Department of Justice

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The Department of Justice today announced that it intends to file suit to block the proposed merger of LTV Corporation and Republic Steel Corporation, the nation's third and fourth largest steel companies, unless those companies abandon or significantly modify the proposed transaction.

J. Paul McGrath, Assistant Attorney General in charge of the Antitrust Division, said the complaint would allege that the merger would violate Section 7 of the Clayton Act in three product areas: hot rolled carbon and alloy sheet, cold rolled carbon and alloy sheet, and stainless sheet and strip.

In a statement made today, McGrath outlined the reasons for his decision:

"After an exhaustive investigation of the proposed deal, we concluded that the merger would sharply increase concentration in critical parts of the steel industry where only a few domestic companies compete. We concluded that the increased concentration would be unacceptably high under the standards contained in the Department's merger guidelines and under applicable law. On that basis we have decided to oppose the merger.

"The proposed merger between U.S. Steel and National Steel only intensifies the concern that already led to that decision. The firms that would result from the two proposed mergers would together control close to 50 percent of domestic carbon and alloy steel sheet production.

"Currently, Jones & Laughlin, a subsidiary of LTV Corporation, is the third or fourth largest domestic producer of carbon and alloy sheet steel, accounting for nearly 14 percent of total domestic production. Republic ranks sixth or seventh, accounting for about eight percent of total domestic production. The firm that would result from the merger of LTV and Republic would be the largest domestic producer of carbon and alloy sheet steel (unless U.S. Steel and National Steel combine).

"In stainless steel sheet and strip, Jones & Laughlin is already the largest of only eight domestic producers. Republic and Jones & Laughlin together control almost half of domestic capacity.

"Under the merger guidelines, market concentration is measured by the Herfindahl-Hirschman Index (HHI), which is the sum of the squares of the market shares of each firm in the market. The guidelines state that the Department is likely to sue to block a merger that causes an increase in the HHI of at least 100 where the post-merger HHI is above 1,000. In the carbon and alloy sheet markets, based on domestic production alone, the merger would increase the HHIs by more than 200, resulting in HHIs of approximately 1,300 to 1,400. In stainless steel sheet, the effect would be much worse: the increase would be about 700 and the resulting HHI would be over 3,000.

"In analyzing the proposed Republic-LTV merger, the Department considered the companies' claims that their combined market shares and the increased concentration levels should be sharply discounted because of mounting foreign competition. Although we gave substantial consideration to foreign competition, we concluded that not all countries' imports constitute an effective check on anticompetitive abuses of U.S. companies for several reasons. For one, imports of carbon and alloy steel sheet have been more limited than imports of other steel products due to customer purchasing preferences. In addition, because of existing import quotas and voluntary restraints, imports from certain major foreign producers of steel sheet cannot be expected to increase substantially in response to a domestic price rise.

"When foreign steel currently sold in this country originating in nations not subject to trade quotas or voluntary restraints is included in the HHI calcuations, in the carbon and alloy sheet markets the post-merger HHIs are approximately 1,100 to 1,200, and the increases in the HHIs are approximately 200. In stainless sheet, where the domestic market shares are already very high, the addition of imports at their current level only serves to lower the HHI slightly. For those reasons, we concluded that the market concentration resulting from the proposed merger fits well within the guideline tests, that available imports would not effectively restrain increases in the domestic price of carbon and alloy sheet and stainless sheet and that therefore the effect of imports in those markets could not save the merger.

"We also considered the claim by the companies that the merger would permit substantial cost savings and that these savings are important if Jones & Laughlin and Republic are to continue as competitive factors in an increasingly difficult marketplace. The companies asserted that the merger would reduce operating expenses by more than $300 million per year. It was clear from our study, however, that there was little or no basis for many of the claimed efficiencies. In addition, a number of them could be realized without merging the two companies, through internal cost savings, supply contracts among the companies and perhaps even the swapping of plants and other assets among companies in the industry.

"I am deeply concerned that the steel industry needs considerable additional cost-cutting, modernizing and restructuring to compete in the tough market of the 1980s. I am totally unconvinced, however, that revitalizing the steel industry requires the proposed merger.

"While we intend to block the proposed merger if the parties attempt to complete it in its present form, I recognize that a restructuring of the two companies may be necessary if they are to be as efficient as possible. I therefore suggest that the parties may want to consider alternatives to the proposed transaction that would be unobjectionable from the Department's standpoint. We are prepared to review promptly any proposals that the companies may wish to advance along this line.

"I also recognize that the financial problems faced by these firms are not unique in the domestic steel industry. The American steel industry is in a state of crisis. Its long-term survival may well require the industry to place increased reliance on jointly realized economies and efficiencies. For example, the industry might consider intercompany sales or exchanges of raw materials, fuel and semifinished product. It might also consider reshuffling or consolidating plants and operations now under separate ownership.

"In conclusion, meeting the crisis facing the steel industry may require multi-party or industry-wide negotiations. Such negotiations and any agreements that may result are not objectionable under the antitrust laws, provided they do not lessen competition or create undue market concentration. Should companies in the industry wish to pursue such arrangements, we are prepared to provide guidance to deal with antitrust issues."

Attorney General William French Smith is disqualified from this matter.