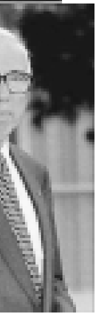
WL Ross and Co., and The Anker Coal Disaster

Mark Reutter is the author of Making Steel: Sparrows Point and the Rise and Ruin of American Industrial Might *(2004), which examines the bankruptcy proceedings of Bethlehem Steel and the company's takeover by Wilbur L. Ross (see www.makingsteel.com for more), who controls the Sago coal mine. Reutter was interviewed by Paul Gallagher on Jan. 18.*

EIR: Twelve miners died and one was critically injured in a Jan. 2 explosion at the Sago mine of Anker West Virginia Coal, in Upshur County, West Virginia. Hearings are now in prospect in the U.S. Senate, and underway in the West Virginia legislature, into clear indications of disappearing Federal mine-safety enforcement since 2001, and the decline in safety conditions in this mine and others nearby.

Anker is owned by the International Coal Group (ICG) of Wilbur L. Ross, a man in the middle of the "globalization" of several U.S. industries. You've researched and written about Ross's investments and speculations in industry. What is his method? What is International Coal Group, and what is Ross's involvement in West Virginia coal mining?



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Reutter: Ross is a New York billionaire who made his name by taking over bankrupt Bethlehem Steel, LTV, Weirton, and several smaller steel companies between 2002 and 2004, bundling them together, and selling them for an 11-fold profit to Mittal Steel Co. of Netherlands. For 26 years, he was the executive managing director of Rothschild, Inc., the U.S. affiliate of the Rothschild family's merchant banking group, before he formed his own private company, WL Ross & Co., in 2000—to rescue, in his words, industrial companies in trouble.

Since that time, he has formed International Steel Group (ISG) to take over bankrupt steel assets; International Textile Group (ITG) to take over bankrupt textile companies; International Coal Group (ICG) to take over a bankrupt coal company; and, most recently, International Auto Components Group (IAC) to buy bankrupt or financially strapped auto-parts companies.

Ross is the lead investor, but builds up "spit" (investment capital) by tapping into large investment pools, such as Franklin Mutual Advisors, run by money manager Michael F. Price; Paulson & Co., a hedge fund specializing in distressed companies; and even nonprofits like the Howard Hughes Medical Institute, located in suburban Washington.

He also works closely with international investment banks. Key allies include the Swiss banking firm UBS Warburg Securities, and Lehman Brothers. The banks set up sizable revolving credit lines to help Ross buy these companies out of bankruptcy; then the banks underwrite his Initial Public Offerings (IPOs), profiting as Ross off-loads his holdings to the public at a sizable mark-up.

Outside of these big ventures, Ross holds stakes in many individual companies. One of his longest-held investments is Anker West Virginia Coal, owner of the Sago Mine.

EIR: The national media have generally reported that Ross's ICG took over Anker Coal sometime last year—usually citing Nov. 18, 2005, only two months ago. What is the true story? Can you go through a kind of chronology of Wilbur Ross investment and involvement with Anker in particular, and with the Sago Mine?

Reutter: Ross is playing a semantic game. While ICG officially took over the Sago Mine on Nov. 18, 2005, Ross has been active in Anker Coal affairs for close to a decade, according to public-disclosure records. In 1997, Ross purchased \$41 million of senior debt in the Anker Coal Group through Rothschild Recovery Fund, which he ran as its managing director. Anker used this money to open the Sago Mine in 1999, as well as to fund a mining venture in Alabama that proved to be financially disastrous. (There was an explosion in that mine in December 1997 that caused ruinous losses, although apparently no serious injuries.) By September 1999, Anker couldn't pay interest on its debt, so in stepped Ross again.

Ross swapped Anker notes for Anker stock in a private restructuring, meaning there was no public disclosure to the Securities and Exchange Commission. But the terms came out in newsletters that track these things: The Rothschild Recovery Fund received \$800 principal amount of 14.25% new notes for each \$1,000 principal amount of 9.75% old notes exchanged [increasing annual debt service charges by almost one-fifth—ed.]. In addition, Rothschild received warrants to purchase 20% of Anker's common stock at the nominal exercise price of one-tenth of a cent per share.

Over the next year, Rothschild Recovery Fund forked over some additional cash and got more cheap Anker stock. By early 2001, WL Ross & Co. (successor to Rothschild Recovery) controlled more than 40% of Anker's stock and Ross was sitting on its board of directors. A year later, the board threw out the old management and installed a corporate workout specialist. Anker then entered into Chapter 11 bankruptcy. When it emerged six months later, in May 2003, its bondholders were wiped out, and Ross was de facto boss.

His right-hand lieutenant, Wendy L. Teramoto, was named chairman of Anker Coal. She also became CEO of CoalQuest Development, an Anker subsidiary that is now attempting to license a new mine in Taylor County near Grafton, West Virginia.

Why is Ross so keen on Anker? Because Anker owns or controls 707 million tons of bituminous coal and holds long-term contracts with several major Eastern utilities. This potentially gives Ross a monopoly on utility-grade steam coal—if only he can increase production.The price of high-Btu Appalachian coal at the mine mouth has risen to \$25-\$30 a ton and, including transport, now sells at \$60-65 a ton to electric utilities in the East. Today's price is 69% higher than in January 2004.

But, just as likely, Ross is aiming to stir up the waters in Big Coal, then sell off Anker-ICG at a premium to a major player; say, Consol Energy, or one of the oil conglomerates.

EIR: Ross's public comments have been that he never cuts corners on safety. And, in fact, International Coal Group, on Sept. 19, 2005, was awarded the Sentinels of Safety Award by the Mine Safety Health Administration of the Department of Labor. How do these statements by Ross square with the safety record of the mines owned by Anker and ICG?

Reutter: The *Charleston Gazette* [West Virginia—ed.] has been looking into the safety question in detail. Its findings were summarized on Jan. 14: All of International Coal Group, Inc.'s underground mines in West Virginia have accident rates that are worse than the national average. The paper reported that the worst safety records were in Anker's underground mines, with the Stoney River Mine reporting a non-fatal injury rate 4.3 times the national average; and the Sago Mine, an injury rate nearly three times the national average. Safety at the Sago Mine actually deteriorated after June 2005, when ICG took over managerial control of the property.

A key question for investigators to answer is whether ICG-Anker, under pressure from its owner, ratcheted up production too quickly at the Sago Mine in 2005. It should be noted that Ben Hatfield, president of ICG, and other executives were offered stock and cash bonuses in 2005 for achieving production and profit margins prescribed by owner Wilbur Ross. And Ross, Teramoto, and other WL Ross principals shared \$2 million last year by providing management and advisory services to ICG.

Given the pressure to produce more coal in a rising market (ICG wanted to double output at Sago in 2005), is the corporate culture at ICG conducive to safety in any way other than lip-service?

EIR: What characterizes the operation of the mines that Wilbur Ross has bought into?

Reutter: For one thing, all of the Ross mines are non-union. Anker has even experimented with the controversial practice of contract miners for its deep mines. Under this system, a contractor uses his own employees and supplies to mine the coal, earning a fee for each ton of clean coal mined. (Contract laborers were used at the Sago Mine until the contractor quit; the idea was proposed as a cost-cutting measure by the New York investment bank Gordian Group.)

Additionally, because Ross companies have undergone bankruptcy, previously guaranteed health benefits to retired miners and their families were eliminated. In its 2005 prospectus to stockholders, ICG bragged about its low labor costs. "We believe that compared to other publicly traded U.S. coal producers, we have the lowest post-retirement employee obligation," the prospectus stated, and a union-free environment keeps costs to the minimum.

What's more, Ross mines work off of old coal reserves in a mine district with a long history of mine explosions. This makes them inherently dangerous. While Sago is a "new" (1999) mine, it is part of a field once owned by Pittston Coal that includes many worked-out areas. Cave-ins and roof collapses are a constant hazard. Sago also is a gassy mine, with large quantities of potentially explosive methane. And, finally, the miners are not only several hundred feet below the surface, but they have to go long distances underground to reach the coal face. The explosion that trapped the 12 men on Jan. 2 came from a worked-out section that had been sealed, perhaps improperly, in December 2005. The seal was blown out by the explosion, trapping the men in a passageway 10,500 feet from the mine portal (fresh air). As we know, all but one of them died in that dark subterranean tomb from carbon monoxide poisoning.

EIR: What's the background of WL Ross & Co., the investment company through which Ross bought into Anker?

Reutter: It started as the Rothschild Recovery Fund in 1996, to reap profits from Asia's ongoing financial crisis. In April 2000, Ross purchased the fund from the Rothschild family, recruited the senior officers of his former employer, and established WL Ross & Co. as a boutique private equity investor looking for value among distressed companies. He launched the Absolute Recovery Hedge Fund, to purchase distressed bonds and to sell short the stock of companies that were in trouble. Typically, these were companies either on the verge of collapse or in Chapter 11 bankruptcy proceedings.

Starting with bankrupt LTV Steel in 2002, Ross arranged to buy companies after bankruptcy judges had ruled that the companies did not have to honor contracts that guaranteed health benefits to retirees (company pensions were taken over by the quasi-public Pension Benefit Guaranty Corp.). All this is perfectly legal under the U.S. Bankruptcy Code, but this approach had never been followed with such blunt determination before.

Ross is a lone hunter seeking out big game—namely, companies with huge cash flow, but also high labor costs that global investors want lowered. Taking out such targets could prove too visible for the Rothschild family, or for a Fortune 500 corporation.

But until recently, Ross was unknown outside of banking circles.

EIR: Are there parallels between Wilbur Ross's operations in the steel industry and in coal?

Reutter: Yes. Pension-stripping is the most obvious. In purchasing LTV, Beth Steel, Weirton, and several smaller companies out of bankruptcy, Ross walked away from these companies previous obligations. In all, more than 150,000 retired steelworkers lost health-care benefits that they earned in retirement as part of their deferred paychecks. Ross, meanwhile, was in and out of the steel business in less than three years, making $267 million through his sell-off to Mittal Steel.

Ross used the same technique when he purchased bankrupt Horizon Natural Resources, once a United Mine Workers operator. The Federal bankruptcy judge in Kentucky ruled that Horizon did not have to pay health benefits for retired miners that it had negotiated with the UMW. Thanks to that decision, International Coal Group, which took over Horizons assets, escaped from paying the post-retirement employee obligations to 4,000 retired, and in many cases, sick miners.

ICG also closed down Horizon's UAW-represented mines.

EIR: What's Wilbur Ross involvement with Steve Miller, the man who took over Delphi Automotive Corp. in July, and took it into bankruptcy three months later? Is Ross moving into the U.S. auto sector?

Reutter: Robert Steve Miller was the restructuring expert who placed Bethlehem Steel into bankruptcy in October 2001. That set off a chain of events that led to the sale of the company to Ross's International Steel Group (ISG) in May 2003. As CEO of Bethlehem, Miller petitioned the bankruptcy judge for permission to end health benefits to retirees in a prearranged court filing with Ross.

Last July, Miller returned from retirement to become chairman and CEO of Delphi, the nation's largest autoparts maker. In October, he placed Delphi into Chapter 11 bankruptcy. A month before the filing, Ross announced that he had formed an investment fund to buy and globally consolidate auto-parts makers. Ross expressed interest in buying Delphi if the company succeeded in lowering its labor costs.

In the spirit of, "if at first you succeed," Ross and Miller are repeating their playbook from Beth Steel. Once again, they are cloaking their activities with self-serving pronouncements about the pressures of globalization on U.S. companies.

Let's hope that the shock from the Sago mine disaster results in a closer look at both Ross and his bank and hedgefund enablers.