GERDAU

July 31, 2018

Standing Committee on International Trade
Sixth Floor, 131 Queen Street
House of Commons
Ottawa, ON K1A 0A6
Canada

The following comments are submitted on behalf of Gerdau Long Steel North America ("Gerdau").

Gerdau operates three steel mills in Canada, and employs approximately 1,200 Canadians. Our Ontario and Manitoba mills are part of an integrated North American network of recycling facilities, steel mills, and downstream operations. We serve our customers across all borders, and continue to advocate for permanent exemptions from the Section 232 measures for both Canada and Mexico.

The measures imposed by the United States have had a sizable impact on Gerdau's operations. While the tariffs themselves are a relatively recent development, Gerdau Canada has been contending with the threats associated with Section 232 for more than a year. Throughout the Section 232 investigation, some of our U.S. competitors attempted to use the "risk" of sourcing from Gerdau's Canadian mills against us in conversations with our U.S.-based customers. Sadly, there proved to be some validity to their messaging.

In the days leading up to June 1, 2018, Gerdau was forced to stop shipments from our Ontario mills into the U.S. With very few exceptions, these shipments have not resumed. While we have been consulting with U.S. customers to determine what options are available in light of the 25 percent tariffs, we simply do not have profit margins on these products that would allow us to absorb the tariffs. And we have several U.S.-based competitors for most of our shapes and sizes who are attempting to take our business. In order to compete, Gerdau will be forced to shift production to the U.S., at the expense of our Canadian mills. For the products that we cannot make in the U.S., we are likely to lose these sales outright to U.S. mills that are not subject to the tariffs.

While we anticipate some corresponding shift in production from the U.S. to Canada in order to greater serve the domestic market with Canadian-made steel, this move is threatened by increased offshore imports entering the Canadian market. The Section 232 situation has exacerbated already challenging conditions for Canada's long products segment. As a result of the U.S. trade measures, Gerdau has seen increasing volumes of low-priced long products entering the Canadian market, as imports are being diverted away from the United States and into Canada. We are extremely concerned that these volumes will continue to increase, resulting in additional lost sales and lost revenue, as we struggle to compete with surging import levels that we expect will only accelerate.

For our Manitoba mill, we have continued shipments to some U.S. customers for which we are currently the only North American supplier. Other shipments have been interrupted. This will negatively impact

Gerdau Canada's financial performance, as we lose sales revenue and incur storage costs on inventory that we can no longer ship.

As far as the Manitoba mill's special shape products are concerned, it would be difficult for any U.S. producers to ramp up production and meet quality requirements in order to supply near-term demand. Doing so would require sizable investment as part of a longer term solution**.** But several U.S.-based customers are looking to potential sources in Europe, and are considering importing finished parts from China. Others are looking to source in the U.S. Many of these customers had previously explored this option, and decided to go with Gerdau Manitoba due to quality, availability, and product offering considerations. These OEM customers are now being put at a global disadvantage to have to potentially source a "second choice" product.

Beyond the direct market impacts of tariffs, Section 232 is adding other costs into the supply chain, including increased transportation and logistics costs. It takes time to develop reliable carriers to transport our products to customers. Supply chains are being disrupted, and carriers will have to alter their plans, likely for the long-term. Returning to the status quo won't be an option.

While we still hope for an expeditious resolution to the tariff situation, we are being forced to evaluate our customer relationships and optimal production planning. We have substantial unused capacity at our mills in both Canada and the U.S. However, current market conditions in Canada in contrast to the United States along with the threat of further diversion to Canada of offshore steel imports originally bound for the U.S. market make it extremely difficult to justify investment in our Canadian operations.

Thank you for your attention to this critical situation, and for the opportunity to provide input.

Sincerely,

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