

**REMARKS TO:  
STEEL SUCCESS STRATEGIES XXI**

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Good morning.

Well, I'm back.

As some of you may know, I was last here two years ago and gave a speech which I am told ruffled a few feathers. So last year, in an attempt to tone it down a bit, Peter decided that he'd better invite someone from the union who would be a little less controversial, someone a little more soft-spoken, someone a little less likely to use the "f" word.

And so last year, that well known shrinking violet, the President of my union, Leo Gerard, was given back the union slot. I guess after hearing Leo, Peter must have decided that I wasn't so bad after all. Thanks boss.

I will point out, however, that while I was invited back, I was not given the usual Steelworker slot of Tuesday morning. This year, as you can see, I have been down-graded to Wednesday and Peter had to invent yet another phony title – at this point if you are **not** a "Keynote Speaker" you really shouldn't even come. Now in the union we don't take too well to those sort of insults, but the real story of how I got here is slightly more complex and illustrates well the fun of this conference.

I should say that I really admire Peter's ability to put this thing together each year.

Coming up with the speaker's list while juggling the modest egos involved must have been quite a challenge. As the only union guy, I, of course, did not want to disappoint anyone and be easy myself. In truth, however, I suspect that figuring out how to not offend Dolle, Mittal and Mordashov made dealing with my modest demands the least of his problems.

And the real truth is that I did have the Tuesday morning slot, but gave it to Lakshmi so he could speak and then get out of town before the **real** Europeans arrived.

Anyway, here I am and I have resolved to be less controversial this year in the hope of not having to wait two years before getting invited back.

On that basis, today the union guy will lecture steel industry management on behalf of your shareholders.

Nothing presumptuous in that.

Now I know that at first it might seem a little odd for the Steelworkers Union to speak for the industry's shareholders. For starters, some people may not think of our union as being especially shareholder friendly. After all, we are usually painted as the villain in the story of the steel industry's failure, over a long period of time, to deliver decent returns to its owners.

While in fact it was not our fault, it is true that the steel industry probably holds the title for poorest performing industry of the 20<sup>th</sup> century. A truly notable distinction.

And if that were not enough, I will also admit that neither I nor most of the leaders of our union personally own any securities whatsoever in steel companies. It's just easier that way.

Although I will point out that on behalf of our members and retirees we have negotiated contracts with the two largest integrated producers which, over the last two years, paid out over \$1 Billion in profit-based payments. Those agreements are based on Operating Income in one case and on EBITDA in the other, but when measured as a percent of net income we do have a claim to a significant share of the profits of these companies.

So in an economic sense we are probably, with the exception of Mittal, Steinbrunch and a few oligarchs, the largest single beneficiary of the steel industry's profitability – which actually isn't a bad definition of an owner.

In many ways it is for the American steel industry, the best of times. While input costs are high, between consolidation and its resulting market discipline and strong world-wide demand, prices are at levels that three or four years ago were simply unimaginable. Thus profits are, at least for the steel industry, quite high and balance sheets are stronger than they have been in decades.

As a result, at least in the last few years, the industry's shareholders really don't have a heck of a lot to complain about. Since January of 2003, the S & P Steel Index is up over 400%, more than eight times the return of the overall market.

So with all that it would be easy for the union to sit back and enjoy the show and look forward to the next major round of bargaining in 2008 as an opportunity for us to get a little or maybe a lot more of this fast growing pie. But that assumes that between now and 2008 the industry doesn't figure out a way to snatch defeat from the jaws of victory and get itself in trouble again.

We view the next couple of years as the best time to if you will, fatten up the pig, so that by the time we get there we have something to fight about. We have

spent far too much time in the last twenty years sharing the pain, but we recognize that to share the gain there needs to be gain to share.

And so today the Steelworkers will give you some advice on how to make lots of money for your shareholders, so that the union can get its fair share, and maybe if you are long-term smart, even a little more.

The theme of this advice will be really quite simple – on behalf of your shareholders we demand that the industry be hard-headed and pragmatic capitalists – that you run the companies and actively participate in the political process on the basis of what is good for your shareholders - and not based on outmoded nostrums about unions, free enterprise, deregulation, free markets and free trade.

Now I understand that all of you worship at that church and that when I say government, regulation or union you say “bad” and when I say market you say “good.”

But here’s the deal –

In today’s world the blather about free trade, free-markets and the joys of competition is nothing but pabulum for the suckers. The guys making the real money know that outsized returns are available to those who find the industries that get the system to work for them and the companies within those industries that dominate them.

Does anyone seriously think that the free-marketeers at Goldman, Sachs have a mid 30’s ROE because all they know is what everyone else knows?

Did Bill Gates accumulate a net worth larger than the entire bottom third of our nation because he kept the playing field level?

Its like the story of the professor at the University of Chicago who is walking down the hall with a student who says to him, “Hey professor, look, there’s a \$50 bill on the floor there.”

“No there is not,” replies the professor.

“I don’t understand” says the perplexed student.

“Well” says the professor “if there were a \$50 bill on the floor someone would have already picked it up.”

In the real world, he who makes the rules of the game, rules the game.

So here we go.

Now the starting point for the shareholders' demands – the touchstone if you will – is that you need to get along with the union.

Seriously.

Now I know what they taught you at the seminars that the only good union is a dead union. But in fact the evidence here is pretty overwhelming – companies that establish a constructive partnership with the Steelworkers Union do far better for their shareholders than those that do not.

In the Spring of 2003, US Steel was trading at just over \$15 per share. The company made a deal with the union that facilitated its purchase of National and within 18 months the shareholders saw their investment triple, adding over \$3 billion to the value of the company. In January of 2004, we made a deal with Allegheny Technologies that allowed them to take the assets of J&L Stainless off Arcelor's hands. At the time of the deal ATI's equity was valued at \$900 million. Today it sits at \$6.5 billion.

Now I am not saying that little things like China and the commodities boom don't have at least something to do with this. But, even after the recent run-up, the guys who worked with us on Stelco saw their investment quadruple in a matter of days.

Compare that to companies that have chosen the other path.

In the month before our dispute with Oregon Steel began the stock traded at \$22.00 per share. At one point during the fight it fell to as low as a dollar and at the time of the settlement was hovering around \$5.00. Today it is at \$51.00. And the list goes on.

While there is plenty of room for disagreement among management, shareholders and labor and while we like to believe that we are the center of everyone's universe, the real truth is that today, labor is the least of your problems. The U.S. and Canada have the most productive and efficient steel industries in the world. Given their high productivity, the reasonably decent wages that our members are paid are seldom decisive in determining a company's level of profitability.

It is far more important that employees be engaged and involved and feel a sense of ownership in the operation of their plant. An engaged well-paid

workforce more than pays for itself, measured against an alienated group with a little lower wage package.

And the Steelworkers Union is the steel industry's strongest and best advocate.

Today the real impediments to long-term profitability lie largely outside the collective bargaining arena. Let me mention four.

The first is one where conflicts between labor and management do still exist and that is health care. On that issue however, given the fact that the shareholders want us to get along, the answer is to get it out of collective bargaining. So on behalf of your shareholders, we demand that you support universal single-payer national health care.

Now this goes for all of you. It certainly goes for companies who have not shed retiree health care obligations through bankruptcy because you simply cannot expect the union to walk away from its retirees anymore than as Victor Lazlo explains to Ric, you can expect us to stop breathing.

It also goes for those companies that emerged from bankruptcy without these obligations, because as long as we represent your employees, we will expect you to continue to put a significant share of your profits into the VEBAs that we have set-up to try to restore at least a portion of what was taken away.

And it even goes for the non-union companies who have to date been able to get employees to pay for a significant portion of the cost of their health care. Remember, you are still paying the rest and as these costs continue to climb, the part you do pay is eating away at your profits and the part you have shifted to your employees is lowering their standard of living, thus increasing the pressure for higher wages.

So be hard-headed businessmen and support the system that just about every CEO in Canada and Europe agrees gives those who operate there a significant competitive advantage.

The simple fact is that America's current health care system places those companies that manufacture in the U.S. at a tremendous competitive disadvantage against those who manufacture anywhere else in the developed world. A universal single-payer system, whether financed through general revenue or even a payroll tax, would result in significantly higher profits for the steel industry. What more needs to be said?

The numbers are rather dramatic. Even after leaving 15% of our citizens without health insurance and another 15% without coverage during at least part of the

year, we are still spending about five more GDP points, or roughly \$2,800 more each year for every man, woman and child in this country, than the amount spent in Western Europe and Canada.

And what do we get for that \$800 billion drag on the economy?

Our overall quality of care puts us 37th in the world, sandwiched neatly between Costa Rica and Slovenia.

We rank 70<sup>th</sup> in hospital beds per capita, and 45<sup>th</sup> in physicians. We rank 42<sup>nd</sup> in infant mortality and 32<sup>nd</sup> in life expectancy.

This should not be surprising. Our patchwork system is built to serve the needs of those who produce health care, not those who consume it.

The American health care system delivers great returns for the shareholders of pharmaceutical companies, who spend two-and-one-half times more on marketing than they do on R & D; huge stock option windfalls for CEO's of health insurers, fabulous profits for the makers of duplicative medical equipment and high earnings for doctors. And out the back comes a wasteful system that is delivering a lousy product and driving manufacturing companies out of business.

The response of industry management has been, not surprisingly to try to shift these costs to their employees. Now the first explanation given for this is based on the theory that the problem with the system is that since the decision makers – consumers – do not pay for the services, health care is therefore over-consumed, in a classic case of the famous “tragedy of the commons.”

Charge the consumer at least some of the true cost of the good, the theory goes, and he or she will become a price conscious shopper and will only consume what the product is worth. The magic of the market will then drive out over-consumption and inefficiency.

The problem with this theory is that it totally misunderstands how health care is in fact consumed and completely ignores the evidence from dozens of countries that have, as I pointed out above, chosen to take health care out of the market and are achieving far more efficient results.

The demand for health care is relatively price inelastic and to the extent there is a price-induced reduction in demand it is as likely as not to come first in the form of lower quality. Buying health care can never be like buying a car or a television set – it is just silly to seriously expect average people to “shop for the best deal”.

People consume health care largely because they need it and the only way to manage costs is to create a buying collective that is big enough to control the providers. This is a natural monopoly if ever there was one.

In Pittsburgh last week the entire city held its breath when the Steelers' quarterback got himself in a major car wreck. But it did provide a good opportunity to test consumer-driven health care.

As Roethlisberger lay semi-conscious by the side of the road, what the advocates of consumer-driven health care tell us he should have done was to pick up the newspaper or perhaps borrow the EMT's computer, so he could see who was having a sale on reconstructive surgery.

It just doesn't work that way.

But when this argument is exposed for the sham that it is, companies simply move on and attempt to directly shift the cost from the company to the employee. That is fine, but we need to see it for what it is – we are lowering the standard of living of American workers because we refuse to do anything to control the cost of one-seventh of the American economy.

Over time that is a losing strategy. If our path to competitiveness is to pay workers less then we should just say that. But wouldn't it make more sense to adopt a universal single payer system – and take the \$800 billion we would save and split it between workers and owners? Oh, OK, we can give some to the bosses too, but only if you help us get it done.

Second demand - watch your customers – they're leaving.

It is true that a significant amount of steel is consumed in the construction of infrastructure – roads, bridges, buildings, factories etc. – things that are specifically anchored where they are built. But almost 80% of steel consumption is accounted for by products that can be made anywhere.

And if those who consume steel are not located here, it will be much harder to sell them steel that is made here. The American steel industry is today globally competitive, but it generally does not have costs low enough to rely on exports for its survival.

Historically, the industry has focused on the threat from unfairly traded imported steel. And while that threat is real and should continue to be monitored, today the more immediate threat comes from the demand for steel being lost because those who use the steel will use it somewhere else.

As America's largest consumers of steel – the manufacturers of autos, auto parts, white goods, and other steel-intensive products - increasingly move their manufacturing facilities elsewhere, the logic for a large domestic steel industry will go, along with those consumers. There is little that is manufactured that does not somewhere along the line, directly or indirectly, require steel. But this means that the less we make here the less we need a steel industry here to feed it.

Now I guess that you could imagine a North American steel industry whose costs permitted it to make steel here and sell it to those who consume it in other places, but those economics seem pretty hard to put together.

So our second demand is that the steel industry, in its own self-interest, needs to broadly engage in the fight to save the overall manufacturing sector. Every other nation in the world has a specific and targeted strategy to preserve or expand its manufacturing base. We, on the other hand, seem to think that empty platitudes will suffice.

This is especially true when we turn our attention to our third shareholder demand – that the steel industry actively support a comprehensive national energy program.

Energy now accounts for approximately 20% of the overall cost of producing steel, well more than the cost of labor. In just the last four years those costs have increased by more than 50% and have in fact almost doubled since 1998.

With gas prices at \$3.00 and predictions of a spike for the summer driving season, few doubt that the American economy and its participants would be better off if energy prices were lower. The run-up in prices since 2001 is now causing an annual transfer of an **additional** \$400 billion dollars from those who consume energy to those who produce it. American manufacturing has many problems, but the impact of high energy prices cannot be overstated.

It is true that some of that \$400 billion is staying inside the country and going to the shareholders of energy producers. In 2005 the six largest oil companies made \$72 billion more in profits than they did in 2001. However, since much of America's energy comes from outside the country and is owned by foreign governments, the increased price of energy has meant a substantial transfer of money from Americans to non-Americans.

And if that were not enough, one could finally add the huge corrupting and corrosive distortions that petro-politics bring to our nation. Irrespective of where

one sits on the various divides in our country, no one defends our “addiction” to foreign energy as healthy for our democracy.

Once again, we have a vital sector of the economy being run for the benefit of its producers, not its consumers.

And while we can waste time arguing about whether to drill in Alaska’s North Slope, real relief will only come from increasing supply and reducing demand, through huge investments in conservation, clean coal and renewables – all of which, by the way, will consume lots of steel and none of which will be done by the guys who today are profiting so handsomely from the status-quo.

The steel industry and manufacturers in general need to stop worrying about offending their business school classmates, political soul mates and friends at the country club and to stand up for their owners.

And finally, rolling all of what I have said so far together, we face the threat of an exploding trade deficit.

But rather than bore you with my thoughts, let me quote two well-known radicals.

The first one said the following:

“I think we are skating on increasingly thin ice. On the present trajectory, the deficits and imbalances will increase. At some point, the sense of confidence in capital markets that today so benignly supports the flow of funds to the United States and the growing world economy could fade. . . . I don’t know whether change will come with a bang or a whimper, whether sooner or later. But as things stand, it is more likely than not that it will be financial crises rather than policy foresight that will force the change. . . . Altogether the circumstances seem to me as dangerous and intractable as any I can remember. . . . What really concerns me is that there seems to be so little willingness or capacity to do much about it.”

And the second:

“A country that is now aspiring to an “Ownership Society” will not find happiness in – and I’ll use hyperbole here for emphasis – a “Sharecropper’s Society.” But that’s precisely where our trade policies, supported by Republicans and Democrats alike, are taking us. . . .”

The first radical that I quoted was Paul Volker, the second Warren Buffet.

And if you don't believe them either, let's look at where the most cold-blooded and unemotional capitalists of all – currency traders – are putting their money.

While it may be true that they read the editorial page of the Wall Street Journal, cluck endlessly at cocktail parties about Eurosclerosis and make contributions to the CATO Institute, during the day they go short the dollar and long the Euro.

In the last three and a half years the Euro is up 40% versus the dollar as those whose livelihood depends on an honest assessment of our economy have voted with their feet.

No one seriously believes that our current profligacy will end other than badly. But neither the steel industry nor any other sector of the business community appears willing to stand up and say that the emperor has no clothes. Each year we are selling almost a trillion dollars of our seed corn and mortgaging forever our future so that we can dance the night away while go hungry and our roads and bridges crumble.

The growth of China and India can be a great opportunity. But not if we, as Lenin so aptly put it, sell them the rope with which to hang us.

And so, on behalf of the shareholders of the steel industry, we demand that you repudiate the race-to-the bottom model of globalization. We need world trade that brings the bottom up not the top down and we need to tell the American government to do what ever one of our trading partners does – stand up for those who operate on their soil.

Let me close with a story that illustrates the kind of hard-headed pragmatic and practical leadership that we need. The story concerns a steelworker and a boss who find themselves side-by-side at a urinal.

After completing their business the steelworker heads straight for the door, while the boss goes to the sink.

“In management,” the boss says “they teach us to wash our hands after we urinate.”

“In the union,” the steelworker replies “they teach us not to piss on our hands.”

Thank you.