

Arkansas Weighs Steel-Mill Subsidy

By
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Arkansas lawmakers are considering \$125 million in state financing for a new \$1.1 billion steel plant—a test of the political appetite for government subsidies for companies at a time of economic weakness.

The funding, which was proposed in January by Democratic Gov. Mike Beebe, has faced opposition recently amid concerns about state finances and a glut in the U.S. steel market. Several U.S. steel mills have gone under recently, and a 2010 plant in Alabama put on the market by Germany's [ThyssenKrupp](#) AG [TKA.XE +0.87%](#) has yet to find a buyer.

An Arkansas Senate committee and the full Senate approved the \$125 million bond issue Tuesday, and the measure is expected to go a House committee Wednesday. A full House vote is expected later this week, said House Speaker Davy Carter, a Republican, who expects the subsidy will be approved.



Big River Steel LLC's plant—to be built in Osceola, along the Mississippi River—is expected to create 525 permanent positions and 2,000 temporary construction jobs. "This part of the state is row

crops, small towns, declining populations, and this is an opportunity to inject some life," Mr. Carter said.

Arkansas has an unemployment rate of 7.2%. [Whirlpool Corp. WHR +0.47%](#) last year closed a plant in Fort Smith, Ark., laying off about 1,000 workers.

Americans for Prosperity, a nonprofit political-advocacy group co-founded by the conservative Koch brothers, has been urging legislators to oppose the plan. "The best policy for job creation is a favorable business-tax environment that benefits all Arkansas businesses," said Teresa Crossland-Oelke, an AFP official lobbying in Arkansas.

Steelmaker [Nucor Corp. NUE +0.86%](#), which operates a nearby steel plant, has taken out newspaper ads opposing the state financing.

John Correnti, a former Nucor executive who is Big River's chief executive, hasn't disclosed his full roster of investors in the mill. Mr. Correnti didn't return calls Tuesday. The Arkansas Teacher Retirement System has said it plans to buy a substantial stake in the plant.

Southern states including South Carolina and Alabama were among the first to use state incentives to lure private industry, said John H. Boyd, founder of Boyd Co., a Princeton, N.J., company that advises companies on how to pick manufacturing sites. "We try to counsel our clients to make sure the market fundamentals are good," Mr. Boyd said. He didn't consult for Big River Steel.

The domestic steel market is oversupplied. Since November, steel companies have failed to push through several rounds of price increases, stymied by weak demand and too much supply. The benchmark U.S. hot-rolled coil-steel price is \$616 per ton, down 8% from a year ago.

RG Steel LLC, which owned three plants, including a huge mill near Baltimore, declared bankruptcy last year.

ThyssenKrupp, which spent \$5 billion to build the Alabama plant but is pulling out of the U.S. steel industry, is expected to take a huge loss on the mill's sale. Companies that had expressed interest in the plant, which would be a chief competitor of the Big River mill, are backing away.

Nucor, which had been a bidder, has pulled out, according to people familiar with the matter. Another company, Brazil's [Cia. Siderurgica Nacional, CSNA3.BR -1.04%](#) or CSN, has indicated interest but said it hasn't submitted a binding bid. A joint venture between [ArcelorMittal MT +4.81%](#) and [Nippon Steel & Sumitomo Metal Corp. 5401.TO -1.01%](#) has submitted a bid of about \$2 billion. A spokesman for ThyssenKrupp didn't return calls seeking comment.

If the Big River plant is built, turning a profit "is going to be difficult unless the economy in the South improves significantly," said John Packard, publisher of Steel Market Update.

Arkansas is aware of difficulties in the market, but the plant will find buyers by specializing, said Joe Holmes, a director at the Arkansas Economic Development Commission. "It'll be a niche plant" producing special kinds of steel, such as those used in electric motors and transformers, he said.

Mr. Carter, the state House speaker, said many Republicans will concede that this is a situation where government should play an activist role. "It's not the first choice, but the options are either to do what's on the table, or to do nothing," he said. "If we do nothing, the steel mill doesn't get in, and we don't have any jobs in that part of the state."

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