



Plant Idling Raises Concerns About Future of Sparrows Point

RG Steel said it didn't have money to keep the plant running

May 25, 2012 | By Andrea K. Walker and Hanah Cho

It's déjà vu at Sparrows Point.

The Baltimore County plant once again faces wholesale layoffs and a possible sale.

The same story has played out every couple of years for the past decade at the steel plant, whose future remains in limbo.

The revolving pattern of new owners and layoffs that began when longtime owner Bethlehem Steel declared bankruptcy in 2001 leaves some questioning how much more the Sparrows Point plant can take and remain viable.

"How many lives does a mill have?" asked **Michael Locker of Locker & Associates**, a consulting firm specializing in steel.

Said Charles Bradford of Bradford Research: "Sparrows Point has got some very severe problems. It's going to take a lot to fix."

The latest owner, RG Steel, said Thursday it will begin laying off 1,975 workers and shut down operations beginning June 4 because it doesn't have the money or credit to keep the plant running.

Before that, Russian owner Severstal laid off most of the workforce and idled the plant in 2010 before selling to RG Steel. Severstal predecessor Arcelor Mittal operated the troubled facility as a swing plant, with output fluctuating with demand. International Steel Group also tried its hand at running the plant and also ended up selling.

The constant turnover creates uncertainty that makes it harder to attract customers and financing, steel analysts said. Each new owner's promises of investing in the mill never fully materialized, putting it at a disadvantage competing against more modern facilities, some believe.

"This is a dinosaur," said Marc Liebman, president of AIM Market Research, a Pittsburgh firm that provides research for steel companies and their suppliers. "It's such a big facility: a classic, integrated steel plant, old school."

"You have many new plants that have been built with more modern innovative technologies for steel making that are, if not thriving, they're certainly competitive," he added.

Still, others believe hope remains for the plant, which has cranked out steel since Pennsylvania Steel poured out the first pig iron at the site in 1889.

United Steelworkers, which represents workers at Sparrows Point, said national and local union officials are working with RG Steel to find equity investors or a buyer.

Joe Rosel, the recently elected president of Local 9477, said observers should not count out the steel mill. "We just have to hope that people recognize the fact that it's a good plant regardless of what the analysts tell you," he said. "We still have one of the best blast furnaces in the world."

Baltimore County Executive Kevin Kamenetz said it is a matter of finding the right owner. He pointed out that RG Steel didn't have experience running a steel mill. The company, owned by New York private equity firm Renco Group, also faced market conditions it couldn't control, including high costs for raw materials and low steel prices.

"Steelmaking has been an integral part of the growth of this county for more than 100 years, and the fact we have a fairly modern facility and a qualified workforce available make it a good turnkey operation for another company," Kamenetz said.

Sparrows Point faces a tough road as the industry struggles with weak demand, higher material costs and overcapacity in the U.S. market, said some who follow the steel market. Domestic steel prices are low because of the weak economy, but raw-material costs are high because of demand globally from growing countries such as India and China.

Locker said a buyer would have to be willing to invest a large amount of capital to upgrade the plant. It also would need the patience to see changes through and a strategy for working with the union.

"It's going to take time to rebuild customer relations, which means you'll be losing money for a while unless you want to slash prices," **Locker said**.

It doesn't help that Sparrows Point competes with newer and more technologically advanced steel plants, analysts said. And Sparrows Point lacks the advantage of steel mills in the Midwest, which are closer to iron ore mines, experts say.

One possible buyer analysts have pointed to is CSN, a Brazilian steel company with access to raw materials. But there is another U.S. mill that might prove more attractive to CSN and other potential buyers. German steelmaker ThyssenKrupp is trying to sell a more modern facility it owns in Alabama.

Some economists and others have called on state and county officials to put together an incentive package that could include a property tax break, for example, to attract potential buyers for Sparrows Point.

Rep. C.A. Dutch Ruppertsberger, whose district includes Sparrows Point, said he was "deeply troubled" by the impact of the plant's idling on workers. Ruppertsberger has a personal interest in protecting the facility because his father once worked there.

He said he'll continue to work with U.S. trade officials to ensure that American manufacturers have access to raw materials from producers abroad.