BlueScope to Buy Cargill Stake in North Star for $720 Million

BlueScope Steel Ltd. has agreed to buy Cargill Inc.'s stake in their U.S. joint venture North Star for US$720 million, and will keep making steel at its struggling flagship Australian mill after reaching cost-saving deals with unions and the government.

In a statement, BlueScope said it had exercised its right of last refusal under the North Star shareholders' agreement, matching an offer received by Cargill from a third party. Delta, Ohio-based North Star produces 2.0 million tons of hot rolled coil a year and employs 380 people.

In a separate statement, Cargill said that with the deal it will exit its last remaining steel-production investment. However, the Minneapolis Company will continue to trade, distribute and process steel products such as iron ore, hot rolled steel coils, and reinforcing bar steel.

A global glut has sapped steel prices over the past year, while a surge in cheaper Chinese exports is making life difficult for Australian, Korean and Japanese producers in particular.

Producers everywhere are being squeezed by oversupply as China's demand for steel used in everything from skyscrapers to bridges slows. China produces roughly half of the world's steel.

“We have chosen to sell our interest in the joint venture to redeploy this capital elsewhere in Cargill's portfolio, and are confident in the team's continued success under new ownership,” said Peter Hawthorne, Cargill's vice president of strategy and business development. Founded 150 years ago, Cargill is shaking up its portfolio to keep up with shifting consumer tastes and to strengthen profitability. In August, it reported its third annual earnings decline in four years.

Black River Asset Management LLC, a hedge fund unit owned by Cargill, announced plans in September to spin out of Cargill and split into three separate firms after closing four funds in recent months.

In July, Cargill agreed to sell its U.S. pork business to Brazil-based JBS SA for $1.45 billion. Cargill said in August it would pay US$1.49 billion to acquire a Norwegian producer of salmon and trout feed, part of a bet on the rapidly growing fish-farming industry.

BlueScope also said it had decided to continue producing steel at its flagship Port Kembla operation, south of Sydney, after the New South Wales state government committed to defer 60 million Australian dollars (US$43 million) of payroll tax payments over the next three years. Collapsing steel prices had prompted BlueScope to review its Port Kembla steelworks, which support some 5,000 workers and have been struggling to compete with the surge in cheap steel in global markets.

Russian Mills cannot Rely on Weaker Ruble

The lowest steel prices in more than a decade mean Russian producers can no longer rely on a weaker ruble for protection. The country's largest mills earlier in 2015 were the most profitable in about seven years because they pay wages and other production costs in rubles while earning dollars or euros for exported steel. A slide of about 40 percent in steel prices this year means Russian companies are barely breaking even with exports, according to BCS Financial Group.

The Russian currency's collapse following international sanctions over the Ukrainian conflict and a plunge in oil prices benefited steel producers including Severstal PJSC and Novolipetsk Steel OJSC.

Now, they're feeling the pinch from an accelerating drop in steel prices as China, which accounts for about half of global output, floods the market with cheap exports amid a slowdown in its economy.

“The magic effect of ruble devaluation on the steel companies' earnings, which we saw at the start of the year has vanished,” said Kirill Chuyko, chief of equity research at BCS. Domestic prices need to fall to prevent an influx of cheaper imports, he said.

Prices for hot-rolled coil exported by former Soviet Union nations are at the lowest since 2003, according to Metal Bulletin Ltd. They've slumped every month since September 2014.

The lower steel price has eradicated the benefits of a weaker ruble, according to the press service of Novolipetsk Steel, Russia's largest steel producer.

The ruble has dropped 50 percent against the dollar in the past two years and about 40 percent versus the euro in the period. That helped Russian mills earlier this year to undercut rivals such as ArcelorMittal, the world's largest steelmaker, while maintaining profitability.

Output last year reached the highest since the global financial crisis as demand remained buoyant in Russia and started to recover in European export markets. The country's steelmakers have invested billions in upgrading Soviet-era mills and building new facilities, and the nation produces more than any other country in Europe, one of its main export markets.

Domestic sales are still profitable and prices within the country are about 26 percent higher than if customers bought steel from abroad, Chuyko said. The premium may lead to increased imports into the nation if prices don't drop toward export levels, he said. Imports declined by 40 percent in the first eight months of 2015 from a year earlier, Novolipetsk Steel said. Russian steel demand will fall 10 percent this year, compared with a 1.7 percent decline globally, according to the World Steel Association.