

## Steel's Latest Hot Spot: The U.S.

### Strong Demand, Transportation Costs Spur Capacity Additions

By Robert Guy Matthews

The global steel industry is on the hunt for homes for a new generation of steel mills. Low-cost places like Ukraine, Russia, Brazil and India stand to benefit from investments to satisfy the world's growing appetite for steel.

Also set to benefit: The U.S.

This month, big construction machinery is felling trees and leveling the earth outside Mobile, Ala., to make way for a 3,500-acre stainless- and carbon-steel mill being built by Germany's ThyssenKrupp AG. The \$2.7 billion mill, which is expected to be up and running by 2010, will make and process 4.5 million tons of steel, making it the largest new steel facility built in the U.S. in the past four decades, according to the American Iron and Steel Institute, a trade group.

Next month, another new steel mill, SeverCorr, a minimill operator outside Columbus, Miss., will start melting its own steel for the first time. SeverCorr, a joint venture between Russian steelmaker OAO Severstal and a team of American steel executives, aims to produce 1.5 million tons annually.

#### HOME GROWN

- **Setting Up:** The world's steelmakers are adding capacity in the U.S., in a bet on the strength of the market.
- **Changing Dynamics:** Surging consumption from China and India as well as rising transportation costs make setting up in the U.S. more economical.
- **Price Pressure:** U.S. manufacturers could benefit from greater supplies.

Indian steelmaker Essar Steel Holdings Ltd., a unit of Essar Global Ltd., announced in April that it plans to build a new integrated steel mill just outside Duluth, Minn. The company, which just purchased some iron ore deposits in the region, says that it will use that iron ore to make 1.5 million tons of steel slab by 2009.

"The U.S. is a great place to build steel mills," says Peter Marcus of World Steel Dynamics, a research group.

This latest wave of steel investment by both foreign and domestic companies represents a long-term bet on the health of the U.S. steel market and its manufacturing sector as a whole. It also carries potential benefits for everybody from appliance makers to auto companies, which have seen their bottom lines pressured by surging steel prices and might welcome more supplies.

Growing steel consumption from rapidly developing countries like China and India has upended the world market dynamic. In past years, amid a world-wide steelmaking glut, the world's steelmakers would send excess supplies to the U.S., where steel typically fetched higher prices, hurting domestic manufacturers. Today, the world's steelmakers have a greater array of customers willing to pay more for steel of various qualities. Rising transportation and fuel costs also have spurred many foreign steelmakers to look for other markets.

The U.S. has for decades been able to produce about 70% or so of the steel Americans demand. Traditionally, the slack was made up with imports. But the keys to attracting foreign steel were low transportation costs and consistently higher prices relative to the rest of the world.

But that's all changed now, says Aldo Mazzaferro, steel analyst for Goldman Sachs.

"This is one of the few times where steel prices outside the U.S. are higher than in the U.S.," he says. "It is cyclical, but it has lasted this way longer than anyone thought."

Hot-rolled and cold-rolled steel is generally fetching about \$30 to \$90 or so more a ton in Western Europe than in the U.S., according to World Steel Dynamics. Couple that with transportation costs, which have more than doubled in the past decade to about \$50-\$70 a ton from \$20 a ton, and it makes shipping steel to the U.S less attractive.

Meanwhile, building in the U.S. has advantages beyond lower transportation costs. As U.S. manufacturing has become more sophisticated and customized, steel customers are demanding more technically challenging products that fetch higher profit margins. Some of the coming capacity additions come from integrated steel mills -- the traditional type that often use steelmaking ingredients like iron ore and coal, two minerals easily found in the U.S.

Other developed nations like Germany, which has high labor costs, or Japan, which has high energy costs, are seen as bad bets for new steel mills, says Mr. Marcus, of World Steel Dynamics.

SeverCorr's chief executive officer, John Correnti, said business is good in the U.S. because business is good in Europe, China and Japan. As long as steel demand globally remains strong, the U.S. will be a good place to build and sell steel, he says.

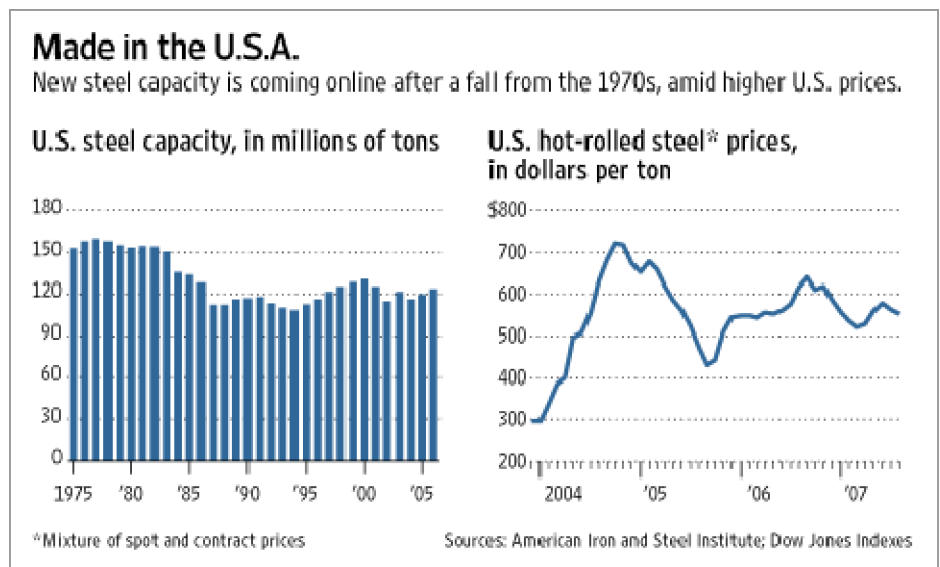
SeverCorr's project involves a mini-mill, which is powered by electricity rather than coal and often depends on scrap steel as a raw material. The SeverCorr minimill hopes to break the lock that integrated steel mills have in the automotive-grade steel

market. Steel used in exposed car parts needs to have a high iron content to make it durable, strong and more resistant to warping. It is a lucrative market, often offering a 30% to 40% premium in prices. Currently, minimills are unable to make that kind of steel.

Car makers use steel from integrated steel mills, mostly in the Midwest, and also import some. SeverCorr built its mill in the Southeast, where about four million of the 16 million autos assembled in North America annually are put together, according to Harbour Consulting, a Detroit firm that tracks automobile manufacturing.

Mr. Correnti says that once running, his mill will have a transportation price advantage over the Midwest and foreign mills.

The ThyssenKrupp mill under construction in Alabama was also conceived to compete with imports and Midwest mills. It is partly a minimill that will make carbon steel, and partly a stainless-steel mill that will process slabs from ThyssenKrupp's operations in Brazil. Stainless steel is used in the manufacturing of appliances and autos.



ThyssenKrupp, the second-largest steel producer by production in Europe behind Mittal Steel Co., is trying to capture high-end stainless-steel customers in the U.S, where it is now a small player.

"We want to get a share of this market -- we see tremendous growth opportunities here," says Christian Koenig, spokesman for ThyssenKrupp's U.S. operations.

The company says it is banking on U.S. stainless growth rates of about 3% annually through 2012.