Steel and the 1979 oil hoax

The $18 per barrel and higher spot oil prices coupled with actual and threatened cutoffs of vital energy supplies that have developed, since the fall of the Shah of Iran, could be the blow that precipitates the ratchet drop in the world steel industry, industry analysts are warning. This year's oil hoax threatens the steel industry doubly: through crippling world industrial production and investment plans, thereby undercutting steel's markets, and through imposing a steep rise in production costs of the steel industry itself.

If any of the current oil price rise scenarios take hold, boosting oil prices anywhere from 50 to 300 percent over the immediate period ahead, then capital investment plans in the advanced sector and developing nations will be cut back even further — and so will demand for steel. The quadrupling of world oil prices between 1974 and 1976, together with similar price rises for coal, uranium, and natural gas — and the sabotage of the development of cheap nuclear energy — sent the world economy and demand for steel reeling in 1975. This led, in 1977, to the permanent "excessing" of around 5.5 million tons of steelmaking capacity and over 20,000 steel jobs in the U.S. alone, with even more severe shrinkage in Europe and Japan, as the quadrupling of energy prices and uncertainty about future price and availability cast a dark shadow over capital expansion plans. In the U.S., steel shipments to the construction industry in 1978 were still half the 1974 level (9.6 million tons versus 18.7) due to the permanent downturn in plant construction.

The Carter Administration's willful interference in orders to the U.S. nuclear industry played no small part in this downturn; U.S. orders for nuclear plants — which consume roughly 40,000 tons of steel per plant and represent many times that amount in demand from the nuclear industry's feeder industries — dwindled from 41 to two in 1978, two orders which were later postponed because of the Administration's "antiproliferation" policy.

In 1978, orders from the U.S. steel industry's other major capital goods markets — industrial and agricultural machinery, shipbuilding, aircraft, and aerospace — were also significantly below 1974 levels. Only demand from the auto industry was higher than in 1974. But with the current threat of another sharp rise in gasoline prices and mandatory gas rationing by the U.S. Department of Energy, that demand could give way at any time.

Regarding the direct cost of the new oil hoax to the world steel industry, the accompanying chart shows the steep price rises in all of the world steel industry's energy inputs that took place between 1970 and 1976. Japan's steel industry actually absorbed significantly larger energy price increases than the U.S. industry, but the greater energy efficiency of Japanese steel kept the escalation in per ton energy costs in the same range as in the U.S.

Japan, which is wholly dependent on imports of oil and coal and the fluctuations of world market prices, is again the most vulnerable to a new oil hoax. Exxon and Royal Dutch Shell have already announced staged cutbacks of oil deliveries to Japan by 4 and 2 percent by year's end, stemming from the pretext of the shutoff of Iranian supplies, news of which sent the Japanese stock market and currency tumbling. Japanese steelmakers, moreover, are more dependent on oil as an energy source than U.S. producers, because they rely on a process of injecting oil into their blast furnaces to increase their iron-making capacity. Japanese steelmakers, like the European industry, consume around 15 percent more oil per ton of steel than U.S. producers.

Since the 1973 oil hoax, however, certain U.S. steel producers have also increased their oil consumption dramatically by adopting the same oil-injection technique as the Japanese. One such company, Inland Steel, now depends on oil for about 22 percent of its energy input.

"Crisis management" shutdowns

In general, oil consumption among U.S. steel producers has doubled since 1972, and accounts for nearly 12 percent of the industry's present fuel needs, compared with 6.7 percent in 1972. The major part of this increase stems from a Department of Energy directive at the time of the natural gas shortage several winters ago, which instructed steelmakers to switch from natural gas to oil. Now that natural gas supplies have apparently recovered and it is oil supplies that are in doubt, the DOE has reversed its earlier directive! The switchover is a time-consuming and costly business, however, and steelmakers warn that another switch from oil to gas could trigger an escalation of natural gas prices and a new shortage of that energy input.

While many steelmakers and unionists readily foresee the likely impact of the new energy crisis on steel, they do not realize that the same political and financial operatives who launched the destabilization of the Mideast region and manufactured the current oil crisis is the one which is intent on bringing advanced sector industry — and in particular the steel industry —

Energy costs of the steel industry

($ per net ton of steel)

	Coking coal	Fuel oil	Natural gas	Electricity
Japan				
1970	12.76	2.22	—	5.09
1974	26.45	6.33	—	12.91
1975	38.48	6.85	—	15.25
1976	36.61	6.94	—	17.19
European Economic Community (the six)				
1970	13.79	2.27	1.67	4.21
1974	28.30	7.63	3.64	8.86
1975	37.80	8.04	6.30	14.53
1976	37.00	9.00	8.31	15.94
United States				
1970	13.93	1.32	3.40	2.66
1974	24.27	5.26	5.63	6.07
1975	33.54	5.10	7.83	8.48
1976	33.50	5.34	9.29	9.54

Source: Hans Mueller and Kiyoshi Kawahito, *Steel Industry Economics*

To produce a ton of steel in Japan requires only three-fourths the quantity of coking coal and other energy inputs utilized in the United States. Thus, the higher per ton costs of coking coal and (petroleum-generated) electricity in Japan reflects the sharply higher prices paid by Japan's industry for its energy inputs.

to its knees. Recent issues of this magazine have documented the fact that Royal Dutch Shell and British Petroleum, the kingpins in the Iran oil consortium, were caught red-handed both inciting "fundamentalist Islamic" upsurges throughout the Mideast region and running up spot oil prices by holding supplies off the market and performing other market manipulations. The closely linked London *Economist* magazine, meanwhile, began calling on the West early this year to protect itself from "Arab oil blackmail" through self-imposed energy conservation and broad ranging auterity measures. In the case of steel, the *Economist* has been extremely forthright about its view that the industry must undergo forced shrinkage to adapt to a zero-growth future. The magazine's Feb. 10 directive to the European steel industry was a chilling "200,000 Must Go" — 200,000 steel production jobs out of 500,000.

It is no coincidence that the first head of the Brussels-headquarters International Energy Agency, the supranational policing agency created in the wake of the 1973 oil hoax to administer oil sharing arrangements in the next oil crisis, was Belgian Viscount Etienne Davignon, currently the EEC Commissioner for Energy and author of the Davignon plan. The "crisis management" personnel for energy and industry are the same crew of anti-industry supranationalists who will only tolerate the existence of industry that is cartelized and under their control.