Senseless capitalism

AECI profiting on job losses

It is the irony of capitalism that even public companies make profits on the back of job losses. **John Appolis** and **Shawn Hattingh** investigate how this is happening in AECI/AEL.

On 25 February 2014 AECI/AEL released its financial results for 2013. This corporation boasted that it has managed to perform commendably in a tough environment. Indeed AECI increased its level of profitability. Its headline earnings per share (HEPS) increased by 57%. Profits before tax improved from R983-million (2012) to R1,267-million (2013), representing a staggering increase of 29%. The profits attributable to shareholders increased from R630-million (2012) to R946-million (2013), of which R336-million was paid out to them in the form of dividends. In fact, the shareholders received a 13% increase in their dividend pay outs.

AEL, a wholly owned subsidiary of AECI, managed to improve its profits from R417-million (2012) to R572-million (2013), representing a huge increase of 37%.

OWNERS AND SHAREHOLDERS HAVING A FEAST

However, these boastful and enhanced levels of profitability of AECI/AEL came at the expense of hundreds of jobs at AEL. Towards the end of December 2013, AEL retrenched 423 workers with a further 200 facing retrenchment at the end of July 2014. This jobs massacre was engineered by the company to maximize the returns for the capitalist owners of AECI, the shareholders. Indeed the improved profitability of 2013 has shown that senior management fulfilled their mandate of amassing more wealth for the owners. No doubt management will be generously rewarded with fat bonuses and more shares for a job well done.

But their hands are soiled with the destruction of the livelihoods of hundreds of workers who now face the hardships, pains and stresses of unemployment. Whilst the capitalist owners and management are amassing more wealth, lining their pockets with millions of rands and their families continue to live in opulence, the retrenched workers and their families are thrown into the bottomless pit of unemployment and social despair.

But who are these capitalists who are accumulating wealth on the back of a jobs massacre?

As at 26 April 2013 the top five owners of AECI/AEL are: Coronation Asset Management owning 23% of shares, the Public Investment Corporation (PIC) with 14,69%, Kagiso Asset Management 12,98%, Old Mutual Asset Management 9,73% and Allan Gray Investment Council with 6,54%. Together their shareholding amounts to 66,94%.

With the exception of the PIC, the other four capitalist owners are private investment management companies. The PIC is fully owned by the African National Congress (ANC) government. The clients of the PIC are the '23 public bodies that operate pension, provident, social security and guardian funds'. They include South Africa's largest pension fund, the Government Employees Pension Fund (GEPF), as well as public funds such as the Unemployment Insurance Fund (the UIF) and Compensation Commissioner Fund.

IRRATIONALITY

Now here we have an absurd situation. The PIC, the second biggest shareholder of AECI/AEL, accepts and agrees to the retrenchments of 630 workers in order to improve the return on its clients' investment in AECI/AEL. In other words the UIF, as a client of the PIC, is benefiting from the retrenchments of 630 workers. The UIF then is going to use the increased returns from AECI/AEL via the PIC to pay out unemployment benefits to the same 630 workers who are retrenched. So the UIF is going to use the profits obtained at the expense of workers to pay out unemployment benefits to the same workers!

To put it more simply, the ANC government, who is the owner of PIC, is thus ultimately complicit with the destruction of hundreds of jobs at AECI/AEL, and its UIF is using the same ill-gotten profits to soften the blow of retrenchment.

Another absurdity is that the pension and provident funds of the public sector workers that fall under the GEPF are going to be enhanced on the ruined lives of hundreds of workers. The improved returns in the form of dividends from AECI/AEL will be distributed to the GEPF as a client of the PIC. Taking the absurdity further we see that the funds dealing with social security grants of the ANC government are also going to share in the improved returns from AECI/AEL. So again, part of the social security grants for the disabled and destitute are being paid with profits from job losses.

Though the PIC is publicly owned it behaves no different to the capitalist investment management companies that are out to enhance their share prices and make quick short-term profits. As part of the neo-liberal agenda of the ANC government, the PIC was corporatised in 2005, changing from the Public Investment Commissioners to the Public Investment Corporation. As a result of its corporatisation, the PIC operates in the same manner as any private sector asset manager. This means it is driven by the same short-term profit motive.

The PIC website states that they 'practice shareholder activism to ensure that the entities in which we invest on our clients' behalf are well managed, accountable and actively involved in transformation'. Does this mean that for the PIC and government the retrenchment of 630 workers is shareholder activism and transformation? The website further claims that while the PIC is delivering healthy returns for its clients it is also contributing to broader socio-economic development. How is the retrenchment of 630 workers contributing to the socio-economic development of the country?

FINANCIALISATION

The root cause of the behaviour of PIC and the other capitalist investment management companies lies in the financialisation of industrial companies, including AECI/AEL. Financialisation is a process whereby financial institutions and investors became the major shareholders within the economy and industry. In the case of AECI/AEL, the top five investment management companies comprise the majority shareholders representing 66% of the shareholding.

With financialisation came different priorities and practices that are geared to meet the interests of investors. These priorities are driven by the need for high short-term profit, rapidly rising share prices and frequent dividend pay-outs and these are prioritised at the expense of workers. The main focus is on improving and unlocking shareholder value with the long-term growth of the company becoming a secondary issue. To ensure that the management, especially senior directors, are in line with the interests of these quick-profit mongers, and are complicit in these schemes, they are paid bonuses and given share options linked to the short-term profitability of the company and the performance of its share price. We now find that directors trade in the shares of the companies that they manage.

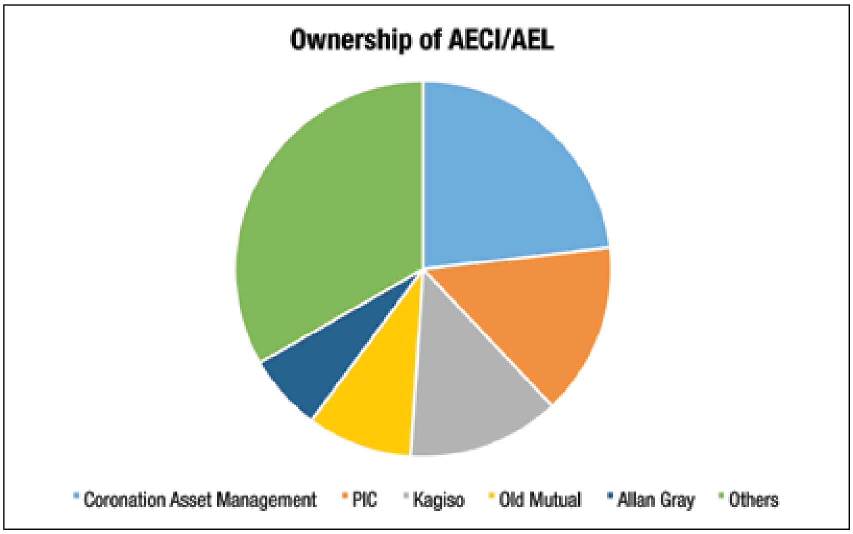
Thus obsessed with the need to push up short-term profits and share prices, management embark upon a restructuring of the company that leads to the intensification of the exploitation of workers. Costs are cut, automation is brought in, wages are driven down, thousands of workers are retrenched, hours of work are increased and workers' productivity is driven up as fewer workers are forced to maintain and even increase production.

AECI/AEL has since the late 1990s adopted all these priorities and practices of its financialised owners. Looking back, we see that the Anglo-American Corporation used to be the major shareholder of AECI/AEL, owning it from 1929 until the late 1990s. Under Anglo American, AECI/AEL rapidly expanded its production capacity and had manufacturing facilities in four areas of the country. The manner in which Anglo American then managed AECI/AEL was different from the financialised owners of today. Short-term profits were not its priorities. This is not to say that back then Anglo American was a good capitalist corporation. Their profit-making agenda just had long-term planning horizons and their managers were remunerated according to long-term growth and prospects.

As compared to Anglo American the financialised owners of AECI/AEL are driven by short investment horizons and in many instances they invest in companies for speculative purposes. We can see this from the continuous changes in the make-up of the major shareholders of AECI/AEL. In 1998 Anglo American owned the majority of AECI/AEL shares with 53%, Standard Bank was the second biggest shareholder with 18%, followed by ABSA with 4% and Nedcor with 3%. Five years later, in 2003 there was no majority shareholder. The largest shareholders had become Rand Merchant Bank.

Asset Management with 18%, Stanlib with 16%, Coronation Investment Fund with 16%, Old Mutual Asset Management with 8% and Bernstein with 6%. And in 2012/2013 the make-up of the majority of shareholders has completely changed as stated earlier.

Since the financialised owners took over AECI/AEL in the late 1990s the company has been subjected to constant restructuring, which has seen the introduction of automation, the closure of three explosives manufacturing plants and the retrenchment of thousands of workers. In 1982 AECI/AEL employed 28,000 workers but today, after the most recent retrenchments, it only employs 6,800 workers. AECI/AEL has centralised its explosive manufacturing capacity in one location, Modderfontein, and closed the other three plants.



INCREASED DIVIDENDS PAY-OUTS

The dividend pay-outs in 1998 amounted to R98-million; by 2012 they were R297-million and in 2013, R336-million. The consequence of these frequent high dividend pay-outs is that AECI/AEL is continually reducing the amount of money being re-invested in the company. Re-investments are used for the maintenance and expansion of production. Rather than using internally generated funds they are using more and more debt to finance the up-grade of production. In fact AECI/AEL's short-term debt increased from R700-million in 1999 to R3-billion in 2012. The reliance on debt for expansion is part of the process of financialisation of the company.

As part of the capitalists' efforts to drive up share prices, AECI/AEL has also periodically started to buy back its own shares. The intention of the buying back of shares is to remove them from the market, leading to spikes in the share price. This has been unheard of within the company prior to the late 1990s. As a result, AECI under the direction of financialised shareholders and management, has since 2000 used billions of rands to undertake numerous share buy-backs. At times debt has also been undertaken in order to carry out these buy-backs.

The result for the shareholders, including directors, has been quite spectacular as AECI's share price has risen from R6,50 in 1998 to over R129,90 in March 2014.

With the financialisation of the company we have seen AECI/AEL becoming a major real estate entity. AECI/AEL has always been a large property owner. Prior to 1999, however, it never saw its property as a source of profits. Through its subsidiary, Heartland, it has since 2000 sought to unlock the wealth of this property. The financial results of 2013 show that the real estate arm has contributed a notable part of AECI/AEL profits. Heartland contributed R219-million (2013) towards AECI's overall profit as compared to R33-million in 2012. Newspaper reports of last year indicated that AECI/AEL is in the process of selling land to Shanghai Zendia Property for close to a R1-billion.

After axing jobs and amassing fortunes, the financialised bosses of AECI/AEL are still not finished. More pain, attacks and deprivations are awaiting the remaining workers. The commentary of the AECI/AEL directorate in the 2013 financial statements had a warning: 'Further restructuring in the explosives business... can be expected as the Group continues to review its portfolio and cost base... to ensure... maximisation of growth opportunities in all countries where it operates'.

HOW TO RESPOND?

Driven by the obsession for short-term profit and high share prices, the owners and its senior management are going to continue to increase the intensity of the exploitation of workers. The reduced workforce is going to be put under tremendous stress and pressure to increase labour productivity, to maintain and increase the previous levels of production achieved with more workers, to take on more tasks and to work longer hours. Increased wealth (profits) for capitalist owners results in the hunt for greater and more wealth at the expense of workers. This is the fate that awaits the remaining workers.

Now we can challenge this state of affairs. Exploitation is intensified when the balance of power between them and us is in their favour. Workers must respond by shifting the balance of power in our favour – on the factory floor and in society at large.

Shifting the balance of power means we must regroup, shake off the fear and replace individualism with collectivism. The power of workers resides in the fact that without workers' labour power no explosives can be produced at Modderfontein. Without workers' labour power no explosives can be transported to the mines. Without workers' labour power no blasting can take place. Simply, without workers' labour power no wealth can be produced, no profits can be made. The power of workers thus comes about through collectivism.

In our response we must demand that workers have a determining say in the distribution of the wealth created through their labour power. Workers are the producers of the wealth of AECI/AEL but we have no say in how it should be produced and distributed. Who decided that some capitalists who have never been inside an explosives factory (not to mention work in one) must receive R336-million dividend pay-outs?

At a political level we have democracy, though limited and restricted, where the masses of the people have at least the right to decide who must govern them. Those who want to govern must present their manifestos to the people so that the people can decide the best political option by either voting or boycotting. The political rulers are at least subjected and made to account to the popular will of the people.

But in the workplace, the opposite happens. At AECI/AEL and other workplaces we have the dictatorship of the capitalist owners exercised through their management. They solely decide what to produce, how to produce it and how to distribute the wealth created. They solely decide who to employ, who the chief executive officer and who the directors must be. There is no democracy at AECI/AEL. We have a regime of factory despotism where workers have no say, are regarded as people who know nothing about the labour process, and are good only to receive and obey instructions. Through this factory despotism workers are made to slave, being reduced to mere appendages of the unthinking machine.

It is time now to demand democracy in the workplace. We must demand a greater say in the distribution of the R1,3-billion profit. Later this year AECI/AEL is going to get more than R1-billion through the sale of the land, land given to the owners as part of the apartheid regime's security set-up. Who is going to decide how this R1-billion is going to be spent?

It is time that workers discuss and formulate views and demands that can lead to the democratisation of AECI/AEL and to the equitable distribution of wealth. The time has arrived where workers are to put demands to ensure that there is no more the dictatorship of the few over the majority at AECI/AEL. LB

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Foreign Zama Zamas:

Not everything glitters in Egoli

Illegal mineworkers or *Zama Zamas*, which means we are trying our luck, work under precarious conditions and are not protected by labour laws. **Janet Munakamwe** argues that their activities can be formalised through legislation and unions can also mobilise and organise them.

By 28 February 2014, 24 bodies had been retrieved from the 'bloody gold' tunnel as described by one of the survivors of the catastrophic illegal mine shaft accident in the southern part of Johannesburg. He was referring to the old abandoned gold shaft where his brother and colleagues had perished; 23 of the bodies were of Zimbabweans of which seven were from one family while one was Mozambican. The last body to be retrieved on the eighth day was that of a young Zulu migrant male originally from KwaZulu-Natal.

Among those who perished, three were under 18 years of age and one was a female ex-soldier from Zimbabwe. 22 February 2014 marked the last day of these young people's lives in a foreign land. All their families would plead for – from Prophet Eliah and sangoma, Mama Fikile (not their real names) was to ask the ancestors of the land and God's miracle in opening up the long tunnel which was by then flooded with water, mist and carbon monoxide. This, they believed would assist them to retrieve the bodies of their relatives to ensure the repatriation of their *amatambo* (bones) back to their respective countries of origin.

While illegal mining is a universal problem (among the local and foreign poor) in South Africa, this article reflects on foreign *Zama Zamas,* considering their political subjective nature, as revealed by the case of Durban Deep miners from which I draw my evidence. At the same time, the aim is to analyse 'illegal mining' which I argue, constitutes a 'sanguinary' or optimistic sub-set of the informal economy.

Using data gathered through participant observation and interviews with illegal miners