

Severstal Seeks \$730M U.S. Government Loan

By [The Moscow Times](#)

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Severstal, a supplier of steel to General Motors and Ford, requested a \$730 million U.S. government loan to expand in Michigan as President Barack Obama rewards carmakers for using lighter steel.

Part of the long-term loan will fund a new production unit at the company's Dearborn plant to make lightweight, high-strength sheet steel for automakers, Severstal North America chief executive Sergei Kuznetsov said. He completed the sale of three U.S. plants late last week as he seeks to focus on more profitable operations.

Severstal could become the first Russian company to win a U.S. government loan under the Advanced Technology Vehicles Manufacturing plan, according to the U.S. Energy Department. The \$25 billion incentive program was funded in 2008 to spur makers of cars and auto parts to produce models that cause less environmental damage.

Severstal sold three of its five U.S. plants after rising costs and dwindling demand led to a \$1.32 billion loss from the sites in three years. It offloaded the Sparrows Point, Warren and Wheeling mills, which produce steel mainly for construction, as it bets on faster growth in the car and pipeline industries.

Severstal is negotiating the loan with the Energy Department, Kuznetsov said, adding that the interest rate, currently estimated at about 2.5 percent, would make it the company's cheapest loan. Severstal pays an average 7 percent on its \$4.1 billion net debt, said Boris Krasnozhenov, an analyst at Renaissance Capital.

Once the new line at Dearborn is built and its existing facilities expanded, the plant will have a production capacity of 900,000 tons of advanced, high-strength steel, Natalya Ivanova, a Moscow-based spokeswoman for Severstal, said. The new production unit will cost \$280 million to build, according to data on Dearborn's local government web site.

Severstal North America will focus on "organic growth and selective investments in finishing units and raw materials," and may set up a scrap-collection and processing unit to become more self-sufficient in raw materials, he said.

Steelmakers in the United States are using 75 percent of their capacity, up from 34 percent in December 2008, according to the American Iron and Steel Institute. Severstal's two remaining U.S. plants are running at full capacity as prices climb, Kuznetsov said.

U.S. prices for hot-rolled steel coil, a benchmark product used in cars and buildings, have gained 29 percent this year, peaking at \$900 a short ton on Feb. 17. Prices plunged to \$370 a ton in April 2009, according to Metal Bulletin.

Severstal has supply contracts with automakers including Detroit's "Big Three," Kuznetsov said, referring to General Motors, Ford and Chrysler Group. The company is also targeting Asian and European car producers in the United States as new product lines come on stream, he said.

U.S. automobile sales may rise to 12.9 million vehicles in 2011, according to analysts' estimates. Sales rebounded to 11.6 million vehicles last year from a 27-year low in 2009, according to Woodcliff Lake, New Jersey-based Autodata.

Severstal said Feb. 21 that it plans to invest \$465 million this year to complete new facilities in the United States, including an expansion at Columbus and a cold-rolling steel complex at Dearborn. Its U.S. capacity will be 5.4 million tons once construction is completed this year, keeping it among the country's five largest steelmakers, according to Kuznetsov.

The company's biggest competitors in the United States are U.S. Steel, ArcelorMittal, Nucor and AK Steel Holding. Severstal North America is in competition with Renco for fifth place.

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