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NOT content with buying two rusting steel companies, Wilbur Ross, America's straight-talking "king of bankruptcy", now wants a third. On January 6th, International Steel Group (ISG), Mr Ross's acquisitive new steel company, made an offer for Bethlehem Steel, a big, bankrupt steelmaker. Together with steelmaking assets from LTV, another big, bust steel firm and Acme Steel, a smaller firm whose assets Mr Ross bought in September, the combined firm would have the capacity to mill 16m tonnes of steel a year, making it the biggest steelmaker in America. On January 9th, another giant, US Steel, said it would buy National Steel for \$750m.

Mr Ross, who got a bargain when he bought LTV's assets for \$325m last February, is the first to admit that the \$1.5 billion he is offering for Bethlehem Steel, an old-fashioned "integrated" firm that makes steel from iron ore, not scrap metal, is a "very full price". In part, this is because steel prices have risen: in the past 12 months, the price of a tonne of hot-rolled steel has shot up by more than 50%. But Mr Ross's uncharacteristic generosity also reflects what Robert Miller, Bethlehem's chief executive, says is "the most dramatic thing that has happened in the US steel industry in the last 20 years"--an extraordinary new labour contract with the United Steel Workers of America (USWA), the industry's hitherto muscular labour union.

Mr Ross will not divulge the full details of the agreement that ISG struck with the union last month. But the contract, whose features Mr Ross now hopes to replicate at Bethlehem Steel, contains several unexpected reforms. One is a new flexibility towards union "work rules". The old LTV operated with more than 30 different job classifications, keeping highly paid steelworkers in jobs such as mowing lawns or cleaning toilets. The new contract has whittled the list down to six, and allows ISG to outsource more menial work. Fabulously generous pensions and health-care benefits--blamed for many recent steel bankruptcies--have also been reduced. Steelworkers at ISG must now endure the same sorts of benefits that most white-collar Americans put up with: "co-payments" for doctor visits and pensions whose pay-outs are no longer guaranteed.

In return, Mr Ross's steelworkers get a slice of ISG's profits and bonuses tied to any productivity improvements they can squeeze out of the manufacturing process. "You'd be amazed at how much the fellow who has sat for 15 years in front of the machine knows about it," says Mr Ross. There have not been many complaints so far: after just eight months in operation, ISG's workers collected bonuses worth seven weeks' pay at the end of last year.

Credit must go in part to Mr Ross, who has played a canny hand. Although he made deep cuts among LTV's blue-collar workers, Mr Ross was far more savage with the firm's bloated corporate management. Just 15% of LTV's former white-collar staff were kept on by ISG--"a huge statement to the union", according to one source close to Bethlehem Steel. Mr Ross has also been careful to toe the union line on the evils of foreign competition: all he seeks, he says, is a "level

playing-field", devoid of foreign government subsidies. It seems that Leo Gerard, the USWA's pugnacious leader, has found a steel boss he can deal with.

To some extent, Mr Gerard has had no choice: 35 steel firms have gone bust since 1977. Of these, 17 have liquidated themselves, costing USWA members health-care benefits. But Mr Gerard also deserves some praise for his role. Having lobbied furiously for trade tariffs on imported steel, which President Bush duly delivered last March--almost triggering a trade war with the European Union--the USWA has largely kept to its side of the bargain, throwing its weight behind industry **consolidation**. Mr Bush's widely criticised imposition of tariffs so that steelmakers could restructure themselves might yet turn out to have a positive side.

The upshot? ISG now claims to be the lowest-cost producer of steel in America-- cheaper even than modern, non-unionised "mini-mill" operators such as Nucor, which make steel out of scrap. Bethlehem will not be quite as profitable for Mr Ross as his LTV deal has been. But one year ago, it would have been hard to find a buyer willing to pay anything at all for the company's ageing blast furnaces. Most startling of all is the possibility of an **American steel industry** emerging that is strong enough to survive without trade barriers or government handouts. That really would be something of a miracle.

GRAPHIC: No more kicking the management; America's steelmakers dare to hope again

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