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# South Africa: Subsidies for the Rich, Cut-offs for the Poor

Electricity in South Africa

Shawn Hattingh

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State ownership is quite compatible with capitalism and some of the most anti-worker and anti-poor companies in history have been state-owned .

This means that struggles for immediate gains, like electricity, should perhaps also be informed by the goal of ultimately replacing the state and capitalism with a new system that serves and is run by the worker class themselves. Perhaps, therefore, the type of world we should be fighting for is a world where there are no bosses; where hierarchies of any form don't exist; where workers manage themselves; where the economy is democratically planned through community and worker assemblies and councils, where society is democratically run from the bottom up using a system of assemblies and recallable delegates; where all wealth is socialised; where the environment is not raped; and where the goal is to meet peoples' needs and not make profits. In other words a world based on anarchist-communist principles where everyone is truly free.

To get such a world, however, would need a strong movement which would also have to be radically democratic and self-managed. A movement that is not democratic, or in which bureaucrats and intellectuals are in control, or in which leaders make the decisions and instruct followers what to do, is not going to be able to create such a world. The only thing it can do is put a new elite at the head of society. As such, struggles and movements for a better world need to be pre-figurative; if we want a truly democratic, participatory and self-managed society in the future; then our methods and movements should also be radically democratic, participatory and self-managed . Indeed, it has long been pointed out that the emancipation of workers and the poor must be accomplished by, and in the hands of, the workers and the poor themselves; anything less cannot be true freedom.

Rather, the most effective way for workers and the poor to win gains like free electricity is through direct action. It was community struggles such as Operation Khanyisa – which involved activists undertaking direct actions like reconnecting people’s electricity who had been cut off – that eventually forced the state to implement a lifeline of electricity however small. What was important about struggles like Operation Khanyisa was that they were also directed by the workers and the poor themselves. Indeed, if electricity prices are to be rolled back for the poor, then actions like this are perhaps going to have to be undertaken across the country. Only direct action, including militant strikes, by the working class itself will pressurise the state to reverse price hikes. As part of this struggle, the working class could also use direct action to try and ensure that the rich and corporations pay more for electricity so that the poor get it for free. Of course, such struggles for immediate gains can also be used to build the confidence, organisation and power of the working class, which would be vital for the larger struggle of social transformation .

The reality that the privatisation and commercialisation of Eskom has led to increased prices for the poor means that as part of any struggle this process needs to be resisted. Privatisation in South Africa has caused massive job losses, skyrocketing prices and cut-offs, which have had a devastating impact on the working class. The fact that the rich get cheap electricity whereas the poor get cut-off also happens because a small group of people – private employers and the state – control the means of production and have most of the wealth; while the rest of the population own hardly anything and are forced to work for the rich for a pittance to survive. As such privatisation and capitalism need to be fought against as part of the struggle for immediate gains. In doing so, however, it should perhaps also be reflected upon that state ownership is not the solution and will not bring freedom to workers and the poor. As such, government ownership does not equate to socialism.

## Contents

Eskom helps the rich by waging a war on the poor .	6
Eskom is part of the state’s project of corporate welfareism . . . . .	11
The struggle for free electricity and beyond . . . . .	13

this subsidisation for the rich. Indeed, throughout the history of capitalism the state has played a central role in protecting the interests of the rich.

## **The struggle for free electricity and beyond**

It is clear that the type of corporate welfarism that is practiced in South Africa has had a devastating impact on workers and the poor. The fact that South Africa is the most unequal society in the world attests to that. The recent electricity price hikes, which are part of the corporate welfare practised by the South African state, are going to intensify the suffering that many workers and the poor are being subjected to. For this reason it is quite likely that the spate of community protests that have occurred in South Africa are going to continue and perhaps even intensify.

In the process of these struggles, however, workers and the poor should not look to the state as some kind of neutral entity or even ally. The fact that the state protects the interests of the rich and ruling few against workers and the poor means that it can never be this. Without pressure from below by the working class the state would also never even consider stopping the electricity price hikes or rolling out free electricity to the poor. Voting for politicians or having faith in parliaments is also not going to bring the things that people need. Politicians of every kind are part and parcel of the elite and play the role of protectors of the capitalist system. Likewise trusting in experts and officials, along with putting faith in social dialogue with government and the rich – who are the enemy – is also not going to roll back the recent price hikes or bring the poor electricity. All the experts and officials have done has been to raise prices for the poor, while giving the rich and corporations cheap electricity.

help of the state, ArcelorMittal's South African operations have become one of its most profitable anywhere in the world.

Within the last few years, the state has also spent massive amounts of money on the Gautrain. Again the beneficiaries of the project were construction companies and the rich. So while the Metrorail system — used by the workers and the poor — is on the verge of collapse due the state cutting funds; wealthy businesspeople will be able to shuttle back and forth to Sandton at 160 km/h aboard plush trains courtesy of the state. In addition, the public private partnerships and outsourcing that accompanied the Gautrain Project were also wracked by kickbacks, crooked tenders and profits for the rich who had political connections .

Another instance of the South African state embarking on corporate welfare has been the money that it has spent on the World Cup. The main beneficiaries of the state's spending spree on stadiums, and other infrastructure, has been construction companies, FIFA and corporate sponsors. It has, in fact, been calculated that the money spent by the state on stadiums could have built over 450 000 houses for the homeless. To make matters worse, in some places like Mpumalanga, two schools were demolished to make way for the stadium; while hundreds of thousands of poor people have been evicted from city centres as part of the gentrification process. To add insult to injury many of the stadiums have been privatised. In Cape Town, the running of the stadium has been handed over to a private company, Stad de France / SAIL. As part of this, the City of Cape Town guaranteed Stad de France / SAIL a profit even if the stadium is never full again after the World Cup .

Despite what neo-liberal ideologues may claim, therefore, the state in South Africa has been propping up corporations and assisting the rich. The state and Eskom's subsidisation of the largest 138 companies, via providing electricity at below the average production cost, is simply part of this pattern. The recent price increases for the working class are also part of

The sight of people, mostly women or children, walking kilometres over dusty roads to haul wood back to their homes for cooking, heat and light is not uncommon in South Africa's rural areas. Likewise, every winter, fires rampage through the thousands of shanty towns that dot the urban landscape because people are forced to use dangerous sources of energy like coal and paraffin. Sadly the lack of electricity, due to unaffordability, has caused the deaths of thousands upon thousands of people. Occasionally, when these shack fires are devastating enough, the country's politicians roll out their BMWs, Mercedes Benzs and sinister black clad bodyguards and visit these areas to lament the suffering and to promise change. Each one in turn vows that if the victims vote for their party a new era of prosperity will dawn, but in the end nothing ever changes. Indeed, the web of lies that the politicians of every hue spin has no end.

The reason why nothing changes is because no matter what party these politicians are from, they are part and parcel of the leadership of a system — in the form of the state and capitalism — that is designed to wage war on the working class, to increase the wealth of the rich and to protect their interests. Time after time these politicians along with the rich have unleashed repeated attacks on the working class. The latest of these attacks recently took place when the government and the state-owned electricity provider, Eskom, announced that the price of electricity for households would be increasing by over 100% in the next three years. In fact, in 2010 alone electricity prices are set to soar by 24% for the working class . The consequences of these astronomical increases are going to be devastating, but also glaringly familiar: electricity cuts offs will increase; evictions related to Eskom's cost recovery will soar; millions more people will have to use dangerous energy sources like paraffin; and the number of shack fires and associated deaths will escalate . The state, politicians, the rich and Eskom, however, don't really care about this despite what they claim when disasters

like shack fires occur. All they actually care about is squeezing more and more money out of workers and the poor.

## **Eskom helps the rich by waging a war on the poor**

In truth, Eskom has become one of the major sites through which the state and rich wage a war on the poor. Under apartheid Eskom was established to provide cheap electricity at no profit to the richest white capitalists in the country in the form of mining houses. In the late 1980s the state-owned Eskom eventually stopped running on a non-profit basis and it was commercialised. This meant that it started to sell electricity as a product in order to make money . The focus of this profit making, however, was not corporations; it was rather the working class. As such, since the 1980s the price that the working class has to pay for electricity has risen sharply. The consequences of this have been devastating as since 1994 Eskom has cut off the electricity of as many as 10 million people because they could not pay . To add insult to injury, it was also the state-owned corporation, Servcon, which evicted many of these people from their homes for non-payment . Linked to this process of commercialisation, the state and Eskom's bosses also attacked the company's workers. To reduce costs they fired 40 000 of Eskom's 85 000 workers during the 1990s . Today there are just over 30 000 workers left at Eskom. The aim of all of these mass retrenchments has been to intensify the exploitation of the remaining workers. Indeed, it has been workers and the poor that have been forced to bear the brunt of Eskom's commercialisation: the new round of price increases are simply part of this longstanding process.

Despite its drive to maximise the profit it derives from supplying electricity to the working class, Eskom continues to charge the biggest corporations in the country the lowest rates

poor. Indeed, a revolving door exists between the state and large corporations in South Africa.

## **Eskom is part of the state's project of corporate welfarism**

The major assistance that the state provides to corporations, through Eskom, is not an isolated incident. The government through its numerous state-owned corporations has literally provided billions of rands in subsidies to corporations. Even during the period of neo-liberalism, huge amounts of money have been spent by the state on projects like Coega and the Lesotho Highlands Water Project for the benefit of corporations. In the case of Coega, it was designed amongst other things to offer giant corporations an opportunity to establish further smelters at very low costs; while the Lesotho Highlands Water Project had the goal of diverting water from a neighbouring county to corporations in Gauteng at exceptionally low prices. Massive construction companies, like Murray and Roberts, also made a fortune out of the government contracts that accompanied these projects. Likewise, the state-owned Industrial Development Corporation (IDC) has provided corporations with billions in terms of loans, financial assistance and bailouts. In 2010 alone it spent R 11 billion promoting the interests of corporations and capitalism in the country.

Under bureaucrats like Alec Erwin the state has also been involved in ensuring that giant corporations like ArcelorMittal were supplied with exceptionally cheap raw materials to encourage them to invest in South Africa and to boost their profits. The state ensured that when ArcelorMittal bought the privatised steel producer Iscor it would receive iron ore at cost plus 3%. The state then, in turn, allowed ArcelorMittal to sell its steel at import parity prices . This has meant that with the

aimed at boosting the profit margins of the large companies that take over these functions. Many of the companies that have received outsourcing contracts have had links to leading figures in the ANC, and the practice of outsourcing by parastatals has often had the goal of benefiting a tiny number of black capitalists through Black Economic Empowerment (BEE). For instance, in the case of Eskom a R300 million contract to manage certain of the company's facilities was handed to a corporation — Drake & Scull — when Valli Moosa was Eskom Chair. It should come as no surprise that Valli Moosa is also part owner of Drake & Scull. In fact, he bought a share in the company literally months before awarding it the Eskom contract. While Moosa and Drake & Scull have made vast amounts of money out of the deal, the workers involved had to stomach the consequences. They were told to either move to Drake & Scull, with the loss of many of the benefits that they had, or to accept being retrenched. This situation, however, is not unusual, around the world outsourcing and privatisation of service has been shown to undermine the working conditions of employees, while at the same time increasing the costs of services to the public.

The state bureaucrats that have been linked to Eskom have been rewarded handsomely for providing cheap electricity to corporations and handing outsourcing contracts to the rich. For example, former Eskom CEO Jacob Moraga received a salary of almost R 5 million in 2009 alone. When he recently left Eskom he also demanded and sued for an additional R 85 million as a severance package. Likewise, during the apartheid era the former Eskom CFO, Mick Davis, was rewarded so handsomely that he used this, along with the connections he had created, as a foundation to eventually establish one of the largest resource corporations in the world, Xstrata. As such, state linked officials have become as well paid as their capitalist counterparts for helping the rich and attacking the

for electricity probably anywhere in the world. The extent of this was revealed when it was made public, by groups like Earthlife Africa, that Eskom has secret special pricing agreements with 138 corporations in southern Africa. Under these agreements, which were endorsed by the post-apartheid state, these corporations have been receiving electricity below the average cost of production. It has also been pointed out that this means that these corporations are receiving electricity between 9 and 35 cents per Kilowatt /Hour; while households pay around 80 cents per Kilowatt/Hour. This translates into a situation in which some of these companies are receiving electricity at a price that is 500% less than what the average working class customer is being forced to pay. To make matters worse, many of these corporations will also be exempt from the price increases that have recently been announced. This means that the poor are being made, by Eskom and the state, to subsidise the rich.

The company which the state and Eskom have perhaps provided the biggest support to has been BHP Billiton. BHP Billiton started its life out as an Afrikaner empowerment company, Gencor, which was established during the apartheid era. In the mid-1990s the first finance minister of the post-apartheid government, Derek Keys, gave Gencor permission to move billions of rands offshore to buy a resource company called Billiton and become one of the largest corporations in the world. As part of this, Gencor then legally transferred the ownership of its most profitable sections to its newly acquired subsidiary Billiton and took its name. Soon afterwards Keys left the state to become head of Billiton. He then received permission from the state to move its headquarters to London and Melbourne, which meant the company could repatriate all of the profits it made in South Africa out of the country. The assistance that the state has given to BHP Billiton did not end there. Since 1997 the South African state has ensured that Eskom provided three of BHP Billiton's smelters in southern Africa with arguably the

cheapest electricity on Earth, which often has worked out to be well below the cost of production. Such deals with corporations have been directly linked to Eskom recording a loss of R 9.5 billion in 2009 . In fact, it has been calculated that in 2009 alone BHP Billiton made R 1.3 billion out of its deals with Eskom. To put the scale of this into context, R 1.3 billion could have provided over 280 000 poor households with 200 free Kilowatts/Hour of electricity per month for a year. It was the public pressure that such deals created, which led Eskom to recently announce that it would be renegotiating its deals with BHP Billiton. At the same time, however, it was announced that these renegotiated deals would also be secret, which means that there is a very real prospect that little will actually change.

The 138 companies that Eskom and the South African state provide extremely cheap electricity to also account for over 40% of the electricity generated in the country . This along with the mothballing of power stations that accompanied Eskom's commercialisation has led to a colossal energy crisis . Yet, it has been the working class that has been forced to bear the burden of the crisis in terms of blackouts and increasing costs. In addition to this, the South African state has also recently secured a World Bank loan for Eskom to expand its capacity, for which the public will ultimately have to pay. It is planned that this loan will be used in building two coal fired power stations whose main beneficiaries will be major corporations. These two new coal fired power stations will be adding to the already vast amounts of pollution that corporations, including Eskom, generate in South Africa . Indeed, since its inception Eskom has been externalising the real costs of its pollution onto communities through the market.

One of the main beneficiaries of the World Bank loan and the construction of the new power stations is the corporate giant Hitachi . The South African leg of Hitachi happens to be partly owned by the ANC's investment company, Chancellor House.

It is perhaps no coincidence, therefore, that the deal between Eskom and Hitachi was brokered by ANC heavyweight Valli Moosa who is also the Chair of Eskom. As a direct result of the contract, the ANC has been accused of possibly standing to make over R 50 million from the deal through Chancellor House . The prospect of this raised the anger of many people. Under pressure from the public, Chancellor House and Hitachi eventually announced that this money would not be going to the ANC, as it was a conflict of interest, but rather private individuals linked to Chancellor House. Who these 'private' individuals are, however, Hitachi and Chancellor House are not willing to say. This once again highlights how corruption is intrinsically part of the capitalist economy and how the interests of capitalists, states, politicians and political parties are intimately intertwined.

The current energy crisis and the World Bank loan have also raised the prospect of further rounds of privatisation of sections of Eskom. It was recently announced that sections of Eskom's generation capacity are set to be privatised. The companies that are advising Eskom on the privatisation schemes are none other than the corrupt corporate giants Goldman Sachs and JP Morgan – who themselves only exist due to massive bailouts from the US state . No doubt these two companies are raking in massive fees from their advisory role. As part of the privatisation process it is also anticipated that thousands of workers could be retrenched, while others will be essentially sold off to which ever companies take over sections of Eskom's generation capacity . Considering the history of privatisation in South Africa and across the world, it is highly likely that this new round of privatisation will also lead to higher prices and more cut-offs in the future.

Of course, Eskom has already had a long history of being involved in numerous public private partnerships along with outsourcing certain of its functions. On the whole outsourcing has been used as a form of corporate welfarism that has been