

Economic Notes

Economic Notes is written by Labour Research Service (LRS), Cape Town

Ferro-alloys boom

The ferro-alloys industry is one of the most successful in South Africa. And despite sanctions, its share of world sales keeps on rising (see also *SA Labour Bulletin* 14,4)

South Africa is one of the lowest cost producers of ferro-alloys in the world. An important reason for this is the low cost of South African electricity. Electricity accounts for around 32% of the cost of producing the ferro-alloy.

If ferro-alloy prices were to drop to 50 or 60 US cents (from the current 80 US cents) per pound, all producers, except for South Africa, Zimbabwe, Brazil and Turkey, would find themselves making losses.

What are ferro-alloys?

- Ferro-chrome: *used to make stainless steel*
- Ferro-manganese: *used to improve toughness of steel*
- Ferro-vanadium: *makes steel tougher and resistant to abrasion*
- Ferro-nickel: *used to make certain kinds of stainless steel*

Production of ferro-alloys is in the hands of a few large companies:

□ Gencor Group

Samancor: *ferro-chrome, manganese, silicon and silico-chrome*
Impala Platinum: *ferro-nickel*

□ Barlow Rand Group

Middelburg Steel: *ferro-chrome and silico-chrome*

□ Anglo American Group

CMI: *ferro-chrome*
Highveld Steel: *ferro-chrome, manganese and silico-chrome*

And their profits have grown!

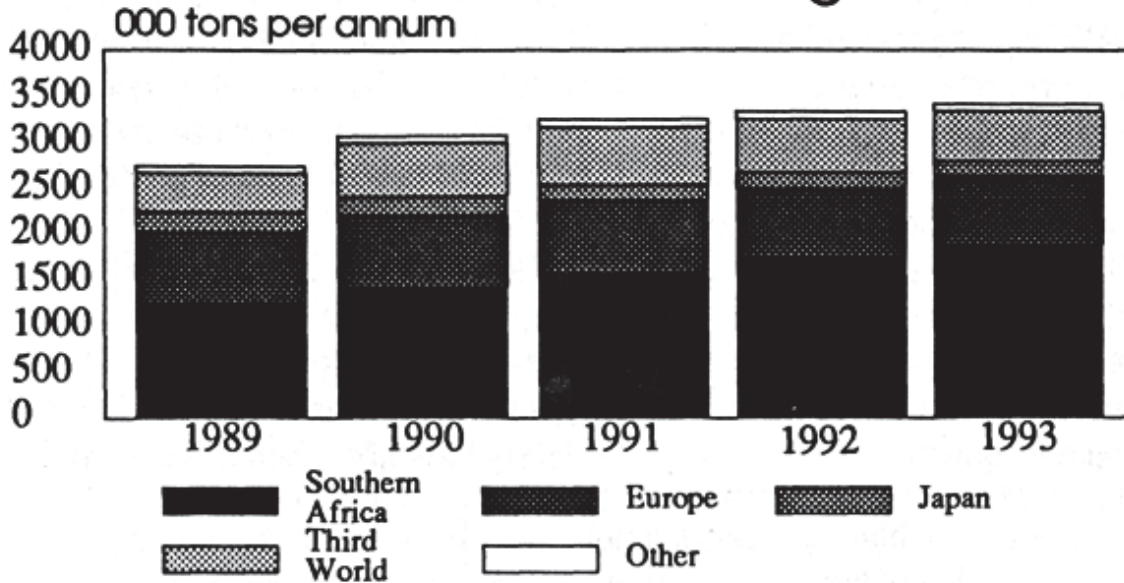
Profits reach record levels

	Profits up by:	Shareholders return
Samancor	54%	34%
Middelburg Steel	44%	35%
CMI	33%	55%
Highveld Steel	202%	47%

“Shareholders’ return” is the profits that shareholders received in 1988 as a percentage of the amount they invested in the company. So CMI shareholders got more than half their investment back in a single year!

The ferro-alloys industry is big business in SA. But it could be bigger. South African companies only concentrate on the first two stages of production - mining and ferro-alloys

Supply of world ferro-chrome Southern African share to grow to 53%



Labour Research Service

production - leaving the next two stages (stainless steel and steel alloys, and fabrication) to overseas firms.

Only Middelburg Steel makes stainless steel and this represents a small fraction of the world's production. Anglo American and Gencor may soon begin building a stainless steel plant. Stainless steel could well become the boom industry of the 1990s for SA's mining houses.

There is no alternative to ferro-chrome in the production of stainless steels, high strength steels, high temperature metals, and corrosion resistant metals. Experts predict that South African production of ferro-chrome will grow by 9,5% every year, for the next five years.

What about wages?

The top labourers' wage in the iron, steel and ferro-alloys sector is only R159 per week, at Rustenburg

Refiners. The bottom wage is R81,23 per week at Impala Platinum Refiners. The average wage of 13 companies in the sector on the AWARD computer is R131,74.

Compare this to the AWARD average for all industries of R142 per week. Clearly, the massive profits in the ferro-alloys industry are passing by the workers who created them. ☆

More news about management salaries

Last month, Bargaining Monitor reported that top management were getting as much as R2 450 per week in cash. This month we examine their fringe benefits.

The fringe benefits which the aver-

age chief executive gets amount to a further R 2 103 per week, on average. This gives a total salary of R4 553 per week - or R236 756 per year, according to P-E Corporate Services.

As you can see, fringe benefits can amount to 46% of the total package. The cash part of top executive salaries is thus only 54% of the total package. What are these "fringe benefits"?

Here are the "non-cash" fringe benefits received each year by the average top executive:

	Chief Executive Cash value	Personnel Executive per annum
Accident Insurance	R780	R410
Medical aid	R1 640	R1 560
Transport	R27 700	R28 880
Loans	R13 130	
Education	R2 900	
Housing	R7 660	R7 260
Recreation	R1 820	R1 980
Pension	R16 550	R11 280
Other	R9 000	R12 770

And here are the "cash" fringe benefits received each year by the average top executive:

	Chief Executive Cash value	Personnel Executive per annum
Standard bonus	R9 520	R6 730
Performance bonus	R26 980	R18 640
Directors' fees	R3 110	R800
Entertainment	R2 480	R2 410

The largest fringe benefit is "transport" (a free car). Fifty five percent of chief executives receive a Mercedes Benz. The other 45% have to make do with BMWs, Audis or Cressidas. The average personnel executive gets a Mercedes Benz (47%) or a BMW (29%).

"Recreation" means that the company pays for the executive to belong to an exclusive sports club or "gentlemen's club"! Top executives clearly look after themselves! ☆

Company profile: Tollgate Holdings

Tollgate Holdings, the owner of the Cape Town bus operator City Tramways, has undergone considerable changes over the past two years.

During 1988 the Duros Group, owned and run by a team of high flying banking executives, took control of Tollgate holdings and set about a major reorganisation of the company.

Duros management took advantage of Tollgate's "rich asset base" and bought United Passenger Transport Services for R63 million. This doubled the number of busses owned

by Tollgate.

Duros management then sold Rustenburg Bus Services (part of United Passenger Transport Services) for R39 million to the government-run Bophuthatswana Transport Company.

This purchase and sale earned Tollgate a profit of R30 million and increased its fleet of busses from 1 441 to around 2 300 busses.

Tollgate's touring division, consisting of Springbok Atlas and Greyhound Intercity, has been transformed into a complete leisure company known as Entercor Limited. Entercor now operates various sporting, promotion and film processing businesses.

Apart from Tollgate Holdings, Duros recently purchased Arwa, a major clothing manufacturer, and Gants, a food company. Further reorganisation and expansion of Duros is being predicted by stock market analysts.

In 1988 City Tramways received a massive government subsidy amount-

ing to R35,7 million. This was more than double the 1987 subsidy of R14,1 million.

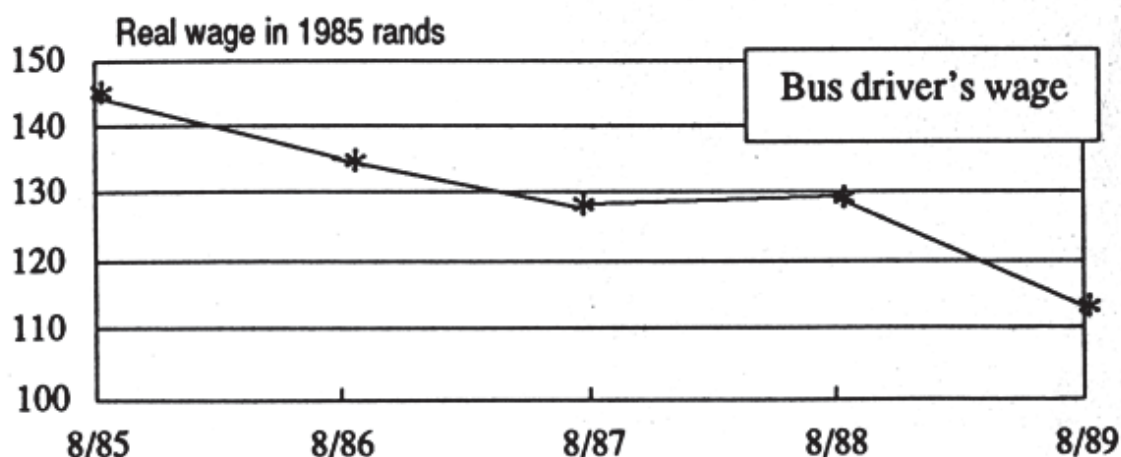
The company claimed this subsidy following a loss of passengers and revenue when the Khayelitsha rail line was opened. This subsidy did not help City Tramways record higher profits in 1988. Its latest financial report shows that profits fell to R4,9 million from the 1987 high of R7,4 million.

Tollgate's profits from all operations in 1988 were, however, at record levels if one takes into account the R30 million earned from the reorganisation of the group.

Over the past few years there has been a major decline in the buying power of wages paid to a City Tramways' bus driver. Between August 1985 and August 1988 the weekly cash wage rose by 36%. During the same period, however, prices rose by 54%.

Drivers now need an increase of 30% to regain the value of their 1985 wage. ☆

A 30% wage increase is needed to restore wage buying power to the 1985 level



Inflation

Consumer Price
Index
(1985=100)

Annual rate
of inflation
(% increase
over 1 year)

Area	Aug 1989	Aug 88 - Aug 89
Cape Town	180,3	15,0%
Port Elizabeth	186,4	16,6%
East London	176,9	14,8%
Durban	172,8	15,8%
Pietermaritzburg	178,3	15,9%
Witwatersrand	183,2	15,5%
Vaal Triangle	177,9	14,8%
Pretoria	191,1	16,4%
Klerksdorp	189,7	13,5%
Bloemfontein	168,3	14,5%
OFS Goldfields	183,2	14,6%
Kimberley	174,3	13,5%
South Africa	181,8	15,5%

Source: Central Statistical Services

Management packages

*Labour Research
Services*

This study of management salaries and benefits will tell you all you need to know about how much the bosses earn.

You can get *your* copy of this study by writing to the Labour Research Service at: P O Box 376, Salt River 7925.