# New Name in Town

## Mittal Steel Takes Over in Northwest Indiana

**By Tom Schuman**

Pittsburgh may be the Steel City, but Northwest Indiana has also had a long and sometimes tumultuous relationship with the steel industry. The latest chapter began earlier this year with the completion of a mega-merger that formed the world's largest steelmaking company.

Mittal Steel is the name to remember. Bethlehem, LTV and other industry names from the past are long gone. With the $4.5 billion merger between Mittal Steel Co. N.V. and International Steel Group (ISG), the Inland and Ispat Inland (a Mittal subsidiary that acquired Inland in 1998) monikers are no longer in play.

The three Lake County facilities that are now part of Mittal Steel USA were the ISG plants in Burns Harbor and East Chicago, as well as the adjacent Ispat Inland operation. The two East Chicago facilities will be integrated into one (Mittal Steel USA – Indiana Harbor), forming the single largest integrated steelmaking operation in North America (replacing U.S. Steel's Gary Works, which remains the other major steel facility in the region).

What does the merger mean for Northwest Indiana? Will it stem the job losses that have occurred in the industry? What type of changes will be forthcoming? Not all the questions can be answered at this time. Some insights, however, are offered by Dave Allen, a Mittal Steel USA spokesman, and Vince Galbiati, a former financial manager for Inland Steel who was recently named president of the Northwest Indiana Forum.

### Leading the way

Mittal Steel is based in the Netherlands and headquartered in London. In 2004, the company posted revenues of $222 billion and steel shipments that totaled more than 42 million tons. It has operations in 14 countries on four continents, with approximately 150,000 employees.

Lakshmi Mittal and his family own 88% of the company. His estimated net worth soared from $6.2 billion in 2003 to $25 billion 2004, moving him from 62nd to third on the *Forbes Magazine* list of the world's richest people.

More important, says Allen, Mittal Steel is "in this business to stay. They have made a success of

Scrap enters a basic oxygen furnace at Mittal Steel USA — Indiana Harbor.

the steel business wherever they have operated."

The 2000-2003 time frame, the most recent dark period for the industry, saw 44 companies go into bankruptcy, according to Allen. Ispat (the Mittal subsidiary) lost more than $200 million during those four years but survived.

Last year brought an abrupt turnaround as steel prices doubled and in some cases nearly tripled. China accounted for about one-third of the world's steel consumption and production. Although prices are now declining (and are expected to do so throughout this year and next), the pace is much slower than the original increases.

**The No. 7 blast furnace at Mittal Steel USA — Indiana Harbor.**

Mittal, as a result of its sheer size, is better equipped to handle the fluctuations.

"The steel industry has historically been pretty fragmented, no one with a real big piece of the market," Allen relates. "That left us at the mercy of buyers for pricing. Now, as the largest player in the U.S. and world, we have a little better leverage in the marketplace."

During his steel industry career in the early and middle 1990s, Galbiati recalls that customers certainly had the upper hand. He believes the consolidation that has taken place in recent years was inevitable.

"Large steel consumers would play major steel companies against each other," Galbiati says. "The competition was very fierce. More countries really began to appreciate what a technical product steel is. The education and technology began to travel. There was less of a stranglehold on using U.S. products. The excess capacity on a global basis forced the consolidation."

Galbiati joined Inland just after the industry had experienced extensive job losses during the 1980s. Part of his role in cost analysis was finding ways to gain efficiencies, lowering costs in the steelmaking process. That effort became a way of life for the industry, one that continues today.

## Merger benefits

Allen says Mittal has finely tuned business practices that have proven successful worldwide. In a press release following the merger, the company noted that it anticipates the following savings:

- Purchasing synergies (changes in purchased goods, price reductions and integrated purchasing processes) projected at $150 million annually
- Manufacturing synergies (facility optimization and sharing of best practices) of at least $60 million a year
- One-time improvements (including inventory reduction) estimated at $60 million
- Additional opportunities through revenue enhancements, reduced capital expenditures and productivity improvements

Some of the savings will come from the integration of the two East Chicago facilities. Allen admits that combining those two operations will be a larger task than some of the previous Mittal consolidation efforts. A big emphasis is on combining the various company philosophies and cultures.

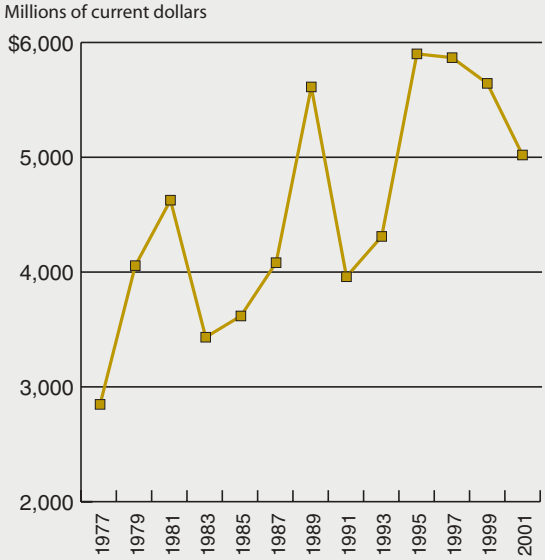
"You have the old Inland culture, the old Bethlehem culture, the old LTV culture. People here have seen things that work and things that don't work," Allen contends. "The facilities (at least initially) will largely carry on, making what they're making. Operated independently, they might be trying to serve markets they're not particularly strong in. Unifying them allows maximum use of all facilities."

ISG had an increased focus on giving workers more control. Ispat Inland operated under a stronger management structure overseeing workers. The Mittal approach is expected to lean toward a plant structure that allows workers to have a large say in their fate.


## Worker impacts

On a worldwide basis, Mittal has plans to cut its workforce of 150,000 to approximately

**Indiana Primary Metals Industry**
*Gross State Product (1977-2001)*




Source: Indiana Chamber Business Research Center

110,000. Although the company has not indicated the total reduction in Indiana, it has asked 1,200 salaried workers to consider taking an enhanced severance package. In addition, negotiations have been taking place with the United Steelworkers on a new labor agreement.

(Before the merger, reported employment figures were 6,386 at the Ispat Inland East Chicago plant and 3,700 and 1,600, respectively, at ISG's Burns Harbor and East Chicago facilities. Allen, who has worked at Inland and its subsequent owners for 16 years, reflects that the Inland employment alone in 1979 was approximately 25,000. Productivity, however, has increased despite the employment drop).

"There is some anxiety at the moment. There is no doubt that there are some overlapping functions," Allen admits. "Not everyone who is here now will be here. How that is going to work is being defined."

From an attitude standpoint, he adds, "People are eager to move ahead. People want the Mittal logo. They see Mittal Steel as a winner globally and offering more stability over the long term than has been seen around here."

From a community standpoint, Galbiati points to the history of LTV, Bethlehem and Inland. And, while the job loss numbers aren't known, he is already looking forward.

"There's kind of a bittersweet attitude toward the merger. The steel industry is very, very paternal, and the community feels that (sense of loss)," he observes. "As we begin resolving the uncertainty, the bigger question is how Northwest Indiana, as a major globally competitive region, is going to change. That effect hasn't quite sunk in yet."

## Positive outlook

All the news is not gloomy. Mittal's Western regional office has been located at Burns Harbor. Seventy additional high-paying jobs in research and development (from a former ISG center in Bethlehem, Pennsylvania) are coming to East Chicago. Finally, the Mittal Steel USA headquarters has yet to be announced, with the Chicagoland area as a strong favorite.

(Mittal's Western region includes seven facilities – the soon-to-be two in Northwest Indiana, the I/N Tek and I/N Kote joint venture in New Carlisle, Indiana with Nippon Steel Company and operations in Riverdale, Illinois, Hennepin, Illinois and Columbus, Ohio. Richfield, Ohio, the former ISG headquarters, is the base for Mittal's Eastern operations and its facilities in Ohio, Pennsylvania, West Virginia, New York and Maryland).

Regarding the R&D jobs, Allen notes, "Mittal Steel intends to remain a strong technological company – both in products and process improvements. We already had strong R&D in East Chicago. This allows us to bring in experts in various disciplines and gives us more to offer our customers."

Galbiati points out that the East Chicago facility is one of the few research centers remaining in the U.S. that is recognized on a global basis. Although being home to Mittal's U.S. headquarters would bring notoriety, Galbiati says the regional designation – with its support functions and resulting jobs – is important in its own right.

Current Mittal executives are working in Chicago, East Chicago and Richfield, according to Allen. The headquarters decision "is still to come. Fortunately, we have no one sitting out on the street. But we obviously want to have leadership in the same place as soon as possible."

Bringing Mittal leaders and other companies to Lake, Porter and LaPorte counties is the mission of the Northwest Indiana Forum. Its current members, Galbiati reports, represent $40 billion of commerce in the region. The priorities are attracting new firms and helping existing ones grow in the areas of advanced logistics, advanced materials (coke and steel) and professional industry/services.

The area has its challenges. The hope is that Mittal Steel helps answer one of the needs and brings as much stability as possible to the steel economy.

**INFORMATION LINK**

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