Building a bridge from the ground up

Jan•20•2003 1:03AM

By John E. Sacco

PITTSBURGH -- United Steelworkers union members have lived a lifetime of drawing the line, protecting workers' rights, seeking to ensure health-care benefits and pensions of retirees and fighting management just about every step of the way on any number of other issues.

That, in theory, is not going to stop, despite a new steel industry template in place as a result of an agreement late last year between Cleveland-based International Steel Group Inc. (ISG) and the union. The new relationship between management and labor is certain to not only change the landscape of the United States' integrated steel market, but give it a completely new look and direction.

The USW has crossed a line politically, theoretically, emotionally and philosophically to save some jobs and retirees' benefits instead of watching the industry die and losing all jobs, pensions and benefits.

"I think it's precedent-setting," said Michael Locker, head of New York-based Locker Associates. "There's no question the ISG-USW deal is the template. How it unfolds with other companies is the only issue. Companies in great distress or in bankruptcy are moving in this direction. The steelworkers have made a major change. It's a major political, cultural change. Analysts say they were required to make these moves, given the nature of the industry and the threat to the industry. Now, it's a question of bargaining and finding a way to implement it. I think the USW crossed the line, seeing that was a necessity. It's the biggest step--a titanic move."

By not drawing a hard line, in many ways the USW has given itself more power.

Since ISG, which bought much of bankrupt LTV Corp.'s steel assets out of bankruptcy last year, now has agreed to purchase bankrupt Bethlehem Steel Corp., Bethlehem, Pa., (AMM, Jan. 7 and 8), industry consolidation has veered onto the fast track.

A few days later, U.S. Steel Corp. announced its much-anticipated offer to purchase bankrupt National Steel Corp., Mishawaka, Ind. (AMM, Jan. 10). Perhaps the most telling sign in the proposed deal, given the emerging dynamics of new labor/management relationships and industry consolidation, is that the move was endorsed by the USW (AMM, Jan. 13). Industry experts said the USW's pending deal with ISG would have to be followed closely so that U.S. Steel's labor costs were competitive with those at ISG.

While it is true that a significant number of jobs will be lost, those saved are important and relevant to the USW, which has seen its ranks reduced by layoffs, plant shutdowns and liquidations in the past few years. While there are some conflicting tallies, the USW said its membership, including non-steel employees, has dipped to about 700,000 workers currently from 1 million in 1975. The U.S. Labor Department said the number was close to 612,000 members while AFL-CIO statistics suggested the membership was 445,000.

Although the cuts have depleted the rank and file, the new deal could give the USW more say in how steel is produced in the United States.

USW president Leo Gerard has played a huge role in helping facilitate two major industry mergers in less than a week. Gerard insisted that the USW had been pressing for consolidation in the troubled steel industry for at least a decade and was confident that the deal--and the template--was best for the union.

"We are going to cooperate with companies that are prepared to grow, because if we can grow capacity we can make more steel," Gerard said. "We worked out a scenario to help improve productivity and we share in that productivity. The reality is that in the steel industry, since 1980, less people have worked every year. When companies introduced technology, they cut people and shut down plants. The U.S. was the only country trying to improve yield by shutting down plants rather than investing in them. We feel a reduced amount of companies will grow capacity and we'll grow steelworkers."

The ISG-USW deal is being hailed by those in the industry as not just a template for future deals between integrated steel companies and the union, but a deal that will change the face of steelmaking in the United States. The new lower-cost labor contract promises to scale back the hefty pension and retiree health-care costs that have plagued steelmakers and hindered consolidation plans because acquiring companies do not want to deal with legacy costs.

Escalating costs, along with an economic downturn and rugged foreign competition, have pushed more than 30 steel producers and processors into bankruptcy since 1997. Retirees at LTV lost their health-care benefits when the company liquidated.

The new proposed contract provides for fewer workers overall, which Gerard does not consider to be a concession to management as long as the reductions are "humane" and there also are significant reductions in management.

"A lot of analysts are trying to figure out what we gave away," Gerard said. "We haven't given anything away. We sat down with the ISG team and did a couple of unique and creative things. One, we built a collective agreement--and I mean built--that gives the union and its membership more influence and control over the daily goings on of the company. We have improved our position on the contracting-out of work and de-layered management.

"The (USW) always has been a promoter of productivity," Gerard said. "We knew when we were fighting for the modernization of mills that the technology would help the company do the same amount of work with less people. What we want is for our workers to leave their jobs with a decent pension after a lifetime of work. We've reorganized the workplace. This is not something shockingly new. We've moved to a more Western European style of labor structure in the workplace."

Defining exactly who has won and lost in the unfolding process is a difficult task.

Almost everyone agrees that ISG has won, in terms of gaining the type of contract that will eliminate jobs and reduce costs while cutting down on work rules and establishing a new way of doing things.

However, critics have pointed out that not everyone can claim a victory. Certainly, workers who have lost their jobs over the years do not feel victorious.

"Sure, it is a win for the USW," said James Craft, a labor analyst and professor of business administration at the University of Pittsburgh's Katz School of Business. "They've saved between 50 and 60 percent of the jobs. That number could be zero. They'd liquidate Bethlehem if it couldn't make an agreement with the union. There will still be union shops. It's not much of a win, but it is a win for the union. ISG is putting together a company much more flexible, much more low-cost and capable of responding to international competition.

"If it's come to how we do as a company is how you do as a union, then that is winning," Craft said. "Everybody wins because the reality is everybody could have lost a lot. It's a limited win. Overall, I'd say ISG won because they got what they wanted."

When Wilbur L. Ross Jr., head of investment firm W.L. Ross & Co., purchased LTV's assets last April and renamed it ISG, he made significant cuts, chopping 40 percent of management positions. ISG cut steelworker ranks by a similar percentage, but with a much higher body count.

Ross brought in Rodney Mott, a former executive with hard-nosed mini-mill heavyweight Nucor Corp., Charlotte, N.C., to operate the new-look company. Mott gave hourly workers a larger role in plant operations, and introduced a profit-sharing plan that rewards individual units in the plant and promises a second bonus to workers if the entire company reaches certain production levels.

That agreement, in itself, was somewhat surprising, according to the seasoned eye of Charles Bradford, a veteran industry analyst and head of Bradford Research in New York.

"It fascinates me that people without union backgrounds have negotiated a deal that basically will set the framework for an entire industry," Bradford said of Ross and Mott. "Until we see the details, we really don't know what they've agreed to. It seems to me, though, that there have been positive changes made from an integrated steel standpoint.

"I believed for a long time that one of the reasons integrated companies were destined for failure was that the cost structure was so fixed, where mini-mills were varied," Bradford said. "It looks like the ISG deal is very variable. That's a major improvement. I understand the pension plan is a defined contribution plan, and that's what the industry has been trying to get for years. Wheeling-Pittsburgh Steel (Corp.) went on strike 10 months over that a few years ago."

James G. Bradley, president and chief executive officer of Wheeling, W. Va.,-based Wheeling-Pittsburgh, is convinced that the USW has committed itself to helping effect positive change in the U.S. steel industry.

"The (USW) has shown that it is committed to a healthy (U.S.) steel industry that can compete on a global basis," Bradley said. "What is occurring between the union and ISG will also benefit Wheeling-Pittsburgh Steel in its application for an Emergency Steel Loan Guarantee. We have a plan to invest in technology that significantly reduces our costs of steel production that we use for our metal processing businesses while improving our ability to react to changing market conditions. The states of West Virginia and Ohio have already shown their confidence in our application by participating in the loan guarantee. If it is ratified, the labor agreement with ISG will set a pattern that can only improve our cost structure and manufacturing flexibility."

Bradley said that while consolidation was inevitable and would strengthen the industry overall, he thought there was a place for smaller companies with niche strategies--like Wheeling-Pittsburgh Steel--to take advantage of the changing landscape. Wheeling-Pittsburgh said it planned to focus on new, less capital-intensive technology, on continued quality and productivity improvements and on growth in its metal-processing businesses (AMM, Jan. 13).

Donald Barnett, president of Economic Associates Inc., a Great Falls, Va.,-based consultant, said that integrated steel companies were going to want the same kind of flexibility ISG had, in terms of contractual obligations with the USW.

Others said that by striking the deal with ISG, the USW effectively established its priorities and placed the onus on companies in future negotiations to comply with them.

Barnett said the United States needed to lose about 15 million tons of annual capacity between now and the expiration of President Bush's Section 201 remedies in March 2005.

"You can't assume the home market is going to grow in that amount," Barnett said. "When the Section 201 is lifted, imports will go up. Certainly, they (ISG and the USW) have completely changed the nature of the industry by forcing the pace of the integrated firms, making them compete on not-dissimilar terms with the mini-mills. It may slow the inroads of the mini-mill flat-rolled (producers) a little, but it will not stop it."

Barnett said the USW was going to insist on the lean "administrative and headquartered staffs" that ISG seems to have promised. "That would create a more favorable union view of it. The (USW) has been more flexible than I thought it would be. I think it is more fully aware of what is happening than we might have given it credit for. They're just going to have to go with the flow. So far, that seems to be what they are doing. They seem to be saying, 'Let's do what's best for our workforce and our workforce will be substantially less'."

Not everyone is walking away from the new deal with a smile.

If U.S. Steel wins concessions from National Steel's union workers, those tracking the industry said, the company was likely to seek the same from its own workers. At the same time, U.S. Steel will not assume the pension and other medical benefits being paid to about 20,000 National retirees.

Ted Turchick, 66, of Peters Township, Pa., left National Steel in 1992 when it moved its headquarters to Indiana from Pittsburgh. Turchick, who worked for National for more than 25 years, pays $70 a month in health insurance premiums for himself and his wife under National's plan. Now, he may have to pay up to $250 a month to cover just himself once benefits are eliminated.

"It's the LTV situation all over again," Turchick said. "You work all of your life and it's like getting kicked in the teeth. They supposedly threw people in jail over the Enron scandal. I'm not saying this is as bad, but there have been steel executives who haven't done the job and who haven't provided the benefits promised to workers.

"It makes you very angry and very upset," he said. "You can rest assured that through the years, executive bonuses were collected and those executives were happy to collect them. That's just another case of mismanagement. We paid for the benefits we are entitled to. I don't know how many times through the years that National came back to us to get a 10-percent reduction in salary. We've paid for these benefits and now they're being taken away from us. Nobody will be punished for it or taken to task."

Gerard insisted that the new deal would change all of this. He pointed to workplace training that had been redesigned to give the union a greater role in design and delivery of the training and use of seniority. Gerard also stressed the change in work rules.

"This means we don't have a lot of work rules. In the past there have been far too many lawyers through corporate bureaucracy," Gerard said. "In a former CBA (collective bargaining agreement) there were 28 pages covering how to schedule a two-week vacation. We insisted on a plan that members could carry around in their pocket. If you need 28 pages to schedule vacation, the industry can't survive.

"There are no easy jobs in the steel mill. We want our workers who have worked 30 years to leave with dignity, a solid income and health care."

Turchick said that times had changed on the mill floor and would continue to evolve. "It's probably a long time in coming," he said. "The union and management have realized half a loaf is better than nothing. Things could change if people who remain working can be content with basically no retirement benefits. If our workers are willing to do that, we can become competitive.

"In Europe, the government takes care of health benefits and pensions," he said. "That would change the landscape here. This is the United States. We were supposed to have health care and pensions provided for us. Now it's not there."

Back Top