What is the most critical shortage we’re facing today? Oil? Gold?

If you’re a contractor, the answer to that question may be the supply of one of construction’s base products: cement

By Jim Van Loozen, Editor

What do gold, silver and oil have in common? That’s an easy one. They are all commodities being produced in diminishing supply, and hence, that are becoming increasingly expensive. All three have a direct bearing on the economic health of the construction industry.

Despite that economic impact, however, the average contractor may soon be more concerned about a different commodity in short supply: Portland cement. According to one cement industry analyst, we may be approaching the time in the U.S. and Canada when no amount of gold, silver, oil or money will buy you an extra ration of cement.

Several areas of the country have already experienced cement shortages. It was an expensive problem which slowed, and in some cases stopped, the progress of buildings. And the current atmosphere in the major North American producing markets is such that within a short time, U.S. demand may equal domestic production. When that happens, Canada and other foreign interests could be cut completely out of the cement importing picture.

James E. Stewart, the board chairman and chief executive officer for the Lone Star Industries, has been stumping worldwide to make key construction people aware of the impending problems in cement supplies. In appearances before a group of European investors, and more recently in Chicago, Stewart warned that increasing U.S. reliance on imported cement, hard-line government regulations and a near topping out of

When cement shortages occur, it’s almost like toppling dominoes. Major sewer projects, like this one in Houston, Texas, depend on cement and concrete in huge supply. Hold them up for a few weeks, and what happens? Road improvements are delayed. Existing businesses falter. And plans for new construction are put back on the shelf.
Americans will probe “the great cement ripoff.”

U.S. production versus consumption will make cement the new oil.

“If oil is black gold, cement is certainly gray gold,” Stewart said, “Cement is turning to oil! Oil, after all, is perceived by most people as being much more useful and important than gold in their personal lives. And they are just beginning to see that a cement shortage in the U.S. would be in the same light.”

Stewart says his firm, which has been engaged in an active program of expansion, acquisition and increased production just to meet present demands, is being hampered by government regulations that will have lasting impacts on the availability of cement products for worldwide building needs.

And, he says his firm is already getting the word out to avoid being put in the negative posture that confronted the oil industry when the wells began to run dry this summer.

Bracing against the storm

Stewart believes the cement industry is on the verge of bracing against a storm of public protest. He told his two audiences he can envision the day when frustrated Americans will demand investigation of “the great cement ripoff” and the manner in which the cement industry got together “to hold back production to create an artificial cement shortage, so we can force cement prices up and fill our coffers with windfall profits.”

He added, “You and I know it isn’t so.” He said a major concern facing the industry today is to respond today to allegations that something is rotten in the state of production.

“When the coming cement shortage really slows down construction, and labor starts to feel the pinch . . . we’re all going to have to do a lot of explaining to try to make the public understand the truth,” Stewart said.

“Last summer, American motorists again sat in long lines at their gas stations—waited as long as four hours or more in long lines that stretched as long as a mile and a half—waiting to buy enough gasoline to get to work, or even to get to the next gas station. “Many of them ran out of gas while they were waiting in line. There were fist fights and dented fenders—and even shootings—over places in line,” he said. He added that many Americans, despite evidence to the contrary, simply refused to believe there was a bona fide energy shortage.

“When the people ran out of bread in Paris, Marie Antoinette said let them eat cake—and they got even with her for that.

“When the people run out of gasoline and we say, in effect, let them walk, we must recognize that we are playing with a powerful economic explosive. How will it be when we come to the cement shortage?”

Stewart went on to report that acute shortages hit Houston, Seattle, San Francisco and other markets the same time last summer as the oil crunch. “In these shortage areas, cement was being allocated—just like oil—on a percentage basis,” he said.

“Firms in affected areas were not filling new orders. They were not accepting new customers. Large construction projects were being postponed or stretched out. The economic damage included some lost jobs.”

Impacts noted

Stewart says there were two immediate results from the past shortage.

First, profit margins for cement producers improved. Second, U.S. imports of cement products have increased 80%. Who is doing the buying?

Says Stewart, “American producers who are unable to satisfy the demand from their own production facilities.” Again, he paralleled the current cement climate to the oil production climate.

“As we meet here this morning, the energy supply of the entire world is being questioned and challenged. What will happen to the world’s oil production? Nobody knows, except that we doubt it will ever be the same,” he said. He predicted that increasing shortages of oil will result in the channeling of remaining supplies to the production of essential products, with the leftovers going to low energy using and profit-making companies.

However, Stewart says he does not believe it is viable for the U.S. producers to continue to import cement products for the purpose of producing a product for export.

“It means less cement will be available for import, worldwide. And it means the U.S. must produce more cement for its own use as the availability of imports diminishes,” he said.

Noting, however, that U.S. production is about 86% of capacity today, Stewart said the full production capacity still needs to be expanded. Long-range building demands will put extreme pressure on production, and a major government project for national defense will draw huge amounts from U.S. cement producers.

“Our government is moving ahead with its $33 billion MX missile project that is slated to be located in the Nevada-Utah area. When completed over the next several years, this project will consume an estimated 3.7 million tons of cement. This will practically insure a tight supply/demand situation in those markets, where current demand is already dif-
ficult to satisfy,” Stewart said.

**Other government impacts**

In addition to its own pressure for new stocks of cement to fuel government building projects, Stewart says Uncle Sam’s regulatory process also contributes to a short cement market.

“The policies of this government have kept this industry highly fragmented, limiting its ability to put together the needed capital resources (for expansion),” Stewart said.

“The largest cement company in the United States is Lone Star. We produce less than 8% of the total market. There are 52 cement companies in the U.S., yet we are prohibited from mergers and consolidations that would allow us to produce cement at a lower cost,” he said.

Stewart says his industry is handicapped by anti-growth posture in government. He pointed out that four or fewer companies account for half of the telephone, automobile, aluminum and transformer markets. He added that four or fewer companies control from 25-50% of a longer list of markets, including radio and television, industrial organic chemicals and petroleum refining equipment.

“The FTC (Federal Trade Commission) looks upon bigness as offensive, even in situations where competition is not impaired,” he said. He said Lone Star, despite being the high bidder for a plant in Missouri, did not acquire another cement firm, because the purchase would have raised the risk of FTC intervention. The firm was sold to an Italian investment group.

“So, here we have on one hand, foreign governments encouraging and subsidizing the growth of their companies so they can compete for foreign business. And, on the other hand, Washington is preventing American companies from achieving the strength and size they need to compete in the same markets,” Stewart said.

He accused the government of handcuffing businessmen in their efforts to expand exports and reduce imports in the face of an economy in which the U.S. deficit in balance of trade payments is growing. “Instead of aiding our corporations to develop economies of scale to match foreign competition, some individuals in our government are spreading the myth that bigness is bad,” he said.

Stewart also hit at the government for overregulation from an environmental standpoint, noting it takes 2 1/2 to 3 years to get a new plant permitted. “I have a chart in my office that displays the 228 separate environmental and permit agency decisions that have to be made to start a major project. Just to make this chart required ten days to map and two weeks for two draftsmen to plot, using computerized drafting techniques,” he said.

**The decade ahead**

Stewart is not overly optimistic about the next ten years and what it will bring to the cement industry. That outlook, of course, affects the construction industry in one of its most vital supply areas.

Stewart predicts that 1980 will be a good year. However, from 1981 to 1989, he predicts every single ton of U.S. production of cement will be used in the domestic marketplace.

He also projects that tightening world oil supplies will rearrange the assignment of all exports—including cement. He sees a shutdown of all high-BTU-using cement plants overall, with 70% of these plants biting the dust between 1981-89.

New technology, and the ability to convert to it, will become the key to survival for most plants after 1980, Stewart said. “That’s the way we see it—a scenario that will soon change the little-known, unappreciated industry into a more sophisticated, high-technology industry—one that is fully recognized by the people as vital to the national interest.

“Something like oil,” Stewart said.