

Canadian Steel Producers Association (CSPA) **2016 Pre-Budget Submission to the Standing Committee on Finance**

The Canadian Steel Producers Association (CSPA) is the national voice of Canada's \$14B steel industry. Our member companies annually produce approximately 13 million tonnes of primary steel as well as over 1 million tonnes of steel pipe and tube products in facilities located across five provinces. Domestic steel operations directly employ some 22,000 Canadians while supporting an additional 100,000 indirect jobs.

Canadian steel producers are a critical component of Canada's economy, serving the needs of North American customers with high quality, competitive, and innovative products. Key market segments for member companies include: automotive; energy discovery, extraction, and transport; major infrastructure projects; commercial/residential construction; and many general manufacturing applications.

This submission focuses on our desire to move forward rapidly on two steel industry priorities that are directly aligned with the Government of Canada's current objectives of spurring economic growth, protecting middle-class jobs, and addressing climate change. These priorities include: 1. Trade Remedy Modernization (TRM) and 2. Infrastructure and the Environment.

State of the Canadian Steel Market

In February 2016, it is not an overstatement to describe the Canadian steel industry as being in a state of crisis. Two of our largest member companies are in creditor protection and over 1500 employees have been laid-off sector-wide in the past 12 months as massive overcapacity, especially in China, continues to plague North American steel makers.

China now produces over 50% of the world's steel and accounts for two thirds of the 700 million metric tonnes of global overcapacity. For context, the Canadian market is about 16 million tonnes and the NAFTA market is a little less than 200 million tonnes. It is a situation serious enough that the OECD is holding a high level meeting in April on reducing this overcapacity.

This problem has hit Canada harder than many of our trading partners including the USA. Canada has been impacted severely as those who seek to use illegal dumping and subsidy to export out of their overcapacity problem have become very sophisticated in the means they use to defeat our trade remedy system. The strength and integrity of related rules and processes is critical to maintaining fair-market principals and help assure that a level playing field is exists in the domestic marketplace.

Overseas exporters continue to penetrate North American markets directly and through bold circumvention of duties with their dumped and subsidized products supressing domestic prices. Major trading partners such as the US and Australia have already moved forward with their own trade remedy modernization and Canada continues to fall behind. In fact, the USA has passed 2 separate modernization bills in the past year. This makes us a primary target for a surge in unfairly traded steel goods that gets diverted from countries with stronger trade remedy systems in place.

We believe the best way to support the middle-class is to enable the Canadian businesses who employ them, to continue doing so. The average annual wage of workers in the Canadian steel sector is approximately \$75,000. These are the kind of jobs that Canada cannot afford to lose. Unfortunately,

Canadian steel jobs are under major threat from unfairly traded imports that are heavily subsidized, dumped, or otherwise produced under non-market conditions. To provide benefits to Canadians, free trade must also be fair trade. Parties must abide by international trading rules – Canada does, and we should expect our trading partners to do the same.

To address this situation, over the past two years, the CSPA has developed a suite of Trade Remedy Modernization (TRM) proposals in concert with officials from Finance Canada and the Canada Border Services Agency (CBSA). We have received full support for these measures from several of our partner industry associations such as the Canadian Manufacturing Coalition, and the Canadian Chamber of Commerce as well as the United Steel Workers (USW). These proposals have the additional benefit of entailing little incremental cost to government.

ISSUE 1: Trade Remedy Modernization (TRM)

The Canadian trade remedy system is a framework of laws, regulations, policies, and procedures administered by several federal departments, agencies, and judicial bodies that remove trade distortions in the Canadian marketplace for the benefit of all stakeholders. These elements work together to identify, adjudicate, halt, and remedy unfair trading practices involving several distinct categories of goods, including steel, which can seriously harm domestic manufacturers.

This system was established to help prevent Canadian producers and their workers from being seriously harmed when imported products are:

- Dumped - imported into Canada at prices below true costs of production.
- Subsidized - foreign government support provided for products exported to Canada.
- Produced under non-market conditions, e.g. State-Owned Enterprises (SOE's) using government resources to gain unfair advantages.

Unfortunately, Canada's system has not changed in over 20 years. The result is that while the system has worked reasonably well to make positive determinations against illegal dumping and subsidy, the effectiveness of these determinations has been less effective than it needs to be. Canadian remedies have created floor prices that are not as high as they should be and therefore enabling import volumes to continue at levels that are greater than they would naturally be if true market-prices were being respected.

For example, the work of the CBSA and CITT to make effective determinations is intended to accurately measure the amount of dumping, fair "normal values" or floor prices to assure market based competition. It is often not in the interest of the foreign competitors to participate in the process with their real costs and prices so it is critical that the CBSA has the time, tools and resources to investigate fully and the latitude to make assessments based on the best information available to them.

The previous government committed in Budget 2015 to make Canada's trade remedy system effective based on a modernization program developed with industry and government officials. This was never implemented and leaves a major gap where unfair trade will continue and increase. It is vital to ensuring the effectiveness of the trade remedy system and the ability of our industry to compete in Canada in a fair, market-based manner.

Our TRM Solutions are Ready to Implement

Our proposals are grouped into four themes areas, the following outline provides a high-level description of what each proposal would entail and the positive impact it would have:

Theme A - Improving Calculations of Market Values

Proposal: Particular Market Situation

What does it entail: Calculating normal values to account for market distortions in exporting countries. Examples of these can include the influence of state control, absence of profit orientation, existence of dumped goods effecting their own home market or their input costs and others. In summary, this is when the financial statements of the exporter to Canada do not reflect what they would be under normal market based conditions.

Positive impact: Allows assessments based on fair-market comparison. Aligns with the modern measures of the USA and other countries.

Proposal: Affiliated Party Transactions

What does it entail: Clarifying and codifying the existing authority of CBSA to value major inputs between affiliates in accordance with market-based values. This helps assure that the financial records used by the CBSA are the ones that would exist under normal competitive conditions.

Positive impact: The CBSA would determine a market price on the basis of facts.

Proposal: Reasonable amount for profits

What does it entail: Requirement for measurement of this profit for the same product in a jurisdiction where profits are market-based enables the dumping and normal value calculations to reflect what they should be in a market environment. If the profit level is something lower than what is normally the case for a specific product, the dumping margin and the floor price (or “normal value) are lower than what it should be and the domestic market price is suppressed.

Positive impact: Accurate comparison leading to fairer outcomes for domestic industry.

Theme B - Increasing Transparency and Stakeholder Involvement

Proposal: Transparency in determinations and re-determinations

What does it entail: Giving domestic producers opportunity to participate in relevant processes and rights to appeal decisions that address aspects like if a product is within the scope of a determination. Without this participation, the domestic manufacturer who is most impacted does not have the right to present their evidence and knowledge on the matter. Today, domestic manufacturers do not have the right to be aware of, participate, or appeal these issues.

Positive impact: More transparent and democratic process that has all parties impacted by decisions able to participate.

Proposal: Increasing transparency of import data

What does it entail: Industry access to timely and detailed import data to help assure the credibility of Canada’s border.

Positive impact: Provides industry with capacity to help monitor and defend integrity of Canada’s trade remedy effectiveness.

Theme C - Eliminating Circumvention

Proposal: Anti-Circumvention Enforcement

What does it entail: Specific and meaningful provisions to create effective anti-circumvention offences. Canada does not have anti-circumvention laws like the USA and the maximum fine is \$4,000 today. Nowhere near commensurate with the shipment value.

Positive impact: Meaningful deterrent and punishment for those trying to evade duties. Alignment with trading partners.

Theme D – Strengthening Trade Case Outcomes and Lowering Costs

Proposal: Stop terminating dumping and subsidy investigations at the preliminary stage

What does it entail: CBSA investigations should always continue to the final determination stage so that they have the opportunity to investigate the submissions of the exporters. Otherwise, the decision is based only on what has been submitted and not a thorough investigation of the evidence.

Positive impact: Sufficient time for verification of information submitted by domestic industry.

Proposal: Amending legal standard for Preliminary Injury Inquiries

What does it entail: Defining appropriate test regarding “reasonable indication” of injury.

Positive impact: Greater certainty for industry/more legitimate trade cases will proceed/lower costs.

Proposal: Exclusions of certain products from scope of trade remedy cases should be limited

What does it entail: Only granting exclusions based on physical characteristics at the time of importation.

Positive impact: Less harm to domestic industry from unfairly traded goods that are transformed after import or used to circumvent the original scope of the finding.

Proposal: Timing of Initiation of Expiry Reviews

What does it entail: Expiry reviews should be initiated at the end of the five year anniversary.

Positive impact: Would parallel practices in other countries, notably the U.S., and reduce the frequency and cost of expiry reviews.

Proposal: Standard for Initiation of Expiry Reviews

What does it entail: Reviews should only be initiated if positive evidence exists that review is warranted.

Positive impact: Lower legal costs for government and industry.

Summary

We believe the urgency of current circumstances calls for the immediate implementation of these solutions and Budget 2016 provides a prime opportunity to finally move forward with this critical file. The implementation of our TRM initiative is not only very realistic but also imperative, and has been ready to go for over a year. Our proposals regarding data, investigation, adjudication, and enforcement are well-defined, practical, affordable, and consistent with Canada's WTO obligations and the best practices of our trading partners.

While we had made progress with the previous government, they failed to implement the required measures. Our proposals have been refined through an ongoing engagement and supportive dialogue with officials from the Department of Finance, CBSA, and Global Affairs Canada. Trade Remedy Modernization is the number one policy priority of the CSPA and its member companies and we are enthusiastic about working with Canada's new government to implement these changes quickly and maintain the momentum achieved to date.

This initiative will not only help sustain thousands of highly-skilled, well-paying, middle-class jobs but lay the ground work for further economic growth as well. It will lead to increased production; an enhanced climate for business planning and investment; and greater prosperity and for the entire domestic manufacturing supply chain that depends on steel products shipped on a just-in-time basis in close proximity. Implementation of TRM will also provide an incentive for greater investment and innovation of Canadian steel facilities while enhancing the ability for these companies to better meet the demands of the market and consequently drive the potential for growing their Canadian labour force.

Not moving ahead with this initiative will impart major challenges for our member companies. It will lead to the inevitable economic consequences of an industry not able to operate on a level-playing field with unfairly traded imports and increasingly cheat Canada out of thousands of jobs, hundreds of millions in capital investments, and billions in tax revenue for governments at all levels.

CSPA Recommendation A for Budget 2016:

Appreciating the previous Government's Budget 2015 commitment "to maintain a level playing field for Canadian producers, the Government will ensure that the trade remedy system operates in an effective, accessible, and transparent manner," we are requesting that you include text in Budget 2016 which commits the Government of Canada to immediately begin the legislative and regulatory process associated with the implementation of Trade Remedy Modernization with a view to having finalized measures in place by no later than January 1st, 2017.

CSPA Recommendation B for Budget 2016 :

In addition to implementing the TRM program, it is also critical that within Canada's trade remedy system, that the federal government retain its current non-market economy (NME) tools beyond 2016 that address unfair trade from China. Canada must not grant China market economy status for the purposes of trade remedies. Removing these tools would result in significant negative impacts to the Canadian economy, jobs and government fiscal balances.

ISSUE 2: Infrastructure and the Environment

The Canadian steel industry exports almost half of its overall production. Ensuring that steel producers can get their products to market is essential and calls for major investments in expanding major highways, bridges, border crossings, to reduce congestion and speed incoming and outgoing shipments. Major infrastructure investments can also increase the overall demand for steel products which Canadian producers are able to supply either directly or indirectly from their manufacturing customers.

For the environment, greater use of Canadian produced steel in government procurement programs can dramatically reduce the carbon footprint of associated projects. Canadian steel is by far the cleanest steel for use in Canada in terms of full-cycle GHG emissions which contribute to human-caused global climate change. Our sector has already made tremendous strides over the last two decades towards this goal, reducing absolute GHG emissions down by 17% and GHG intensity down by 29% since 1990. We also aim to be a significant part of solutions to climate change through the growth of Canada's domestic green energy sector of which steel is a primary component for related power generation.

In addressing efforts to mitigate climate change, enabling greater use of Canadian steel in domestic procurement projects is a simple and effective way to meaningfully reduce related Greenhouse Gas (GHG) emissions. This will also provide a strong incentive for localized sourcing leading to greater demand for domestically produced steel.

With the total carbon footprint of Canadian produced steel being several factors lower than using imported projects from countries like China, Turkey, and India, this would have immediate impact of lowering global GHG emissions while increasing demand for domestic steel producers. This can be accounted for due to much shorter domestic shipping distances and the utilization of tremendously cleaner energy sources used for production in Canadian facilities.

In addition, energy transportation networks such as pipelines and other supporting infrastructure are critical to the Canadian steel industry and related supply chains across the country. Expanding these networks is essential for allowing Canadian energy producers to get their products to market.

Likewise, a significant amount of Canadian steel goes into products for the discovery, extraction, movement, and export of these resources. One further benefit, accelerating the development and export of Liquid Natural Gas (LNG) resources can also offset global CHG emissions though offsetting coal usage in importing countries.

CSPA Recommendation C for Budget 2016:

To achieve the dual outcome of reducing the carbon footprint of federally funded infrastructure programs while increasing the utilization of Canadian produced steel and associated economic activity, we urge the Government of Canada to integrate the accounting/control of full-cycle GHG emissions into procurement guidelines for steel products being used related projects.

CSPA Recommendation D for Budget 2016:

We urge the Government of Canada to work with provinces and all relevant stakeholders to ensure necessary energy pipeline, LNG projects, and renewable energy manufacturing comes to fruition after with strong regard for both economic and environmental considerations. Thousands of middle-class jobs are depending on it