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Steel duo seen mulling mill in U.S. Would target transplant auto makers

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 AUTO INDUSTRY REPORTER

The powerhouse combination of **Dofasco Inc.** and **Arcelor SA** will probably take another look at building a new galvanizing mill in the southern United States to tap the growing automotive market there, steel industry analysts say.

The companies, which already operate a hot-dip galvanizing line together at Dofasco's Hamilton works, abandoned the idea last year, but will likely revisit it, said **Michael Locker, an industry consultant who heads New York-based Locker Associates Inc.** "They will want to position themselves with the transplant manufacturers," he said yesterday.

Luxembourg-based Arcelor appears to have won a two-month bidding war for Canada's largest steel maker with a \$71-a-share, \$5.5-billion bid after rival ThyssenKrupp AG of Germany walked away on Monday. Hamilton-based Dofasco said yesterday that its board is recommending that shareholders accept the Arcelor bid.

The combination of the two companies creates a global player in automotive steel. "Dofasco is a perfect fit with Arcelor's strategy to reinforce its presence in automotive steel in the U.S., where the group has no presence," Harold de Decker, an analyst with Oddo Securities in Paris, said in a note to clients yesterday. "Arcelor is already a world leader in the automotive steel sector, with a global market share set to climb from 15 per cent to 18 per cent."

Dofasco is a leader in the North American automotive steel market. Its largest customer is Japan's Honda Motor Co. Ltd., which has a large assembly plant in Alabama. Not far away are assembly plants operated by South Korea's Hyundai Motor Co. and the Mercedes-Benz division of DaimlerChrysler AG.

Don Pether, Dofasco's chief executive officer, said yesterday that it's too early to tell whether the combined company will take another look at the southern strategy. But Arcelor sees Dofasco as its platform for growth in North America, and "with that comes an opportunity for Dofasco to continue to grow," he told reporters on a conference call.

Arcelor chairman Guy Dollé said in November when his company first went public with its bid for Dofasco that he still thought a southern galvanizing mill made sense.

Mr. Pether said he was encouraged by public statements by Mr. Dollé that Arcelor wants to retain Dofasco's leadership team and undertake new capital investments.

The victory by Arcelor will cost Dofasco \$215-million because of a break fee agreed to with ThyssenKrupp earlier this month.

It's the first winning effort by Arcelor after a series of defeats in attempting to buy steel makers in Ukraine and Turkey.

Adding Dofasco's five million tons of production annually will take Arcelor above the 50-million-ton a year mark, leaving it in second place in world rankings behind Mittal Steel Co. NV of London.

The world's steel makers are consolidating in order to battle both customers and suppliers. Three companies control about two-thirds of the world's iron ore output, and were able to boost prices more than 70 per cent last year.

Auto makers use their size and clout to fight off pressure from steel makers for similar price increases.

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