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Russia's Steel Wheels Roll Into America

Its big producers are investing billions in U.S. mills

by [Jason Bush](#)

The Russians are coming. And they're bringing I-beams. Russian steelmakers are in the midst of an assault on the U.S. market. The latest foray: Magnitogorsk Iron & Steelworks (MMK) is in talks to build a \$1 billion mill in southern Ohio. On Sept. 17, MMK Chief Executive Viktor Rashnikov met with Ohio Governor Ted Strickland to negotiate a possible deal to erect a plant with an annual capacity of 1.5 million tons. Strickland called the visit "cause for optimism," adding, "We will do everything that can possibly be done to help this great company make a decision to come our way."

All told, Russia's big producers have invested more than \$3 billion in U.S. operations in the past three years. Last November, Evraz Holding, Russia's largest steelmaker, acquired U.S. rail and plate producer Oregon Steel for \$2.3 billion. In 2004, SeverStal, Russia's No. 2 player, plunked down \$285 million for Rouge Industries Inc., a bankrupt producer in Dearborn, Mich. SeverStal is also an 80% shareholder in SeverCorr, an \$800 million mill that's rising out of farm fields in Columbus, Miss., and is due to open this fall. When that plant is fully operational, SeverStal's American production will nearly double, to 5.8 million tons annually, making the company one of the top five integrated steel producers in the U.S. "We're confident that we can grow our business in the U.S. and are putting money behind this belief," says Gregory Mason, chief operating officer of SeverStal North America Inc., which plans a further \$1 billion in investments over the next four years.

Why the interest? Russian companies have tons of money to pursue deals. They're helped by a fast-growing domestic market and low labor costs at home, as well as high prices for metals globally. Their profit margins are almost double the average for U.S. steel

producers, says Alexander Pukhaeyev, metals analyst at Deutsche Bank ([DB](#)) in Moscow. He calls Russia's steel sector "the strongest in the world, financially."

The U.S. market, meanwhile, looks attractive. After years of retrenching, American steelmakers can't keep up with demand. American industry is importing some 30 million tons a year, or more than a quarter of all the steel consumed in the U.S., Goldman, Sachs & Co. ([GS](#)) estimates. While some of that comes from Russia, it costs about \$100 a ton to ship metal that sells for \$600 to \$800 a ton in the U.S. "All the obsolete plants have been carried into Chapter 11," says Rob Edwards, metals analyst at Renaissance Capital in Moscow. "That leaves a market that is undersupplied, which creates an opportunity for the Russians."

Much of their effort is aimed at supplying car manufacturers, a strategy that's similar to that of other global producers. Luxembourg-based Arcelor ([MT](#)) Mittal has become a top player in the North American automotive steel market. In June, Germany's ThyssenKrupp announced plans to construct a \$3.7 billion steel mill in Alabama. And in August, U.S. Steel spent \$1.1 billion to acquire Canada's Stelco Inc., a major supplier to the auto industry.

It will be tough to compete with these giants, but the Russians are experts at revitalizing run-down plants like the Rouge and Oregon mills. Just look at MMK's operations in the city of Magnitogorsk on the slopes of the Ural Mountains: Once the archetypal Soviet dinosaur, MMK over the past decade has spent \$2.6 billion to replace its ancient, polluting blast furnaces with state-of-the-art smelting equipment.

The Russians have other strong cards. SeverStal's Rouge plant is on the site of Ford Motor Co.'s ([F](#)) River Rouge truck factory, which it has supplied for decades. Its SeverCorr facility will be the first to use an electric furnace for automotive steel, a less labor-intensive—and more cost-effective—technology. And it has location working for it: Likely customers include Toyota Motor Corp. ([TM](#)) plants in Kentucky and Texas and the operations of other European and Japanese automakers now moving into the American South.

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