Steel’s Revival May Provide Roadmap For Auto Industry

Daniel Lovering and Tom Krisher, AP Business Writers

PITTSBURGH (AP) — For John Borkowski, a 33-year veteran of the American steel industry, the plight of the Detroit automakers looks all too familiar.

The 57-year-old steelworker from Port Vue, PA, lived through painful restructuring that drastically reshaped the domestic steel industry. The most recent crisis, from 1998 through 2003, involved dozens of bankruptcies, huge job cuts and mill closures.

Now, steel's revival may provide a roadmap for a government team trying to save Chrysler LLC and General Motors Corp.

"It sounds like they're going to probably have to go through the same thing we did to survive," said Borkowski, who works at a United States Steel Corp. plant near Pittsburgh and has two sons in the industry. The company offered employees incentives to leave, combined jobs and retrained workers to take on more tasks, he said.

Like steel before the shakeout, Detroit automakers are beset by foreign competition, high labor costs, a huge number of retirees and union work rules that place them at a competitive disadvantage to the Japanese.

The United Auto Workers, GM, Chrysler and Ford Motor Co. have been taking steps to restructure, but they haven't done enough to erase the Japanese advantage. Labor costs alone made GM cars around $1,400 more expensive to build than Toyotas in 2006, according to an industry think tank.

Chrysler and GM, which have received a combined $17.4 billion in government loans, were told to cut further by the Bush administration, which set goals of reducing total labor costs to equal those of Japanese automakers with U.S. factories.

That means auto workers will have to make more concessions. Last week, the UAW reached a tentative deal with all three on changes to 2007 contracts that will help the companies. Concessions include making workers do more jobs and eliminating cost-of-living pay raises and bonuses.

To Borkowski, it's a reprise of what he has lived through at U.S. Steel.

"We suffered a little bit because a lot of knowledge went out the door at one time," Borkowski added. "We still got our pay raises and rates, but we just do more. Not doing more for less, but we do more just to survive. It turned out good."

The question remains whether Detroit automakers can be fixed without Chapter 11. Automakers want to avoid that, saying no one will buy a car from a company reorganizing under bankruptcy court protection, but some in Congress think judicial power to void labor contracts and restructure debt is the only way to repair Chrysler and GM.

Although U.S. Steel avoided bankruptcy, other steelmakers did not, and judges decided their fates.

The Steelworkers' union was left to negotiate with investors who saw opportunity in the companies' remains, and both sides said they worked out a fair deal.

A major figure in the bargaining was Ronald Bloom, a former investment banker who now is a key member of an auto task force established by President Barack Obama.

But no one is sure if Bloom, who has worked with the United Steelworkers since 1996, and the autos team can make changes with the same force as a bankruptcy judge. Bloom is known for hammering out deals on salaries, profit sharing and the role of unions in takeovers.

"We ended up negotiating contracts that created a much leaner, more efficient work force, but we did that on the basis that it was going to be what we called equality of sacrifice," recalled Leo W. Gerard, president of the United Steelworkers.

With both steel and auto, companies were stuck with huge retiree health care obligations, and both were able to shift the cost to union-run trusts.

The funds were instrumental in steel's resurgence because the industry was paying the health costs of nine to 12 retirees for each active employee.

The trusts emerged at a time when many steel companies were under bankruptcy protection, their pension funds taken over by the government and retiree health care wiped out.

"We had lots and lots of our members, almost a quarter million of them, active and retired, get robbed of their pension benefits and their health care benefits by the bankruptcy courts and the PBGC," said Gerard, referring to The Pension Benefit Guaranty Corp., a government corporation that insures the pensions of 44 million workers and retirees.

From 1999 to 2003, more than 30 steel companies filed for bankruptcy protection, with many halting production, according to a 2005 report by Timothy Considine, then a professor at Penn State University.

But the bankruptcy proceedings brought change that made the companies solvent again.

"Until you get into bankruptcy, you don't have the leverage to kind of really do the

restructuring, not that it's a happy solution," said Robert B. McKersie, a former steel company director and professor emeritus at Massachusetts Institute of Technology.

While bankruptcy worked in the steel industry, buying a commodity is far different than a car, said Gerald Meyers, a former chairman of American Motors Corp. and now a professor at the University of Michigan.

Manufacturers, Meyers said, know they will keep getting steel from a company restructuring in Chapter 11. But he said car buyers, who are less familiar with Chapter 11, can be scared off by fears that the company won't keep making parts or honor warranties.

"The very mention of bankruptcy to the public, even to a whole lot of sophisticated people, means going out of business," Meyers said.

The remade steel industry benefited from government intervention. Complaints about cheap foreign steel flooding the market prompted the Bush administration to impose tariffs for 18 months, giving the industry time to consolidate.

That led to International Steel Group, formed by billionaire Wilbur L. Ross Jr. He built ISG with pieces of Bethlehem, Weirton, Acme and Georgetown Steel. It's now part of Luxembourg-based ArcelorMittal, the world's largest steel company.

Due to the restructuring, about 18 plants were closed. Employment in the North American industry dropped to 122,000 in 2003 from 163,000 in 1997. Employment last year was about 158,000, though thousands have been laid off recently due to the global economic crisis.

By comparison, GM, Chrysler and Ford combined have about 133,000 hourly workers left in the U.S. GM alone had 468,000 in 1979.

Ross said the restructuring preserved 100,000 jobs with a deal that allowed the companies to make money but keep decent wages.

Both sides modified health care for active workers, adding copays, and the company established a small retiree health care trust fund, he said. They also eliminated a lot of inefficient work rules, Ross said.

Borkowski, the steelworker, said auto workers have to trust their unions to do what's best.

"I've seen good times and bad times," he said. "Right now, to me, (the restructuring) was necessary."

AP Manufacturing Writer Daniel Lovering reported from Pittsburgh and AP Auto Writer Tom Krisher reported from Detroit.

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