Profit-sharing *schemes: a look at the* gold mines

The recent surge in the gold price has boosted mining profits. The National Union of Mineworkers' Martin Nicol* assesses the union-negotiated profit-sharing schemes which exist at many gold mines.

In 1991 and 1992, because of the crisis in the industry, the National Union of Mineworkers (NUM) accepted basic wage increases on the gold mines far below the annual inflation rate. The priority of the union was to preserve employment.

But this left the door wide open for rich mines (like Kloof, Elandsrand and Vaal Reefs) to hide behind the low increases set in the Chamber negotiations; increases designed to accommodate Freegold, Buffelsfontein and other marginal mines. Workers needed a way of supplementing their basic wages if the mines could afford to pay more.

The ideal for NUM would be a national wage policy in which the richer mines help the poorer mines to pay the same wages. But this would need new tax laws, new ownership rules and a new government to force it all through. This is our longer term perspective.

In the short-term the union needs a special policy for collective bargaining in an industry that is in long-term decline. The economy is not growing, few new mines are opening; so workers who get retrenched are threatened with starvation. NUM has already accepted a reduction in real wage standards, hoping to slow down the speed at which mines are contracting.

This leads to two separate, but related, questions. Firstly, at what point should the union dig in its heels and demand that the buying power of wages is preserved? Secondly, how can NUM make sure that mines

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The crisis in gold mining

- **Fall in the gold price**

  The gold price has hovered around the level of R1 000 per ounce since 1988, while inflation has stayed well above 12% per year. A price in excess of R1 800 per ounce is needed to restore the buying power of gold to its 1987 level.

- **Collapse of profits**

  The fall in gold revenue has slashed mine profit margins to their lowest levels since the 1920s.

- **Retrenchments**

  The mines have coped by cutting costs and increasing productivity. The major factor in cost-cutting has been the retrenchment of black mineworkers - 166 000 jobs have been lost in the gold mines since 1987, a third of total employment. Nevertheless, tonnage milled in 1991 was the same as in 1987, and gold production was barely lower.

- **Low wage increases**

  In 1991 and 1992, workers received very low basic wage increases – less than half the inflation rate. The real basic wages for many job categories are now well below their 1982 levels, when NUM was launched.

which can afford to pay more money to workers, do so? The focus in this article is on the second question.

The Performance Bonus scheme and its rejection

In 1991, NUM agreed to two mechanisms that might supplement basic wages at four mining houses.

- **A Performance Bonus,** based on meeting pre-set targets to reduce the production cost per kilogram of gold. This was paid out monthly in amounts that varied from zero to over 25% on basic wages.
- **A Gold Price Bonus** which provided for a payment of up to 7% of basic wages, should the gold price rise above a certain level.

In practice, however, the gold price never came close to reaching bonus levels, and many mines acted in bad faith in the Performance Bonus Schemes. They increased their productivity and profits, manipulated targets and failed to pass on a fair share of the benefits to workers. The Performance Bonus system was evaluated by the NUM Central Committee in January 1992, and rejected.

The Central Committee re-affirmed the union's wage policy – a living basic wage for all mineworkers. But it also recognised that there are severe problems in strictly applying this policy in the gold mines at present. It directed the NUM Collective Bargaining Department to organise a workshop to come up with an alternative to the performance bonus system.

From Performance Bonus to Profit Sharing

In April 1992, this workshop recommended that the union demand profit sharing on all the gold mines, whether sick or healthy. When mines make a profit, they should share some of the profit directly with the workers. After report-backs and debate, this recommendation was adopted as union policy.

The decision to demand profit sharing was not an easy one for the union. How would it alleviate the crisis in the industry? For South African unions it was an unorthodox approach. It is worth outlining the union's thinking.

The wage bill is a large part of mining costs – about half on most gold mines. A modest

HOW PROFIT SHARING WORKS

1. PROFIT GENERATION

	REVENUE (money from sales)
minus	**COSTS** (wages, stores..)
equals	**PROFIT** (surplus)

2. PROFIT DIVISION

The surplus is divided in four ways:

- **Capital expenditure** – re-invested by mine-owners to keep the mine going
- **Tax** – paid to the government
- **Dividends and royalties** – given to mine owners and shareholders
- **Profit share pool** – cash given to workers

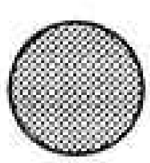
(Agreements cover how the size of the profit share pool is calculated.)

3. PROFIT POOL DISTRIBUTION

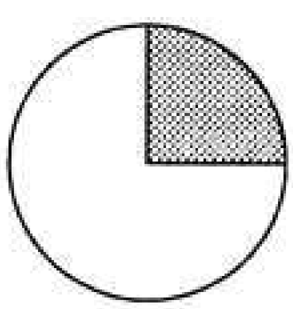
The rules of each scheme determine the **size** of the "profit pool" that is to be distributed amongst the workers. The profit pool is always distributed as:

- an equal rand amount
  plus (if the profit pool is large)
- a percentage on basic earnings.

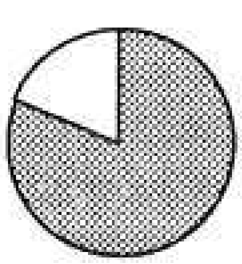
In general:



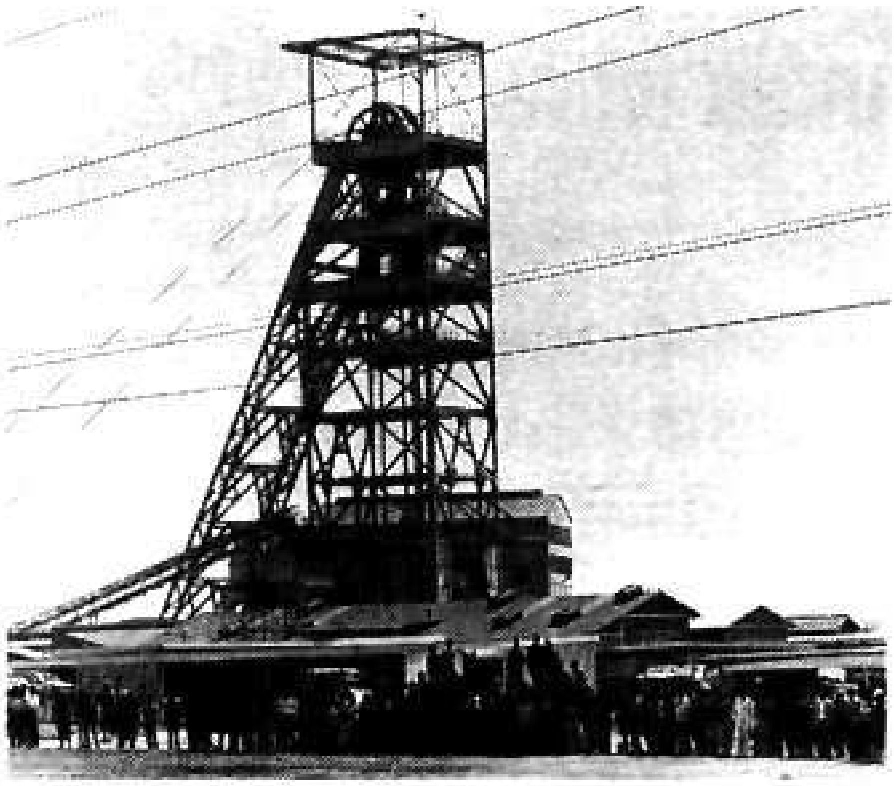
If the pool is small, all workers will share equally in the whole profit pool (eg in December 1992 workers received R19,74 per month at Blyvoor).



If the pool is very big, one quarter of the pool is shared equally between the workers. The remainder is shared according to salary, as a percentage of the basic wage (eg at Elandsrand in the fourth quarter of 1992, workers received R116 per month, plus 14,2% of their monthly basic wage).



If the pool is medium sized, all workers get R25 per month. Any money remaining is then shared according to salary, as a percentage of the basic wage (eg at Western Deep Levels for the fourth quarter of 1992, workers received R35 plus 1,98% of their monthly basic wage).



increase of 10% in wages immediately translates into an increase of 5% in the cost per kilogram of gold mined. And these greater costs can easily push a marginal mine into a loss.

So a fixed increase in the wage bill, such as an increase in the basic wage rate, makes a mine more likely to retrench (or consider closure) if the gold price falls. The extra "fixed cost" of higher wages lets more water into the leaking ship. The costs are included in the mine's forecasts of its future results; and retrenchments loom earlier than if there is no increase in wages (or a small increase).

On the marginal gold mines and marginal shafts, low basic wages mean that more jobs are saved. On the profitable mines, of course, low wages mean more profits for the mine owner. NUM is faced with a real dilemma here. Our aim is to preserve jobs, but it is also our aim to provide fair (and improving) wages and conditions of employment.

Even on marginal mines, we need to look closely at the erosion of wage standards. There must be a point at which the union says the mine should rather close down, than employ people under such conditions. It is not only wages that are held back in these hard times. Hostel upgrading is delayed, training is cut, and mines may save on safety expenses, making work more dangerous. NUM is currently giving serious attention to minimum benchmarks. Unless it does so there will be no end to the erosion of existing standards, as low as these currently are.

We also realise that low wages can never be traded for job security and a ban on retrenchments. That is not the way mines work. Whatever the level of wages, mines will plan production to make the most profit they can. A change in any of the basic factors, including the gold price, the inflation rate or taxes, will produce a change in their profit plan; and the mines will react accordingly. A fall in the gold price will mean more retrenchments, however low the wage and however many workers have already been retrenched. A common complaint of NUM members is that they accept low wage increases – and then the mines still retrench!

Our thinking behind the profit-sharing proposal was: where the union agrees to low basic wage increases, there must be other means of supplementing wages during the year, if mines prove to be profitable. Also, there is a huge range of "health" and "sickness" in the gold mining industry. Some mines are hugely profitable and can afford a proper increase. Others will make profits only if their planning is spot on, or there is a rise in the gold price.

Lower increases could slow down the contraction of the industry, while the profit sharing scheme means that mines which are profitable and can afford to pay more, do so.

Negotiating a profit-sharing agreement

It took six negotiating meetings before the Chamber of Mines agreed to discuss the new NUM proposal of profit sharing. In 1991, one of the problems with the performance bonus scheme was that is was formulated in a tiny "working party" of only five people. In 1992, discussions were conducted in a forum in which all affected mines were represented and which included NUM officials from the relevant regions. In addition, regular reports were given to the full negotiating team, to the union's national executive, and to the regions.

Some mining houses rejected profit sharing and were excluded from the agreements reached with the Chamber of Mines. Gold Fields and Anglovaal refused to share their profits at all. Instead they gave an extra basic wage increase of 1%. JCI's Sir Albert Robinson Hospital forced NUM to accept a continuation of the Performance Bonus scheme; largely because the hospital is part of Randfontein Estates where NUM is not recognised and the white unions like the performance bonus. At two other mines, St Helena and Grootvlei, which are making very little profit, the union opted for an extra 1,5% basic wage increase instead of profit sharing.

The Chamber agreement

Remaining mines were covered by an agreement with the Chamber of Mines setting a **framework** for the profit-sharing schemes at individual mines. This established eight principles for all profit sharing schemes:

- the right of NUM to negotiate *a fair wage structure* at industry level
- security of employment – a guarantee that no worker will be retrenched or downgraded because of the profit-sharing scheme
- improvements in health and safety – better efficiencies must not be achieved at the price of more accidents
- full disclosure of information to workers and the union to monitor the scheme
- worker participation in monitoring the scheme and promoting better efficiency through new work practices
- no race or gender discrimination
- a commitment to training – critical for a long-term improvement in the viability of the mines. All mines must specifically investigate how better training can lead to improved efficiency.
- a fair distribution of gains between workers – at least the first R25 or 25% of money available for distribution in any performance bonus scheme, will be shared equally amongst the workforce. Any additional amount will be shared in proportion to basic earnings.

It was agreed that the mines will deduct capital expenditure from the profit before it is shared, as this is money re-invested in the mine. The details of the profit-sharing schemes were then negotiated, comprehensively, in three separate forums – one for Anglo American, one for Blyvoor and one for Gengold.

These negotiations were tough and drawn out. Initially, the employers did not want to share profits with workers until they had first taken enough profits for their shareholders.

It was eventually agreed that in all the schemes, profits are shared from the first rand. A part of any profit made, however small, goes to the workers. It was also agreed that all schemes apply right across the mining house concerned; a uniform group approach. Randgold was an exception because the Harmony profit-sharing scheme, negotiated in 1991, was already in place.

But the schemes agreed upon differed between the mining houses; with some more complicated than others. The Randgold scheme is the simplest with workers getting 20c in every rand. The Anglo and Gengold approaches involve two-stages with little profit sharing early on, and an improved worker share once a minimum trigger-level is passed. All schemes have a 'cap' – a maximum profit pool beyond which no benefits are passed on (see boxes for details).

Randgold - simple schemes for Harmony and Blyvoor

- Every month, the mines calculate the total profit and deduct capital expenditure.
- From what is left, the mines take 20c from every rand and put it into the profit pool for workers.
- The pool has a maximum size.

Blyvoor will stop sharing profits when the pool is equal to 20% of the total wage bill on the mine.
Harmony will stop sharing profits when the pool has R4 million in it – this is about 29% of the basic wage bill. At Harmony, the first R1 million of the profit is shared equally between workers. This works out to a maximum "equal rand share" of R80 per worker per month. In practice this amount has not been reached.

Gengold - two stage sharing (after tax) + R2

- Every 3 months, the mines calculate total profit and deduct capital expenditure and tax paid to the government.
- What is left is divided into two parts:

  Part 1 is money up to a "trigger" level - this is the average profit for the preceding 4 quarters. The mines take 5c from every rand of profit below the trigger level and put it into a profit pool.

  Part 2 is money above this "trigger" level. If the profit of a mine is more than the trigger level, the mine now takes 20c from every rand of this extra profit and puts it into the profit pool.
- This combined pool is itself divided into two. Gengold only pays the profit share to black workers in categories 1 to 8 – so about two thirds of the pool is set aside to pay to "participating workers". The remainder, equal to the proportion of white wages in the total wage bill, is kept by the mine. (Whites do not share in profits directly – they accepted a 1,5% increase in basic wages.)
- The pool has a maximum size. The Gengold mines stop putting money into the profit pool when it is equal to 15% of the wage bill of the mine.

+ When mines pay profit shares, Gengold adds on an extra R2 per month.
+ Gengold's participating mines:

Marievale	Unisel	Buffelsfontein
Kinross	Beatrix	Leslie
Winkelhaak	Bracken	Stilfontein

Anglo American – two stage sharing

- Every 3 months, the mines calculate the total profit and deduct capital expenditure.
- What is left is divided into two parts:

  Part 1 is money up to a "trigger" level. The mines take 5c from every rand of profit below the trigger level and put it into the profit pool for workers at each mine.

  Part 2 is money above this "trigger" level. If the profit of a mine in a quarter is more than the trigger level, the mine now takes 20c from every rand of this extra profit and puts it into the profit pool.
- The pool has a maximum size. The Anglo mines stop putting money into the workers' profit pool when it is equal to 25% of the wage bill of the mine.
- Trigger profit levels

Mine	**Trigger level per quarter**
Vaal Reefs	R51,7 million
Freegold	R69,2 million
Western Deep	R21,4 million
Elandsrand	R10,9 million

Not an incentive scheme

Neither this nor any other of the profit-sharing schemes is structured as an "incentive scheme", to make people work harder (or smarter). They simply set a formula to give workers a little extra money if mines make a profit. Profit sharing is not instead of a wage increase, it is in addition to a wage increase.

One of the union's aims in the profit-sharing agreements is to give workers the possibility of winning back some of the ground they have lost to inflation. If workers are *less* productive, they could still get a greater profit share *if* the gold price rises. The profit-sharing schemes flow from the crisis in the gold industry and the need to slow down the contraction of the industry. If they do promote better efficiency, that is, of course, to the benefit of both workers and employers.

Has profit sharing worked?

In their first nine months (July 1992 – March 1993) the profit-sharing schemes have undoubtedly succeeded in their own terms. On average, workers at the affected mines received an extra R329 (or R37 per month). This was equivalent to an additional 4,4% on top of the basic wage of a grade 4 underground miner. (The largest number of workers fall into this category).

This average increase of 4,4% should be compared to Goldfields and Anglovaal mines – without profit-sharing schemes – where workers received between 1,5% and 2% additional increases. Only one mine with profit sharing (Randgold's Blyvoor) ended up getting less than 2%.

Naturally results differ sharply between mines. Anglo's Elandsrand and Gengold's Bracken both paid out more than R1 000 over the nine month period – equivalent in Eland's case to an extra 16,9% premium on basic. Other mines paid significantly less (see table for examples of payouts).

What profit sharing means to the pocket of a Grade 4 underground miner – some examples

9 month period – July 1992 to March 1993

Group	Mine	Percentage increase on top of basic	Extra rands on top of basic
Anglo	Elandsrand	16,9%	R1 274
Gengold	Bracken	14,2%	R1 001
Gengold	Stilfontein E	10,0%	R705
Gengold	Unisel	5,8%	R412
Anglo	Western Deep	4,8%	R362
Anglo	Freegold	4,5%	R343
Gengold	Leslie	4,1%	R290
Randgold	Harmony	3,2%	R244
Anglo	Vaal Reefs	2,7%	R206
Gengold	Beatrix	2,9%	R205
GFSA	*Gold Fields	2,0%	R150
Anglovaal	*Harties	2,0%	R149
Gengold	*Grootvlei	1,5%	R108
Randgold	Blyvoor	1,2%	R 85

* = workers received an additional wage increase of the percentage indicated, and were not part of any profit-sharing scheme

Results for the full twelve month period are not yet available. However, the recent surge in the gold price should see substantial profit-sharing payouts for the April – June period. This will make the overall difference between mines with schemes and those without, even more marked.

An overall assessment

A balance sheet of the first nine months, from the point of view of the union, indicates the following:

Good points/successes

- Profit-sharing schemes did provide a few extra rands for NUM members, as was their aim.
- The profit-sharing schemes, in their first nine months, provided more money than the small additional extra wage increases given by Gold Fields and Anglovaal in 1992 and 1993.
- Profit sharing provides some flexibility to take account of the special conditions at individual mines. It can get members more money, while it preserves centralised bargaining and a 'platform' of basic wages in the industry.

Bad points/problems

- Education around the schemes has been insufficient. They are hard to understand and this still creates a lot of confusion. Many workers have the gut feeling that if management likes a scheme, it must be bad for the workers. The majority of mines have not received training. In some cases, management has actively prevented NUM members from attending union training courses on the scheme.
- The payouts vary enormously between mines, both in rands and percentage terms. Workers who do the same job, but under different companies, do not get the same profit shares.
- The payouts vary from time to time. Workers cannot count on that extra money until they have it.

Surprises

- Some of the most marginal mines, like Marievale, Stilfontein and Bracken, paid among the best profit share amounts.
- Some good, solid, profitable mines with long lives, paid very little indeed.
- Many mines have never called the agreed monthly meetings to allow NUM branches to monitor the schemes.

The wider potential of profit sharing

Profit sharing in its present form is not part of the wage philosophy of unions; but it is likely to be a long-term feature of remuneration on gold mines.

Some mine managements, probably the majority, have simply accepted profit sharing as a way of keeping wage costs under control. They are bemused by the formula for sharing profits between workers, and are uninterested in trying to get anything else out of the scheme.

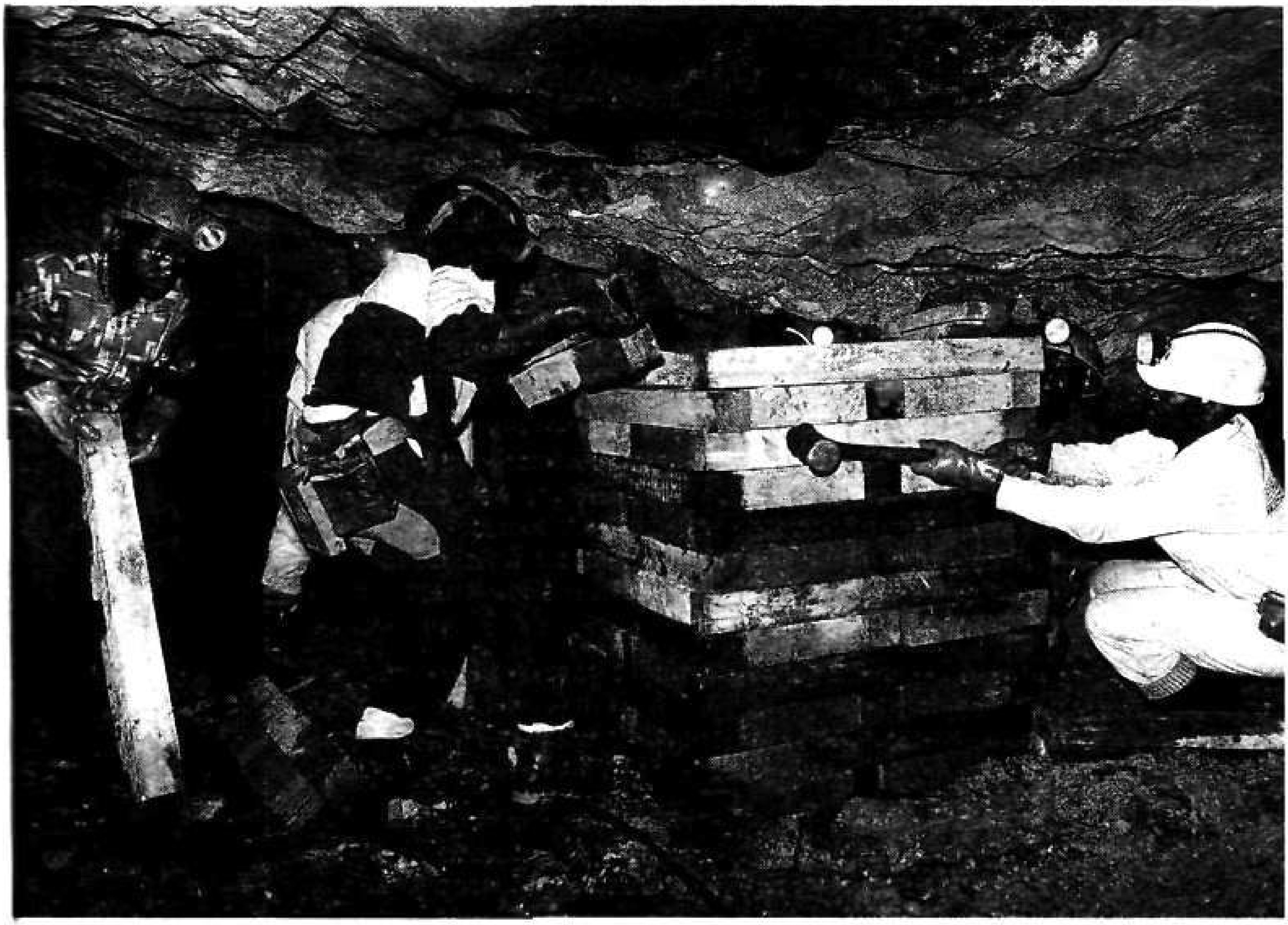
But profit sharing has the potential to increase worker participation in industry; to start with, simply through making operating information available to workers and giving training in how companies work.

In 1990 COSATU commissioned an opinion survey of shopstewards in all its affiliates. Despite union policy being opposed to profit sharing, 95% of shopstewards believed workers should share in company profits. Of course this needs to be considered alongside the view of 75% of COSATU shopstewards that workers' committees should run companies; an opinion held by almost 90% of the NUM shaftstewards interviewed. The survey revealed strong support for radical social transformation, including vastly increased levels of worker control.

Perhaps this explains why mine managements are so reluctant to hold the monthly meetings to monitor the profit-sharing schemes; or to give out information in digestible form. I suspect, however, that the actual reason is that they simply are not interested. NUM's job in the months ahead is to make them interested.

The way forward

NUM wants to see existing profit-sharing schemes improved and extended to all gold mines, including Anglovaal and Gold Fields.



NUM wants to negotiate improvements including eliminating the "trigger levels" and the "caps" that stop profits being shared above a particular level. The union aims to put more resources into training shaftstewards to understand and monitor the profit-sharing schemes. Time off is essential for specialised training of shaftstewards charged with the task of monitoring the schemes. The profit sharing schemes *are* complicated, but so is the world we live in. To get the maximum benefit from the schemes, NUM needs to develop skills at mine level.

While profit sharing is a useful strategy to deal with the pressing problems that workers on mines face today, measures to enhance efficiency and performance at mine level will not solve the structural crisis in the gold mining industry. At best, they can provide a breathing space.

NUM is committed to negotiating and working towards a re-structured mining industry that combines long-term economic viability with the humane treatment of all mine workers. This will involve effective state intervention in the mining industry to regulate the down-scaling process.

A re-structured mining industry will need to provide a proper role for unions and workers in decision-making. Profit-sharing schemes have the potential to create a basis for extending, first participation and then control within the work environment. The monitoring of profit-sharing schemes can be used to develop a deeper understanding in members of how things work on the mines.

Understanding is a pre-condition for effective participation. NUM will investigate further demands for participation – such as directors on the board. And if workers, through profit sharing, get a share of the surplus like the shareholders, should they not also get ownership rights in the mines? ✰

COUNTERPOINT

GOLD FIELDS
OF SOUTH AFRICA LIMITED

Why Gold Fields opposes *profit sharing*

The Gold Fields Group has refused to go along with NUM's profitsharing proposals. The company explains why it is opposed to profitsharing.

- Gold Fields believes that a long term view is essential with regard not only to operating viability and job retention but also to employee relationships. Short-term expediencies which jeopardise the long-term should be avoided.
- Wage policies should be based on broad long-term labour market factors rather than on the ability to pay, if certainty of wage and employment is to be assured in what is a highly cyclical business. It is vital that economic realities are faced and that ore resources are not rendered uneconomic and that the ability to fund their realisation is preserved with consequential job preservation. If the profit windfalls, which in mining by its very nature occur in dollops, are skimmed off in the good times this has a longer term effect on the returns to the providers of capital and survival of the company in the downturns.
- Gold Fields mines believe in a consistent application of wage policy. Wages are based on graduated scales which recognise the value of the contribution of jobs to the operation across the skills spectrum and are founded on the primary principle of equal pay for work of equal value.
- The wages of employees should preferably be certain and consistent as against the possibility of a larger but variable bonus the basis of which is not easily understood. For this reason a small but certain premium in basic wage increase has been paid, as against an uncertain and variable share in profits as an integral part of earnings. It should also be borne in mind that employees do not share in shortfalls during the downturns. Thus the skimming of the cream during good times is prejudicial to shareholders.
- Earnings differentials between profitable and unprofitable mines are not justified against employee performance differential and results in different earnings for the same work. This is manifestly unfair as

between employees on neighbouring mines where, for example, the sole basis for differential earnings for the same work could be the quality of the ore resource.

- Where bonus schemes are in place they are aimed at rewarding directly measurable performance. Such schemes are implemented at mine level in response to specific production needs. A good example of such a scheme is shaft-sinking bonuses where there is a need to get to the revenue producing ore as soon as possible, particularly bearing in mind the high capital costs of shaft sinking.
- Employee sharing of incremental profits, without sharing in shortfalls prejudices shareholders, the companies and future developments and gives rise to a conflict between the need for maximal returns to shareholders, fair compensation to employees and adequate reserves particularly needed for uncertainties inherent in the business of mining where development costs are high.
- The primary reason for the existance of a company is to reward the shareholders who are prepared to invest in it and take the risks. The viability of the company, growth of the industry and provision of job opportunities depend on ensuring returns to the providers of capital.
- A fair balance has to be struck between the stakeholders, which, it is believed, is achieved by the existing wage policy. ✰