

LRS47/ASSMANG 19.8.87

LABOUR RESEARCH SERVICE

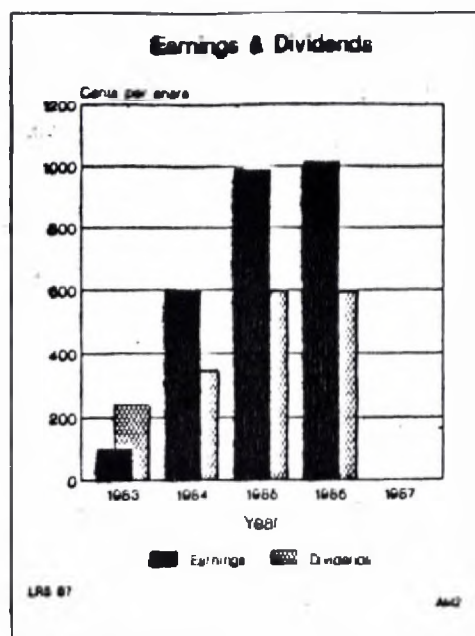
Associated Manganese Mines
of SA Ltd

Bargaining Report for the
National Union of Mineworkers

19 August 1987

SUMMARY

1. Prices are increasing very fast at present. All consumer prices are increasing at about 17% per year; food prices today are more than 25% above their level a year ago. The new wage rates thus need to be at least 17% to 25% higher than in July 1986.
2. Assmang is a very wealthy company that is an extremely profitable investment for its owners. Just since 1985, the value of the company for the shareholders has gone up from R494 million to R780 million.



For every rand earned by Assmang - when it sells manganese, iron and ferro-manganese - thirty one cents is profit.

The graph on the left shows how the dividends and earnings of the company have increased since 1983.

The operating profit of Assmang for last year was R75 million. It has the ability to pay a living wage to every one of its workers.

2. While the company easily has the money to pay big wage increases, the union must be aware that profits from mining operations are no longer increasing. In fact in 1986 the profits from ore sales decreased by about 25% compared with 1985. This was mainly due to far lower sales of iron ore, manganese sales increased slightly. But the manganese price has been going down in recent times because of the decline in the world steel trade and an oversupply of manganese on the world market. Assmang is therefore unlikely to be sensitive to strike action.

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1. INTRODUCTION

The Associated Manganese Mines of SA Ltd (called Assmang in this report) mine manganese and iron in the Northern Cape. This report is to assist the union in the first ever wage negotiations with this company. The union has 800 members in the mines at Black Rock, Gloria, Beeshoek and Kuruman.

No information is presently available on the current wage rates for the workers. They ordinarily work a 48 hour, 5 day week at 9,6 hours per day. In 1986 a very small wage rise was given.

Negotiations will begin on Monday 24 August for wages for the year July 1987 to July 1988.

2. INFLATION

Prices in South Africa are rising very fast at present. These price rises mean that workers can buy less with each rand they earn. The minimum demand of any union in these conditions is the following:

The wage rise must at least make up for all the price rises that have faced the workers. If prices go up by 20% in a year, then the minimum wage increase the workers deserve is 20%, every year.

The government's Central Statistical Services publishes information every month that allows us to measure how fast prices are rising.

At present the annual rate of inflation, as measured by the Consumer Price Index, is about 17%. This covers prices of food, clothing, housing, transport etc. But the prices of foods are going up even faster. Between May 1986 and May 1987, food prices rose on average by 25,8%.

Workers spend a bigger part of their wages on food than rich people, so food price rises affect them more. At present, therefore, the Labour Research Service guideline for a minimum wage increase is 20%.

An increase of 20% will only make up for the past effects of price increases on wages. It is not enough for a proper increase in the buying power of workers' wages. For the buying power of wages to increase, the wage demand must be above 20%.

This is also necessary for the living standards of workers to increase and for the wages to move towards a "living wage".

A 20% increase sounds like a lot. But it is not. Prices rise so fast that they steal back from the workers the value of a wage rise that is less than 20%. This is why the wage rise should be higher than 20%.

How to calculate a 20% increase:

For example, if a worker gets R285 per month, a 20% increase is R57.
($285 \times 20\%$). The new wage must be R342 ($285 + 57$)

Or, a quick way to find the new wage is just to multiply by 1.20.
 $285 \times 1.20 = 342$!

3. POVERTY DATUM LINES AND THE LIVING WAGE

The trade union movement rejects the starvation wages that are set by Poverty Datum Lines. But in many cases these levels are above what workers are being paid.

Supplemented Living Level - February 1987
(Average Black Family)

| | |
|----------------|-------------------|
| Kimberley | R460,76 per month |
| Average for SA | R545,64 per month |

These estimates do not provide for a "living wage" but for "a modest low level standard of living" (University of SA, Bureau of Market Research, Research Report 138, 1987 pages 1,9,10)

In 1987, NUM, NUMSA and COSATU have led the trade union movement in a campaign to demand a living wage from the bosses. NUMSA has set a demand of R4 per hour (R832 per month on a 48 hour week), the COSATU congress set a demand for 1987/8 of R4.50 per hour (R935 per month on a 48 hour week).

The Labour Research Service estimate of a living wage for 1987 is R850 per month.

COMPANY PROFILE: The Associated Manganese Mines of SA Limited

Assmang is the second largest producer of manganese ore in SA. (The largest is Samancor.) Assmang also mines iron ore. All the mines are in the Northern Cape and most of the production is exported. The remainder is sold to a company called Ferralloys Ltd which is a subsidiary of Assmang and now an important contributor to profits.

Manganese is an essential ingredient in the manufacture of steel. It makes steel stronger, harder and easier to work with. South Africa is the second biggest supplier of manganese ore in the world and it has half of the world's reserves of manganese.

But world demand for manganese is decreasing:

- the world is producing less steel (world steel production has declined for ten years).
- improved steel-making technology has allowed one fifth less manganese to be used in making steel.

In 1976 SA exported 6 million tons of manganese ore. By 1986, this had fallen to less than 3 million tons. The decline in the industry was severely felt in the early 1980's when SA producers had to cut production drastically and close down processing plants. (Mining Journal 29 June 1984). In the last few years it is the fall in the rand that allowed profits to surge ahead.

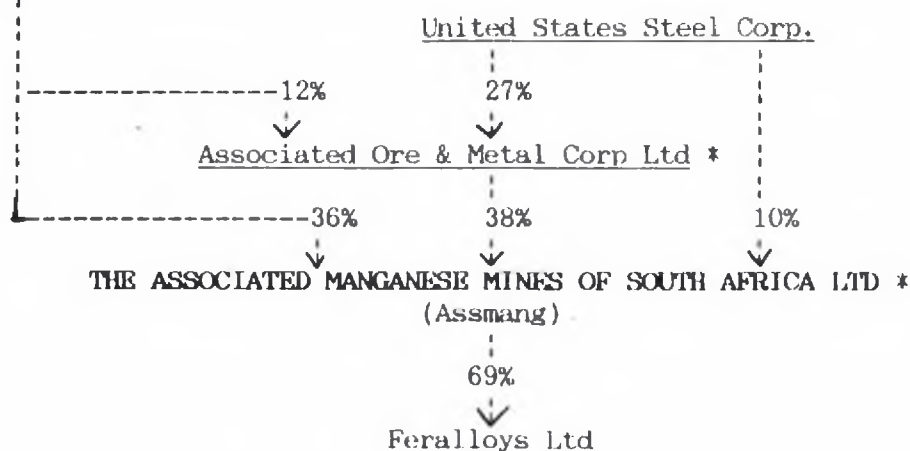
So sanctions are not the reason for any profit falls suffered by Assmang. The problems lie in the decline in the international steel market and are not new. Stockbrokers Simpson Frater Stein and Strong have said that:

"because of the vital nature of SA manganese supplies to the west's strategically important steel industries, effective sanctions are unlikely. ("Samancor" 7 July 1986)

They have suggested that their clients buy up Samancor shares.

Who owns Assmang?

Hersov and Menell families ---> own Anglovaal



* Listed on the Johannesburg Stock Exchange

Assmang is ultimately owned by two Johannesburg families, the Hersovs and the Menells. These families also own the Anglovaal mining and finance house. There is one major foreign shareholder. The United States Steel Corporation owns ten percent of the shares in Assmang and has a total holding of 27% in the Associated Ore and Metal Corporation. Altogether, US Steel owns 21% of Assmang. This corporation, one of the largest in the world, has never signed the Sullivan Code of Conduct.

Sources: US & Canadian Investment in SA, IRBC, Washington, May 1986 p91; McGregor's Who Owns Whom 1987

Who runs Assmang?

Basil E Hersov - Chairman [Hersov is a director of over 20 major companies, and chairman of Barclays & Anglovaal]
 CS Menell - [Menell is also a director of 20 other companies and the owner, with Hersov, of Anglovaal]
 G. Sacco - also a director and part owner of Associated Ore & Metal Corp Ltd
 D. Sacco - also a director and part owner of Associated Ore & Metal Corp Ltd
 FM Dunham - also a director and part owner of Associated Ore & Metal Corp Ltd
 DJ Crowe - also a director of Anglovaal and 17 mining companies
 AJ Brink -
 RAD Wilson - also a director of ten mining companies

The company is managed by Anglovaal.

Anglovaal is known for giving only the absolute minimum amount of information in company annual reports. For instance, it does not give any information on the number of people employed or the total wage bill.

Companies owned by Assmang

Manganese is either sold as an ore, right out of the ground, or in the form of an metal alloy called ferro-manganese. Assmang owns a company called Feralloys Ltd that produces ferro-chrome and ferro-manganese. In 1986, Feralloys contributed a third of Assmang's profit after tax (compared with 14% in 1985 and big losses in 1983 and 1984).

Profit History

In 1986 Assmang produced higher profits than ever before. Profits after tax were R39,4 million, slightly above the 1985 profit figure of R38,7 million.

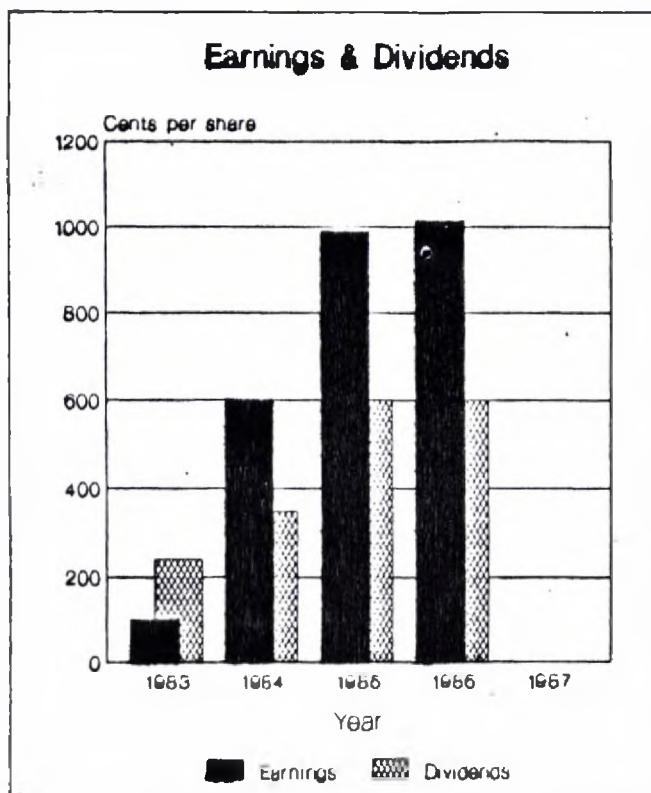
A dividend of 600 cents per share was paid out in cash to the shareholders in 1986, out of the total earnings of 1 015 cents per share. The remainder was kept in the company, for the future benefit of the shareholders.

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|-----------------------------|------|------|------|------|-------|
| Earnings per share (cents) | 486 | 102 | 601 | 991 | 1 015 |
| Dividends per share (cents) | 240 | 240 | 350 | 600 | 600 |

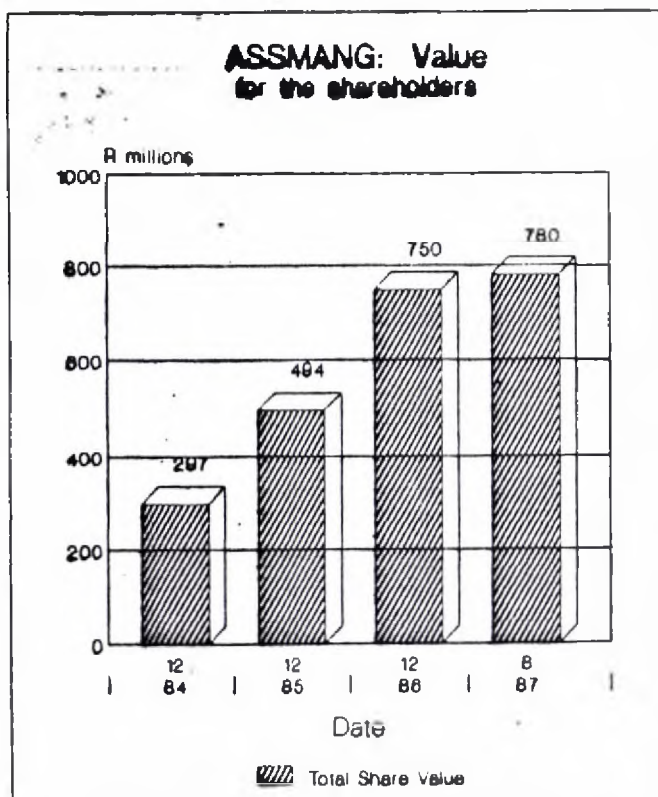
This graph shows the enormous increases in earnings and dividends since 1982.

It is no wonder that Mr Hersov, in his last annual report, recorded "the board's appreciation of the services rendered by the Company's employees at its mines and plants."

The workers have produced excellent profits for Mr Hersov and the other owners.



Because Assmang has made such good profits, the share price has gone up. It has gone up from R84 per share in 1984, to R212 in August 1987. The value of the company to the shareholders has gone up by 152%, more than doubling since 1984. In this period, prices have gone up by 52%.



This graph shows how the total value of all the shares owned by the shareholders has increased.

In 1984, the shares were worth R297 million, by August 1987 they were worth R780 million!

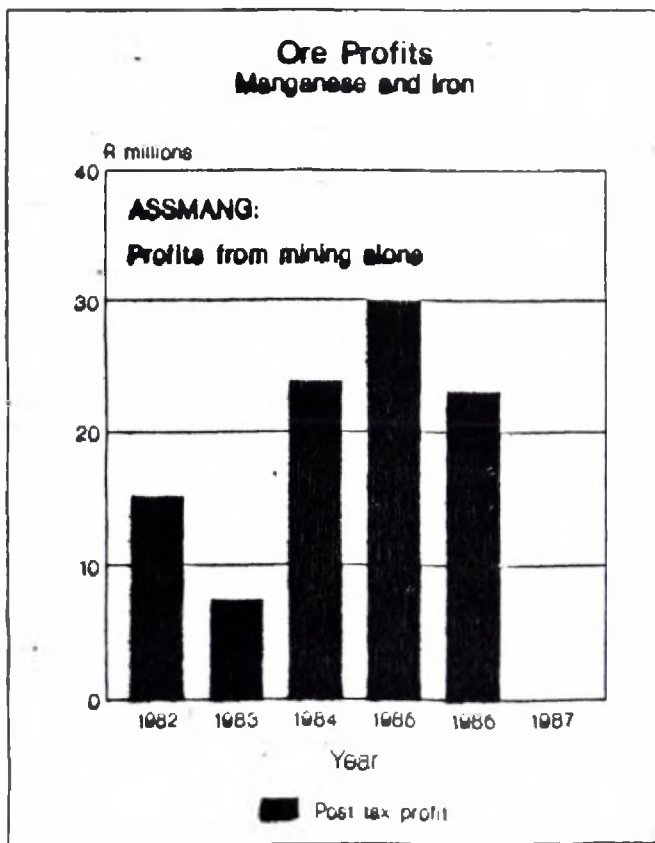
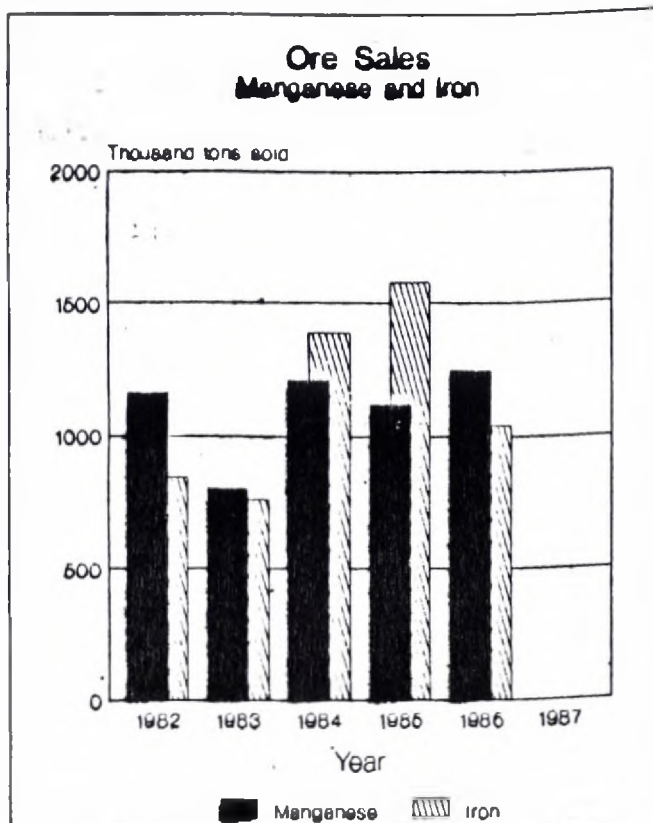
This "capital gain" is in addition to R42 million paid out in cash dividends to the shareholders.

Assmang is a very profitable investment for its owners and it can therefore afford to pay its workers better wages.

Assmang's mines have made less profit in recent months than in 1985.

This graph shows the number of tons of iron and manganese sold in the last few years.

Assmang is making large amounts of money from sales of manganese ore mined by union members. The number of tons of manganese mined in 1986 increased slightly to 1,2 million tons, but Assmang was able to sell less iron ore than before.



But the price of manganese and iron ore has been going down. So, overall, Assmang made less profit from its mines in 1986 compared to 1985 and 1984.

These facts should not discourage the workers for one instant in pushing forward with their wage demand. The company is still making enormous profits from mining, even if they are not increasing any longer.

The union can press for a big wage rise with confidence. This company has the ability to pay.

Assmang is a very profitable company. It would, of course, make more profit if it could sell more manganese. But it is earning an excellent return on the ore it is selling. We can see this by looking at the "profit margin".

In 1986, the total amount of money received by Assmang for the ore and metal alloys it sold was R229 287 000 (this is called the "Turnover").

The profit before tax was R71 059 000.

We calculate the profit margin as Turnover / Profit before tax

$$\begin{aligned} & 71\ 059\ 000 / 229\ 287\ 000 \\ & = ,309 \text{ or } 31 \text{ cents} \end{aligned}$$

So for every rand of sales, 31 cents, almost a third, is PROFIT!

Most industrial companies are satisfied if they earn 15c for a rand of sales. At Metal Box, where the minimum wage is R532 per month, eight cent in every rand of sales is profit.

At Pick 'n Pay, where the minimum wage is R490 per week, only three cents in every rand of sales is profit!

Assmang, and all the mining companies, have huge profit margins - because the wages they pay are so low. The mining industry has made massive profits in the last two years because the value of the rand has fallen. Assmang gets more rands, for selling the same amount of manganese, than three years ago. The workers are badly paid and deserve a proper share in the wealth they help to create.

NOTE

Assmang will issue its half year report this week. It will allow the union to see what profits were made in the first 6 months of 1987. We shall send this to you as soon as it is available.