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DOE Denies Loan for Severstal Mill

Jan. 10, 2012 6:48 a.m.

YOUNGSTOWN, Ohio -- The U.S. Department of Energy has denied a \$730 million loan it conditionally approved last summer for Severstal North America to modernize existing facilities and construct new facilities at a Dearborn, Mich. plant.

A DOE official confirmed to the Detroit Free Press that after reviewing Severstal's project, it would not commit to a loan from the agency's advanced technology vehicle manufacturing program. The plant would "produce the next generation of automotive advanced high-strength steel," according to a DOE release issued last year.

Until last year, OAO Severstal North America's unit operated the former WCI Steel mill in Warren; the company sold the mill back to its prior owner, the Renco Group, in March.

Russia-based Severstal predicted that the Dearborn project would create an estimated 2,500 construction jobs and 260 permanent manufacturing jobs, and enable the retention of 1,400 existing manufacturing jobs.

U.S. Rep. John Dingell, said it was a "sad day in Michigan" and expressed his disappointment in DOE's decision. In a Nov. 18, 2011 letter, he said, Energy Secretary Steven Chu stated a department analysis showed there was "sufficient demand" for Severstal to provide product to vehicle manufacturers. "Yet now I am told that this is no longer the case with no explanation as to why," he said.

"I do not understand why the Department of Energy changed its mind and suddenly does not see the merits in a project such as this," he added.. Without the kind of lightweight, high-strength steel to be produced at the plant, the auto industry will have "terrible difficulty producing vehicles" to meet new federal fuel efficiency standards.

U.S. Sens. Pat Toomey, R-Pa. and Daniel Coats, R-Ind., and U.S. Rep. Darrell Issa, R-49 Calif., praised DOE's decision not to move forward the loan.

Subsidizing one player in this market with a loan of this size would unfairly undercut U.S. Steel and other American steel companies who did not have the benefit of a low-interest, government-subsidized loan, Coats and Toomey said in a November letter to DOE's inspector general.

"It is unconscionable for a federal agency to consider using taxpayer dollars to build up foreign companies, putting U.S. companies like U.S. Steel at a competitive disadvantage," Toomey said. "Having worked



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with my colleagues in Congress to shed light on this unfair subsidy for more than six months, I'm pleased the DOE has made the right decision to revoke this loan and protect taxpayers and American steel workers."

"This announcement is a victory for taxpayers and steel manufacturers in Indiana," Coats said. "The Severstal loan commitment never passed the sniff test, as multiple producers are already manufacturing this high strength steel without taxpayer financing. This is another example of why the government should not be in the business of picking winners and losers."

Issa, chairman of the House Oversight & Government Reform Committee, also sent DOE Chu a letter Oct. 20 raising concerns about the loan and the decision-making process.

"While I am pleased that the Department of Energy has reconsidered its decision to fund a \$730 million loan to Severstal, it's deeply disconcerting to know that this loan would have gone forward had Congress not raised concerns," Issa said. "Following the waste of taxpayer dollars in the collapse of Solyndra, the Department of Energy needs to work on being better guardians of taxpayer dollars."

Published by The Business Journal, Youngstown, Ohio.



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