

2 The companies involved

Minorco 2.1. Minorco is a *société anonyme*, incorporated in Luxembourg. Its shares are listed on the London Stock Exchange and a number of other stock exchanges around the world. Its subsidiary and associated companies are primarily engaged in natural resources.

2.2. The origins of the group go back to 1928 and the then Northern Rhodesian copper industry. It was originally known as Rhodesian Anglo American Ltd. It became Zambian Anglo American Ltd in 1965 and changed its name again to Minerals and Resources Corporation in 1974, becoming known as Minorco. In 1987 a Luxembourg subsidiary became the new parent company of the Minorco group, changing its name to Minorco.

2.3. From the beginning Minorco has been controlled by the South African-based Anglo American group of companies, notably Anglo American Corporation of South Africa Ltd (Anglo American) and De Beers Consolidated Mines Ltd (De Beers), in which the Oppenheimer family have played an influential role. Anglo American now holds 39·1 per cent and De Beers 21 per cent of Minorco's issued share capital, and there are indirect holdings through Charter Consolidated PLC and Southern Life Association Ltd (an associated company of Anglo American) of 3·8 per cent and 0·3 per cent respectively. The Anglo American group and its associates therefore hold about 64 per cent of Minorco. In addition the Oppenheimer family interests hold directly a further 7 per cent.

2.4. After Northern Rhodesia gained independence and became Zambia, the Zambian Government acquired a 51 per cent interest in the Zambian copper industry. Minorco's domicile was then transferred to Bermuda, and it widened the area of its investment, principally alone and in minor instances jointly with other companies in the Anglo American group.

2.5. Minorco's principal holdings today are in the following:
Three United States enterprises:

Engelhard Corporation (30 per cent), engaged in the development of speciality chemical and metallurgical technologies and products, including the refining of platinum.

Inspiration Resources Corporation (56 per cent), a natural resources company with interests in base and precious metal mining, agricultural chemicals, and equipment leasing.

Adobe Resources Corporation (49 per cent), engaged worldwide in oil and gas exploration and production.

Eastern Investment Ltd (principally in Australia, 21 per cent), a new holding company for the Anglo American group's Australasian natural resource interests.

Anglo American Corporation of South America SA (AMSA) (21 per cent), a holding company with precious metal mining, base metal mining, industrial, financial and commercial interests.

Two United Kingdom enterprises:

Charter Consolidated (36 per cent).

Consolidated Gold Fields PLC (see paragraph 2.13).

Charter Consolidated has interests in the United Kingdom and abroad, notably through its subsidiaries Anderson Strathclyde (mining equipment manufacture) and Cape Industries (building products manufacture) and its 38 per cent associate Johnson Matthey, whose principal business relates to refining, marketing and fabrication of precious metals and raw materials of which platinum is the most important. Minorco has no investments in South Africa.

2.6. At 30 June 1988 Minorco's gross assets according to its consolidated balance sheet were US \$2,442 million and its net assets US \$2,393 million; its net earnings for the year then ended were US \$775 million, including US \$512 million extraordinary items, mainly gains on investment disposals. Further financial details are given in Appendix 2.1.

The Anglo American Group

2.7. As noted in paragraph 2.3, the Anglo American group consists principally of Anglo American and De Beers. Anglo American is a South African mining house with industrial and financial interests, formed in 1917 to develop gold mines in the Transvaal, and later in other parts of the Union. It was highly successful, but, as since the 1960s its investment opportunities have been largely restricted to South Africa, it also entered the platinum mining industry through the Johannesburg Consolidated Investment Company (JCI) and Rustenburg Platinum Mines, the largest platinum-mining enterprise in the world.

2.8. Anglo American also holds interests in a number of other South African mining groups, including an interest of about 20 per cent in Gold Fields of South Africa (part of it through Anglo American Gold Investment in which it has 49 per cent), besides its indirect holding through Minorco and Consolidated Gold Fields. These interests give it a highly influential position in the Chamber of Mines, which conducts many activities, such as negotiations with trade unions, on its members' behalf. Outside the mining industry the group holds an extensive portfolio of industrial and other interests.

2.9. De Beers is a South African company founded in 1888, and is the world's leader in the mining of diamonds. It also markets its own and many other producers' rough diamonds world-wide, and indeed dominates that trade, through the Central Selling Organisation which it controls. De Beers today produces between 40 and 50 per cent of the world's gem diamonds, and markets over 80 per cent of world production. Many observers since the 1930s have described the activities of the Central Selling Organisation as a cartel.

2.10. Anglo American and De Beers are linked by cross shareholdings. The Oppenheimer family interests, including their privately-owned company E Oppenheimer & Sons, also have an 8.3 per cent holding in Anglo American (but none in De Beers).

**Consolidated Gold
Fields PLC**

2.11. These paragraphs only list a few of the Anglo American group's many interests. There are other major entities in South African industry, such as the General Mining Union Corporation (Gencor), SANLAM (a mutual insurance group, which controls Gencor through Federale Mynbou), SA Mutual, Barlow Rand and the Rembrandt Group. However, the Anglo American group, whose interests cover not only the companies it controls directly but many other enterprises where its influence is exercised by means of minority shareholdings, often linked with Board representation and/or management agreements, forms a substantial element in the South African economy.

2.12. For a simplified summary in diagrammatic form of the relevant parts of the Anglo American group in relation to the Gold Fields group, see Appendix 2.2.

2.13. Consolidated Gold Fields (Gold Fields) is a British company, founded in 1887 and incorporated in London to fund the newly-discovered gold reefs in the Transvaal. By 1900 it had already started to diversify outside South Africa, and to become a relatively widespread natural resource group. In the 1930s its major mineral discoveries in South Africa tended to reconcentrate its investment there. After 1945, it took steps again to reduce its dependence upon South Africa, leading to the development or acquisition of mines in the United States and Australia. In the last two decades this trend has been accelerated and complemented by the development of a major crushed stone business in the United Kingdom and the United States.

2.14. Until the 1970s, Gold Fields was predominantly a mining finance house with most of its income from passive investments over which it did not exercise a positive management role. Since then it has transformed itself into the active parent of a natural resources group, concentrating on a relatively small number of minerals in which it is a major operator. It told us that its aim was to create a partnership between its central management in London and its operating management both here and abroad.

2.15. Gold Fields today¹ has three major wholly-owned subsidiaries: ARC Ltd in the United Kingdom, and Gold Fields Corporation (GFMC) and ARC America (ARCA), both in the United States.

2.16. GFMC was formed in the late 1970s and today has two major North American gold mines with low production costs. It is producing about 350,000 ounces of gold a year for a pre-tax profit in 1987-1988 of £48 million on a turnover of £81 million.

2.17. ARC's origins lay in a merger of aggregates companies (notably Amalgamated Roadstone and Amey), which Gold Fields acquired to give it an entry into a British natural resource industry. It produces a range of commodities using crushed stone, sand or gravel as raw material. These include ready-mixed concrete, coated stone, concrete pipes, bricks and blocks. It also engages in waste disposal, offers a concrete pipe technology service and operates a civil engineering subsidiary and a building division. ARCA is a major concrete pipe-maker and producer of crushed stone. The combined pre-tax profits of ARC and ARCA in 1987-1988 were £98 million on a total turnover of £902 million.

2.18. Gold Fields also has substantial interests in three principal gold-mining enterprises: Gold Fields of South Africa (GFSa), Newmont Mining Corporation (Newmont) and Renison Goldfields Consolidated (Renison).

2.19. GFSa in which Gold Fields has a 38 per cent beneficial interest is the second largest South African producer of gold and is developing the Northam platinum mine. It holds a 72 per cent interest in Northam, in which Gold Fields also has a 13 per cent direct interest. GFSa is the second largest South African gold producer and its mines include those with the lowest costs. Gold Fields has also invested directly in several other South African mines (eg 5 per cent in Driefontein and 13 per cent in Kloof).

¹ See Appendix 2.2 for a summary of the Gold Fields group in diagrammatic form.

2.20. Newmont is an independent United States mining company formed some 70 years ago. Gold Fields first took a stake in it in 1980 – 81, and this has now been built up to 49 per cent. Alongside its mining interest in Newmont Gold Corporation and Newmont Australia, Newmont holds 49 per cent of Peabody Holding Company Inc, the largest coal company in the United States.

2.21. Renison was the result of an amalgamation in 1980 of four mining companies in Australia, one of which had been formed by Gold Fields itself some 20 years before. Gold Fields' shareholding in Renison is 48 per cent, and as the rest is in Australian hands it has been able to be naturalised under the rules of the Australian Foreign Investment and Review Board. Apart from gold, the company has concentrated on the development of mineral sands, which are the feedstock for titanium and zircon. It is also a partner in the development of the Porgera gold project in Papua New Guinea.

2.22. Gold Fields' gross assets according to its consolidated balance sheet at 30 June 1988 were £1,910 million and its net assets £656 million; its turnover, including its share of sales by associates, was £1,234 million, and its profits before tax were £302 million. Further financial details are given in Appendix 2.3.

The relationship between the Anglo American group and Gold Fields

2.23. We have felt it necessary to pay some attention to the nature of the relationship of the Anglo American group and Gold Fields over the past ten years, since it deeply colours the events immediately leading up to the offer, and indeed much of the evidence given to us.

2.24. We refer in paragraph 3.3 to Minorco's acquisition of its holding in Gold Fields from Anglo American and De Beers. The bulk of that holding was itself acquired by De Beers in 1979-80 in conditions of sharp controversy. It would not be appropriate for us to analyse, still less comment on, the events of that time. It is enough to mention that they resulted in the appointment, by the then Secretary of State for Trade at Gold Fields' instigation, of Inspectors to investigate the latter's membership; and that the Inspectors reported that they were satisfied that De Beers formulated its scheme for the purchase of a 25 per cent stake in Gold Fields 'with the express intention of avoiding the disclosure provisions of the Companies Acts'¹. No proceedings were, however, brought.

2.25. Mistrust has persisted between the parties since then, apparently unmitigated by the interlocking directorships between Gold Fields and Anglo American Corporation.

2.26. Further tension was created in the course of 1986 following an attempt to bring about a closer relationship – or possibly agreed merger – between the two groups. Their respective descriptions of circumstances, events and motives during these negotiations are widely divergent, but the record shows that the talks broke down early in 1987 amidst fierce acrimony, leading to a further deterioration in relations.

2.27. The Secretary of State for Trade and Industry ordered a second investigation early in December 1986, at Gold Fields' initiative, into aspects of dealings on Gold Fields' share register by American Barrick Resources, a Toronto-based corporation.²

2.28. It was against such a background that Minorco made its offer, leading to the matter being referred to us.

¹*Consolidated Gold Fields Ltd. Investigation Section 172 of the Companies Act 1948.* Report by Bryan James Welch and Michael Charles Anthony Osborne, published for the Department of Trade by HMSO, 1980.

²This report has only recently been completed, and has not been published. We understand that it does not contain any information or conclusions directly relevant to our inquiry.