

PIONEER FOODS

PepsiCo deal 'shows BEE does not faze investors'

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US multinational PepsiCo's R26bn purchase of Pioneer Foods is proof that SA can attract foreign direct investment while ensuring workers are given greater ownership of the economy, trade & industry minister Ebrahim Patel said on Sunday.

The finalisation of the transaction launched in July 2019 comes as the local economy tipped into recession.

Moody's Investors Service on Friday lowered its growth forecast for the country for the second time in less than a month because of concerns about the coronavirus.

The economic problems are worsened by electricity supply uncertainties and growing unemployment.

Legal teams representing Patel and PepsiCo spent months in hard-fought negotiations fine-tuning the conditions the multinational snack and beverage giant needed to meet to buy locally listed Pioneer Foods, whose brands include Sasko,

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PepsiCo deal: BEE does not faze investors

Ceres and Bokomo. After the Competition Commission proposed that the deal should go ahead subject to certain conditions, including a retrenchment moratorium, Patel intervened.

He disagreed with the BEE shareholding terms of the deal, which raised questions about the governing ANC's meddling on ideological grounds.

Authorities had a mandate to ensure investment benefited society, Patel told Business Day on Sunday. "Investment comes with many potential positive benefits, but it has to be made more implicit sometimes."

The deal was significant as it is the first large transaction that had to meet the amended Competition Act's requirements that mergers improve the spread of BEE ownership.

Disagreement on this threatened to delay the deal.

After intense discussions from late 2019, the legal teams of

both sides came to an agreement on Wednesday afternoon, mere hours before appearing at the Competition Tribunal on Thursday, which had to approve the deal.

Patel said the merger showed the empowerment requirements for firms to increase the spread of company ownership by historically disadvantaged communities did not scare away foreign direct investment.

"We are very keen on the SA model development [in that] workers feel more committed to the goals of the company and benefit more from the [financial] performance of the company."

No foreign buyout of local firms had ever resulted in such high workers' equity, he said. "It is the most significant merger deal ever, with ownership of workers reaching 13%," he said. "It has set a high benchmark."

Workers were offered R1.6bn of US PepsiCo shares in the

broad-based economic empowerment deal, but Patel wanted the workers to have ownership and voting rights in the SA company. The workers' shares convert into 13% local ownership in five years' time, which Patel initially felt was too long.

Concessions were also made by PepsiCo and Pioneer, allowing workers local voting rights equivalent to 13% local shareholding and the right to appoint their own director to the SA board.

Asked if such a deal set the bar too high and could scare away other foreign investment, Patel said public interest conditions of each deal would differ.

"We do take a practical evidence-led approach" in determining the public interest set of conditions foreign companies must meet.

"Investors [in SA] are mainly concerned about instability and the political and macro-environment.

They are concerned about the protection of property rights," he said, when asked about concerns about the demands.

"If we have a more equitable arrangement through shareholding, you build stability through that. When I make those points to investors, it resonates with them."

He conceded that the poor economy could pose a hurdle to attracting investment. "Growth is very, very low." But Patel said multinationals saw the 1.3-billion African market as attractive. He said the government was beginning to address the factors that constrained growth.

PepsiCo said that together with Pioneer Foods, it was "committed to playing a constructive role in the government's journey to re-ignite economic growth in SA and the African continent at large".

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