Privatisation: selling off the public sector

In *Labour Bulletin* 14.3, the COMMUNITY RESOURCE AND INFORMATION CENTRE (CRIC), analysed the current trend towards privatisation and the implications this has for the working class. In this issue, they focus specifically on the potential privatisation of postal services, electricity supply and rail transport.

The post office

The Post Office has been a candidate for privatisation for some time. In March this year, Wim De Villiers, recently appointed to the white Cabinet as Minister for Privatisation, suggested that the management structure of the Post Office should be changed to run more like a business. De Villiers suggests two "profit-seeking, tax-paying business units", one of which would run all the telephones and telex machines, and the other which would run the Post Office Bank and all postal services (*Financial Mail*, 10/3/89).

Part of this plan is to drop "cross-subsidisation". Cross-subsidisation means that the cost of some services are increased in order to pay for those services which are losing money. Ending cross-subsidisation and the introduction of "cost-related tariffs" for each type of service almost certainly means major price increases for most Post Office services. The *Financial Mail* believes "Telephone and postal users face huge tariff increases if government follows the recommendations of the Wim de Villiers report..."

It is calculated that it actually costs

about R10 000 to install one telephone line in the rural areas. In urban areas, it costs only R1 000. Everybody who gets a new phone, rural or urban, now pays only R150,00. If there is a "free market", will people in rural areas ever get phones? And if they do, what will private companies charge them?

For big business, the most controversial part of the de Villiers report is the recommendation that the government does privatise the Post office entirely. In fact, de Villiers suggests "supervisory boards" to run these new business units be set up. De Villiers seems to have made this suggestion so that government can have some control over prices after privatisation. Private manufacturers of telephone and communications equipment have condemned this idea saying: "The proposed supervisory board must not be a government instrument. That is what has been causing the financial mismanagement all along. We totally disagree with any price control and/or service control. The free market must determine price and service levels." (*Financial Mail*, 24/3/89)

Some parts of traditional Post Office work have already been privatised. For example, telephone answering machines and BELTEL terminals have been privatised.

The Post Office has also allowed the private sector to take over some of its functions such as the maintenance of extension line cabling and "peripheral equipment" on private automatic exchanges.

Services the private sector wishes to take over include the following:

- to be able to provide telephones for a long waiting list of potential subscribers;
- to speed up an optic cable-laying programme which is now one year behind schedule;
- to increase the freedom of choice in terms of telephones (such as cordless units) and other telecommunications equipment;
- to increase alternative privately-run communication networks beyond the boundaries of the Post Office premises; and
- the introduction of electronic mail and new technologies.

With the privatisation of certain Post Office services in Britain, many tariff increases occurred. As a result, the demand for these services decreased. This eventually cost thousands of postal workers their jobs (*Financial Mail*, 5/6/87). The privatisation of the Post Office in South Africa, will inevitably result in tariff increases and workers may be facing the same plight.

There are approximately 100 000 people employed by SAPO. Public sector jobs are now going to be opened to "competition and the disciplines of the market place". President Botha said Post Office personnel will "be properly cared for and need not worry about matters such as dismissals, salaries and pensions." (*Financial Mail*, 11/3/88) But the Post Office (like ESCOM and SATS) has become less inclined to subsidise employees as it moves towards privatisation. Pensions and other benefits may well be reduced in time.

Despite public sector claims to the contrary, certain categories of Post Office workers are more vulnerable to dismissals and retrenchments than others. The majority of African and coloured workers employed by the Post Office are *not* in permanent positions. Stoffel Botha announced that only 5 243 of the 28 907 African workers were permanent employees (*Business Day*, 15/3/88). Coloured workers are also vulnerable - only 3 767 of the 12 309 coloured employees are in 'permanent positions'. For white and Indian employees the situation is reversed. Only 90% of white and Indian workers are in 'permanent' positions.

Even though the government is saying that Post Office workers will not have their jobs affected, it may be referring only to those in permanent positions. The majority of African and coloured workers may be vulnerable to retrenchment.

ESCOM

ESCOM, one of the largest companies in South Africa, is also going to be privatised in the next few years. While Iscor and the Post Office are big, ESCOM dwarfs everything else by comparison. According to the 1987 company report, ESCOM's fixed assets stood at R26 970 million, and it spends an incredible R3 750 million on improving and maintaining its equipment. A further R4 207 million was earmarked for capital expenditure in 1988.

ESCOM supplies 94% of all South Africa's electricity. Almost all of Swaziland, Lesotho, Mozambique and Botswana's electricity is provided by the company. The 1987 company report claims that ESCOM is a "world leader" in power-station and transmission technology. ESCOM estimates that industry and business use 56% of electricity consumed in South Africa, the mines 26%, households 14% and the railway system 4%.

All this wonderful service does not come cheaply. The Rand value of electricity sales has been going up regularly by 21,2% per year over the last five years. But the actual amount of electricity sold has only gone up by 5,0%. So ESCOM has been increasing its prices ahead of inflation over the past few years and consequently making a lot of money.

ESCOM is a prime example of a state run company. It is governed by two acts of Parliament: The Electricity Act and the ESCOM Act. Despite this, the company management strongly asserts that it is not a "state-owned corporation", but an "independent, self-financing undertaking". It has no shareholders and is funded entirely through loans and retained earnings.

ESCOM has embarked on a massive process of restructuring and is actively gearing itself up for privatisation. It has established study groups to investigate the various aspects of privatisation. Most of the restructuring of ESCOM has taken place in the name of "efficiency" and "professionalism". In the 1987 Annual Report, John Maree says: "ESCOM is a business in transition... the organisation's top management committed itself to changing ESCOM from a bureaucracy to a professionally managed business undertaking."

The only reason for this is the prospect of privatisation. Maree noted that a restructuring of the corporation would take "years" to complete. However, the first phase was earmarked for 1987. This involved: "initiatives in the areas of decentralisation, tighter financial control, better customer service, staff reduction, improved planning, open communication, equal opportunities and performance management."

Decentralisation means dividing up the corporation's huge assets into "strategic business units" (SBU's). Already ESCOM has been divided into at least 50 such units which "almost operate as independent businesses". However, it seems most of the power stations and distribution facilities are being treated as "independent" units. So too are the corporation's property interests, which are important to its housing programme.

ESCOM is also "mothballing" some of the its older power stations. This is an attempt to solve the corporation's huge problem of over-production. In the 1987 company report, management says: "Spare capacity has given ESCOM the opportunity to phase out the older power stations which are less efficient and more expensive to run." Management has also indicated its intention to delay the construction of new power stations by a few years so as to avoid further over-production.

Workers have already felt the effects of preparing ESCOM for privatisation. Since ESCOM's restructuring started under in 1985, nearly 10 000 jobs have been lost. This is despite the fact that workers' productivity has been increasing all the time. Between 1986 and 1987, electricity sales per worker measured in rand terms, increased by 29,0%, following a 37% increase the previous year!

Yet instead of workers being rewarded, they have suffered huge retrenchments and job losses. The 1987 Annual ESCOM Report shows that the company cleared a profit of R702 million in the course of the year. The Labour Research Service (LRS) have calculated that this is a profit of R80 000 per hour! LRS have also estimated that if ESCOM paid workers each a R500 increase per month across the board, this would cost the company an additional R342 million on its wage bill, leaving it with a tidy R360 million profit. Be it for housing schemes, or simply paying a living wage, there can be little doubt about ESCOM's ability to pay!

But that is not the route ESCOM intends to go. The intended mothballing of 13 power stations, announced in September 1988, but clearly planned from well before, was explained away by ESCOM's management as a necessary measure in line with "economic realities". *Financial Mail* asked: "Why all the fuss? It's a market related move. Its been a private sector rallying call for years that inefficiency and overstaffing in the public sector is costing the country billions of rands. Privatise or reduce staff - preferably both - and we'll all be better off..."

The simple reason for the "fuss" is that this move means the loss of thousands of jobs. Since Maree took over in 1985, ESCOM's workforce has been reduced by more than 14%. If the latest cuts are carried out, ESCOM's payroll will have dropped from 66 000 to about 52 000 in that period. ESCOM and the *Financial Mail* think that the cut-backs are "unavoidable": "If it can operate more efficiently with fewer people and fewer power stations, it must do so. The alternative is to continue subsidising 13 500 unnecessary workers and a handful of uneconomic stations."

The unions faced with these retrenchments - NUMSA and NUM - have pointed out that, while ESCOM complains about oversupply of electricity, most South Africans have no electricity at all. They argue that, instead of closing down power stations and retrenching workers, ESCOM should bring electricity to the townships and the rural areas, so that all can enjoy the benefits of a modern economy. But this of course would not be profitable, and a privatised ESCOM would not condone paying for such a service.

Electricity creation and supply is crucial to development in South Africa. About this, there is little debate.

But development should be about the creation of jobs - not their destruction. Development should also be based on electricity becoming more accessible, not more expensive. The restructuring and eventual privatisation of ESCOM is therefore undermining development in South Africa, rather than advancing it.

SATS

After privatising Iscor this year, the government's next privatisation priority looks to be the South African Transport Service (SATS). Like Iscor, some parts of SATS make very high profits and the private sector is keen to get their hands on these money making enterprises.

But the state is faced with many problems in selling SATS. For example, SATS transports a large number of workers to and from work every day. The apartheid system has increased the costs of this transport by forcing workers to live in townships far away from work. SATS does not make a profit from this service: in 1988 alone, the railway sector of SATS lost R778 million.

The private sector would not be prepared to subsidise this money-losing sector of SATS. On the other hand, workers would not accept increased prices of tickets. Thus the privatisation of SATS must be done very carefully as transport is a hot political issue in South Africa. How is the privatisation of SATS going to work? SATS is made up of a railway system, the harbours, a pipelines network (which transports petrol), airways, and a transport fleet of trucks. Each of these sectors presents challenges for the government.

A strategic monopoly

The first point to note is how big SATS is. It is the second largest state corporation after ESCOM. It is the eighth biggest company in South Africa based on the value of its total assets. These assets - buildings, aircraft, trains etc - are worth over R20 billion, making SATS easily the most developed transport network in Africa. Its size gives it great power in the Southern African region. All neighbouring countries have to rely on South Africa's transport networks, which allows the government to pressurise them politically.

SATS also occupies a very important position in the economy of South Africa itself. It monopolises most areas of the transport industry in South Africa (with the exception of road transport), and controls six of the fifteen largest harbours which serve Southern Africa (Richards Bay, Durban, Saldanha Bay, Port Elizabeth, Cape Town and East London). SATS plays a crucial role in the economy, with almost every product or raw material going through its hands at some stage.

Hiding the profit: SATS is a money spinner

Because of this immense monopoly SATS actually makes a lot of profit - even though their financial reports show that they are losing money. For example, their 1988 report showed an overall loss of R64,4 million. But SATS uses a special accounting system and the figures hide the true situation. If SATS used the same accounting methods as normal commercial firms, then it would have shown a profit of R849m in 1988. This makes it one of the most profitable companies in South Africa, and makes it clear why big business are so keen to get their hands on it.

Cross-subsidisation

So even though SATS may be making a loss on passenger transport (and even this is not clear), these losses are being subsidized by the other sections of SATS which make large profits. This process is called "cross-subsidisation". Cross-subsidisation is due to be stopped very soon in preparation for privatisation. The government has stated that each section of SATS will have to be profitable. This will probably mean that rail fares will go up or that the government will have to pay a direct subsidy to the passenger transport service, like it currently does to Putco for bus services.

The government does appear to be keen to privatise urban passenger transport services at the moment. Main line services, like those between big cities may be sold off, but trains carrying workers daily from townships and bantustans to work are, at this stage, too politically sensitive to sell.

Huge debts

Another point which may slow-down the privatisation of SATS is the very large debt that it has built up over the years. This had climbed to R10,1 billion by the end of March 1988. Forty-seven percent of this debt was in the form of foreign loans, so SATS, by itself has contributed significantly to South Africa's debt crisis. Now that the government is trying to sell the company, who is going to pay back all this money?

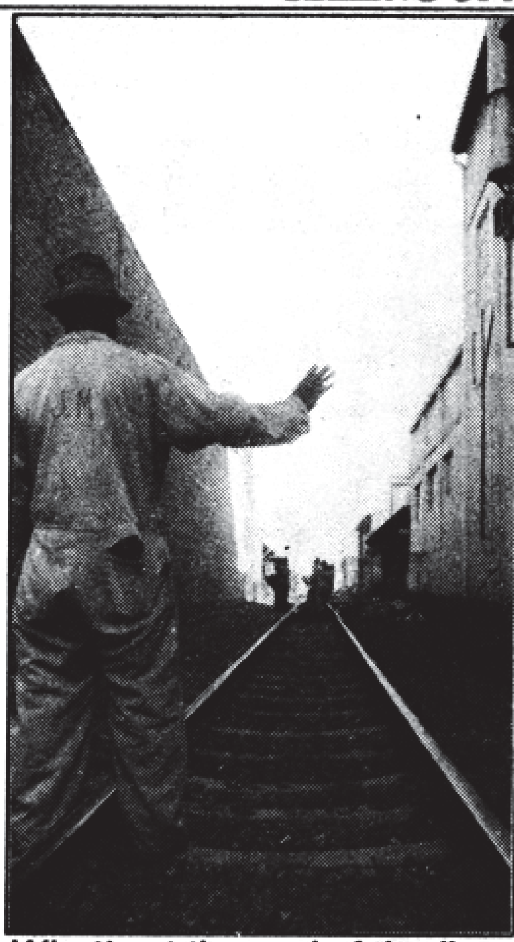
Privatising SATS

The process of preparing SATS for privatisation has been called "corporatisation". In other public sector corporations the process has been called "rationalisation" or "commercialisation". Some of the measures that SATS has taken to prepare for privatisation are:

- The division of SATS in 1988 into five separate "business concerns" and a number of "business units": Railways, Harbours, Airways, Pipelines and Road Transport are the five business concerns, while maintenance workshops and SATS catering are two examples of business units.
- By 1 April 1990 SATS will be divided into two separate companies. One company will handle rail commuter services, while the other will handle mainline trains, airways, harbours, road transport and pipelines. It is this second company that is likely to be privatised.
- The State President has announced that SATS will in future pay company tax.
- SATS has curtailed some "uneconomic" services. For example, dozens of branch lines have been closed, while mainline (Intercity) trains have been reduced by 58%. (Financial Times, 30/11/88 and Business Day, 13/2/89).
- Some assets have already been sold. For example, all SATS assets in Swaziland have been sold. "Air space", the valuable areas above railway tracks might be leased to companies who will put buildings over the tracks. These sales of asset will streamline SATS, and make it more attractive for business.
- Cross-subsidisation of services is being eliminated in a four year programme that began in 1986 and will end next year.
- SATS is looking to the new Regional Service Councils (RSCs) for subsidies for their commuter transport services. This will allow SATS to keep up the expensive business of accommodating the results of apartheid planning which forces workers to live far from their work.
- SATS has indicated that some services will be privatised before SATS itself is privatised. This means that services such as catering might be privatised in the very near future.
- In the field of labour relations SATS last year set up its own "Labour Council" which is to be chaired by Professor Nic Wiehahn. It is the Labour Council that will

decide on recognising unions, negotiating wages and dealing with grievances. Wiehahn has argued the Council will become an Industrial Council in the transport industry as soon as privatisation of this sector becomes a reality.

The new legislation which is going to allow for all these privatisation moves suggests that the tightly controlled Labour Council will only change into an ordinary "Industrial Council" about two years after privatisation takes place. This means some SATS workers might find themselves working for private companies, but still subject to the "Labour Council" now being set up.



What's at the end of the line of privatisation - for workers at SATS, ESCOM and the post office?
Photo: Paul Weinberg/Afrapix

Privatisation and SATS workers

Thus it is full steam ahead for the privatisation of SATS. At the moment benefits for workers are hard to see, and the population as a whole is likely to be faced with higher prices for many basic goods and services. Workers have already seen the number of jobs at SATS plummet as it gets ready for privatisation. Since 1982, 83 051 jobs have been lost at SATS.

The number of employees decreased from 202 770 in March '87 to 192 556 in March '88. This is a reduction of 5% in the number of workers, or 10 204 employees in the last financial year alone.

But the 1987/1988 SATS report denies that this has to do with privatisation. The report says the reduction in staff has taken place through "the natural outflow of personnel" e.g. retirement. If this is true, a number of jobs in SATS have been "frozen". This means that these jobs no longer exist. Is it just a coincidence that the freezing of jobs seems to be taking place in all the state corporations which have been marked for privatisation?

Thus many parts of SATS will be sold to big business in the next five years, with the possible exception of urban commuter train transport. All South Africans need clear answers as to what this is going to mean for our standards of living, and who is really going to benefit from this privatisation. As with all other privatisations, the only winners appear to be big business and the government. ✩