EIR Economics

Probe Ross/Rothschild Factor In the Sago Coal Mine Disaster

by Paul Gallagher

The revelation that "equity fund" corporate predator Wilbur L. Ross began buying the debt of Anker West Virginia Coal Co. in September 1997, and had his lieutenant in apparent operational control of the company by May 2003 (see *Interview* below), should be a focus—along with lax safety regulation by the Federal Mine Safety and Health Administration (MSHA)—of a full investigation by Congress of the Jan. 2 Sago Mine explosion, and the resulting deaths of 12 miners.

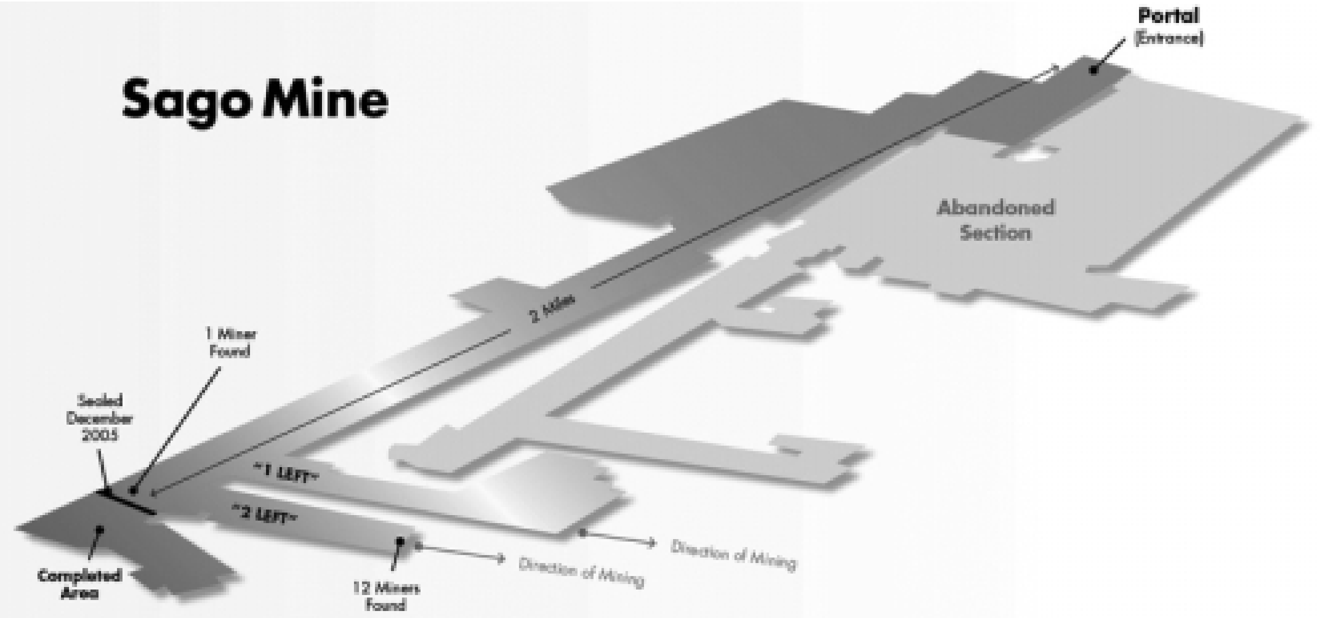
Ross, a low-profile billionaire sometimes called an "industrialist" or even a "coal baron" because of his raids on steel, textile, coal, and now auto-parts corporations, is actually the perfect type of the globalizing operations of bank-financed hedge funds and private equity funds, known properly as "the financial locusts." The operations of WL Ross and Co. and its like, in taking down industries—and also, in the case of coal, in speeding them up—not only cost jobs and pensions; they take lives. The immediate threat that Ross will grab, loot, and sell off a large chunk of the crisis-wracked auto-parts industry, makes full investigations of the Anker takeover imperative—just as does the requirement of doing justice to the 12 miners, and preventing future disasters.

Two other factors are also of critical importance: First, Ross was a 26-year senior specialist in bankruptcies for Rothschild, Inc. in New York, and part of the "synarchist fascists in Democratic Party clothes" faction of Lazard Frères' banker Felix Rohatyn (see "What's a 'Rohatyn'?" *EIR,* Jan. 6, 2006). WL Ross and Co. was virtually a complete "spinoff," in 2000, of Rothschild Recovery, Inc. bankruptcy specialists. Ross's apparent collaborators on Anker's board were representatives of Enron—also a Rothschild, Inc.-financed energy operation while Ross worked for Rothschild. His deal with Enron to market Anker's coal only collapsed when Enron did. Wrote *Forbes:* "Ross typically buys up 25-50% of a target company's debt, at a steep discount, as it's skidding toward bankruptcy, using capital from eight funds the WL Ross Co. manages. Once it's in Chapter 11, Ross gets himself elected head of the creditors' committee and begins muscling management and unsecured lenders. Post-bankruptcy, Ross invests new equity capital from his own pocket." That was his *modus operandi* with Anker.

Secondly, Ross's coal operations since 2001, when he took a dominant role on the board of Anker, were all framed by Dick Cheney's infamous Energy Task Force, and its embedded policy of driving the global price of oil, gas, and coal steadily upward in the face of economic depression and unemployment. Ross saw northern West Virginia's old, overworked, and dangerous deep coal mines (see **Figure 1**) as a place to double or triple bituminous coal production for electric power, while the price was rising. A full-out "productivity" drive—in non-union mines, with what MSHA inspectors called "a high degree of negligence for the health and safety of the miners"—and waning Federal enforcement by the Cheney-Bush Administration, was a formula for death. Even on Jan. 16, four days after Ross's Anker CEO Ben Hatfield had said that Ross would make no further comments about the disaster, *Fortune* published an interview in which Ross said, "We are expanding. Sago produced 350,000 tons of coal last year, and we had planned on 900,000 tons this year [2006]."

Responsibility for the Lack of Safety

While ICG's West Virginia mines had not had miners killed, the rate of non-fatal accidents in them, including Sago, was three to five times the national average for underground coal mines. The Sago mine itself, according to an investigation published in the *Charleston Gazette* on Jan. 10, saw more than one dozen roof cave-ins during 2005. From October through December 2005 alone, the mine was cited for 18 "significant and substantial" violations; as well as the MSHA



A schematic of the "new" Sago mine shows miners were two miles deep into a very old coal seam, with large areas of closed-up abandoned mine abutting their tunnel on the side and (lower left) in front—a dangerous situation.

inspector's finding, noted above, of "a high degree of negligence." The violations included dangerous accumulations of explosive coal dust or methane gas in the air in the tunnels.

In fact, MHSA officials were sufficiently concerned about the conditions building up in the Sago mine, that they had scheduled a meeting for Jan. 6, 2006 between ICG president Ben Hatfield and the MSHA's top administrator for coal mine safety, Ray McKinney, to "discuss the accident rate at the mine," according to a Labor Department spokeswoman quoted by the *Pittsburgh Post-Gazette* on Jan. 19. The deadly explosion on Jan. 2 cancelled the meeting.

It is these manifest danger signs of the accelerating production of bituminous coal at this old-site, non-union mine, which Ross and his subordinates have tried to dismiss since the tragedy, as in Hatfield's claim on Jan. 9 that, "Much of the bad history was beyond our reach and our ability to control." But Ross's claims are completely belied by the timetable researched by author Mark Reutter (interviewed below), which shows that Ross steadily gained greater and greater control, over almost a decade, beginning even before the late-1997 helicopter crash which killed Anker's founder, John Faltis, at the Sago site. Ross has also claimed that "due diligence" would have accompanied ICG's final purchase of Anker in 2005; but in fact, ICG did not file a certificate of transfer with West Virginia authorities as the state's law appears to require—it avoided the step which would have resulted in a state licensing and safety re-evaluation.

Ross has also acquired, over the same general time period, six underground coal mines in eastern Kentucky; and Kentucky mining regulators last year issued 54 temporary-closure orders to ICG mines in that state, because of safety problems.

The Cheney Task Force Effect

But the type of mines Ross was investing in, buying, and/or operating for rapidly expanded production—as bituminous coal prices rose over the five "Cheney Energy Task Force" years—featured the *inherent* danger of mining old, heavily worked coal seams. The schematic of Sago in Figure 1 shows, that the mine's workforce had dug down a "new" tunnel mine a full two miles from its entrance, with large sections of the old, abandoned, and sealed coal mine, held up only by coal pillars and subject to volatile roof collapses, alongside them for most of the way. Directly in front of them as well, two miles in, was a section of mine which had just been closed and sealed (lower left) weeks before the Jan. 2 explosion. There was also the metal piping of numerous closed natural gas wells in the hillside. And as late as Dec. 14, 2005, an MSHA inspectors' "withdrawal order" made Sago officials clear out the "First Left Mains" section shown on the map, due to dangerous accumulations of combustible materials. Only the "Second Left" path remained open. This is the mine Ross called "still expanding" and targetted for tripling its coal production in 2006.

At the investigation being conducted by MSHA and West Virginia officials, the fiercely non-union ICG executives created a "snag" on Jan. 18, by strongly objecting to the presence of United Mine Workers (UMWA) representatives—although several Sago miners being interviewed, had asked for the UMW to be present, as the law allows even for a non-union mine. Ross's people spent that day trying to find out which employees had asked for the unionists. Although MSHA can conduct investigations in public, under the 1977 Federal Mine Safety and Health Act, which would allow it to subpoena both witnesses and documents, it now almost never does. It is instead interviewing witnesses behind closed doors, making employer intimidation of miner witnesses more possible.

This lack of rigor by MHSA makes immediate Congressional hearings even more urgent. Sen. Robert Byrd (D-W.Va.) has attempted to schedule immediate hearings in a subcommittee of the Senate Appropriations Committee; whether these take place in the week of Jan. 23, or are put off, is not clear at this writing.

Sen. Jay Rockefeller (D-W.Va.) on Jan. 12, called for hearings in the Senate Health, Education, Labor, and Pensions Committee, signed by 11 other Senators of both parties, from Kentucky, West Virginia, Pennsylvania, Indiana, and Alabama. Pressure is high on Committee Chairman Rick Enzi (R-Wyo.) to schedule the hearings. In the Education and the Workforce Committee on the House side, ranking Democrats George Miller (Calif.) and Major Owens (N.Y.) are pressing chairman John Boehner (R-Ohio) for hearings.

If hearings are held soon and probe carefully this "Ross/Rothschild/Rohatyn" factor, not only can they re-assert mine safety regulation. They can help avert a disastrous year 2006 for the U.S. auto-parts sector, which Wilbur Ross himself rather suspiciously predicted on Jan. 11, in a speech to an "investors' conference" at the Detroit Auto Show.

Wilbur Ross (at podium) making millions at the Stock Exchange on Nov. 21, 2005, on International Coal Group stocks, while safety conditions were deteriorating at Anker's Sago and other mines. Ross moves in nominally Democratic Party New York circles, like Felix Rohatyn (right), the synarchist Lazard Fréres investment banker who was notorious in the "Big MAC" takeover of New York City in 1975. Rohatyn has recently been trying to impose economic austerity policies upon Congressional Democrats interested in promoting infrastructure and industry.

Interview: Mark Reutter

WL Ross and Co., and The Anker Coal Disaster

Mark Reutter is the author of Making Steel: Sparrows Point and the Rise and Ruin of American Industrial Might *(2004), which examines the bankruptcy proceedings of Bethlehem Steel and the company's takeover by Wilbur L. Ross (see www.makingsteel.com for more), who controls the Sago coal mine. Reutter was interviewed by Paul Gallagher on Jan. 18.*

EIR: Twelve miners died and one was critically injured in a Jan. 2 explosion at the Sago mine of Anker West Virginia Coal, in Upshur County, West Virginia. Hearings are now in prospect in the U.S. Senate, and underway in the West Virginia legislature, into clear indications of disappearing Federal mine-safety enforcement since 2001, and the decline in safety conditions in this mine and others nearby.

Anker is owned by the International Coal Group (ICG) of Wilbur L. Ross, a man in the middle of the "globalization" of several U.S. industries. You've researched and written about Ross's investments and speculations in industry. What is his method? What is International Coal Group, and what is Ross's involvement in West Virginia coal mining?

Reutter: Ross is a New York billionaire who made his name by taking over bankrupt Bethlehem Steel, LTV, Weirton, and several smaller steel companies between 2002 and 2004, bundling them together, and selling them for an 11-fold profit to Mittal Steel Co. of Netherlands. For 26 years, he was the executive managing director of Rothschild, Inc., the U.S. affiliate of the Rothschild family's merchant banking group, before he formed his own private company, WL Ross & Co., in 2000—to rescue, in his words, industrial companies in trouble.

Since that time, he has formed International Steel Group (ISG) to take over bankrupt steel assets; International Textile Group (ITG) to take over bankrupt textile companies; International Coal Group (ICG) to take over a bankrupt coal company; and, most recently, International Auto Components Group (IAC) to buy bankrupt or financially strapped auto-parts companies.

Ross is the lead investor, but builds up "spit" (investment capital) by tapping into large invest-