The Iscor share offer: Supping with the devil

Iscor's privatisation and its share offer to workers present a new challenge to unions. A more concerted strategy is needed to give content to union resolutions on the issues, argues **CAROLE COOPER.**

The Star

Iscor goes private - meaning shares can now be bought through the Johannesburg Stock Exchange

'He who sups with the devil needs a long spoon.'

This saying crystallises the dilemma facing the trade union movement over the privatisation of Iscor.

The privatisation has drawn attention to union strategies on two interlinked issues: privatisation itself, and employee share ownership programmes (esops).

The reasons for the state's decision to privatise are not hard to find. After dragging its heels on the issue for years - much to the impatience of a private sector keen to find new avenues of expansion - the government embarked on the privatisation of Iscor with surprising speed.

Its most compelling reason was its need to get more money to reduce its public debt, which stood at about R67-billion in 1988. Reducing this debt would also have the spin-off effect of reducing the costs of servicing the debt. At the same time money would be released for the funding of infrastructural projects which form part of its reform programme.

Other reasons for the privatisation thrust are the state's need to reduce public expenditure (running at 30% of gross domestic product - a measure of the value of the country's total production and services - last year) and its perception that privatisation would improve the efficiency of state-controlled corporations and services.

But the reasons are not only economic. Pretoria's efforts to depoliticise issues such as housing, education, transport and labour is an important factor in its decision to privatise - as is its concern to prevent these services and strategic corporations from falling into the hands of a post-liberation government.

A variety of strategies are open to the government in privatising its privatisable assets - estimated by the Free Market Foundation at R300-billion. Briefly stated the government can:

* sell all its shares in a corporation;

* sell only some, thus retaining a controlling interest while benefitting from the expertise of the private sector;

* retain some to be sold at a later date; or

* place certain of the functions out on tender while still retaining full control of the company.

It can also choose to sell the company off as a single unit, as in the case of Iscor, or divide it into smaller sections - as it intends to do with the Post Office and the South African Transport Services (Sats).

This latter strategy has a strong following among proponents of privatisation who see the sale of companies in separate sections as encouraging competition and thus efficiency.

But while benefitting capital and the state, privatisation means added hardship for workers.

It is usually accompanied by rationalisation, leading to job losses and increased unemployment.

And if the British experience is anything to go by, it also means an increase in the cost of services.

And the selling off of companies in separate divisions undermines national bargaining, thus weakening unions.

It was not by chance that the state chose Iscor for its first major privatisation initiative since the sale of Sasol in 1979. It is the most successful of the 'big four' due to be privatised - the others are Eskom, the Post Office and Sats.

In the 1988/89 financial year, Iscor's income before financing charges and taxation amounted to R1 196-million on turnover of R5 952-million - an increase of 51% and 23% respectively over previous year's figures of R794-million and R4 820-million. Profit attributable to shareholders (the government and the Industrial Development

Corporation) rose from R593-million in 1987/88 to R812-million in 1988/89, an increase of almost 37%.

Iscor claims to be the 16th largest steel-making company in the world, and produces 73% of steel for the internal market. But preparing Iscor for privatisation has also meant a rationalisation of production, leading to job cuts.

The company's workforce stands at 58 000, compared to 79 000 in 1985.

As a prelude to privatisation, rationalisation has also occurred at the other three companies, no doubt with the intention of making them more productive and attractive to investors.

From the outset, Iscor stressed that it wanted to avert a takeover by the major corporations. A wide share ownership was envisaged that would give the general public, as well as Iscor employees, a chance to take advantage of the offer. The share offer to employees comprised 185-million shares, 10% of the 1,85-billion share offer. Those allocated to the general public amounted to 150-million (8,11%).

Institutions, by contrast, were allocated 1 215-million (65,68%) and the Industrial Development Corporation (IDC) 300-million (16,22%).

The Congress of SA Trade Unions (Cosatu) has strongly opposed the strategy of privatisation. At its July congress it adopted a resolution which noted that 'privatisation is the selling of people's property to the private sector which this government has no right to do'. It resolved that: 'A call be made to people to unite, resist and fight privatisation; that Cosatu and the entire democratic movement initiate a campaign to educate the people about the effects of privatisation; and that the Mass Democratic Movement initiate a campaign to stop foreign capital from buying people's assets from the racist government.' The sale of Iscor has been strongly criticised by the unions, especially the National Union of Metalworkers of South Africa (Numsa), which represents 9 500 of Iscor's 58 000 workers, and the National Union of Mineworkers (NUM) which has 2 000 members at three Iscor mines. Both are Cosatu affiliates.

One of their key complaints is that Iscor is 'selling off the nation's wealth cheaply to major business interests'. According to Numsa, 'this sale of the wealth of our nation, created through the taxes of the people and the efforts of the workers, will give the people's wealth to private individuals and will end up very soon as yet one more area of domination by the small number of monopoly corporations which already control South Africa's economy'.

'If the share price is R2, the asset value of the company will be undervalued by some R1,5-billion. In addition, steel companies at present quoted in the steel industry sector of the Johannesburg Stock Exchange are selling at a premium of between 150% and 800% over asset value'.

Purchasers, the union argued, would obtain an immediate windfall. The union has also attacked the assumption that privatisation automatically means greater efficiency. Its stand is borne out by a recent survey on privatisation in Margaret Thatcher's Britain.

The authors of *'Does Privatisation Work? Lessons from the UK'* find that privatised firms, judged on several measures - including their total factor productivity - have not done noticably better than those enterprises still owned by the state. For example, between 1983 and 1988 British Steel's productivity grew fastest (by 12,4% a year), while that of British Telecom, flagship of privatisation, managed just 2,5%.

The authors argue that the performance of both privatised and state-owned firms is so similar because they have undergone the same changes in management culture, and now have clear

How Iscor offered shares to its workers

Under the Iscor share offer, unskilled and semi-skilled (blue collar) employees were offered a three-pronged package:

*** 200 free shares each.**

*** 1 000 shares each at 20% discount.**

*** 1 500 preferential shares at the offer price of R2 a share.**

Workers could defer taking up the discount offer and the shares would become available again in 1991 - but at the market price, not the offer price.

A deferred payment plan was also available to workers taking up the discount offer. Iscor would lend workers the money, which would be paid off in equal monthly instalments, interest free. No dividends would be received and the shares could not be sold until they were fully paid off.

Numsa questioned the way shares were divided between different grades of employees.

The company has refused to say what proportion will go to different grades, and the union speculates that 'using reasonable assumptions based on wage differentials, black employees will be allocated about 1% of the shares, white production workers about 2% and management about 7,5%.'

Numsa in fact claims that management was banking on black workers not having any money to take up the preferential and discount offers. Iscor's privatisations unit denied Numsa's claim that share were weighted in favour of white-collar workers, saying that white-collar workers had taken up 7-million free and discount shares compared to 47-million by blue-collar workers.

But far fewer blue-collar workers had taken up the discount offer - only 57% as against 95% in the white-collar category - indicating the merit of union claims that black workers cannot afford the discount shares. Iscor would not release the figures on the total allocation nor on the preferential applications.

market principles.

Market principles are seen as underlying Iscor's remarkable success. According to Iscor MD Willem van Wyk: 'There is no reason for the state to continue to retain control of Iscor ... it has been run and managed successfully as a private company'. And according to company chairman Marius de Waal, three separate investigations into the privatisation of Iscor - one at the request of the Minister for Administration and Privatisation; a second by the Iscor's merchant bank, Senbank; and a third by Finansbank, in its capacity as merchant bank to the state for Iscor's listing - all highlighted Iscor's private sector orientation; its financial soundness and profitabliity; its ability to generate funds for capital replacement, redevelopment and to pay dividends; and the advantage of retaining Iscor as one entity.

If the company is being run so efficiently, why the need to privatise? asks Numsa.

The point is, of course, that efficiency is not the main reason for the state's privatisation thrust - revenue is. When talking of efficiency, it is worth asking 'efficient for whom?' Who will the profits of efficiency and competition go to?

Not to the financing of housing, health care and services for the mass of the population. Instead, it is likely that services for these people will be rationalised and become even more expensive.

The concept of employee share ownership is increasingly becoming a favoured strategy of management. Esops are seen as an important way of winning workers over to capitalism. Giving workers a stake in the ownership of companies - an argument pushed strongly by Anglo American - will convince workers of the virtue of capitalism, make them query socialism, and show them that apartheid and capitalism do not necessarily go hand in hand.

By giving workers a stake in the company and paying them dividends, capital hopes to persuade them to work harder and strike less.

Numsa's Adrienne Bird has also argued that one of the main thrusts behind esops is that 'they form a sophisticated component of a wider strategy to weaken collective bargaining for a living wage'.

In other words, management hopes to influence worker shareowners to curb wage demands in the interests of future investments.

No doubt this influenced Iscor in offering shares to workers. Equally important is the state's desire to allay employees' fears about privatisation and win support for further privatisation - to make people feel part of the process.

Esops have also received strong opposition from the unions. Says Cosatu general secretary Jay Naidoo: 'We are essentially opposed to the idea. Fundamental issues must be redressed first. We're struggling for a living wage, let alone considering buying shares, which are seen as perpetuating inequality.

'Equity participation does not redress the fundamental inequalities in South African society and certainly won't resolve the country's unemployment crisis. This will require a restructuring of the economy.'

The shortcomings of esops for workers are apparent from the Iscor offer.

The stake in the company offered to black workers is so small that it would not give them a real say in company policy, nor would it lead to a significant redistribution of wealth in their hands. Workers are entitled to only 10% of the share offer as compared with 65,68% for institutions. Despite the restriction on a single investor or group of investors from holding more than 20% of the shares, Numsa argues that wealth will be concentrated in the hands of a few companies.

And the percentage of smaller investors will diminish through stagging - a process whereby large companies buy up the shares of smaller shareholders.

The limitations of esops are also highlighted by Iscor's lack of consultation with workers and their unions over the share offer. Iscor management strongly defended its right not to consult unions, arguing that privatisation was not a management matter - it was the decision of the government, the major shareholder.

A privatisation unit spokesman argued that any share offer was made unilaterally. It was up to the potential buyer, in this case each employee, to decide whether to accept it.

But despite an understanding of the limitations of participation in share ownership schemes, Numsa chose to urge its members to take advantage of the Iscor share offer.

Why?

Numsa's experiences with esops have been problematic. The pitfalls of participation were shown in the Samcor case, where workers demanded that dividends from shares, placed in a trust on their behalf, be paid directly to them rather than used for community projects.

The dangers of a hands-off approach,

Anna Zieminski, Afrapix

Numsa members at Iscor: Mandated the union to apply for shares

says the union, were highlighted by the Anglo offer. Here the union urged workers not to take up the offer - largely unsuccessfully. Numsa stresses that workers can turn against the union when they compare their position with other workers who have accepted shares and who in the longer term will benefit monetarily.

Initially the union decided to oppose the Iscor offer, and discussions with workers revealed that they were reluctant to participate.

The union changed its mind after it was approached by Rand Merchant Bank (RMB) which offered Numsa members loans for the purpose of taking up the discount and preferential shares at interest of the prime overdraft rate plus 1%. RMB would charge a flat underwriting fee of 2,5% on the loan amount to cover brokerage, administration costs and costs of hedging against market risk.

This would amount to R2,085 a share as opposed to the offer price of R2. The underwriting of the loan meant that the workers would not lose money in the event of a drop in the share price. Numsa convinced workers to accept the loan offer.

Workers signed a mandate giving Numsa the right to apply for the shares, using the loan offered by RMB, and to sell them on their behalf.

The union was not required to sell the shares to RMB, and was in the process of negotiating a deal with the Metal Industries Pension Fund. The mandate also authorised Numsa to receive any surplus in excess of the bridging finance and underwriting charges and to invest this in a trust fund for the benefit of Iscor members.

Workers agreed that they had no claim on the surplus, trust or any earnings in the trust unless they left Iscor or the trust was liquidated.

In that case, the trustees, who would be union members at Iscor, would have absolute discretion to reimburse Iscor workers a share of the trust.

The use of money in the trust would be decided by workers collectively. According to the union, it would be used for collective action, such as a strike fund.

Anna Zieminski, Afrapix

Iscor workers: Offered a shares 'package' when the company was privatised

Although the RMB offer was initially designed to cover both the preferential and discount shares, it proved administratively too difficult to organise the funding of the discount offer. The union had only one week in which to get the workers to sign the forms.

On the free shares, workers agreed to take up the offer and then give instructions for their immediate sale. The income from this, the union said, was money which the workers regarded as their own.

A total of 4 800 workers, about half of Numsa's members at Iscor, signed the preferential share offer. No details were available as WIP went to print on how many Numsa members took up the free and discount share offers.

But according to the privatisation unit, more than 86% of Iscor employees took up the free share offer, and 58% of the 58 000 workforce had applied for 50-million of the 70-million shares available on the discount offer.

Numsa says its decision was not ideal - but that the best thing it could do was to take a principled stand and use the opportunity to educate workers about share ownership. It expected to avoid the problems of the Samcor scheme as workers would sell their shares immediately and the trust would hold money and not shares on behalf of the workers.

Another consideration, it argued, was that the Inkatha-linked United Workers' Union of South Africa (Uwusa) organises in many of the same factories and has no scruples about share ownership. There was a real fear that Numsa members, if encouraged to adopt a hands-off approach, would feel disgruntled and that this would undermine the union's strength.

NUM, on the other hand, refused to accept the share offer.

According to NUM's Jerry Majatladi, the union expects workers to abide by a congress resolution rejecting esops, and that they would not participate in any aspect of the scheme.

'It is a matter of principle. We believe it is impossible to negotiate for decent wages and working conditions while also being shareholders in a company', he says.

Unions have recognised that there is little benefit in privatisation for most workers.

The picture becomes more complicated where privatisation is accompanied by esops, as in the case of Iscor. umsa and NUM have adopted different strategies towards the Iscor offer.

NUM's principled hands-off approach seems the more logical given union recognition that esops distract from more fundamental issues rather than leading to any real worker control. But it should be recalled that NUM members took advantage of the Anglo share offer.

Numsa, in participating in the Iscor share offer, does so both in the face of its own reservations about such schemes and the Cosatu resolution. While acknowledging that its stand on the share offer is not ideal, it hopes that the immediate sale of the shares will avert the problems which arose at Samcor.