

THE KRUGERRAND: Facts about South Africa's Gold Coin

"Native politics in a republic such as ours where so many kaffir tribes live among us and all around us offer very exceptional difficulties. The chief principle that must always be borne in mind is that savages must be kept within bounds. . . ."

—Paul Kruger
(early Afrikaner leader)



The advertisement in the March 20, 1979 issue of the **New York Times** proclaimed the Krugerrand to be "The world's best way to own gold," and claimed that Krugerrands "could help you breathe a lot easier."

The advertisement was part of a multi-million dollar promotional campaign which has turned the US into the number one Krugerrand market in the world—a market buying over half the Krugerrands sold in 1978. The campaign has successfully convinced a large number of US consumers that the Krugerrand is both an attractive and a sound investment.

Yet gold sales, of which Krugerrand sales currently represent 25%, provide the South African government with almost half its foreign exchange. Each Krugerrand sold in the US serves directly to bolster the system of apartheid which, with its inherent racism and injustice, is the cornerstone of South African society.

WHAT IT IS

The Krugerrand is a coin about the size of a half-dollar containing one troy ounce of pure gold. While considered as legal tender in South Africa, the coin is intended mainly for foreign investors. Its value rises and falls with the international price of gold, that is, the price at which gold is bought and sold at international auctions in Zurich and London.

WHO PRODUCES IT

The gold for Krugerrands comes from South Africa's 48 gold mines. In 31 of the top mines, Americans own an average of 26% of the shares outstanding. (Based on figures in *The Star*, Johannesburg, 3/5/77) The mines are controlled by seven major financial groups, which together account for 90% of all mineral production in South Africa. The largest of these is Harry Oppenheimer's Anglo-American Corporation. All the gold mines are members of the South African Chamber of Mines, an industry organization which recruits African labor and refines all the gold the mines produce, before handing it over to the government. The government itself sells most

of the gold overseas in the form of bullion. Krugerrands are handled differently. The Chamber of Mines gives the gold for Krugerrands to the government mint, which stamps them and returns them to the Chamber for sales overseas.

WHO DIGS IT

About 90% of the workers in South Africa's gold mines are black, and about 9% are white, with a small number of Coloureds and Asians. Employment in the mining and quarrying sector (including mines in Bophuthatswana) was 710,400 people in 1978. (Standard Bank Review 2/79).

In order to provide cheap labor for the mines, Africans were driven off their land, herded into "Native Reserves," forced into the labor market by taxes, and rigidly controlled by the imposition of pass laws, which regimented the labor flow. Most African miners are migrants, forced to live in huge company compounds.

In 1978, black miners' average monthly salary was R119 (\$137), compared with R840 (\$966) for whites (Stan-

dard Bank Review 2/79). This gap between black and white mining salaries is the largest in any industry in South Africa, and is continuing to grow. Even if black miners were allowed to live with their families, their incomes are nowhere near enough to maintain a decent standard of living; in April 1978 an urban African family needed about R163 (\$188) a month just for basic necessities, without any provision for items such as education and medical expenses. (Financial Mail, 4/7/78)

In return for their low salaries, black miners work under highly dangerous conditions. Between 1972 and 1975, there were 2,993 accidental deaths in the mines and 110,169 serious injuries. (Financial Mail 10/29/77)

WHY KRUGERRAND SALES ARE IMPORTANT TO WHITE SOUTH AFRICA

Since its discovery in 1886, gold has been the primary basis of South Africa's development. South Africa has 65% of the world's known reserves and accounts for three-quarters of all Western production. Gold sales overseas provide much of the foreign exchange—the dollars, pounds and marks—that are vital for the continued expansion of the South African economy and for the development of the military forces which uphold the apartheid regime.

In addition, the white minority can only continue to dominate through the availability of highly advanced armed forces as a substitute for the manpower it lacks. Finally, the fall of the Shah of Iran, formerly a supplier of over 90% of South Africa's oil, has meant that South Africa has had to look elsewhere for oil and at an increased cost in foreign exchange terms. Thus gold sales, from which the government currently derives almost half of its foreign exchange (in 1978 the government collected \$1 billion in taxes on gold sales) play a crucial role in supporting the apartheid regime.

Until recently, the demand and price for gold rose routinely. All major currencies were translated into gold, which meant countries kept adding to their stockpiles. Gold was also in steady demand for jewelry and industrial purposes. In the past few years, however, while jewelry and industrial demand has remained high, gold has lost much of its importance as an international medium of exchange.

Accompanying these changes have been sharp variations in world gold prices. Between 1974 and 1976, the price of gold rose to nearly \$200 an ounce, then plunged to \$110 an ounce, before gradually climbing back to current levels.

South Africa, concerned about the situation, began seeking ways to ensure a steady demand and good price for its chief export. One method it hit on was international sales of Krugerrands. South Africa reasoned that the more gold that could be sold in the form of Krugerrands directly to consumers, the less would have to be auctioned in London and Zurich—thus driving up the price. Krugerrand sales could also serve to develop a greater interest among individuals in owning gold, providing a dependable customer alternative to governments and industry.

In addition, it was recognized, the Krugerrand would help to enhance South Africa's world image. Krugerrand ads do not include photos of South African police attacking students in Soweto or information about the more than two million South Africans, mostly black, who are unemployed. Instead, they link the coins with love,

security and beauty, by inference attributing these qualities to South Africa as well.

As Jerry Gast, a US public relations executive, explained in a memo to a South African gold marketing official, "It is not desirable to involve Intergold in the political, economic and social questions that trouble South Africa."

WHO SELLS IT

South Africa began to market Krugerrands in Europe in the early 1970s. These efforts were extended to the US in 1975, when it became legal for individuals to own gold.

Krugerrands are sold outside of South Africa by the Chamber of Mines through its marketing arm, International Gold Corp. Ltd. (Intergold). In the US, Intergold's three major wholesale distributors are J. Aron & Co., Republic National Bank, and Mocatta Metals, Inc., all based in New York. These three distribute the coin in 250-coin lots to a dozen large currency exchange brokers. Through them, local banks, stores and dealers purchase Krugerrands in smaller lots for sale to the public. Doyle, Dane Bernbach Inc. of New York handles advertising for the Krugerrand, while Rubenstein, Wolfson & Co., also of New York, provides public relations services.

WHO BUYS IT

The US has become the top overseas market for Krugerrands. In 1978, over half of the Krugerrands sold worldwide were sold in the U.S. (*New York Times*, 1/4/79) South Africa sold just over six million Krugerrands in 1978, at a total price of \$1.2 billion. (*New York Times*, 1/4/79) This amounted to 27% of all the gold sold by South Africa that year. (*Engineering and Mining Journal*, 3/79) The 1978 sales were almost double the 1977 sales of 3.3 million coins, of which the US bought about one-third. (*LA Times*, 6/27/78)

In 1976, by comparison, some 2.9 million coins were sold, at a total price of \$378.8 million. They accounted for 14% of all South Africa's gold sales that year.

With gold selling for \$246 an ounce in February 1979, South Africa probably will try to continue to increase the quantities of Krugerrands that it puts on the market.

HOW THE KRUGERRAND IS MARKETED IN THE US

South Africa began its promotional activities in the US with a 15-week test campaign in late 1975, directed at the Los Angeles, Houston and Philadelphia markets. Intergold reported sales rose by as much as 95% in the cities involved, which as a group accounted during that period for about half of all US sales. Encouraged by this success, Intergold went forward with a major campaign in the fall of 1976 which it described as "the most extensive coin marketing effort ever." Approximately \$4 million was spent on advertising and public relations in 25 major cities.

The ads run in the first campaign, as well as in subsequent ones, have been in keeping with the dual intent of selling gold and selling South Africa. They show attractive, white, middle-class people, and they hit hard at the idea that there is no greater security than owning gold.

As described by *Business Week*, Intergold perceives the typical Krugerrand buyer as "a middle-class school teacher type of investor who was burned by the stock



apartheid on sale

market and fears an uncertain future."

In one promotional coup during the fall 1976 campaign, the Houston Oilers football team was persuaded to present Krugerrands to individual players for outstanding performances.

Krugerrand marketing campaigns in the past have focused on increasing and diversifying the types of people who invest in gold by convincing individuals to buy small quantities of Krugerrands as a hedge against an uncertain stock market. In May-July 1977, a seven-week, \$2.5 million campaign was launched in 20 markets. This campaign focused on Krugerrands as graduation presents as well as investments. Then, in the fall of 1977, indications were that approximately \$3 million was spent in a follow-up to the May-July campaign.

The doubling of Krugerrand sales in 1978 is testimony to the effectiveness of these advertising campaigns.

In March 1979, what appeared to be the start of a new

campaign was launched with an ad in the *New York Times* and a full-page ad by MONEX, a large Krugerrand dealer, in the *Wall St. Journal*. These ads, while still appealing to relatively small buyers, were aimed at persuading investors with capital of up to \$100,000 to invest it in gold. In fact, some financial advisors now are recommending that anyone with less than \$100,000 to invest in gold invest in Krugerrands. Also in 1979, Intergold was expected to open a new office in Los Angeles.

Among the 1,200 coin dealers, banks and others selling the Krugerrand, there has been little concern about the relationship between such sales and apartheid.

WHAT HAS BEEN DONE TO STOP KRUGERRAND SALES IN THE US

Many groups opposed to apartheid have used demonstrations and other means to convince the public that by selling or owning Krugerrands, they are directly support-

ing apartheid. These actions, ranging from petitions to campus protests to picketing of local stores, have served not only to make the public aware of the facts behind the Krugerrand but have raised the level of concern generally about conditions in South Africa and the role the US plays there. In many cases, anti-Krugerrand activities have encouraged interest and participation by individuals and groups previously not involved in South African issues.

In Michigan, Krugerrand advertising prompted creation of an anti-Krugerrand ad by the United Methodist Church. This ad, paid for by Methodist church groups, ran in the *Detroit Free Press* in December, 1976.

Anti-Krugerrand demonstrations were organized in a number of cities around the country in March, 1977 to commemorate the anniversary of the 1960 Sharpeville massacre in South Africa.

A large-scale Krugerrand advertising campaign in Boston in fall, 1977, prompted a group of people in the media to organize an anti-Krugerrand protest at a meeting of the National Association of Broadcasters. A local anti-apartheid group organized a similar demonstration at one of three Boston television stations carrying Krugerrand advertisements.

While continuing to deny the link between Krugerrand sales and the apartheid system, Merrill Lynch, Pierce, Fenner & Smith halted sales of Krugerrands in January 1978. The company claimed lack of demand, although coin sales from 1976 to 1977 increased by almost 15% and then went on to double in 1978.

Among the notable successes of the anti-Krugerrand forces to date have been the passage of resolutions by City Councils in Denver, San Antonio, Dayton, Boston, Portland, Milwaukee and Chicago urging citizens not to purchase the coin.

The *Record* newspaper, Bergen and Passaic Counties, New Jersey, also dropped Krugerrand advertising. Malcolm Borg, publisher, is quoted as saying, "I'll be damned if I will let my pocketbook dictate to my conscience" (*Wall Street Journal*, 1/30/78).

In another, earlier effort to dissuade broadcasters from airing Krugerrand ads, the National Conference of Black Lawyers argued in a statement on the Krugerrand that such advertising "represents effective aid and comfort to a violently oppressive regime which maintains the most pernicious social system anywhere."

In Brooklyn and Cleveland, major department stores agreed to stop selling Krugerrands after picketing by anti-apartheid groups. In Chicago, black-owned Seaway National Bank readily agreed to stop selling Krugerrands after being informed of the tie between the Krugerrand and apartheid. Additional stores dropping Krugerrand sales include: Carson, Pirie, Scott (department store), Chicago; six coin/jewelry stores, Boston; and additional coin/jewelry stores in Cleveland, Oakland and Pittsburg.

In early 1979, students at Dartmouth college in Hanover, N.H., convinced a local coin dealer to discontinue sales of the Krugerrand. TV stations in New York, Boston, Chicago and Portland agreed to drop all Krugerrand advertising.

THE CASE FOR FURTHER ACTION

While anti-Krugerrand activities continue to raise awareness about South Africa's apartheid system, sales

of the Krugerrand continue. Between October 1977 and March 1979 the price of gold rose from \$160 an ounce to over \$240 an ounce. Krugerrand sales from 1977 to 1978 almost doubled. It seems likely that Krugerrand sales helped to push up the price of gold. Given these increased sales of Krugerrands and their positive effect on the price of gold South Africa almost certainly will continue to devote increasing amounts of its gold resources to the Krugerrand. At the same time, the Krugerrand sales campaign continues to foster a positive image of South Africa in American minds.

As long as the Krugerrand is sold in the US, Americans will be contributing to a high gold price for the mining companies; valuable income and foreign exchange for the South African government; and apartheid for African workers. The question before Krugerrand buyers is whether they are willing to pay such a price in return for owning an ounce of pure gold.

Krugerrand advertisements contain the names of stores which carry Krugerrands in each area of the country. The ads also carry a toll-free number which can be called to obtain the names of Krugerrand outlets.

Ongoing information about anti-Krugerrand activities is available through the American Committee on Africa, 198 Broadway, New York, N.Y. 10038.

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