Lynn Williams and the USWA are organizing steel-industry buyouts

RE-STEELING THE U.S.

by Warner Woodworth

When 2,200 steelworkers at McLouth Steel Company bought their firm several months ago, they signalled a new thrust in worker ownership in the United States. The integrated steel mill in Trenton, Michigan, was essentially salvaged by the union local from years of corporate mismanagement.

In exchange for a 4-5 year collective bargaining agreement, which cut wages and benefits ten per cent, workers obtained 85 per cent of McLouth's stock. Creditors, who are owed $130 million, received preferred stock worth about 40 cents on the dollar and seats on the board of directors.

The restructuring ends a six-year saga of industrial decline since Chicago metal dealer Cyrus Tang took over the plant in 1982. He had been able to seize McLouth very cheaply at that time, but in the years that followed exacerbated the firm's troubles with new debt and economic losses.

Angry steelworkers protested the mill's decline, claiming Tang was bleeding McLouth to support his other companies. The union fought back in self-defense, increasingly determined that Tang had to go. Ultimately the bitter fights led to a two-day wildcat strike, forcing Tang from power. "The union was much tougher than I thought," he said later.

Since then the worker-owned company, purchased using an ESOP, has operated in the black each month. Productivity has risen from 2,600 tons a day to an average of 4,000 tons, sufficient to make a profit. The workers control three board seats and the company has launched a five-year, $100 million, modernization program. And Harry Lester, director of District 29, United Steelworkers of America (USWA), who led the union struggle to take over McLouth, envisions a new spirit of labour-management co-operation. Lester led labour's negotiating team which won a gainsharing plan and agreement over such principles as equality of sacrifice. Perhaps more importantly, the two parties agreed to a "Co-operative Partnership Agreement" which gives the union equal voice in all strategic decisions affecting the company -- investment in new technology, marketing plans, operations and so on. Lester's idea to create a "Joint Strategic Decisions Board" portends a new role for labour in the steel industry.

Beyond Rescue Tactics

McLouth is the largest in a series of worker buyouts in the U.S. steel industry. Other cases include:

-- Republic Container Company in Nitro, West Virginia, was purchased from LTV in 1985, with steelworkers controlling three of five board seats.

-- Copper Range Company in White Pine, Michigan, had been closed for two years before steelworkers bought the copper mine and restored 900 jobs. Stock, valued at $9.00 per share when the mine re-opened, is now worth $54 a share, giving each worker approximately $18,000 worth of stock. Profit-sharing is just around the corner.

-- Republic Storage Systems in Canton, Ohio, obtained a $17 million loan through an ESOP to save 400 jobs, beating out seven other suitors who attempted to purchase the company.

-- Chester Roofing Products in Chester, West Virginia, re-opened this past June after a five-year shutdown under its former owner, Celottex Corporation.

-- Oremet Titanium in Albany, Oregon, was acquired by steelworkers from Owens Corning in 1987. In exchange for a 20 per cent pay cut, workers obtained two-thirds of the firm's stock for $17 million, to be paid off over seven years.

-- Northwestern Steel and Wire in Sterling, Illinois, was bought in August, 1988, for $187 million from a family that held controlling interest. The owners wanted to sell their shares, so for several months the union's 2,500 members were engaged in a bidding war with several other potential buyers. Ultimately the workers won 51 per cent, with the other 49 per cent held by management and outside investors. Labour got five seats on the board and in contrast to many buyouts, a solid, profitable steel company.

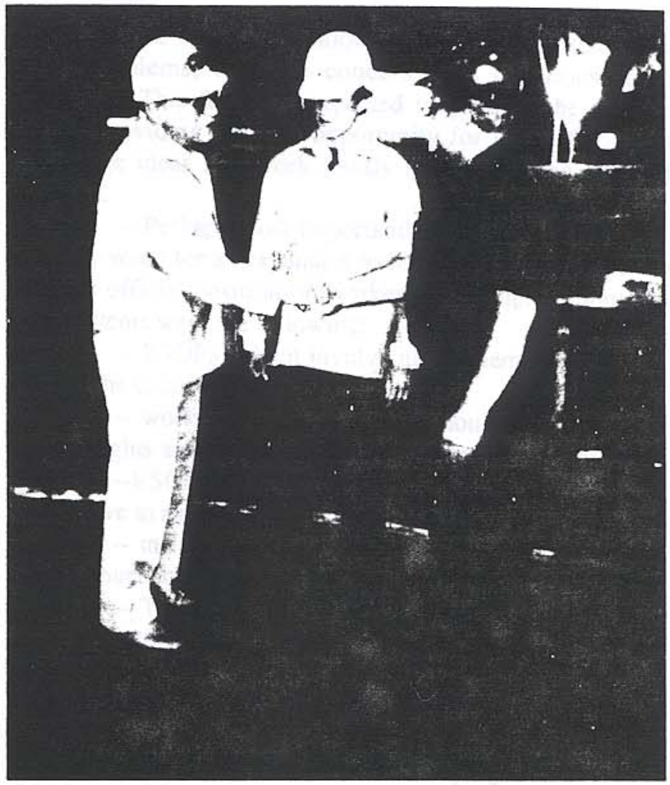
-- Weirton Steel in Weirton, West Virginia, is the seventh largest steel company in the U.S.. The 8,100 members of its independent steelworkers' union own 100 per cent of their billion-dollar business. Since the buyout five years ago, the firm has gained hundreds of new customers and profit per ton of steel shipped is among the highest in the industry. The firm's net worth is now up to $250 million and each worker's stock is valued at $45,000.

-- Bliss-Salem, Inc. in Salem, Ohio, was salvaged from bankruptcy in 1986 through an ESOP which gave workers 80 per cent of the stock. Under the agreement the position, chair of the board, was a union member. The new corporation had the foresight to acquire yet another firm, Atlas Car Company, which makes heavy railcars for steel mills.

-- Pittsburgh Forgings Corporation, established in Coraopolis, Pennsylvania, in 1871, was put on the auction block and bought by workers of USWA Local 1779 at the end of 1988.

A new strategy

Steelworkers also own shares in LTV Corporation, Bethlehem Steel, Kaiser Aluminum and Chemical Corporation and CF&I Steel Company. Rescuing troubled firms is the reason for most of these buyouts to date. While such efforts have saved jobs, stabilized local communities,



Worker-owners at McLouth Steel

preserved companies and provided millions of dollars in wages, the USWA has recently entertained the possibility of becoming more proactive.

With the leadership and vision of USWA president, Lynn Williams, the steelworkers have become the foremost advocates of worker ownership among labour unions (see Worker Co-ops, Vol. 5, No. 3, pp. 38-40).

Last April, the executive board, consisting of the union's top 40 executives, spent most of its meeting on the topic of worker ownership. The group listened to presentations from steelworkers officials involved in buyouts, as well as from academic, legal and financial experts.

Essentially, the message communicated was that ESOPs, if designed correctly, do work, can save jobs and that the USWA ought to consider a more proactive strategy, getting in on the purchase of healthy steel firms. It was suggested that:

-- the union develop and expand its capacity to assist union locals in buyout efforts;

-- the international union bargain for board seats and/or stock in the largest dozen steel companies in upcoming contract talks;

-- the union improve its monitoring of the entire North American steel industry;

-- ESOPs become a key tactic for blocking foreign investment and outside attempts to take over the American steel industry; and

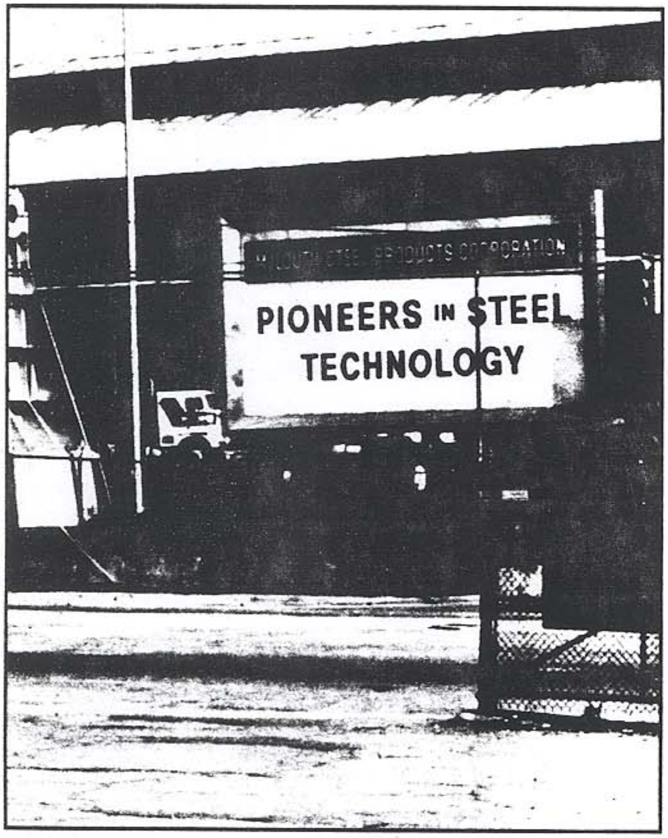
-- the USWA become a prime force for influencing the AFL-CIO to adopt ESOP methods as a part of its labour policy.

The board was also warned that ESOPs are only a tool, not magic and that there is no guarantee steelworkers will be better off or have any more rights simply because they become owners. However, if the union picks its cases very carefully and plays a significant role in properly designing the ESOP's structure, ownership clearly has the potential to provide job security, additional income beyond wages and a voice in corporate decision-making.

That historic meeting in April laid the foundation for subsequent developments. At its 24th Constitutional Convention in Las Vegas in August 1988, several important events occurred:

-- President Lynn Williams' keynote speech to some 3,500 delegates and participants declared that worker ownership "isn't just a way to save jobs, as important as that is. It means workers have a major voice in who buys the plant, who doesn't buy it and how it operates." The speech received thunderous acclamation.

-- As part of the convention activities, a special session was held solely for local union leaders involved in worker-owned companies. It was the first such convention meeting held by an international union to deal exclusively with problems, common concerns and questions about buyouts. This forum is expected to grow in the coming years, providing a useful opportunity for local officials to exchange ideas and work jointly on overarching areas of concern.



McLouth Steel was purchased by its workers.

-- Perhaps most importantly at the convention, the USWA voted for an expanded resolution which declared the union's official position on worker ownership. Among the action items were the following:

-- ESOPs, which involve union members, must be part of the collective bargaining contract;

-- worker-owners in ESOPs should have the same voting rights as other shareholders in a given company;

--ESOPs should not be perceived or used as an alternative to an adequate employee pension;

-- international unions should encourage Congress to continue favourable tax incentives for ESOP firms;

-- The National Labor Relations Act ought to be modified to recognize worker-owned companies and to allow unions the legal right to negotiate ESOP issues (items such as voting rights, vesting, stock valuations, etc.), much like any other collective bargaining issue:

-- there ought to be a federal program to finance ESOP feasibility studies when a prospective buyout first surfaces.

Major questions remain in the USWA's quest for economic democracy. New legislation is required so that labour law, established before the formulation of ESOPs in the mid-1970s, more appropriately takes worker issues into account when workers become the owners.

Another area of uncertainty has to do with the education and training of union members so that they can be successful in operating ESOP firms. The conventional company is often run by executives with considerable preparation in management and financial skills. To what extent can a worker with 20 or so years of shopfloor experience participate in corporate decisions by serving on a board of directors? Certainly some kind of training and preparation would enhance labour's success in having a positive impact on corporate performance.

A third critical issue is that of securing the necessary resources for a USWA takeover of the American steel industry. The union, to its credit, is developing important working relationships with a number of leading ESOP academics and attorneys. It has used economic and engineering experts in performing feasibility studies and market projections. The union has developed a good working relationship with one of the U.S.'s major investment banking firms, Lazard Freres. Whether it can successfully elicit Wall Street's support in putting together multi-billion dollar deals remains to be seen. Tapping labour's $2 trillion worth of equity capital and investing it on behalf of workers, rather than following the current practice of using pension funds for management-led buyouts, seems like an important new thrust.

Despite these tough questions, the USWA seems destined to lead the ESOP charge within the labour movement. The situation is quite clear to many rank and file steelworkers: conventionally-owned steel companies and top executives are either not willing or unable to install new technology, better productivity processes and more effective decision-making. One alternative solution, at least in the short run, is to passively watch Asian banks and steel companies purchase the North American steel industry. But the longer term risks of foreign ownership and eventual shutdowns would still threaten workers.

The other solution is for the USWA to take over the industry itself. Tapping the knowledge, creativity and commitment of visionary union leaders and committed shopfloor workers portends a strong, healthy steel industry for the future. Even more so, the building of a revitalized labour-owned section of the U.S. economy in steel may become a model for a widespread form of industrial democracy in other manufacturing areas as well -- auto, rubber, chemicals, and so on.

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