Nestlé workers
chess pieces in a global capitalist game

Nestlé South Africa has embarked on extensive restructuring with resultant job losses. **Kally Forrest** looks at union responses and puts these initiatives in a global context.

IUF booklet on health violations in Nestlé's Sao Paulo Araras plant

"These things come like a bolt out of the blue. You've been working your body to a standstill for 20 years or more, then one day they say it's over. Forget friendship, forget loyalty, forget trust. We were just stepping stones on the way to bigger things." This is how a Nestlé worker reacted after receiving his marching orders from a Nestlé South African factory.

Nestlé, a Swiss multinational, has over the last few years embarked on extensive restructuring of its operations across the globe. This has resulted in widespread retrenchment. South Africa, where the group employs about 5 000 workers, is no exception.

NESTLÉ CLOSURES

Last year Nestlé closed one of its Mpumalanga plants in Bethal. The reason for the closure was not discussed with workers. The plant produced infant foods, which were much in demand. Under pressure to produce more of its products the company reopened four months later. This time, however, all employees were brought back as temporary workers.

At this point the company revealed its restructuring plans. Despite market demand for its products, it intends to relocate its operations early next year. It plans to open a super plant in Harrismith with consequent redundancies in two of its plants.

Hard on this news came a Nestlé announcement that it also intends closing its Standerton plant as some of its lines, such as Maggie Soup, are no longer profitable. Nevertheless, argues the Food & Allied Workers Union (Fawu), other products are profitable so it is logical to keep the plant open and exclude the loss making products. Although the company has offered to relocate some workers, most will not be able to abandon their family homes and move to Harrismith. The new plant will anyway employ only about 120 workers, which will result in at least 100 workers being retrenched.

Nestlé has also announced closure of its entire Pietermaritzburg (PMB) plant. The plant processes cocoa for use in ice cream and chocolate. In recent times the Nestlé chocolate line experienced a fall in sales chiefly because of the inferior cocoa it was importing. Its competitor Cadburys then took a larger market share. In consequence Nestlé sourced better quality cocoa and sales soon picked up. Now it intends to stop processing cocoa and to import the processed product from elsewhere.

The PMB plant is 76 years old and many workers have laboured there over long years. It is one of the biggest plants in the city and so its closure will adversely affect PMB's economy, as is the case in Standerton. The closure of the PMB plant will result in the retrenchment of 11 people in the cocoa department and 200 other workers who are involved in the

Nestlé Russian workers and their families celebrate May Day

manufacturing of chocolate.

The company plans to relocate its PMB operations to its existing East London plant. Again, it has unrealistically offered to transfer some of the workers from the PMB plant to the East London plant. Fawu intends referring this dispute to the CCMA. It will argue that Nestlé sales in KwaZulu Natal are on the increase and moving its operations to East London will incur extra transportation and distribution costs for the company. The union is threatening to strike nationally as it sees no reason for the closure.

RESTRUCTURING SERVICE DIVISION

Nestlé is also restructuring its service divisions in Durban, Johannesburg and Cape Town. These plants manufacture and service coffee machines. The company intends outsourcing these divisions to managers who currently work in them.

Fawu decided not to oppose this initiative. Nevertheless, it wants to force the company to negotiate decent severance packages as employees are running the risk of the outsourced companies going under. The union also wants Nestlé to guarantee that workers' conditions of employment and benefits will be transferred in tact. It intends invoking section 197 of the Labour Relations Act which states that under conditions of sale employees should not emerge worse off and should continue to labour under the same or similar conditions.

In the ice cream division Nestlé intends to outsource sales and distribution. Two years ago the company approached Fawu to outsource their smaller distribution networks with the promise to retain Gauteng, Durban, and Cape Town. Now it plans to outsource these as well, which will result in 161 redundancies. Fawu is challenging the company making an unusual demand.

The union is proposing that the company look at layers of management whose tasks are duplicated in the company. Generally Nestlé does not tamper with management structures. Now Fawu is challenging the company to look at its operations holistically and examine who is doing what. Nestlé has conceded that there is much replication in management structures and that this is costly. The union in response is proposing that a committee be set up to look into the creation of new ways of operating in the future outsourced companies. In Durban and Cape Town former employees have submitted tenders which the company has agreed should be awarded to them. The union aims to identify vacant positions which workers with years of experience could occupy whilst eliminating wasteful and costly managerial positions.

Such an approach has no precedent in South Africa and it is already showing results. Some managers have asked for voluntary retrenchment as they can see the

writing on the wall.

The union also intends to bring Nestlé workers together from across South Africa to continue developing viable alternatives to the restructuring. Fawu is determined to force the company to reflect on its unilateral restructuring plans. The union also aims to link up with the International Union of Foodworkers (IUF), the global union that is conducting a campaign to assist Nestlé workers across the globe.

Nestlé's restructuring of its South African subsidiaries does indeed fall into a global pattern. When *SALB* investigated Nestlé's global operations the company's actions in South Africa took on a new meaning.

FINANCIALISATION OF NESTLÉ

The multinational Nestlé, like other food companies such as Kraft and Unilever, has begun to operate in an entirely new manner. This has important implications for trade unions in South Africa and worldwide.

Nestlé operates in a world where earnings and growth projections are determined by financial market expectations, and not by what the company can achieve in real terms. This may not sound different from what has happened in the past but, as explained below, the differences are quite significant.

Nestlé aims to maximise shareholder value. Put simply management success is measured in terms of increasing returns on capital invested and on shares prices.

This entails the financialisation of management goals. To achieve these targets new tactics are employed to boost quarterly earnings.

As with Kraft and Unilever, the Nestlé model involves extensive job losses through closures, downsizing, casualisation and outsourcing. Outsourcing is a major part of Nestlé's global restructuring plans. All of its 500 plants worldwide are undergoing a process of redefining 'core' versus 'non-core' activities, with resulting non-core work being outsourced.

When Nestlé's announced a profit of US$6.1 billion in February 2006, a 21% increase in earnings over the previous year, Nestlé CEO Brabeck announced increased dividend payouts and another CHF 1 billion (Swiss currency) in share buy-backs.

Nestlé has set up the technological means, particularly IT and quality control systems, to outsource production on a massive scale. With Nestlé's GLOBE Program (global standardisation of data management and information systems), for example, of the 170 plants around the world where GLOBE exists, 83 are Nestlé plants and 87 are co-packing plants – that is third-party contractors.

Nestlé sets up stringent quality control and product specifications with legally binding technical agreements that give management huge powers to oversee every step of production in a third-party operation. Despite this far-reaching managerial control, Nestlé is not the employer of thousands of workers employed by co-packers and other outsourced work. In countries like Indonesia and the Philippines, 70% and 50% of workers employed to manufacture, package and distribute Nestlé products are hired under outsourcing arrangements and are not Nestlé employees.

Nestlé is also part of a growing multinational trend to generate its profits through intangible assets and financial transfers based on intra-firm royalties. This focuses on generating profits through intellectual property rights, or branding rights, as a core global strategy. Nestlé locates its trademarks and patents in its home country Switzerland, and then creates royalty streams that ensure that much of the profits from its outside outlets are repatriated to the Nestlé parent in Switzerland in tax-effective ways.

In the case of Nestlé Australia, for example, a system of intra-firm financial transactions was created to channel a flow of royalty payments back to Nestlé headquarters in Switzerland. By 2000 this system saw flows of more than AUD$50 million annually to Nestlé Switzerland.

One of the consequences of the flow of these intangible monetary assets is that it makes profitability generated through greater productivity less important. Nestlé now generates more profits from its brand name than from workers' producing its goods. For workers this means three things: employment instability; the breakdown of the link between productivity, profit and wages; and accelerated flexibilisation, including growing outsourcing and casualisation.

These power-shifts have redefined the priorities, and logic on which Nestlé decision-making is based. At the workplace level this logic is seen in restructuring and in the changing nature of collective

bargaining. The motivation, logic and material interests underpinning management demands in bargaining have changed. The wages-productivity-profit nexus is broken. Nestlé trade, unions will have to understand this change and its long-term implications for employment security, working conditions and rights. They will need to develop counter-strategies to identify and exploit weaknesses in Nestlé's new way of operating.

This does not mean that plant-level productivity and profitability is not important. The pressure to increase productivity and profit continues, especially in a market of overproduction, retail concentration, and intense competition. Management strategies still need workers to believe there is a strong link between productivity-based performance and employment security and wages. But while everyday productivity increases and profits dictate policies in the workplace, such considerations are becoming less important to larger decisions about restructuring or closure of a workplace. Increased shareholder value can as easily be created through closures and retrenchments as through higher productivity. Closures linked to restructuring can quickly generate cash-flow for dividend payouts and share buybacks.

New forces are driving workplace restructuring that are undermining the foundations of collective bargaining. If restructuring involving job cuts and closures fails to produce the results expected by financial markets (expressed through fund managers and securities analysts), and if shareholder value is not increased in line with these expectations, then workers will face more restructuring, cutbacks and closures. In addition, Nestlé is increasingly outsourcing its production which obviously weakens collective bargaining as unions will have to negotiate with each smaller company where outsourcing takes place.

Financialisation has far reaching impacts on international production systems operated by transnational companies and the workplaces they control. In response unions have to develop a clear understanding of the consequences in each firm, industry or sector, and develop new bargaining and organising strategies. This means a trade union research agenda that addresses the effects of financialisation at all levels – the workplace, the corporation, the national and the international political economy.

CONCLUSION

As explained above Fawu in South Africa is beginning to understand Nestlé's new way of operating. It has played into Nestlé's need to generate cash-flow for dividend payouts and share buybacks. But it has turned this on its head. It has demonstrated to Nestlé that by cutting back on management structures they will free up capital while at the same time workers who understand the job, and cost less, can retain their jobs.

Secondly, Fawu has understood that Nestlé is no longer the prime bargaining partner as it outsources functions to new companies. Fawu sees the outsourced companies as an important area of job creation for workers. By setting up a committee to look into new ways of operating in the outsourced companies, Fawu is aiming to retain members' jobs where they will also have opportunities for advancement.

Fawu is also using any available resources in its current environment to boost its struggle. Thus South African legislation such as the section 197 guidelines on business transfers and institutions like the CCMA are used alongside newer tactics.

This is of course only a beginning in taking on the destructive power of Nestlé's restructuring. The IUF has also launched a campaign to assist unions that do not have the capacity to fight Nestlé initiatives. The IUF's global project includes co-coordinators on every continent who meet twice a year to exchange information and strategise. Shop stewards on different continents also meet annually and in Africa this includes shop stewards from east, west and southern Africa. This combined with tactical moves that a union like Fawu is evolving, holds new hope in the struggle to stem the growing power of multinationals.

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