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## Destructive Economic Impact of Private Interests in the Steel Industry

# The Steel Industry Is Public Not Private



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- The Steel Industry Is Public Not Private
- U.S. Steel Canada Economic Impact Study

### For Your Information

- Report Prepared by the City of Hamilton, January 2015

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## Destructive Economic Impact of Private Interests in the Steel Industry

# The Steel Industry Is Public Not Private

The steel sector is basic to the modern Canadian economy. The social wealth necessary to build and operate a steel mill can only be mobilized through the collective authority of the people and resources of the economy. The prices of production, supply of raw material, the training of the working class, the provision of the social and material infrastructure, the relation between supply and demand, and other crucial features are social and public.

Decisions affecting the steel sector bear heavily on the entire economy and as such are public.

Who decides matters affecting the steel and other basic sectors is of public concern and importance, over which the people must have a say and right to decide. This requires additional public measures beyond the operation of the companies themselves, especially in the wholesale market of basic commodities, where public authorities are required to control prices and exports and imports outside of any free trade agreements, otherwise no self-reliant independent stable economy of the basic sectors can be built to serve Canadian nation-building.



Private social wealth in the basic sectors such as the steel industry must not interfere with the right of the people to decide and to have open discussion and authority over their direction. Private social wealth in the basic sectors such as steel does not and should not give any ownership group the right to dismiss and negate the public right to decide on all matters affecting the direction of the industry.

A public authority, which has the consent and confidence of the workforce and members of the community, should be organized to decide on the direction of the basic sectors with the full and unobstructed conscious participation of the people without secrecy or hidden agendas of private interests. Private ownership of social wealth should be viewed as only one factor in the social relation making up the sector and private owners should participate in decision-making as members of the public without special influence or clout.

Private owners of social wealth in the steel and other basic sectors should be arms length from the operation and only participate in decision-making as members of the public if they reside in Canada. Private owners have a right to an average rate of return on their invested social wealth, which should be decided openly and with scientific precision by accountants who report to the public authority, which regulates payment openly and aboveboard with complete public scrutiny.

The controversies surrounding Stelco and Algoma Steel for the past two decades give ample proof of the necessity for a new direction for the steel sector free from the interference of private interests. A new direction under the control of the public must be instituted for the sake of the economy and nation-building. Private owners of social wealth have proven time and again that their narrow private interests conflict with the public and social nature of the steel sector and do not allow it to flourish. These problems arise despite the earnest talk of certain ownership groups of their intention to serve the public good. Talk is cheap; Canada needs a new direction with a public authority capable of putting owners of social wealth in their place as just one factor in the economy. The people witnessed with horror and contempt the corrupt behaviour of U.S. Steel in signing and then almost immediately breaking sworn agreements under the *Investment Canada Act* and provincial pension law because the owners of social wealth considered it expedient in serving their narrow private agenda and interests.



Problems surrounding the meeting of apparent demand with supply from Canadian mills; problems surrounding the well-being of the workforce, especially after retirement; problems dealing with environmental damage and pollution; problems dealing with market prices and other issues such as imports are social and public in nature and cannot be resolved with private interests in command.

The basic sectors of the economy involve immense amounts of social wealth both from direct investment and from borrowing. Individuals owning equity in the basic sectors such as U.S. Steel are most often second or third hand through financial institutions from all over the world. More often than not, moneylenders have even greater social wealth tied up in a monopoly such as the over \$3.5 billion debt they own in U.S. Steel. The disparate owners of social wealth often have conflicting interests themselves, not to speak of the contention from owners of social wealth in competing companies. The contention and sometimes corrupt collusion of owners of social wealth to serve their particular private interests cause great crises for the basic sectors, as Canada has experienced not just in steel but in the energy and other sectors.

What constitutes private ownership is even under scrutiny and contention. U.S. Steel says it bought Stelco in 2007 but sometime during its tenure as equity owner it gave up its equity ownership and secretly turned it into a debt ownership. This conspiracy began with an eye to putting Stelco into bankruptcy protection and having U.S. Steel declared the primary owner of debt in a company where it no longer owns equity. These fraudulent conspiracies are further proof that ownership of social wealth in the basic sectors should not mean control but simply a right to a certain claim on the added-value workers produce but with no rights to direct the company or authority over its affairs or that of the sector.

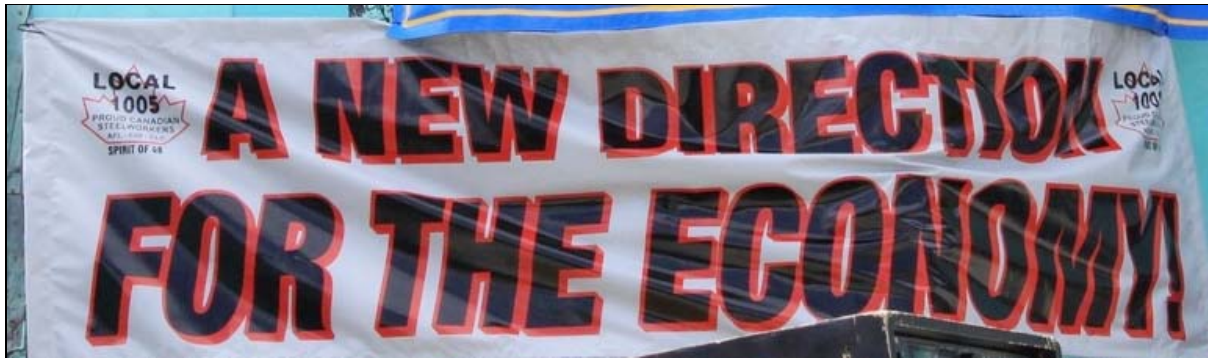
A public authority in which the people have confidence and can openly and consciously participate in making decisions on the direction of the company and sector and ensure their viability and stability must be formed to take control out of the hands of the owners of social wealth.



The pay-the-rich schemes most often called bailouts, subsidies, disguised assistance in such areas as research and development financed through the public treasury etc. are now considered "normal" practice by the ruling imperialist elite. This acceptance of pay-the-rich schemes is an admission that privately-controlled social wealth is incapable of directing the economy and particularly the basic sectors in a stable manner that allows them to claim a rate of return on their investment satisfactory to themselves without recurring crises.

Pay-the-rich schemes including public-private-partnerships are an admission that the owners of social wealth are incapable of running the socialized economy without public funds and direct government intervention. This admission and the concrete evidence of the recurring crises in the overall economy and in particular sectors, the permanent unemployment of over a million workers and deteriorating social conditions are more than enough to prove that a new direction for the economy is necessary beginning with public control over the basic sectors and the people's conscious participation in the running and decision-making of those sectors.

A new direction should begin with the establishment of a public authority to direct the affairs of the former Stelco, Algoma Steel and Wabush Mines, all of which are presently under the fraudulent bankruptcy protection of the *Companies' Creditors Arrangement Act*. A public authority with government backing would immediately cancel U.S. Steel's fraudulent claim on Stelco's assets and begin to look for investment either public or private to refurbish the mills and mines of the three enterprises, resolve all outstanding issues with the steelworkers, miners and salaried employees by respecting their rights and previous collective agreements and pension laws, and begin to address in a serious manner the environmental issues and the strengthening of a steel sector that can meet the economy's apparent demand for steel in a self-reliant manner.



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## U.S. Steel Canada Economic Impact Study

The excerpts from the Hamilton report found below underscore the fact that the steel sector is a public industry. Stelco is not a mom and pop store with limited ramifications for the community. The City report deals mainly with social issues but does touch on the interconnections with other sectors of the economy such as the number of companies left with unpaid bills because Stelco is in bankruptcy protection.

In Sault Ste. Marie, the Algoma Steel complex has an even greater influence in the lives and economy of the people. Reports say that around 70 per cent of the population of the community depends either directly for livelihoods or indirectly in some way on the steelworks.



Decisions taken regarding the steel and mining sectors are not private matters; they affect the public in a major way. Decision-making should not be seen as private, which is the narrow corrupt viewpoint of certain individuals who control great social wealth. The interrelated economy cannot be left in the hands of the owners of social wealth and the monopolies they control. Decisions in these sectors affect entire cities, regions and the country. Those decisions need to be in the hands of the public upholding the right of the people to decide in the public

interest in opposition to the narrow private interests of owners of social wealth.

Members of the Hamilton City Council Steel Committee say that U.S. Steel executives have treated them with disdain refusing to meet with them to discuss the serious problems surrounding the steel sector. This attitude towards city officials reflects an absence of concern for the well-being of the people and their community. The owners of social wealth consider their narrow private interests as more important. The concern and attention of U.S. Steel executives, especially those in Pittsburgh, are centred on their empire-building and private social wealth. Canadians and their nation-building are viewed as obstacles to their empire-building.

Active organized resistance to empire-building is necessary in today's Canada, as control from the global owners of social wealth interferes with nation-building and the building of a self-reliant stable diverse economy. Private social wealth should not confer any special rights on its owners. Owners of social wealth have a right to a certain rate of return on their investment but no right to control the economy or political affairs, or to interfere in the people's right to direct their economy and nation-building.



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**For Your Information**

**Report Prepared by the City of Hamilton,  
January 2015 (Excerpts, Not Necessarily in Order)**

The Hamilton Works location sits on a total of 813 acres of land, a large land holding, but relatively small in size when compared to Lake Erie Works, which is over 8 times larger at 6,600 acres.

USSC employed 2,337 people as of July 31, 2014.

The 2007 acquisition of Stelco Inc. by USS required the involvement and ultimate approval of the federal government due to the nature of the acquisition of a Canadian company by a foreign company. As part of USS' application to the federal government for approval of the acquisition, USS made the following commitments, which were used to build the case for approval of the sale.



- Make \$200 million in capital investments in USSC.
- Maintain 3,105 workers at Hamilton Works and Lake Erie Works.
- Produce [4.5 million tons of steel] annually. [On October 29, 2007 the Minister approved the transaction, subject to 31 binding undertakings from U.S. Steel regarding the operation of Stelco, which included that, over three years, it would increase the annual level of production at the former Stelco facilities by at least 10 percent and that it would maintain an average aggregate

employment level of not fewer than 3,105 employees on a full-time equivalent basis.]

- Guarantee the pension funding obligations of Stelco Inc. Make \$31 million voluntary contribution to the USSC pension funds.

The years immediately following the acquisition of Stelco Inc. (now USSC) by USS saw a significant decrease in steel production and a failure of USSC to meet or even approach the investment, production and employment commitments made to win approval of the acquisition from the federal government. These commitment defaults prompted a legal response by the federal government and ultimately resulted in an undisclosed agreement between USS, USSC and the federal government that included additional operational and investment commitments, as outlined below:

- Operate Hamilton Works and Lake Erie Works until at least December 2015.
- Make at least \$50 million in additional capital investments to maintain Canadian facilities by December 2015 (above the previous \$200 million commitment).
- Contribute \$3 million to community and educational programs in Hamilton and Nanticoke.

While the second round of commitments were likely intended to build upon those initial operational, investment and employment commitments with the objective of increasing the economic activity at USSC, the past few years since the 2011 Commitments were disclosed has witnessed a continued decline in economic activity from USSC.



Despite the involvement of both the provincial and federal government in the early stages of the acquisition of USSC to facilitate a viable business environment for USSC through approvals and financial assistance, and the commitments made by USS concerning USSC's operations, USSC is currently in a much weaker position than was likely envisioned by all major stakeholders in the initial weeks of the acquisition. As of December 2014, the commitments made by USS in both 2007 and 2011, relating to USSC are far from being realized, and have been replaced by the reality as

outlined in the points below:

- Significantly less current employees at U.S. Steel Canada than was projected in 2007.
- An accelerating trend of decreasing capacity at U.S. Steel Canada.
- Significant uncertainty about the future of U.S. Steel Canada's operations expressed by workers, pensioners, and resident stakeholders.
- Concern about the long-term viability of the various U.S. Steel Canada pension plans after December 2015.

The four pension plans provide USSC pensioners with over \$231 million in total pension income annually.

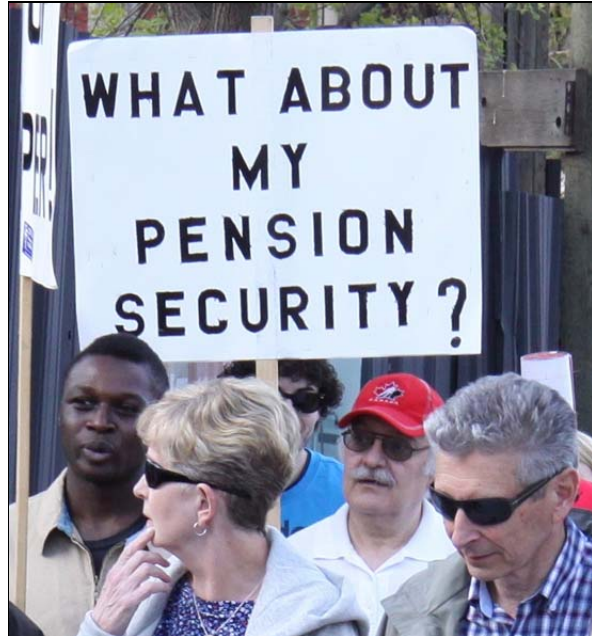
Hamilton Bargaining Plan (Local 1005) members represent over 65% of the total 14,338 USSC pension plan members (as of December 31, 2013), and have the lowest annual average pensions (\$16,355). [The total number of people reliant on the pensions such as spouses, increases the total to well over 20,000.] The absence of a Cost of Living Adjustment (COLA) has a significant financial impact on USSC pensioners. The projected impact of not having a 2% COLA for an individual over 25 years is a loss of \$100,000, and the estimated loss of income for the 7,050 Hamilton pensioners over 25 years is almost \$700 million.

Over 7,000 USSC pensioners from all four USSC pension plans reside in the City of Hamilton, representing over 60% of the identified USSC pensioners.

If the distribution of the 11,699 identified pensioners is representative of the total population of USSC pensioners, then the City of Hamilton could be the city of residence for over 8,600 pensioners.

Approximately 1.4% (1 in 72) of Hamilton's total population are known USSC pensioners.

Approximately 6.3% (1 in 16) of Hamilton's population of 60+ years old are known USSC pensioners.



Over 70% of USSC pensioners with Hamilton addresses are associated with a detached single family home. Those 5,043 USSC pensioners represent 4% of all single detached homes in Hamilton (1 in 25 homes).

The properties associated with known USSC pensioners make sizeable cumulative [property tax] contributions by ward, ranging from almost \$400 thousand in Ward 14 to over \$4.3 million in Ward 8.

The dwellings associated with known USSC pensioners in Hamilton provide the City with approximately \$24 million in property tax annually. [Of note, is the fact that Stelco pensioners in Hamilton continue to pay their property taxes while U.S. Steel refuses to do so and has won a CCAA court order enforcing its demand. Also, the \$24 million cumulative property tax paid by steelworker retirees living in Hamilton is considerably greater than the property tax paid by USSC when it was paying the tax. Also, U.S. Steel says that no equity profit has been made in Ontario since 2009. This means the company has not paid any corporate income tax although owners of U.S. Steel debt have claimed interest profit and dividends have continued to be paid to U.S. Steel shareholders.]

Approximately 2% of the total population of Hamilton Wards 5, 6 and 10 are current USSC pensioners.

The USSC pensioner population represents a large and significant segment in each Hamilton ward.

## Impact on City of Hamilton Revenues



The annual total tax contributions from USSC have been steadily decreasing since 2000, having decreased over 70% from the \$22.56 million paid in 2000 to just under \$6 million forecasted for 2014. [Since the report was released, the CCAA court has granted leave for USSC to suspend payments of municipal taxes.]

USSC's tax contributions represented over 3% of total tax revenues in 2000, but is under 1% in 2014.

The USSC tax contributions from recent years (prior to 2014) have recently been successfully appealed by USSC, necessitating a large tax rebate owing to USSC of over \$6 million.

The water related revenues from USSC has decreased as a percentage of total City of Hamilton water revenues from 3.8% in 2008 to a forecasted 1.3% in 2014.

A worst case scenario for the City of Hamilton as it relates to USSC property tax and water revenues would be a further reduction of approximately \$3.9M annually, reducing the current annual revenues from approximately \$6.6M (forecasted for 2014) to approximately \$2.7M annually in a future year.

[If the wrecking of Stelco steel production continues] it would result in hardships to current employees of USSC who would suffer job loss and might have difficulty finding similar work and remuneration.

- It would result in hardships to USSC retirees, who rely on USSC to continue to contribute to their underfunded pension plans and to provide post-retirement benefits.
- It would result in a permanent decrease in retirement incomes of USSC retirees, and that reduction would have a material impact on their health, the affordability of their current living situations and lifestyles.
- It would impact hundreds of companies supplying goods and services to USSC.
- It would have a significant impact on the City of Hamilton's annual revenues.



- It might have a significant impact on the City of Hamilton's program demands.
- It might result in a prolonged asset disposition process that might leave current USSC lands in the City of Hamilton unproductive for an extended period of time.

Over the course of their employment at Stelco and USSC, a component USSC pension plan member's compensation package was the inclusion in a Defined Benefits pension plan, which promised post-retirement benefits in the future and varied in composition between each of the four USSC pension plans. Over the life of the pension plans, the defined benefits for each of the four pension plans have been subject to changes based on the outcome of negotiations between the employee groups and the employer.

The four pension plans provide USSC retirees with over \$231 million in total pension income annually.

The businesses of a city or community are impacted by the overall health and strength of the local economy, as cash from business revenues and employment incomes of local businesses and employees have the potential to be spent in the city or community. This section looks at the impacts on all local businesses, both the known Direct Suppliers of USSC, whose impact is easier to visualize and quantify, and the other businesses in Hamilton, who rely on the expenditures of the employees and retirees of USSC and its local suppliers.

A result of USSC pursuing creditor protection in September 2014 was that it provided the public with a unique insight into the company's large and diverse number of creditors at that time. In the initial CCAA documentation disclosure, USSC provided the courts with a List of Creditors (Trade Payables), identifying the names, mailing addresses and total amount owing as of the date of filing. While this list is still being finalized, and does not identify all companies in the USSC supply chain over the course of a full year, it provides quantitative data for a highly conservative estimate of the financial impact of the possible failure of USSC.

The List of Creditors described above was analyzed and the 684 Trades Payables were grouped by country and sorted into categories based on outstanding balances owed by USSC as at September 16, 2014.

Approximately 60% of the \$78.8 million owed is to Ontario based companies (529 total).

There are 127 companies with business addresses in the City of Hamilton, and they are collectively owed a total of \$22.3 million (28.3% of the \$78.8 million).

There are four Hamilton based companies who are owed more than \$1 million, and an additional 27 companies owed between \$100 thousand - \$999 thousand.

There are 96 Hamilton based companies who are owed under \$100 thousand, with a majority of these being owed less than \$25 thousand.

[Observations on the health and welfare of pensioners]

It is hard for seniors to cope with sudden changes in their economic status, due to the limits of a fixed income. The "asset rich-income poor" are considered at most financial risk. Financial strain causes stress, depression and family pressures. Reduced retirement income is associated with heart-related death in both men and women. Single men without a cash margin are at a greater risk for heart attacks and those men with reduced retirement income have a higher risk of death.

Seniors who are not accustomed to seeking out services may not be aware of services available to them. They may also have trouble accessing those services. Stress can lead to many mental and physical health issues, the most serious being depression, heart disease and death.

(Complete Hamilton City study available [here](#))



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