMF announces it will not release \$1,3bn in aid to Argentina because the austerity measures were not tough enough, bringing Argentina closer to the brink of default. Private pension funds are transformed into treasury bonds or government-backed loans to service debts. Government presents its 2002 budget that includes spending cuts of nearly 20%. IMF allows Argentina to delay payment on a loan of about \$940m due in January. Argentina declares a state of emergency to stop protests against Mr Cavallo's economic policies. President de la Rúa and Mr Cavallo resign, as protests become widespread riots. Adolfo Rodríguez Saa is sworn in as the new interim president until elections on 3 March. Argentina plan a new currency, the argentino, to circulate along with the peso and dollar. Thousands of people flood banks

in Buenos Aires as government eased a 5-day bank holiday. President Saa resigns after one week in office. Argentina halts payments on its \$88bn in bonds.

2002

January: Eduardo Duhalde is sworn in as the new president, the 5th in less than two weeks. Argentina fails to make a \$28m payment on a foreign loan. It devalues its currency by 29% with an official exchange rate of 1,4 pesos to the dollar and promises to ease limits on cash withdrawals. This ends a decade-long policy of pegging the currency one-to-one with the US dollar. In the year that follows, the peso loses 70% of its value against the dollar. Argentina approves a law allowing the Central Bank to print nearly \$13bn in new money to help pay salaries and bills as citizens protest over their frozen accounts.

February: Argentina unveils a plan to rescue the economy that includes a partial relaxation of the banking freeze and a free-floating peso. The peso is put to float for the first time in a decade and drops about 5% to 2,1 pesos to the dollar.

April: Argentina closes its banks and foreign-exchange markets indefinitely to stop the flow of money out of the country.

June: Argentina announces a plan to phase out the banking freeze which included 3-10 year bonds for savings account holders.

November: Argentina cannot fully meet an \$809m World Bank debt payment deadline, resulting in a multilateral debt default. The IMF agrees to Argentina's request to postpone a \$141m loan payment for a year.

2003

January: Argentina reaches a preliminary agreement with the IMF to avoid default.

May: Nestor Kirchner takes office as Argentina's sixth president in 18 months.

September: Argentina misses a \$2,9bn payment to the IMF and refinances \$21bn in debt, including \$12,3bn with the IMF.

2004

March: Argentina and the IMF sign an accord to release a \$3,1bn loan. Meetings with creditors are held to re-schedule \$82bn in loans that government defaulted on in 2002. Bondholders are offered 25c on the dollar.

November: Economy Minister Roberto Lavagna unveils a plan to restructure, at about 30% the original debt, \$100m of sovereign bonds that Argentina defaulted on 3 years earlier.

2005

February: Debt restructuring settlements end when Argentina's largest debt holders accept an offer to repay 30c on the dollar (\$35bn).

March: President Kirchner declares the restructuring of the country's debt to be a success.

May: Argentina issues its first treasury bonds for sale to the financial markets since defaulting on its public debt in 2001, signaling Argentina was returning to normal on financial markets. Government offers bonds worth 1bn pesos (R2,07bn) with the annual interest rate fixed at 6,51%. The country defaulted on debt of \$82bn in 2001. Debt swap talks with 76% of bondholders end in late February, leaving \$20bn in debt yet to be restructured.

▶▶▶ paying out \$42bn over the past 38 years. However, revenues from oil exports have also boosted Nigeria's foreign exchange reserves to an all-time high, leading many creditors to argue that Nigeria has scope to continue its payments.


President Obasanjo has stated that the country is trapped in an endless cycle of debt burden. Servicing the debt costs his country about \$2bn a year. In protest at the stubbornly high debt, the House of Representatives voted to scrap foreign debt obligations, totaling \$1,3bn from the 2005 budget. But the Nigerian Senate approved the 2005 budget with the debt obligations intact, seemingly averting an immediate crisis on the issue. However, there is still intense pressure on government to tackle the debt burden.

Opportunity to settle

A delegation from the Nigerian parliament stated that Nigeria is heading towards an Argentinean-style default on foreign debt unless western creditors accept a deal to alleviate the country's financial burden. A Washington think-tank has suggested that Nigeria pay 30 cents for every dollar owed, which means Nigeria would be paying around \$9bn from its \$17bn reserves.

Nigeria currently has an unusual amount of cash on hand and an opportunity finally to resolve its problem. The creditors also have solid political, strategic and humanitarian reasons to cut a deal. Missing the opportunity will not only cause creditors to lose their best chance to collect this debt but could also threaten economic and democratic reforms.

The stakes have been rising in Nigeria's bid for relief on its foreign debt, which, at almost \$36bn, is the largest in Africa. Government wants a deal from the Paris Club of bilateral government creditors, which holds the bulk of the debt, for a two-thirds reduction. However, debt forgiveness has been hard due to Nigeria using high oil prices to build record foreign exchange reserves, now equivalent to about 60% of its outstanding external debt.

Britain, the leading creditor with about \$8bn (21% of its debt) outstanding, has been Nigeria's chief supporter. The US has also been sympathetic, with the strongest reservations coming from the Netherlands, Germany and Japan. Paris Club negotiators, however, first want to see proven results of Nigeria's reforms, especially in tackling corruption. President Obasanjo has stated that repudiating the country's foreign debt will be an eventual alternative if efforts to secure forgiveness through dialogue and negotiations with creditor nations failed. 

Compiled by Melanie Da Luz
Economic researcher: Credit Guarantee

Service providers strain under soaring imports

In recent months the strong rand, coupled with declining interest rates, has allowed the volume of imports through South Africa's main ports to rise to new heights.

At one stage in early November, the port of Durban handled some 29 000 TEU's (20 equivalent container units) in a period of ten days. This has put immense pressure on not only the port authorities but also other service providers such as Spoornet, merchant hauliers, and freight forwarders!

Not only has the volume of imported goods increased dramatically, but so has the relative value. Luxury goods and top end products for the Christmas season have undoubtedly impacted, but there has also been substantial growth in machinery and plant for domestic production.

Whilst some of this dramatic growth can be attributed to seasonal issues, we do not expect any significant decline while the rand remains so strong.

This growth has not been without its difficulties. Besides the already mentioned problems with service providers, shipping lines are also battling to cope with the volumes resulting in delays and substantially increased transit times.

The only financial downside as far as importers have been concerned over the past few months has been a dramatic escalation in freight rates levied by the carriers. Implementation of peak season surcharges, port congestion surcharges, as well as special equipment resulted in freight rates on certain trade lanes escalating by as much as 250% to 300% during the course of 2004. It is unfortunately anticipated that these surcharges are unlikely to fall away during 2005, and perhaps may even increase substantially further.

Forwarders, one must not forget, are actually third-party logistics service providers coordinating movement without actually owning equipment. Logistics packages are designed around the individual needs and requirements of the importer rather than the fixed inflexible service into which importers must fit.

Premier Freight, Sasfin's clearing and freight forwarding subsidiary, is experiencing substantial growth, particularly on the seafreight side of the business, as it seems importers are now prone to import for stock in view of the reduced interest rate factor, rather than just-in-time ("JIT") movements by air cargo.

Sasfin's Commercial Finance division complements its association with Premier Freight by arranging finance packages for importers requiring financing and freight forwarding in their portfolio. Sasfin's import finance facility provides for local and foreign currency transactions, forward exchange contracts, order confirmations and full credit facilities.

Sasfin is also able to offer clients structured export finance packages to relieve the credit, exchange and political risks accompanying export transactions by providing pre-shipment finance, export credit facilities and guarantees as well as post-shipment discounting to aid cash-flow.

– Richard Adamson
Sales & marketing director: Premier Freight (Pty) Ltd

Credit Guarantee's guide to North Africa and the Middle East

May 2005

Notes: Cover = Credit Guarantee cover. Y = Cover available. CBC = Case by case. N = No cover available under normal circumstances or if there is no request for cover. SC = Special condition. ILC = Irrevocable letter of credit. CILC = Confirmed irrevocable letter of credit. All medium-term transfers will be individually underwritten based on the specific nature and structure of the transaction.

COUNTRY Govt type/Population/ Pop. growth rate	REMARKS	SHORT-TERM COVER
Algeria Republic. Population: 33m. Pop. growth: 1,2%	After more than a century of French rule, Algerians gained independence in 1962. The country's primary political party, the National Liberation Front, has dominated the political arena ever since. The army nominated Abdelaziz Bouteflika as president in 1999 in a fraudulent election but claimed neutrality in his 2004 landslide re-election victory. Algeria assumed a two-year seat on the UN Security Council in January 2004. Longstanding problems such as the large-scale unemployment, a shortage of housing, unreliable electricity and water supplies, Government inefficiencies and corruption continue to face Bouteflika in his second term. The need to diversify its petroleum-based economy is growing. The hydrocarbons sector represents the backbone of the economy by contributing 30% of GDP and more than 95% of export earnings. Algeria has the seventh largest natural gas reserves in the world and has the 14th largest oil reserves. It is running large trade surpluses and is building its foreign exchange reserves to record levels. Government's attempts at diversifying the economy have had little success in reducing unemployment. Structural reform within the economy is slow. GDP growth was estimated at 6,1% in 2004.	ILC
Libya Military dictatorship. Population: 6m. Pop. growth: 2,33%	Following the 1969 military coup, Muammar Abu Minyar al-Qadhafi used oil funds to promote his ideology outside Libya. During the 1990s he renewed relationships with Europe, which preceded the lifting of UN sanctions in September 2003 after Libya resolved the Lockerbie case. Outstanding cases against the Government for terrorist activities in the 1980s were resolved in 2004 when families of victims were compensated. In December 2003 Libya agreed to end its programme of weapons of mass destruction. The economy depends largely on oil revenues which comprise all export earnings and 25% of GDP. Healthy oil earnings and a small population allow Libya to have one of the higher per capita GDPs in Africa of \$6 700 in 2004. The transition to liberalise the socialist-oriented economy to a market-based economy has begun with Libya's application for WTO membership, its reduction of subsidies and its plans for privatisation. GDP growth was estimated at 4,9% in 2004.	N
Morocco Constitutional monarchy. Population: 33m. Pop. growth: 1,57%	Morocco gained independence from France in 1956 after a long struggle. It virtually annexed Western Sahara during the late 1970s, but the final resolution on the status of the territory remains unresolved. Morocco held parliamentary elections for the first time in September 2002 and municipal elections a year later. It is a typical developing country trying to restrain Government spending, reduce limitations on private activity and foreign trade, and achieve sustainable growth. The dirham is only convertible for current account transactions. A Free Trade Agreement (FTA) with the US and Government's selling of its shares in the telecommunications company and Morocco's largest state-owned bank in 2004 were in a bid to encourage foreign direct investment. The country's long-term challenges include preparing the economy for freer trade with the US and European Union and improving education and employment prospects. Favourable rainfall since 2003 has boosted agricultural output and extended GDP growth beyond 4% in 2004. Per capita GDP was \$4 200 in 2004.	Y
Tunisia Republic. Population: 10m. Pop. growth: 0,99%	Tunisia has recently taken a moderate, non-aligned stance in its foreign relations. Domestically, it has sought to defuse rising pressure for a more open political society. Its diverse economy includes agricultural, mining, energy, tourism and manufacturing sectors. Government maintains a heavy hand in economic affairs, but has relinquished some control over the past decade by increasing privatisation, simplifying the tax structure and having a prudent approach to debt. It is gradually removing barriers to trade with the EU. Real	Y

	<p>growth slowed to a 15-year low of 1,9% in 2002 as a result of drought and lacklustre tourism. Improved rainfall in 2003 and 2004 pushed growth above 5% in these years. Per capita GDP was \$7 100 in 2004.</p>	
<p>United Arab Emirates</p> <p>Federal, with some powers delegated to UAE federal government, others reserved to/by member emirates. Population: 2,5m. Pop. growth:1,54%</p>	<p>The Trucial States of the Persian Gulf Coast granted the UK control of their defence and foreign affairs in the 19th century treaties. Six of these states – Abu Dhabi, Ajman, Al Fujayrah, Ash Shariqah, Dubai and Umm al Qaywayn – merged to form the UAE in 1971. The UAE's per capita GDP is on par with leading Western European nations. Its generous oil revenues and its moderate foreign policy stance have allowed it to play a vital role in the affairs of the region. The UAE has an open economy with its wealth based on oil and gas output which comprises 30% of GDP. Dried fish and dates are exported on a smaller scale, while industries range from petroleum to fishing, cement, commercial ship repair, boat building, handicrafts and textiles. Since the discovery of oil in the UAE, the country has undergone a profound transformation from an impoverished region of small desert principals to a modern state with a high standard of living. A Trade and Investment Framework Agreement was signed with the US in November 2004 to undertake negotiations towards a FTA. In 2004, GDP growth was 5,7% and per capita GDP was \$25 200.</p>	Y
<p>Afghanistan</p> <p>Islamic republic. Population: 30m. Pop. growth:4,77%</p>	<p>Afghanistan's recent history includes war and civil unrest. Following the September 2001 terrorist attacks, a US, Allied and Northern Alliance military action toppled the Taliban. In late 2001 at a conference in Bonn, Germany established a process for political reconstruction that ultimately resulted in the adoption of a new constitution and the country's first democratic presidential election in 2004. Afghanistan's economic outlook has improved significantly since the fall of the previous regime in 2001 due to the injection of \$2bn in international assistance, recovery in the agricultural sector and the re-establishment of market institutions. The country still remains extremely poor and is heavily dependent on foreign aid, farming and trade with neighbouring countries. Shortages of houses, clean water, electricity, medical care and jobs are real issues for much of the population. Growing political stability and ongoing international commitment to the country's reconstruction provides for an improving and optimistic economic outlook. GDP growth was 7,5% in 2004 and per capita GDP was \$800.</p>	N
<p>Bahrain</p> <p>Constitutional hereditary monarchy. Population: 690k. Pop. growth: 1,51%</p>	<p>Bahrain is a small and centrally located country in the Persian Gulf. It has turned to petroleum processing and refining and has transformed itself into an international banking centre. Economic and political reform was encouraged since 1999 during which time relations with the Shi'a community were also improved. Petroleum production accounts for 60% of export revenue and 30% of GDP. Bahrain has highly developed communication and transport facilities. Unemployment levels are amongst its major long-term economic problems. It signed a FTA with the US in September 2004. GDP growth was 5,6% in 2004 and per capita GDP was \$19 200.</p>	Y
<p>Egypt</p> <p>Republic. Population:78m. Pop. growth: 1,78%</p>	<p>The development of this nation stems from being endowed by the richness of the annual Nile River flood. Egypt became an important world transportation hub after the Suez Canal was completed in 1869, but fell heavily into debt. It acquired full independence from the UK after World War II. A rapidly growing population, limited arable land and dependence on the Nile continue to overtax resources. Unsubstantial progress on economic reform in the previous decade has curbed foreign direct investment and capped GDP at 3% in the early 2000s. Last year saw the implementation of several reform measures that included custom reforms, proposed income and corporate tax reforms, reduced energy subsidies and the privatisation of several enterprises. Government floated the Egyptian pound at the beginning of 2003. This led to its depreciation and consequent inflationary pressure. Future growth prospects lie in the development of an export market for natural gas. GDP growth was 4,5% in 2004 and per capita GDP was \$4 200.</p>	Y
<p>Iran</p> <p>Theocratic republic. Population: 68m. Pop. growth: 0,86%</p>	<p>Iran – known as Persia until 1935 – became an Islamic republic in 1979 after the ruling monarchy was overthrown and the shah was forced into exile. It was designated a state sponsor of terrorism for its activities in Lebanon and remains subject to US economic sanctions and export controls. Elections of a reformist president in the late 1990s were met with widespread dissatisfaction as conservative politicians prevented the implementation of reform measures. They increased repressive measures and consolidated their control of Government. Iran's economy is marked by its inefficient state sector which controls most economic activity. It relies heavily on oil, whose recent price spates have benefited foreign exchange reserves without relieving economic troubles such as</p>	ILC

	<p>burgeoning unemployment and inflation. GDP growth was 6,3% in 2004 and per capita GDP was \$7 700.</p>	
<p>Iraq None - interim Iraqi govt appointed on 1 June 2004. Population: 26m. Pop. growth: 2,7%</p>	<p>Iraq was occupied by Britain during WWI and was declared a League of Nations under UK administration in 1920. It gained sovereignty in 1958 to be ruled by a series of military strongmen. Iraq's supposed non-compliance with U N Security Council resolutions to scrap all weapons of mass destruction over a twelve-year period prompted the US-led invasion of Iraq in March 2003. The Coalition Provisional Authority transferred sovereignty to the Iraqi Interim Government in June 2004. A Transitional National Assembly was voted in during January 2005. It will pave the way for new national elections at the end of 2005. Its oil sector contributes 95% of foreign exchange earnings. The hollow military victory of the coalition in 2003 resulted in the shutdown of much of the central economic administration structure and the loss of a comparatively small amount of capital plant. GDP growth was estimated at -3% in 2002.</p>	N
<p>Israel Parliamentary democracy. Population: 6,3m. Pop. growth: 1,2%</p>	<p>In 2002 a road map was envisioned with a two-state solution to resolve the Israeli-Palestinian conflict. Continuous fighting between the two nations has undermined progress towards a permanent agreement. A turning point was reached in January 2005 when Mahmud Abbas was elected the new Palestinian leader. Israel's economy is technologically advanced and market-based. Government involvement is significant. Imports of crude oil, grains, raw materials and military equipment are essential. Agricultural and industrial sectors are intensively developed. Half of the country's external debt is owed to the US, which is its chief military aid provider. Rising business and consumer confidence as well as increasing demand for Israeli goods boosted GDP growth to 3,9% in 2004 with per capita GDP at \$20 800.</p>	Y
<p>Jordan Nominal constitutional monarchy. Population: 5,8m. Pop. growth: 2,56%</p>	<p>King Hussein ruled Jordan between 1953-1999. He reinstated parliamentary elections and gradual political liberalisation in 1989 and signed a formal peace treaty with Israel in 1994. Thereafter he undertook aggressive economic reform and gained WTO membership status in 2000 and began participating in the EU FTA in 2001. The new Government appointed in April 2005 pledged to support its predecessor's political and socio-political achievements. Debt, poverty and unemployment need attention. The export market relies on exports to Iraq. GDP growth was 5,1% in 2004 and per capita GDP was \$4 500.</p>	ILC
<p>Kuwait Nominal constitutional monarchy. Population: 2,3m. Pop. growth: 3,44%</p>	<p>Britain oversaw foreign relations and defense for the ruling Kuwaiti Al-Sabah dynasty from 1899 until independence in 1961. Kuwait spent over \$5bn to repair its oil infrastructure that was damaged during the 1990-91 Iraqi takeover. It is a small, rich, relatively open economy with proven crude oil reserves of about 98m barrels - 10% of world reserves. Oil production fell by 8% in 2002 but was expected to recover to the previous highs. Climatic conditions restrict agricultural development. GDP recovered to 6,8% in 2004 and per capita GDP was \$21 300.</p>	Y
<p>Lebanon Republic. Population: 3,8m. Pop. growth: 1,26%</p>	<p>Lebanon ended its 15-year civil war in 1991 and has since progressed in its efforts to rebuild its political institutions. This saw the establishment of a more equitable political system, which gave Muslims a greater say in the political process while instituting sectarian divisions in the Government. The civil war cost the country its economic infrastructure, but recovery was made possible with a financially sound banking system and resilient small-and-medium scale manufacturers. Challenges still facing Government include the huge borrowing from local banks that it endured to fund the reconstruction of the economy. An economic programme was developed to reign in Government spending, increase revenue collection and privatise state assets to reduce the ballooning debt. Government successfully avoided a currency and debt default in 2002 despite not privatising state assets. Government issued Eurobonds in 2004 to manage the debt but there was no sign of any privatisation. GDP growth was 4% in 2004 and per capita GDP was \$5 000.</p>	ILC
<p>Oman Monarchy. Population: 3m. Pop. growth: 3,25%</p>	<p>Qaboos bin Said Al Said has ruled as Sultan since 1970. He opened Oman to the world with his modernisation programme. He has preserved a long-standing political and military relationship with the UK. Oman's economic performance improved in 2000 on the back of strong oil prices. Oil and gas resources allow for substantial trade surpluses and low inflation. Government is currently privatising its utilities, developing a body of commercial law to facilitate foreign investment and raise budgetary outlays. It is diversifying its economy in a bid to attract foreign investment. Oman joined the WTO in 2000. GDP growth was 1,2% in 2004 and per capita GDP was \$13 100.</p>	Y

<p>Qatar</p> <p>Traditional monarchy. Population: 863k. Pop. growth: 2,61%</p>	<p>Qatar transformed itself from a poor British-protected country to one of the highest per capita incomes in the world. Its economy was crippled by the continuous siphoning off of petroleum revenues by the Amir who ruled the country since 1972. He was overthrown in 1995 by his son, the current Amir Hamad bin Khalifa Al Thani. The longstanding border dispute with Bahrain and Saudi Arabia was resolved in 2001. Oil and gas account for 55% of GDP. Oil reserves of 16bn barrels will provide output for 23 years. The country will develop offshore natural gas reserves to offset the ultimate fall in oil production. GDP growth was 8,7% in 2004 and per capita GDP was \$23 200.</p>	<p>Y</p>
<p>Saudi Arabia</p> <p>Monarchy. Population: 26m. Pop. growth: 2,31%</p>	<p>Saudi Arabia's Basic Law stipulates that the throne shall remain in the hands of the aging sons and grandsons of the kingdom's founder. The first major terrorist attacks in Saudi Arabia in many years occurred in May and November 2003 and prompted renewed efforts by the Government to counter domestic terrorism and extremism. A fast-expanding population coupled with an economy that is too dependent on petroleum output remain ongoing Government concerns. Government controls all major economic activity. Saudi Arabia possesses 25% of the world's proven petroleum reserves, ranks as the largest exporter of the product and plays a leading role in Opec. As such, petroleum accounts for 45% of GDP and 90% of export revenues. In 1999 Government embarked on privatisation plans for its electricity companies. This followed the ongoing privatisation of the telecommunications company. Government is encouraging the private sector to diversify the economy and additional priorities include funds for education and for water and sewage systems. Economic reforms proceed cautiously due to the country's deep-rooted political and social conservatism. GDP growth was 5% in 2004 and per capita GDP was \$12 000.</p>	<p>Y</p>
<p>Syria</p> <p>Republic under military regime since March 1963. Population: 18m. Pop. growth: 2,34%</p>	<p>After the breakup of the Ottoman Empire during WWI Syria was administered by the French. It attained sovereignty in 1946. This oil-oriented economy faced shrinking growth as a result of the recent war in Iraq. Government has implemented modest economic reforms over the last few years. It cut interest rates, opened private banks, consolidated some of the multiple exchange rates and raised prices on some subsidised food items. Control of the economy still remains in the hands of the Government. Its long-term economic concerns include declining oil production and exports, pressure on water supplies given the rapid population growth, industrial expansion and increased water pollution. GDP growth was 2,3% in 2004 and averaged 2,3% for the past seven years. Per capita GDP was \$3 400.</p>	<p>N</p>
<p>Turkey</p> <p>Republican parliamentary democracy. Population: 70m. Pop. growth: 1,09%</p>	<p>Modern Turkey was founded from the Anatolian remnants of the defeated Ottoman Empire by national hero Mustafa Kemal who received the title 'Father of the Turks'. He ruled with an authoritarian hand and adopted wide-ranging social, legal and political reforms. After his period of one-party rule, an experiment with multi-party policies led to the 1950 election victory by the opposition Democratic Party and a peaceful transfer of power. Since then democracy was fractured by periods of instability and unsuccessful intermittent military coups. In 1964 Turkey became an associate member of the European Community and has undertaken reforms to strengthen its democracy and economy, which enabled its EU accession membership talks. Turkey is a dynamic economy with a mix of modern industry and traditional agriculture with a rapidly growing private sector. The state maintains a role in the banking, transport and communication sectors. Its largest industry is textiles and clothing which accounts for a third of industry employment. Its automotive and electronics sectors are gaining momentum and importance. Despite the IMF backing and tighter fiscal policy, the country is plagued with high debt and deficits. Foreign direct investment is low, but the country is hopeful that this will change upon EU membership status. GDP growth was 8,2% in 2004 and per capita GDP was \$7 400.</p>	<p>Y</p>
<p>Yemen</p> <p>Republic. Population: 21m. Pop. growth: 3,45%</p>	<p>Yemen became an independent state after breaking away from the Ottoman Empire in 1918. South and North Yemen were formally unified as the Republic of Yemen in 1990. In 2000 Yemen and Saudi Arabia agreed to a delimitation of their border. Yemen is one of the poorest countries in the Arab world. Its economic prosperity depends mostly on oil. An IMF-supported structural adjustment programme was designed to modernise and streamline the economy. Restructuring and debt relief was the result. Long-term plans include diversifying the economy by encouraging tourism and a more efficient use of scarce water resources. GDP growth was 1,9% in 2004 and per capita GDP was \$800 in 2004.</p>	<p>N</p>

THE BILL OF RIGHTS BITES BACK

It seems – Appeal Court permitting – that insurance companies and commercial enterprises generally may have to review the provisions of their existing policies and agreements to have regard to the provisions of the Bill of Rights.



The author, Andrew Leontsinis, is a partner in Bell Dewar & Hall Inc

This conclusion is drawn from the recent decision of *Barkhuizen v Napier*, in which the time-bar provisions of an insurance company's policy came under the critical scrutiny of the Transvaal Provincial Division.

When an insured claimed an amount of R118 000 in terms of a motor vehicle insurance policy, the insurer raised the provisions of its time-bar clause as a special plea. (A special plea is one which, apart from the merits, raises a special defence which may destroy or postpone a cause of action.)

The time-bar clause relied upon by the insurer provided that "if we reject liability for any claim made under this policy, we will be released from liability unless summons is served on Lloyds SA or Hamford (Pty) Ltd within ninety days of repudiation".

The insured argued that this clause was an unreasonable limitation of his rights in terms of Section 34 of the Constitution. Section 34 provides that "everyone has the right to have any dispute that can be resolved by the application of law decided in a fair public hearing before a court or, where appropriate, another independent and impartial tribunal or forum."

Although the Constitution does contain a limitation clause [Section 36(1)], the insured contended that the limitation of the rights afforded him in terms of Section 34 of the Constitution by way of the imposition of the time-bar clause, was neither reasonable nor justifiable.

Upheld by the courts

The insurer argued that, because the parties had agreed to the provisions of the time-bar clause, the court did not have the power to interfere and that only in a case of gross unfairness could a court make a ruling that a clause in a contract is contrary to the public interest. For this reason, it was argued, clauses in insurance contracts comparable to the time-bar clause in issue have been upheld by the courts for many years on the basis that the terms of agreement reached between

contracting parties must be upheld.

The court, however, adopted a different view. It said that the right of access to courts is relevant to a time-bar clause. The applicable clause required the insured to serve summons within 90 days after repudiation of his claim by the insurer, failing which it would be absolved from liability.

In finding that the right of access to courts was relevant in the interpretation of the clause, the court noted that if it were not for the provisions of the time-bar clause, the insured would have had a period of three years to institute action (in terms of the applicable prescription legislation) and hence the effect of that clause was to considerably reduce the time which the insured had to institute a legal action.

Obligation not to hinder

In this regard the court commented that a party to an agreement has a right to have any conflict arising from an agreement resolved in a court of law and that the other contractual party is under a corresponding obligation not to hinder the first mentioned party's access to the courts.

Having found that the time-bar clause did indeed limit the insured's right of access to have its dispute determined by a court of law, the court then had to consider whether such limitation was justified in terms of the constitution and whether a contracting party can agree with another that his right of access to court will be limited. With regard to the nature of the right, it was noted that the right was considered as "foundational to the stability of an orderly society" and that, as a result, "very powerful considerations would be required for its limitation to be reasonable and justifiable".

The court noted that the time-bar clause was aimed at releasing the insurer from liability if the insured did not institute action within the time set and, accordingly, that such a goal was naturally only in the interests of the

insurer. In this manner, the insurer could be released from liability even if it had insufficient grounds for repudiating the claim.

The court concluded that whilst the importance of the time limitation was, from an insurance point of view, self evident, the moral fairness of the consequences for the parties was questionable. The nature and impact of the limitation was clearly to protect the insurer from a claim instituted outside the 90-day period so that the insured's right to institute action expired. This, the court said, was a very drastic protection of the insurer at the expense of the insured.

As to the connection between the limitation and its goal, the court held that the aim of giving the insurer notice of the intention to institute action could also be achieved through a less invasive limitation of the insured's rights, e.g. by allowing a far longer period within which the insured could sue.

The court should decide

Furthermore, the penalty for failing to institute action on time shouldn't be a release from liability of the insurer as there appears to be no reasonable connection between such a failure and a release of liability. Instead it should be the court that decides whether the insured's delay and the harm suffered by the insurer as a result thereof is of such a nature that the insurer should be released from liability. Only in this way could the insured's right of access to court be limited in a reasonable and justifiable way.

The court held that the time-bar clause was a limitation which was unreasonable and unjustifiable when weighing up the interests of both parties and the court thus declared the clause to


be invalid as being in conflict with the Constitution.

The decision seems to suggest that commercial contracts may in future be measured against the Bill of Rights. Although generally parties are free to contract as they wish, precedent has shown that the courts will not condone contracts which are contrary to public policy, unlawful or fraudulent.

Parties on equal footing

Now it goes further. Our courts will (correctly so) not tolerate contractual provisions which are unconstitutional. But was the time-bar clause under attack unconstitutional? The provision did not deprive the insured of his rights. It simply provided that those rights be exercised within a certain period.

The Prescription Act and many other statutes which provide for a limitation of actions, more particularly actions against government institutions, do the same thing. Is that legislation also to be found unconstitutional? The parties contracted on an equal footing and the insured was presumably aware of the provisions of the policy. There was nothing to suggest in the evidence that the insured was unable to institute action within the 90-day period.

The decision seems to ignore commercial reality. There are sound reasons why insurers impose time bars in policies, not least of all their need to make provision for claims lodged. It can hardly be said that the time-bar provision was either contrary to public policy, unlawful or fraudulent. Unconstitutional? The Appeal Court will decide. 

The decision seems to ignore commercial reality. There are sound reasons why insurers impose time bars in policies, not least of all their need to make provision for claims lodged.

IN OUR NEXT ISSUE:

The dangers of suretyship clauses in credit application forms

If a person signs a credit application on behalf of a company and is not advised that the form also contains a personal suretyship by the signatory, the document would constitute a misrepresentation which induced a mistake by the signatory. Consequently the personal suretyship obligation of the signatory would be invalid, say Eric Levenstein and Ryan

Tucker of Werksmans Attorneys.

In *Litigation Werks* (Vol 12, May 2005) Levenstein and Tucker cite a recent Appeal Court case which proves this point. The court found that the signatory had been under the impression that he was signing a credit application on behalf of the company, whereas in

fact he had also undertaken a personal suretyship for the debts of the company. It followed therefore, that the suretyship obligation was void.

OUR NEXT ISSUE will carry the full Levenstein and Tucker article, including a valuable checklist for creditors in assessing the legality of their credit application forms.

World markets update

The following credit classifications were recently updated.

For information regarding other countries, please contact Credit Guarantee.

**KEY – Political risks: 1 = low, 2 = medium, 3 = high
Commercial risks: A = low, B = medium, C = high**

AFRICA

ALGERIA

Rating: 3C

Sustained high oil prices in recent years, along with macroeconomic policy reforms supported by the IMF, have helped improve Algeria's financial and macroeconomic indicators. Algeria is running substantial trade surpluses and building up record foreign exchange reserves. The hydrocarbons sector is the engine of economic growth, accounting for 30% of GDP, 60% of revenue and over 95% of exports. It is also the world's second-largest gas exporter and ranks 14th in global oil reserves. Turkey will sign a free trade agreement with Algeria this year to boost trade volumes between the two countries from \$2bn in 2004 to \$4bn within the next three years. Iran and Algeria signed an agreement to increase cooperation in iron and metal, production of raw materials and textile industries to strengthen their economic relations. In May 2005 President Bouteflika will focus on economic reform, with the emphasis on foreign investment and privatisation. Economic growth will be extremely robust and will be powered by the hydrocarbons sector, although other sectors such as power, water, telecommunications and construction will contribute.

ANGOLA

Rating: ZZ (= off cover)

As the country moves towards a new era of peace and stability, it will continue to face a major humanitarian crisis. Angola now fights a war against poverty, severe malnutrition, poor education, lack of basic human rights and the scourge of HIV/Aids. The end of the civil war has opened up new opportunities for Angolans and the international donor community to come together to affect real and lasting political, economic and social development. For years Angola has suffered from serious macroeconomic instability, characterised by high inflation and an overvalued exchange rate, as well as chronic under-investment in the social sectors. The main causes of this macroeconomic instability has been due to the large fiscal deficit and vast unrecorded expenditure. However, the kwanza has remained broadly stable since mid-2003 and transparency is improving. Angola will also need to continue mortgaging future oil production as collateral in order to attract substantial inflows of foreign direct investment. Strong world oil prices will provide a significant boost to the economy, although lax fiscal control and rising imports will limit improvement in the budget and current account deficits. The IMF has stated that Angola's heavy dependency on oil exports, its low international reserves and commitments to repay large oil-backed loans meant the country's external debt position will be vulnerable over the next few years. Eco-

How we rate them

Country classifications are based on a numeric and alphabetic basis associated with each country, with the numeric indicator showing the political rating of the country and the alphabet indicating the commercial risk. These range from 1 to 3 on the political rating with 1 being your lowest risk and 3 the highest. Likewise the A, B and C are relevant to the commercial rating – A being the lowest and C being the highest risk.

Usually the two ratings are closely linked because the political rating of a country will impact directly on its commercial rating.

Factors taken into account when assigning ratings include the following:

Political rating

Assessing political and economic conditions and stability:

- Environment
- Economic policies
- Forex reserves – ability to generate
- Rule of law
- Access to legal system
- Banking and commercial infrastructure
- Past history as trading partner
- Utilising various sources of information such as D & B, Moody's, S+P, various publications, Internet, Berne Union, ICIA, PASA, IMF, World Bank, etc
- Negotiating country limits with reinsurers
- Country reports prepared by Credit Guarantee's economic researchers
- Credit Guarantee's country underwriting committee.

Commercial rating

Commercial ratings are based on the financial strength of buyers in a particular country as well as their ability to repay amounts within terms afforded:

- Underwriting experience of other credit insurers on buyers in a particular market.
- Number of insolvencies/ liquidations in a country.
- Access to funds for buyers in the market.
- Reliable credit information from the respective market.
- Trade references within markets.
- Global and domestic industry trends and their impact on a market.

conomic performance will remain well below potential, owing to weak physical and human infrastructure, a flawed judicial system, poor economic policy and rampant corruption.

BENIN

Rating: 3C

Benin has emerged as a beacon of democracy and one of the most stable countries in Africa. While Benin has seen economic growth over the past few years, it remains among the world's poorest countries. Cotton accounts for 40% of GDP and roughly 80% of official export receipts. The economy of Benin remains underdeveloped and dependent on subsistence agriculture, cotton production and regional trade. Growth has averaged a stable 5% in the past six years, but rapid population growth has offset much of this increase. To raise growth still further, Benin plans to attract more foreign direct investment, place more emphasis on tourism, facilitate the development of new food processing systems and agricultural products and encourage new information and communication technology. The economy is vulnerable to external economic shocks, primarily due to its continued reliance on cotton as a source of income and foreign exchange. Commercial and transport activities which make up a large part of GDP are vulnerable to developments in Nigeria, including fuel shortages.

BURUNDI

Rating: ZZ (=off cover)

The human rights situation in the country is catastrophic, as the country struggles to recover from the war that killed some 300,000 people. Burundi is a poor landlocked country depending on agriculture to sustain its existence. Burundi lacks resources and has an under-developed manufacturing sector. Greater stability, damage caused by the war and donor-funded reconstruction is expected to encourage growth in the construction sector in 2005, while strong sales of beer and chemicals will boost the manufacturing sector. Economic growth depends on coffee and tea exports, which account for 90% of foreign exchange earnings. The ability to pay for imports, therefore, rests primarily on weather conditions and international coffee and tea prices. Doubts about the prospects for sustainable peace continue to impede development.

CAMEROON

Rating: 3C

Cameroon has one of the best-endowed primary commodity economies in sub-Saharan Africa due to its oil resources and favourable agricultural conditions. However, it still faces many of the serious problems facing other underdeveloped countries, such as top-heavy civil service and a generally unfavorable climate for business enterprise. Since 1990, government has embarked on various IMF and World Bank programmes designed to spur business investment, increase efficiency in agriculture, improve trade and recapitalise the nation's banks. International oil and cocoa prices have considerable impact on the economy.

CONGO

Rating: 3C

The country is emerging from years of conflict. The economy is a mixture of village agriculture and handicrafts, an industrial sector based largely on oil, support services and a government characterised by budget problems and overstaffing. Oil has supplanted forestry as the mainstay of the economy, providing a major share of government revenue and exports.

Despite continued insecurity in the Pool region of Congo Brazzaville, economic stability and growth are on the return. Congo is faced with the challenges of reducing poverty, indebtedness and the economy's vulnerability to external shocks. The country has made significant progress in re-establishing peace, improving its governance, restarting the economy and promoting resettlement, disarmament and re-integration. The World Bank and the IMF have both classified the Republic of Congo as a post-conflict country. External indebtedness is high and Brazzaville authorities plan to use additional oil resources to contribute to the clearance of arrears.

LESOTHO

Rating: 2C

Lesotho's economy is based on subsistence agriculture and livestock farming. The primary sector comprises mainly crops and livestock. The secondary sector consists of manufacturing, handicraft and construction. They form the two largest sub-sectors in the economy. Textile and footwear accounts for most of the manufacturing and has expanded strongly on the back of AGOA allowing Lesotho to emerge as sub-Saharan Africa's largest textile exporter under AGOA. However, in January 2005 six textile factories closed and their foreign owners fled, leaving about 6,650 workers jobless in the small mountain kingdom. The Factory Workers' Union has blamed the closures on the end of worldwide textile quotas, which took effect on 1 January 2005, that limited competition from cheap Asian exports to the US and EU. Crop production has declined over the past three years mainly due to drought and the impact of HIV/AIDS. The World Food Programme was forced to extend emergency operations in Lesotho until June 2005 to feed some 600,000 people. It predicts that this number could grow to 900,000 people soon. The ruling Lesotho Congress for Democracy (LCD) won Lesotho's first democratic local government elections held on 30 April 2005.

MADAGASCAR

Rating: ZZ (=off cover)

Agriculture, including fishing and forestry, is a mainstay of the economy, accounting for more than one-fourth of GDP and employing four-fifths of the population. Exports of apparel have boomed in recent years primarily due to duty-free access to the US. Deforestation and erosion, aggravated by the use of firewood as the primary source of fuel are serious concerns. Poverty reduction and combating corruption will be the centerpieces of economic policy for the next few years. Authorities have taken corrective action to maintain macroeconomic stability and are committed to containing inflation, accelerating the implementation of structural reforms and diversifying the export base to boost exports and economic growth. While government has considerable public support and momentum for its ambitious programmes, it faces a number of risks: that a weak and poorly equipped bureaucracy may be unable to realise many of the planned reforms and results; that the public may grow impatient with the new government under the weight of grinding poverty or that foreign investment and donor support may fail to materialise at the rate necessary to meet economic growth objectives. Madagascar has completed the replacement of its Malagasy franc with a new currency, the ariary.

REUNION

Rating: 2C

The economy has traditionally been based on agriculture, but services now dominate. Sugarcane has been the primary crop for more than a century and in some years it accounts for 85% of exports. Government has been pushing the develop-

ment of a tourist industry to relieve high unemployment, which amounts to one-third of the labour force. The gap in Reunion between the well-off and the poor is extraordinary and accounts for the persistent social tensions. The economic well-being of Reunion depends heavily on continued financial assistance from France. A variety of vegetables and fruit are grown and the island is self sufficient in meat, however they still have to import other sustainable food products. The marine fishing industry is an important source of income and employment. As a French department, Reunion suffers from some of the ills affecting metropolitan France, namely a high unemployment rate affecting particularly young people. Various financial and political scandals have shaken Reunion in recent years. Reunion has no mineral resources and there is very little manufacturing apart from the production of refined sugar and rum. The island has in recent times sought closer links with Africa and in 2004 it became a member of the Common Market for Eastern and Southern Africa (COMESA).

SUDAN

Rating: ZZ (=off cover)

Sudan has turned around a struggling economy with sound economic policies and infrastructure investments, but it still faces formidable economic problems, starting from its low level of per capita output. Agriculture production remains Sudan's most important sector, employing 80% of the work force, contributing 39% of GDP, but most farms remain rain-fed and susceptible to drought. Chronic instability – including the long-standing civil war between the Muslim north and the Christian/pagan south, adverse weather and weak world agricultural prices – ensure that much of the population will remain at or below the poverty line for years. Sudan's banking sector is weak after undergoing numerous changes. The multi-coloured flag hanging in Khartoum is one of the few signs in the Sudanese capital that a 21-year civil war has ended. The Sudan People's Liberation Army/Movement (SPLA/SPLM) signed a peace deal with government in January this year, which is intended to represent a 'New Sudan', where all races, religions and ethnic groups are equal.

TOGO

Rating: 3C

President General Gnassingbe Eyadema, who died on 5 February 2005, will be remembered as one of Africa's strongmen who ruled Togo for over forty years. His term in office was meant to end in 2008. Faure Gnassingbe, son of the late president was sworn in after parliamentary deputies changed the constitution to allow the young president to complete his father's term in office. The EU has expressed great concern over the current political situation in Togo, while African leaders called the abrupt transfer of power a coup. It urged the nation to respect the constitution and threatened not to recognise its new government. Commercial and subsistence agriculture form the backbone of this economy, which provides employment for 65% of the labour force. Government's decade-long effort to implement economic reform measures, that encourage investment and bring revenue inline with expenditure, has been slow. Progress depends on following through on privatisation, increased openness in government financial operations, progress toward legislative elections and continued support from foreign donors. Cocoa, coffee and cotton generate about 40% of export earnings, with cotton being the most important cash crop. Togo is the world's fourth-largest producer of phosphate.

TUNISIA

Rating: 2B

Tunisia has a diverse economy, with important agricultural, mining, energy, tourism and manufacturing sectors. Government maintains a heavy hand on economic affairs, but its control has lessened over the past decade. It has increased privatisation, simplified its tax structure and adopts a prudent view to debt. Over the past decade, Tunisia's economic performance has been one of the strongest in the region, reflecting gradual but continuous structural reforms, well-targeted social policies and prudent macroeconomic policies. Risks to the country's economic prosperity will be the impact of a possible weakening of Europe's economic recovery and a potential political deterioration in the political situation in the greater Middle East. Counteracting these risks will be the recovery of increased tourism and improved consumer confidence. Efforts to strengthen the banking sector are underway and should be pursued resolutely. Broader privatisation, further liberalisation of the investment code to increase foreign investment, improvements in government efficiency and reduction of the trade deficit are among the challenges ahead.

ASIA PACIFIC

JAPAN

Rating: 1A

Japan's industry sector is the backbone of its economy. Its highly subsidised and protected agriculture sector plays a smaller role despite crop yields being amongst the highest in the world. Fishing fleets account for 15% of the global catch. Economists believe that Japan's economy is caught in a vicious circle caused by excessive corporate domestic investment and debt that leaves exports as its only means to avoid another recession. It produces very low returns on capital and makes the corporate sector extremely vulnerable to downturns in the economy. Interest rates cannot be increased without posing considerable threat to the economy and if interest rates do not go up, consumer incomes will remain too weak to rescue the economy. It has been a decade since Japan suffered deflation with falling asset prices raising the real burden of accumulated borrowing. Japan's debt burden has shifted from firms and banks to the taxpayers. Japan needs reforms, as its local economies are too dependent on government handouts, while an ageing population is expected to shrink productivity and further burden the costly public pension system. External risks such as a sharp appreciation of the yen or oil prices, or a significant slowdown in GDP in China and the US will send Japan back into recession.

EASTERN EUROPE

ESTONIA

Rating: 2B

Estonia, as a new member of the World Trade Organisation, is steadily moving towards a modern market economy with increasing ties to the west, including the pegging of its currency to the euro. Estonia acceded to the European Union on 1 May 2004 and joined the European exchange-rate mechanism (ERM2) at the end of June 2004. The economy benefits from strong electronics and telecommunications sectors. The economy is greatly influenced by developments in Finland, Sweden, Russia and Germany. The high current account deficit remains a concern. Despite the generally good economic situation, further development of the economy is

threatened by several external and domestic risks. If the growth of consumption does not retard and saving does not improve, the prospects of the economy might worsen. High oil prices and trends in the dollar exchange rate constitute the highest external risks.

LATVIA

Rating: 2B

Latvia's transitional economy recovered from the 1998 Russian financial crisis, largely due to government's budget stringency and a gradual reorientation of exports toward EU countries, lessening Latvia's trade dependency on Russia. The majority of companies, banks and real estate have been privatised, although the state still holds sizeable stakes in a few large enterprises. The main drivers of growth will be strong domestic demand and rising exports to the Commonwealth of Independent States as well as Estonia and Lithuania. The current account and internal government deficits remain major concerns, but government's efforts to increase efficiency in revenue collection may lessen the budget deficit. A growing perception that many of Latvia's banks facilitate illicit activity could damage the country's vibrant financial sector. On 29 April 2005 Latvia took a major step towards joining the euro-zone by linking their currency to the euro in the European Exchange Rate Mechanism (ERM). The central rate of the lats was set at 0.702804 : Euro. Although the ERM allows 15% fluctuations, Latvia aims to maintain its existing unilateral commitment to tie the lats to a 1% fluctuation band against the euro. Government has given a firm commitment to tackle inflation as a condition for entering the ERM.

LITHUANIA

Rating: 2C

Foreign government and business support have helped in the transition from the old command economy to a market economy. The main risk to Lithuania's growth prospects is the ongoing uncertainty surrounding Yukos, the Russian company that holds a majority stake in the country's main industry and exporter. As the case against Yukos drags on in Russia, there is an increasing risk that oil supplies to Mazeikiu Nafta will be disrupted, thereby dampening export revenue – mineral products are traditionally Lithuania's largest source of export revenue, providing about 20% of the total – and overall growth. Along with nine other countries, Lithuania joined the EU on 1 May 2004. In acceding to the EU, Lithuania has now achieved its main post-independence foreign policy goals, following the confirmation of its membership of NATO earlier in 2004. Lithuania will seek to carve out a role for itself in strengthening the EU's relations with its new eastern neighbours and in promoting reforms in these countries. It will push for measures to boost economic development in Kaliningrad, as the difference in living standards between the Russian exclave and its EU neighbours provides fertile ground for crossborder smuggling and corruption, which could jeopardise Lithuania's progress in adopting the Schengen treaty. Lithuania joined the European exchange-rate mechanism (ERM2) at the end of June 2004 and aims to adopt the euro by late 2006 or early 2007.

RUSSIAN FED.

Rating: ZZ (=off cover)

Oil, natural gas, metals and timber account for more than 80% of exports, leaving the country vulnerable to swings in world prices. Russia's manufacturing base is dilapidated and must be replaced or modernised if the country is to achieve broad-based economic growth. Other problems include a weak banking system, a poor business climate that discourages both domestic and foreign investors, corruption and widespread lack of trust in institutions. In addition, a string

of investigations launched against a major Russian oil company, culminating with the arrest of its CEO in the fall of 2003, have raised concerns by some observers that President Putin is granting more influence to forces within his government that desire to reassert state control over the economy.

WESTERN EUROPE

FINLAND

Rating: 1A

Finland is a rich nation, famed for high taxes and its generous welfare state. Finland has a highly industrialised, largely free-market economy, with per capita output roughly that of the UK, France, Germany and Italy. Its key economic sector is manufacturing – principally the wood, metals, engineering, telecommunications and electronics industries. Trade is important, with exports equaling one-third of GDP. Except for timber and several minerals, Finland depends on imports of raw materials, energy and some components for manufactured goods. Agricultural development is limited to maintaining self-sufficiency in basic products due to the climate. Forestry, an important export earner, provides a secondary occupation for the rural population. The economy has made enormous strides since the severe recession of the early 1990s. Finland successfully joined the euro zone and has outperformed euro-area partners in terms of economic growth and public finance. Even under the difficult circumstances of the last few years, the economy has performed reasonably well – though the pace of activity has slowed considerably and remains subject to volatility.

FRANCE

Rating: 1A

France is in the midst of transition, from a well-to-do modern economy that has featured extensive government ownership and intervention to one that relies more on market mechanisms. Government has partially or fully privatised many large companies, banks and insurers. France's leaders remain committed to a capitalism in which they maintain social equity by means of laws, tax policies and social spending that reduce income disparity and the impact of free markets on public health and welfare. Government has lowered income taxes and introduced measures to boost employment and reform the pension system. In addition, it is focusing on the problems of the high cost of labour and labour market inflexibility resulting from the 35-hour workweek and restrictions on lay-offs. France is entering a period of heightened political uncertainty, which bodes ill for further structural reforms. On 29 May 2005 French voters will be casting ballots in a national referendum on the EU constitution.

GERMANY

Rating: 1A

Germany's affluent and technologically powerful economy – the fifth largest national economy in the world – has become one of the slowest growing economies in the entire euro zone and a quick turnaround is not in the offing in the foreseeable future. Germany's ageing population, combined with high unemployment, has pushed social security outlays to a level exceeding contributions from workers. Structural rigidities in the labour market – including strict regulations on

laying off workers and the setting of wages on a national basis – have made unemployment a chronic problem. Corporate restructuring and growing capital markets are setting the foundations that could allow Germany to meet the long-term challenges of European economic integration and globalisation, particularly if labour market rigidities are further addressed. Government is starting long-needed structural reforms designed to revitalise the country's economy. In the short-run, however, the fall in government revenue and the rise in expenditure have raised the deficit above the EU's 3% debt limit. The economy is heavily export-oriented, with exports accounting for more than one-third of national output. As a result, exports traditionally have been a key element in German macroeconomic expansion. The economy is vulnerable to external shocks, domestic structural problems and continued difficulties in integrating the formerly communist east. Concerns remain over the strength of the euro, weak domestic demand and a sluggish labour market.

GREECE

Rating: 1B

Greece has a capitalist economy with the public sector accounting for about 40% of GDP and with per capita GDP 70% of the leading euro-zone economies. Tourism provides 15% of GDP. Greece is a major beneficiary of EU aid, equal to about 3.3% of annual GDP. The economy grew by about 4% for the past two years, largely because of an investment boom and infrastructure upgrades for the 2004 Athens Olympic Games. Despite strong growth, Greece has failed to meet the EU's Growth and Stability Pact budget deficit criteria of 3% of GDP since 2000. Public debt, inflation and unemployment are also above the eurozone average. Further restructuring of the economy will need to include privatising of several state enterprises, undertaking pension and other reforms and minimising bureaucratic inefficiencies.

ISLE OF MAN

Rating: 1A

The Isle of Man's economic and social achievements would not have been possible without the stability that its constitution and institutions provide. The booming economy is largely due to success of the financial services industry – the largest sector on the island. Government's policy of offering incentives to hi-tech companies and financial institutions to locate on the island has paid off in expanding employment opportunities in high-income industries. While agriculture, fisheries and forestry and their ancillary services play a less significant role on the Isle of Man than they once did, they still provide considerable employment and have political, social and strategic importance. Tourism in the Isle of Man is in transition. The manufacturing sector is a main provider of full time employment on the island and is second only to finance in terms of growth and contribution to the economy. Further development of the light industry and support for exporting business in manufacturing and related services has been a prime factor in government policy for many years and will continue to be so in the future, with the aim of increasing the sector's contribution to the economy and extending the range and income earning potential of job opportunities available to the workforce. Government has positively encouraged growth in recent years by creating a sympathetic tax regime and suitable legislative framework for expansion and by offering financial incentives where necessary, particularly for the manufacturing industry and tourism.

ITALY

Rating: 1B

Italy has a diversified industrial economy with roughly the same total and per capita output as France and the UK. This capitalistic economy remains divided into a developed industrial north, dominated by private companies and a less developed, welfare-dependent agricultural south, with 20% unemployment. Most raw materials needed by industry and more than 75% of energy requirements are imported. Over the past decade, Italy has pursued a tight fiscal policy in order to meet the requirements of the Economic and Monetary Unions and has benefited from lower interest and inflation rates. The current government has enacted numerous short-term reforms aimed at improving competitiveness and long-term growth. Italy has a small primary sector and its services sector contributes two-thirds to the economy. Manufacturing accounts for 25% of GDP. Apart from tourism and design, it is not internationally competitive in most of its service industries. Silvio Berlusconi's resignation as prime minister in April 2005, amid mounting criticism over Italy's sluggish economy and role in Iraq, leaves the country's president with a choice between calling early elections or designating a premier to assemble a new government.

MALTA

Rating: 2B

Each year the population of Malta is tripled by an influx of tourists – the nation's main source of income. Malta produces only 20% of its food needs, has limited fresh water supplies and has no domestic energy sources. The economy is dependent on foreign trade, manufacturing (especially electronics and textiles) and tourism. A slowing global economy is holding back exports, tourism and overall growth. The improvement in economic conditions is expected to be largely exported, arising mainly from economic recovery in the euro area. With the successful EU entry in May 2004, the political focus has shifted back to fiscal consolidation and further structural reform. Government is continuing its public sector efficiency drive by extensively modernising the state-owned entities and putting forward reform proposals for the pension and health care systems.

MONACO

Rating: 1A

Prince Albert Alexandre Louis Pierre took over as head of state of Monaco following the death of his father Prince Rainier III in April 2005. Formal investiture has yet to take place as the country is in a three-month mourning period. Tourism drives this economy, which also attracts large-scale gambling. The state has no income tax, low business taxes and thrives as a tax haven for individuals who have established residence and for foreign companies that have set up businesses and offices in Monaco. Monaco is a major banking center and closely guards the privacy of its clients, despite French concerns over its tax policy and accusing Monaco of tolerating money-laundering. Private banking has been the catalyst behind robust asset growth achieved by the financial sector over the last decade. The state retains monopolies in many sectors including tobacco, the telephone network, and the postal service. Prince Rainier worked to reduce Monaco's reliance on tourism and gambling by attracting business to the country and had successfully sought to diversify into services and small, high-value-added, nonpolluting industries.

NETHERLANDS

Rating: 1A

As exports and imports of goods and services both account for well over 60% of nominal GDP, the life-blood of Dutch prosperity is foreign trade. The economy is noted for stable industrial relations, moderate unemployment and inflation, a sizable current account surplus and an important role as a European transportation hub. Industrial activity is predominantly in food processing, chemicals, petroleum refining and electrical machinery. A highly mechanised agricultural sector employs no more than 4% of the labour force but provides large surpluses for the food-processing industry and for exports. The country continues to be one of the leading European nations for attracting foreign direct investment. Over 450 companies and institutions were pronounced bankrupt in February 2005. This is up 4% on February 2004. Bankruptcies in 2004 were the same amount as 2003, which increased 30% from the 2002 figure.

NORWAY

Rating: 1A

The Kingdom of Norway enjoys one of the highest standards of living in the world. Its prosperity is due in large part to the discovery in the late 1960s of off-shore oil and gas deposits. More than half of Norway's exports come from this sector. Norway is the world's third largest oil exporter behind Saudi Arabia and Russia. The economy is a prosperous bastion of welfare capitalism, featuring a combination of free market activity and government intervention. Government controls key areas, such as the vital petroleum sector through large-scale state enterprises. The country is richly endowed with natural resources and is highly dependent on its oil production and international oil prices, with oil and gas accounting for one-third of exports. Norwegians still worry about that time in the next two decades when the oil and gas begin to run out. Accordingly, Norway has been saving its oil-boasted budget surpluses in a government petroleum fund, which is invested abroad and is currently valued at more than \$43bn. Domestic economic activity is and will continue to be the main driver of growth, buoyed by high consumer confidence, low inflation and the lower interest rates in the post-war era.

PORTUGAL

Rating: 1B

In February 2005 Portugal's opposition Socialist Party (Partido Socialista – PS) led by José Socrates won a convincing legislative election victory, ousting the governing Social Democrats (Partido Social Democrata – PSD). On taking office, Prime Minister Socrates stated that his priority would be to boost the economy by investing in training and technology. His government also faced the major tasks of bringing the budget deficit under control and stemming rising unemployment. Portugal has become a diversified and increasingly service-based economy since joining the EU in 1986. Over the past decade, successive governments have privatised many state-controlled firms and liberalised key areas of the economy, including the financial and telecommunication sectors. A poor educational system, in particular, has been an obstacle to greater productivity and growth. Portugal has been increasingly overshadowed by lower-cost producers in Central Europe and Asia as a target for foreign direct investment. The coalition government faces tough choices in its attempts to boost Portugal's economic competitiveness and to keep the budget deficit within the 3% EU ceiling.

SPAIN

Rating: 1B

One of Spain's most serious domestic issues continues to be the tension in the northern Basque region. Under the new government, economic policy has changed little, as the strong liberal element in the ruling party offsets less reform-minded factions. The biggest change has been in foreign policy, where a return to a lower-profile, less overtly pro-US position will continue to be implemented. Solid domestic demand growth will continue to underpin the economy's expansion. Years of over-exploitation of land and water resources have provoked a farming disaster in southern Spain. Intensive farming and mass tourism in southern Spain are straining the limited natural resources. Adjusting to the monetary and other economic policies of an integrated Europe, reducing unemployment and absorbing widespread social changes will pose challenges to Spain over the next few years.

SWEDEN

Rating: 1A

Aided by peace and neutrality for the whole 20th century, Sweden has achieved an enviable standard of living under a mixed system of hi-tech capitalism and extensive welfare benefits. It has a modern distribution system, excellent internal and external communications and a skilled labour force. Timber, hydropower and iron ore constitute the resource base of an economy heavily oriented towards foreign trade. Privately owned firms account for about 90% of industrial output, of which the engineering sector accounts for 50% of output and exports. Agriculture accounts for only 2% of GDP and 2% of jobs. In 2003 Swedish voters turned down entry into the euro system, concerned about the impact on democracy and sovereignty. According to the EIU, economic policy is still on a sound footing, although a more expansive fiscal policy during the run-up to the election will result in the public finances recording only modest surpluses, despite robust economic growth. The economy remains in good shape, with the external accounts in surplus and a gradual improvement expected in the labour market.

SWITZERLAND

Rating: 1A

Switzerland is a prosperous and stable modern market economy with low unemployment, a highly skilled labour force and a per capita GDP larger than that of the big Western European economies. The Swiss in recent years have brought their economic practices largely into conformity with the EU's to enhance their international competitiveness. It remains a safe haven for investors as its banking system is characterised with a certain amount of secrecy. Switzerland's economy has lost more momentum than expected owing partly to the sluggish environment in Europe.

*Compiled and researched by Melanie Da Luz
Economic researcher: Credit Guarantee
May 200*

Getting to grips with *tariff classification*

Are you battling to stay on top of tariff classification issues and losing sleep over the potential consequences of misclassification? Now there's a way to manage that risk...

if a misclassification results in a shift in duty from 0% to 25%, the potential liability can run into millions of rands. And SARS may require a back-payment of two years and inflict a penalty of between 10% and 25% of duty.

The proper management of tariff classification on imported goods is arguably of unequivocal importance in effective risk management. But depending on where products fall in the tariff code, complexities and recurrent alterations in classifications can make staying on top of the situation a thorny, elusive and seemingly impossible task. Or so it would seem.

According to Xikhovha Advisory* director Donald MacKay there are certain considerations and measures that can be put in place to make a sticky tariff classification predicament more manageable. "The solution is to get on top of the bulk of the risk and thereby manage your exposures," he says.

Taking into consideration the factors that result in misclassification, Xikhovha Advisory has developed a tool which enables a client to quantify the risk involved in getting a product classified incorrectly and then decide what to do with it. Depending on the level of comfort required, the extent of exposure can be trimmed down until there is sufficient certainty on product rulings.

Why is it so critical to get tariff headings right?

MacKay explains that tariff classification is a cornerstone in determining a client's customs liability, and the single largest area where things are likely to go wrong from this perspective.

"Not only are your preferences set at this level, but also your punitive provisions," says MacKay. "The challenge hinges on the dynamic nature of tariff classification; with amendments being made all the time in response to trade agreements, the tariff code – with over 6 000 tariff sub-headings covering an infinite number of products – is continuously changing."

The relevant tariff heading for a product determines the rate of phase-down of preference duties the client is entitled to until the end of the trade agreement. MacKay stresses that



Donald MacKay, director of Xikhovha Advisory

depending on the industry, tariff classification can be highly sensitive and problematic. In the chemicals and textiles industries in particular, and to a lesser extent engineering firms, there is considerable variation in the set of requirements for each heading, and a wide margin for error.

"An inappropriate categorisation can shift you out of line with the appropriate requirements and correlating duties, with potentially sizeable if not catastrophic penalties at stake. For instance, if a misclassification results in a shift in duty from 0% to 25%, depending on the volume and value of that product, the potential liability can run into millions of rands. And depending on the extent of a client's liability, SARS will typically require a back-payment of two years and inflict a penalty of between 10% and 25% of duty."

He adds that conversely, in certain instances a corrected ruling can work advantageously for a client, presenting an opportunity to claim money back.

Furthermore, any rebates that might apply to a

product are also set by the tariff heading. A group of rebates – manufacturing or industrial – arise when a raw product is imported for use in producing another product for a specific purpose. For instance, if certain raw materials are used in the manufacture of television sets, duties are not payable, but if used in the manufacture of other consumer electronics, duties are payable.

An additional consideration around misclassification is punitive duties – antidumping or countervailing duties – which can become extensive. When a subsidy is attached to a product, the government will impose an equivalent duty to offset the effect of that subsidy, as a protective "countervailing" measure.

"The level of anti-dumping duty is set by the tariff-heading and punitive duties can become absolutely enormous," says MacKay. "For example, hydrogen peroxide carries a 167% antidumping duty, over and above other duties on the product."

Finally, additional duties such as *ad valorem* and specific excise duties are also determined by tariff heading. When it comes to excise duty payable on imported alcohol, for instance, everything is driven by tariff heading, which can lead to considerable confusion.

How to remain consistently compliant and manage your exposures?

"The most important step is for a business to get the classifications right and to maintain stability: to be consistently compliant and not all over the place," says MacKay. A client may go to SARS to obtain rulings on products, but with rulings potentially going out-of-date every six months, this is an impractical exercise. Likewise, using consultants to continually monitor every product would incur staggering expense.

Xikhovha Advisory has developed a dynamic model to enable clients to identify and focus on those products which carry the greatest risk, that way staying on top of things on a continuous and stable basis. MacKay cites the example of a client who handles approximately 400 products. Using the Xikhovha Advisory model, it was determined that 92% of the client's total risk exposure is contained in just 12 products.

Though the figures established in the process are subjective, they are nonetheless determined on a solid basis. Xikhovha Advisory relies on data provided by the client and customs for ongoing analysis, to ensure the information remains relevant.

**Xikhovha Advisory (Pty) Ltd is a specialist international trade consultancy providing strategic advice around various trade issues and international trade agreements. For further information please call 011 791 4881, or visit the website: www.xikhovha.co.za*



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CLIENT CARE DESK: (011) 889-7365

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Gauteng: Telephone (011) 889-7000

Credit Guarantee House, 31 Dover Street, Randburg

P O Box 125, Randburg, 2125

Fax (011) 886-1027 or 886-5715

Business development consultants:

Anne Drynan Malcolm Kourie Nici Large

Linda Frederickson

Service consultants: Llewellyn Paulsen Nazel Veldtman

Business researcher: Renate Dedekind

Western Cape: Telephone (021) 421-7830

4th Floor, No 1 Thibault Square, 1 Long St, Cape Town

P O Box 6018, Roggebaai, 8012

Fax (021) 419-7586

Business development consultants:

Patricia du Preez Claire Marx

Service consultant: Danie van Niekerk

Business researcher: Marita Proctor

Eastern Cape: Telephone (041) 363-4024

First Floor, Mutual Place, cnr Cape Rd & Langenhoven Drive, Greenacres, Port Elizabeth

P O Box 27154, Greenacres, 6057

Fax (041) 363-3750

Sales & service consultant: Ilsé Strydom

Business researcher: Brenda Perry

Kwazulu/Natal: Telephone (031) 566-1738

The Annexe, 2 Frosterley Crescent, La Lucia Ridge,

Umhlanga Suite 58, Private Bag X01, Umhlanga Rocks, 4320

Fax (031) 566-1781

Senior sales & service consultant: Lorraine Abbott

Business researcher: Michelle Horner

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For subscriptions and information, please contact Ilsé Marais at

tel (011) 889 7530, fax (011) 686 9830 or e-mail at ilsem@cgic.co.za.

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