



'New Future' Gone: Analyst: RG Lacked Capital

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MINGO JUNCTION, Ohio - Less than a decade ago, company officials and local steelworkers heralded Wheeling-Pittsburgh Steel Corp.'s new \$115 million electric arc furnace as the company's chance for a new future.

The furnace, which could work with either scrap or slab steel, was installed at the Mingo Junction plant and began operating in late 2004.

The arc furnace never did work properly, and it was idled much of the time. In the meantime, Wheeling-Pittsburgh Steel changed owners several times, first to Esmark Inc., then to Severstal and RG Steel.



Photo by Casey Junkins

The Mingo Junction RG Steel plant, idled since 2009, traces its roots all the way back to the steel company owned by Andrew Carnegie in the late 1800s.

After RG filed for bankruptcy this spring, a firm specializing in "demolition" and "industrial gutting" - Frontier Industrial of Buffalo, N.Y. - purchased the entire Mingo Junction plant, including the furnace, at an auction this past week for \$20 million.

"I just can't believe they got the whole plant for \$20 million. One of the best mills in the country got sold for \$20 million," said a frustrated Santo Santoro, staff representative for the United Steelworkers.

"We thought another group was going to make a bid for it, but then they didn't. Then all of a sudden, it was sold for \$20 million."

RG also has sold the idled Steubenville North plant to a subsidiary of Herman Strauss Inc., a Wheeling-based recycling business. Strauss paid \$4.3 million for about 103 acres, plus another \$10.7 million for the scrap and machinery.

As the final chapter of the Mingo facility and its arc furnace remain unclear, the remnants of the Wheeling-Pittsburgh Steel Corp. empire are being sold off as individual units as part of RG Steel's federal bankruptcy case. Questions remain concerning the future of the individual facilities, health care and pension payments for retirees, and why RG Steel failed as a company.

"Old mills, unfortunately, got taken over by people who didn't know how to manage them," **New York City-based steel analyst Michael Locker said** of RG's purchase of the plants from Severstal. "They (RG) didn't have the capital or the commitment."

Mingo Plant

Though the mill has been shuttered since 2009, the largest and most modern of the local RG plants traces its roots all the way back to the steel company owned by Andrew Carnegie in the late 1800s. For more than three years, steelworkers and Mingo Junction residents have waited for news that the plant would restart.

"The whole town of Mingo has been down for three years," Santoro said. "They really depend on the plant."

Santoro said there are still 600-800 unemployed steelworkers hoping to go back to work at the plant. He said the number once was much higher, but said some of those who have been out of work for so long either took a retirement, or simply moved on with their lives.

"If business ever picks up, that plant has a furnace in it that is basically new. It would cost some money to get it going since it's been down for so long - maybe \$35 million to \$40 million," Santoro estimated.

"We could work together to make it run. If we can't make it, we can't make it. But give us a chance to try."

Santoro said he hopes union officials will get to speak with the mill's apparent new owner - Frontier Industrial Corp. - regarding that company's plans for the Mingo facility. Efforts to contact Frontier representatives were unsuccessful, but the firm's website states that it specializes in "demolition, dismantling, industrial gutting, plant stripouts, scrap metals recycling, equipment removal/salvage, environmental remediation ..."

"That's not good to hear," Santoro said, referring to the future of the Mingo facility.

Bridgeport resident Wilbur Garrison worked for Wheeling-Pitt from 1965-97, primarily at the Mingo facility. He hopes Frontier will not dismantle the massive plant.

"I feel bad about it - it's kind of scary," he said. "It will be really heartbreaking to go up there and see a big, empty space - if that's what they are going to do.

"I guess they could tear down the outside, then sell the equipment from the inside," Garrison added. "I would really hate to see it go, though."

RG's Failure

In addition to the Mingo Junction and Steubenville facilities, Wheeling businessman Quay Mull and attorney Joseph Gompers purchased the Martins Ferry mill, while the Yorkville plant will be sold to a 50-50 partnership of Pittsburgh-based Esmark Inc. and South Korea's TCC Steel for a reported \$4.7 million.

None of the sales are deemed final until approved in federal bankruptcy court by U.S. Bankruptcy Judge Kevin Carey. A hearing on the RG Steel sales resulting from last week's auction is set for Wednesday in federal bankruptcy court in Delaware.

Esmark previously owned all the former Wheeling-Pittsburgh Steel facilities before selling them to Russian steelmaker OAO Severstal for \$1.23 billion in July 2008. Severstal, after idling the Steubenville and Mingo plants in 2009, later sold these plants to RG Steel.

"They really thought the market would turn up, but it didn't work out that way," **Locker said** of RG. "If the market was booming, the effects of their poor management would have been tempered."

Locker said foreign competition played some role in RG's downfall, but was not a huge factor because only 23 percent of the steel consumed in the U.S. now is made overseas. The rate has been as high as 31 percent in the past, he said.

Another problem for RG, and the previous owners of the former Wheeling-Pitt mills in recent years, was the logistical difficulty of having so many different facilities spread out over the Upper Ohio Valley.

"Modern steel mills are much more integrated," **Locker said**. "When you are so spread out, it makes it more difficult."

Pensions and Health Care

Locker said that pension payments for the thousands of local Wheeling-Pitt., Esmark, Severstal or RG Steel retirees and beneficiaries should be ensured by the federal Pension Benefit Guaranty Corp.

"If someone ends up owning 80 percent or more of the RG Steel assets, they will be responsible for the pensions," **Locker said**. "If no one owns 80 percent or more of the assets, the PBGC takes over."

According to the organization's website, the Pension Benefit Guaranty Corp. is "not funded by general tax revenues. PBGC collects insurance premiums from employers that sponsor insured pension plans, earns money from investments and receives funds from pension plans it takes over."

The maximum benefit guaranteed by PBGC is adjusted by law annually. For plans ended in 2010 and 2011, those who retire at age 65 can receive up to \$4,500 a month.

However, Santoro said this does not account for the health care coverage that retirees and their beneficiaries receive.

"Right now, I am getting all kinds of calls about health insurance, and I just don't know what to tell people. We're just not sure yet," Santoro said.

Future

Locker said steel can still succeed as an industry in the local area, at least to some degree. He said the former RG mills just saw a succession of ownership moves that left the company without a clear direction.

"It is hard to convert old mills to newer, more competitive mills," he said.

Though no one made a bid for the Wheeling Corrugating portion of RG Steel's business, **Locker believes** this brand will survive and thrive.

"I think they have a real future. They have a great product with a great history. They just need the construction market to pick up again," **Locker said** of Wheeling Corrugating.

Garrison said when he graduated from high school, it was fairly easy to get a job working at the steel mills. Now, it is a much different time, he noted.

"It is really bad for the guys still trying to hold on to have a job. You used to be able to start out of high school making good money at these kind of jobs. Now, there are basically nothing but minimum wage jobs for kids who don't go to college," Garrison said.