BRIEFING MEMO: SUPPORT THE CANADIAN STEEL INDUSTRY AND ITS SUPPLY CHAIN CLUSTERS

TO: HOUSE OF COMMONS INTERNATIONAL TRADE COMMITTEE; PROJECT TO STUDY "CANADIAN STEEL INDUSTRY'S ABILITY TO COMPETE INTERNATIONALLY."

JOINTLY SUBMITTED BY: HUZAIFA SAEED, ON BEHALF OF: Hamilton Chamber Of Commerce, Sault Ste. Marie Chamber Of Commerce and the Windsor-Essex Regional Chamber Of Commerce

Introduction & Context:

The cities of Hamilton, Sault Ste Marie and Windsor – Essex region are key drivers of Canada's economic engine. This briefing memo represents the voice of just over 2,500 businesses in our three communities who are united behind the need for the Government of Canada to secure a competitive future for the steel industry. Steel and its byproducts, produced in our communities employ thousands of middle-class Canadians, create millions of dollars of export revenue, serve as a key input for manufacturers (including automotive and aerospace industries), create millions of bytes of research & development capital and will be a key ingredient for the Federal government's upcoming infrastructure projects.

However, in the recent past, a combination of increased regulation, the instability of the global market economy and illegal market behavior by foreign competitors has led to a sharp decline in their ability of our steel industry to compete. The impact of this decline has been transparent in our local economies, decimating thousands of jobs, families and capital investments. Despite numerous trade remedy decisions in favor of our members, local industries have been rendered uncompetitive through the unrelenting volume of dumping by foreign businesses and a lack of dedicated investment, procurement and development strategy.

In 2016, our three Chambers began an informal partnership to elevate these issues to the Federal Government. Through a policy resolution process, in September 2016 the recommendations in this briefing note were approved by the membership of the Canadian Chamber of Commerce. We were also encouraged to receive an initial response to a letter containing our concerns *(Appendix 1)* from Ministers Navdeep Bains, and Cynthia Freeland, as well as engagement from our local Members of Parliament.

Through the conclusion of this project, we believe the Canadian government needs to focus public policy and investment efforts towards supporting this important industry, its natural clusters and the innovation it creates. In this briefing note and during our presentation, we will present a series of concerns and potential solutions sourced from our membership.

We also support the recommendations of many of our individual members who are participating separately in this project, as well as the general recommendations of the Canadian Steel Producers Association and the Canadian Chamber of Commerce. Lastly, we would also like to invite members of this committee to visit our communities and others across Canada and directly consult the hundreds of small and medium businesses (SMB) who were unable to participate in these hearings.

Background:

Steel is a versatile material where local production is essential to supporting local industries, consumer products as well as building and maintenance of our transportation and physical infrastructure. It is also a major component of the evolution towards sustainable energy planning through its utilization in the construction of traditional and renewable energy systems.

The rise of the steel industry was an integral part of Canada's development as a world-class manufacturing economy in the 20th century. Firms across Canada like Algoma, Dofasco, and Stelco (Ontario) to AltaSteel (Alberta) and IPSCO (Saskwatchen) distinguished themselves as centers of excellence and advancement in new varieties of steel. Their growth also supported numerous manufacturing industries (that utilized steel as an input) within geographic vicinity of producers.

Given their successes (by the 1980's, Canada was seen as having the second most successful steel industry after Japan), most Canadian firms were inevitably bought out by foreign companies looking to capitalize on their knowledge, operational assets and geographic proximity to American manufacturing hubs.

As of 2016, Canadian Steel Producers create over 22,000 direct and more than 100,000 indirect jobs through nineteen facilitates across five provinces, with over $14 billion in annual sales[1]. The economic impact grows exponentially with steel's role in supplying industries like automotive, aerospace and oil and gas manufacturing across Canada. According to a study by Informetrica[2], the steel industry has a multiplier of approximately 3.3:1; that is, every direct job within the industry supports 3.3 jobs in other sectors. Other research approaches suggest that the multiplier may be larger within such industries; In the auto industry, a recent projection for the Ontario Manufacturing Council by Spatial Economics has estimated a multiplier of seven or more[3].

The geographic proximity of steel suppliers within industrial clusters also allows them to work on product improvements directly with customers and collaborate on R&D with Post-Secondary Institutions and other organizations. Additionally, local steel production has a comparatively lower impact on national and global carbon emissions footprint compared to imported products.

Foreign mergers and other market challenges have led to the once prosperous Canadian steelmakers experiencing serious crisis. Essar Steel Algoma is currently operating under the Companies' Creditors Arrangement Act putting 2700 direct jobs at risk. Stelco, after its sale in 2007 to US Steel, entered creditor protection in 2014, with over 7000 local of pensioners left owed pension funds and millions in creditor backlog[4]. Many related small and medium enterprises and suppliers have downsized or gone out of businesses across Canada due to the challenges experienced by this industry.

In addition to high regulatory burdens stemming from electricity pricing, carbon pricing and Canada's adherence to world-class labour and environmental standards[5], Canada has the most open steel market in the world, placing domestic producers in fierce competition with export markets. Steel producers by principle agree to compete against imports on a fair commercial basis but are in global competition against foreign government subsidies[6], state-owned enterprises operating at poor margins[7], and other forms of support that run counter to global trade rules, despite the presence of investigative powers for Canada Border Services Agency under the Special Import Measures Act[8].

An uncompetitive local steel industry is also counterproductive for the government's environmental efforts. Steel used in Canada and produced in Canada has the lowest GHG emissions of any steel the Canadian economy can use.

---

[1] Canadian Steel Producers Assocation: Infographic. 2016. http://www.canadiansteel.ca/wp-content/uploads/2016/05/CSPA_Stats_Infographic_2016_v5.pdf
[2] Informetrica. Economic Effects of Structural Changes in Manufacturing: Retrospective View. 2007. http://www.informetrica.com/archives/IL_ManReport1_Final.pdf
[3] The Economic Impact of the Detroit Three Auto Manufacturers in Canada, Centre for Spatial Economics, December 2008,
[4] City of Hamilton. U.S. STEEL CANADA Economic Impact Study. 2015. http://www.thespec.com/newsstory/5278638-hamilton-would-take-50-million-annual-hit-if-u-s-steel-canada-fails-report/
[5] Canadian Manufacturers and Exporters: Management Issues Survey. 2014. http://www.cme-mec.ca/download.php?file=504c5iiu0.pdf
[6] Haley & Haley. Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy(2013). Oxford University Press
[7] Cru Group. China's crude steel capacity and utilization development. 2015. http://www.crugroup.com/about cru/cruinsight/Chinas_crude_steel_capacity_and_utilisation_development
[8]Dumping and Subsidy Investigations. http://www.cbsa-asfc.gc.ca/sima-lmsi/i-e/menu-eng.html

On a full life cycle basis, Canadian steel has one thirds the GHG emissions of steel produced in China for Canadian use.

Market conditions are often jeopardized by ongoing violations of WTO practices, preferential procurement and state support strategies in other jurisdictions, the ineffectiveness of trade remedy laws and lack of full reciprocation within trade treaties. Global steel overcapacity is the structural issue which drives record levels of unfairly traded imports, trade actions and injury to the Canadian steel industry.

While the majority of media coverage has focused on the decline of the industry, foreign competition and oversupply in the existing market, experts remain optimistic that fundamental forces, which if harnessed, will continue to support the prosperity and global demand for Canadian steel.

Recommendations:

That the federal government:

1. Explore the legislated and voluntary expansion of government and public-private partnership procurement tools to evaluate and consider the selection of local suppliers after fairly evaluating:
    a) Global environmental impact and cost assessment versus the imported alternative; (i.e.: greenhouse gas (GHG) emissions during production and transportation),
    b) Presence of comparable health and safety regulations during production and manufacturing;
    c) Where the exporting country does not allow similar (e.g.: Bilateral Exemption), fair and equal access to their markets for the same product.
2. Retain and subsequently implement all current regulatory measures falling under Section 20 of the *Special Imports Measures Act (SIMA)* pertaining to China's Non-Market Economy (NME) status to calculate antidumping measures.
3. Through legislative amendments to the Special Imports Measures Act (SIMA), continue to increase the efficiency and effectiveness of the Canadian trade remedy system to bring it into closer alignment with Canada's main trading partners, through the implementation of industry-led recommendations[9], including as regards to transparency of import data, and reducing costs and increasing fair access for local industry to participate in related processes of Canada Border Services Agency (CBSA) and the Canadian International Trade Tribunal (CITT).
4. Taking inspiration from the European Steel Technology Platform and "Framework for American Manufacturing" by the United States, develop a coordinated steel manufacturing strategy that amongst other action items, especially prioritizes investment in trade-enabling infrastructure.
5. Given their role as suppliers of high-performance material in the manufacturing supply chain and in flowing down R&D improvements[10], prioritize allocation of carbon pricing revenue to help incentivize energy-intensive industries like steel to further develop low-carbon processes, technology and innovation and other capital investments.
6. In the design of regulatory intervention regimes and in partnership with provinces, recognize the role of the steel industry as one of Canada's trade-exposed industrial facilities, and to evaluate expanding the free allowance coverage under carbon pricing programs, to minimize uncertainty, delay, and costs.

---

[9] Canadian Steel Producers Association, Federal Pre-Budget Submission to the Standing Committee on Finance (2016). http://www.parl.gc.ca/Content/HOC/Committee/421/FINA/Brief/BR8102762/br external/CanadianSteelProducersAssociation-e.pdf

[10] Birnbaum, Cohen, Harris and Warrian (2009) Ontario Manufacturing, Supply Chains and Knowledge Networks: A Report to the Toronto Regional Research Alliance (TRRA), Toronto: TRRA October 2009

7. Implement measures that will encourage local suppliers and domestic steel content to be used in all provincially and federally funded projects if the materials can be supplied from domestic sources.

APPENDIX 1: Letter to Prime Minister Justin Trudeau & Relevant Ministers

August 29th, 2016

The Right Honorable Justin P.J. Trudeau

Prime Minister of Canada

Office of the Prime Minister

80 Wellington Street

Ottawa, Ontario

K1A 0A2

Dear Prime Minister:

The Hamilton Chamber of Commerce, Sault Ste Marie Chamber of Commerce and Windsor – Essex Chamber of Commerce—collectively representing just over 2,500 proud Canadian businesses—are writing this letter to highlight our concerns with respect to the interests of the Canadian Steel Industry, especially in relation to your upcoming official visit to China.

The rise of the steel industry was an integral part of Canada's development as a world-class manufacturing economy in the 20th century.

Hard working entrepreneurs and companies across Canada distinguished themselves as centers of excellence and advancement in new varieties of steel. Their growth also supported numerous manufacturing industries (that utilized steel as an input) like automotive, aerospace and oil and gas manufacturing.

Today, Canadian steel producers create over 22,000 direct and more than 100,000 indirect jobs through nineteen facilities across five provinces, with over $14 billion in annual sales.

However, many Canadian firms over the last two decades have experienced financial duress, filed for bankruptcy or significantly downsized. Some of the current examples include Essar Steel Algoma in Sault Ste Marie and US Steel in Hamilton, who are currently operating under the Companies' Creditors Arrangement Act, putting almost 10,000 jobs and pension funds at risk.

It is worth emphasizing that the Canadian steel producers, entrepreneurs, and companies proudly adhere to world-class labour and environmental standards and other top shelf regulatory standards, resulting in a higher cost burden. Canadians also conduct steel business on one of the world's cleanest electricity grids.

In parallel to these regulatory costs, Canada, through its existing trade agreements and mostly unfettered market access then requires them to compete against imports on a fair commercial basis. In a truly fair trade environment, our companies are willing and capable of competing globally and be successful.

However, this is not often the case. China is not a market economy and it is **unfair** to expect Canadian steel producers, entrepreneurs and companies to successfully compete in this environment.

Canadian steel producers, entrepreneurs, and companies often have to compete against foreign government subsidies, state-owned enterprises operating at poor margins (if any), and other forms of state support that run counter to global trade rules, despite the presence of investigative powers for Canada Border Services agency under the Special Import Measures Act.

Fair market conditions are also often jeopardized by ongoing violations of WTO practices, preferential procurement and state support strategies in other jurisdictions, the ineffectiveness of trade remedy laws and lack of full reciprocation within trade treaties. Global steel overcapacity is the structural issue which drives record levels of unfairly traded imports, trade actions, and injury to the Canadian steel industry.

Supported by these aforementioned conditions, the Chinese steel industry, in particular, has seen dramatic growth, accounting for an estimated 40% of global steel capacity and as much as 50% of operating capacity. This oversupply of steel by nations such as China has shifted the global supply equation, causing surplus steel to be dumped in markets of least resistance.

Canada has been hard hit by a flood of artificially undervalued imports, displacing domestic share and driving down the price to unsustainable levels. The existing Canadian Special Import Measures Act (SIMA) has been largely ineffective in curtailing these challenges.

The steel industry is a major component of Canada's $45 Billion trade deficit with China last year, costing and/or putting at risk thousands of middle-class Canadian jobs.

We respectfully urge you to represent the best interests of the steel industry during your discussion with the Chinese Government. In particular, we would like to advance the following issues:

1. In consideration and advancement of existing or new trade agreements, continued recognition of China as a non-market economy (NME) through making no changes to related elements within Section 20 of the *Special Import Measures Act (SIMA*) and its underlying regulations. Blatant NME activity in China's domestic steel industry manifests itself through major centrally planned policy interventions, direct and indirect ownership and significant subsidization, as well as quotas and tax rebates across the entire supply chain.
2. Immediate implementation of all legislative proposals put forward recently by Canada's steel industry to strengthen Canada's trade remedy system including particular market situation (PMS).
3. During consideration and advancement of existing or new trade agreements, the recognition of differential health and safety, labour and environmental regulations between the Canadian and Chinese steel industries.
4. The creation of a direct ministerial channel of communication to address current and future trade disputes.
5. A formalized system for ongoing information sharing with Canadian industry to improve pre-emptive tracking of fraudulent and unfairly traded imports, and providing greater transparency and data harmonization regarding inbound shipments to facilitate our respective industries against subsidized imports.
6. A comprehensive and transparent assessment of the net benefit of trade flows and market access in the steel industry between China and Canada.

Our organizations have enjoyed a productive relationship with your government over the past year; we hope to continue working together in the best interests of the steel industry and many other issues over the next few years.

Sincerely,

Keanin Loomis	Matt Marchand	Rory Ring
President & CEO,	President & CEO	Executive Director
Hamilton Chamber of Commerce	Windsor – Essex Chamber of Commerce	Sault Ste Marie Chamber of Commerce