Assessing the effects of disinvestment by US companies

Between 1986 and 1988, some 134 US firms "disinvested" from SA. But anti-apartheid activists and trade unionists are highly critical of the way in which most companies have pulled out. DEBBIE BUDLENDER investigates.

In January 1986, the Coca Cola Company of Atlanta, USA, donated $10 million to establish the Equal Opportunity Foundation (EOF). In mid-1988, the EOF commissioned the Community Agency for Social Enquiry (CASE) to conduct a short research project on disinvestment.

I conducted more than 100 interviews. Most of the interviews were with people from organisations in South Africa or the USA who are fighting apartheid. I also interviewed SA and US spokespeople of eight US companies which have or had South African subsidiaries. One of the main questions in the research was how to assess the response of US companies to calls for disinvestment.

Most of the organisations supported disinvestment and sanctions. They agreed that the chief aim of the disinvestment campaign was to exert pressure on the SA government to force it to negotiate an end to apartheid. A union organiser said that they would also use the threat of disinvestment to force companies to improve conditions. But interviewees also acknowledged that the oppressed may have to endure extreme suffering or pain because of sanctions. Some also were worried about 'inheriting a wasteland' after apartheid goes.

Because of the possible suffering disinvestment could cause, many people said their assessment of a particular company would depend on the strategic or other value of the products, the size of the undertaking, the number and type of workers employed, and to whom the products were sold.

At least 57 of the 114 companies that 'disinvested' between 1 January 1986 and 30 April 1988 still kept some link - licensing, management and technology agreements, loans, product sales, buy-back clauses, etc - with their former SA subsidiary.* Organisations expressed anger about these sham withdrawals. They felt companies had been dishonest in portraying them as disinvestment.

Checklist of demands

The checklist below contains points which organisations wanted companies to comply with when withdrawing from SA. These points came out of the interviews as well as from the written policies of the Chemical Industrial Workers Union (CWIU) and a coalition of five of the main US groups campaigning for disinvestment.

- Management must consult and negotiate with the workers' union and federation, or with workers where there is no union. They must not just announce a fait accompli. Management must supply full information before and during negotiations, and workers must be able to get advice from auditors, lawyers or other professionals.
- Management must provide separation pay, social security, pension or provident funds and trust funds where there is full disinvestment. With partial disinvestment, management must consult workers about changes in the shareholding and the terms offered to those buying the company. The new management must guarantee conditions of employment and continued recognition of the union.
- The company must provide honest and complete information to the public.
- In cases of partial disinvestment, the 'new' company must agree not to do business with homeland or government structures.
- Management must make a public statement which includes political demands. In partial disinvestments, management must state that they will reconsider their presence in South Africa if certain changes do not happen by a specific date.
- The social wealth embodied in the local company - i.e. assets or proceeds of the sale - must remain the property of the oppressed people in the form of plant, profits, a fund, or some other acceptable and negotiated form.
- Where the company establishes a fund, they must negotiate all aspects with the workers and other relevant groups.

* *'Leaving South Africa: The impact of US corporate disinvestment' by Jennifer Kibbe and David Hauck, IRRC, Washington, July 1988, page 24.*

Company case studies

With the above checklist as a guide, we can comment on the actions of four of the eight companies interviewed. The comments show how the guidelines could be applied in specific cases.

Coca Cola

Coca Cola owned shares in Amalgamated Beverage Industries (ABI) and Amalgamated Beverage Canners (ABC), a factory in Durban which produced the secret syrup which makes Coke. Coca Cola provided franchises, management, marketing, and other services to the other bottlers of Coke through Coca Cola Export, which was wholly-owned by Coke.

In 1986, Coke sold its last shares in ABI and moved the syrup factory to Swaziland. Former management of Coca Cola Export established National Beverage Services (NBS). NBS now pays Coke Atlanta (the parent company) for the license to sell its franchises and provide the other services previously provided by Coca Cola Export. NBS also imports the syrup from Swaziland and supplies it to the bottlers.

At the time of withdrawal, an NBS spokesperson said : "....no changes regarding the existing production, manufacturing and distribution through the independent bottler network will occur."* Although 1986 was widely reported as the date of Coke's withdrawal, Coke only sold its final shares in ABC in late 1987. Today, in 1989, we are still drinking Coca Cola in South Africa.

A Coke spokesperson said that the company discussed withdrawal with many people - inside and outside the company, in townships and in rural areas, domestic workers and professional people. Yet the company did not inform or negotiate with its own workers. One interviewee suggested that the company took advantage of the fact that different plants were organised by different unions.

When workers (and researchers!) asked questions about withdrawal, ABI, NBS and Atlanta referred the questioners backwards and forwards and denied knowledge of and/or responsibility for the topic about which questions were being asked. Former managers of Coke said that they were told that only Atlanta could comment on the withdrawal. Atlanta said this was 'to retain orderliness' and to avoid 'communications getting crossed.' A worker said that previously he 'would have died' for Coke. Now he would be happy if they 'became bankrupt'. He said the withdrawal was done in a 'dubious, underhand way', NBS was like a 'secret bureau'. Workers felt that they had still not received full information.

* *'Daily Despatch', 19 September 1986*

Coke has symbolic importance. For many it is the symbol of the United States. Management spoke of their wish to use Coke's good name and trademark 'to make clear to the South African government that they were running out of patience'. Critics feel the fact that Coke is still so visible in SA has the opposite effect. A worker felt that as Coke is probably getting even greater revenue than before, they are 'having their cake, as well as eating it with cherries on'.

Several people said that even before the withdrawal, Coke was not particularly good on social responsibility projects. The African-American Labour Committee (AALC) of the American Federation of Labour (AFL-CIO), said that within the US, Coke was known for its anti-union stance.

At about the same time that Coke withdrew, they donated the $10m to establish the Equal Opportunities Fund. The company said that this donation was not in any way connected with their withdrawal. Workers said that the money used to fund the EOF had been promised to them for houses. Coke workers were given no representation on the Fund, nor was it discussed with them.

Today, Coke Atlanta says that it has no power to influence current working conditions because it does not own the bottling plants. In 1984, however, Atlanta said that it could lay down conditions for its franchiser.* NBS also said that they were able to arrange jobs in ABI for syrup workers who did not want to move to Swaziland or take early retirement.

When Coke withdrew, they arranged an offer of shares to their smaller distributors and to workers. Many, particularly COSATU-affiliated workers, rejected individual ownership, especially because no control was involved. The Soweto Chamber of Commerce also rejected the share offer. They said that they would not "be enticed by 'blood' riches rejected by the unions".**

EXXON

EXXON is the largest American oil company, but for historical reasons, its operations in South Africa have always been much smaller than some of the other big oil companies. When EXXON withdrew from SA, newspapers reported that they handed over all of their assets to a trust. Profits would go to charity. What did this mean?

When EXXON decided to withdraw, there was no local buyer with money available. The company therefore established a trust on the Channel Island of Jersey, New England. It lent the trust the money to buy its SA companies. The trust would repay EXXON from its profits over an undis-

* *'Update: Coca Cola Co.' South African Review Service, IRRC, Washington, June 1984*

** *'Business Day' 8 October 1987.*

Anti-apartheid, pro-disinvestment campaign

Photo: Bill Biggart/Afrapix

closed period. Once the EXXON loan had been paid back, the trust would donate profits to 'SA charities'.

The companies formerly owned by EXXON have been renamed AKTOL and ZENEX. EXXON's products are still being sold by the new companies, which also continue to use existing technology. The withdrawal agreement did not include new technology, but also did not exclude it. EXXON said that they would consider this matter when the time came. AKTOL said the transfer agreement gave 'assurance of imported supplies and continuing access to technology'.*

The off-shore trust agreement offered tax advantages for EXXON. It would be easy for them to milk the trust by making the SA companies pay various high fees to EXXON. This would reduce the amount of distributable profit available for charity.

Channel Island law says that one of the trustees has to be someone with financial skills. At present the EXXON trust consists of three 'persons' - the Channel Island company handling the trust for EXXON, a petrol expert and a financial expert chosen by the regional head office of EXXON in Europe. Once the loan has been repaid, these three will choose the other trustees, with advice from local SA management.

AKTOL and ZENEX supply the South African government. Management would not tell me what percentage of their sales are to the government.

* *'Business Day' 4 May 1987*

Mobil
With us you are Number One.

Mobil

Mobil is the US company with the biggest investment in South Africa. It is one of the main target companies of US anti-apartheid organisations, as a company which 'fuels' the apartheid state, including its army and police force. Mobil is,on the other hand, in the forefront of the campaign against disinvestment. Sal Marzullo, vice-president of Mobil, is chairperson of the Corporate Council, a body formed to advance the anti-disinvestment position. In June 1988, Mobil warned the US government it would sue for $400 million, which is the value of its SA assets, if it were forced through the Dellums Bill to leave.

Mobil was the only one of the eight companies in the United States that would not give me an interview. Marzullo's assistant said that Marzullo was very busy campaigning against the Dellums Bill. He was 'too busy even to go to a banquet'. SA management said that Mobil was worried about losing control over what was said about Mobil as this 'does damage in the market-place.'

Mobil established its own charitable foundation with $20m to be spent over 5 years. Only 14 of the 23 trustees are black. Three are Mobil people. A former employee of the foundation said it acted independently of management - somewhat to Mobil's surprise. But both management and the foundation's own documents said Mobil and the foundation work very closely together.

The foundation counts towards Mobil's fulfilment of the Sullivan principles. A large proportion of the money is tax-deductible. An AALC spokesperson said that Mobil had 'no concept' of social responsibility in the US and their SA expenditure was therefore obviously a camouflage.

Mobil also has a smaller internal fund, from which employees can request small grants for 'non-political' community projects. The committee which decides on grants consists of employees. The company advertised for members of the committee on the company notice boards. CWIU has organised several of the bigger Mobil plants. Mobil said that union people were 'free to be involved' on the committee, but on the same individual basis as any other workers.

Steiner Company

Steiner, a private, family-owned linen and laundry business, has its headquarters in Salt Lake City, USA. The company employs a total of between 7,500 and 8,000 people world-wide. Steiner is private and therefore not subject to shareholder pressure and keeps a very low profile. Yet by May 1988, it employed 2,500 people in eight different plants within South Africa.

I interviewed several Steiner workers on Friday 1 July. The same day I received a call from Steiner head office to say they had sold their SA subsidiary the previous day. At that stage, neither the Transport and General Workers Union (TGWU) - which had a recognition agreement with the firm - nor the workers were aware of the withdrawal. Later in July, Steiner assured me workers had been told about the withdrawal on Monday 4 July. In mid-August, the union organiser said the union and workers had still not been informed.

Steiner said they had disinvested because of mounting pressure of various sorts and the threat of more pressure to come. Even the conservative local students in Salt Lake City had taken up the South African issue. They had, for example, built squatter shanties on the campus as an anti-apartheid demonstration.

Steiner did not sign the Sullivan code. They paid wages below those laid down by the US State Department. Steiner explained the low wages by the chiefly unskilled nature of the workforce. He said they paid wages 15 to 30% higher than their competitors and at the level demanded by the union.

Steiner workers' wages were the lowest of all factories organised by TGWU. Union lists show that the overwhelming majority of their members were earning the minimum wage - about R62 per week. The union rate mentioned by Steiner was the Industrial Council rate agreed upon by a previous, more conservative union. Workers had deserted this union to join the TGWU, but had not yet re-negotiated wages. Steiner only recognised TGWU after lengthy battles involving victimisation and a strike.

The local financial manager said that Steiner had no social responsibility programme. Steiner head office reported small-scale funding of a local school. Both they and the workers said that the company refunds fees to successful night school students.

Opponents of disinvestment argue that US managements in general are more progressive in their handling of workers. The particular experience of Steiner tells them differently.

Conclusion

This research highlights the complexity of disinvestment. The checklist is only a guideline to what is ideal. Unionists from both COSATU and NACTU said that checklists could not provide a quick answer. It is unlikely that any companies will act in a completely ideal manner. Companies exist to make profits and not to take part in the struggle for a new South Africa. But, while understanding this, interviewees felt that most companies could have been more honest, both with their workers and the public, and should have been involved in much more negotiation. ☆

Note: this article is based on a longer report written for CASE (see the advert on page 96)

American disinvestment and unemployment

Many businessmen argue that disinvestment causes job losses and hardship to black workers. MIKE SARAKINSKY argues that this is not the case.

In *The Star* of 10 January 1989, ("Thousands lose jobs because of sanctions"), Mr Adrian Botha, the Executive Director of the American Chamber of Commerce (AMCHAM), claimed that between 8,000 and 10,000 people, "mainly black", lost their jobs or were retrenched because of the withdrawal of American companies from South Africa in 1988. Mr Botha has pointed out that he was misquoted, and that he actually said these losses occurred between 1984 and 1988. In any event, Mr Botha's claims are extremely questionable.

Disinvestment may take, broadly speaking, two forms. Firstly the foreign company may close the plant completely and withdraw all financial assets, machinery, technology, etc. Secondly, the foreign company may sell the plant, including all the assets, to another company. Only the first form of disinvestment involves a necessary loss of jobs. In the second form of disinvestment the plant continues to operate under a new owner, so there should be no loss of jobs.

More American companies have disinvested than companies from other countries. Some of them began withdrawing before the sanctions/disinvestment campaign intensified in 1986. This suggests that many foreign companies were already questioning their South African investment on

Unemployment - not caused by disinvestment

Photo: Anna Zieminski/Afrapix

economic grounds before the sanctions and disinvestment campaign got off the ground. According to the AMCHAM, 47 American companies left South Africa in 1984 and 1985, with another fifty leaving in the course of 1986.[1] Similarly the value of British company investments in South Africa fell from a high of approximately £300 million in 1983 to about £100 million in 1986 as British companies began to reduce their holdings in South Africa or to leave completely. Clearly many foreign companies were questioning the long term profitability of investing in South Africa because of the economic crisis in the country. Yet no one expressed concern over the fate of the workers affected by this spate of disinvestment.

Contrary to the claims of the anti-disinvestment lobby, the current wave of disinvestment has had very little effect on the level of unemployment because it has seldom meant the complete closure of the operation. Usually it has simply meant a transfer of ownership. Very few American companies have actually closed down their operations completely, and those that have, tend to be small-scale employers. Thus, according to Investor Responsibility Research Centre (IRRC), of the 114 American companies that withdrew between the beginning of 1986 and mid-1988, only 13 closed down their operations completely. Much more common has been the sale of the company. This has meant that jobs were retained in the remaining 101 companies which sold their assets.

Only 1,000 jobs lost

The IRRC report calculates that just over 1,000 workers were employed in the 13 factories that closed down completely.[2] This means that little more than 1,000 jobs had been lost as a direct result of American disinvestment up to mid-1988. The IRRC had employment figures for 106 of the 114 companies concerned. Although 12% of the companies closed down completely, the workforce in those companies represents only 3% of the total workforce in the 106 companies which disinvested. This demonstrates quite clearly that, at least as far as American disinvestment is concerned, disinvestment has had only a negligible effect on unemployment.

While the number of companies apparently withdrawing from South Africa looks significant, most of these companies have found indirect ways of retaining access to the South African market while simultaneously continuing to provide the country with the commodities and technology it needs.

The IRRC Report showed that 50% of American companies that have left South Africa since 1986 "retain a contract, or a licensing, distribution, technological, trademark or franchise agreement with a company in South Africa".[3]

A more recent report by the IRRC shows that in total 132 American companies had left by the end of 1988.[4] This means that 18 companies disinvested between mid-1988 and the end of 1988. If Mr. Botha's claim that 8,000 workers had lost their jobs because of disinvestment were true, then 7,000 jobs must have been lost through the disinvestment of these 18 companies. This is impossible, unless a number of them completely closed down their operations and they were extremely large employers. Mr. Botha himself, however, discounts this possibility by saying that most of the disinvesting companies "were either sold to local interests or to other international companies".

How can Mr. Botha claim that between 8,000 and 10,000 blacks lost their jobs as a direct result of American disinvestment? What happens very often is that the new owners and managers of companies bought from foreign companies which have disinvested from South Africa engage in a process of "rationalisation" involving changes to the labour process, the introduction of new technology and retrenchments. This has happened for example at Ford and General Motors.

Retrenchment to blame, not disinvestment

"Rationalisation" is separate from disinvestment and it is the rationalisations which create the unemployment, not the disinvestment. It may well be the case that over 8,000 people employed by companies which disinvested from South Africa lost their jobs. But the evidence suggests that it was not disinvestment which caused them to lose their jobs, but rather the rationalisations. In fact Mr. Botha has since acknowledged this to be the case.[5]

"Rationalisations" have been occurring long before the current upsurge in the sanctions and disinvestment campaigns, and should not be seen as a necessary outcome of disinvestment. Decisions regarding retrenchment made by the new owners are a separate issue from the decision made by the American owners to sell the company.

The South African economy has not only been unable to create jobs throughout the 1980's, but it has also been actively destroying jobs. It is significant that this has been the trend since long before the sanctions and disinvestment campaign intensified in mid-1986. Between 1981 and 1985, 181,634 African jobs were lost across all sectors of the economy, excluding the "independent" bantustans, agriculture and domestic service. This contributed to the overall level of African unemployment of over 6 million by 1986.[6] Since the early 1980's, investment has increasingly been speculative. Investors have bought existing shares on the stock market or have made loans to existing companies rather than opening new factories or starting new businesses. What direct investment has occurred has been largely capital intensive[7], that is, it is investment in sophisticated technology which creates few jobs or even leads to retrenchments.

Even if we accept Mr. Botha's figure of 10,000 job losses, when we compare this to the increase in unemployment that has occurred since 1984, which is approximately 1 million[8], then we see that 10,000 is only about 1%. Disinvestment has thus contributed almost nothing to unemployment.

Mr. Botha's claims do not emerge in a vacuum. One of the favourite arguments against disinvestment is that it creates unemployment and therefore, insofar as pressurising the government into moving away from apartheid is concerned, it is counterproductive and deals the most harm to those it is meant to help, i.e. blacks. However, Mr. Botha is engaging in sleight of hand. He simply lumps together the two processes of rationalisation and disinvestment and claims that *disinvestment* is responsible for the loss of jobs. ☆

References

1. Adrian Botha, Executive Director of AMCHAM, personal communication, Feb. 1988.
2. Kibbe & Hauck: "Leaving South Africa: The Impact of US Corporate Disinvestment", IRRC, Washington, July 1988, p. 50.
3. Kibbe & hauck, pp. 20.
4. Quoted in the Sunday Times Business Times, 15/1/89, "Heat comes off as exodus from SA slows".
5. Personal communication, 18 Jan 1988.
6. Sarakinsky and J Keenan, "Unemployment in South Africa", South African Labour Bulletin, Volume 12 Number 1, November/December 1986.
7. See any edition of the Reserve Bank Quarterly Report after 1987 for figures which cover most of the preceding years throughout the 1980's.
8. This is calculated by adding or subtracting the number of jobs destroyed or created over the period to/from the 250,000 new job seekers entering the job market each year.