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Pittsburgh's heart of steel still beats amid transformed city

By David J. Lynch, USA TODAY

PITTSBURGH — President [Obama](#) is scheduled to welcome world leaders to the G-20 summit here with an opening dinner Thursday at the celebrated Phipps Conservatory. The botanical gardens' eco-friendly sheen underscores the president's summit message: This former heavy industry mecca retooled after hard times with "green" pursuits that offer the world a path out of the current economic downturn.

"As a city that has transformed itself from the city of steel to a center for high-tech innovation — including green technology, education and training, and research and development — [Pittsburgh](#) will provide both a beautiful backdrop and a powerful example for our work," the president said earlier this month.

As Pittsburgh prepares for its moment in the global spotlight, the industry that once defined this region finds itself an unacknowledged guest. About as close to center stage as Big Steel is likely to get during the two-day summit is this low-profile link: The conservatory is named for Henry Phipps, who established the institution in 1893 with part of the fortune he made alongside his business partner, steel tycoon Andrew Carnegie.

"There's a certain irony. ... It's OK. We're somewhat used to all that, and we're pretty thick skinned. We're pretty content with who we are, and we'll be pleased with whatever little recognition we might receive," says Carnegie's modern successor, John Surma, CEO of [U.S. Steel](#).

Steel's current presence here represents only a sliver of the role it once enjoyed, but the industry is far from inconsequential. U.S. Steel, ~~(X)~~ the world's eighth-largest producer, still makes its headquarters downtown. The company's sprawling Edgar Thomson mill, established by Carnegie in 1875 a few miles outside the city, produces steel that's used to make refrigerators, washing machines and dishwashers. Nearby, metallurgists, engineers and chemists brew up new steels at a research center on the site of a legendary [19th-century](#) labor dispute.

Until the financial crisis hit last year, U.S. Steel was enjoying the strongest financial performance in its 108-year history.

"There's really no reason why we can't be very competitive here for a long, long period of time," Surma says. "The experts that say we should all be massage therapists and retail store greeters and all that — you know, that's really a road that has a very sad ending to it."

Steel-lined technology

While the major mills that once lined the city's riverbanks have been replaced by stylish new baseball and football venues, Pittsburgh also retains a rich cluster of steel industry suppliers. More than 320 specialized firms, such as mill services provider Tube City IMS, serve steelmakers in the U.S. and beyond. Their current payroll is unknown, but in 2003, they employed about 12,000 people, according to the Center for Industry Studies at the [University of Pittsburgh](#).

"These are high-wage jobs, so they're very attractive in terms of the new Pittsburgh," says Frank Giarratani, the center's director.

Today's U.S. Steel relies on Ph.D.s probing new materials with electron microscopes, as well as heavily muscled workers employing brute force on the floor of smoky mills. Quiet calculations at computer terminals are as essential for modern steelmaking as the fiery rivers of molten metal streaming from 75-ton cauldrons.

"When you go into a modern steel mill, it's as high-tech as [NASA](#)," says [Leo Gerard](#), the president of the [United Steelworkers Union](#).

Surma, 55, a former [Price Waterhouse](#) accounting partner whose grandparents emigrated here from Slovakia early in the last century, says he helms a "technologically oriented business." The grades of steel his mills produce for [General Electric's](#) Profile series of appliances, for example, didn't even exist five or 10 years ago, he says.

"I don't think we should be viewed as being out of style or old-fashioned or anything like that," he says, gazing from his 61st-floor conference room down river to his grandparents' old neighborhood.

The summit's anything-but-steel marketing pitch, however, isn't just White House spin. Today, the Pittsburgh-area steel industry directly employs just 6,900 workers, and the 6.8% decline in that figure in the past year is more than twice the overall decrease in area non-farm employment, according to the state Department of Labor & Industry.

Long synonymous with steel, Pittsburgh in the past decade remade itself into an acknowledged center for health care, higher education, robotics, financial services and so-called green technology. The biggest employers now carry names such as University of Pittsburgh Medical Center and [Carnegie Mellon University](#), a far cry from the city's heavy-industry origins. The summit is being held on a former riverfront industrial site at the [David L. Lawrence](#) Convention Center, the first such facility boasting the Leadership in Energy and Environmental Design (LEED) seal of approval.

"I don't even identify Pittsburgh with the steel industry," Mayor [Luke Ravenstahl](#) says.

The 29-year-old mayor is too young to remember either the industry's post-World War II glory days or its collapse amid the recession of the early 1980s. From a peak of around 90,000 jobs, the area's steel mills retreated under competition from foreign producers and smaller mini-mills, which use electric furnaces to melt scrap metal rather than convert iron ore. By 2000, roughly 80% of the city's peak steel workforce was gone.

In a way, steel died so that Pittsburgh's transformation could occur. The city's image as a gritty, dirty town was earned in the early and middle [20th century](#), when the pollution belched

out of local steel mills obscured the sun and, famously, required the street lights to be turned on at midday, says economist Lester Lave of Carnegie Mellon University's Tepper School of Business.

New jobs sprouted in clean industries such as education and health care, luring well-educated professionals to the city nestled at the confluence of the Monongahela, Allegheny and Ohio rivers. "Yuppies don't live in polluted places. If Pittsburgh had not cleaned up, this transformation would not have happened," Lave says.

In the 1980s, U.S. Steel lost its original focus, acquiring oil, energy and other businesses and morphing into the diversified conglomerate USX. After 15 years, USX reversed the process, spinning off its steelmaking business into a reborn U.S. Steel.

But in the years leading to the financial crisis, U.S. Steel rebounded. From 2004 through 2008, it posted steadily increasing sales and robust profits. Advanced technologies made operations more efficient, while the company's researchers invented a steady stream of innovative metals. Its Gary, Ind., mill churned out steel for automakers, while the Edgar Thomson plant filled orders for [Whirlpool](#), General Electric and Amana, carried aloft by the housing wave.

"In the first half of 2008, everything was running at capacity. Orders were good. Our financial performance was record-breaking," says Dave Lohr, U.S. Steel's senior vice president for strategic planning and a 35-year industry veteran.

Then the economy lurched to a halt amid the worsening credit crunch. In the ensuing months, U.S. Steel's major customers slashed new orders as they concentrated on whittling away at gathering inventory backlogs. Mills slowed until they were operating at [Depression-era](#) levels of around 30% of capacity, vs. a long-term average of about 85%.

Entire facilities were idled. Thousands of workers were laid off. Hiring stopped. Pay was frozen on the plant floor this year while Surma voluntarily absorbed a 20% cut in his \$1.2 million salary, and eschewed any long-term payments, which provided almost half his \$13 million in total compensation in 2008.

Through the first half of this year, the crisis dealt U.S. Steel a beating. Second-quarter sales fell to \$2.1 billion from more than \$6.7 billion during the same period last year. The company lost \$392 million for the three months that ended June 30, vs. a \$668 million profit in 2008's second quarter.

Compounding the effects of the economic collapse, what Surma calls unfair competition from China is eroding U.S. Steel's market position. From almost nothing a decade ago, China now produces 48% of world steel output. In April, U.S. Steel complained to Washington about what it said were illegally subsidized Chinese imports of oil and gas tubes.

Inside the Edgar Thomson mill on a recent workday, workers are surprisingly scarce. That's a reflection of the leap in productivity that the industry has enjoyed since the dark days of the early 1980s. At that time, producing a ton of steel required about 10 man-hours. Today, it takes a little more than an hour.

The advance cuts two ways. It's great news for profits, not so good news if you're an unnecessary laborer. But a generous profit-sharing plan has taken some of the sting out of the labor-saving automation. Last year, the average USW member at the Edgar Thomson mill got about \$10,000 from the plan. Union boss Gerard says today's mill environment places new demands on workers. "They used to want you to bring your arms, back and legs to work and leave your brains at the gate," he says. "Now, our members are able to bring their brains to work."

On a platform overlooking a torrent of molten iron flowing with the consistency of warm water, Lev Krizmanich has to yell to be heard over the din. Flames dance above a sparkling yellow-orange river that is mesmerizing in a sort of industrial-age beauty. The air shimmers in the heat. Everything here is on a Brobdingnagian scale: the overhead hook-cranes that effortlessly hoist 75 tons of scrap and 200 tons of iron; the giant ladle holding 250 tons of steel.

In an air-conditioned control room nearby, a team of technicians monitors an array of screens, showing video images from various vantage points and detailed data on the industrial alchemy underway on the mill floor.

Positive changes

Nobody from the G-20 will see any of this, but Krizmanich doesn't feel that his city's metamorphosis has been at his expense. "Most people see it as a necessary evolution. For our children, I think it's a good thing," he says. "Our children are going to have opportunities beyond industrial (jobs)."


In recent weeks, the steel business has shown welcome signs of life. The government's cash-for-clunkers program caused automakers' assembly lines to stir. And shell-shocked consumers began spending a bit more on the appliances dependent upon Edgar Thomson's output. But it's way too soon to celebrate. "We're improving off a very, very low base," Surma says.

Surma says his major customers tell him they're getting their inventories back in line with existing demand, but aren't able to forecast much beyond November. It seems clear that the frothy pre-crisis economy isn't coming back. But Surma's confident that whatever the new normal turns out to be, U.S. Steel will be positioned to capitalize.

"We've been fighting that battle since 1902. ... We're not prepared to surrender or retreat," Surma says.

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