White Wheels of Fortune: Ford and GM in South Africa

After decades at the top of the South African motor industry, both Ford and General Motors moved during 1987-1988 to end all direct investment in the country. But neither withdrawal was what it appeared to be. Both companies continue to play important behind-the-scenes roles in South Africa. They remain a prominent focus for the antiapartheid movement because of the controversial way in which they sold their South African assets and because their successors have resumed vehicle sales to the South African police and military.

This brief endorses the antiapartheid movement's call for General Motors and Ford to fully and responsibly withdraw from South Africa. It urges institutional investors and purchasers to refine their selective purchasing and responsible investment (and divestment) regulations to maximize pressure on companies like Ford and GM for authentic withdrawal from South Africa. ICCR members also support tougher federal sanctions backed by strong penalties which would oblige Ford and GM to sever all ties to South Africa. Finally, ICCR member organizations urge companies to negotiate with their workers the terms of withdrawal well before the date of disinvestment.

FORD: Leading South Africa's Motor Industry

Ford was the first car maker to assemble vehicles in South Africa. It opened a factory in Port Elizabeth in 1924 and for many years was the leading producer. Ford was also one of the most important firms in the Eastern Cape region with more than 5,000 employees and dozens of supplier companies.

As a result of the crisis in the South African motor industry dating from 1983, many multinational auto firms reevaluated their involvement in South Africa. When rumors surfaced that Ford might be pulling out, analysts sensed an important turning point in the history of the industry. Companies like Alfa-Romeo, Peugeot, Renault and Leyland, though neither large nor influential in South Africa, abandoned commercial manufacturing there.

The Ford-Amcar Merger of 1985

In mid-1984 Ford secretly began negotiating with Anglo-American's car making company, Amcar, over a possible merger of their operations. Both companies had suffered losses in preceding years, lost market share and carried excess capacity. The companies had a natural affinity as Amcar held the local license to produce Mazda and Mitsubishi cars while Ford USA held a substantial share in Toyo Kogyo (Mazda) in Japan. With such overlap in design between Ford and Mazda products, a merger provided plenty of room for rationalization of models.

Both companies denied merger rumors virtually to the day the deal was made public. In January 1985, Ford and Amcar announced they would become partners in the new South African Motor Corporation (SAMCOR), with Anglo holding 58 percent and Ford 42 percent of the shares in the company. Over the next year, Ford closed its Port Elizabeth automobile and truck assembly operations, except for a small engine assembly factory. As a result, nearly 4,000 hourly paid workers, most of whom were black, were laid off.

Ford refused to admit its plans to its own workers or their unions. By the time the deal was announced, workers could do little but contest the terms of their retrenchment package. After a series of strikes, workers achieved a substantial improvement in their retrenchment payout, which was negotiated through the largest union, the non-racial National Automobile and Allied Workers Union (NAAWU).

GENERAL MOTORS: "Braaivleis, Rugby, Sunny Skies and Chevrolet"

The Ford-Amcar merger left General Motors as the only wholly-owned American motor vehicle manufacturer in South Africa. GM had followed Ford to South Africa in 1926, and like Ford, chose to build its assembly plant in Port Elizabeth. Over the years GM and Ford shared top billing as the leading manufacturers. Even today GM's advertising jingle makes the most of things quintessentially white South African: "Braaivleis (barbecue), rugby, sunny skies and Chevrolet." (In the U.S. GM's slogan was "Baseball, hot dogs, apple pie and Chevrolet.") But through the 1970s GM lost its position as market leader; by 1985 it could claim a bare 9 percent share of the passenger vehicle market.

GM Searches for a Way Out

As 1986 passed and the motor industry sales deteriorated, GM was unable to hold its already low market share in a declining market. The press was awash with rumors of possible mergers between GM and a number of competitors. In early 1986 the managing director of General Motors South Africa (GMSA), Bob White, gave assurances that the company would not disinvest and later gave assurances that GMSA would remain in Port Elizabeth.

In 1986 the U.S. Congress enacted the Comprehensive Anti-Apartheid Act, which barred U.S. firms from making new investments in their South African operations. GM's response to the legislation was disclosed in October 1986 when GM Chairman Roger Smith mentioned in an interview that GM was reviewing its presence in South Africa.
Efforts to Fight Back Fail

NAAWU shop stewards, with the memory of the Ford closure fresh in their minds, immediately asked GMSA management to clarify Smith's remarks. They were told that the chairman had been misquoted. But more than a week later GMSA announced that the company would be sold, withholding meaningful details.

The workers were not satisfied with management's lack of responsiveness and called a general meeting of approximately 1,000 of NAAWU's General Motors South Africa members. They demanded severance pay, that their pension fund contributions be paid out and the right to select two worker representatives to the board of directors. Finally, they asked for an urgent meeting with GMSA management to discuss the situation.

In a letter leaked to the press before it was received by the union, a GMSA director rejected the union demands, ignored the request for a meeting and threatened to hire unemployed workers to replace anyone unwilling to "assist" the company. Two days later workers downed tools and began a sit-in. The sit-in ended two weeks later after the company called in police to evict strikers and fired 567 workers. The company allowed a police brigadier to direct his operations against the workers from a strike command post on company premises.

General Motors broke the strike after it threatened to fire workers who remained out and began hiring unemployed people to replace those fired during the sit-in. Worker support faded under repeated interventions by the police. Sixteen people were arrested and many more were injured in a particularly violent police assault on strikers who had gathered in front of the plant. Within days most of the strikers went back to work and soon production returned to normal.

GM Management in the Driver's Seat

During the strike, GMSA announced ownership would be sold to a team composed of many of the leading executives of the firm. In early 1987 the company was renamed Delta Motors. Furthermore, the parent General Motors Corporation would liquidate the estimated 100 million rand debt of the subsidiary by transferring money to GMSA ahead of the sanctions bill investment deadline. Finally, GMC would continue to supply components, designs and spare parts to GMSA largely through its Opel subsidiary in West Germany and its associated Isuzu Motors in Japan.

GMSA claims to have transferred a portion of its assets to a trust "designed to enable those employees who contribute to the growth and success of the company to participate in its future profitability." However, it has not disclosed how much of the assets were given to the trust, how many employees will benefit or how their benefits will be determined. Company representatives confirmed in 1988 that they had not discussed the trust with the employees or distributed any money.

With the return to work and union plant leadership decimated, GMSA has permitted only four shop stewards in the plant and greatly restricted their freedom to operate on worker business. In addition, NAAWU has charged that a new sweetheart union has appeared at the plant with the unofficially backing of the company. The Free and Independent Workers Association, as the new union is called, gave assurances not to strike and agreed not to embrace the broad political concerns of the black community.

Thus, the company could reorganize without the encumbrance of labor opposition. GMSA cut its hourly workforce and drastically reduced its salaried staff in pursuit of a general austerity program. With its books wiped clean by GM's liquidation of its outstanding debt, Delta Motors was freed from interest payments. As a South African-owned company, it was in a much stronger position to raise capital inside the country.

Apartheid Government Has Confidence in GM

GMSA's new managers lifted the company's ban on sales to the military and police. New Managing Director Keith Butler-Wheelhouse said the revised policy secured a "vote of confidence" from the government:

Because GM was not able to bid on police and military contracts, this affected its sales to other government departments.

... We're not going to do anything we bid for, but at least we're back on the buying list again.

After receiving "significant" orders from two or three major departments, it predicted Delta would do "more government business in 1987 than GM did in the last five years." Buoyed by such measures, management stabilized market share for the first time in years and looked poised to break even, if not report a small profit.

Fighting Corporate Camouflage: The Union Responds

South African trade unions vigorously debated the question of disinvestment in response to the GM strike and similar cases of corporate withdrawal and restructuring. In the course of the GM strike, the unions, which would soon merge to form the new National Union of Metalworkers of South Africa (NUMSA), issued a joint statement setting forth their demands to any company contemplating withdrawal. NAAWU, the Metal and Allied Workers' Union and the Motor Industry Combined Workers' Union demanded that disinvesting companies give workers sufficient notice, provide full details of plans, negotiate their terms of withdrawal and guarantee that no benefits would be prejudiced by the sale. Further, they demanded that worker wages and benefits be protected for twelve months from the date of withdrawal.

In May 1987 the Chemical Workers' Industrial Union (CWU) expanded on these demands in a statement which expressed "conditions for acceptable disinvestment." The document specified that disinvesting companies hand over to their workers in the form of a trust fund nominated by the union, all proceeds of any sale. In addition, the CWU demanded that companies negotiate in good faith with their workers well in advance of withdrawal.

After this the Congress of South African Trade Unions (COSATU) itself strongly condemned the self-interest which defined the form of corporate withdrawals. In a resolution passed at its 1987 Congress, COSATU criticized such moves as "corporate camouflage which often allows these companies to increase their support for the South African regime." COSATU demanded that the
terms of withdrawal be negotiated but left it to individual unions to give content to the position.

Worker Share Ownership

COSATU has also debated the question of worker ownership in response to offers by some withdrawing companies to transfer shares to their workers. While worker share ownership was an untested concept for unions and many remain suspicious of the idea, such plans have not been rejected outright. Instead, two general principles have been accepted as guidelines for discussion of such packages.

First, COSATU has discouraged workers from taking positions on boards of directors, arguing that workers would not gain effective control of the company while running the risk of identifying too closely with management. Second, COSATU has also criticized share offerings to individual workers. The Congress favors collective ownership where shares will be held in trusts directed by workers and used as financial resources for broader community purposes.

Ford Has a (Somewhat) Better Idea:

The debate over shareholdings came to a head in the motor industry. In June 1987, Ford announced that it would be withdrawing from South Africa and revealed a plan to give workers a share in the company. The remainder of the shares would be transferred to Anglo American. Though the deal spared Ford some of the troubles which had plagued GM’s disinvestment, Ford’s plan had its own unique problems.

Initially the scheme was rejected by workers, primarily because Ford wanted shares distributed to workers on an individual basis. In sharp contrast to GMSA’s refusal to negotiate with workers before or after the strike and to Ford’s failure to negotiate with workers before merging with Amcar in 1985, this time Ford met with NAAWU. In November 1988 Ford and NUMSA announced a complicated, but creative agreement to establish an employee trust.

According to the plan, a 24 percent equity interest in SAMCOR would be transferred to an employee-controlled trust and the rest of Ford’s 42 percent stake in SAMCOR would be held by Anglo-American Investment Corporation and associates, giving Anglo American 76 percent of the stock. Dividends on these shares would be used only for community welfare and development activities. NUMSA also won the concession that benefits and existing employment conditions of workers would be guaranteed and union representation sustained.

Critics point out, however, that the very structure of the plan contradicts Ford’s stated intention to empower its black South African workers. The 24 percent shareholding stops short of the level needed to veto company decisions.

NUMSA criticized the package, specifically rejecting share participation schemes as deliberate attempts by companies to weaken unions and to divert workers’ attention away from their more militant but justifiable and legitimate demands.

The union pledged to continue working for a living wage and better working conditions, as "...share ownership offers little in comparison to a living wage." The Ford-NUMSA negotiations set an important precedent for corporate negotiations with unions over the terms of withdrawal.

Ford Breaks Ban on New Investment

Ford’s sale plan ran into a number of difficulties even before it was in place. In late 1987 U.S. Congressional aides learned Ford had notified the Treasury Department of its intention to transfer $61 million to SAMCOR, an apparent violation of the Anti-Apartheid Act. Ford claimed the money was needed to assure SAMCOR’s health, but the deal called for wide interpretation of the Act’s provisions governing waivers to the ban on new investment in South Africa. The request sparked an investigation by U.S. Representatives, but the Treasury Department allowed the transfer.

Ford has been widely criticized for the way it handled the transfer. The company dutifully informed its SAMCOR workers, NUMSA and antiapartheid organizations of its withdrawal plans. Meanwhile Ford was maneuvering to break the ban on new investment. In its communications with U.S. antiapartheid organizations, for example, Ford never mentioned the $61 million transfer. Congressional aides claim Ford played them off against one another, telling each that the others had agreed to the transfer.

The coup de grace came when Ford claimed the union supported the capital transfer. But there is still confusion about the company’s assertion. At one point Ford said it notified NUMSA of the impending transfer. At another point Ford claimed NUMSA had “insisted” on the fund transfer. And at another Ford said NUMSA agreed in writing to the action. For its part, NUMSA has stated that it was indeed informed about the payment, but separated itself and the trust negotiations from the company’s financial plans.

In its dealings with the U.S. government, Ford used its workers as hostages, threatening that SAMCOR would close unless the transfer took place. Though the union examined SAMCOR’s books, the claim is difficult to evaluate. The company had numerous assets which investors covet: important market share, an extensive dealer network, skilled workforce and management, prime location and one of the most modern industrial plants. Moreover, how does one evaluate the fact that SAMCOR’s majority shareholder, Anglo-American with all its financial clout, was unable to cover the needed capital infusion? SAMCOR returned to profitability in 1988.

SAMCOR to South African Police: Have You Driven a Ford Lately?

The anti-apartheid movement has particularly criticized Ford’s disinvestment and retention of license agreements with SAMCOR because such non-equity ties also opened the door for more trouble-free sales to the South African police and military. SAMCOR sells a significant share of its vehicles to the South African government, including the police and army. The state buys 10 percent of the Ford vehicles produced by SAMCOR, between 1 percent and 2 percent going to the security forces. In 1987, the South African government bought approximately 3,500 Ford cars and trucks of which over 500 were for security forces.

In response to pressure to end sales to the police and military, Ford claims that restrictions on such sales would jeopardize all government tenders under
the centralized purchasing system of the South African government.

Workers Disagree Over Share Plan

A third area of controversy around Ford's disinvestment plan was employee disagreement about whether shares should be distributed individually to workers or held in trust. Before the deal was finalized, NUMSA had endorsed the plan to put the workers' share in a trust and believed it had general membership support. But workers from SAMCOR's engine plant in Port Elizabeth mobilized in opposition to the plan. These activists, many of them from a union that had been a rival to NAAWU before it joined in forming NUMSA, falsely claimed that if workers opposed the trust, they could receive cash for their shares amounting to 49,000 rand, approximately $24,000 per employee.

Workers at SAMCOR's Pretoria plant went on a wildcat strike to protest the plan, repudiating NUMSA's mandate to negotiate with Ford over the trust and rejecting the shop stewards who had supported it. Workers appointed a new body to negotiate with Ford, called the Anti-Trust Committee. The Committee threatened it would refuse to build Ford products at SAMCOR unless Ford paid workers 100 million rand. The company rejected the demand, but no industrial action was taken.11

Ford ultimately transferred the shares to the worker trust and appointed company representatives to its board. In the midst of the disruption among employees, no worker representatives have been elected. When the SAMCOR dividends for 1988 were announced, company trustees offered dividends on an individual basis to worker participants in the trust. It is not known how many workers chose to receive their dividends.

Workers Support Sanctions

It would be unwise to read these conflicts as fundamental disagreements between leadership and members over sanctions policy. During the course of the GM strike and SAMCOR debates, no workers publicly asked either company to remain in South Africa. Rather, the disputes were over the terms of withdrawal, especially over the issue of individual versus collective ownership of stock in the new company. The task was more difficult because the issues involved were new for rank-and-file and leadership alike.

Time after time, however, the South African union movement has demonstrated its ability to reconcile diverse demands at different levels of organization. Indeed, NUMSA's subsequent withdrawal deal with another disinvesting company, Mono Pumps, takes into account many lessons from the SAMCOR case.12 It includes a direct cash transfer to workers, a company contribution to a trust fund controlled by workers, but no actual share ownership.

Corporate Withdrawal: "You Say Goodbye and I Say Hello"

Despite claims they have withdrawn, both Ford and GM remain entangled in the South African car market. GMC maintains the right of first refusal on any Delta share offering, which affords the possibility of returning to the South African scene. Both companies maintain licensing arrangements which permit their designs and components to be used by their former subsidiaries. Both SAMCOR and Delta supply vehicles to the South African security forces.

Ford's transfer of $61 million, like the GM bail-out, shifted the burden of maintaining the subsidiaries off South African financial sources and the government. Without external capital infusion, the companies' debts would have been covered by funds obtained within the country, soaking up South African capital and thereby making it unavailable for bolstering some other part of the apartheid economy.

Furthermore, by maintaining licensing arrangements with their former subsidiaries, both companies preserve South Africa's links to international technology. The government has been eager to preserve such channels as a means of evading high technology sanctions, which may explain its willingness to facilitate this form of ownership transfer.

The anti-apartheid movement does not accept the myth that companies such as GM and Ford have severed their ties with apartheid. Faith communities along with the rest of the anti-apartheid movement call for corporations to cut all ties to apartheid and to do so responsibly after having negotiated the terms of such disinvestments with their South African workers and their unions.

Notes


2. Ibid.


4. NUMSA Central Committee Statement on Employee Share Ownership.


8. Budlender, Op. Cit., quotes one Congressional Aide as saying Ford "blackmailed" government officials opposed to the transfer by insisting the company would close without the $61 million and that the livelihood of more than 100,000 people would therefore be threatened.


