Big Steel might lack flexibility to survive; Familiar strategies not staving off pressure from foreign rivals

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CLEVELAND -- To catch a glimpse of **steel** 's future, head southeast from Terminal Tower in downtown Cleveland to where brick smokestacks belch steam and metal pipes exhale orange flames.

Thousands of people once made up to 9 million tons of **steel** per year at two mills alongside the olive-colored Cuyahoga River. Four owners and two bankruptcies later, there's one mill, roughly 1,100 workers, and annual production of about 3 million tons.

Big **Steel** is shrinking. By order of the Oval Office, it must pare down even more.

With U.S. mills under pressure from cheap foreign **steel** , the nation's production capacity last year dropped by 14 percent because of bankruptcies. The president responded in the spring with **steel** tariffs as high as 30 percent, designed to price foreign **steel** out of the market.

In return for that, Bush has demanded surviving **steel** companies retool. **Steel** makers were given until September to draw up plans.

"I don't see how that could be done in time," said Chris Olin, an analyst for Midwest Research.

"There's no chance," analyst Michael Locker said. "The **steel** industry doesn't move that quickly."

Next spring, **steel** makers must report their progress.

The prescription for saving Big **Steel** hasn't changed in decades.

Closing old plants, consolidating companies and moving away from commodity products into specialty lines were the top strategies used in 1984, according to U.S. News & World Report. That was when the rise of more efficient foreign competition had gotten the attention of the old, overstuffed American industry.

LTV did its part for consolidation that year by buying Republic **Steel** and merging it with another Cleveland mill, the former Jones & Laughlin facility. LTV became the nation's second-largest **steel** maker, employing 45,000 in mills scattered across the Midwest.

Yet LTV's size couldn't shield it from a flood of cheap **imports** and excess production capacity worldwide. Both drove down prices, and U.S. mills lobbied for help.

President Reagan negotiated "voluntary" import quotas with Japan, Brazil and other countries. **Steel** makers were required to return the favor by modernizing integrated mills -- aged structures that made **steel** from raw ingredients like iron ore.

During the next decade, LTV entered bankruptcy court and closed or sold several of its **steel** mills and nonsteel businesses. The number of steelworkers punching its time clock declined to fewer than 16,000.

Other U.S. **steel** makers also slashed jobs. Between 1980 and 1995, 287,000 **steel** jobs disappeared, according to one study, as mills shut down or became more efficient. That figure excludes outside contractors depending on the mills for their livelihoods.

"We did what the Europeans didn't undertake until the 1990s," said Terry Straub, vice president of governmental affairs for **United States Steel** . Jobs were reduced industrywide by as much as 70 percent, he said, and "a lot of capacity came down as well."

But at the same time, so-called minimills -- scaled-down producers that melt scrap metal to make **steel** -- sprang up in small towns where land and labor were cheap. Abroad, Third World countries built large mills.

Despite the cutbacks by old U.S. **steel** makers, annual production capacity outside the **United States** grew by 22 million metric tons.

That set the stage for 1998, when economies collapsed in Asia and South America. **Steel** followed the strong dollar to America's shores. LTV entered bankruptcy court a second time, to be joined by dozens of other **steel** firms. Again, **steel** makers lobbied Washington for help.

This time around, import restrictions aren't voluntary. The tariffs were imposed on a broad range of products, set to last three years.

Bush's demands of domestic **steel** makers aren't voluntary, either. In a letter to **steel** makers in June, the administration's commerce and trade leaders threatened to abolish tariffs unless they see progress at home.

The sector's strategies? Closing old plants, consolidating companies, moving away from commodity products into specialty lines. Again.

The industry already has made headway on closing plants. The problem is, critics said, shuttered mills often don't stay closed.

Between 1980 and 1994, when Big **Steel** retrenched, U.S. annual production capacity fell by 30 million metric tons, according to the research firm World **Steel** Dynamics.

Since then, 12 million tons have come back.

Consolidation -- pairing healthy **steel** companies with weak ones - - seemed like a sure thing a few months back.

U.S. **Steel** announced it was talking marriage with failing companies; Bethlehem **Steel** , which is under Chapter 11 bankruptcy protection, confirmed it was among them.

The wedding was called off in the spring, however, when the government refused to assume pension and health-care costs for the industry's retirees.

With lots of retirees still around, the industry now supports far more people than it employs. That makes it too costly for stronger companies to take on the obligations of weak ones.

"Clearly, if there is no relief ... this company would have no choice but to go into liquidation," said Steve Miller, Bethlehem's chairman and chief executive. "We cannot make payroll or make the capital-investment requirements to keep our plants going."

Straub said his company still is talking with potential merger partners, and he sees hope in new legislation being batted around Washington.

But analysts and industry insiders aren't betting on enough help to make orderly consolidation work for the old integrated mills.

"Consolidation through Darwinism is the likely plan," said Olin, an analyst. In U.S. **Steel** 's case, he said, "they'll wait until plants die, then snap them up for bargain prices."

However, even high-end **steel** hasn't completely recovered from a pricing free fall that took it to 20-year lows.

In December 1984, domestic companies priced automotive-quality **steel** at $550 a ton. Last month -- almost 20 years later -- it sold for $525.

Steel executives say they have plenty of problems outside their control: billions of dollars in health-care and pension costs for retirees, unfair competition from government-subsidized foreign mills, a global glut of **steel** that drives down prices for everyone.

But they take Bush's threat at face value.

"What the administration is telling us is, `You guys better clean up your act, or the tariffs won't stay,' " said Miller, who is leading Bethlehem **Steel** as it tries to restructure under Chapter 11 bankruptcy protection.

He considers the president's request fair play.

While the tariffs have helped, he said, "we are still living on borrowed time."