CLOVER TOOL
Mfg. Ltd.

8271 Keele St. Concord ON L4K 1Z1
T: 905-669-1999
F: 905-669-3565
www.clovertoolmfg.com

July 31, 2018

Government of Canada
House of Commons Standing Committee on International Trade

Subject: U.S. Tariffs

To: Christine Lafrance,
Clerk of the Standing Committee on International Trade

The impact on Canadian businesses and workers of the U.S. tariffs on steel and aluminum will negatively impact our business and industry in the short term and long term. In addition, it may never recover fully to the levels prior to the implementation of the tariff on steel and aluminum, also referred to as Section 232 tariffs.

Before I provide details of the impact to our business, I will provide some history of our business and how it will impact us in the short term and long term.

Company Overview

Clover Tool was founded in 1979, in Vaughan, Ontario, as a tool and die manufacturer. Over the past 39 years, our founder, Frank Zeni, expanded the one man operation to a facility employing over 300 people in two facilities. With growth, the company expanded beyond tool & die, and added metal stamping, value added secondary operations including robotic welding and assemblies.
To manage this operation, which runs 24 hours a day, requires general labor, semi- skilled and skilled trades from tool and die makers, electricians, mechanics, engineers, programmers, press operators, etc. Within each trade, Clover continues to develop apprentices in each skill set for the next generation of skilled trades needed in our industry.
Overall sales between the two facilities will exceed $60 million dollars in this fiscal period. Export sales will be approximately 43% of over sales.

The majority of the business is metal stamping for the automotive industry. Clover purchases steel and aluminum coils from local service centers and produces automotive stampings for local and export. In some cases, Clover is awarded contracts whereby the customer (a Tier One Customer) dictates where the material is purchased from. In the case of Clover, Ford and Chrysler have dictated the material must be purchased from several US mills.

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Impact on Business

As a contract manufacturer in the automotive industry, contracts can be moved from one company to another overnight and across borders just as quickly.
Currently we have several programs in jeopardy due to the implementation of the current 232 tariffs. The larger program called P552/P558 involves providing metal stampings to a Tier One manufacturing company in the USA who assemblies our parts to a larger assembly which ends up in the Ford F150 truck. The program is expected to run until 2022, plus service requirements for several years afterwards. The program has been set up by Ford that Clover is expected to purchase the steel from a US based mill at a set price for the life of the program. This ensures consistent pricing and quality of the steel. The projected volume and value is below:

0.036" x 27.725" HD GALV ASTM A653M FSZ120 150,000 lbs. – 300,000 lbs. / Monthly

3,600,000 lbs (annual / approx.) @ $0.5040 USD/lbs = $1,814,400 approx.

Tariff impact: $453,500.00 USD = $589,550.00 CDN

Using a local mill to supply the steel is not an available option as the contract has been in place for some time and the cost to purchase from local suppliers is approximately 10% more than the current contracts, which is not financially acceptable to Clover or our customer.

As a result of this tariff, our Customer has mandated that if the tariff is not revoked or an immediate exemption is not provided, the decision of their board is to have the contract cancelled, and the program moved to the USA, to a local manufacturer. The deadline on this particular contract is July 31, 2018.

The combination of this contract and others that are in a similar position will result in the loss of over $11 million dollars' worth of export business annually. It will be immediate and permanent. This will result in an overall loss of 18% of sales and more than 50 permanent, well paid, full time jobs.

The majority of contracts are 5 – 7 year long, which means for the next few years there will be no opportunity to reclaim these contracts. In addition, the new contracts being awarded are not being awarded to Canadian companies. Therefore Canadian companies will have to wait an additional 5 – 7 years before they can bid on new contracts, assuming the tariffs have been revoked or exemptions have been issued.

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Industry Impact

The impact of these tariffs has created uncertainly and will result in short term and long term losses which will never recover.
As mentioned above, new contracts have been awarded to US companies in the USA, original destine for Canadian Companies, which means for the next 5 – 7 years, these contracts will not be coming back to Canada.
Many of our competitors here in Canada, including ourselves, are cancelling capital projects, revising our projections lower and looking at suspending any leasehold improvements.

Clover has spent over two million dollars in capital investments in each of the past two years. All current capital investments have been either cancelled or put on hold for the balance of 2018 and the first half of 2019. All these projects for the past two years and current and future investments have been awarded to Canadian companies.

Financial Burden

Even with the potential of applying for and receiving an exemption to the tariffs it will take several months. In addition it will take additional months to apply and recover tariffs already paid. Small and medium size business such as Clover will not be able to carry these costs. In the case of Clover Tool, we expect to have paid over $500,000 in tariffs by the time we apply for recovery of the tariffs. This is assuming our customer does not cancel the contracts an assuming Clover will receive an exemption.

History repeats itself and in the case of the automotive industry, we are moving closer to extinction like the textile industry in Canada. Once a new source is found globally, it will be difficult to bring the business back.

Solution

It is imperative that the government immediately repeal the tariff 232 before the damage is permanent. In addition, the tariffs paid need to be refunded immediately so that investments can continue to keep employment.
I see no alternative solution but it can be a good will gesture politically to the US government in order to attain some posturing at the bargaining table on NAFTA , which is what started the tariff issues.

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In conclusion, the current tariffs imposed have created a negative outlook on investment, employment and growth. The tariffs have added a financial burden on Canadian companies, which has resulted in the slowdown of investment. This will result in an increase in unemployment in the industry and supporting industries.
The tariffs will result in the loss of existing business and future business which again, will result in immediate unemployment and long term unemployment.

This coupled with the slowdown in the construction industry that has started and will continue into 2019, will ultimately result in a recession in Canada.

I urge you to review and revoke the tariffs (232) as quickly as possible in order to prevent the loss of current jobs and future jobs at Clover. I have been a staunch believer of investing in Canada and supporting local suppliers and it is evident in our investments over the past 39 years. This surtax has and will cripple our company, our industry and our economy.

Respectfully,

George Zeni
Vice President
Clover Tool Manufacturing Ltd.