

## **SUPPORT THE CANADIAN STEEL INDUSTRY AND ITS SUPPLY CHAIN CLUSTERS**

### **Issue**

The Canadian steel industry is a cornerstone of our national economy. It constitutes not only steel producers, but also the role it plays as a supplier and innovator for numerous manufacturing industries across the country. Recently, a combination of increased regulation, the instability of the global market economy and unfair market behaviour by foreign competitors has led to a sharp decline in their ability of our steel industry to compete globally.

The Canadian government needs to focus public policy and investment efforts towards supporting this important industry, its natural clusters and the innovation it creates.

### **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 20<sup>th</sup> century. Firms across Canada like Algoma, Dofasco and Stelco (Ontario) to AltaSteel (Alberta) and IPSCO (Saskatchewan) 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 firms 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 facilities across five provinces, with over \$14 billion in annual sales<sup>1</sup>. 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<sup>2</sup>, 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<sup>3</sup>.

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 comparatively lower impact on national and global carbon emissions footprint compared to imported products.

---

<sup>1</sup> Canadian Steel Producers Association: Infographic. 2016. [http://www.canadiansteel.ca/wp-content/uploads/2016/05/CSPA\\_Stats\\_Infographic\\_2016\\_v5.pdf](http://www.canadiansteel.ca/wp-content/uploads/2016/05/CSPA_Stats_Infographic_2016_v5.pdf)

<sup>2</sup> Informetrica. Economic Effects of Structural Changes in Manufacturing: Retrospective View. 2007. [http://www.informetrica.com/archives/IL\\_ManReport1\\_Final.pdf](http://www.informetrica.com/archives/IL_ManReport1_Final.pdf)

<sup>3</sup> The Economic Impact of the Detroit Three Auto Manufacturers in Canada, Centre for Spatial Economics, December 2008,

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<sup>4</sup>. 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<sup>5</sup>, 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<sup>6</sup>, state-owned enterprises operating at poor margins<sup>7</sup>, 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<sup>8</sup>.

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 selection of local suppliers after fairly evaluating:
  - Global environmental impact and cost assessment versus the imported alternative; (i.e.: greenhouse gas (GHG) emissions during production and transportation),
  - Presence of comparable health and safety regulations during production and manufacturing;
  - 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 for the purposes of calculating antidumping measures.

---

<sup>4</sup> 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/>

<sup>5</sup> Canadian Manufacturers and Exporters: Management Issues Survey. 2014. <http://www.cme-mec.ca/download.php?file=504c5iiu0.pdf>

<sup>6</sup> Haley & Haley. Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy(2013). Oxford University Press

<sup>7</sup> 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](http://www.crugroup.com/about/cru/cruinsight/Chinas_crude_steel_capacity_and_utilisation_development)

<sup>8</sup>Dumping and Subsidy Investigations. <http://www.cbsa-asfc.gc.ca/sima-lmsi/i-e/menu-eng.html>

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 in closer alignment with Canada's main trading partners, through the implementation of industry-led recommendations<sup>9</sup>, 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 .
5. Given their role as suppliers of high-performance material in the manufacturing supply chain and in flowing down R&D improvements<sup>10</sup>, 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 design of regulatory intervention regimes and in partnership with provinces, recognize the role of 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.
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.

**SUBMITTED BY: HAMILTON CHAMBER OF COMMERCE**

**Co-sponsored by the Sault Ste. Marie Chamber of Commerce and the Windsor-Essex Regional Chamber of Commerce**

---

<sup>9</sup> 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/external/CanadianSteelProducersAssociation-e.pdf>

<sup>10</sup> 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