



A stampede of foreign investors is 'globalizing' North American steel

By Sam Kusic

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It's becoming the new sport in the steel industry -- trying to figure out which companies will be the next to be swept up in the consolidation wave. Two analysts are speculating that Ipsco Inc., Lisle, Ill., a manufacturer of oil country tubular goods and carbon steel plate products, could be a potential acquisition target.

That speculation came amid rumors that JSC Severstal, Cherepovets, Russia, is mulling a takeover of U.S. Steel Corp., Pittsburgh, and on the heels of last week's announcement of a proposed \$2.3-billion acquisition of Oregon Steel Mills Inc., Portland, Ore., by Russia's Evraz Group SA.

The Severstal-U.S. Steel rumor has again sparked talk that U.S. Steel will make a bid to acquire AK Steel Corp., Middletown, Ohio, as a defensive move to keep Severstal at bay. In the rapidly changing landscape in the North American steel industry, Esmark Inc., a Chicago-based steel services firm, is in the process of taking over Wheeling-Pittsburgh Steel Corp., Wheeling, W.Va., and integrating those operations into its nationwide network of steel service centers. Esmark has made it known that it also is poised to make an all cash offer to acquire the Weirton, W.Va., operations of Mittal Steel USA Inc., Chicago, should the U.S. Department of Justice order Mittal Steel USA to divest an operation to meet antitrust law in the merger of Mittal Steel Co. NV, Rotterdam, and Arcelor SA, Luxembourg.

Mittal Steel wanted to sell Dofasco Inc., Hamilton, Ontario, to Germany's ThyssenKrupp AG, but that plan was scuttled recently by the Dutch trust that Arcelor set up to protect Dofasco from acquisition. Other industry analysts have said Canadian producers like Algoma Steel Inc., Sault Ste. Marie, Ontario, and Stelco Inc., Hamilton, are ripe for takeover as foreign companies attempt to establish a stronger presence in the North American market. Most foreign steel producers are seeking entry into the North American automotive market.

ThyssenKrupp, unable to acquire Dofasco, has gone as far as to say it would build a \$3-billion-plus carbon and stainless steelmaking plant in the southeastern United States to be within easy reach of automotive companies in the region. Russia's Severstal is seen as one of the key consolidators. Alexey Mordashov, its chief executive officer, has made no secret of his desire to grow in North America. The company already has purchased the former Rouge Steel Co. in Dearborn, Mich., and has entered into a joint-venture partnership with longtime mill executive John Correnti to form SeverCorr LLC, a minimill under construction in Columbus, Miss., to serve automotive transplants.

The market for acquisitions seems to be heating up again. Consultant Michael Locker of Locker Associates Inc., New York, believes most North American steelmakers are acquisition targets these days. "I don't see (Ipsco) standing alone," he said. Locker believes Steel Dynamics Inc., Fort Wayne, Ind., Gerdau Ameristeel, Tampa, Fla., Nucor, Charlotte, N.C., and China's Shanghai Baosteel Group Corp. are among those that could have an interest in acquiring Ipsco.

Charles Bradford, president of Bradford Soleil Securities Inc., New York said it is difficult to identify likely bidders, although he speculated that a Russian company could be interested. He said he wasn't sure a U.S. company such as Nucor would be able to acquire Ipsco because of antitrust concerns.

Ipsco itself is in the process of acquiring NS Group Inc., Newport, Ky., another OCTG producer. That deal and Tenaris SA's purchase of Maverick Tube Corp., Chesterfield, Mo., have helped change the makeup of the domestic OCTG industry, leaving Dallas-based Lone Star Technologies Inc. as the last independent producer in the United States.

Some speculate that the situation makes Lone Star ripe for plucking by a foreign company looking to get a foothold in the U.S. market.

Either way, most are waiting for more moves to come. "This wave of consolidation is not in any way finished," Locker said. "It's going to continue with a vengeance."

Scott Robertson, Pittsburgh, contributed to this story.