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Corporate Strategy by Marcia Merry

USX 'reopens'; shuts four steel plants

Another milestone is passed in the shutdown of America's steel capacity, as per official national policy.

On Jan. 31, the official announcement was made of the "reopening" of USX steel company, after the recent approval by the United Steelworkers of a new concessionary contract, following a record 184-day-long lockout. On Feb. 4, USX executives named four mills that are not being reopened at all. This is part of the ongoing "down-scaling" of U.S. steelmaking capacity, which is national policy, approved and promoted by the administration, despite crisis levels of low steel production and utilization.

USX plans to cut its steelmaking capacity by about 27%, from 26.2 million tons, down to 19 million tons a year. Prior to the six-month lockout, USX, the nation's number-one producer, was producing steel at a rate of about 12 million tons a year, and had about 17% of the market share.

USX chairman David Roderick said in Pittsburgh, "I want to emphasize that these facilities are on an indefinite idled basis and not—I repeat, not—on a permanent shutdown." No one believes him. The plants still shut are Saxonburg and McKeesport, near Pittsburgh; the Geneva works at Provo, Utah; and a mill at Baytown, Texas. The four plants had employed 3,700 people, and are on "indefinite idle" because of what Roderick calls "marginal" operations.

USX plans to produce less steel in 1987, in line with the national steel output decline. In early January, USX forecast that 1987 national shipments by domestic steel producers won't exceed 65 million tons, 35% below the recent peak of 1979. In 1985, the last full year of steel production, national steel output was 72.7 million tons. Gearing down for the decline in steel utilization, USX did not add steel output before the labor contract deadline, but initiated the lockout as a production reduction maneuver.

The USX plan to slash steel output and lay off thousands more steelworkers was hushed up before the contract ratification vote last month. When announcing that four mills would be mothballed indefinitely, Roderick had to admit, "If we should decide in the future there is no feasible outlook for that market, we would permanently close these facilities."

Under the new labor contract, the average steelworker's hourly wages were cut from $12.28 to $10.95, and benefits were taken away. But these lower labor costs do not outweigh the deliberate reduction of national steel capacity.

USX will not pay severance or pensions to the 3,700 unemployed workers, because Roderick chooses not to officially designate the mills as permanently closed. "I don't feel anybody has been cheated, or not alerted to the fact that if you shut down these plants, the marginal plants would not be reopened. . . . We said it to the local [union] and the international. . . . And now the economic hammer has dropped."

According to Roderick, "We don't anticipate giving up anything in the market. We just don't need 26 million tons of ingots to support our place in the market."

The market for steel may be even lower than projected by USX, because of the predictable rate of collapse of the auto and construction sectors, which together accounted for 40% of steel utilization at the time of the lockout. The "Industrial Outlook" report of the U.S. Commerce Department, released at the turn of the year, projected a fall of steel shipments in 1987, down to a national total of 68 million tons (from almost 73 million in 1985) because of the drop in U.S. domestic auto sales.

Steel sales to heavy industry and infrastructure users are vanishing. The chief economist to Inland Steel Corp., Bernard Lashinsky, said: "What's still missing are the big projects—electric power plants, petroleum refineries, steel mills, and iron ore mines—and they will not be there [in 1987] or the year after. You have a changed economy."

This "changed economy" will likely see the bankruptcy, Ch. 11 or otherwise, of more companies, possibly beginning with the number-three U.S. company, Bethlehem Steel, and Armco. On Jan. 31, Bethlehem announced that its headquarters building in the Lehigh Valley is up for sale, as part of its strategy to sell off all non-steel assets. The number-two company, LTV, declared Ch. 11 last summer.

The U.S. steel sector has already slashed capacity by more than 20% in the last 10 years, and permanently cut its workforce by more than half. Since July 1986, a cabinet-level interagency task force has been meeting to decide on the future of the steel industry. Its special concern has been, how to cheapen the outlays associated with the bankruptcy of the industry as a whole. Among the options discussed is a plan, endorsed by sections of the financial community, to eliminate between 30% and 50% of U.S. steelmaking capacity. The size of the cutbacks considered reflects the estimated magnitude of the permanent reduction in demand for steel.

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