

Sparrows Point Fate Still Up in Air

Russian owner proposes job cuts to union as possible restructure plan

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The union that represents 2,500 employees at the Sparrows Point steel mill received a draft proposal from the plant's Russian owners last month detailing a restructuring that could affect as many as 580 jobs, or nearly a third of the workforce, according to the union president.

John Cirri, president of United Steelworkers Local 9477, said in a phone interview Thursday that draft restructuring presented by Russian steel company Severstal detailed a number of ways the jobs could be affected, including reductions, retirements or transfers to other departments. The company is looking to recover from losses due in large part to its American operations, which have suffered because of the weak economy.

The future of the workforce and operations at the Sparrows Point steel mill are in limbo as Severstal works out what to do with its five U.S. plants, which have lost significant business because of the economic downturn and are dragging down the company's earnings.

"I don't know what the future is going to hold because things change from week to week," Cirri said. "Whatever happens, the union will do things in the most humane way possible to guarantee that there's a long-term future at Sparrows Point."

Severstal, which bought Sparrows Point last year in an \$810 million deal, said recently in a conference call discussing second quarter earnings with analysts that it is "finalizing strategy" for its North American operations.

Bette Kovach, a Severstal spokeswoman, said the company is still deciding whether to eliminate jobs and how it will restructure Severstal North America. She said a final decision will be made based on market conditions and the economy, but that there was no timeline for when it would come.

Severstal could do a number of things to improve its balance sheet, including closing plants, laying off workers at certain plants, declaring bankruptcy or selling assets. The company has denied reports by trade publications that it has plans to sell its U.S. assets.

Cirri said that any decision Severstal makes on job losses at Sparrows Point would have to be negotiated with the union.

"Other than the draft, there has been no discussion at all with the local union as far as restructuring talks," Cirri said.

Severstal has said it will keep its better-performing plants.

"We're committed to North America and we will continue to operate those facilities that are most efficient," Kovach said.

Two of Severstal's U.S. plants have been idled -- Warren, Ohio, and Wheeling, W.Va. In addition to Sparrows Point, it also owns plants in Dearborn, Mich., and Columbus, Miss.

Sparrows Point is considered to be one of the company's better properties, which makes it less likely to close, analysts said. The plant has a good blast furnace and is accessible to a major waterway, which is good for exporting. It also has the capacity to expand, such as by adding a plate mill. Before the economic downturn, Severstal was looking to add a coke-making operation to the mill.

"It's a good plant in a good location, and it's got a relatively modern set of equipment," said Michael Locker, a New York steel consultant with Locker Associates.

Kovach said: "Sparrows Point certainly has a market for its products and it has a loyal customer base. However, everything is under review for now."

Severstal expanded into the U.S. market just before the economy began to falter and is now facing a cash crunch as its U.S. plants aren't bringing in the profits they once did, said Christopher Plummer, managing director of Metal Strategies Inc., a consulting firm in West Chester, Pa.

The entire U.S. steel industry was operating at a 35 percent to 40 percent capacity rate from September through May and recently edged up to mid-50 percent rates, Plummer said. Before the downturn, the industry was operating at 80 percent to 90 percent capacity.

Cirri said Sparrows Point is making about 8,000 tons of liquid iron a day. It has the capacity to make 10,000 to 10,500 tons, Cirri said.

"They have to pay the loans for the acquisitions back, and they're losing money at a significant pace," Plummer said. "They have a real dilemma on their hands."

Plummer said it might be hard to find a buyer for any properties because of the tight steel market.

"It doesn't make sense because they'll just get pennies on the dollar if they can even find a buyer," Plummer said. "They need to do a pretty significant restructuring of their operations."

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