

YOUNGSTOWN STATE UNIVERSITY

ORAL HISTORY PROGRAM

History of Industries in Youngstown Project

Personal Experience

O.H. 1039

GARY A. GIOVANNETTI

Interviewed

by

Janice A. Cafaro

on

August 18, 1986

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INTERVIEWEE: GARY A. GIOVANNETTI

INTERVIEWER: Janice A. Cafaro

SUBJECT: Oil country tubular products, North Star mill

DATE: August 18, 1986

C: This is an interview with Mr. Gary Giavonetti for the Youngstown State University Oral History Program, on the Industrial History Project by Janice Cafara, at 2669 West Federal Street in Youngstown, Ohio, on August 18, 1986 at 10:00 a.m.

Mr. Giavonetti, could you tell me a little bit about your background, [such as] where you were reared [and] went to school?

G: I grew up in Lake Geneva. It was a little town near Lake Geneva, Wisconsin, which is called Williams Bay. I moved there at age ten after having been born and raised the first ten years of my life in Chicago, Illinois. After that time, we moved to Wisconsin, which is where I grew up until college. I went to school in the Chicago area to Northwestern University. I majored in Economics that they have there in the school of Arts and Sciences, and I received a degree there in 1972. After graduation, I went to work for Inland Steel Company in Chicago. It is one of the major integrated mills. It is a producer of a variety of hot rolled steel covered products and alloys. I left Inland Steel in 1975 to begin work with North Star Steel Company in Davenport, Iowa as a district sales representative. After that in 1977, I moved to Minneapolis, Minnesota as a district sales rep for Minne-

sota, Wisconsin and several other states.

In 1976, we moved to Michigan, at which time I became district sales manager for North Star Steel. We were opening our new Monroe, Michigan mill. In 1981, we moved back to Minneapolis to assume a managerial--General Manager of Sales position, which later became Director of Sales and ultimately Vice-President of Sales for North Star Steel Company. Last year in April of 1985, I was transferred here to Youngstown. We had just purchased what was then the Hunt Steel Company [and] later became North Star Steel Ohio Works.

C: Could you give us some background information about North Star Steel in general?

G: Sure. North Star Steel was formed in 1967. At that time we were partially owned by Cargell Incorporated, which is our current parent company now. At that time, there was really a minority interest and some of the family members of the company that had North Star Stocks. It wasn't officially then a Cargell adventure. It was also shared by other Minneapolis companies. It was also half-owned by Co Steel out of Canada, which owns some other steel mills around the country and around the world.

In later years, around 1974, Cargell decided that they had an interest in the business to be more than just a minority holding. At that particular time, they had over the years accumulated 50 percent of the stock from the local business areas. Co Steel owned half. They each owned half, and Cargell then bought out the existing Co Steel stock. In 1974, Cargell became the sole parent company of North Star Steel. There was only one steel mill in St. Paul, Minnesota which is still there. At that time, we were one mill looking to expand into several mills.

In 1976, we finished the construction of the mill in Wilton, Iowa, which became our second mill. In 1980, we built Monroe, Michigan, which is still there today. In 1982, in Beaumont Texas, we purchased [what] was formerly the Georgetown Steel Company. In 1985 of April, we purchased this facility here in Youngstown, and since that time, we have our newest mill which is our sixth steel mill. That is in Calvin City, Kentucky right near Paducah. That was formerly Ohio River Steel. Today, we have capacity of well over two million tons. We ranked probably eighth in the country in terms of total tonnage and sales, in terms of largest steel mills. We are considered to be a mini-mill. We have smaller regional mills and operate with electric furnaces and scrap rather than the fully integrated

mills, which will use iron ore, coke, and the blast furnace cooperation.

C: Why did North Star choose this area to come into?

G: Well, to some degree because the mill was here. Obviously, we didn't build in Greenfield. There was never a selection of where in the country would you want to build the mill as it relates to this particular facility. At the same time, we knew the mill was here in Youngstown. We did our own in house study in terms of exploring the market, the oil country market, which is what we are serving is the South, in Houston, so it would appear in face value that this mill was dislocated relative to the market.

At the same time, we looked at the proximity of raw material, specifically scrap. We knew this was a surplus area, and we can be competitive. We looked at the total manufacturing cost of the product. We even considered freight down South, and we felt we could still be competitive by operating in this particular environment. We knew that it had, for the most part, good experience. It had an experienced work force, and it had a steel background. We thought that the environment was much better than other locations with regard to having a skilled work force. We decided then to go ahead and pursue the project in terms of the full evaluation of how we could compete in a world wide market. We felt basically that if we could make some changes in the manufacturing equipment itself--that was here at the time that we bought it, and specifically, we are replacing some of the equipment that was here--we felt that we could be competitive on a world wide basis. In that regard, we continued to go ahead and selected Youngstown as a mill site.

C: So then, you have been modernizing this mill?

G: Quite a bit. We started just shortly after April of 1985 with a home renovation program. We are starting our pipe mill next summer 1987. Our steel making facility, however, the electric furnace shop and bloom caster, will be opened up this October. In fact, we have started hiring, and we have people reporting to work this month.

C: What products do you produce in this mill?

G: This mill here is going to produce oil country tubular, good casing. The casing is basically what is used in the ground, which keeps the well from collapsing in the ground around it. It keeps the whole itself from collapsing. It gets cemented in and is used in drilling. We would be primarily making outer diameter

ranges from 5 1/2 inches to 9 5/8 inches. This market is primarily in the Southwest and in the South. Specifically, you would say that Houston, Texas market, Louisiana and the traditional oil producing states is where this product would be considered.

C: This is basically going to be an oil product and function center then?

G: Yes. And also gas. You use these in natural gas wells also. It is really oil and gas that this product will be concerned too. We have considered and still are considering some standard and lime type production of a product, which would be in transmission. A product that you would use even in states like Ohio and Pennsylvania and other areas. We may do that as somewhat of a diversification. For the most part, the focus of the product is on the oil country tubular goods market.

G: No, for the most part, this is new for us. We have produced in our other steel mills some products which are used in wells. For the most part, this is the first time that we have ventured into this market. Most of the markets that we serve in our other mills would be construction, automotive, machinery, and mostly bar products and some light structural shapes. This is the first time that we are ever producing pipe as North Star Steel Company.

C: Is the oil market a growing market? Is that why you got into it?

G: We think it is. Obviously, the short term market as you read everyday in the Journal or anywhere else is short of atrocious. It is just the worst that it has ever been when you look at the drilling recounts and any other measure of standard or comparison of how the industry is doing. It is really at an all time low. It has always been a cyclical business. We firmly believe that the business will come back, because we have doubts that there will really be a replacement for the need for natural gas and oil or for the derivatives of oil products such as gasoline. And so long as those markets are there, we agree that cars will get more miles per gallon in the future. They will be better on energy consumption. We still think there will be one heck of a good market for the product itself.

At the same time, we are glad the mill is still a year away from opening. This wouldn't be a very good time to be opening the mill. We feel strongly that the market will come back, and we will be participant in it. Domestic production of oil pipe and oil country products such as casing is shrinking all of the time. Foreign is taking more and more part in it. We are

hoping to be one of the surviving domestic producers.

C: How are you going to compete with foreign production?

G: We are going to do it on the basis of having, first of all, a competitive product with regard to quality. The foreigners over the years, because they have built newer and newer plants, are well known to set the standards for quality on this product. We have equipment coming in that is now used around the world with some of the better manufacturers and is capable of producing the highest quality products. We do have that going for us. In addition to that, we have our basic mini-mill concept in steel making mentality that has always trained us to keep the business simple and to hold our costs down, to try to be a low cost producer and therefore be competitive again with the world producers in terms of costs. If we [combine] quality, cost and competitive, we think that we will be able to earn our share in the marketplace. Domestically, we will get support for the product.

C: How do you keep costs down?

G: The way you keep costs down is obviously a variety of measures, but purchasing property in terms of raw materials has a lot to do with it.

C: Do you purchase foreign materials?

G: In some cases we have to. Some of the alloys and such do come from around world. You have to. Your basic intrinsic area, you might call it, for cost intensity is in products such as scrap, . . . a lot not only domestically but in the local market. The scrap market here is one that we feel can be competitive as it relates to around the country and around the world. We think we can do that. In addition to that, keeping costs down means making sure that you have productive equipment so that you are not producing a lot of scrap products, which end up costing the company a lot of money. In addition to that, you have to train your work force to do it right the first time and teach people the importance and quality of a product, which is in every measure of the organization. If people are producing the wrong dimension or wrong diameter, obviously then, the product is scrapped. That works into your total costs, and the finished goods become higher. We also have to be lean and mean as it relates to staffing, whether it is out in the mill itself or in the offices here.

Traditionally, I think that you will find that the man hours per ton that come out of our mills is a particularly low number, so that, we have high productivity.

We don't have equality in offices or people out in the mill standing around on staff type positions and not contributing to quality. Everyone has a full job description. We make sure that our mills are competitive that way on a worldwide basis. It means high technology equipment and as few people as possible as it takes to run the organization and the mill itself.

C: When talking about quality control in the production of your products, there seems to be a problem with a lot of domestic steel production in that the quality is not able to compete with foreign partially because of older equipment. I have heard complaints that the products just aren't as good.

G: Well, it varies on a mill by mill basis, probably. I think you will find historically quality problems relate to a lack of technology in new equipment, because admittedly, if you're using older equipment and you are trying to expect quality in a product, that is your equipment is slightly off gauge in production and you are not sure exactly what the size is of your product, you get a lot of variance in the mill itself. The product shrinks when it cools. There are a lot of variables in steel making that can cause a product to go off base. With newer equipment, you have computer process control, which can monitor the deviations for you. In that regard admittedly, a new mill has a tremendous advantage.

Aside from all of that, a lot of it has to do with the mentality of the management and the workers themselves. Quality really starts from the top down. It is a leadership type function like safety or anything else. If you do not set the right mentality in the mill itself, the people learn to accept a reject product as just normal production. It is the same if a company accepts minor accidents as being not important. What happens is that minor accidents become major accidents, and in the case of mill production, the rejects become tons and tons of rejects. A lot of it has to do with the mentality of the people in the mills itself. You just have to not tolerate second-rate products.

C: You are kind of running a tight ship, then?

G: We certainly do. We do in our other plants. Therefore, we have very good statistical evidence to show the quality of the product and also the safety in the mill itself. We generally rank as one of the top mills in the country in our area.

C: How much are you spending for your modernization?

G: Basically, this project here is, in total, close to

\$100 million. When all is said and done, most of that is for the renovation of the project. About 80 percent is the renovation of the project.

C: The oil market is an international market. Where else do you plan on distributing to?

G: We are exploring the world market, right now. We justify the expenditure for this project. We felt that we could do it on a domestic business only. At the same time, we wouldn't refuse foreign business. We just know historically other countries tend to be somewhat more defensive in terms of allowing imports into their nations. We do know, right now, some of the domestic mills have been able to run some tonnage by shipping in the worldwide market. We feel we have access to a worldwide market because Cargill, our parent company, is now operating in almost 40 countries around the world and is known to be an expert at transporting goods around the world. Marketing a little bit of goods is really what we got here, primarily agriculture, but now in other products also. We feel that as time goes on and we get closer to start up, [we can] explore the world market and hopefully try to ship some products out of the United States.

C: Domestically, who would you be competing against?

G: The picture is somewhat changing all of the time. At the time we first studied this project, we felt our major domestic competition was United States Steel in Fairfield, Alabama, CF & I in Colorado. There was Arco Steel in Ambridge and also the LTV Seamless mill here in Campbell. Already, since we went from the drawing boards to construction itself, Arco had closed its Ambridge mill and shut that down last December. Two weeks ago, LTV seamless mill went on indefinite layoff, so we're not sure what the status of that project will be. To some degree, we also compete with some of the welded type producers such as Lone Star Steel in Texas, which we identified also as a valid competitor because they make a very good product. Primarily, those people are the ones that we will compete with [on] a domestic basis.

C: What is your total volume in sales for the company?

G: The total volume of sales, if we include magnet, which is our scrap division and all of the North Star companies in general, is close to a half billion in sales.

C: You said before that that makes you about eighth in the country then?

G: Yes. On the basis of what is recorded, it is tonnage

produced and shipments. To my knowledge, they don't write them in dollar sales. They are normally ranked by tonnage. Ranked by tonnage, we would probably be about eighth.

C: What were projected sales for this facility?

G: This particular facility is a little difficult. We not only don't have a track record, but we are so difficult in standards to measure such as a tremendous drop in prices. We are not sure where we will be by the time that we come back. Such that, product was discounted as we entered this market. We have heard as much as 40 percent, 50 percent, and sometimes 60 percent off of list price. If we tried to establish what our dollar sales would be, the first question people always ask is where is the market going to be when you come back? With that much discounting you can imagine that really puts a wrench into the calculations of your numbers, because 60 percent off a list price or 50 percent means you could be wrong by a landslide. Basically, the other difficulty in measuring is how fast will we reach production capacity. Our capacity here by tonnage will be 250,000 tons. We think that we can exceed that number, but we basically justify the project at 250,000 tons a year. We admit, if we were to open up in this market right now, we'd probably be a fraction of that number. As of right now, we are saying the first year will be a start up phase, and sales could be fairly low. We might only ship a fourth or a fifth of that particular tonnage number. We also have a tremendous learning period to go through because of all the new equipment that they are bringing out. In that first year period, our sales are going to be ultra conservative as compared to what would be, say by the year 1990.

C: When will the renovation and modernization projects be completed?

G: We are hoping that the steel mill end will be completed for steel making by October 15 of this year and the pipe mill by next July 1. We should have all of that done.

C: Currently, are you producing anything in this mill?

G: No, we are not producing anything at all. Currently, it is all construction. The product that we produce in October will be in semi-finished form, which means we will go from an electric furnace, pour molten steel into a ladle, and then, have a ladle drain basically into a continuous caster, which helps freeze the steel in a mold. What we will do then is take semi-finished shapes called blooms, and we will ship those to our

Kentucky plant. They will finish that product into structural steel, not pipe, in just normal structural steel. We will continue to do that until next summer. Then, we will bring on the pipe mill and make products for both mills in the steel-making shop. We will send blooms to Kentucky, and then also, take round cast product and ship it or send it over to our pipe mill here. And then, we will pierce and produce pipe on it.

C: How many people do you plan on hiring for this?

G: For the steel making portion, we will hire basically 35 people and the people we have in house we will have approximately 50 people on site for the steel making portion in October. Once the pipe making facility comes down the street, which will be next July, we will, hopefully at that time, have more like over 200 more people here. At capacity, we would really have about 300 people.

C: What measures have you taken to comply with EPA regulations?

G: We have contacts at the BPA. We have made all of the proper applications. In terms of environmental regard, we feel very comfortable that we would be in compliance in this shop, as we are in our other five steel mills with all regulating agencies. That is an important issue for us. It is the type of thing that we feel is necessary not only because you have laws involved, but more importantly because of safety and regard for the people. We have in fact an industrial relations manager, who has an entire career in safety, [He] was transferred here from our Michigan division, and he has been on site here now for several months, helping us get started not only in construction, but also making sure we are in compliance with regulating agencies. The environment is safety.

C: Well. . . . Sure.

G: As we look at it, whether you are talking about water pollution or you're talking about air or anything else, your real regard for it is not just because of discoloration or effects visually, but really in terms of safety itself. For all employees not only the . . . plant, but for the community itself, it is a safety issue for us, regardless. It is a serious matter.

C: What is your company's opinion of the unions especially coming to this area, which has a heritage of strong union activism? Where does your company stand on that?

G: If you were to look at our other five steel mills, you would find that we do have unions involved in four out

of five steel mills. Our Michigan mill is the only mill where our employees have not voted to have representation. Basically, our policy at this particular facility is to recognize the fact that, by law, your employees have the right to elect a union if they wish to do so. Our intent, is to create a positive environment with regard to employee-management relations with the hope that the people find it to be a truly positive environment. They will find no real reason to invite a third party in. We feel that, if you have a management goal to relate to employees and to make their job rewarding to them and if they find it to be an enriching type of experience, that you can be successful in operating business that way.

C: You are talking about close rapport between the union and the company?

G: No. In our case we are saying it is a close rapport between North Star Steel, our company, and the employee himself.

C: Okay. I'm sorry. So you don't need the third party, for example the union.

G: Sure. Your employees have the legal right to call for an election and invite the union to represent them. They have the right to do that. We feel that, for the most part, that is done in an environment where the employee is dissatisfied and feels he needs representation.

C: When things such as contracts come up as to wage increase et cetera, what are some of the bargaining powers that your company uses to perhaps avoid more of a strike or a third party coming in?

G: We say the company is made up of seven steel mills. In the other mills, they have individual contracts that all come up at various times. Obviously, when you have no representation, as in the state of Michigan, it is isn't quite an issue, a contract coming up with the third party because you don't have one. What you do have, though, is a handbook that tells the employees how you are going to run the business. It tells how the wage scale is operated, and it explains how, for example, wage increases will be given and so on and so forth. The company is informed that every single person out in the mill knows what the company is standing for, what it wishes to do.

How it is handled is obviously, in a mill such as Minnesota where we do have representation, is like any other place in the country. The contract comes out in two or three years and you sit down and basically

renegotiate the contract. In the case of a union freeze shop, such as we have in Michigan, basically, the formula there is [during] an on-going basis keep the employees informed and work attitudes strong. The employees have those things in life that are important to them: good pay scale, the right to seek promotion and be promoted for doing a good job. We also have profit sharing programs in all of our mills that make him feel to be a true part of the business, even though he doesn't own the business, per se. It means it is rewarding.

C: So this area isn't disadvantageous for your business to go into, despite its union background, because of your relationship with the individual workers you deal with?

G: That is true. We feel that we know what the environment here is. We know what the labor market here is. We knew what it was. We also were well aware of what the market was in an area such as Michigan, which is a strong labor market. Most mini-mills tend to somehow migrate towards or grow in the areas extremely rural and in non-industrial areas. In the case of North Star Steel, we have been more comfortable allowing our mills to be built closer to the urban areas, where there is a larger population and also more competition between them in terms of larger businesses. It really hasn't deterred our interests.

C: Who are some of your distributors? In this area? Or, who will be?

G: Well, in this particular market, it is different than our other products. In our other steel mills most major steel distributors sell our products around the country. In this particular product, most of the distributors are located in Tulsa, Houston, Louisiana, and in the southern markets. There are fewer oil country tubular goods distributors, over all, from what you would find in say, normal flat rolled or bar type products. In this particular market here, unless there are distributors who wish to carry the product, for the most part, this product will be shipped to the South and distributed from there by Good Year oil country tubular goods distributors. Normally, those distributors provide full service to the well itself. In addition to carrying our type of products, we are usually down in the oil market selling basically all of the related supplies that would go into a well or into the product itself. Normally, they are oil country specialists that . . . this type of product.

C: You are also into the construction industry. What else do your other mills do throughout the country?

G: Primarily, their markets are the distributors. Because a lot of distributors will sell angles, channels, bar products for maintenance and for machinery and all kinds of miscellaneous applications. The distributor market in this country is a big customer to North Star Steel.

In terms of construction, we make a lot of reinforcement steel, which will be used in any kind of heavy, industrial, [and] concrete projects. Where you have parking ramps and bridges and major buildings, then reinforcing steel would go to that project. Our Michigan mill is going quite a bit with the automotive industry and people who are related to automotive and supply automotive. They make hot roll steel bars, which would be used in forging, and basically, you have stabilizer bars, connecting rods, and miscellaneous parts of cars that are forged out of our products. We also make, in our Iowa plant, flats for the leaf springs. These are the support suspension items that are used in trucks and form basically, a series of leaves, which is where the name comes from. That is a big product for us also. In terms of our Minnesota plant, we do provide some hot rolled steels, which are used in oil wells in applications called sucker rods, and that has been a big product for us. It has been used in the southwest market. Also it has been used in the fabrication, structural steel, chip angles, [and other] miscellaneous channels. There are a lot of structural applications for our product in this market. We have a mill in Texas that is primarily rods. Wire rods are used by wire guards to make basically everything from coat hangers to paper clips and mesh that you see on . . . of barbed wire fence. There are absolutely thousands and thousands of applications for the wire, which everyday, if you were to really count how much wire you were touching, it would be something like 250,000 applications for wire. That mill specializes in wire. . . .

C: Why do you specialize in electric furnace steel production, as opposed to the basic oxygen furnaces?

G: Basically, because we have felt, over the years, that it is efficient, and the cost per ton basis we are able to complete. It requires less capital investment to go into as compared to a total raw steel making unit, which would involve iron ore, coking, blast furnace operations, possible backward integration into the mines themselves. We have found that to be an efficient way to produce steel. Also, we have found it, over the years, to be environmentally very safe. A combination of all of them make it really a modern way to produce steel in a very efficient fashion.

C: Do you have any of the traditional makings of the raw products with the basic oxygen furnaces? Just electric?

G: That is right.

C: What do you feel will depend on the survival of domestic steel?

G: Well, I think the survival is dependent on what you are reading about every day and in going about specializing. It will involve mills trying to go back and look at what they are going. . . . It will involve less, say diversification. It will involve mills saying we have got too much money spread over too many investments in our country and around the world. What do we do well, and how can we concentrate that capital between what we do best to maximize our effort? Once the mills do that and then say, "Now, we have the money available for even a new slab caster or a new electric furnace or what ever." Either the bottleneck is in the plant or whatever the high cost area of the plant is, the mills certainly have a chance to restructure itself and re-posture itself in future markets. In many cases, the capital just isn't there. The mills have old out-dated facilities and may require to shut it out. For the most part, I think it is going to require that type of energy.

In addition to that, it is certainly, I think, [going to] find itself necessary. It is going to be absolutely of utmost importance that the mill management itself, redirect these goals and at the same time work more closely with, in their case, unions or employees themselves, in terms of structuring their future in such a way that they can remain competitive. In many areas over the years, they have been really handsome in employer to employees in terms of wage structures, in terms of benefits and other areas. At the same time, the difficulty is we are not competitive on a worldwide basis. If a person has a very good hourly rate but is only working one week out of every four or five, then, in our opinion, we really haven't done much for the company or the employer himself or herself. The company is going to have to re-posture themselves right through the white-collared salary staff as well. They are going to have a redirect their efforts to be competitive on a worldwide basis. To some degree, you are seeing that happen right now, and that will continue.

C: Do you have any observations from. . . . This may be perhaps a similar question . . . your experience as in sales on the industry and how it is changing. . . .

G: As an industry, it is not a growth market. It is

something that we have already managed. It gets printed by different consultants in a hundred different ways. We have to recognize that less steel is going to be consumed in the years ahead than what is consumed in the years past. Not only do you have competition from plastics, aluminum and other areas, you might find steel to be replaced for other reasons, not only cost, but in terms of non-corrosion and in some cases strength.

I think you are going to find, in addition to that, there is pressure because there is less consumption by the market itself, and that is you and me as consumers. Cars that used to last three, four, or five years and used to [be] traded in [to] get a new one may become more difficult. As cars are becoming more expensive people are having to make cars last a longer time.

In addition to that, I think the pressure is on the producers to make better quality as to producing galvanized steels and two-side zinc coatings and pre-painted steels and a variety of combinations, which really will make the body last longer. As you know historically, the United States has been criticized because the car bodies don't last very long. The rocker panels tend to rust. The foreigners have done a much better job of giving longer guarantees in terms of corrosion protection.

All of these are positive, with regard to the fact that you and I as a consumer can go out and buy a car and feel more comfortable now that it will last more years and look better. At the same time, we have to realize that will mean less in total tonnage consumption in the years ahead. That will become true for refrigerators and everything else. The pressure for more and more quality will mean longer durability. That in itself will mean that we will consume less in tonnage. We are not in a hot relation growth move either, which also means that there will be fewer and fewer little consumers out there. Overall, we have to say the market is flat. The mills are going to have to simply cut back some of the tonnage capacity that is there, and also the mills will have to accept the fact, instead of maybe 15 or 20 of the large producers, there may be fewer. And so, the net result of that is going to be an ultra-competitive environment.

C: In this you mentioned several times strengthening the market. How is North Star going to be able to compete? What are their plans?

G: Our growth is common shrinking markets. Look at the period from 1967 to 1986. There are really only two strong steel years in that particular span of history.

As we look at it, most of our growth has come in shrinking markets. That is because we have set up competitive operations. We have been operating in environments where people have depended on mini mills to stay competitive. Our cost structure is not only low, but ultimately, our price structures tend to be low also. The more competitive the environment has gotten, historically, the tougher we have performed, the more our mills have grown at the expense of, in many cases, other competitors. That in a nutshell has meant, although it has caused us to be less profitable in the years than we wanted to be, at the same time we found, for the long term curve or shape of our path, that we have really been able to grow while other people have shown it. That is basically the profile. As we look at the future, we expect the trends to somewhat continue. With the low cost mills, we will more and more be able to operate, because we are used to that type of environment. People with high cost operations, they always wait for the good year to come back. That Good Year just won't come back. They . . . have to learn to operate to get mediocre years.

Traditionally, the industry has been kind of a boom and bust industry. You have three or four good years. Everyone makes money. You get three or four bad years, and then, we go with the economic shape of the curve, the United States GNP or the economy itself, because so many of our products are in that basic economy. At the same time, we say, "If the economy isn't in a boom, we still need to operate our steel mills and weather the storm," so to speak. That is how we have done it.

C: In general, is the tendency away from integrating mills toward mini mills?

G: It appears that way. And yet, the mini mills themselves are becoming much larger than. . . . I have to admit to many people, people are looking and saying, "What is a mini mill anymore?" Even some of the mini mills now have a billion tons. That used to be too large. We used to think of the mini mill being 100,000 or 200,000 tons. To some degree, we have an identity crisis. They have been called maxi mills. There are mini mills and major mills. It doesn't really matter. I think what it means is there will be a higher growth of mills, which are able to compete in a smaller and more regional economy.

The mills that require a tremendous amount of freight absorption or distant traveling in product shift are going to find it more difficult to do so, because the margin won't be in that product to be able to ship it a thousand miles away and still be competitive. I think you will find the trend going to maybe smaller, as we

know how large the traditional mills have been. But certainly, even really small steel mills are going to have a little more difficulty competing now, because again, it is more competitive. They don't have enough tonnage to really hold those costs down. Some type of a medium mill, if there is a name for it, is what we think is going to become the future. Maybe it is called the maxi mill. That will really be the trend of the future. It is not real large and it is not real small.

C: Why did you choose the steel industry to launch your career from?

G: For my career? I found it fascinating. From the time I was in school, I interviewed with three or four different industries, including the food industry, and had the opportunity to enter a few, three or four different industries. I found steel because of its basic nature. The fact that it is so prevalent and the fact that it is a required commodity, throughout the United States and in the world, that I saw this as a kind of a non gimmick non-trending type of product. It really has a long term future in substance.

In addition to that, I found the manufacturing process itself extremely exciting and the type of people who were in the business itself are really to me, the nuts and bolts and the hardcore of what America is. The industry has always been the backbone of the world economy. As steel goes, whether it is ships, or tanks, or automobiles, or refrigerators, or structural buildings and when you really look around the environment as you drive a car down the street, try to picture what the world would be without steel. You realized that, even in a so-called flat growth or even in a rather flat economy, in terms of the growth of steel, there still is one heck of a lot of tonnage consuming in the steel business.

C: In addition to the renovation and modernization of this plant, what other projects does your company have slated to the future?

G: Well, the future is somewhat open, in that all of our planned projects are completed with regard to drawing board operations. In other words, we really don't have a project sitting on the drawing board that is our next project. In terms of the chart or the strategic plan for our company, we have somewhat completed that. We have had so much growth in the last 24 to 36 months, as I alluded to earlier in the program, that you can see to some degree that we are going to have to make sure we can manage what we have already acquired in the last two years. At the same time, we are always out liter-

ally on a daily basis, looking at opportunities and advantages.

As we look at the future, we are always looking for situations where we feel we can use our management, our skill, our expertise and run a different business. This really means that if an opportunity became available tomorrow, we would study it on its own merits and worth and possibly be interested in further expansion. At the same time, every mill has the ability to submit to our long range planning committee any requests for money. [They can ask for] existing expansion in our facilities that we now have, which means that all of our mills have projects of some sort. [These are comparing in] magnitudes of some sort going on with regards to expansion or modernization in just a few . . . facilities.

In Michigan for example, we have basically a \$20 million expansion going on now. We are really improving the steel quality itself. We are going to use a ladle in the finding station to help purify the steel and make it a better product altogether. We have some computerization programs going on. We are trying to bring in more and more process control. You take a little bit of the hocus-pocus out of steel making and the guy looking through the blue glass is trying to find out if it is time to tap the heat. The advantage in being in a private company as we are today is that there is certainly competition for buying as it relates to us versus other businesses.

At the same time, dividends that are declared for stockholders are relatively small. We are not a public company and therefore do not have to satisfy a multitude of shareholders in dividends, so that we are able to reinvest approximately 90 percent and 95 percent of our cash flow right into our own businesses. It is nice from the standpoint that, as we not only make money in our mills today, we also have the opportunity to keep those mills growing, so that we don't end up having to shut them down and put money into non-steel businesses. The money that is being spent in steel gets apportioned according to how the mills are doing. That keeps our mills in the proper cycle so that they make some money and spend some money, and then, make some money and then spend more money. It keeps the mills current. We are not sifting profits out of the mills to push into other industries. That is an advantage that we have and that we will continue to have as the years go on. In three to five years, just as we are talking today about how competitive we are on a technological basis, to some degree, we will be outdated. The technology is change so fast, but hopefully in three to five years from now, we will be making

expenditures in addition to the work that we have today, which will keep us current for the 1990s.

C: What are some of the other major projects, which you have on the board for your other mills throughout the country?

G: Well, none right now. In our Kentucky plant, which was newly acquired, we have been spending some money on overtime for just trying to get the mill to operate on a basis where it can be more productive, have fewer down times. We would like to have faster roll changes and just try to shape up the plant a little better to our liking.

In our Iowa plant, we have just completed some investment in the area of cooling steel, so we can make these automotive leaf spring flats in such a way that they kneel more. They basically kneel themselves by slower cooling. We had to try to build a different stacking mechanism, so we can stack our flats and expose them to the air and be cooled at a proper rate. That project is nearly finished.

In the case of St. Paul, we have just recently finished an entirely different mill configuration. That has been about two years ago. We can get products through not only with more swift operation, but also with more computer control for better gauge control and better shape of the product.

Overall in our Texas plant, we have had, since we purchased that plant in 1982, several expenditures that were put particularly before Stalmar cooling of the product began to give it better properties in the manufacture by having more controlled cooling. We have finished a rather large expenditure in that area about a year ago to help us get better quality on the field. I think what you will find what I am saying is, more and more, now our expenditures are not going to simply make more tons of steel. In many cases, we are trying to develop higher and higher quality steels. In some cases, that also means better through put and also better yield, and therefore you have more tonnage out of the stream. For the most part, our expenditures have really been tunneled towards more quality in the mills. We feel that we have enough tonnage capacity out there. There is enough tonnage to sell. We would just like to reach different markets, a higher niche of quality markets. We want to go off to some degree into lower and immediate quality levels of markets and go after some of the more sophisticated steels. [We want to] penetrate that market. Overall, I think you see the mini mills doing that as a trend.

- C: Did you mention your tonnage capacity before?
- G: Yes, it is slightly over . . . it is about 2 1/2 billion tons now on a corporate-wide basis.
- C: You have mentioned that you have grown a lot in the past two years. Could you elaborate on that?
- G: Sure. That would be the mills that I was talking about earlier since 1982. It was almost 1983 at that time. Texas was a new acquisition for us, Georgetown Texas Steel. In addition to that, in 1985, purchasing this mill brings on, in itself, another 200,000 to 300,000 tons. In Kentucky, which was last December, that was a structural mill. So that really, not just through renovating our existing plants, but by acquiring other competitors' plants, we have virtually doubled our capacity in the last three to five years.
- C: You were talking before about how you were able to channel your money back to the company, because you only have steel interests, as opposed to other companies. I couldn't help thinking what. . . .
- G: That is in terms of North Star. In terms of Cargell right now worldwide agents that are non-steel. . . .
- C: Are they conglomerate?
- G: Cargell is the largest with the family held company in the United States. It is the largest mover of grain in the worldwide market. Most of their background history is going way back to 1869, which was a small grain elevator in Conover, Iowa. Cargell is now a Minneapolis company and is based, as I mentioned, in approximately 38 countries. They have over 40,000 employees. Most of this background came from agriculture and agriculture-related products. This would be anything from cornmeal to soybeans to, now, meat packing and all types of fructose, molasses, and any other types of derivatives of food products. Cargell gets involved in production or transport.

The steel picture is a large one for them, primarily because of the capital investment that is required in steel versus some of these other operations. But we do compete for that money with other divisions. Obviously, Cargell does have the ability to take money and channel it away from us and put it into non-steel products. However, our track record as a steel company, which I don't really need to elaborate on, which is the expansion that we have done in the last few years tells you that [our] track record must be good. The shares of that money keep getting regenerated back into this industry. There is no doubt that if our steel

company failed to perform and if all of our mills could not perform, that they would have to consider a non-steel investment for a given investment dollars.

C: Any final observations that you have?

G: No. I just want to say certainly in the year that I have been here and certainly other employees that have come from North Star to this facility and from our Iowa plant, Minnesota plant, Michigan, and also Texas--in cases where we needed management expertise and have people who are familiar with our philosophy and our system, we had to bring people from within our environment from other parts of the country. In every case, all of those people are really happy to be here, and we have found that Youngstown is a very nice place to live; and the families have enjoyed it. There are a lot of things to do here. As we moved here, we noticed there was a certain sensitivity where a lot of people would say, "Why did you come here to Youngstown?" and they always felt sad about their community. They almost felt like they were sorry that we had to move here.

And yet the reverse is true. We have found people to be so very, very nice, open and welcoming. This industry here, steel, is the backbone, and was of Youngstown. It no longer is today because of the few facilities that are still operating. If you look historically, in 1921 for example, there was seven million tons of steel made right here in the Mahoning Valley. This was the heart of it. We are just hoping that in some way, we can contribute somewhat to that history. We certainly can't totally bring back the community with only 300 jobs being available here. That would be nice to say we could hire 10,000 or 20,000. That really isn't the case. Hopefully, if our business venture is successful, at least maybe other companies around the country or around the world could recognize that really there is nothing wrong with the Youngstown Market, that there are people available here to do work. A steel mill can be successful here. If we can at least show that, then there may be other manufacturing types of businesses, even non-steel related, that may come in here and find a place to stay and hopefully contribute dollars to the economy in general.

If you look at Pittsburgh, it is moving away from steel. They now brag to be third largest city in the country in terms of headquarters being located there. At least in their case, they have made a conscious effort to go into the high service industry. In the case of Youngstown, you really haven't seen that move again. That even if there is something away from steel that could help the overall economy, we think certainly

that it would be better for everybody involved. We are hoping that at least people who work here at North Star can certainly contribute to the economy here. [We can] spend the money that is made here in the local butcher, the dry cleaner, and everyone can hopefully participate from that. We are only sorry that it can't be thousands of jobs. We'll start out rather small scale. Maybe the symbolism is what is important. That is all, and I thank you for coming in today.

C: Thank you very much.

END OF INTERVIEW