

MEDIA ALERT

27 JULY 2022

GIWUSA RESPONSE TO GOVERNMENT PLAN TO ADDRESS ESKOM CRISIS

The General Industries Workers Union of South Africa (GIWUSA) wish to state upfront that we don't believe President Cyril Ramaphosa has presented a plan to resolve the electricity crisis. Instead, we find him leading a renewed campaign to privatise Eskom – especially renewable energy generation - in the interests of foreign corporations as well as a few local elites (including his brother-in-law, Patrice Motsepe).

But this strategy will resolve neither the ongoing electricity crisis here nor related, rapidly worsening catastrophes: climate change, mass unemployment, extreme inequality and poverty. Yet instead, addressing all these together must be a central principle for a just, effective resolution of the energy crisis. We believe only the state – not for-profit firms – can resolve the poverty of the working class, the inadequate sustainable energy supply to industry, and the environmental injustice of climate change.

Causes of capacity constraints and shortage

Firstly, it is vital that the President's address inadvertently exposed as a lie the main thrust of the government and Eskom propaganda in the past weeks of Eskom labour unrest and a brief strike: blaming workers for the power outages and turn working-class public support against them.

Now, weeks after the strike has ended, Eskom can still only reliably supply 26 000 megawatts when the winter peak requires 32 000 MW.

By Ramaphosa's own admission, there are other profound problems: poor maintenance, aging infrastructure, the defective design and construction of Medupi and Kusile coal-fired power plants, theft, fraud and sabotage. Along with a factor he failed to raise – ANC corruption in being bribed by Hitachi for the Medupi/Kusile boiler contracts worth tens of billions of rands (which Hitachi was successfully prosecuted for in the U.S. in 2015 but which somehow escaped the Zondo State Capture Commission's attention) – are the real reasons behind shortages of 6000 MW. If all power plants were running at 100% efficiency, Eskom would have capacity of 46 000 megawatts of capacity.

GIWUSA welcomes the commitment to double the generation capacity with the plans to add 7, 165MW this quarter, 5 663 MW within a year and further 9 770MW in 18 months. Whether government is able to deliver on this commitment remains to be seen. We recall how Ramaphosa ran the 'Eskom War Room' in 2014-15 when he was extremely generous to Glencore – his former business partner – by dramatically raising the price of (substandard) coal bought from the ultra-corrupt Swiss company's Optimum Mine – while doing next to nothing to prepare a Just Transition from fossil fuels. Naturally, we are sceptical and wonder if this is not another link in the long chain of broken promises of the past 27 years. Most importantly, like all trade unionists and those concerned with the public interest, we are extremely opposed to plans to outsource most

new generation to the private sector.

The desperation of the ANC and corporate interests clamouring for the privatisation of Eskom is indeed why we are in this situation in the first place. The state's failure to invest in new capacity when the current shortages were predicted as far back as the late 1990s reflected the desires of the then leadership (President Thabo Mbeki, Public Enterprises Minister Alec Erwin, Eskom chair Valli Moosa, etc) to present Eskom as a profitable parastatal for private investors to procure and operate, as was done with Telkom, South African Airways and others at the time – with Public-Private Partnerships soon becoming Private-Public Plundering once the ANC's Chancellor House played an outsized role with Hitachi and then in the 2010s the Guptas moved in to Eskom and Transnet for the kill.

For this, the country is paying dearly with incessant outages, which are particularly targeted at black, working-class communities because of Eskom leadership's so-called "load reductions" that consciously and deliberately target communities where there are high levels of non-payment resulting in apartheid-style collective punishment. This policy began with Andre de Ruyter's mid-2020 imposition of load reduction, during the first wave of Covid-19 and in the midst of a brutal winter when 2.1 million people were losing jobs and simply couldn't afford to pay Eskom's outrageous price increases.

Shortages of local coal reflected massive increases in the price of coal exports to India, Pakistan and more recently China. Already this practice – irresponsible when climate catastrophes are intensifying – already exposed the extremely parasitic character of private ownership and for-profit operations of coal mines. No one can dispute the disastrous consequences for electricity supply and prices, and for the country's energy security. But if further evidence is needed of excessive profiteering from energy misery, then consider how in the United States, the two huge states subject to electricity privatisation - California in 2000-01 and Texas in 2021 – were ripped off by artificial supply cuts and soaring prices.

Privatisation of electricity generation: public costs for private profit

Alongside the decision - prior to late-2000s borrowing for Medupi - to not burden Eskom with debt and capital expenses, to make it 'investable-for-profit', government began hiking Eskom tariffs. This became acute starting in 2007, and during the 2010s meant that any potential investments by Independent Power Producers would be more profitable. This required Eskom to reverse both its mass electrification and Free Basic Electricity policies and end the cheap electricity that was a by-product of apartheid regime's geopolitical and industrialisation strategy based on public ownership and a monopoly over electricity supply.

The consequences of these neoliberal policies included 460% increases in the Eskom tariffs from 2007 to 2020. Then there were 15% and 9,6% tariffs increases in 2021 and 2022, respectively, with De Ruyter now proposing more than a 30% increase for 2023.

His objective appears to be encouraging more high-proceed IPPs to guarantee both long-term supply contracts and profits at an extremely high margins. In fiscal years, 2016/17 alone, IPPs were awarded R15 billions of public funds for the same amount of electricity it would have cost Eskom R3 billion to produce, according to a report by the Eskom Reference Group based at the Alternative Information and Development Centre.

Plans to unbundle Eskom into various state-owned entities responsible for generation,

transmission and distribution are predicated not on the need to maintain Eskom as a public service. They are based on the need expressed by industry to continue subsidisation of electricity supply to three dozen big multinational corporations, especially those in mining, smelting and carbon-intensive industries, known as Energy Intensive Users Group (EIUG).

The EIUG consumes 40% of Eskom's electricity, with BHP Billiton/South32 and Anglo American enjoying highly-subsidised rates that are below the cost of production, thus rendering Eskom unviable and unsustainable based on its corporatised model. South32 smelters in Richards Bay and Maputo use over 9% of Eskom's electricity, at one-tenth what households pay in tariffs, thus subsidising this mega-corporate which imports bauxite to make aluminium. This process is not only extremely carbon-intensive and capital-intensive (with few jobs), but the Australian firm mainly exports the aluminium as well as the profits.

Even one Business Day columnist (Michael Avery) recently argued for the electricity to be redirected from the power-guzzling smelters, so as to lower current costs of billions to the public fiscus, exorbitant tariffs, persistent electricity shortages and power outages for ordinary people. The same suggestion was made to Mbeki in 2008 by Standard Bank CEO Derek Cooper. But BHP Billiton was successful with crony-capitalist appointments and like so many multinational mining houses, state-captured local energy policy.

An additional problem is that with the state retaining transmission and distribution of electricity under this arrangement, it mitigates risks for Independent Power Producers, by guaranteeing procurement and profits through long-term supply contracts at prices that secure high margins for suppliers. Eskom or the newly created State-Owned entity will also absorb the costs of integration, transmissions, and distribution infrastructure, which will become even more expensive to maintain as incidents of community self-help and protests inevitably rise alongside soaring costs of electricity.

Public ownership and democratisation of Eskom

GIWUSA has consistently campaigned in defence of a publicly-owned Eskom. We have, however, equally pointed that the current form of a capitalist state ownership and management of Eskom is the real reason we are in the current state of multiple crises facing it.

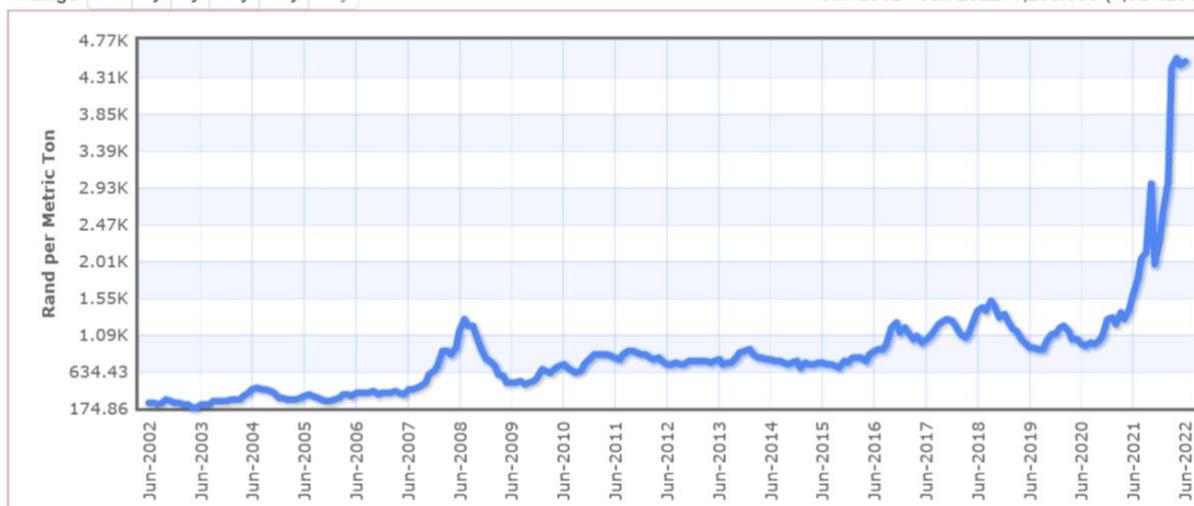
Corrupt appointments in the management of Eskom alone cost the company R14,7 billion in contracts with companies linked to the Gupta brothers, according to Zondo's report on the state capture of Eskom.

But this is merely the tip of iceberg. Hundreds of billions of rands are lost in contracts with coal suppliers. Since China began buying from South Africa in late 2020, and since Vladimir Putin's invasion of Ukraine, the price has skyrocketed by a factor of four, to R4500/tonne.

Coal, South African export price Monthly Price - Rand per Metric Ton

Range 6m 1y 5y 10y 15y 20y

Jun 2002 - Jun 2022: 4,250.359 (1,721.29%)



This price hike is not due to any increases in costs or payments to coal miners. Instead of imposing a windfall profits tax on South African coal mines, the government continues to provide various forms of support from public funds. One example is that the cost to public health, to local environments and to the global climate due to coal mining and coal combustion is hundreds of billions of rands annually, according to a September 2021 International Monetary Fund estimate (the South African government's total annual implicit subsidy based on not addressing the climate catastrophe with an adequate carbon price is more than R850 billion).

The coal mines supplying Eskom are part of the energy crisis, because according to 2019 financial statements from Eskom, "...nine suppliers are estimated to earn margins between 30% and 49%, while four suppliers earn margins between 50% and 100%. Seven suppliers have been identified as earning 100% margins on their contracts".

Under the corporate and elitist political mismanagement of the ANC government, Eskom has become a milk-cow for ANC-aligned politicians and big corporations.

The new Public-Private Partnership regime and imposing more IPPs on the electricity system will exacerbate this sort of profiteering.

Cynical attempts to exploit the crisis to undo extremely limited protections in the current tendering and environmental regulatory framework are calculated to insulate these corrupt and profiteering political and corporate interests from public scrutiny. Again, Ramaphosa's neoliberal approach will aggravate the crisis, instead of resolving it.

In the aftermath of Zuma-era Gupta state capture, we must be extremely alarmed that the President is introducing these measures exactly at the time when questions are being raised about his own interests, and those of his family, in the IPPs.

GIWUSA is therefore calling for democratisation of the corporate governance and management to ensure that it is based primarily on the elected representatives of Eskom workers, the trade union movement, and community civics representing consumers and the environment.

GIWUSA has, alongside the Climate Justice Coalition, been campaigning for a truly New Green Eskom, which will remain committed to serving the public interest.

Climate change and just transition

Defending the role of Eskom as a publicly-owned entity – but one that needs placing under democratic working-class control and management –will potentially allow generation of desperately-needed capacity, which will in turn positively affect the future of electricity supply, accessibility and affordability. That way, the working class will make clean energy a genuine public good. In addition, we believe only Eskom has the ability to rapidly transition our electricity generation system to renewables in a way that provides a sustainable, affordable and universally accessible supply of electricity. We insist that in the process, Eskom upskill its workers, protect jobs and local economies around affected industries, and end the war its management wages against workers and ultra-polluted communities suffering from Eskom's refusal to install emissions mitigation devices.

In sum, government's plans for electricity power generation have consistently failed to deliver because they are based upon the market. The policy is also failing given that, internationally, Russia's brutal invasion has sparked sanctions and in turn, a massive upsurge in prices of solar and wind energy components. Despite South Africa's enormous renewable energy potential, due to its long coastlines, powerful wind and abundant sunshine, thus far government procurements of this energy through IPPs resulted in an entirely inadequate supply of installed solar and wind power. In a country where potential solar power is estimated at 300 GW, it is absolutely scandalous that renewables only contribute less than 3% of the country's energy.

Experts argue that if equipment was built in South Africa and made available through subsidies, 73 GW of potential solar power in the country could be generated from the rooftops of peoples' homes. These means there is absolutely no reason – aside from misplaced subsidies – that we cannot transform every house into a power station in this country. Most importantly, working-class people who today faces a cost of living nightmare as a result of energy prices, can actually become producers of their own energy and sellers to the grid.

The massive electrification programme that Eskom and municipalities carried out in the post-apartheid years demonstrate that public capacity can be quickly upscaled so as to roll out the installation of solar panels to every household in this country, at the speed we need to overcome the Eskom crisis, energy poverty and the problem of rapid transitions to renewable.

In our view, through nationalising coal mining and IPPs, and insourcing all services in Eskom, based on democratic working-class control and management, it will be entirely possible to create a truly integrated electricity generation, transmission and distribution service that can also rapidly transition to clean renewable energy.

Leaving transition from fossil fuels to the private sector is not clearly working. With such vast increases in coal prices, the capitalist system is telling investors to keep making profits from fossil fuels – even though there is a strong chance it will lead to extinction of our and many other species. Coal mines are rapidly increasing production capacity, and so are the investors as prices and profits are soaring.

Eskom is part of the broader capitalist crisis: Campaign for Green New Eskom

Eskom's crisis is part of a bigger crisis of capitalism globally and in South Africa. It reflects how

the capitalist class are plundering public services everywhere to prop-up falling profits of monopoly capital. The political elite and the ANC-aligned black capitalist class ruthlessly exploit the state-owned entities as sites of accumulation.

Capitalists everywhere are deliberately sabotaging public services in order to justify privatisations, to create outlets for profitable investments of huge cash reserves hoarded by big corporations (including R1, 4 trillion of estimated idle cash held in South Africa, or the 3-7% of GDP that these same firms move offshore annually through Illicit Financial Flows according to the Financial Intelligence Centre).

Ramaphosa, as a billionaire President acting for the billionaire class and his capitalist ANC allies, is therefore incapable of finding a solution to the crisis. Only the working class can provide solutions outlined here and in countless other submissions based on science, the public interest, and social and climate justice.

It is time for the working class to unite against the rising levels of climate crises and energy poverty. For these changes to happen the working class must organise itself and struggle to defend Eskom as a public service. We insist on a Green New Eskom that can provide a free adequate electricity for all in need on a sustainable basis and a rapid, just transition to clean, safe, renewable energy.

In Summary:

At a time when many countries are reverting to public ownership, South Africa is rushing to privatise the energy sector, which will cause further mayhem. Therefore, GIWUSA demands that South Africa runs a democratised ESKOM as a public service in the public interests.

This means:

- ESKOM must remain publicly-owned, under democratic worker control and management, based primarily on the elected representatives of ESKOM workers, the trade union movement, and community civics representing consumers.
- The nationalisation of coal mining and IPPs, and the insourcing of all services in ESKOM under democratic working class control and management.
- The immediate upskilling of workers, protecting the jobs and local economies around affected industries.
- The immediate creation of decent climate jobs for the unemployed as part of public works programme to build infrastructure for clean renewable energy.
- Decent wages and conditions for ESKOM workers to retain the current skills and recruitment of those who left.
- Adequate provision of Free Basic Electricity for the poor.
- No outsourcing to the bulk of generation to the private sector.
- Every house in the country can be transformed into a power station through a roll-out programme for installation of solar panels.

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