# JCI

## seeking soft outlets?

*Two gold mines owned by mining house, Johannesburg Consolidated Investments (JCI), are retrenching thousands of workers in the wake of the slide in the gold price.* ***Malcolm Ray*** *asks whether gold's 'melt-down' is masking a trend to exploit new pastures in west Africa.*

Alfius Ramotlou, a mineworker at Randfontein Estates, remembers the afternoon 11 years ago when he visited the Pumlane training centre in Randfontein for a medical examination. As a new recruit, it was compulsory to undergo the test before commencing work. He was advised of his conditions of employment and sent off to work underground.

One day last month, when Ramotlou went to clock in as usual, his clock-card did not register. Bewildered and anxious to join his shift, he approached his supervisor, who advised him to visit the mine training centre for more information.

After working more than a decade in the blinding darkness and deafening noise of the mine shafts, it would be sensible for Ramotlou to return to the centre for an examination. But his employability is not the reason he was summonsed this time round.

When the medical examination is complete, he enters a separate room clutching a document given to him by officials. A group of NUM shaft stewards skim through the document and tell him what benefits he will get when he leaves the mine.

Paralysed with shock, Ramotlou asks whether his comrades have read the document correctly. There is no mistake: he has been retrenched along with 3 000 other workers and 750 contractors.

### Downsizing

NUM shaft steward, Stephen Tsoenyane, explains that in February this year mine management unilaterally decided to 'downsize' the workforce. It subsequently entered into retrenchment negotiations with the union.

Workers were given no warning of the impending crisis. "We were simply told that the mine is the worst performer in JCI and cannot continue to operate at a loss," Tsoentane says. This is despite the fact that management and the NUM had previously agreed to explore alternative options to retrenchment should the need arise.

In June, the NUM declared a dispute and threatened strike action. The union argued that employers have a statutory obligation

to give workers at least six months notice before embarking on retrenchments.

A series of negotiations followed. Tsoenyane says, however, that the reason for the retrenchments was hived off the agenda, making it difficult to investigate ways of saving jobs.

Negotiations pivoted around those wishing to take voluntary retrenchment packages and the severance timetable, instead of avoiding job losses Frustrated union negotiators say retrenchments were clearly a *fait accompli* throughout the talks. They say the company drew them into a "war with JCI" by excluding workers from restructuring plans

Tsoenyane says this state of affairs has been going on for some time: "The company has been pleading bankruptcy for years without providing us with adequate information. Last year 730 workers were retrenched because management claimed they were unproductive. This year, it is the same thing. When is it going to end?"

Unskilled workers like Ramotlou are the most vulnerable. They are unemployable outside the mine and do not have sufficient benefits to support them. "For 11 years of service, Ramotlou will receive less than R8 000. How is he going to support his wife and two children?"

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## Crisis

Randfontien Estates is part of a stable of two mines on the West Rand owned by JCI. Situated in one of the richest gold belts in the country, both mines are nevertheless set to embark on 're-engineering strategies' in the coming months in a bid to off-set falling profits. At the other mine at Westonaria around 3 000 workers will be retrenched as part of the restructuring initiative.

Management cites low labour productivity as the crucial factor JCI spokesperson, Craig Lawrence, says the company is forced to 'rationalise' some of its operations to establish optimal production levels. "The company is faced with aging mines with declining ore reserves, placing the mines' future in a financially and operationally precarious position."

According to *The Financial Mail Gold Quarterly report* (May 1997), JCI's taxed profit has fallen by two-thirds after capital expenditure costs. The company's gold division MD, John Browning, refers specifically to "loss-making shafts and low productivity" as the rationale for rationalising operations at the two mines

Analysts point to an additional, more organic crisis in the industry as a whole. Objective market criteria in determining prices might be a reason for the spate of retrenchments, they argue.

## Capital has no colour

When the NUM declared a dispute with JCI, old comrades faced each other across the class line. JCI's new chair, Mzi Khumalo reportedly spent a few years with NUM's deputy general secretary, Gwede Mantashe, on Robben Island during the dark days of apartheid.

The dispute highlighted the contradictions for black capital, which is investing large sums of money in apartheid's bedrock: gold mining. Imagine Mantashe's surprise when his erstwhile comrade decided that thousands of black workers must go. His response: "We expected more heart from someone like Mzi." But capital has no colour. Mantashe soon realised that his old friend is his new class enemy.

## Labour's loss

Tumbling gold prices have certainly claimed many casualties, with some mines announcing that they will close soon, as well as plans for massive retrenchments. Analysts estimate that as many as 63 000 jobs are threatened. Fourteen mines could close if the current gold price holds.

Industry sources say gold producers are more vulnerable to the vagaries of the international market. Mining barons are confronted by a market which is oversupplied with gold in the wake of the sale of massive reserves by the Australian central bank and the threatened sale of even larger amounts by countries around the world.

As *The Financial Mail* (11/7/97) notes, the impact of falling prices on gold production is unprecedented because production costs are much higher now. Underlying the issue is the iron law of supply and demand. If central banks, which are the depositories of gold, shed more gold onto the market, it will further reduce demand and reduce prices.

The consequences for gold mines will be catastrophic. *The Financial Mail's* Brendan Ryan points out that, as South Africa is the largest gold producer in the world, our companies are most exposed to the vicissitudes of the market. South African mines are also deep level mines, which have the highest costs.

The more optimistic of the analysts believe that the crisis is temporary and will eventually 'even out'. They predict that the gold price will recover when supply once again matches demand. This will still entail a great cost in terms of jobs. The stark truth is that the oversupply of gold on the international market will force a number of high cost producers to close before the gold price reaches its threshold.

The question for JCI and other South African producers is how best to survive the current fall-out in gold production?

## 'Soft' alternatives

JCI and other South African mining giants are reportedly seeking 'soft' alternatives in order to manage the current crisis. The NUM's George Molebatse says the company has adopted a two-pronged strategy: 'hedging', or forward selling its gold before the price hits its threshold and rationalisation and retrenchments.

In effect, this means seeking profitable outlets in countries where future gold output is potentially higher and cheaper to produce. "This has recently been accelerated by several west African countries extending mining rights to foreign investment," he says.

He identifies two major drives in JCI's strategy. The first is new political and economic attitudes in west Africa based on liberalisation and privatisation. The second is new mining technologies that allow previously uneconomic low grade ores to be processed at very low cost. The investment vehicle is usually a joint venture with international mining companies or privatised assets in countries like Mali and

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Ghana The on-off, merger between JCI and the London-based mining house, Lonrho, is a case in point.The intention was to "externalise JCI's assets, without the constraints of exchange controls" (*Finance Week* 9 July 1997). It is believed JCI's stake in Lonrho would have given it access to a stake in Ashanti – the largest gold investor in west Africa – effectively providing a gateway to new golden pastures.

## Second Great Trek

Mineral investment up north is not new to JCI. Sources close to the industry say JCI has been securing fixed assets in west African countries since 1994, coinciding with South Africa's re-entry into the international market.

High cost deep level mines like Westonaria and Randfontien Estates are faced with tough choices: either ensure the future viability of the mine by cutting costs, investing assets outside and improving profit margins and efficiencies, or continue to plunge the company into a high cost-low profit squeeze, resulting in complete closure.

Or is there another way out?

## 'Mining smarter'

Earlier this year, the NUM commissioned geologist Peter Camden-Smith to investigate the viability of Randfontien Estates. He found that waste management at the mine has, in large part, contributed to the current financial and operational crisis

Camden-Smith points out that although mine management is "fully justified in its reasoning and its decision to down-size the mine", the crisis could have been better managed. He says that "poor strategic planning in the past has resulted in the present inflexibility of the mine to meet production costs, break out of its marginal status...and withstand decreasing gold prices."

He concludes that the life of the mine could be extended beyond the projected date of the year 2000 by an additional 20 years, provided management mines smarter and builds investor confidence in viable projects.

Although restructuring will not guarantee economic survival, the report recommends a "new style of workplace management with

the direct involvement of workers in forum type meetings between the NUM and mine management."

His re-engineering plan includes the following proposals:

- Knowledge Forums and Information Centres to be established so that more pro-active planning can take place.
- Transparency and honesty by management through joint decision making with the union.
- NUM should be involved in monitoring planning, with a specific focus on efficiency and development needs.
- Teamwork and the empowerment of workers through training mechanisms and affirmative action programmes should be encouraged. This will benefit all workers.

## Production-linked agreement

The NUM recognises that boosting productivity is the key to the survival of marginal mines. But the options are very narrow.

Room to negotiate wage increases has been undercut by the falling gold price, leaving production-linked wage deals the only option to save the industry.

Driven by the spectres of collapse and job loss, the union and the Chamber of Mines last month agreed to productivity-linked wage increases. The agreement, which is the first of its kind in the sector, links wage increases to productivity enhancement for the next two years.

NUM president, James Motlatsi, sees the deal as a trade-off between the Chamber and the union in the interests of increasing gold production. He says the union has reached a point where it has to apply its mind to the crisis facing the industry.

The NUM hopes that this will preserve current levels of employment. However, as one labour analyst pointed out: "In real terms, the industry would not be increasing investment in wages... It will be distributing a proportionately smaller wage budget among a smaller workforce as a result of downsizing."

## Social plan

The NUM has also proposed a social plan for both Westonaria and Randfontein Estates. Molebatse says his union has already floated the idea of a forum between the union and management on the social plan. "We are suggesting that a trust fund be set up whereby moneys that accrue from selling any asset be allocated to needs that are jointly approved by the NUM and management," he says.

He stresses the importance of retraining retrenched workers to enable them to find employment in other areas of economic activity: "Let's face it, we have a dying gold industry and mining houses bent on business economics not social investment. If the gold price does not pick up soon, the next two years could spell disaster for workers. The future employability and social security of mineworkers cannot be underestimated."

Unfortunately hastily contrived plans to restructure and save jobs might be too late. The industry has already seen around 220 000 workers retrenched over the past five years despite the union agreeing to lower-than-inflation wage increases before 1996. The on-going crisis is unlikely to see a spurt of gold output and labour-absorbing growth. Reserves are depleting rapidly and they cannot be resurrected. Sooner or later may come the further demise of the industry and the loss of thousands more jobs. ★

## References

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