Iscor - rich picking for some

'People's capitalism' has made its debut in South Africa, but the people are not rejoicing. The government's programme of selling off public assets has begun with the sale of Iscor. After privatisation, who owns Iscor? What gains did the government make? What challenges does it raise for workers? CRIC* Privatisation Monitoring Group analyses these issues.

Business gains

In examining business gains, it is necessary to distinguish between ownership and control in public corporations. It is clear what ownership means. But it is not necessary to own a company to control it. It is only necessary to own a part of the company - 50% or even less if there are no other large shareholders.

It is clear that no one company both owns and controls Iscor. In privatising the corporation the state ruled that only 20% of the shares could be owned by any one company or group. But it is also clear that Iscor is now under the control of big business.

If we consider the pattern of shareholding:

Financial institutions	60.7%
Employees: Total	10%
Management	7.5%
Workers	2.5%
Public	8.1%
Industrial Development Corporation (Govt)	16.2%
The State	5%

The majority of Iscor's shares, then, are in the hands of financial institutions. There are over 200 of these institutions. They are a combination of mining houses, pension funds, unit trusts, insurance companies and banks. These institutions are for the most part under the control of the "big seven" monopoly groups: Anglo, Old Mutual/Barlows, Sanlam/Gencor, Liberty, Rembrandt, Anglovaal and

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Ventron. What the government has done, then, is to pass control into the hands of those who already control more than 90% of the Johannesburg Stock Exchange.

In short, Iscor has become part of an interlocking network of control in which the dominant corporations of the country have major shareholdings in subsidiaries, associate companies, and each other. It is likely this will be consolidated in the future, with the shareholdings of the major corporations becoming more direct and greater. Ownership is likely to coincide to a greater degree with control.

The issue of monopoly is relevant in another way. Iscor produces 78% of South African steel, with its nearest competitor being Anglo's Highveld Steel producing 10%-12%. So the steel market in South Africa is clearly under the control of the monopolies. The same monopolies control the industries which use the steel that Iscor makes, such as motor manufacturing, mining, and engineering.

The government has already indicated that it is not going to in tervene in the steel market to counter the effects of monopoly control. Before the privatisation of Iscor, the Competition Board, which is responsible for ensuring that monopolies do not occur, investigated Iscor, and decided that there was no need to break up the company on privatisation. It also did not see a need to regulate the privatised Iscor. The monopolies thus have unlimited access to Iscor's monopoly profits.

Monopoly profits at Iscor

Iscor's profit for 1989 is R812m, a rise of 37% on 1988 profits. Iscor says the massive increases in profits are because of two factors. First, there have been great increases in productivity. In 1989 at least 33% more steel is produced per worker than in 1983. For every rand invested, at least 58% more profit is produced than in 1983, after allowing for the effect of inflation.

But Iscor does not make clear how these productivity increases have been achieved. It follows a harsh process of 'rationalisation' (other parastatals also call it 'commercialisation' or 'corporatisation') to increase profits before privatisation. This has meant closing many plants and using vast resources to install machines to replace workers in those plants that have been kept open.

While wages have increased for those that still have jobs, 23 000 jobs have been lost, which, if we consider families as well, means that over 100 000 people have lost their livelihood. These resources could have been used to create jobs, not destroy them. Profits have risen as jobs have been reduced.

Second, there has been an improvement in the world steel market. Many steel manufacturers have modernised, enabling them to balance supply and demand more easily with more modern, more adaptable technology, and demand in the world market has also begun to grow.

Iscor is likely to continue to increase profits by reducing jobs. Productivity will continue to improve, as capital investment is being increased from the R300m-R500m level of the past few years, to an average of R1bn per year for the next two years. Iscor has said it does not plan to build any new plants for the next 10 years.

Existing plants will simply be 'modernised'. Iscor has refused to give an undertaking that there will be no further job losses. Many more jobs will be lost, for more machines will re place more workers.

Further growth in the world steel market will also increase profits. The world market is expected to continue growing at 1% pa in crude steel, and 5% pa in stainless steel. Iscor already exports 30% of its production, and expects to be able to maintain this, as it produces steel at 30%-50% of the cost of many other steel manufacturers. This of course depends on the effectiveness of sanctions.

The government's gains

The state is benefiting financially from the privatisation of Iscor in at least three ways. First, it has received R3,1bn for the privatisation. The state has said that it is going to use this money to reduce its debt, and to finance its reform and township upgrading programme. The government thus hopes to derive political benefit from the privatisation of Iscor.

This R3,1bn is in addition to the R600 million that it got from the Industrial Development Corporation last year, when it trans ferred shares to the IDC. So the government has made R3.7 billion from selling Iscor.

The government will also, secondly, receive tax from the privatised Iscor. In 1989 this totalled R327m (only R92m was paid in tax in 1988), and should increase by 20% next year and the year thereafter.

The third gain is through its shareholding. The state holds 16% of Iscor through the Industrial Development Corporation, and 5% in its own right, giving a total of 21%. The government will get dividends from Iscor, as will other shareholders. And it might eventually sell its shares, which are worth over R800m.

There are also less direct, non-financial gains. Firstly, the state has removed a commanding height, or key sector of the economy, from state control. This contradicts the Freedom Charter and the Constitutional Guidelines. By doing this the government has limited the ability of a post-apartheid government to transform South Africa's economy without large scale nationalisations.

The state has, secondly, financed its reform and upgrading programmes with R600m of the Iscor money. This will expand its ability to co-opt sections of the black community into the new middle class, thus sowing division. It has, thirdly, increased its chances of getting new loans from the imperialist powers, as it reduces the government debt.

The state and monopolies in alliance

The state's 21%, and its legislative power, will allow it, in conjunction with big business, to influence the policy and activities of Iscor.

In essence, the state and monopolies are in alliance in Iscor. It is in the interests of both that they be bed-fellows. The privatisation of Iscor continues a process of *toenadering* between the government and business that began with the Good Hope Conference in 1979 and has recently been revitalised by FW de Klerk.

Disagreements between the partners in Iscor are likely to be resolved by quiet negotiation, to the mutual advantage of both. A key sector of the economy, which forms a basis of the entire manufacturing sector, has become the scene of a new form of state/monopoly co-operation.

What about the workers?

Workers are excluded. As a grouping, employees received only 10% of the equity share capital. Production workers received only 2.5%, and NUMSA estimates that shop-floor workers received only 1%. This 1%, small as it is, did pose a considerable challenge for the major union, NUMSA.

In essence, the government has made a very serious attempt to bribe workers. The worker's share consisted of three offers. First, workers were offered 200 free shares. The second offer was a chance to buy shares at R1.60, a 20% discount (the quantity depending an job grade). Workers could sell them immediately to anyone else for R2.00 and make at least a 20% profit. The third offer consisted of preferential access to shares (an average of 1500 shares per worker) at the normal issue price of R2.00.

The offer was clearly well thought out. It gave workers no real control of or influence in Iscor, as the shareholding was too small. At the same time it offered workers a large proportion of their monthly salaries - for free. That made the offer hard to ignore.

The experience of the Anglo American share ownership scheme has shown the difficulty of ignoring offers of free shares. In that case, many members took up shares despite the advice of their unions. In Iscor, in effect, the union would be asking workers to throw away R400 or more. On the other hand, the experience of Samcor has shown the difficulty of the union pooling the worker's shares and holding them in a collective trust - in that case workers then demanded dividends from the shares in a highly divisive process.

Strategically, a NUMSA spokesman viewed the ESOP offer as "simply a public relations exercise. It was not a serious offer of par ticipation, but part of a broad strategy of finding ways of blur ring the gap of conflict between management and workers."

NUMSA decided to "stand by the COSATU resolution on ESOPs and look for a strategy to take the money but not the shares", and thus thwart management's attempts to tie the union and its members into share ownership.

NUMSA responded to each of the Iscor offers. In the case of the first offer, the free shares, it advised members to take up the shares and sell them immediately.

For the third offer, the preferential shares, the union arranged with a merchant bank for its member's shares to be bought with a loan of R20m, and sold to the merchant bank straight after list ing on the stock exchange. The money is being held in trust for members who work at Iscor, and forms the core of a strike fund. The profit from the free shares is around R1,5m.

NUMSA had also arranged for the discount shares to be bought by the bank. Iscor's permission was needed, however, and it was refused.

In short, NUMSA has attempted to transform an offer that at tempted to co-opt its membership while not giving them any power in the company. The union response means that its members gain the financial benefit of the free shares. In the case of the preferential share offer, the union response attempts to promote the collective interests of its members.

Details of the collective fund are still to be decided. It is clear that the fund will be used for collective purposes. Possible uses include financing general meetings of Iscor workers, running training courses for shopstewards, paying for Iscor workers to attend the funerals of fellow migrants, and a strike support fund.

The challenge for the union is to run the fund. NUMSA regards the running of the fund (and the running of provident funds) as a training process for the worker trustees involved. It is in the course of the running of the fund that problems will emerge and will have to be dealt with.

Conclusion

The Star's headline on 13 September summed up the morality of privatisation: "Iscor's share issue holds rich pickings for investors". Despite the large bribes being offered, there is no talk about paying workers a decent, living wage - either now or in the future. Management has also pointedly refused to guarantee jobs.

The new owners will be even hungrier for profits than the state has been in the past few years. The "rich pickings" are, as usual, for the rich, while workers will be left to continue gnaw ing on bones. ✰