STEEL

Head of tiny Algoma unafraid to dance among the giants

'Every market's got room for small, nimble companies'

By GREG KEENAN

Tuesday, January 31, 2006 Page B4
STEEL REPORTER

If it's inevitable that Canadian steel companies will be swallowed up in the great steel consolidation of 2006, someone forgot to tell Denis Turcotte.

Smaller companies can survive even competing with giants cranking out more than 100 million tons of steel annually, Mr. Turcotte, president of Algoma Steel Inc., said as he reflected on the $22.5-billion (U.S.) hostile bid by **Mittal Steel Co.** to take over **Arcelor SA**.

"Every market's got room for small, nimble companies," he said, pointing to that as the strategy he's trying to put in place in Sault Ste. Marie, Ont. "They've got to have good quality, they have to have a good cost structure and I believe they truly have to be entrepreneurial."

With annual steel production of 2.5 million tons, Algoma is a speck compared with the combination of Mittal and Arcelor.

That's not a bad thing, Mr. Turcotte maintained.

One of the keys is Algoma making itself critical to even its biggest customers; another is agility. "We need to attain that kind of culture where we can be quick," he said. "We're well on our way culturally."

Algoma is in the midst of trying to fight off a New York-based hedge fund, which is the company's largest shareholder and wants Algoma to pay out hundreds of millions of dollars in cash in the form of a special dividend.

There was a time, about a year ago, when Mr. Turcotte thought bigger was better. Algoma was one of a handful of steel makers that kicked the tires at **Stelco Inc.**, then wallowing at the end of its first year in creditor protection.

But Algoma, **United States Steel Corp.**, and Russian steel maker OAO Severstal all walked away.

The failure to hook up Algoma and Stelco is lamented by Leo Gerard, president of the United Steelworkers of America, which tried to arrange the marriage last year.

"We could have had Stelco, Algoma, Slater, Ivaco," he said. "We could have created an 8- or 9- or 10-million-ton company and we could have used that as a launching pad. We could have started building something that would have at least rivalled U.S. Steel in North America."

Slater Steel Inc., a Mississauga-based stainless steel maker, and **Ivaco Inc.** of Montreal, were also operating under creditor protection and have since been sold.

Canada's largest steel maker, **Dofasco Inc.**, will be swallowed up; it's just a question of which European giant will own it once the dust settles. Arcelor will pay $5.5-billion (Canadian) for Dofasco and extended its offer yesterday to buy the Canadian company until Feb. 9.

If Mittal's $22.5-billion (U.S.) bid to create the world's first 100 million ton steel company is successful, it plans to flip Dofasco to German steel maker **ThyssenKrupp AG**, which walked away from the Dofasco bidding war last week.

U.S. companies have been noticeably absent in the global consolidation, with the exception of **Nucor Corp.**, which was a partner with Arcelor in the early bidding for Dofasco, but bailed out before Arcelor went public with its offer last November.

"The major U.S. and Canadian companies are not going to be winners in this process, they are going to be taken over," said industry analyst Michael Locker, who heads New York-based consulting firm Locker Associates Inc.

Investors appeared to disagree yesterday.

Shares in Nucor, U.S. Steel and AK Steel Inc. all fell yesterday after soaring Friday in the wake of the Mittal announcement.

Algoma shares also fell 42 cents to $29.88, as did those of Regina-based **Ipsco Inc.**, which sank 95 cents to $106.
