LOCAL 1005 PROUD CANADIAN STEELWORKERS AFL - CIO - CLC

INFORMATION UPDATE #26

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Time to Restart Production at Hamilton Works

Open Letter to USW Local 1005 Active and Retired Members and All Members of the Public

– Rolf Gerstenberger, President –

The U.S. Steel shutdown of Hamilton Works is now entering its ninth month. The estimated cost to the company for the shutdown of steel production is around $77 million per quarter in direct costs and lost potential net earnings.

Economic conditions in the North American steel sector are now markedly different from last autumn when USS CEO John Surma said "bad economic conditions" forced the idling of the blast furnace at Hamilton Works and subsequent lock-out of USW Local 1005 steelworkers Nov. 7.

The refusal of CEO Surma to negotiate with Canadian employees at Hamilton Works is needlessly wasting valuable company revenue. Presently all North American USS mills except Hamilton Works are operating at near full capacity. The hit on net earnings is evident in the second quarter (2Q) USS financial report. The company admits that idling costs of Hamilton Works are $40 million per quarter. The loss in potential net earnings is similar. The figures show an average realized flat-rolled price per ton of $803 for the quarter compared with $700 a year ago and a low of $647 during fourth quarter (4Q) 2010. The higher realized price and sales pushed up quarterly net earnings for the North American flat-rolled segment to $374 million compared to $111 million during the same quarter a year ago and a loss of $36 million for first quarter (1Q) 2011. The $374 million in net earnings for 2Q means the company missed approximately $37 million of potential net earnings for the quarter given that Hamilton Works accounts for 10 per cent of the flat-rolled segment.

At the current level of capacity utilization, prices and pace of realized sales, the shutdown of Hamilton Works translates into an actual and potential reduction in net earnings of around $77 million per quarter for USS which cannot be justified. Whatever concessions it thinks it can extort from Hamilton steelworkers would constitute a negligible possible gain in net earnings. Studies have shown that savings for company earnings arising from the change to defined-contribution plans for new hires do not materialize for decades.

Surma disclosed additional damage from the shutdown in his Earnings Conference call. He said that USS could have realized a better price per ton than $803 if more flat-rolled had been available for the spot market during the quarter. If Hamilton Works had been operating, enough flat-rolled would have been available to take advantage of higher spot prices. An analyst also reported during the Conference Call that she was told ThyssenKrupp may be interested in buying flat-rolled from USS, as Krupp's new mill in Alabama has no flat-rolled capacity and currently is forced to import slab from Brazil. This slab is reportedly unreliable and under pressure from the Brazilian government as it is demanding mills finish the steel in Brazil instead of suffering the environmental problems from slab production and then not benefitting from adding further value within Brazil.

The USS Conference Call in its slide show highlighted the fact that despite the current economic problems in the U.S., two sectors are experiencing growth. USS states that the U.S. projected increase in build schedules for vehicles beginning in 3Q 2011 will continue through 4Q 2011 and last until at least 2Q 2012 resulting in 13.5 million units for 2011 and 14.7 million units in 2012. This is a marked improvement from the low of less than 9 million units in 2009.

The slideshow also says that 1,141 new additional oil and gas rigs are now in operation in the U.S. since the low point in 2009. This development should mean greater orders for USS's tubular segment, which in turn requires steel from its flat-rolled segment.

Certain financial analysts suggest that USS can keep growing its earnings if it would settle the labour dispute in Hamilton. Among those, Morgan Stanley & Co in its analysis of the 2Q report speaks of "three company-specific tailwinds" that would lead to positive net earnings for the company — a declining pension and OPEB expense, coke replacement projects and resolution of the labour dispute. Morgan Stanley writes, "The current lock-out of Hamilton workers is costing the company $40 million per quarter in idling costs. A resolution of the matter could eliminate much of this burden, even without an immediate restart of the blast furnace since numerous finishing operations could run profitably with slabs from nearby operations."

If several quarters of high net earnings can be put together, this could lead to a higher dividend than the five cent quarterly dividend now in place and boost the stock price to $70 from its present low of $40. U.S. Steel's executive managers should take advantage of the head-winds towards positive net earnings one of which is to begin talks immediately with Local 1005 to reach a mutually agreeable collective agreement and begin producing steel at Hamilton Works.

The refusal of CEO Surma to bargain in good faith and restart production is also running afoul with Canadian law and could lead to substantial penalties such as millions of dollars in federal fines for not meeting production and employment levels under the *Investment Canada Act*. An out of court settlement in this matter could be found if production were resumed in Hamilton. The prolonged shutdown also means that USS is liable to deposit $10 million with the director of the Employment Standards Branch in trust, in case someone wants to take severance pay after being laid off for more than 35 weeks in a 52 week period.

The demand of USS that employees be segregated into categories of current, former and new employees, which then receive unequal pension plans and benefits, may be considered illegal under Canadian law. A Supreme Court Judge stated in 2006 that “In an ongoing plan, a single group of employees should not be able to deprive future employees of the benefits of a pension plan. Thus, members often have only a passive and limited right with regard to employer decisions concerning the future of their plan and trust fund.” Along with USS negotiating a pension agreement with the provincial government until December 31, 2015, it definitely raises the legality of USS’s demand to close the pension plan to new hires. Furthermore, equal pay and benefits for equal work or work of equal value have legal status in Canada to protect female employees and others from forms of discrimination based on gender, ethnicity, age, etc. Also, when USS bought Stelco in 2007 it negotiated a pension agreement with the Ontario government until 2015. CEO Surma’s demand for a two-tiered pension system contradicts that agreement.

All this points to a necessity for CEO Surma to open negotiations with USW Local 1005 to find a resolution to the problems so that steel production can resume at Hamilton Works.

If the blast furnace is not brought up from its idle by at least the autumn and Surma decides to idle it for another winter, he will be responsible for USS taking a big hit on its net earnings for almost no return.

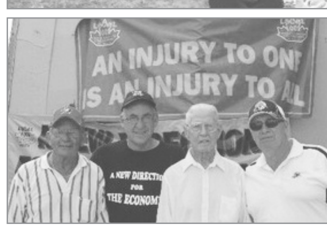
The refusal of CEO Surma to talk to the legal union representatives of Canadian employees is arousing much animosity towards USS and U.S. investment in general. If the CEO of a U.S. company cannot even bring himself to talk to Canadians and merely dictates his demands then pressure mounts for governments to intervene on behalf of Canadians and legislate a resolution that may not be viewed as beneficial to those who own USS stock or debt.

For photographs from Local 1005’s

65th Anniversary Celebration at Gage Park

visit our website at

www.uswa1005.ca



To contact USW Local 1005: Call 905-547-1417 or e-mail info@uswa1005.ca.