CANAM
GROUP
Better Building Solutions

October 26, 2018

By email : CIIT@parl.gc.ca

House of Commons' Standing Committee on International Trade
131 Queen Street
Room 6-18
Ottawa, Ontario
K1A 0A6

Attention: Clerk of the Standing Committee on International Trade

Sirs,

Subject: House of Commons' Standing Committee on International Trade – Impact on Canadian firms and workers of US tariffs on steel and aluminum.

Canam Group wishes to thank the House of Commons' Standing Committee on International Trade's invitation to comment on the impacts of U.S. tariffs on steel that have resulted from the United States' investigations undertaken pursuant to section 232 of the *Trade Expansion Act of 1962* and to offer its views about how the Government of Canada should both respond to existing and potential U.S. tariffs, and support Canada's firms and workers affected by them.

Canam Group Inc. and its subsidiaries (collectively "Canam") are involved in the design, manufacture and sale of construction products and services for the commercial, industrial, institutional, multi-residential and infrastructure construction industries. In Canada, Canam operates eight plants and employs some 1,975 people. The revenues from the Canadian operations come primarily from a wide range of customers located in Canada and to a lesser degree the United States.

Canam's Canadian steel products fabrication plants are located in Boucherville, Laval, Quebec City, Shawinigan and St-Gédéon, Quebec, Mississauga, Ontario, and Calgary, Alberta. Canam also operates a wood products fabrication plant in St. Augustin-des-Maures, Quebec. Canam's Canadian operations generate more than $550 million of sales per year. Our products are mostly fabricated steel products, including joists, roof trusses, beams, columns, steel deck, box girders and miscellaneous steel products. They are used in the construction of buildings and bridges.

In addition to its Canadian operations, Canam operates 17 fabrication plants in the United States, as well as two detailing and engineering offices in Romania and India. In all, Canam employs

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some 4,650 people and sells some 10,000 projects per year ranging in all sizes. More recently, Canam was the primary supplier for the steel structure of the new Champlain Bridge in Montreal.

Canam fabricates steel products in Canada through the following subsidiaries: Canam Buildings and Structures Inc., Canam Bridges Canada Inc. and TecFab Inc. Canam is the largest Canadian fabricator of steel components for bridges. The vast majority of the bridge projects (including overpasses) are infrastructure projects initiated by the federal and provincial governments.

Canam sources its raw materials in several countries, but primarily from suppliers in Canada and the United States. Sourcing is dependent on several criteria:

(i) timeliness of deliveries: can the producer deliver within the proposed schedule;
(ii) product availability: can the mill produce according to the required specifications, such as plate of a specified thickness, grade or quality (e.g. surface flatness, weldability);
(iii) country of origin: does a project have requirements as to the country of origin of the steel;
(iv) price: are the prices fair and allow Canam to be competitive to meet the budget for the project.

Historically, Canam has sourced its products both in Canada and the United States for its Canadian and U.S. operations, inasmuch as the criteria above are met. Canam believes firmly in encouraging local industries as it itself is a supplier to Canadian and U.S. businesses.

The Section 232 tariffs imposed by the U.S. Government on steel imports have resulted in U.S. producers raising their prices by filling the price void between the pre-tariff prices and the new import prices. At the end of the day, projects, namely those for public infrastructure and which require heavy plate, will be more costly.

The same scenario has repeated itself in Canada with the addition of surtaxes. The announcement by the Canadian Government on May 31, 2018, of a 25% surtax on steel imports from the United States resulted in substantial price increases by Algoma, the only Canadian producer of heavy plate. For example, between April 30, 2018 and July 10, 2018, the price of Algoma's plate products increased by close to 20 %. Even with price adjustments for volume, we cannot explain the substantial increase, with raw material prices (scrap, iron ore) stable or decreasing. We believe the increases are a realignment of prices with those of U.S. competitors subjected to a 25% surtax when their products are imported into Canada.

Algoma's pricing for heavy steel plate is now higher in Canada than the price at which fabricators in the United States can purchase heavy plate from U.S. mills. U.S. fabricators may well have an unfair advantage over their Canadian counterparts by being able to quote on Canadian projects, fabricating the components in the United States and exporting the finished pieces to Canada free of taxes, whereby Canadian fabricators will import the U.S. steel and pay a 25% surtax before they can begin fabrication.

With section 232 tariffs in place, Algoma has benefited from an increased demand for its heavy plate products. As a result, delivery dates have been extended. Orders need to be placed several months ahead. We believe Algoma has the capacity to supply less than 50% of the total Canadian heavy plate demand. A steel fabricator needs to balance the mill's lead-time requirements with the schedule constraints imposed by the customer's delivery schedule and the fabricator's need to carefully manage its inventory levels. As an alternative to established U.S. suppliers, we have been placing orders with a German mill which is able to meet our quality and delivery schedule requirements at what we believe are fair market prices.

However, since October 25, 2018, imports from Germany are also subject to tariffs with the introduction of provisional safeguards. With only one supplier of heavy plate in Canada, our options are limited and require us to investigate producers in countries exempt from tariffs, such as Mexico, so that we can be price competitive with alternative products and maintain the level of production in our plants, thus securing jobs for our workforce. Before placing a first order with a Mexican producer, or any new supplier, several months may pass. We will need to do extensive verifications on the supplier's manufacturing processes and its reliability to make sure it meets the stringent requirements to qualify to supply the specifications for steel bridges.

The increase in prices and surcharges will likely hamper our competitiveness and profitability. Moreover, it increases the overall costs for construction projects, namely public infrastructure projects. As steel prices increase, customers may also look to alternate methods of construction. Instead of steel bridges or buildings, we may witness a greater demand for cement bridges and buildings or projects may be simply pushed back to an undetermined date. The net effect may well be less demand for steel products, which translates to a reduction in capital investments and layoffs in our manufacturing plants.

We are supportive of the Canadian Government's measures to protect Canadian businesses, and more particularly the Canadian steel industry. However the business realities which we must juggle with, especially in a market where demand for certain steel products is high, warrants a more moderate and flexible approach on the issue of safeguards. Currently, we believe the quota exemptions will be difficult to manage considering the lead-time required for placing orders.

We hope you will view our comments favorably. We remain at your disposal to discuss the contents of this letter and to attend any future public hearings on this very important subject.

We thank you for the consideration you will give to our comments.

Michel B

Mike Burnet
Vice President, Purchasing