



By: Joe Innace, Chief Editor Steel Markets Daily

Less than 24 hours after concluding a \$1.2 billion sale of three steel mills to New York-based Renco Group, Severstal North America's CEO Sergei Kuznetsov sounded both excited and relieved Friday.

"We're smaller in size, capacity-wise," he said in an interview, "but we'll soon be shipping at a rate of 6 million tons per year with just 2,100 employees -- and that makes us one of the most efficient producers in the market."

After divesting its Warren, Ohio; Wheeling, West Virginia; and Sparrows Point, Maryland, steel plants, the Russian-owned flat-rolled steelmaker dropped from the US' fourth-largest flat-rolled steelmaker with about 13 million st/year of capacity to the sixth biggest.

It retained its electric-furnace based mini-mill in Columbus, Mississippi, and its automotive-market stronghold mill in Dearborn, Michigan, also its US headquarters. "We're a new company today," Kuznetsov beamed.

Both of those mills are operating at full capacity, according to Kuznetsov, but he was even more thrilled Friday about what's coming -- as he took time from a one-day vacation to speak with Platts.

Severstal's development of the Dearborn plant includes a \$740 million modernization program that consists of a new cold rolling complex and galvanizing line targeting automotive customers and other original equipment manufacturers.

The \$550 million expansion project at the Columbus plant will increase annual steel production to 3.4 million st and double the plant's galvanizing capacity.

After the capital improvements, combined annual steelmaking capacity will reach 6.0 million st, cold rolling capacity at Dearborn and Columbus will increase to 3.6 million st, and galvanizing capacity will be 2.4 million st.

Although the company's respected president of operations at Columbus -- Jim Hrusovsky -- resigned earlier this week, Kuznetsov emphasized that SNA has accelerated the timetable for completing most of its improvements and that these will be finished on schedule. The second electric furnace at Columbus, he said, will start in June.

"Jim Hrusovsky was a very strong member of the team. It was his own decision to pursue other opportunities. That's all I can say," he said.

Kuznetsov said the two mills complement each other nicely. He said Dearborn typically sells 70% of its output on a contract basis given its greater reliance on automotive customers and 30% to the spot market, while Columbus is "more 70% spot-market, 30% contract sales," when formula-based pricing is included in the spot segment.

As far as end-markets go, Kuznetsov said the new SNA will probably ship "30-35% to automotive, 15-25% to pipe and tube manufacturers," and the remainder to service centers/distributors, appliance and other manufacturing.

"Our order intake from automotive [so far in 2011] is much greater than we anticipated," he added. "Dearborn is completely booked. We're less exposed now than we used to be and we're planning to grow our automotive market share, but auto and pipe/tube are our two biggest markets," Kuznetsov said.

SECURE RAW MATERIALS SUPPLY

The Severstal CEO said it has a long-term supply agreement with Ohio-based Cliffs Natural Resources for the supply of 100% of its iron ore needs to feed the Dearborn blast furnace.

The smaller, "B" blast furnace at Dearborn was damaged in an accident a couple of years ago, but Kuznetsov said it could be rebuilt "if we decide to expand" ironmaking.

He noted that the contracts with Cliffs are formula-based and can fluctuate, but he stopped short of revealing pricing specifics for confidentiality reasons. "All I'll say is that Platts [IODEX] is widely used and recognized as an indicator," Kuznetsov said.

Dearborn is also "fully covered in coke," due the retention of the 50% ownership of Mountain State Carbon's Follansbee, West Virginia, plant.

At the scrap-based Columbus electric furnace, Kuznetsov said the typical charge is 80% scrap and 20% pig iron. "We're looking at developing our upstream scrap sourcing and would like to make some investments via joint ventures or off-take agreements," but probably not by acquiring a major scrap dealer, he added. "We'd just like to better control some of our scrap collection and supply."

CURRENT FLAT-ROLLED MARKET IS STABLE IN US

Kuznetsov maintained that current flat-rolled spot pricing is stable, but has not weakened. "It's stabilized recently, but our order books are still strong. Some people [buyers] think they should sit tight on making purchases, but that's normal," he said.

He said SNA is expecting strong orders through June, despite the fact that buyers are "sitting back" a little more and the tone of the market is slightly more "tentative" in recent days in anticipation of new supply. "But I'm optimistic and positive about the outlook, and don't see [prices] changing that much, quite frankly," he added.

Meanwhile, Kuznetsov's opinion on the Platts midpoint spot-price assessment of US-made hot-rolled coil at \$870/st ex-works Indiana (ex-works Indiana for a 1,000 st order being delivered in May) was that of a true steelmaker's CEO. Its "maybe a little higher than that," he said.

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