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DEARBORN TRANSITION: Severstal mill is making changes as prices jump

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BY JEFF BENNETT

FREE PRESS BUSINESS WRITER

Almost a month after buying Rouge Industries, **OAO Severstal** is under pressure to ramp up production at the Dearborn mill in one of the biggest steel booms in recent history.

Meanwhile, Severstal executives could be trying to change the management structure, although it's unclear what role plant CEO Carl Valdiserri would play.

Severstal, which purchased the bankrupt plant for \$285.5 million in December, has moved quickly to wipe the Rouge name off everything including the stock market, Web sites and the switchboard at company headquarters. Five Rouge vice presidents resigned this month.

But Tom Stundza, executive editor of the trade publication **Purchasing Magazine**, said Friday that Severstal needs to focus on producing more output for a market that is clamoring for steel to build everything from buildings to cars.

"If they want to be a player, the world has got to know who they are," Stundza said. "Their name doesn't pop up outside the Detroit area. I haven't heard anyone say, 'I need steel, so maybe I will call the guys in Dearborn.' "

Steel prices are booming due to a shortage of supply and a huge demand driven primarily by the Chinese economy. China is in the midst of a building expansion driven by infrastructure demands, such as the need for more bridges and houses, and a desire to improve the country before Beijing hosts the 2008 Olympic Games.

As a result, prices for raw materials are driving up the price for finished steel. One ton of hot coiled steel sells between \$390 and \$450, which doesn't count a \$60 surcharge common in the industry recently. In June 2003, the same ton of steel cost \$260.

It's anticipated steel prices could hit \$450 by April with the surcharge topping out at \$100.

"Anyone who is making steel is making money," said Michael Locker, founder and president of **Locker Associates Inc.**, a New York business consulting firm that specializes in corporate restructuring. "But they have to have product."

Severstal earlier said it plans to invest \$50 million this year in its operations. The bulk of the money is to be spent on its pipe-making operation followed by steel used to make cars.

Bloomberg reported earlier this month that Severstal plans to invest as much as \$47 million in its Russian carmaking unit **Severstal-Avto**. Severstal officials have told the Free Press that steel produced in Dearborn could be used to support its

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auto manufacturing.

Jerry Sullivan, president of **United Auto Workers** Local 600, which represents 2,000 of the mill's 2,600 workers, said Friday the company is attempting to find a new leader for the plant and replacing Valdiserri as CEO.

Vadim Makhov, Severstal Group's deputy general director, took the chairman title last month.

Severstal officials, Valdiserri and William Hornberger, the Rouge plant's spokesman, did not return repeated telephone and e-mail messages seeking comment over the past week. Valdiserri did not return a message left at his home Friday.

Sullivan said he has spoken with Valdiserri, who said he expects to stay with the company as a member of the executive committee. Valdiserri is 67.

"He is happy about it," Sullivan said. "He wanted to retire and he still can have some input into the company and have some liaison with us."

Sullivan said the union also is attempting to see how many workers would accept an offer to transfer back to **Ford Motor Co.** The mill plans to cut 400 jobs within 12 months.

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