



Steel's Rebound Seen at Granite City Mill

By Angela Tablac

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The good news that some workers at Granite City Works would return this week came swiftly and unexpectedly. Almost as suddenly as news of the steel mill's idling did six months ago.

An improvement in demand, only in recent weeks, indicates the worst may be over for the domestic steel industry, which has undergone plant idlings, mass layoffs and dramatic uncertainty since late last year. But analysts say it will take years to rebound to last year's production levels.

"This is not going to be a rapid start-up" for the industry, said John Anton, a Washington-based steel analyst for IHS Global Insight.

That also means no rapid start-up at United States Steel Corp., one of the country's largest steelmakers and the owner of Granite City Works.

On Friday, U.S. Steel told local union officials that orders looked strong enough to restart an iron-making furnace and some coil-making operations. About 100 steelworkers will return to the plant this week, according to Dave Dowling, a local subdistrict director for the United Steelworkers. More are expected to return in following weeks.

But the good news was tempered by the fact that U.S. Steel temporarily idled most of its Fairfield Works steel mill in Birmingham, Ala., last month.

Analysts didn't know why U.S. Steel chose to restart operations at Granite City versus Fairfield or other idled mills, though one suggested product mix as a possible reason. Despite the recent bout of uncertainty, the steel industry will soon need to make more steel, analysts say.

Steelmakers cut production when manufacturers cut orders and instead relied on pent-up inventory to meet demand. Now that inventory has dwindled to the point where it "can't go down any more," Anton said.

"Part of what you're having is a recovery toward equilibrium," he said.

CUTS AND COMEBACKS

Granite City Works, one of Granite City's largest employers, makes steel used in construction, automobiles and other industries. When the recession and tough credit conditions hurt those industries, demand for steel plummeted.

U.S. Steel and other steel companies idled plants, laid off workers and slashed production. At Granite City Works, U.S. Steel halted its steel-making operations in December and laid off about 1,600 workers.

An additional 390 union and nonunion workers were laid off in February. That's when U.S. Steel temporarily stopped production of coke, a key steel-making ingredient that it had been stockpiling.

In recent months, a crew of fewer than 200 workers has worked at the plant. Other plants -- not only those owned by U.S. Steel but also its competitors -- have been idled, too. Capacity utilization, or how much the industry actually produces versus what it has the ability to produce, has been around 48 percent in recent weeks, according to data from the American Iron and Steel Institute in Washington. It hovered around 90 percent in June 2008.

U.S. Steel now is taking the first steps toward restarting the local mill. At Granite City Works this week, workers will prepare a blast furnace to go back online. The blast furnace is an important part of the steel-making process. Huge ovens heat coal to make coke, which is then fed into the furnace to extract iron, the basic ingredient for steel, from iron ore.

The restart of the furnace indicates other production preparations will follow, said Michael Locker, president of Locker Associates, a New York-based consulting firm that specializes in steel.

"It's expensive and it's hard to take down (the furnace) once you put it back up," Locker said. "You don't start a blast furnace up unless you're going to start the whole thing up."

Some electrical and mechanical workers will return to work throughout the next two weeks in the "hot strip mill," where coil is made, union officials said. In following weeks, even more steelworkers are expected to be recalled. But union officials, analysts and U.S. Steel declined to speculate on when the entire mill will operate normally and the bulk of the work force will return.

Meanwhile, U.S. Steel has not yet recalled coke-making workers at the Granite City Works. Instead, the coke might be shipped from a U.S. Steel mill in the Hamilton, Ontario.

Rolf Gerstenberger -- president of USW Local 1005, which represents Hamilton's hourly workers -- said the steelmaker told him last week that some of his laid-off members will be recalled to make the coke and ship it to Granite City. However, a local union official disputed that assertion, saying that wasn't the case. He didn't know when coke-making workers might be recalled.

U.S. Steel spokeswoman Erin DiPietro declined to comment, saying the company does not provide details on its operations.

Meanwhile, Sunoco Inc. continues construction of a new coke-making facility in Granite City that will start supplying the steel mill in the fourth quarter. A Sunoco spokesman said U.S. Steel has informed the company that it will be ready to accept coke upon start-up.

WORRIED FUTURE

On Tuesday, several USW officials -- including Local 1899 President Dan Simmons, who represents most of the Granite City Works workers -- testified at a congressional steel caucus hearing in Washington.

The officials lobbied for, among several points, the reformation of health care and the enforcement of trade laws to protect U.S. companies against foreign steel imports.

"Although it's great news for us in Granite City to be pouring steel again, the problems facing steel manufacturing in the U.S. remain," Simmons said, according to his written testimony.

Analysts say the industry has likely hit the bottom, but recovery will take time. IHS Global Insight predicts steel production this year is expected to be nearly half of the 100.7 million short tons produced in 2008.

Getting financing will continue to be difficult, Anton said. Because of the oversupply of housing, residential construction will continue to be slow. And automakers won't make as many vehicles in the next few years.

Analysts, including Anton, estimated a recovery to 2008 levels won't come until at least 2012.

"When you fall in the Grand Canyon, it takes a lot to get out of it," Anton said.
