



Dr. Douglas J. Hamre
Apollo Machine & Welding Ltd.
Edmonton, AB T6E 0B3
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RE: Countermeasure Tariffs

Dear House of Commons Committee Members:

The countermeasure tariffs that the federal government put into place on July 1st are already starting to create a huge financial and logistical burden for Apollo Machine & Welding. Apollo is a privately held, 100% Canadian owned CNC machine shop located in the industrial manufacturing hub that is Edmonton, Alberta. With approximately 250 employees in three facilities in the Edmonton area, Apollo manufactures and refurbishes downhole drilling tools for the Oil & Gas industry. The majority of the products that Apollo manufactures and refurbishes are exported and used in the United States and overseas. Since labour rates in Alberta are high, Apollo has made significant investments in automation and high-end computer-controlled equipment that have made us a preferred supplier globally because of our capabilities and our competitive pricing on highly complex machined components.

Downhole drilling tools are very complex and as a result each component requires specific engineered properties to perform safely and reliably, in particular for newer directional drilling technologies. The engineers that design these tools require that specific grades of steel are used that meet very stringent requirements for strength and resistance to cracking. It is important to note that none of these types of steel are manufactured in Canada, so there is no option to 'buy Canadian' to avoid the tariffs.

For many of the downhole tools that we manufacture, our customers specify patented high end, high strength stainless steels that can only be made by the U.S. based patent owner. For a specific example, in early July 2018 Apollo received a request to quote production parts made from Carpenter Custom 465, a patented specialty high strength stainless steel. The order required us to purchase 100 feet of 5 inch diameter bar of Carpenter Custom 465. Due to the high cost of this steel, the tariffs increased our costs by \$26,000 for just this one order. On an annualized basis, the countermeasure tariffs would cost Apollo approximately \$300,000 for this alloy alone and over \$1 million dollars on an annual basis just for steels that can only be manufactured by Carpenter Technology Corporation.

Apollo manufactures many components that are made from more commonly available alloy steels such as AISI 4140/4145 and 4330V and precipitation hardenable stainless steels like 17-4 and 15-5 that are no longer protected by patent rights. For these cases we are working with our suppliers to source these steels from all over the world, other than the U.S. to avoid the countermeasure tariffs. The need to



source these materials internationally is due to the fact that these grades of bar steels are not manufactured domestically in Canada. The huge challenge is that all Canadian manufacturers are trying to do the same thing, which will constrain international supply and may require purchasing United States manufactured steel. Apollo expects to require approximately \$9 million dollars' worth of these particular steel grades for value added manufacturing and subsequent export around the globe. If we are forced to procure U.S. steels and pay the 25% tariff, that could mean an additional \$2.25 million dollars of cost annually in addition to the \$1 million dollars of tariffs on patented grades of steel. The countermeasure tariffs that came into effect on July 1st were meant to protect Canadian jobs, however the end result has been to impose a \$3 million dollar annual tax on a small Canadian manufacturing company. It is not possible to absorb these additional costs, so Apollo has no choice but to pass them on to our customers.

For perspective, the additional tariff costs make Apollo non-competitive and we will lose business to U.S. or overseas manufacturers. Since we are manufacturing for the global market in Oil & Gas, our competition is global, not just local to Edmonton or even Canada. The true impact of the retribution tariffs is that our own federal government is preventing us from being competitive internationally. Since we are forced to pass the tariff costs on to our customers, we are handing our U.S. and overseas competitors a huge advantage that will cause Apollo to lose business and will cause Canada to lose tax revenue.

Applying tariffs on imported steels that the domestic steel industry does not manufacture serves only to erode our manufacturing sector and destroy skilled jobs. Apollo is in the business of supporting 250 families through adding value to imported commodity items that are in turn exported all over the world.

I urge you to reconsider the effectiveness of the countermeasure tariffs that are unfairly holding back Canadian manufacturing.

Sincerely,

Douglas J. Hamre, Ph.D., P.Eng.
Research & Development Manager
Apollo-Clad Laser Cladding,
A Division of Apollo Machine & Welding