Commodities by EIR Staff

Steel settlement means bankruptcy

The so-called management offer from USX could be the prelude to the end for that company, and the entire steel industry.

If steelworkers accept the USX management's offer to end the six-month long lockout, the result might well be the bankruptcy of the entire steel industry. Cynics might even guess that management offered a contract requiring the loss of 1,346 jobs and a further $2-per-hour cut in wages and benefits, in hopes that union rank-and-file members would vote it down. What terrifies USX management is not labor costs, but the price war in the industry, which the lockout merely postponed. And their real concern is not how to avoid bankruptcy, but how to arrange a successful one—particularly since LTV Steel's bankruptcy made it difficult for any of the other steel majors to fail on such favorable terms.

The collapse of steel production, which had held up in a fairly narrow (if low) band between January and May, occurred during the month of June, *before* the USX lockout began; under normal circumstances, the industry would have increased output before a strike, not reduced it. This makes clear that the lockout was a production-restricting measure more than anything else.

In fact, the USX lockout did not even raise the sales of other steelmakers. LTV's sales of steel during the quarter fell by 24%, from $1.35 billion during the second quarter of 1986 to only $1.02 billion during the third quarter.

Through the course of the lockout, steel inventories have not fallen, imports have not risen, and sales of other companies have, on the whole, stagnated.

In fact, the elimination of most USX primary-steel capacity over four months merely forestalled a price collapse in the industry. Primary metals orders (to the extent the Commerce Department figures can be relied upon) fell by 3.9% in September, and by an additional 1% during October. Raw steel output, at about 8 million tons during March 1986, and at 9 million tons in March 1985, averaged less than 6 million tons between August and October of this year.

The continued fall in orders, the failure to reduce steel inventories, and the low import level, all demonstrate that American basic industry is operating at a deeper level of the depression than was the case last spring. Measured by steel consumption, the level has fallen off by roughly 25%; it is impossible to calculate, on the basis of existing data, how far primary production has fallen, but the underlying level of activity appears to have been declining at an annual rate of 15-25%.

The brokerage firm Paine Webber wrote on July 18, just before the lockout began:

"The implication of the LTV bankruptcy is that flat-rolled steel prices, which have already fallen about $30 a ton in the 'spot' market since June due to the collapse of orders in the second quarter, will fall a further $30 to $40 a ton. This would sharply boost the operating losses of all steel companies and raise further bankruptcy threats. Factors working to drive down prices include the rising market share for mini-mills, imports arriving at about 23% of the total market, high imports of steel-containing goods, and the mixed outlook for automotive sales and capital spending by industry."

How different the industry's present position is compared to past performance, is evident in the pricing structure. In early 1981—that is, at the worst of the 1980-81 industrial downturn—the average discount from list price was only 4%. In late 1985, the average discount rose to 31%. That reflects the circumstances which forced the failure of LTV.

Since the USX lockout, the average discount has recovered to 16%. However, only continued production cuts could prevent further deterioration of steel prices, and it is doubtful that even a 64 million ton per annum production level, half the 1978 level, could hold the line. Should USX try to resume production following the contract settlement, the discounts will doubtless widen to more than the 30% level of late 1985 and early 1986, bankrupting the rest of the industry.

LTV's own bankruptcy will, according to analysts, reduce the firm's pre-tax cost by $85 per ton of crude steel, bringing its pre-tax costs to more than $50 per ton below those of its next most efficient competitor.

In fact, LTV jumped the gun in the race among the leading steelmakers to seek bankruptcy protection, or asset-stripping buyouts, on relatively favorable terms. For the first time in American heavy industry, the kind of competitive bankruptcy associated with the New York City garment center dominates management strategy. The name of the game is unloading pension-fund liabilities onto the federal government first, and LTV succeeded.

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